



Republic of Serbia

**RISK ASSESSMENT OF MONEY
LAUNDERING AND RISK
ASSESSMENT OF TERRORIST
FINANCING**

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MONEY LAUNDERING AND TERRORIST FINANCING RISK ASSESSMENTS

1. Objective

The objective of the risk assessment is to draw conclusions as to which sectors and practices in a country’s system pose a potentially higher risk of money laundering and terrorist financing, and which ones carry a lower risk, so that the state can adequately respond to identified risks through a range of measures and activities, and to take adequate decisions in accordance with the assessed risks, related to the allocation of resources with a view to investing more effort and resources in high-risk areas.

The development of national risk assessments of money laundering and terrorist financing, pursuant to the amended and revised FATF recommendations adopted in February 2012, constitutes an international standard. Recommendation 1 calls on countries to identify, assess and understand the risks of money laundering and terrorist financing which they face. Under this recommendation, states should designate an authority or mechanism to coordinate actions to assess risk. Identifying, assessing and understanding the risk of money laundering is an essential part of the implementation and development of an anti-money laundering and terrorist financing system in the

country. This system includes laws, other regulations, enforcement measures and other measures undertaken to mitigate the risks of money laundering and terrorist financing.

2. Methodology

The Coordination Team, chaired by Deputy Prime Minister and Minister of the Interior Nebojša Stefanović, set up a working group tasked with drafting a national risk assessment of money laundering and terrorist financing (hereinafter: the Working Group).

The task of the Working Group has been to revisit and reassess the risks assessed by the comprehensive 2012 National Risk Assessment, following the World Bank methodology.

Jelena Pantelić, Administration for the Prevention of Money Laundering, was appointed chairperson of the Working Group and national risk assessment coordinator, and the members include representatives of: the Republic Public Prosecutor's Office, the Ministry of Justice, the National Bank of Serbia, the Securities Commission, the Administration for the Prevention of Money Laundering, the Security Information Agency and the Prosecutor's Office for Organized Crime.

The Working Group deliberated in the following subgroups, **which were coordinated by representatives of the institutions in the system for the prevention and detection of money laundering and terrorist financing**, as follows:

1. Assessment of Money Laundering Threats (Miljko Radisavljević, Republic Public Prosecutor's Office)
2. Assessment of the vulnerability of the system to money laundering (Milica Todorović, Ministry of Justice)
3. Assessment of the vulnerability of the financial system to money laundering (Aleksandra Medan, National Bank of Serbia and Vladislav Stanković, Securities Commission)
4. Assessment of the vulnerability of the non-financial system (DNFBPs) to money laundering (Danijela Tanić Zafirović, Administration for the Prevention of Money Laundering)
5. Assessment of risks of terrorist financing (Vladimir Stevanović, Prosecutor's Office for Organized Crime)

A comprehensive national assessment of the money laundering risk was carried out by using the World Bank methodology in four thematically separated areas (covered by 8 modules of the World Bank):

1. assessment of money laundering threats - predicate criminal offenses, criminal proceedings involving predicate offenses and the criminal offense of money laundering, a predicate offense committed in the country or abroad, cross-border threats, money

laundrying typologies, trends, high-risk sectors, high-risk types of business companies, activities of organized criminal groups, trends;

2. vulnerability to money laundering at the national level - the quality of policies and strategies, coordination of work, domestic and international cooperation in the system for the prevention of money laundering, etc., vulnerability through the assessment of the capacity, resources, integrity and independence of the investigative authorities, the financial intelligence service, the quality of border and customs controls, prosecution and trials, etc.;

3. section related to the sectoral vulnerability:

- of the financial system: banks, vulnerability of the capital market, the insurance sector, exchange offices, the pension fund management companies, financial leasing providers, and
- of the designated non-financial businesses and professions: accountants, lawyers, auditors, notaries public, the sectors of real estate, games of chance

The vulnerability assessment has covered: the comprehensiveness of the legal framework, the effectiveness of supervision, the availability of both administrative and criminal sanctions, the regulation of the system in terms of operating licenses and licensing, the integrity of reporting entities' employees, the level of knowledge among reporting entities regarding the implementation of regulations and identification of suspicious activities, the effectiveness of the compliance function, monitoring and recognizing suspicious transactions and individuals, the availability of information about the beneficial owner, the availability of information on client identification and the availability of independent sources of information;

The assessment of the terrorist financing risk has been made by reviewing terrorism threats, the impact on the terrorist financing threat, terrorist financing threats, and the vulnerability to terrorist financing, within which, among other things, the NPO sector has been analyzed from the standpoint of terrorist financing vulnerability.

A total of 154 representatives participated in the money laundering and terrorist financing risk assessment, of whom 124 were representatives of the government sector and 30 were private sector representatives (reporting entities, associations, chambers, etc.). The list of public authorities is attached to the document.

In addition to regular meetings of the groups within which the risk was assessed, numerous meetings were held with representatives of the private sector, the offices (Office for Combating Drugs, NALED, etc.), and agencies identified for resolution of certain issues (Directorate of Measures and Precious Metals), three video conferences with the World Bank were held, as well as a three-day workshop.

The working material was provided to the World Bank in advance, so all participants had the opportunity to discuss the methodology directly, clarify their dilemmas and discuss sections of the report that had to be improved.

Although the official Decision on the Development of the Risk Assessments was passed in March 2018, preparatory work had started back in September 2017. It was necessary to collect and consolidate statistical data, analyze cases, analyze supervision with a view to identifying potential problems, etc.

The time period on which the risk assessments are based is considerably longer than for the previous risk assessment that relied on data for one year. Namely, in this assessment the data was collected for the period from 1 January 2013 to 31 December 2017. Due to this fact, it was possible to compare data and draw conclusions through a comparative analysis, which resulted in a much more objective risk assessment and presentation of the situation in the anti-money laundering and terrorist financing system.

Given the fact that the forms of money laundering and terrorist financing keep changing, a longer period of observation made it possible to draw conclusions about changes in the typologies as well.

The previous terrorist financing risk assessment, just as the money laundering risk assessment, relied on a much lower volume of data and was for the most part related to an effort by the system to answer the questions concerning the financing of terrorism and terrorism.

A new assessment of the terrorist financing risk, unlike the previous one, was made by using the World Bank methodology. Also, in addition to new facts and circumstances, the previously identified circumstances were analyzed; hence, the risk assessment of the financing of terrorism for the 2013 – 2017 period is more comprehensive, with a much larger number of active participants involved in this process.

Another indication of a more comprehensive approach to this process is also the participants' awareness. When the Decision was passed to develop the previous National Risk Assessment (NRA) of money laundering for the Republic of Serbia by the then Standing Coordination Group on 8 December 2012, the revision of the FATF recommendations related to the above was still under way, and the recommendation constituting an international standard on the obligation to conduct risk assessments of money laundering and terrorist financing at the national level was still not drafted.

From this point on, the awareness among all participants in the system about the importance of risk assessments and the method for implementation of activities aimed at minimizing the identified risks has changed, and there are no longer any dilemmas about the significance of this strategic document, the impact exerted by the results of the risk assessment on the whole system, especially in the segment related to the activities that need to be implemented and the manner of their implementation, both at the national and at the sectoral level, and then also with regard to the implementation by individual institutions.

The World Bank methodology itself has changed and it has been improved in the segment concerning threats, so now a broader list of criminal offenses has been established, as well as the connection between predicate offenses and money laundering, and an assessment of cross-border threats. Additionally, the World Bank methodology for assessing the risk of terrorist financing was not developed.

A new risk assessment has been enhanced in the sectoral segment, too, and while certain information was not available in the previous risk assessment, and preliminary assessments were only made based on a sample, now the risk assessment has covered a large number of sectors, and advanced analyses were carried out of the system for trade in precious metals and valuables, as well as for trade in cars, in line with the recommendations of the World Bank consultants. In addition to these issues, the risk assessment also tries to answer the questions of the trends which the future holds for us in this area (cybercrime).

The participation of the private sector has changed and intensified - while in the previous risk assessment their participation was sporadic and through a series of questionnaires, and they were not aware of the importance of FATF Recommendation No. 1 and the impact of the assessed risks on their behavior and the importance of their own assessments, in the process of the updated assessment, private sector representatives were partners from the very beginning of the process and its active participants.

The result of the collected data, its cross-referencing and analyses that were carried out by the state authorities on the one hand, and the private sector on the other, have led to a new, more comprehensive analysis of the current situation and a more realistic presentation of the situation in the sectors.

All of the above, and especially the comprehensiveness of the analyses, the time period for which the data was collected and the significance attached to this process, indicate that, despite the original decision to develop an updated risk assessment, this is rather a comprehensive risk assessment.

3. Definitions of terms

A threat is a person or a group of persons, objects or activities that have the potential to cause harm, for example, to the country, society, the economy, etc. In the context of money laundering, this implies criminals, assets at their disposal, the environment in which predicate offenses are committed and in which criminal proceeds are generated, their size and amount.

Vulnerability includes all those things that could be used in the event of threats, or parts of the system that could facilitate the effect of a threat. Vulnerability is the focus on the factors that constitute weaknesses in the system for the prevention of money laundering

and financing of terrorism, and the supervision system, or on certain characteristics of the country as such.

The consequence refers to the impact or damage that money laundering or terrorist financing might have or cause.

The risk assessment provides an answer to the question of which sectors and practices in a country's system pose a potentially higher risk of money laundering and terrorist financing, and in which ones the risk is lower, so that the state can adequately respond to the identified risks, by applying a range of measures and activities, and to make adequate decisions on the allocation of its resources in line with the assessed risks, with a view to investing more effort and resources into high-risk areas.

Speaking of a risk assessment, one should bear in mind that the assessment covers the inherent risk and the residual risk. The inherent risk refers to the resultant of threats and vulnerabilities immanent to a particular sector. Different factors contribute to this level of risk, and above all the quality and effectiveness of preventive and repressive measures applied by the competent authorities. These factors can reduce the level of risk, if there is consistent and effective law enforcement, developed supervision, adequate capacity, etc., ultimately resulting in a lower residual risk.

Note: The Republic of Serbia has performed its comprehensive risk assessment following the World Bank methodology. To this end, the National Risk Assessment Tool for money laundering was used, which was developed and provided by the World Bank. The World Bank team's role was limited to: 1) delivery of the tool; 2) provision of guidance on the technical aspects of the tool; 3) reviews of the draft NRA documents and provision of feedback to assist in the proper use of the tool. The data, statistics and information populated into the National Money Laundering Risk Assessment Tool templates, as well as the findings, interpretations and judgments within the process of the national risk assessment belong to the relevant authorities of the Republic of Serbia and do not reflect the views of the World Bank.

MONEY LAUNDERING RISK ASSESSMENT

This assessment is a result of the assessment of money laundering threats and national vulnerability to money laundering.

Based on the analysis of predicate offenses, a review of threats by sector and cross-border threats, the overall assessment of money laundering threats is "**medium**" with a "**no change**" tendency.

The national vulnerability to money laundering has been assessed as "**medium**" based on the analysis of the country's ability to defend itself against money laundering and on the sectoral vulnerability analysis.

An analysis carried out for the purpose of achieving the above stated objective for the Republic of Serbia has shown that the overall money laundering risk is "medium".

1. Key conclusions

Predicate criminal offenses classified as high-level threats for money laundering include: tax offenses, abuse of the position of the responsible person, abuse of office and illicit production and circulation of narcotic drugs.

The largest number of predicate crimes has been committed in the domestic jurisdiction, which is why the threat is assessed as high.

On the basis of the data from criminal proceedings conducted for the predicate crime and the criminal offense of money laundering, it has been established that 55.3% of the defendants were prosecuted for **self-laundering**, while 44.7% of the defendants were prosecuted **for money laundering for somebody else**.

Out of the total number of persons prosecuted for the commission of the predicate offenses and the criminal offense of money laundering, 24.61% were **members of organized criminal groups**.

The sectors most exposed to the money laundering threat are the real estate sector, games of chance providers and the banking sector, followed by the currency exchange offices, casinos and accountants.

Based on the analyzed data from the prosecuted cases, in terms of the organizational form, the highest amount of "dirty money" went through business entities having the structure of limited liability companies. The analysis of the prosecuted cases indicates that the most vulnerable are small businesses, and that the threat of money laundering is much higher for them than for other types of organizational structures.

The growing threat when it comes to money laundering refers to cybercrimes, and in particular the business scam via e-mail (BEC - Business E-mail Compromise)

In assessing cross-border money laundering threats, 152 countries were analyzed. Based on the analyses performed, 8 countries are assessed as those with high-level money laundering threats, 7 countries are classified into the category of medium-level threats, while 12 countries are classified into the category of low-level money laundering threats.

Key shortcomings identified at the strategic level are related to the **non-existence of a national-level body for coordinating activities of participants in the anti-money laundering system**, a failure to update the national money laundering risk assessment, as well as the non-uniformity of data kept on the records of the competent authorities, which considerably complicates the maintenance of statistics on money laundering cases, on the basis of which the effectiveness of the system can be properly evaluated.

The following **key shortcomings have been identified at the operational level**: an insufficient number of parallel and proactive financial investigations, insufficient use of all legal institutes available for asset seizure, lack of capacity to estimate the value of seized assets, lenient penal policy, inadequate cooperation of certain participants in the system, and the absence of a more proactive approach in the use of all mechanisms of international cooperation. The analysis has shown that the lack of a beneficial ownership registry also contributes to the vulnerability of the system at both the national and sectoral levels.

In the financial segment of the system, the most vulnerable institutions are banks, exchange offices and payment service providers.

The most vulnerable sectors in the nonfinancial segment of the system include the sectors of real estate, games of chance and accounting agencies.

