GLOBAL INITIATIVE
AGAINST TRANSNATIONAL ORGANIZED CRIME

DIRTY MONEY

ASSESSING THE VULNERABILITY OF FINANCIAL INSTITUTIONS IN THE BALKANS TO ILLICIT FINANCE

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ACRONYMS AND ABBREVIATIONS

AML	Anti-money laundering
AML/CFT	Anti-money laundering and counter-terrorist financing
FATF	Financial Action Task Force
FIU	Financial intelligence unit
IFFs	Illicit financial flows
Moneyval	Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism
PEP	Politically exposed person
STR	Suspicious transaction report
SPAK	Special Structure Against Corruption (Albania)
VASP	Virtual asset service provider

EXECUTIVE SUMMARY

Despite efforts to prevent illicit finance – such as the adoption of international frameworks, Financial Action Task Force (FATF) standards and the EU's anti-money laundering (AML) directives – financial institutions in the Western Balkans remain highly vulnerable to sophisticated criminals and the inherent risks in the formal financial system. Financial institutions such as banks, microfinance institutions, cryptocurrency services and money transfer services are frequently exploited by criminals to move illicit money across borders.

The region's financial sector is bank-dominated, with a substantial proportion of foreign-owned banks, but related financial service providers – including foreign exchange offices, fast money transfer services, payment institutions and crypto exchange offices – are increasingly contributing to the evolution of the financial landscape and creating new vulnerabilities to illicit money. The financial sector in the Western Balkans is therefore characterized by a dichotomy. On the one hand, financial institutions are intended to serve as the gatekeepers of financial integrity, with robust anti-money laundering and counter-terrorist financing (AML/CFT) standards with which to comply, including customer due diligence procedures, transaction monitoring and reporting suspicious transactions to financial intelligence units (FIUs). On the other hand, there is considerable evidence, including from the Global Initiative Against Transnational Organized Crime (GI-TOC)'s own research in the region and Moneyval reports, that financial institutions are integral to the three-stage process of money laundering: placement, layering and integration.

Despite their strong AML controls compared to other institutions, banks are frequently used as vehicles for money laundering. The examples in this report reveal complex schemes involving international criminal organizations moving substantial sums of money through multiple jurisdictions. The growing use of cryptocurrencies provides anonymity to criminals moving illicit funds, which is exacerbated by the lack of comprehensive regulation and supervision in many Western Balkan countries. Other financial institutions are used to launder smaller amounts of illicit proceeds. Criminals exploit money transfer services to move smaller amounts of money because of the large volume of cash transactions they handle and the limited verification processes involved. Foreign exchange offices are also misused because of their cash-intensive nature and limited oversight.

This research report also shows that, despite the apparent adherence to compliance standards, the reality of the level of compliance among financial institutions varies considerably. In general, banks demonstrate better adherence to regulations compared to other types of financial service providers. But even in the best cases, there is a lack of systematic and comprehensive feedback from FIUs to reporting entities, and the broader juridical chain shows a limited understanding of illicit finance, which hinders effective enforcement.

Methodology

The GI-TOC analyzes illicit financial flows (IFFs) using the framework proposed by Tuesday Reitano in 2022, known as the IFFs pyramid (see Figure 1).[1] The pyramid shows three dominant means by which IFFs are enabled, moved and held: financial flows,[2] trade flows[3] and informality.[4] To fully comprehend the scope and scale of IFFs, it is necessary to understand the risks at each level of the pyramid, and to identify context-specific vulnerabilities holistically. The pyramid's analysis has been applied in a more comprehensive way in other GI-TOC studies, including a report on IFFs in Albania, Kosovo and North Macedonia in 2020 and one on IFFs in Bosnia and Herzegovina, Montenegro and Serbia in 2022.[5]

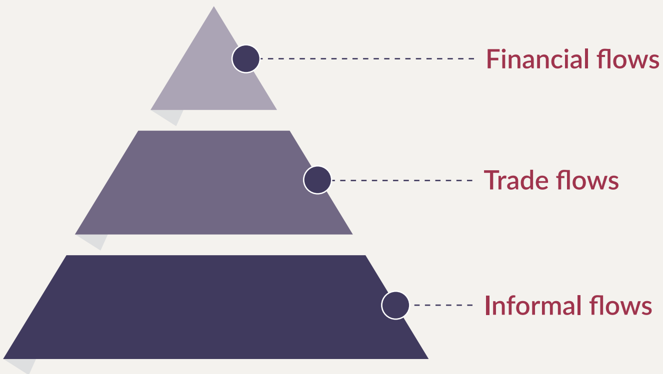

FIGURE 1 The IFF methodology.

SOURCE: Tuesday Reitano, Political won't? Understanding the challenges of countering IFFs, SOC ACE Research Paper No. 14, University of Birmingham, June 2022

This research report takes a closer look at the top level of the pyramid, focusing specifically on illicit finance within the formal financial sector. It seeks to illustrate how financial institutions such as banks, microfinance institutions, cryptocurrency services, fast money transfer services and foreign exchange offices are used for laundering illicit proceeds. It provides an overview of the financial sector in the Western Balkans, international standards governing the sector, the role of AML compliance officers working in the financial sector and issues related to politically exposed persons (PEPs).

The analysis is based on qualitative and quantitative research methods, including the collection and review of official documents from the Western Balkan countries, international standards, media articles and grey literature. In addition, experts from each of the Western Balkan countries collected primary sources through a guiding questionnaire. During the research, 38 semi-structured interviews were conducted with AML compliance officers, current and former officials working in financial institutions, public officials, civil society organization experts, field experts and investigative journalists.