TERRORIST FINANCING RISK ASSESSMENT

By assessing the overall parameters and statistical data used to assess the criteria "Terrorism Threat", "Terrorist Financing Threat" and "Terrorist Financing
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Vulnerability”, the Working Group has made the assessment that the level of the "Terrorist Financing Risk" in the Republic of Serbia is "MEDIUM".

1. Key conclusions

The "Terrorist Financing Risk" has been assessed on the basis of: individual assessments of two independent factors: the "Terrorism Threat" and the "Impact on the Terrorist Financing Threat", which were specifically assessed within the "Terrorism Threat" criterion; the overall assessment of the "Terrorist Financing Threat" criterion; the overall assessment of the criterion "Terrorist Financing Vulnerability".

1. The "Terrorism Threat" factor was reviewed through a recent case opened in 2014 by the Prosecutor's Office for Organized Crime for the criminal offenses of terrorism and terrorist financing, which was concluded by a first instance judgment in the first half of 2018, and the data of the security services and other relevant state authorities relating to future tendencies, intelligence and publicly available information, on which basis this factor has been assessed as MEDIUM HIGH.

2. The factor "Impact on the Terrorist Financing Threat" was reviewed through the data from the above case concerning the degree of complexity of the operation and organization as regards propaganda, recruitment and travel to foreign battlegrounds, on which basis this factor has been assessed as LOW.

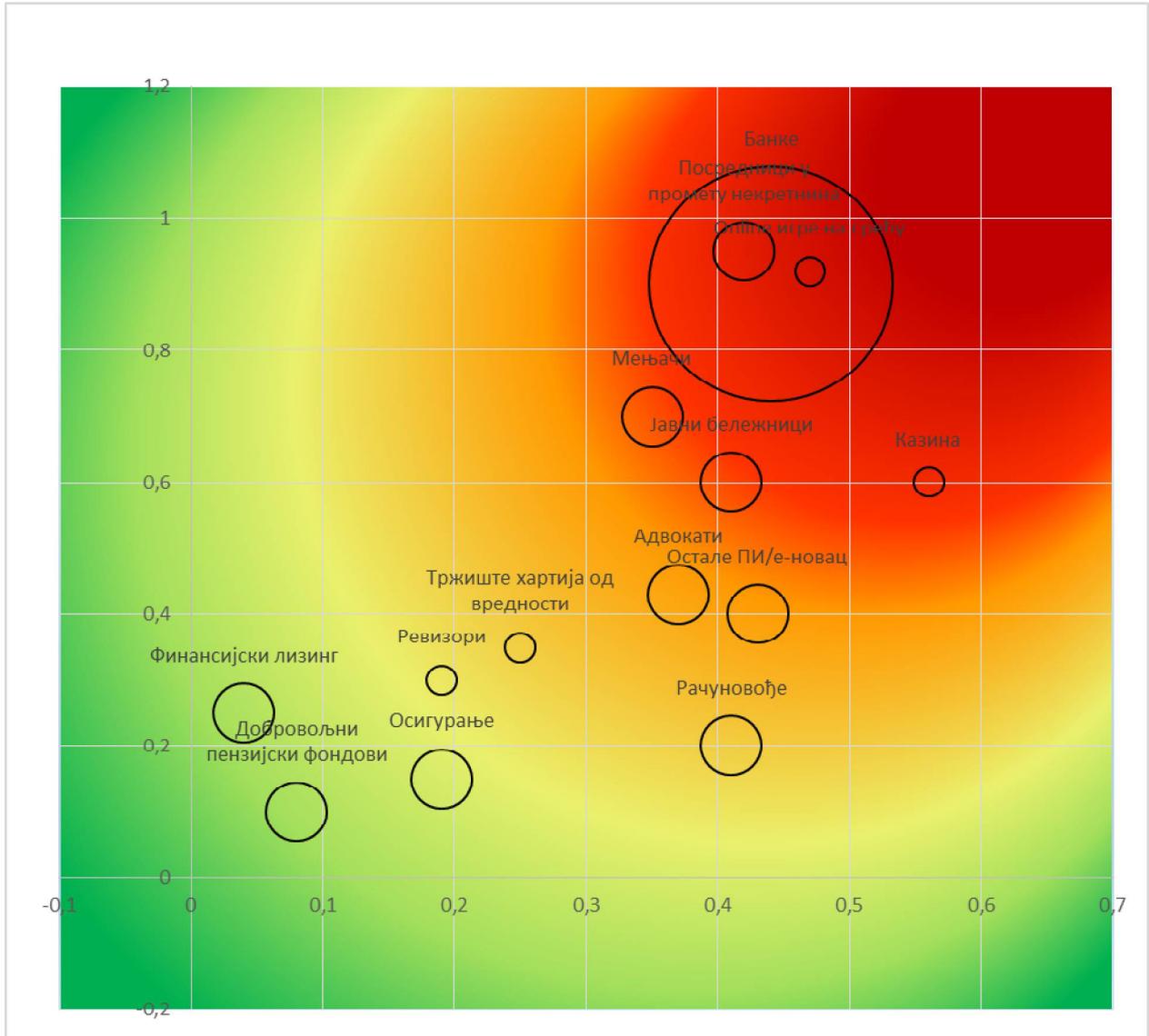
3. The criterion "Terrorist Financing Threat" was reviewed based on the analysis of the case mentioned in Factor 1, and the data of security services, other relevant public authorities and the APML, which was related to the collection of funds intended for the recruitment, training and financing the travel of nationals of the Republic of Serbia to the war-affected zones in Syria, to join the ISIS. In order to achieve objectivity when making the assessment of the criterion "Terrorist Financing Threat", separate assessments were also made of the quantitative and qualitative data, due to their apparent disproportion, for which reason this criterion has been rated as MEDIUM with a "NO CHANGE" tendency.

4. The criterion "Terrorist Financing Vulnerability" was reviewed through the positive political commitment, good domestic and international cooperation practices, the high quality of intelligence and report analyses, the existence of the legal framework. Moreover, the "Terrorist Financing Vulnerability" criterion was also reviewed through the inadequately efficient implementation of the legal framework related to the supervision of the NPO sector, and the partial inadequacy of the resources needed to combat the financing of terrorism, and geographic and demographic factors, which is why this criterion is rated as MEDIUM.

Key activities to be performed on the basis
of the money laundering and terrorist financing risk assessment

- | |
|--|
| <ul style="list-style-type: none"> ▪ Better coordination of all national authorities taking part in the fight against money laundering. ▪ The setting up of a coordinating body at the national level ▪ The coordinating body monitors the efficiency of cooperation and coordination of tasks of the relevant authorities performed for the purpose of preventing money laundering and terrorist financing ▪ The coordinating body monitors the implementation of the action plan in the system for the prevention of money laundering and financing of terrorism ▪ An analysis of the efficiency and effectiveness of the systems for preventing and detecting money laundering and financing of terrorism is carried out at least once a year; ▪ Improvement of statistical data: establishing connections, centralization and networking of databases ▪ The introduction of a single registry of money laundering and terrorist financing cases handled by the competent authorities |
| <ul style="list-style-type: none"> ▪ Continued education in the area of proactive investigations, the use of statutory instruments for asset seizure and in other fields as well, which are significant for successful prosecution and adjudication in money laundering cases ▪ Enhancing internal and international cooperation through the conclusion of the required agreements ▪ Education and awareness raising about the degree of threat to the system coming from money laundering and terrorist financing: the level of specific knowledge needed by the participants who are part of the system for combating money laundering and terrorist financing should be raised. ▪ Strengthening the capacity of the Working Group for supervision of the NPO sector within the Coordination Commission for Inspection Oversight of the Government of the Republic of Serbia in order to reduce the vulnerability of the system to the financing of terrorism ▪ The setting up of an interdepartmental working group to carry out an analysis of the provisions of the Law on the Freezing of Assets with the Aim of Preventing Terrorism related to: the taking over of the designated persons lists issued by the UN SC and other international organizations in which the Republic of Serbia is a member, in their English original, and the supervisory role of the APML regarding the application of this Law. ▪ Strengthening human capacities |

A money laundering risk assessment map by sector



ASSESSMENT OF MONEY LAUNDERING THREATS

1. Introduction

1.1. Applied methodology

The assessment of money laundering threats in the Republic of Serbia is based on the following indicators:

1. Criminal offenses whose commission generates criminal proceeds;
2. Predicate offenses for which the proceedings were initiated for the criminal offense of money laundering as well;
3. Frequency of predicate offenses;

4. The amount of traced/seized/appraised proceeds from the predicate offense;
5. Involvement of organized criminal groups in the commission of criminal offenses;
6. A review of cases;
7. Operational findings and professional experience of the working group members.

Criminal offenses were analyzed whose commission directly or indirectly generates proceeds, first of all, criminal offenses against property, then crimes against the economy, against official duty, against human health, as well as other relevant criminal offenses. The final list included a total of 89 criminal offenses, potentially appearing as predicate offenses to money laundering.

In the analysis of statistical data and the drawing of relevant conclusions, the Working Group faced certain problems related to the data on the criminal offense of money laundering and the amount of criminal proceeds seized/confiscated in criminal proceedings.

The problem with the statistics on the criminal offense of money laundering has arisen because of the methodology of judicial statistics and the presentation of only the most serious criminal offense. The consequence of this methodology is that the criminal offense of money laundering, committed in concurrence with the predicate offense, as a lesser offense, is not statistically recorded. This problem has been overcome by directly reviewing criminal cases opened for the criminal offense of money laundering, so the relevant data has been collected in such a manner.

When it comes to the confiscation of the proceeds generated by the commission of a specific criminal offense, the conclusion of the Working Group is that the statistical data does not reflect the actual state of affairs for two reasons. The first is a consequence of the existing practice that criminal proceeds are often recovered from the defendant and returned to the injured party at the early stages of the proceedings. In such a case, there is no decision in the judgment of the court on the confiscation of criminal proceeds, nor the statistical data on their amount. The second reason is a consequence of the fact that the decision on the confiscation of criminal proceeds is subsidiary to the decision on the property claim of the injured party.

The shortcomings of the statistical indicators in the segment of criminal proceeds were overcome by considering the most serious forms of the analyzed criminal offenses aimed at acquiring material gain in the amount of at least RSD 1,500,000.00. The lowest amount of estimated criminal proceeds generated by the commission of the most severe forms of specific criminal offenses was determined by multiplying the number of registered perpetrators of the most serious forms of these criminal offenses by the above amount of material gain.

By analyzing the initiated criminal proceedings for the criminal offense of money laundering, presented in Table 2, Annex 1, it has been found that investigations were launched against 444 persons, indictments were brought against 297 persons, 81 persons were convicted, criminal proceedings against 204 persons are ongoing, while in relation

to 23 persons, the judgments were handed down by which the accused were acquitted of money laundering charges or the charge was rejected¹.

2. Criminal offenses posing a high level of money laundering threat

Predicate offenses classified as high-level threats of money laundering include: tax offenses, abuse of the position of the responsible person, abuse of office and illicit production and circulation of narcotic drugs.

2.1. Tax offenses

Tax offenses (tax evasion laid down by Article 229 of the CC, the criminal offense of failure to pay withholding tax laid down by Article 229a of the CC, unfounded tax refund and tax credit claims laid down by Article 173a and illegal trade in excise goods laid down by Article 176 of the Law on Tax Procedure and Tax Administration), in terms of the amount of total damage to the budget of the Republic of Serbia - the amount of evaded tax - and the number of reported and prosecuted persons, constitute criminal offenses with a high level of threat from the standpoint of money laundering.

Statistical data of the Tax Administration shows that the total damage to the budget caused by the commission of these crimes for the period from 2013 to 2017 amounted to RSD 55,481,901,670.11 (EUR 462,349,180.58²), 7,525 criminal complaints were filed, and 8,841 criminal offenses were reported, with an upward trend being identified. A total of 4,838 perpetrators were detected. Investigations were launched against 1,341 persons, indictments were raised against 3,481 persons, while 1,942 persons were convicted by final and binding judgments. It has been observed that this offense is also committed by organized criminal groups. The data of the Directorate for Management of Seized and Confiscated Assets indicate that in the proceedings conducted for the criminal offense of tax evasion assets were seized worth EUR 1,898,907.66, while the value of the confiscated assets amounted to EUR 737,855.00.

Based on the data collected in relation to tax crimes as predicate offenses to money laundering, it has been concluded that the 2013-2017 period only saw the criminal offense of tax evasion under Article 229 of the CC, for which investigations were launched against 36 persons, indictments raised against 9 persons, and two persons were convicted by virtue of final and binding judgements. By reviewing money laundering cases in which tax evasion was a predicate offense from the standpoint of material gain, based on reviewing specific cases, it was determined that the total amount of traced

¹A rejecting judgment is rendered when the prosecutor on the case desists from criminal prosecution after the confirmation of the indictment.

²For the euro-dinar conversion, the exchange rate of 1 euro/120 dinars was used in the drafting of the national money laundering and terrorist financing risk assessment

criminal proceeds was EUR 1,816,366.00, and that a measure of asset freezing was pronounced in the total amount of EUR 594,894.00.

The magnitude of the actual threat from tax crimes can be determined if the assessment of the size of the "gray economy" in the country is included. A significant share of business operations are still performed in cash, with the aim of avoiding taxes. For the same reason, taxpayers often account for fictitious transactions in their business records, carried out through the so-called "phantom firms and missing traders". From the standpoint of money laundering typologies, this type of operation was most often used when it comes to tax crimes as predicate offenses.

2.2. Abuse of the position of the responsible person

The number of perpetrators reported for this criminal offense and the number of prosecuted and convicted persons have a tendency to grow, with this criminal offense being committed most often as a predicate offense. In 2017 alone, the number of reported persons was two times higher than in 2016. A large number of perpetrators of this criminal offense as a predicate offense, a considerable amount of frozen funds constituting the proceeds of crime, confiscated material gain in the amount of EUR 10,617.88, seized criminal assets in the amount of EUR 10,648,581.39, indicate a high level of threat.