This publication is part of a series of two briefs that focus on illicit finance and AML in the Western Balkans, supported financially by the UK government's Integrated Security Fund.[6]

INTRODUCTION

IFFs have been extensively researched by the GI-TOC, especially in the Western Balkans. In addition to two reports on IFFs in Albania, Kosovo and North Macedonia (2020) and on Bosnia and Herzegovina, Montenegro and Serbia (2022),[7] a toolkit was developed in 2024 to help civil society and the media better understand and monitor responses to IFFs from the six Western Balkan countries.[8]

IFFs have been defined and redefined by various organizations and countries, yet there is still no universally accepted definition. None of the Western Balkan countries have defined IFFs in legislation or policies.[9] As part of its extensive research on the topic, the GI-TOC has previously examined IFFs in the Western Balkans at both regional and national levels and made a number of recommendations. In short, these reports consider how value is illicitly generated and moved through and beyond the region. The lack of a universally accepted definition of IFFs has hindered the development and adoption of frameworks to address them. Current conventions and legislation mainly cover AML and the formal financial system, which is not sufficient to curb IFFs effectively.

Previous GI-TOC research has also found that public institutions, including prosecutors and judges, have insufficient knowledge and understanding of IFFs, making it more difficult to investigate money laundering. Despite legislation aligned with international standards, limited knowledge among prosecutors and judges in the Western Balkans leads to infrequent money laundering prosecutions.

The GI-TOC's research globally has proposed a new framework for analyzing IFFs and identified three dominant means by which IFFs are enabled, moved and held: financial flows, trade flows and informality (see Figure 1).[10] This approach concluded that IFFs are not equal to financial crime because IFFs capture value that is generated, moved or used in an illicit way. It includes financial crimes and flows generated by predicate offences, but the concept of IFFs is broader because they are not only illicit in origin, but also in transfer or use.

Moreover, the pyramid diagram (see Figure 1) illustrates how segments of society positioned at lower levels may be excluded from the formal financial system and rely on informality, while those at the top have access to global financial mechanisms. The pyramid is thus vertically integrated, showing how elites can access money from IFFs through the financial system for economic self-gain, while those at lower levels use cash-based and informal economies, such as earnings and transactions from remittances, cash or other unregistered financial value services.[11] As such, the diagram helps to comprehensively analyze IFFs, inform policy and implement approaches to effectively combat them.

The GI-TOC's previous research in the region has shown that IFFs in the Balkans demonstrate the applicability of the pyramid, and that all aspects of the three value flows are sizeable and interdependent. In particular, the role of cash economies and smuggling has been highlighted as a major driver of illicit financial vulnerability in the region. This research report is intended to supplement the pyramid analysis with a deeper examination of vulnerabilities in the formal financial sector, and to highlight where financial sector actors enable or engage with other forms of flows.

This report focuses on the role of some private sector actors – namely financial institutions – operating in the financial system. For the purposes of the research, the definition of financial institutions includes banks and non-bank financial institutions that do not have a full banking licence and cannot accept deposits from the public, such as fast money transfer services, currency exchange offices, insurance companies, electronic payment institutions and brokers.

Financial institutions are generally defined as natural or legal persons that conduct activities such as the acceptance of deposits and other repayable funds from the public, lending, financial leasing, money or value transfer services, issuing and managing means of payment (e.g. credit and debit cards, cheques, traveller's cheques, money orders and bankers' drafts, electronic money) and trade in foreign exchange.[12] This definition is supported by the FATF.

Owing to their systemic influence, illicit finance will pass through banks and the legal financial system. In fact, the formal financial system is the key channel through which illicit flows are moved within and across borders to launder money.[13] The financial sector in the Western Balkans is bank-dominated, with banks holding more than 80% of financial assets.[14] Most banks are foreign-owned subsidiaries or branches, while domestically owned banks constitute only a small portion of the region's banks.[15] The banking sector is considered to have stronger AML measures compared to other financial institutions. However, due to the high risk of illicit finance passing through the formal banking sector, the sector remains highly vulnerable to money laundering. National risk assessments in the six Western Balkan countries have identified banks as being at high risk and most vulnerable to money laundering. The exception here is Montenegro, which identified a moderate risk.[16]

Although a growing concern, the threat of money laundering through virtual assets and virtual asset service providers (VASPs) is not sufficiently analyzed in national or thematic risk assessments. The growing use of cryptocurrencies in the Western Balkans, combined with ineffective oversight, has created a fertile ground for money laundering, making them one of the most pressing threats. Other financial institutions, including fast money transfer services, foreign exchange offices and microfinance institutions, are rated as medium or even low risk, with slight differences between countries.

Effective strategies to tackle illicit finance require collective actions by governments, the private sector, civil society and the media. In addition to governments' crucial role in preventing and combating illicit finance, the private sector can contribute to strengthening transparency and democracy, economic growth, innovation and societal well-being. But conversely, the private sector can also undermine democracy, hinder economic growth and exacerbate inequality. Therefore, the private sector must conduct its activities fairly and transparently and with respect for business ethics.[17]

The understanding of the risks related to money laundering varies across the financial institutions. Banks, especially if foreign-owned, have more robust regulatory frameworks, internal policies and procedures, and more advanced systems for understanding, detecting and mitigating risks. More importantly, they implement the relevant measures more strictly compared to other financial institutions.

Technological innovation has significantly transformed financial institutions' services and interaction with customers. Technologies such as artificial intelligence, mobile applications and social media networks have developed quicker banking operations, such as faster money transfers and investments. This integration of technology within financial services and systems is known as financial technology, or fintech. Currently, there is insufficient information on the prevalence of fintech and its misuse for money laundering in the Western Balkans.

Electronic wallets – known as e-wallets – and digital payment apps offer convenience and efficiency, but also introduce significant money laundering risks. One of the primary concerns is the level of anonymity these platforms can offer. Some e-wallets and digital payment apps do not enforce strict identification of customers, enabling users to remain anonymous and making it easier for criminals to launder money.[18] Additionally, the speed of transactions facilitated by these platforms enables the rapid transfer of funds across borders, complicating efforts to detect and intercept illicit transactions before they are completed. Criminals can exploit e-wallets and digital payment apps to layer transactions and obscure the origin of the funds.

EXPLOITATION OF FINANCIAL INSTITUTIONS FOR ILLICIT FINANCE

The financial sector in the Western Balkans faces significant challenges in combating money laundering. Structural weaknesses such as weak regulatory oversight, high levels of corruption, informality and cash-based societies, coupled with regional criminal networks that are becoming more powerful and important global actors, are some of the characteristics that facilitate money laundering in the region. Various financial institutions, including banks, VASPs, fast money transfer services, foreign exchange services and microfinance institutions, have been exploited for both large- and small-scale money laundering activities.