The proceedings have been instituted against 297 persons for committing this crime as a predicate offense to money laundering, accounting for 66.9% of all persons prosecuted for money laundering. The special gravity of the criminal offense laid down by Article 234 of the CC from the standpoint of the money laundering threat is corroborated by the fact that proceedings for this criminal offense have been initiated against 80 persons as members of 16 organized criminal groups. The total amount of traced criminal proceeds in money laundering cases, where this offense was a predicate one, was EUR 46,795,340.28, the amount of items seized against receipt of asset seizure was EUR 48,700.00, the total amount under the imposed temporary measures for securing the seizure of criminal proceeds was EUR 49,821.00, the total amount under the measure of asset freezing was EUR 4,520,584.00, and the total amount of seized assets was EUR 3,303,300.00, while the total amount of confiscated proceeds of crime was EUR 6,556,210.33.

In all initiated criminal proceedings, the reported persons were charged with having performed the qualified form of this criminal offense provided for in paragraph 3, that is, that they obtained unlawful material gain in the amount higher than RSD 1,500,000.00.

2.3. Abuse of office laid down by Article 359 of the CC

In terms of the number of reported persons, abuse of office is the most frequent corruption-related criminal offense. In the period from 2013 to 2017, 7,409 persons were

reported, investigations were launched against 1,533 persons, indictments were filed against 3,127 persons and 1,095 persons were convicted by virtue of final and binding judgments. Statistically, in 2017, the number of detected persons increased by 43.9% compared to 2013, but the number of accused persons decreased by 116.27% for the same period³.

According to the data of the Directorate for Management of Seized and Confiscated Assets, the total amount of confiscated criminal proceeds is EUR 7,466.67, assets have been seized in the amount of EUR 2,913,801.55, while criminal assets that were confiscated amount to EUR 80,000.00. For the criminal offenses of abuse of office and money laundering, joint proceedings were initiated against four persons.

A special threat are perpetrators of these crimes who act as members of organized criminal groups or are under their influence, who work for them, or protect their interests. According to the data of the Prosecutor's Office for Organized Crime, in the mentioned period, 32 persons were reported for the criminal offense of abuse of office committed by an organized criminal group. Investigations were launched against 29 persons, and 6 persons were indicted. Total detected proceeds of crime in these cases amount to EUR 67,878,180.00.

By looking just at the data from the cases of the Prosecutor's Office for Organized Crime, where the statutory threshold in cases involving the so-called "aggravated corruption" is the obtained material gain higher than RSD 200 million (about EUR 1.7 million), based on the number of prosecuted persons, which was 82 in the period from 2013 to 2017, it is obvious that the potential estimated criminal proceeds generated through this criminal offense are extremely high and that for this number of persons they have been estimated at around EUR 136.67 million.

An additional factor of the money laundering threats should be seen in the fact that the perpetrators of this predicate offense are persons who, due to their social position, are visible to the public and who are under an obligation to submit declarations of their assets and incomes to the Anti-Corruption Agency⁴. For that reason, they are associated with a stronger threat of money laundering through third parties - family members and other related persons used to hide the origin of illegally acquired assets. The concealment of this criminal offense, the fact that it is committed in synergy between persons who have power and persons who have money, and that it is very difficult to detect, indicate that its susceptibility to money laundering is high.

³Many criminal proceedings instituted for the commission of the criminal offense of abuse of the position of the responsible person under Article 234 of the CC as a predicate criminal offense result from the fact that, since 15 April 2013, this criminal offense has been incorporated into the Criminal Code pursuant to the Law on Amendments to the Criminal Code, but it has maintained continuity with the criminal offense of abuse of office under Article 359 of the CC in cases where a responsible person appears as a perpetrator, which was previously provided for by paragraph 4 of Article 359 of the CC; hence, in the initiated cases the qualification of the criminal offense was changed.

⁴According to the Register of Officials of the Anti-Corruption Agency, there were 30,973 active public officials at the time of the drafting of this assessment.
(<http://www.acas.rs/acasPublic/funkcionerSearch.htm>)

2.4. Illicit production and circulation of narcotic drugs laid down by Article 246 of the CC

Drug trafficking is one of the most common sources of "dirty" money. Large quantities of narcotic drugs offered in the narcotics market allow drug dealers to acquire significant material gain through the sale of drugs, which they then integrate into legal flows in various ways. Therefore, the criminal offense of illicit production and circulation of narcotic drugs defined in Article 246 of the CC continues to be a high-level threat of money laundering, due to both the number of reported and prosecuted persons, and the amount of the criminal proceeds generated by the commission of the said offense.

In the period from 2013 to 2017, for this criminal offense investigations were initiated against 5,313 persons, 6,215 persons were indicted, and 5,397 persons were convicted.

According to the Ministry of the Interior data, the number of seizures in the period from 2013 to 2017 was 36,608, the total seized quantity was 16,609,087.25 gr of narcotics whose total estimated purchase value was EUR 25,717,383.00, while the selling street value was EUR 168,237,760.00. This corroborates the conclusion that the commission of this criminal offense generates high criminal proceeds, which have to be integrated into legal flows in order to conceal their origin.

Table 1. Street value of narcotics - seized quantity and value, according to the RS MoI data⁵

Year	Heroin (gram)	Marijuana (gram)	Cocaine (gram)	Hashish (gram)	Ecstasy (pcs)	LSD (pcs)	Amphetamine (gram)	Total (EUR)
2013	56560 €1,131,200	3043161 €30,431,610	71381 €3,353,575	837 €3,370	50052 €500,520	5 €75	22292 €445,840	37,871,190
2014	193054 €3,861,080	2786229 €27,862,290	4107 €308,025	6271 €62,710	81722 €817,220	52 €780	22851 €457,020	33,369,125
2015	69798 €1,395,960	1323593 €13,235,930	18442 €1,383,150	10640 €106,400	233500 €2,335,000	97 €1,455	25522 €10,440	17,572,375
2016	69154 €1,383,080	3498598 €34,985,980	18332 €1,374,900	6530 €65,300	39564 €395,640	255 €3,825	23932 €478,640	37,304,285
2017	16972 €39,440	3858408 €38,584,080	12799 €959,925	3895 €38,950	138252 €1,382,520	46 €690	57731 €15,462	42,120,785
Ttl.	€8,110,760	€145,099,890	€9,379,575	€281,730	€5,430,900	€6,825	€3,046,560	168,237,760

Based on the analysis of the prosecuted money laundering cases, it turns out that the criminal offense of illicit production and circulation of narcotic drugs is one of the frequent predicate offenses. Out of the 38 persons prosecuted for this criminal offense as a predicate offense, 32 persons (accounting for over 84%) are organizers and members of organized criminal groups that have generated proceeds by committing predicate

⁵The street value of narcotics (per gram) - heroin 20 euros, marijuana 10 euros, cocaine 50-100 euros (the value of 75 euros was used), hashish 10 euros, ecstasy 10 euros, LSD 15 euros and amphetamine 20 euros - based on the *Serious and Organised Crime Threat Assessment (SOCTA), 2015*.

offenses outside the territory of the Republic of Serbia, but proceedings against them for the predicate offense are also conducted in the Republic of Serbia.

By looking at money laundering cases in which the criminal offense defined in Article 246 of the CC was a predicate offense from the standpoint of proceeds of crime, based on a review of specific cases, it was determined that the total amount of traced criminal assets was EUR 2,515,072.80, the total value of objects seized against receipts of seizure was EUR 204,063.00, the total amount under imposed temporary measures for securing seizure of criminal proceeds EUR 1,292,801.00 and the total amount for which a measure of asset freezing was pronounced was EUR 168,880.00.

2.5. Criminal offenses committed by organized criminal groups

In the period from 2013 to 2017, 24.61% of the total number of persons prosecuted for the commission of predicate offenses and the criminal offense of money laundering were **members of organized criminal groups**. According to the data of the Prosecutor's Office for Organized Crime, 749 persons were reported for committing the criminal offense of forming a group to commit a crime laid down by Article 346 of the CC, investigations were launched against 584 persons, and 381 persons were charged. Bearing in mind the large number of actions undertaken within organized criminal groups, the gravity of the crimes that they commit, including the crimes assessed as high-level money laundering threats, and the amount of criminal proceeds that organized criminal groups generate, we believe that organized crime offenses constitute criminal offenses posing a high level of money laundering threat.

3. Criminal offenses posing a medium-level threat

The predicate offenses of the medium level of money laundering threat include illegal crossing of the state border and human smuggling, aggravated theft, robbery, fraud, extortion, illicit trade, corruption related offenses (taking bribes, giving bribes and trading in influence). These crimes are committed predominantly in order to obtain material gain.

3.1. Illegal crossing of the state border and human smuggling laid down by Article 350 of the CC

A steep rise in the number of perpetrators of this criminal offense is a consequence of the escalation of the migrant crisis, which resulted in the transit of a large number of migrants through Serbia.

From the standpoint of frequency of the criminal offense laid down in Article 350 of the CC, in the period from 2013 to 2017, 1,634 perpetrators of this criminal offense were identified, with a tendency to grow, investigations were launched against 1,424 persons, 1,594 persons were accused, and 1,489 persons were convicted. In addition, it has been observed that organized criminal groups were very often involved in the commission of this criminal offense, in the period from 2013 to 2017, 188 members of organized criminal groups were reported⁶.

The possibility to generate high criminal proceeds by committing this criminal offense, which are not high per single smuggled migrant but because there are so many of them it nevertheless brings significant profit, places this offense into the category of medium-level money laundering threats. Specifically, based on the data of the Directorate for Management of Seized and Confiscated Assets, instrumentalities of crime were seized from 602 perpetrators, the criminal proceeds amounting to EUR 240,243.33 were recovered, assets worth EUR 105,149.00 were seized and assets worth EUR 93,546.00 were confiscated.

3.2. Criminal offenses against official duty

Criminal offenses against official duty, which may pose a money laundering threat of the medium level in Serbia include: fraud in service defined in Article 363 of the CC, trading in influence defined in Article 366 of the CC and taking bribes defined in Article 367 of the CC.

For the criminal offense of fraud in service laid down by Article 363 of the CC, in the period from 2013 to 2017 investigations were launched against 34 persons, indictments raised against 52 persons, and 17 persons were convicted by final and binding judgements. With respect to 3 persons, after conducting the investigation and filing the indictments, a final and binding conviction was also handed down for money laundering, too. The traced proceeds of crime in the criminal proceedings conducted for the criminal offenses of fraud in service and money laundering amounted to EUR 31,467.00. The total amount of criminal proceeds confiscated by virtue of final and binding judgments is EUR 10,800.00.

In 2017, proceedings were instituted against 1 person for the criminal offense of trading in influence laid down by Article 366 of the CC with money laundering. During the same year, the criminal proceedings were concluded with a conviction. Proceeds of crime amounting to EUR 50,000 were confiscated from the convicted person.

The criminal offense of taking bribes laid down by Article 367 of the CC was the subject of investigations in the five-year period against 403 persons. Indictments were filed

⁶For the purpose of more efficient prosecution of the criminal offense of illegal crossing of the state border and human smuggling, the competent authorities of the Republic of Serbia set up a standing task force in September 2016, which has so far identified members of nine organized criminal groups. The result of the work of the Task Force were indictments against 96 persons, 78 plea agreements were concluded and the same number of final and binding judgments were passed.

against 392 persons, and final and binding convictions were pronounced against 215 persons. Proceeds of crime confiscated by virtue of final and binding judgements amounted to EUR 7,260.30.

Bearing in mind that criminal offenses against official duty traditionally constitute criminal offenses related to corruption, which undermine the legitimate and proper performance of the service and that they serve to acquire unlawful and undue material gain, which in the case of public officials creates an additional need for concealment due to the obligation to declare assets and incomes, and that the perpetrators are officials who have a duty to act legally and in accordance with the goals and interests of the service in the exercise of their powers, we believe that the above criminal offenses against official duty constitute criminal offenses with the medium level of money laundering threat.⁷

In considering the above criminal offenses from the standpoint of assessment of the money laundering threat, the Global Corruption Perceptions Index of *Transparency International*⁸, published in 2018, according to which Serbia occupies the 77th position, was particularly taken into account. The statement of this organization indicates that essentially there has been no significant change in Serbia's ranking since 2008, and in the observed period a slight improvement was recorded in 2013, while the period from 2014 to 2017 saw mild fluctuations in the perception of corruption, which is an indication that there are no substantial changes.

3.3. Criminal offenses against property

These crimes are predominantly committed with clear lucrative motives, in order to generate proceeds, which were the subject of money laundering, for which reason proceedings were instituted and conducted for the criminal offense of money laundering. These offenses are often committed in organized criminal groups, so having in mind the information on the estimated lowest potential criminal proceeds that are generated by the most serious forms of these criminal offenses, it is clear that they have the potential of money laundering threats. More specifically, the lowest estimated amount of proceeds generated through these crimes, based on the data on persons prosecuted in the period from 2013 to 2017, ranges from EUR 5,700,000.00 (robbery) to over EUR 94,000,000.00 (aggravated theft).

⁷The fact that the Prosecutor's Office for Organized Crime prosecuted public officials of the highest rank for criminal offenses related to corruption over the period under analysis was particularly taken into account. Criminal proceedings are initiated or in progress against four former ministers, three assistant ministers, assistant secretary general of the Government of the Republic of Serbia, director of the Privatization Agency and several officials in that Agency, three former directors and a deputy director in the Investment and Export Promotion Agency (SIEPA), the director of the Share Fund, the director of the Labor Inspectorate in the Ministry of Labor, Employment and Social Policy, the president and the secretary of the Coordination Center for Kosovo and Metohija, directors of the companies in which the government is the owner or co-owner of equity, a higher court judge, a misdemeanor court judge, the president of a Higher Court, the president of a Basic Court, a basic court judge, a deputy basic public prosecutor, the president of the Commercial Court and others.

⁸<http://www.transparentnost.org.rs/>

4. Criminal offenses posing a low-level threat

Other offenses can be classified as criminal offenses with a low level of the money laundering threat.

5. Growing threats

Growing threats in terms of money laundering are cybercrimes, especially an e-mail business scam (BEC - Business E-mail Compromise) because they are targeting mostly business companies with significant financial resources, and through their commission high amounts of criminal proceeds are generated. Money flows are difficult to track down, especially if they are converted into crypto currencies, and their prosecution is also more difficult because the previous practice of the Special Prosecutor's Office for Cybercrimes in Serbia shows that more than 95% of these crimes were committed by an unknown perpetrator of a criminal offense that operated from abroad, at the expense of a domestic company, while the money transfer was channeled to a bank account in a third country which is neither the country of potential offense commission, nor the Republic of Serbia.

6. Analysis of recovered criminal assets

Under the laws of the Republic of Serbia, proceeds generated by committing a criminal offense are to be confiscated pursuant to the provisions of the Criminal Code (by applying the institute of confiscation of criminal proceeds under Articles 91 and 92 of the CC, measures for securing the seizure of objects under Article 87 of the CC) and the Law on Seizure and Confiscation of the Proceeds of Crime (permanent deprivation of criminal assets).

Based on the data collected by reviewing the ongoing cases for predicate offenses and money laundering, the total amount of traced criminal proceeds was determined at EUR 57,087,732.41, as presented in the table below by individual predicate offense.

Table 2: Amounts of traced criminal proceeds by predicate offense in money laundering cases, source: Review of the cases of public prosecutor's offices

Criminal offense	Traced proceeds of crime	Criminal offense	Traced proceeds of crime
234of the CC	€46,795,340.28	243of the CC	€250,880.00
without a predicate offense	€3,135,180.33	214of the CC	€225,000.00
246of the CC	€2,515,072.80	352of the CC	€210,000.00
229of the CC, 173a and 176 of the LTPTA	€1,816,366.00	359of the CC	€117,209.00
208of the CC	€946,088.00	366of the CC	€90,000.00
237of the CC	€583,292.00	217of the CC	€72,000.00
204of the CC	€299,837.00	363of the CC	€31,467.00

Based on the analyzed cases in the criminal proceedings conducted for predicate offenses and the criminal offense of money laundering, it has been established that in the final and binding convictions, together with a criminal sanction, the measure for securing the confiscation of objects was also pronounced, and the proceeds of crime were seized. By applying these two institutes, the amount of EUR 10,010,061.96 was recovered, as well as a family residential building, an apartment, land covering an area of 4ares 92m², 10 cars, a truck, two tank trucks, 289 poker machines, 9 roulettes, 88 TV sets, 23 desktop computer cases, 19 monitors, 20 printers, 2 laptops, 17 mobile phones and over 2,700 auto parts, whose estimated market value at the time of drafting this analysis was not determined.

Furthermore, by applying the provisions of the Law on Seizure and Confiscation of the Proceeds of Crime, the amount of EUR 2,293.46 and 5 luxury cars were confiscated in the procedure for permanent deprivation of property.

The largest amount of property was recovered in criminal proceedings conducted against perpetrators of the predicate offense of abuse of the position of the responsible person under Article 234 of the CC, in which criminal proceeds were recovered pursuant to Article 91 of the CC worth EUR 6,556,210.33, accounting for 14% of the total traced amount of criminal proceeds generated through the commission of this offense. They are followed by proceedings against perpetrators of the criminal offense of money laundering without a predicate offense in which the property was seized in the total amount of EUR 2,905,890.63, accounting for 92.68% of the total criminal proceeds tracked down in criminal proceedings conducted for money laundering without a clearly defined predicate offense.

7. "Gray and Dark Figures" - significance for assessing threats

For criminal offenses against property, to a certain extent it is possible to determine the so-called "gray figure", and in the reporting period it ranged between 46.49% to 52.09%, while for crimes against the economy and corruption-related offenses, it is typically non-existent, thus making an estimate of the "dark figure" almost impossible, and it is usually described as "very high", "huge", "extremely large" "no more than" and/or "no less than". According to the experience of the Working Group, precisely for the reasons of concealment and the so-called actual immunity of the perpetrators of these offenses, it is definitely high and at the level of the "gray figure" for crimes against property. Money laundering is a global problem and one of the main indicators of its magnitude are the estimates by the World Bank and the International Monetary Fund, according to which the aggregate size of money laundering in the world ranges between 2% and 5% of GDP.⁹In relation to the estimates of the aggregate size of money laundering in the Republic of Serbia, such indicators are considered acceptable, with the assessment that there are no major deviations from the global aspect.¹⁰

8. An overview of origin of laundered money (jurisdictions)

When it comes to the origin of laundered proceeds, it was found through the processing and analysis of data from criminal cases for the period from 2013 to 2017 that the largest number of predicate offenses was committed in the domestic jurisdiction, which is why the threat is assessed as high. The number of persons prosecuted for committing predicate offenses in both domestic and foreign jurisdictions in relation to money laundering indicates a slightly lower threat of these predicate offenses, while the predicate offenses committed in foreign jurisdictions are involved a bit less frequently in the analyzed money laundering cases.

9. Analysis and overview of prosecuted money laundering cases by investment sector

The sectors which are exposed to the money laundering threat the most are the sectors of real estate, the organization of games of chance and banking, followed by the sectors of exchange offices, casinos and accountants.

Sector	Level of threat
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⁹ (<https://www.unodc.org/unodc/en/money-laundering/globalization.html>)

¹⁰ More detailed discussions and analyses with an overview of data on known and unknown perpetrators, that is, detected and undetected crimes, in connection with the estimates of the "gray and dark figures" are provided in Annex 7.

Real Estate	High
Games of chance	High
Banks	High
Exchange offices	Medium high
Casinos	Medium high
Accountants	Medium high
Lawyers	Medium
Payment institutions	Medium
Capital market	Medium low
Auditors	Medium low
Leasing	Medium low
Notaries public	Low
Factoring	Low
Insurance companies	Low
Pension funds	Low

The trend of investing "dirty" money into **real estate** usually takes place through investment in the construction of residential and commercial buildings and in the purchase of real estate. The threat of money laundering through the real estate sector is especially pronounced with respect to natural persons – developers who build real properties and then sell them, thus concealing the unlawful origin of the invested funds.

The games of chance sector is exposed to a high level of money laundering threats, taking into account data on criminal proceedings initiated for the criminal offense of unauthorized organization of games of chance as a predicate offense to money laundering, and criminal proceedings involving employees in this sector, the fact that large amounts of money circulate within this sector, namely almost exclusively in cash, and that the value of the gambling market in Serbia is estimated at EUR 355,000,000.00.

The banking sector remains one of the most exposed to money laundering threats, due both to its size and importance on the financial market, and to the large number of services and products it provides. Precisely for these reasons, the strongest "pressure" of "dirty proceeds" is directed towards it, because there is a range of products that can be used to "inject" illegal proceeds into legal flows, which is the essence of the criminal offense of money laundering. Concerning the exposure of the banking sector to the threat of money laundering, the situation in the Republic of Serbia is almost identical to that of most other countries which have published their National Money Laundering and Terrorist Financing Risk Assessments.

The medium-high level of money laundering threats is related to **exchange offices**, because in Serbia, a sizeable volume of payments are still effected in cash and, as a consequence, conversions of foreign-denominated cash into dinars and vice versa are frequent. Also, in real estate transactions, payments are often made in foreign

currency cash. The conclusion on the level of threat was also drawn based on the data from the criminal proceedings that have been initiated so far.

Casinos are exposed to a medium-high money laundering threat because they are an active “cash” sector in which both payments by players and payouts of wins are made almost exclusively in cash. Also, there is a possibility for players to exchange chips and casinos are particularly attractive to persons who are close or belong to a criminal milieu.

The sector of accountants is also exposed to a medium-high money laundering threat. The business companies involved in money laundering used the services of accounting agencies to disguise the actions of committing a criminal offense as legitimate business activities. This is especially true for money laundering cases involving the laundering of proceeds from tax offenses.

10. Analysis of the types of organizational structures of business entities involved in money laundering

Based on the performed analyses of companies' organizational forms from the standpoint of money laundering threats, according to the criteria of the size of the volume in the structure of registered economic entities, and the number of money laundering cases in which business companies were involved in the process of money laundering, limited liability companies are rated as a high-level threat, entrepreneurs as a medium-high threat, joint-stock companies are rated as medium-level threats and other forms (limited partnerships and partnerships) as low-level threats. Among these companies there were no trusts as founders, which, also according to the data of the reporting entities (banks), account for less than 5% of the structure of clients' founders.

11. Analysis and overview of money laundering methods

In the territory of the Republic of Serbia, dirty money is most often "laundered" by transferring money whose cover are fictitious legal transactions between legal entities that have been established for a specified purpose - to be used for performing such transactions, that is, money laundering through purchases of real properties and motor vehicles, investment in the purchase, construction and renovation of buildings – the construction industry, the purchase of legal entities, securities.

What can be distinguished as characteristic of the Republic of Serbia compared to the countries of Western Europe is the investing of "dirty" money in the privatization of former socially-owned enterprises, which often represents a mere starting point of money laundering. After the transfer of the ownership or control of such a company to the criminals, illicit funds are laundered through its activity, usually through loans of the new owners-founders or other forms of borrowing aimed at preserving the illusion of operation within the boundaries of the registered activity. At the end, money is usually "laundered" either by selling these legal entities, or by taking out a loan for which the assets of that legal entity are provided as collateral, or from the profit of that legal entity that is higher because of the costs that have been covered out of the dirty money.

Recently, a form of money laundering has been identified, which is performed through a large number of legal entities, most of which were opened specifically for this purpose. In these cases, without a real business relationship, business documents of untrue contents are created, which serve as a basis for monetary transactions. After money has been transferred based on false and fake documents, money is withdrawn in the country and abroad by various persons and returned to the payers in cash, reduced by the percentage charged for the service.

12. Money laundering typologies

Data from criminal proceedings conducted for the predicate offense and criminal offense of money laundering show that 55.3% of the defendants were prosecuted for **self-laundering**, while 44.7% of the defendants were prosecuted for **laundering money for somebody else**.

By analyzing 75 cases¹¹ related to the criminal proceedings conducted for the predicate offense and criminal offense of money laundering, it was established that a total of 324 persons were prosecuted for self-laundering, while 262 persons were prosecuted for laundering money for somebody else.¹²

The case of the Prosecutor's Office for Organized Crime involving the so-called professional launderette is particularly interesting as money was laundered by an organized criminal group whose organizers devised a plan to transfer and convert assets knowing that they originated from the commission of a criminal offense, in an attempt to conceal and misrepresent the origin of the assets.

Business companies from the Republic of Serbia's territory, operating legally, made payments of funds in the amounts agreed with members of the organized criminal group into the accounts of companies which were controlled by the organized criminal group, on the basis of false documents, fake invoices for alleged goods and services supplied, which in fact were never supplied. The funds thus paid were converted from dinars to foreign currency by the organizers, and then they made out new false documents on allegedly provided services by a UK business company, and then the money was transferred to non-resident accounts of this company opened in Macedonia. Members of the organized criminal group, together with several individuals, were successively withdrawing the money from this account and transferring it to the Republic of Serbia in the amounts lower than EUR 10,000.00, which they then handed over to the organizer, while keeping the agreed fee, while the rest of the money would be returned to the payers.

13. Cross-border threats

In assessing cross-border money laundering threats, 152 countries were analyzed. Based on the analyses performed, 8 countries are assessed as those with high-level money laundering threats, 7 countries are classified into the category of medium-level threats, while 12 countries are classified into the category of low-level money laundering threat.

¹¹The case against defendant D.Š. et al. involves a series of complex modalities of money laundering and is the subject of a special case study.

¹²It should be underlined that there were several cases in which a person committed both self-laundering and money laundering for somebody else, which was counted in both categories.

ASSESSMENT OF THE SYSTEM VULNERABILITY TO MONEY LAUNDERING

Based on the collected data and information, examined in the light of money laundering threats, the national combating ability has been rated as "medium".

This ability has been analyzed through the quality of the strategic framework, the comprehensiveness of the normative framework, the effectiveness of law enforcement, capacities, resources, independence and integrity of the key participants in the system for the prevention and repression, the effectiveness of internal and international cooperation, as well as through the level of financial integrity, formalization of the economy in the country and other relevant parameters.

A comprehensive analysis of money laundering threats is the first step in assessing the risk of money laundering for the country. In the light of the results obtained by this analysis, it is necessary to review and assess the national vulnerability, since, as already pointed out, risk is a function of threats and vulnerabilities. Thus, the assessment of national vulnerability to money laundering constitutes the next step on the road to the national money laundering risk assessment. The overall assessment of national vulnerability is based on an assessment of the state's ability to defend itself against threats, and sector vulnerabilities.

Based on the qualitative and quantitative information collected, the ability of the state to defend itself against *threats* is assessed as "medium". As the *vulnerability of certain sectors* that can be misused for money laundering also affects national vulnerability, the sectoral vulnerability analysis will be presented in the section following this one.

1. Strategic framework for combating money laundering

The subject of the analysis was first of all the quality of the policy and strategy for the prevention of money laundering. In this regard, it was concluded that there is a comprehensive risk-based strategic framework, and that the national framework in the field of combating money laundering has been significantly improved by the adoption of the new Law on the Prevention of Money Laundering and Financing of Terrorism in December 2017. On the other hand, the absence of a national-level operational body responsible for coordinating the activities of participants in the anti-money laundering system is one of the key deficiencies at the strategic level. Therefore, the setting up of such a body is defined as a priority activity. The failure to update the national risk assessment has been identified as the second strategic deficiency because this deficiency has a cascading effect on many other factors that are relevant to the ability of the country to cope with money laundering threats. Updating the national risk assessment once in

threeyears, with a mandatory analysis of the system effectiveness which is performed each year, is another priority measure that needs to be undertaken in the coming period.