The following section considers concrete cases of money laundering through some financial institutions in the Western Balkans. These examples highlight critical deficiencies and vulnerabilities in the financial system and help to better understand the extent to which various financial institutions in the Western Balkans have been targeted by criminal networks, and why the region needs a more robust and coordinated approach to combating money laundering and illicit finance.

Banks

Organized crime interests, corruption and tax evasion heavily exploit banks to move and launder illicit proceeds of crime. Organized crime in the Western Balkans operates throughout Europe and some Latin American countries (Colombia, Ecuador, Brazil, Peru and Bolivia), with illicit proceeds generated in the UK, Netherlands, Belgium, France, Spain, Italy, Russia, Turkey and Latin America laundered in Western Balkan countries.[19]

The services provided by banks, their size, global reach, transaction volume and complexity make them vulnerable to the three stages of money laundering: placement, layering and integration. Criminal networks in the Western Balkans use a mix of sophisticated transactions, tax havens, bank loans, real-estate investments, and large cash deposits and withdrawals to launder the proceeds of crime, as highlighted in this study.

Stage	Method
Placement	A common method used in the Western Balkans is to divide large sums of money into smaller, less suspicious amounts and deposit them in multiple bank accounts – also known as smurfing. The use of other individuals, known as frontmen, to conceal the ownership of illicit funds is another popular method.
Layering	More complex financial transactions are used to conceal the illicit origin of the money. These include transactions between accounts in different banks and multiple countries, and the use of shell companies to transfer and receive money by creating multiple layers of transactions.
Integration	Common methods used to integrate the illicit funds into the economy include bank loans, investments in real estate and luxury items, and establishment of businesses.

FIGURE 2 Common methods used for money laundering through banks.

Increasing international transactions require enhanced international cooperation and data exchange among banks. These efforts must respect data protection and privacy legislation, such as the EU's General Data Protection Regulation.[20] Banks cooperate by sending requests to other banks for information through the Society for Worldwide Interbank Financial Telecommunication, known as SWIFT.[21] According to an AML compliance officer, large international banks often send requests for information before processing a transaction to gather additional information based on sanctions checks and AML concerns.[22] These requests may include inquiries about the source of funds or a client's occupation to assess AML risks. However, collecting this information can be time-consuming and local banks rarely submit these requests.[23]

Bank loans linked to money laundering

A common method of money laundering is through bank loans and mortgages, which are sometimes returned earlier or repaid by making small deposits below the reporting threshold (smurfing) to buy assets such as real estate and luxury items, or to invest in businesses.

In June 2024, authorities in Tirana arrested seven people and seized around €50 million worth of assets for alleged money laundering. A person convicted in Belgium, together with a local businessman, their wives and others, were allegedly involved in money laundering.[24] The prosecution suspected that the group had secured unjustifiably large loans from a second-tier bank, with the bank itself acting as a guarantor for the amounts granted. According to contracts published in the media, one of the seized companies obtained a licence for a hydropower plant in 2013, but construction was not initiated. In 2020, they were granted a loan of €1 million loan, and a year later another €2.8 million for a period of 84 months to repay the previous loan and make investments in hydropower.[25] Despite the loans, the construction of the two hydropower plants was not completed. They created fictitious companies that showed a significant and sudden increase in founding capital, although no financial activities were conducted.[26] They purchased large shares without clear sources and made fake transactions, such as purchasing and reselling vehicles, in order to obstruct the origin of funds.[27]

The lack of sufficient regulation and oversight of the real-estate sector in the Western Balkans enables inflation and deflation of real-estate prices, which facilitates money laundering. Property valuations could be falsified or manipulated and make use the lack of mechanisms for notaries to verify the market value or else simply collaborate with them to legalize the contracts. For example, properties, luxury items, vehicles or other assets may be purchased at an inflated price in order to obtain a larger loan, allowing more money to be laundered through repayment. In other cases, the value of the contract is lowered and the difference is paid in cash through loans. The same item is then sold at a higher price to a relative, associate or an ordinary buyer to launder the funds. It is possible that the profile of the buyer corresponds to the purchase of the particular property, and therefore does not raise any suspicion by bank officials when reviewing loans applications. However, as shown in the next section, there are cases where banks and bank officials have been allegedly involved in actively laundering money.

Involvement of banks and bank officials in money laundering

Banks and bank officials play a critical role in the global fight against money laundering, but in some cases they have been complicit in facilitating illicit financial activities. The involvement of banks in money laundering often occurs through lax oversight, issuance of fraudulent loans, or the direct involvement of bank officials with corrupt officials and criminal networks.

A serious case was uncovered in 2019 when Eurostandard Bank, operating in North Macedonia, was found by the national authorities to be involved in irregularities and an alleged internal money laundering scheme worth about €110 million. The first transaction was made in early 2019; the funds originated from Venezuela and were, according to the investigation, transferred to a non-resident bank account.[28] The central bank identified that €10 million was held in Eurostandard Bank and later invested in a credit line of the bank.[29] There is no information about what happened with the laundered money, with the exception of €10 million used for loans, but it is believed, according to media reports, that that Venezuelan money left the Macedonian financial system.[30] While other bank officials were investigated, the key suspect was the chair of the board who allegedly made a trip to Venezuela in an unsuccessful bid to obtain an additional €17 million in credit to help the bank's solvency.[31] The country's central bank revoked Eurostandard Bank's banking licence in August 2020 because of the bank's failure to meet the minimum legal requirements for operation and it later filed bankruptcy procedures.[32] The owner of the bank, Trifun Kostovski, was reported in the media saying that the National Bank of North Macedonia closed the bank without using all mechanisms available to rehabilitate it, that it had been driven into bankruptcy deliberately and that certain companies linked to the then government took loans from the bank.[33]