2. Normative framework - criminal offense of money laundering and recovery of assets

An analysis of the definition of the criminal offense of money laundering and the comprehensiveness of the legal framework for seizure of property did not show that there are significant deficiencies that would contribute to vulnerability. It was precisely the normative framework which was significantly improved in the previous period through amendments to the Criminal Code and the Law on Seizure and Confiscation of the Proceeds of Crime. The definition of money laundering contained in the provision of Article 245 of the Criminal Code is based on the approach that all criminal offenses can be predicate offenses and criminalizes both "self-laundering" and "laundering money for somebody else." The above amendments stipulate that the property that is the subject of the criminal offense of money laundering originates from "criminal activity", instead of the earlier provision in force that such property originates from a "criminal offense", which is a more comprehensive description of the origin of such property, which does not require the provision of detailed information on a particular predicate offense in which the property was acquired, thus facilitating the prosecution and presentation of evidence. The statutory range of penalties may be considered proportionate to the gravity and social danger of this crime. On the other hand, one should not overlook the fact that the imposed sentences are closer to the statutory minimum, which calls into question their deterrent effect.

The legal framework for the recovery of assets is comprehensive and includes the measure of securing the confiscation of objects, confiscation of criminal proceeds, and the so-called "extended confiscation of property". The law also provides for the possibility of the authorities conducting proceedings to take urgent measures in order to prevent the transfer or removal of criminal assets either through asset freezing or the seizure of objects, money or securities from a defendant whom it is necessary to deprive of the criminal proceeds, or a third person to whom these proceeds have been transferred. Although the legal framework provides the legal basis for the detection, identification, seizure and confiscation of criminal assets and proceeds resulting from criminal offenses, due to the lack of pro-activity on the part of the police and the judicial authorities, defendants managed to hide part of the traced criminal proceeds/assets during the preliminary investigation or criminal proceedings. The analysis of the relevant cases has shown that the temporary measure of securing criminal assets under the Criminal Procedure Code has been insufficiently used in practice. Therefore, it is necessary to work on the training of public prosecutors and judges in order to make the most efficient use of these institutes.

3. The quality of collecting and processing information of the Administration for the Prevention of Money Laundering

The APML has operational independence and autonomy in its work, and its statutorily defined competences are aligned with international standards. No political and other pressures on the operation of the APML, or cases involving violations of integrity by its employees have been recorded. Efforts are being invested in capacity building through specialized training courses for all employees, but the shortcomings related to the inadequate staffing levels, premises and technical equipment still persist, so one needs to work on the elimination of these shortcomings.

The Administration collects, analyzes and transmits information related to persons suspected of being involved in money laundering or terrorist financing. In practice, the Administration's information has the character of intelligence, but the law does not restrict the use of information of the APML as evidence before a court of law. The entire process of analysis, from receipt of STRs and CTRs to the final internal report and to a letter to another state authority, is conducted electronically at the APML. Although both electronic receipt and data exchange are at a high level, certain problems related to the uniformity of data in electronic databases require improvement. In this manner, the work on strategic analyses and the drawing of adequate conclusions will definitely be improved, and the analyses will be improved in a timely fashion and have the significance for the entire system, especially when looking at the operation of the reporting entities and monitoring the results of the risk assessment.

Also, it is necessary to continue working on securing access for the APML to as many databases as possible (right now, the APML has access to 20 databases), and on regulating the practice of sending feedback to the APML.

4. Capacities, resources, integrity and independence of financial crime investigative authorities (including asset recovery)

The analysis has shown that the capacities and resources of the Service for Fighting Organized Crime and the organizational unit under its auspices, i.e., the Department for the Suppression of Organized Financial Crime, as well as the Financial Investigation Unit, should be strengthened. As the issue of conducting financial investigations in parallel with criminal investigations constitutes one of the most important issues for the success of the proceedings, prosecution and conviction of perpetrators, as well as the confiscation of proceeds of crime, it is necessary to include the Financial Investigation Unit at an earlier stage into the criminal investigation. Specifically, in accordance with

the provisions of the law, the public prosecutor launches a financial investigation by virtue of his/her order if there are grounds for suspicion that the proceeds of crime are considerable. In that sense, it is necessary to work on improvement of knowledge and skills about proactive financial investigations, while developing instructions for operational steps during financial investigations because it would contribute to the efficiency of the confiscation of assets.

5. Capacities, resources, integrity and independence of financial crime prosecution authorities (including asset recovery)

The above data on the prosecution of money launderers in the period from 2013 to the end of 2017, in which a total of 81 persons were convicted by final and binding judgments, indicate a significant increase in the efficiency of public prosecutors in this respect, compared to the period of the initial analysis, i.e., the 2013 National Risk Assessment, when, from the beginning of the application of the criminalization of money laundering to 2012, a total of 9 final and binding judgments were passed.

The work of the newly established special anti-corruption departments should contribute to greater efficiency of prosecution. They have been set up in accordance with the new Law on Organization and Competence of State Authorities in Suppressing Organized Crime, Terrorism and Corruption, thus also completing the specialization and concentration of prosecutors, since money laundering, as well as the most important criminal offenses in the field of financial crime, will be prosecuted, in addition to the Prosecutor's Office for Organized Crime, by the above 4 departments of the Higher Public Prosecutor's Offices. A potential deficiency demanding due attention in the coming period is the understaffing of these departments compared to the planned number of prosecutors, as well as the downsizing of human resources in the prosecutors' offices of general jurisdiction due to the secondment of their prosecutors.

In order to improve efficiency in this area, further networking is necessary of the public prosecutor's offices with other competent public authorities with respect to obtaining and exchanging data from the electronic databases of these authorities.

6. Capacities, resources, independence and integrity of judicial authorities (including asset recovery)

The results of the analysis of the capacities and resources for trials in the proceedings for the criminal offense of money laundering show a downward trend in the number of judges in these proceedings. On the other hand, the implementation of the above Law on Organization and Competence of State Authorities in Suppressing Organized Crime, Terrorism and Corruption, whose implementation commenced on 1 March this year, should contribute to the specialization of the authorities responsible for judicial

proceedings, which ultimately increases the efficiency of the proceedings for the criminal offense of money laundering.

An increase in the number of judgments relative to the period before 2013 testifies not only to more efficient prosecution of the criminal offense of money laundering, but also to the sensitization of judges in this subject-matter, as reflected in the raising of awareness about the social danger of this crime, as well as the improvement of knowledge about different modalities of money laundering; still, it is necessary to continue education in this regard.

7. Quality of border and customs control mechanisms

The analysis from the standpoint of threats to the system, as well as the analysis of the system's ability to respond to threats, have shown that as a consequence of the geographical, i.e., transit position of the Republic of Serbia, and the fact that it connects Western Europe with the countries of Southeast Europe and the Middle East whose nationals are temporarily working abroad, significant amounts of money are in transit through the RS customs area, and in a much larger number of cases foreign nationals have been registered as reporting the transfer of money when entering the Republic of Serbia, than when leaving it. Due to the insufficiently developed awareness of customs officials about the potential danger of money laundering associated with the failure to report cross-border transfers exceeding a certain amount, as well as inadequate coordination of work with the APML and the competent public prosecutor's office, most of the cases end up with the filing of a misdemeanor report, and remain in the sphere of misdemeanors. These cases cannot be subsequently prosecuted as criminal offenses due to the procedural *non-bis in idem* principle.

The weakness of the system, despite the comprehensive normative framework, is also the lack of coordination due to the formal method of exchanging data between the Customs Administration and the Administration for the Prevention of Money Laundering. In this connection, the signing of a cooperation agreement between the Customs Administration and the Administration for the Prevention of Money Laundering has been identified as a priority measure, which will enable better connectivity and data exchange, as well as provide for the training of customs officers in identifying the risk of laundering.

8. Effectiveness of internal cooperation

Although internal cooperation has been greatly improved in the previous period, thus fulfilling one of the activities set out in the plan accompanying the 2013 National Risk Assessment, it is necessary to work on the improvement of existing and conclusion of

new agreements/protocols on cooperation, primarily by the APML with the Customs Administration and the Border Police Directorate.

Furthermore, from the standpoint of preventive action, as has been emphasized before, it is necessary to set up a new coordinating body in accordance with the provision of Article 70 of the LPMLFT, for the purpose of efficient coordination and cooperation of bodies responsible for preventing money laundering and terrorist financing. From the standpoint of repression, the success in the implementation of the mentioned new organizational law will depend to a considerable extent on the effectiveness of internal cooperation.

9. Effectiveness of international cooperation

The Republic of Serbia has a broad basis for the provision of mutual legal assistance, bearing in mind that it is provided on the basis of bilateral agreements, multilateral treaties and national legislation.

The Ministry of Justice of the Republic of Serbia is the central authority for transmitting letters of request, while the authorities responsible for providing mutual legal assistance are domestic courts and public prosecutor's offices. On the basis of analyzed quantitative data, it has been observed that international cooperation is becoming more intensive each year, and that the Serbian judicial authorities increasingly seek mutual legal assistance. The same trend is shown by the data of the MoI, the Tax Police, the Administration for the Prevention of Money Laundering.

From the standpoint of international cooperation, the lack of international cooperation in accordance with FATF Recommendation No. 40 has been identified as a deficiency, in the segment where there are no agreements concluded. The steps for its elimination in terms of concluding the necessary agreements constitute an activity of high priority.

10. The level of financial integrity, the effectiveness of the implementation of tax laws and the level of formalization of the economy

The analysis of the normative framework shows that there is a comprehensive legal framework, as well as a system of sanctions for non-compliance with tax laws, a tax audit plan prepared on the basis of risk analysis, and programs that promote voluntary compliance and facilitate the fulfillment of tax obligations and the education of taxpayers in that respect. Human resources should be strengthened because the number of tax auditors is going down, and for the purpose of addressing the above risks, it is

necessary to organize a larger number of training courses on the topic of money laundering typologies and methods for tax officers, since this directly contributes to the effectiveness of the preliminary investigation for the criminal offense of money laundering.

An analysis of threats to the system has shown that tax offenses constitute predicate offenses with a high level of money laundering threat considering their frequency, a rising trend in the number of perpetrators of this offense, including organized criminal groups, as well as the consequences which are reflected in large amounts of damage to the RS budget. Therefore, the level of financial integrity and the effectiveness of the implementation of tax laws must be viewed in the light of this fact.

The Government of the Republic of Serbia has adopted a comprehensive strategic framework with the aim of increasing the level of formalization of the economy, and 2017 and 2018 were declared the "years of fight against the gray economy". In Serbia, comprehensive research and a study were conducted on the size of the informal economy by an independent association of companies, municipalities and civil society organizations. The analysis has shown that the level of the economy had declined compared to five years ago (for registered businesses, in terms of turnover of goods and payment of wages, the gray economy has been reduced from 21.2% in 2012 to 15.4% of GDP in 2017), owing to the improvement of the business environment, macroeconomic stability, GDP growth, more efficient work of inspection services, more successful tax collection and the tightening of penal policy. However, it should be kept in mind that there is still no data on the basis of which it would be possible to draw precise conclusions about the level of formalization of the economy in the Republic of Serbia, since the mentioned data only measures the informal activity of registered market participants. Collecting comprehensive and precise data on informal operators and their activities remains a challenge.

11. Availability of independent audit

The high compliance with the criteria when it comes to the quality of independent audit, which was shown by the analysis, diminishes the possibility for abuse by reporting entities for the purpose of money laundering. On the other hand, the analysis of money laundering threats and typologies shows great involvement and misuse of business companies for money laundering. Therefore, amendments to the Law on Audit have been proposed, to the effect that legal or natural persons convicted of criminal offenses defined by law (including money laundering and financing of terrorism) may not be the founders of audit firms. It is also necessary to work on further education of auditors in the application of both legal and professional regulations in the field of auditing, and the regulations on the prevention of money laundering and financing of terrorism.

12. Availability of reliable infrastructure for identification, information on beneficial ownership and independent sources of information

In the Republic of Serbia, a reliable identification system is in place with identification documents issued by an administrative authority - the MoI. Also, the availability of independent sources of information is at a high level. However, the absence of a beneficial ownership registry is a shortcoming which requires taking an urgent measure of high priority, which is reflected in the adoption of the Law on Centralized Records of Beneficial Owners.

13. Challenges in data collection for the needs of the analysis and activities for eliminating the identified deficiencies

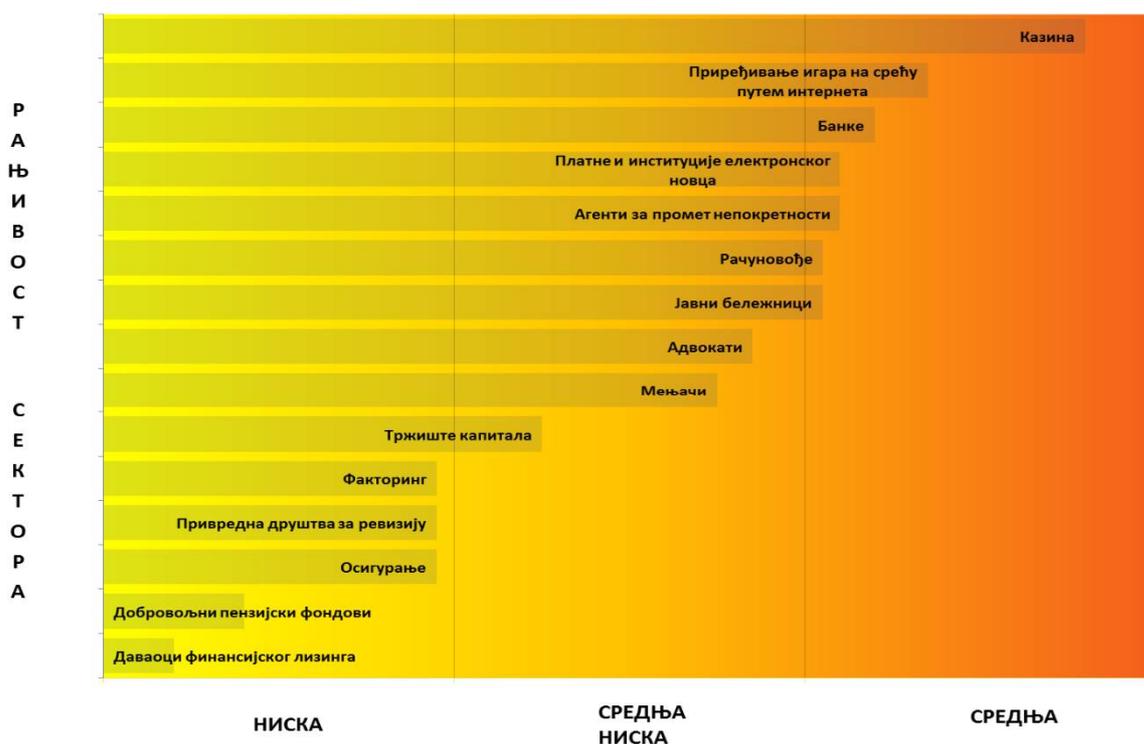
Collecting data on individual money laundering cases from the preliminary investigation to adjudication was a major challenge for both the threat analysis, and the vulnerability analysis, due to the lack of uniformity of data on the records of the competent authorities, which significantly complicates keeping statistics on money laundering cases on the basis of which the effectiveness of the system can be properly evaluated. This deficiency requires undertaking of a priority activity related to the establishment of a single registry of money laundering cases handled by all competent authorities. Also, the data collected on the value of confiscated and seized assets does not fully reflect the real picture, because data from the reasoning of court decisions was used, which is an estimate of the Tax Administration, the Financial Investigation Unit, or amounts specified in the contracts for the sale of certain immovable and movable items. Since the Directorate for Management of Seized and Confiscated Assets has a statutory obligation to appraise the value of the criminal assets, and this can only be done by hiring certified appraisers, it is necessary for this body to employ an appraiser.

SECTORAL VULNERABILITY

Since national vulnerability is also affected by the vulnerability of certain sectors that may be misused for money laundering, besides the country's ability to defend itself against money laundering threats, the financial and non-financial segments of the system were analyzed, namely: banks, insurance companies, financial leasing providers, voluntary pension funds, other providers of payment services and issuers of electronic money - payment and electronic money institutions, capital markets (broker-dealer companies, authorized banks, investment fund management companies and custody banks), authorized exchange offices and factoring, agents in real estate trade and lease, games of chance, auditors, accountants, lawyers and notaries public, as well as developers of residential and non-residential buildings in the construction industry, dealers in precious metal items, car dealers, which are not reporting entities under this Law.

The sectoral risk analysis was undoubtedly important for the risk assessment. A great deal of attention was focused on data processing and the analysis of both the financial and non-financial systems of the Republic of Serbia. The assessments of vulnerabilities for sectors should not be understood in absolute terms, i.e., that certain sectors are vulnerable or not vulnerable, but in terms of lower or higher vulnerability compared to other sectors. For example, certain indicators and features of the banking system suggest that banks, compared to other sectors, are more vulnerable when it comes to money laundering and financing of terrorism, but that certainly does not mean that the banking sector is vulnerable in absolute terms.

Vulnerability assessment by sector in tabular form



1. Vulnerability of the financial sector

The financial sector of the Republic of Serbia consists of the sectors of banking, insurance, financial leasing providers, voluntary pension funds, other providers of payment services and issuers of electronic money - payment and electronic money institutions, capital markets (broker - dealer companies, authorized banks, investment fund management companies and custody banks), authorized exchange offices and factoring.

The most vulnerable sector in the financial segment of the system is the banking sector, followed by payment service providers and the securities sector.

1.1. Banks

Currently, 28 banks operate in the banking sector of the Republic of Serbia (RS), or by 4 less than in the period when the first National Risk Assessment (NRA) was made. Banks in the RS, due to their importance to the financial system, still have a special place in the system for the prevention of money laundering and terrorist financing (banks account for more than 90% of the balance sheet total of the entire financial sector).

Due to the size of the banking sector and its ramified network, the number and type of clients, services (products), as well as the number of transactions performed, banks are

exposed to the risk of money laundering the most, so particular attention is paid to the mitigation of this risk in the banking sector.

The assessment of the banking sector is based on: assessments of the legal framework, the bank supervision regime, the situation established in on-site and off-site examinations, the analysis of reports submitted by the banks to the Administration for the Prevention of Money Laundering (APML), as well as on the basis of the assessment by the Association of Serbian Banks. In addition to these indicators, the assessment of the banking sector was also influenced by Moneyval and FATF reports, in which the banking sector, the APML and the National Bank of Serbia (NBS) were assessed as satisfactory, while particularly stressing one of the recommendations of the Moneyval Committee to the effect that all supervisory bodies should follow the example of the NBS Banking Supervision Department. In making the assessment, the activities undertaken after the report of the Moneyval Committee aimed at further improving the work of this sector were also taken into account (among other things, the adoption of the new Law on the Prevention of Money Laundering and Financing of Terrorism (LPMLFT), updating of the guidelines for the implementation of the LPMLFT provisions, upgrading of the ML/FT Risk Assessment Handbook, as well as the accompanying matrices for assessing this risk, the improvement of bylaws related to the issuance of relevant approvals, i.e., authorizations for the operation of banks and members of the managing bodies, as well as the internal acts of the Banking Supervision Department and, compared to the previous period, the broadening of the coverage of the account holders registry maintained by the NBS, so as to include the accounts of both legal and natural persons).

First, the legal framework related to money laundering prevention measures is comprehensive and to the largest extent harmonized with international standards. Namely, a comprehensive legal and regulatory framework has been put in place, vesting the NBS, as a public authority, with the relevant powers for licensing and delicensing of banks, and there is a sufficient number of trained employees working on the licensing tasks at the NBS. Also, a comprehensive regulatory framework has been established in the segment of supervision, which is supported by the appropriate authorizations, human and other resources available to the NBS, which uses a risk-based approach in bank supervision. Based on numerous signed cooperation agreements, the NBS also has adequate cooperation with central banks from the region and from the home countries of our banks, with which it also exchanges ML/FT related information.

Under the LPMLFT, the imposition of corrective measures and fines on banks will be implemented in accordance with the Law on Banks, and not as before, by pressing charges for economic offense, which means imposing fines that are more efficient and in higher amounts, and it will only be possible to assess their effect in the coming period.

The banking sector is still the most organized sector when it comes to taking measures to mitigate the risk of money laundering, and that is reflected, among other things, in the fact that banks have established their own systems for managing the risk of money laundering and terrorist financing by applying a risk-based approach, while taking into account the results of the NRA, too; that they are using software for tracking transactions

and clients to detect suspicious transactions and clients, that they have regulated their internal control systems by their internal regulations, and that they pay due attention to the training of their staff.

Bank staff do not act in collusion with criminals, nor do they act under the influence of corruption. Only three cases are known where bank officers were involved in money laundering related cases; however, these cases refer to actions before 2013 and served as a kind of warning (and typology) not only to banks but also to the supervisory authority, after which the internal and external controls of these banks were tightened.

Banks have adequate records on transactions and they still report the highest number of suspicious transactions to the APML, with the largest number of reported transactions pointing to the suspicion of tax evasion, which is rated in the NRA as the riskiest criminal offense for money laundering in the RS, which indicates that banks are monitoring transactions that may point to this phenomenon. Banks have continued with the practice of describing the reason for suspicion of money laundering instead of just listing the indicators (which was a common practice in the period before 2013).

1.2. Other payment service providers and issuers of electronic money (PSP and IEM)

Compared to the previous NRA, when there was no PSP/IEM sector as such, significant improvements can be observed in both the legislative sense and the expansion of this type of service providers. Currently, payment services in the RS are provided by 11 payment institutions, one public postal operator and one electronic money institution, while electronic money is issued by one electronic money institution¹³.

The assessment of the PSP/IEM sector is based, among other things, on the existence of a comprehensive legal framework defining AML/CFT preventive measures, the existence of efficient entry control mechanisms during licensing, the situation determined in on-site and off-supervision, the analysis of reports and questionnaires that these institutions submit to the NBS and the APML, activities undertaken pursuant to the recommendations from the Moneyval reports. The vulnerability of this sector has been affected to the largest extent by the fact that most of the institutions (nine payment institutions and an electronic money institution) provide their services through a wide network of agents, the frequent use of cash when initiating payment transactions by users, the frequency of international transactions in the institutions' business operations (international money remittances), and a large number of reported suspicious activity reports.

The most common types of payment services that are rendered through this sector are the services of transferring funds to the payment account of the payee (utility bills and other payments) and the services of executing international money remittances, so clients mostly use cash for their payment transactions, however the amounts of money involved are relatively small. The services of executing international money remittances are

¹³The issuance of electronic money is at the nascent stage, given that only one institution that started operating in 2016 has been licensed for the issuance of electronic money, with that institution recording a rise in business activity in 2017 compared to 2016.

provided by a total of five payment institutions through the systems Wester Union, RIA and Money Gram, with the amount of incoming remittances still outweighing outgoing money remittances. Payment institutions that provide the international money remittance service belong to the group of reporting entities with the highest number of submitted suspicious activity reports, whose quality is constantly improving, with a small number of submitted reports explicitly expressing suspicion of money laundering, a predicate crime, or financing of terrorism.

1.3. Sector of authorized exchange offices

The vulnerability of the authorized exchange offices sector has been assessed as medium-low in relation to other financial sectors.

The sector of exchange offices covers 2610 authorized exchange offices, mostly entrepreneurs (75% or 1955 entrepreneurs) and small business companies (655 companies, of which in 617 founders are natural persons), with one or two employees who have a license issued by the Tax Administration. Currency exchange transactions are the operations of buying and selling foreign currency denominated cash, always and exclusively to natural persons in the country. The average transaction value is small, for purchases it is EUR 100, for sales EUR 320, and at the level of the total turnover it is EUR 140. The turnover of the sector is over EUR 11 billion, including the turnover of 28 commercial banks, and over seventy million transactions are recorded annually. Transactions are recorded through software, and video surveillance is mandatory. In the 2015 – 2017 period, the Tax Administration conducted 11,826 audits, namely 2790 field audits and 9036 desk audits. The results of the supervision indicate that the majority of exchange offices implement AML/CFT actions and measures, but that they report transactions as cash transactions rather than listing the indicators and report transactions as suspicious. This leads to a large number of reported cash transactions, and a small number of reported suspicious transactions. The issue here is inadequate understanding of the regulations by exchange offices, the fact that all their transactions are cash transactions, and that the Transaction Reporting Form is a single one for suspicious and for cash transactions. A declining trend in law violations has been observed over the years. Transactions in the sector are not performed through agents and there are no international transactions. In accordance with the recommendations of the Moneyval evaluators, the Tax Administration has developed the ML/FT Risk Assessment Matrix, Guidelines for its implementation, sent to authorized exchange offices an excerpt from the National Risk Assessment, the Information Note on the Prevention of the Proliferation of Weapons of Mass Destruction and Their Means of Delivery, increased the number of targeted field audits and created a new upgraded Questionnaire Form.

1.4. Capital market

Based on the input parameters, the vulnerability assessment of the securities sector (capital market) in the Republic of Serbia is **medium-low**, which means that the risk of

money laundering and terrorist financing in this sector exists, but at a lower level. The above assessment was made based on the established circumstances relating to the underdeveloped and thin capital market, a low share of the capital market in the composition of the financial system of the Republic of Serbia, the illiquid market, a large proportion of inactive customers, the fact that reporting entities do not operate with cash transactions; instead, all payments are made through accounts opened with banks, strict regulations in this area, risk-based supervision, as well as the consistent application of the adopted regulations, both by the reporting entities and by the supervisory body, the Securities Commission.

1.5. Insurance, voluntary pension funds and financial leasing providers

The sectors of insurance, voluntary pension funds and financial leasing providers account for about 9% of the balance sheet total of the financial sector in the RS and have been assessed, in accordance with the World Bank methodology, as low vulnerability sectors. The assessment of these sectors has been made in accordance with the general variables which, *inter alia*, include the existence of a comprehensive legal framework defining AML/CFT preventive measures, efficient entry control mechanisms during licensing, the situation established in on-site and off-site supervision, an analysis of reports and questionnaires submitted by these institutions to the NBS and the APML, activities undertaken pursuant to the recommendations from the Moneyval reports, as well as the inherent variables that influenced the final assessment of vulnerability.

1.6. Factoring

The factoring sector in international payment transactions was assessed as a low vulnerability sector compared to other financial sectors. The sector comprises 6 reporting entities, the volume of transactions is low, standing at EUR 48.6 million, all transactions are carried out through banks, transactions are not conducted through agents, nor are business relations established with entities whose owners are politically exposed or convicted persons, or with persons from off-shore destinations and black-listed countries, there is no typology, or developed fraud or tax evasion schemes.

2. Vulnerability of the sector of designated non-financial businesses and professions (DNFBPs)

The DNFBP sector of the Republic of Serbia includes reporting entities under the Law on the Prevention of Money Laundering and Financing of Terrorism, which are intermediaries in real estate sale and lease, organizers of games of chance via the internet, casinos, then the so-called "gatekeepers" that include auditors, accountants, lawyers and notaries public. Also, the DNFBP segment includes developers in the business of building residential and non-residential buildings, dealers in items made of precious metals, car dealers, which are not reporting entities under this Law.