Further cases reveal the alleged involvement of bank officials in money laundering. In Albania, when €50 million worth of assets were seized in June 2024, the media reported the bank's alleged involvement in a money laundering scheme.[34] In a separate case in 2021, the former director of Raiffeisen Bank in Bosnia and Herzegovina was implicated and subsequently arrested in Austria on suspicion of financial crimes and money laundering. This was related to financial grants and payments worth approximately €500 000.[35] Communications reportedly emerged between Aida Halać, the City of Zenica councillor in Bosnia and Herzegovina, and Edin Gačanin, who is known to have been involved in international drug trafficking. It was reported that Halać wrote the following in a text message: 'But with my friend who is a bank director, I slowly deposited it all into the account. And I still have the option [...] to do the laundry with her. Is that okay?'[36] The lawyers of the accused group, including Halać, refuted the accusations.[37]

In the context of the Western Balkans, where corruption, weak governance and regulatory frameworks, economic instability and organized crime have been prevalent for years, the involvement of banks and bank officials in money laundering could become more systematic, reflecting broader issues within the region's financial and political systems. The lack of a culture of integrity exacerbates the problem.

Concealed ownership through other individuals

The use of other individuals to conceal the ownership of illicit funds is another method employed by criminals. Known as frontmen, they are often chosen by criminals to establish companies, buy real estate and make deposits and withdrawals without raising suspicion. This includes family members of criminals, associates and their family members, as well as vulnerable individuals and those engaged for a fee. This method allows criminals to distance themselves from transactions and create complex layers of anonymity, making it difficult for authorities to trace the origins of dirty money.

A Raiffeisen Bank cash point in Sarajevo. The former director of the bank in Bosnia and Herzegovina was arrested in 2021 on suspicion of financial crimes and money laundering. © *Akos Stiller/Bloomberg via Getty Images*

By using family members, particularly those with no criminal background, criminals can set up companies or buy assets without attracting the attention of the authorities. This is widely regarded as a common method used in the Western Balkans. In the case of the June 2024 asset seizure in Albania cited above, the wives and family members of the main suspects were arrested for their alleged involvement in money laundering. One of the women arrested had bought a women's clothing store in Albania for €1.2 million from a singer, the fiancée of Ervin Mata, who is wanted by Albanian authorities for drug trafficking.[38] When the singer had first set up the clothing store, she had declared it as a gift from her fiancé.[39] In a major ongoing case in Serbia against the Belivuk-Miljković clan, the indictment also includes their wives and family members as suspects for money laundering. Veljsko Beviluk's wife is the owner and co-owner of several companies, while his mother-in-law is also accused of being involved in money laundering through her connection to a property in Belgrade.[40]

A notable case in Albania in 2024, investigated jointly by the Special Structure Against Corruption (SPAK), INTERPOL, Europol and Eurojust, led to the arrest of 67 suspects in Albania, Italy, Germany, Spain and the UK. Albanian authorities seized 32 commercial entities, 45 vehicles, four motorcycles, 19 properties and more than 200 bank accounts linked to suspects belonging to an organized narcotics group, totalling €5 million.[41] While there is no published information on the modus operandi of those arrested, the high number of companies and bank accounts seized suggests the possible use of frontmen, among other methods. The group is being investigated for international drug trafficking and money laundering.

In Serbia, cash withdrawals are often facilitated by entrepreneurs registered to trade in secondary raw materials. Legal entities transfer money to these entrepreneurs, who then withdraw large amounts of cash. The autonomous province of Vojvodina, particularly the town of Apatin, is a hotspot for this activity. Young people from disadvantaged socio-economic backgrounds – often illiterate and mainly of Roma heritage – serve as frontmen and open accounts that then become vehicles for money laundering. Members of organized criminal groups often accompany these young people to open accounts, answering all of the 'know your customer' questions on their behalf, which is a strong indicator of illicit activity.[42] Recently, because the banking sector has stopped opening accounts for those in the secondary raw materials trade, perpetrators have begun to make use of entrepreneurs in other cash-intensive businesses, including the film and transport industries.[43] Another method in use in Serbia involves students and the elderly acting as frontmen to purchase luxury vehicles using payment institutions to make large cash deposits. The vehicles either remain the property of the frontmen and are used by the criminal or the ownership is transferred through a gift agreement.[44]

The lack of comprehensive and transparent information on beneficial ownership and the weak or non-existent verification of source of wealth in Western Balkan countries create loopholes that criminals exploit using frontmen. These deficiencies have enabled even close family members of criminals to set up companies, or purchase real estate and other assets, without being detected for several years. It is even more difficult for authorities in the Western Balkans to detect frontmen who are not directly connected to suspects. Nevertheless, the challenges of detecting frontmen and suspicious activities goes beyond the Western Balkans. The case of a Slovenian tax expert and Bosnian citizen, discussed in another section, illustrates how frontmen and fictitious services have been used in several more developed European countries, including Switzerland and Austria.[45]

Non-residents buying real estate and establishing legal entities

The influx of non-residents, particularly from Russia, Ukraine and Turkey, is intensifying illicit finance in the region. Countries such as Serbia and Montenegro have experienced a greater influx of Russian and Ukraine nationals as a result of the war in Ukraine. A large portion of foreign direct investments in the Western Balkans is through real-estate purchases, particularly in luxury residential areas in Serbia and Montenegro.[46]

The real-estate sector is the most vulnerable to money laundering in Serbia. The majority of payments are made in cash and a small number through loans. In the recent years, there has been an increase in the purchase of real estate by non-residents and individuals from high-risk countries, including Russia and the United Arab Emirates. Funds arrive in Serbia through SWIFT from these countries, but there is limited opportunity for bank officials to verify the source of funds.[47] Public information about non-customers (real-estate buyers) is also limited. There are indications that many properties are bought by foreign PEPs in residential areas of Belgrade, suggesting corrupt money laundering cases.[48] When Serbia was on the FATF's grey list (2018–2019), non-residents from high-risk countries began establishing resident legal entities in Serbia with founding capital worth less than €1. These entities opened bank accounts and initiated large incoming and outgoing transactions, primarily re-export and transit transactions. Funds would arrive from high-risk countries and, on the same day, be sent to offshore destinations. Many of these companies shared the same head office address and accountant.[49]

Montenegro is an attractive country for Russian and Turkish nationals to make real-estate investments, which constitute a significant portion of foreign direct investments.[50] Initially, some banks were reluctant to open accounts for individuals from these countries. However, following complaints, the Central Bank of Montenegro intervened and instructed banks to cease the discriminatory practices.