Compared to other sectors, the real estate sector has been identified as the most vulnerable among the DNFBPs, followed by the games of chance sector and accountants. From the standpoint of money laundering, too, these sectors pose a higher risk.

2.1. Real estate agents

Real estate agents belong to a sector that is assessed as a medium vulnerability sector relative to other DNFBPs, and whose exposure to money laundering threats, according to the assessment, is high. In the 2012 National Risk Assessment, the real estate sector was rated as a medium-high risk. In the mentioned exercise, real estate agents and real estate developers were assessed together. In this risk assessment, intermediaries who provide a service have been separated from real estate developers who are engaged in the construction and sale of newly built buildings, as two separate activities. Based on an analysis of the overall situation in intermediation for sale or lease of real estate, and after the adoption of a separate law on intermediation in sale and lease of real estate in October 2013, intermediation in this field has been thoroughly regulated and significant progress has been made in regulating the activity of intermediation. Supervision has shown that intermediaries still do not sufficiently understand the application of regulations in the field of prevention of money laundering and terrorist financing, which refer to: preparing a client's risk analysis, applying indicators, designating an authorized person and his/her deputy, record keeping, implementing internal

controls, conducting internal training, etc. Due to the above, the market inspection service, in addition to continuous oversight, also organized continuous training for intermediaries, in cooperation with the APML. The real estate sector is not only vulnerable, it is also a threat to the system, since the real estate sector has been recognized in a large number of money laundering cases, and since the money generated in illegal activities is most often invested in real estate.

2.2. Real estate developers - natural persons

The trend of investing "dirty" money in real estate usually takes place through investment in the construction of residential and commercial buildings and in the purchase of real estate. The threat of money laundering through real estate transactions is especially evident among natural persons - real estate developers, who sell the immovable properties after building them and, in such a manner conceal the unlawful origin of invested funds.

The fact that payments for the construction material can be made in cash also contributes to the higher vulnerability to money laundering. Similarly, the absence of a registry of persons engaged in this activity increases the vulnerability, so the size of this sector can be determined only indirectly, through the Tax Administration data, which shows that since 2013 there has been an upward trend when it comes to such natural persons, and that there was 354 of them in 2017. Financing construction with funds of unknown origin is most often justified by loans, gifts and the like. It has also been observed that the values of real properties are understated in the sales contracts and the difference to the full price is paid in cash. Avoidance of taxes and other dues constituting public revenue is most often carried out by accounting for fake transactions through phantom companies, forging documents and integrating illegally produced goods into legal flows. A factor which heightens the risk is related to the fact that the VAT Law provided for a possibility of natural persons - developers to register for VAT, without having to be registered as taxpayers, in accordance with the Law on Registration of Business Entities. Developers engaged in the construction of residential and non-residential buildings are not reporting entities under the Law, but before 1 April 2018, the Tax Administration was empowered to control the compliance with the ban on cash payments exceeding the statutory amount, and as of 1 April 2018, powers to carry out that control are transferred to the Ministry of Trade, Tourism and Telecommunications. The factor that helps to reduce the risk of money laundering through real estate transactions is the fact that in most cases the sales price of the real estate is paid out of housing loans extended by banks, and that the VAT refund can be made to the first-time buyers of apartments only against proof that the price of the dwelling has been fully paid, including VAT, into the account of the seller - VAT payer.

2.3. Casinos

Casinos belong to a sector that has been assessed as a medium vulnerability sector compared to other DNFBPs, and whose exposure to money laundering threats, according

to the assessment, is medium-high. Currently in the Republic of Serbia, in Belgrade, there are two organizers of special games of chance in casinos. The Tax Administration has developed the first Guidelines for the assessment of the money laundering and terrorist financing risk for taxpayers who organize special games of chance in casinos. In the period from 1 January 2013 to 31 December 2017, no supervision of casinos was performed based on money laundering and terrorist financing risks. In cooperation with the Administration for the Prevention of Money Laundering, an Action Plan and the Methodological Instructions for Performing On-site Supervision of the reporting entities who organize special games of chance in casinos have been prepared and supervision was performed in the period from 29 March to 12 April 2018.

In this sector, there is a whole range of elements that increase its vulnerability such as: cash operations - chips are bought and sold exclusively in cash; the lack of electronic surveillance of the organizers of special games of chance in casinos; non-existence of legal provisions on the criteria and examination of the money laundering and terrorist financing risk in the licensing procedure; the lack of a prescribed statutory obligation to check the beneficial owner of a legal entity in the licensing procedure for the organization of special games of chance in casinos.

2.4. Organizers through electronic communications means – on-line

Organizers through electronic communications means - on-line belong to a sector that is assessed as a medium vulnerability sector compared to other DNFBPs, and whose exposure to money laundering threats, according to the assessment, is high. Eleven licenses have been issued for the organization of special games of chance through electronic communications means. The first Guidelines for Assessing the Money Laundering and Terrorist Financing Risk for Reporting Entities that Organize Games of Chance through Electronic Communications Means were issued in 2018. In the period from 1 January 2013 to 31 December 2017, no on-site/off-site supervision was conducted of organizers of games of chance through electronic communications means, based on the risks of money laundering and terrorist financing. From the standpoint of realistic risk scoring for the money laundering vulnerability assessment of the sector, the following should be taken into account: transactions are mostly performed through the record accounts of players from accounts of financial institutions; records on conducted transactions on a daily basis are submitted by the organizers in XML format by uploading them onto the Tax Administration's server; the authorized laboratory carries out control of the fulfillment of IT characteristics of equipment for organizing games of chance through means of electronic communication.

In this sector, too, there are many elements that increase the vulnerability of the sector such as: the lack of electronic surveillance of online gambling operators - real time; the customer identification problem: non face-to-face business can pose certain risks and requires an alternative or additional compliance methods; possibilities to make cash payments: the reporting entity can function as part of a mixed organization that includes slot machines and betting places, i.e., the so-called "land-based betting", which allows for the replenishment of record accounts by cash; prepaid cards: the use of cash to finance

prepaid cards poses similar risks as with cash; lack of legal provisions on criteria and checking for the risk of money laundering and financing of terrorism in the procedure for licensing/identifying the beneficial owner of a legal entity, etc.

2.5. Accountants

Accountants belong to a sector that is assessed as a medium vulnerability sector compared to other DNFBPs, and whose exposure to money laundering threats, according to the assessment, is medium-high. In this area, progress has been made relative to the 2012 National Risk Assessment, primarily by introducing the obligation for accountants to be registered for this activity in order to be able to perform it (the core activity). It is also prescribed that an entrepreneur that has registered the provision of accounting services as a core activity may not be a person who has been convicted by a final and binding judgment of criminal offenses laid down by this Law (including the criminal offenses of money laundering and the financing of terrorism). In 2012, a unit for supervision of accountants and auditors was established in the Administration for the Prevention of Money Laundering, and supervision is carried out through both off-site and on-site examinations. In most of the on-site examinations of accountants, instances of non-compliance with the Law on the Prevention of Money Laundering and Financing of Terrorism were identified, and afterwards complaints were filed for economic offenses with positive outcomes, in the sense that the Commercial Court found that an accountant failed to abide by the law and imposed a fine. In the previous period, a large number of training courses were held, however, despite the great efforts and excellent organization by the Supervision Section, a discrepancy exists between the number of accountants (around 7000) and the number of inspectors of the Administration for the Prevention of Money Laundering (currently three inspectors). The trend is that accountants registered as legal entities have a higher level of awareness about belonging to the anti-money laundering system, than entrepreneurs. Also, recent years have seen a rising trend in the number of accountants. Accountants still perceive certain legal norms, which are derived from international standards, as formalities. Some companies involved in criminal activities used the services of accounting agencies to disguise their criminal actions as legal operations through business books. Also, there are a number of accountants who continue to question the reporting of any suspicious transaction to the Administration for the Prevention of Money Laundering. This confirms the opinion that the accountants' awareness of belonging to the anti-money laundering and terrorist financing system is at an insufficiently high level and that more intensive preventive work is required with accountants.

2.6. Notaries public

Notaries public are a sector that is assessed as a medium vulnerability sector compared to other DNFBPs, and whose exposure to money laundering threats, according to the assessment, is low. Notaries public in the Republic of Serbia started operating on 1 September 2014. The Notaries Public Chamber of Serbia as an association currently has 167 notaries. Notaries public were not reporting entities under the Law on the Prevention of Money Laundering and Terrorist Financing in the previous period; instead they became reporting entities on 1 April 2018. Unlike other reporting entities, notaries public are under an obligation to only take certain actions and measures prescribed by this Law. The legal framework that regulates the profession of notaries public mitigates to a considerable extent the risk of money laundering and terrorist financing, as evidenced by reports from notaries public submitted to the Administration even when they were not reporting entities under this Law. The quality of these reports received a positive evaluation from the Administration for the Prevention of Money Laundering. Since the adoption of the new Law, the Serbian Notaries Public Chamber has taken a number of actions and measures through the implementation of by-laws, training courses, off-site supervision of notaries, etc.

Before notaries public and the Notaries Public Chamber there still is a number of activities that need to be performed in order to establish the system in an adequate manner. After the application of the Law in full, a realistic assessment of the vulnerability of the notaries public profession will be possible, especially in the field of real estate transactions, which are assessed as a threat to the national system from the standpoint of vulnerability.

2.7. Lawyers

Lawyers are a sector that is assessed as a medium-low vulnerability sector compared to other DNFBPs, and whose exposure to money laundering threats, according to the assessment, is medium, primarily due to the services they provide to their clients in terms of planning or performing transactions for a client related to the management of the client's assets, the establishment, operation or management of a company, the purchase and sale of real estate or a company, the opening and management of accounts with banks, especially in relation to securities transactions, as well as when on behalf, and for the account, of a client they carry out a financial transaction or a real estate transaction.

A small number of lawyers in the Republic of Serbia perform client asset management activities and financial transactions for the account of the client, and the activities of lawyers in real estate transactions have been significantly reduced in recent years. Unlike other reporting entities, lawyers are under an obligation to only undertake certain actions and measures prescribed by the Law on the Prevention of Money Laundering and Financing of Terrorism. Lawyers still play a role when it comes to the involvement in criminal activities, so in one proceeding that is conducted for money laundering against an organized criminal group, among the defendants there is a lawyer, as well as in the

criminal proceeding involving nine defendants who are lawyers, charged with tax evasion. The Serbian Bar Association has adopted the Risk Assessment Guidelines and the List of Indicators, and taken a number of necessary steps to enable lawyers to act in accordance with the Law. In the coming period, it is necessary to embark upon the process of education of lawyers, and the procedure for off-site and on-site supervision of lawyers' work, in cooperation with the bar associations within the SBA. According to the data of the Administration for the Prevention of Money Laundering, lawyers have reported suspicious transactions in the previous period, which means that they are aware of this statutory obligation, because as lawyers they follow the regulations and understand the broader social significance of the prescribed obligations.

2.8. Auditors

Audit firms belong to a sector that is assessed as a low vulnerability sector compared to other DNFBPs, whose exposure to money laundering, according to the assessment, is medium-low. In making the vulnerability assessment for auditors, the following was taken into account: a good licensing regime for the operation of audit firms, the fact that auditors have to have a license to be able to work, and that they may not be convicted of offenses against rights arising from labor, the economy, property, the judiciary, money laundering, financing of terrorism, public order and peace, etc. Auditors have a high level of awareness of belonging to the anti-money laundering and terrorist financing system, and according to the evaluation of the quality of suspicious transaction reports made by the Administration for the Prevention of Money Laundering, auditors received the highest rating for the quality of suspicious transaction reports in relation to all reporting entities under the Law.

2.9. Car dealers

Business entities that are car dealers are not reporting entities under the Law. They were assessed from the standpoint of applying the provision of Article 36 of the Law, which refers to cash payments for goods. The market inspection service, by analyzing 41 random samples (business entities that are car dealers), has found that in the observed period, two business entities constantly received payments for goods in cash. Because they were a low risk sector in the period of observation before 2012, they were not subject to continuous inspection oversight in the period 2013-2017, which prevented the obtaining of the real picture of the situation in this activity, and therefore it is necessary to perform continued supervision in order to understand the actual situation of car dealers and reduce the risk of money laundering.

2.10. Precious metals

Business entities that perform the activity of production of and trade in precious metal items are not reporting entities under the Law, but are obliged to apply the provision

limiting cash payments; therefore, they have been assessed in accordance with Article 36 of the previously applicable Law, or Article 46 of the new Law, which provides for the limit on cash payments for goods. The separate Law on the Trade in and Control of Precious Metals Items identified the insufficient and inaccurate definition of supervision in the segment referring to the control of production, trade and keeping of records on precious metal items, which leads to inadequate supervision of this activity, due to overlapping competences of public authorities. The Law on Control of Objects Made of Precious Metals does not clearly stipulate the conditions and manner of purchase of precious metal items, as well as the responsibility for the control of purchases of the mentioned objects in business entities, so this activity constitutes not only the identified vulnerability, but also a possible threat to the system.

NATIONAL TERRORIST FINANCING RISK ASSESSMENT

An assessment of the risk of terrorist financing at the national level has been made on the basis of the analyses "Threat Assessment" and "Terrorist Financing Vulnerability" for the period from 1 January 2013 to 31 December 2017. It has been prepared following the World Bank methodology, by the Working Group composed pursuant to the Conclusion of the Republic of Serbia's Government on the establishment of a working group for drafting a national money laundering and terrorist financing risk assessment.

The National Terrorist Financing Risk Assessment is based on: information and statistical data collected by the public prosecutor's office, security services, the Ministry of Justice, the Ministry of the Interior, the Ministry of Finance, the Ministry of Foreign Affairs, the Ministry of Culture and Information, the Ministry of Public Administration and Local Self-Government, the Business Registers Agency, the Office of the National Security Council and Classified Information Protection, and the Office for Cooperation with Civil Society.