Luxury yachts moored in Tivat, Montenegro. The country attracts Russian and Turkish real-estate investments. © *Andrey Rudakov/ Bloomberg via Getty Images*

Montenegrin money laundering typologies: non-residents

In 2023, Montenegro's Department for Financial Intelligence Affairs, which is part of the Police Administration, published 26 typologies of money laundering. Two of them concern the involvement of non-residents. In the first typology, non-resident legal entities generate large turnover in Montenegrin accounts in a short period of time, receiving funds from various foreign legal entities through unverifiable invoices or loan agreements. These funds are then immediately transferred to the foreign accounts of other legal entities using similar justifications. As a result, the Montenegrin accounts act as temporary conduits for money, with no funds being retained.

The second topology highlights the opening of accounts by non-resident legal entities in Montenegrin commercial banks, which record high turnover based on trade in goods and services. These transactions involve inflows from accounts held by other non-resident legal entities at foreign banks and outflows to the accounts of third-party non-resident legal entities, also at foreign banks. However, checks often reveal that these legal entities with accounts in banks in Montenegro do not operate in the country, nor do they transport goods through the country, despite claiming trade as the basis for the transactions. ■

Many legal entities owned by non-residents exist solely to attract foreign capital and purchase real estate, with minimal business activity and no salary payments. These funds are primarily deposited in banks or invested in the real-estate sector, causing a spill-over effect on construction and real-estate prices.[51] The influx of non-residents enables criminal organizations from these countries to better conceal their illicit funds.[52] Additionally, some individuals from Turkey with criminal backgrounds are present in Montenegro and have established several companies that might be used for money laundering.[53]

Local entrepreneurs operating as intermediaries for international money laundering

Local entrepreneurs and businesses not only provide money laundering services for criminal groups in the region, but also for international criminal organizations, such as the Italian mafia. This is done through many transactions between different banks and countries, which layer and disguise illicit funds.

A case revealed in Albania by SPAK involved an individual who allegedly laundered money for the Cosa Nostra by trying to use an Albanian company as an intermediary.[54] Francesco Zummo, a 90-year-old entrepreneur linked to the Italian mafia, was arrested in 2021 and accused of laundering more than €18 million. In addition to Zummo, the accused group involved two other Italian nationals and three Albanian nationals, including businessman Rezart Taçi.[55] The Albanian businessman, who currently lives in Milan, denied the charges and stated that he is ready to face the justice institutions and that in Albania there is lobby to attack the entrepreneurs.[56] In 2023, the Special Court found guilty and sentenced to imprisonment two of the arrested Albanians, a decision confirmed by the Court of Appeal.[57] SPAK revealed that Zummo first transferred funds from the Swiss bank account of a foundation he had created in Lichtenstein into his personal account in the same bank in Switzerland. His accountant later opened accounts in Montenegro and Albania, with the latter containing €18.4 million. The plan, as investigation revealed, was to use an accomplice Albanian company to transfer the funds as loans. This company would transfer them to another business in Hong Kong. The Italian accountant was recorded saying: 'We will first make them disappear then transfer them to Hong Kong or somewhere else.'[58] The Albanian company would get 16% of the laundered money as commission, worth nearly €3 million.[59] However, the transactions were incomplete because the Albanian bank froze the funds. This suspicious activity led SPAK to the investigation, which revealed the complex multinational money laundering scheme.[60]

In addition to links between criminal networks from the region with other European criminal networks, the geographic position, trade and migration create frequent movement of goods, people and transactions. The high volume of legitimate activities is exploited by criminal networks to move and launder illicit proceeds. The case of the Albanian entrepreneur is an example of normal and illicit ties with Italy. Countries in the Western Balkans have similar ties with other nearby countries such as Croatia, Hungary, Slovenia, Slovakia, the Czech Republic and Cyprus.

Banks operating in violation of legislation

Banks are licensed based on domestic legislation and operate according to domestic and international standards. An usual case happened in Kosovo, however. A branch of a foreign-owned bank previously operating in Kosovo is suspected by the FIU of having used servers controlled directly from its country of origin, in violation of Kosovan legislation.[61] Moreover, a joint operation followed a suspect who deposited around €400 000 in the bank. After the inspection, however, the transaction was not found in the records. It emerged that the bank had dual accounts, enabling people to choose if they wanted to deposit and make transfers to accounts in Kosovo or in the bank's country of origin.[62] There is no cooperation between the authorities of the two countries, which is an important enabling factor of cross-border crimes and hinders the investigation of such cases. It is believed that this method has been used by people to make routine transactions, but also by criminals to move illicit proceeds.

Fictitious services and cash withdrawals in multiple countries

Invoices and transactions for fictitious services are very common money laundering methods. Criminals create fake invoices for non-existent services to justify fund transfers between accounts, making the money appear as if it is for legitimate business purposes. In 2021, authorities in Bosnia and Herzegovina, Croatia and Slovenia launched an operation against a group of 19 people. The operation was allegedly led by a Slovenian tax expert, Rok Snežič, and Bosnian national Dijana Đuđić.[63] While Đuđić was known for making a controversial loan to the Democratic Party in Slovenia in 2017,[64] Snežič is reportedly one of the main suspects in an international network allegedly involved in money laundering.[65] Between 2016 and 2018, the group reportedly transferred millions of euros through bank accounts in several countries, including Bosnia and Herzegovina, Slovenia, Switzerland, Austria, Slovakia, Cyprus and Hungary.[66] The network is suspected of having organized a group of Bosnian citizens to open bank accounts in Slovenia, Austria and Hungary, where they received funds for fictitious services and withdrew money in cash. In 2017, Austrian authorities identified that more than €3 million had been transferred in just six months to the bank account of a Bosnian national. The transactions were made by companies owned by Snežič, Đuđić and a Slovenian politician as investments in IT projects, and were then withdrawn by the Bosnian national immediately in cash.[67] Đuđić is suspected of withdrawing almost €2 million in just nine months from a bank account in Slovenia.[68]

This case illustrates the involvement of various methods, actors and countries close to the Western Balkans in regional money laundering schemes. Here, Bosnian nationals were mainly used as frontmen, while fictitious services were provided in several countries with immediate cash withdrawals. Similar practices are common in the Western Balkans and are carried out at national and international levels.

Discrepancies among banks opening bank accounts

In Kosovo, there is a discrepancy among banks regarding the conditions for diaspora members to open bank accounts, particularly for cash deposits. Larger banks often do not allow such accounts because of restrictions and the scrutiny of the origin of funds. However, smaller banks provide these services. There have been instances where diaspora members have opened accounts at smaller banks, deposited cash, and then quickly transferred the money to a PEP's account at a larger bank. In some cases, instead of executing these transactions, larger banks have reported them to the FIU as suspicious activity.[69] It is not known whether similar discrepancies exist in other Western Balkan countries. However, in general, such loopholes are exploited and increase the vulnerability to money laundering.

Cryptocurrency services

The risk of illicit finance through cryptocurrency is high in the Western Balkans, enabled by insufficient oversight and the lack of regulation. Investigations in Albania and Serbia have revealed that criminal groups have used cryptocurrencies to launder the proceeds of crime, while in Montenegro the purchase of real estate is increasingly popular. Given the transnational nature of virtual assets, failures of regulation and monitoring can have serious global implications.[70] With much of the illicit activity in the Western Balkans transnational in nature, criminal groups utilize cryptocurrency to move illicit proceeds generated from trafficking drugs, weapons, people and goods, as well as from types of fraud.[71]

The evolution and increased use of virtual assets has initiated new international policies to regulate, monitor and supervise the sector and prevent money laundering. In 2018, the FATF amended Recommendation 15 to address virtual assets and virtual asset service providers (VASPs) and the EU adopted a new regulation on markets in crypto assets in 2023. VASPs offer a range of services, such as exchanging virtual assets into currency or other virtual assets, and transferring, safekeeping and administering virtual assets. When virtual assets are regulated, they are subject to compliance requirements and oversight by the relevant authorities. Without adequate regulation, virtual assets operate without compliance requirements and create a greater risk of money laundering.

Parts of the Western Balkans have regulated virtual assets and VASPs, such as Albania, North Macedonia, Serbia and Bosnia and Herzegovina. The number of VASPs varies between countries: North Macedonia has 18 registered VASPs while Serbia only has two.[72] There are no licensed operators in Albania, although they continue to function. The Republic of Srpska, an entity of Bosnia and Herzegovina, adopted the Law on the Securities Market in July 2022 to regulate VASPs.[73] The lack of legislation does not prevent cryptocurrency service providers from operating, however, with crypto exchange offices and the use of crypto assets prevalent throughout the Western Balkans. The Council of Europe's monitoring body, Moneyval (Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism), noted that VASPs in North Macedonia lack a proper understanding of risk, mitigation and prevention measures.[74] It also highlighted that market entry requirements are absent in North Macedonia[75] and Montenegro,[76] similar to other countries in the Western Balkans. Institutions in the region have limited capacities to conduct investigations of crypto transactions and manage frozen, seized and confiscated virtual assets. Criminals exploit these institutional weaknesses.

VASPs facilitate the exchange of crypto into currency through crypto exchange offices and peer-to-peer exchange. Exchanging cryptocurrency into currency directly in banks is not allowed. Peer-to-peer is widely used throughout the region, by both criminals and the general public, where cryptocurrency is exchanged with currency or virtual assets. Not all the banks in the Western Balkans allow VASPs to open accounts because of the risks involved, including money laundering.[77] Some Kosovan nationals use North Macedonia to open non-resident bank accounts to transfer the money.[78] In Serbia, banks conduct ex-post monitoring and request additional information, such as proof that a client has a virtual wallet, evidence of funds originating from a VASP, or confirmation that the client held virtual currency or engaged in crypto mining activities.[79]

Blockchain privacy issues

Blockchain is a digital ledger technology that records transactions across many computers and ensures the data is secure, transparent and cannot be altered without the consensus of the network. Each transaction is grouped into a 'block' and these blocks are linked together in a 'chain'. This decentralized system allows for secure, transparent and tamper-proof record-keeping. Blockchain is widely used for cryptocurrencies.

On typical cryptocurrency blockchains, like Bitcoin and Ethereum, transaction details are visible. These include transaction, block and address information, such as transaction fees, the time, the amount transferred, the block number, miner details and the mining time. Public addresses reveal the total cryptocurrency held and the complete transaction history associated with each address. However, some important information is not visible. Blockchain addresses are unknown pseudonymous identities and as such personal details or private agreements are not recorded on the blockchain. Moreover, while some encrypted data is visible, the actual data is not.

Privacy-focused cryptocurrencies further obscure transaction details to enhance user privacy and anonymity. For example, with Monero, the sender, receiver and transaction amount are concealed using three key technologies: Stealth Addresses, RingCT and Ring Signatures. Stealth Addresses are automatic one-time addresses for every transaction, while RingCT is a method to hide transaction amounts. Ring Signatures is a group of cryptographic signatures where although one member is real, it is impossible to distinguish the real participant because all signatures appear to be valid.[80] Similar privacy-focused cryptocurrencies ensure that every transaction remains private and untraceable, raising concerns about the risk for it to be used to move illicit proceeds. ■

Criminal groups are increasingly using cryptocurrencies both as a payment method and to launder proceeds of crime. The use of cryptocurrency to transfer illicit proceeds has been noted by SPAK, which for the first time in 2023 conducted investigations related to cryptocurrencies and large amounts of money deposited in bank accounts. These investigations resulted in various asset seizures, including crypto wallets.[81] SPAK also found that payments and conversions into cryptocurrency were used predominantly by criminal groups committing online fraud.[82] Two members of the Kavač clan – known for international cocaine trafficking – and some of their family members have been accused in Serbian media of alleged money laundering through real estate and other assets using cryptocurrencies.[83] Slovenian prosecutors submitted an indictment against 14 members of the Kavač clan's Slovenian cell for a number of alleged crimes, including laundering proceeds of crime through cryptocurrencies, for which they had a dedicated crypto wallet.[84] It is believed that the group used their crypto wallet to launder proceeds of crime and make transactions related to cocaine trafficking and weapon smuggling.