The Assessment includes chapters under the World Bank methodology, as follows: "Terrorism Threat", "Terrorist Financing Threat", "Terrorist Financing Vulnerability".

In that sense, the final assessment of the "Terrorist Financing Risk" has been made on the basis of:

1. Individual assessments of two independent factors in the "Terrorism Threat" chapter;
2. Overall assessment of the "Terrorist Financing Threat" chapter;
3. Overall assessment of the "Terrorist Financing Vulnerability" chapter;

For the purpose of compiling this assessment materials have been used provided by the representatives of the above institutions, as well as other materials listed in the World Bank methodology, and conclusions taken over from the FATF Mutual Evaluation

Report and the Moneyval report on the 5th round of mutual evaluation. The assessment of variables was made in meetings in the presence and agreement of the present members, and the method for assessing certain variables as such is indicated in the assessment.

In identifying terrorism threats and terrorist financing threats, data was used from a recent case initiated in 2014 by the Prosecutor's Office for Organized Crime for the criminal offenses of terrorism and terrorist financing, concluded by the first instance judgement in the first half of 2018. In addition, qualitative data from the security services and other competent state authorities was taken into account in identifying these threats. In this sense, foreign terrorist fighters have been identified as the highest level of threats of terrorism and terrorist financing for the Republic of Serbia. It was also established that the funds used to finance the travel of persons in order to join the terrorist organization "Islamic State" (hereinafter: ISIS) were collected in the local jurisdiction and in several European countries.

By assessing the overall parameters and statistical data on which basis the criteria "Terrorism Threat", "Terrorist Financing Threat" and "Terrorist Financing Vulnerability" were assessed, the Working Group has made an assessment that the level of the "Terrorist Financing Risk" in the Republic of Serbia is "MEDIUM".

THREAT	HIGH					
	MEDIUM HIGH					
	MEDIUM			FT risk in Serbia		
	MEDIUM LOW					
	LOW					
	LOW	MEDIUM LOW	MEDIUM	MEDIUM HIGH	HIGH	
	VULNERABILITY					

Figure 1. Terrorist Financing Risk in the Republic of Serbia

Based on the analysis of quantitative data, which is mainly related to the recent case, and of qualitative data, the Working Group has made an assessment that the factor "Terrorism Threat" is MEDIUM/HIGH, while the factor "Impact on the Terrorist Financing Threat" in the Republic of Serbia is assessed as "LOW".

Also, by analyzing the mentioned quantitative and qualitative data, the level of the "Terrorist Financing Threat" has been rated as "MEDIUM" with a "NO CHANGE" tendency.

The assessment of the "Terrorist Financing Vulnerability" in the Republic of Serbia was made on the basis of the analyses of:

1. The quality of the legislation where it is assessed that the normative framework that regulates the prevention of terrorist financing is aligned with relevant international standards and recommendations of the Moneyval Committee. At the same time, the implementation of the mentioned normative framework has been assessed, where certain shortcomings have been identified regarding the efficiency of certain legal arrangements and their implementation. The normative framework which regulates the non-profit sector was separately analyzed, as well as the FATF recommendations for the protection of the non-profit sector (hereinafter: NPO sector) against misuse for the purpose of terrorist financing, in which sense certain weaknesses were identified ;

2. The quality of intelligence in which sense the process of data collection was assessed, as well as the effectiveness of domestic and international cooperation;

3. The effectiveness of reporting, supervision and analysis of suspicious transactions related to terrorist financing, falling within the competence of the Administration for the Prevention of Money Laundering, has been reviewed based on the number and quality of reports on suspicious activity, the number of cases opened on the basis of suspicious transactions reports, capacity and commitment of reporting institutions with regard to compliance with the requirements relating to verification, in accordance with the UN Security Council sanctions regime;

4. The adequacy of human and financial resources allocated for combating the financing of terrorism;

5. The efficiency of international cooperation related to combating terrorist financing, which is assessed based on an analysis of the legal basis, the number of received and sent MLA requests, informal cooperation in terrorist financing cases, and FATF recommendations;

6. Political commitment to counter terrorism and terrorist financing, awareness and determination to counter the financing of terrorism among policy makers, law enforcement agencies, security and financial intelligence services;

7. Geographical and demographic factors

Bearing in mind the analyzed factors, the "Terrorist Financing Vulnerability" has been assessed as MEDIUM.

Unlike the period covered by the previous National Terrorist Financing Risk Assessment (hereinafter: FT NRA), it is important to note that in this reporting period, in the part relating to the "Terrorism Threat", a first instance judgement was rendered by which

seven persons were found guilty of committing the criminal offense of terrorism and other related criminal offenses.

In this reporting period, after the declaration of the ISIS caliphate, a rising trend was registered in the number of departures of the Republic of Serbia's nationals as foreign terrorist fighters into the regions of Syria and Iraq - whose forms of manifestation were identified in the previous assessment. However, since end-2015, there has been a marked decline in the number of departures to foreign battlegrounds, which at the same time increased the threat associated with their return to both our country and the countries of the region.

Also, the level of threat registered in the previous FT NRA, related to the continuous security risk of the presence of extremist and terrorist structures, as well as the radicalization and recruitment of foreign terrorist fighters from the territory of the Autonomous Province of Kosovo and Metohija (hereinafter: AP KiM) and individual countries of the region, has not decreased. At the same time, due to the geographical position of the Republic of Serbia, another possible mass influx of migrants would contribute to the strengthening of the mentioned threat in our country, which was at the center of the so-called Balkan migrant route.

In the analysis of the "Terrorist Financing Threat" it was observed that the sources, amounts and directions of cash flows intended for financing travel to foreign battlegrounds have not changed, and they have remained in the sphere of small amounts, mainly from donations, originating from certain Western European countries.

After the drafting of the previous FT NRA, when it comes to the "Terrorist Financing Vulnerability" of the system, pursuant to the amendments to the Criminal Code, preparatory actions for the criminal offense of terrorism have essentially become punishable, and thus legal conditions have been created for more efficient criminal prosecution and prevention of the criminal offense of terrorism and terrorist financing. Also, the Law on the Freezing of Assets with the Aim of Preventing Terrorism, and its amendments have been adopted. The legal framework on the NPO sector has been analyzed more comprehensively and in more detail, and certain shortcomings have been identified, as well as the activities that need to be carried out in the coming period in order to reduce the risk of misuse of this sector for the purpose of terrorist financing.

The intensity of cooperation, coordination and exchange of information among public authorities of the Republic of Serbia, responsible for combating terrorism, have been significantly improved, both internally and internationally.

In this connection, activities are continuously undertaken by all relevant public authorities of the Republic of Serbia to check the received reports on events for which there are indications that they may be associated with the criminal offenses of terrorism and financing of terrorism, in which sense thorough analyses are performed of the collected data to determine the existence of grounds for suspicion of the above offenses.

After information has been received by the competent public authorities, first and foremost the Ministry of the Interior, that is, the Service for Combating Terrorism and Extremism, the Security Information Agency and the Administration for the Prevention of Money Laundering, the Prosecutor's Office for Organized Crime launches preliminary investigations, by initiating special investigative techniques, communicating

with the relevant financial institutions, exchanging data with the competent state authorities, in order to take a relevant decision on the institution of criminal proceedings, or on further checks of the circumstantial evidence which might lead to the gathering of relevant evidence to institute criminal proceedings.

The consequences of terrorist financing for the system can ensue if one does not proceed with the implementation of specific activities by all branches of power and institutions of the Republic of Serbia in combating terrorism and financing of terrorism, and undermines the continuity of harmonization of the normative framework with the recommendations of relevant international institutions for countering terrorism and its financing.

Bearing in mind that the legal framework is relatively well set up in this area, more attention should be paid to defining criteria and standards that would contribute to the early detection and identification of suspicious persons and transactions, while fully respecting all the principles of a democratic society. With regard to the financing of terrorism, increased attention is necessary both on the part of reporting entities that have the obligation and interest to prevent transfers of funds for the financing of terrorism through their systems, and the competent authorities that have the obligation to prevent abuse and activity of legal entities aimed at raising funds to finance terrorism.

CONSEQUENCES FOR THE SYSTEM

The assessment of the risk of money laundering and terrorist financing, in addition to the threat and vulnerability assessments, includes the assessment of consequences for the system¹⁴. They should be understood as the harm that money laundering could cause and include the impact of criminal activity on a reporting entity, the financial system, society and the economy as a whole.

Bearing in mind that threats and vulnerability are assessed as medium, the consequences for the system should therefore be rated at the same level.

Certainly, money laundering is a global problem to which no country is immune, including the Republic of Serbia. Money laundering is not only a consequence of a previously committed crime, but is also a stepping stone for future criminal activities and directly adversely affects the economic and political system and, depending on the magnitude, it can undermine democratic development, economic and financial stability and the transition process in Serbia. Money laundering leads to easier and faster penetration of crime and corruption into the economy, education, health, police, judiciary, the entire government system, and thus to further criminalization of the entire society.

¹⁴ FATF Guidance - National Money Laundering and Terrorist Financing Risk Assessment

The largest and gravest negative effects of money laundering can be first seen in the economy, through a decline in public revenue, transparency and efficiency of the financial system, the expansion of the "gray economy". Its size in Serbia at this point is not at a satisfactorily low level, so any increase would give rise to negative effects across the entire economic and financial system. Money laundering, as a rule, leads to a decrease in budget revenues due to tax avoidance. It is one of the most common unlawful incomes that is the subject of money laundering. Such situations often further undermine the tax system as they cause an increase in tax rates and liabilities of entities that meet their obligations. Furthermore, all this puts them into an unequal market position and makes it difficult for them to operate.

Likewise, one should keep in mind that criminal structures, as a rule, do not care about the profitability of their investments. What is more, they tend to invest their criminal proceeds into activities that are not necessarily profitable (real estate), given that the objective of investing is to hide the origin of their money. These investments are in fact targeted the most for money laundering because this method makes it possible to integrate into legal flows easily and quickly, without raising too much suspicion.

Today money laundering is a widespread phenomenon. It is a fact that its size, expressed as a ratio to the global gross domestic product, stands between 2 and 5% or between EUR 615 billion and EUR 1,540 billion each year.¹⁵ This points to the necessity of actions by all countries in the world, which prevent the penetration of dirty money into the economic system, in both the financial and non-financial sectors, in an efficient and effective way, through the strengthening of measures and policies at the national level. Such measures inevitably arise from the awareness that, against the current backdrop of globalization, money laundering activities are as a rule carried out across borders and within organized criminal groups.

The conclusion is that the problem of money laundering must be approached as a complex phenomenon in order to avoid its negative effects.

The "route" of dirty money is not easy to spot or identify, which impedes the timely implementation of efficient measures for its detection, prevention and suppression. Money laundering is getting new forms every day, through the use of various methods and means.

Creating an efficient system for countering this problem requires improvement of the normative framework with solid mechanisms and clear roles of each of the institutions, both those that operate preventively, and those that act repressively.

It is necessary to undertake activities for the building, improvement and development of mechanisms for rapid elimination of vulnerabilities in the areas that are most exposed to the risks of money laundering. This is particularly true for the mechanisms of financial

¹⁵ EUROPOL SOCTA 2013, 2015, *EU Serious and Organised Crime Threat Assessment*.

institutions and supervisory authorities to monitor cash flows. Improvements are necessary of the methods and the manner in which law enforcement agencies, the police, the prosecution and courts operate, with a special emphasis on effective and deterrent sanctions. An efficient response to money laundering must also be in an effective system for the application of measures aimed at confiscation of criminal proceeds and assets. In this segment improvements are needed in tracing, identifying, monitoring and appraising the illegally acquired property, as a precondition for its final confiscation.

In order to pre-empt the consequences of terrorist financing, it is necessary to maintain the efficient capacity of the system to prevent and combat terrorism and terrorist financing, make an analysis of the legislative framework regarding the efficiency of certain legal arrangements and their implementation, continuously promote and advance capacity of human resources, and renew technical capacities of the so-called repressive authorities (police, prosecution, security services) and the so-called administrative and preventive authorities (different segments of the Ministry of Finance – Administration for the Prevention of Money Laundering, Customs Administration, Tax Administration) to counter terrorist financing, and work to raise awareness about the threat of terrorism and all its manifestations, and exposure to the terrorism risk of the so-called vulnerable categories of persons and organizations.

The next step after making the risk assessment is the adoption of an Action Plan defining all activities that constitute the state's adequate response to the identified threats and vulnerabilities of sectors and the national system.

LIST OF ABBREVIATIONS

BRA - Business Registers Agency
SCC - Supreme Court of Cassation
LPMLFT - Law on the Prevention of Money Laundering and Financing of Terrorism
SeC - Securities Commission
FInvU - Financial Investigation Unit
NBS - National Bank of Serbia
NRA - National Risk Assessment
MoJ - Ministry of Justice
MLA - Mutual Legal Assistance
MoI - Ministry of the Interior
ML - Money laundering
STR - Suspicious transaction report
SAR (Suspicious Activity Report) - A report on a suspicious activity
RBA (Risk-Based Approach) - An approach based on risk analysis and assessment
RPPO - Republic Public Prosecutor's Office
SCG - Standing Coordination Group
AML/CFT – Anti-money laundering and counter financing of terrorism
APML - Administration for the Prevention of Money Laundering
FIU - Financial Intelligence Unit
CC - Criminal Code
CPC - Criminal Procedure Code
LTPTA - Law on Tax Procedure and Tax Administration
NALED - National Alliance for Local Economic Development
JSC – Joint stock company
LLC - Limited liability company
VAT - Value added tax
OCG - Organized criminal group
PE – Public enterprise
CTC - Catering and tourism company

N.N. – John Doe