The use of cryptocurrency to purchase real estate, luxury vehicles and other goods is on the rise in the Western Balkans. Montenegro is a particular example. Several new real-estate agencies with substantial property portfolios have emerged, offering the option to buy and sell real estate in Montenegro using

An exchange office for cryptocurrencies in Skopje. The risk of illicit financial flows through cryptocurrency is high in the Western Balkans. © *Pierre Crom/Getty Images*

digital currencies.[85] They claim that cryptocurrency transactions in Montenegro provide advantages such as guaranteed confidentiality, elimination of transaction-blocking risks, and reduced transaction time.[86] One agency even highlights increased privacy as a key benefit of using cryptocurrency and states that transaction parties are concealed, making it difficult for authorities to trace the transaction.[87] On the Crypto Real Estate website – one of the largest real-estate marketplaces – 95 properties were listed in Montenegro in August 2024, with prices ranging from US$288 000 to US$4.5 million.[88] Contracts at notaries are signed in euro rather than cryptocurrency and notaries pay little attention to the origin of funds, demonstrated by the low number of suspicious transaction reports (STRs) submitted: 19 between 2017 and 2022.[89]

According to media reports, some former public officials accused of connections to organized crime have tried to justify their wealth by claiming they were involved in cryptocurrency mining.[90] Certain criminals have become skilled at utilizing cryptocurrencies.[91] Purchasing real estate and luxury vehicles with cryptocurrency and then reselling in euros enables criminals to present it as the source of money or wealth. In 2022, the government of Montenegro granted citizenship to Vitalik Buterin, co-founder of the Ethereum blockchain.[92] Former Finance Minister Aleksandar Damjanović was cautious about Montenegro's cryptocurrency ambitions, shelving two related laws that sought to solidify Montenegro's cryptocurrency aspirations. Damjanović emphasized the need for strict legal regulations, which he believed the central bank lacked the capacity to oversee. Without these controls, Damjanović warned that there would be opportunities for money laundering and illegal transactions through cryptocurrencies.[93]

Criminals also use mixing services known as cryptocurrency tumblers to mix transactions from multiple parties and break the link between the sender and recipient. Decentralized finance, known as DeFi and consisting of peer-to-peer cryptocurrency trading, is also often used in the region. These funds can later be cashed out in traditional currencies, most commonly through in-person exchanges. Part of the conversion is made with the help of currency exchange institutions, which are not licensed for this type of trading.[94] Another common method involves purchasing cryptocurrencies through crypto machines or exchanges, using them to conceal the origin of funds, and then converting cryptocurrencies back into common currencies, which are deposited into bank accounts. Lacking VASPs legislation is exploited in Kosovo to open crypto exchange offices and crypto ATMs. Over the past few years, the number of crypto exchange offices and crypto ATMs has increased, located in major cities and widely promoted online and in the media.[95] These offices and ATMs are not supervised by any institution,[96] which means that authorities have no information about the value and volume of exchanges at crypto exchange offices, nor the amount of money deposited and withdrawn from the ATMs. Moreover, crypto exchange office employees have very limited knowledge of customer due diligence processes, and it is believed that little client verification is done.

Fast money transfer services

Western Balkan countries have a large diaspora, mainly in Europe and the United States, who provide significant support to their families and economies through remittances, which are largely used for living expenses. A large portion of remittances are sent using fast money transfer services. These offices are widespread in both cities and small towns. However, these services are used by criminals as well as citizens. National risk assessments in the majority of the Western Balkan countries consider the risk of money laundering through transfer services as medium to low, with the exception of Kosovo, where it is considered to be high.[97] This channel is believed to be mostly used by low-ranking individuals in the hierarchy of organized crime, such as drug dealers and illegal cannabis farm workers.[98]

The value of money transferred through fast money transfer services is relatively small, both for remittances and illicit proceeds. FATF recommendations require that national thresholds are no higher than US$15 000.[99] Criminals act cautiously, transferring small amounts, namely to families and associates, to avoid detection by the authorities. In some cases, criminals use fake identification documents or other individuals to make transactions. SPAK investigated a criminal network in Albania and revealed that the head of the criminal network transferred US$500 to his girlfriend in United States; the transfer was made by his associate in Albania and the recipient was a friend of his girlfriend.[100] While the sum of the transfer is very low, this method is used by criminals to avoid the authorities' attention. Criminals involved in human smuggling in Kosovo, usually nationals from the Middle East and North Africa (MENA) region, use fast money services to transfer money from Turkey to Kosovo, and vice-versa, and to other countries. According to the Kosovan police, such criminals use local nationals and their identification cards to transfer money. As the local population is largely friendly with migrants, smugglers build and maintain friendships in a variety of ways, such as through giving gifts, offering meals and even sacrificed animals for Eid.[101]

Several factors make money and value transfer services vulnerable to illicit finance. First, there is a high volume of cash-based transactions, mainly of low value, which enables criminals to avoid triggering detection thresholds that have reporting requirements. Second, services are offered to customers on a purely transactional basis with little verification of the sender's or recipient's identity. Third, the speed of these transactions allows funds to be rapidly moved and dispersed, making it harder for authorities to trace and intercept them. Finally, staff working in these services are believed to have a more limited understanding of suspicious clients and transactions.

An AML officer working in a payment institution in Serbia explained how payments institutions and gambling are used as an informal to transfer money.[102] A gambler opens an administrative account in a betting shop or online casino, identified by a unique code. The gambler – or anyone with this code – can visit a payment institution teller and transfer money to this code, which credits the account for further play. The payment institution verifies with the betting shop that the code is active and linked to an administrative account before transferring funds. Once credited, anyone with the code can withdraw cash from another teller location within the payment institution network or at any betting place across the country. At the end of the month, the payment institution and the betting shop settle the total payments made during that period. Most payment institutions have a transaction limit of 100 000 Serbian dinar (about €800) per payment, but there is no requirement to verify the identity of the gambler, allowing for multiple transactions in a single day. This system can be exploited by blacklisted gamblers, who use frontmen to open administrative accounts; the blacklisted gambler subsequently controls the deposits and can gamble without detection.

Foreign exchange offices

Most Western Balkan countries have their own domestic currencies, except for Kosovo and Montenegro, which have adopted the euro. Cash payments using foreign currency, such as the euro, are widely accepted in Albania and in some touristic parts of Bosnia and Herzegovina. On the other hand, North Macedonia and Serbia have greater restrictions on using euro as a form of cash payment, where it is generally not accepted.

Foreign exchange offices are exposed to risks from illicit finance because cash can be converted into different currencies repeatedly in layering the funds. This creates complex trails that are difficult for authorities to trace. In the Western Balkans, foreign exchange offices are vulnerable to money laundering because of their cash-intensive nature and agents' insufficient understanding about risks, control and mitigation measures. Agents do not implement sufficient measures to identity customers and their contact with them is usually brief. Limited oversight and the large number of foreign exchange offices, especially in bigger cities and tourist areas, adds to their vulnerability. One important mitigating factor is that none of the foreign exchange offices can transfer funds to banks or other financial institutions. Moreover, the use of the euro in Kosovo and Montenegro, as well as widespread 'euroization' of Albania, might reduce vulnerabilities, given that the majority of illicit proceeds are held in euro.

As well as through official exchange offices, currency can also be exchanged through unlicensed agents. These agents operate openly near the centre of Pristina and Sarajevo, and conduct transactions without control or verification. Typically, clients remain in their cars during these exchanges. Many people prefer these services because they offer lower commission, a simpler and quicker process, and they establish informal business and friendship relationships.

Supervising foreign exchange offices is essential, although the authorities face challenges because of the large number of agents and the prioritization of other sectors, such as banks. Between 2021 and 2023, the Albanian Central Bank revoked the licences of 65 foreign exchange offices, most of which were located in Tirana.[103]

A currency exchange office in Skopje. Foreign exchange offices in the Western Balkans are exposed to risks from illicit financial flows. *© Zula Rabikowska/ Bloomberg via Getty Images*

Microfinance institutions

Microfinance institutions in the Western Balkans are important non-banking financial institutions. They provide small loans, usually up to €25 000, and other financial services to people and small businesses that may not have access to traditional banking services. However, they provide loans at higher interest rates compared to banks. In Serbia, there are no microfinance institutions because only banks provide loans.

National risk assessments of Western Balkan countries consider the risk of money laundering through microfinance institutions to be medium to low.[104] Loan payments are largely made in cash and there is large volume of daily cash transactions. While there are claims that certain microfinance institutions are connected to money laundering, particularly through the sources of their initial establishment capital, there is little evidence to support such claims. However, this is also because of limited law enforcement investigations.

Although the value of cash involved is relatively low and products offered by microfinance institutions, such as small loans, are not very attractive for money laundering,[105] they are still used to launder smaller proceeds of crime. Frequent loans and quick cash payments are common methods of money laundering through microfinancing. In Kosovo, authorities have detected some loan sharks using frequent loans from microfinance institutions to launder proceeds of crime.[106]

Microfinance institutions in the Western Balkans face several challenges that can increase their vulnerability to illicit finance. Unlike traditional banks, they operate with less oversight and appear to have less understanding about regulatory frameworks and policies, such as 'know your customer' procedures, customer due diligence and enhanced customer due diligence. The staff in these institutions also lack specialized training about how to identify and report suspicious activities, which affects the detection and reporting of illicit finance.[107]

THE ROLE OF FINANCIAL INSTITUTIONS IN PREVENTING AND COMBATING ILLICIT FINANCE

The paradox of the financial sector is that it acts as both the main channel for illicit finance and the primary system responsible for detecting and preventing it. While banks have a clear mandate to prevent illicit finance, they remain highly vulnerable to it and serve as one of the main conduits for illicit funds. In 2024, the GI-TOC published a toolkit on IFFs in the Western Balkans to help civil society and the media assess the effectiveness of the six countries in combating these flows,[108] based on the FATF's immediate outcomes. It found that financial institutions have varying understandings of the risks of IFFs and implement different measures to prevent suspicious transactions. Overall, the banking sector has a better understanding of the risks; banks submit the most STRs and have more comprehensive measures in place to mitigate illicit finance when compared with other financial institutions. Nevertheless, banks remain highly vulnerable to money laundering risks.[109]

Financial institutions play a crucial role in the prevention and detection of illicit finance. They must conduct risk assessments, have robust internal controls, implement customer due diligence, monitor transactions and verify customer identities and beneficial ownership structures. Moreover, they conduct enhanced due diligence for high-risk customers such as PEPs, report suspicious transactions to FIUs, keep records of transactions, provide regular staff training and incorporate other measures under EU legislation, and FATF and international frameworks. These comprehensive requirements aim to strengthen the resilience and integrity of the financial sector against misuse.

As one of the most important reporting entities, financial institutions are a crucial source of information and can trace the movement of funds. Therefore, central banks, supervision authorities and FIUs must closely monitor and support financial institutions to strictly implement measures to maintain the integrity of the financial system. At the same time, FIUs and law enforcement must build and maintain a proactive and regular partnership to detect and investigate illicit finance.

The primary role of FIUs is to receive, analyze and transmit reports about suspected activities. These activities are identified by private sector entities that fall under the obligations of AML/CFT legislation, such as financial institutions, notaries, lawyers and accountants. FIUs serve as a bridge between reporting entities and law enforcement agencies and typically have additional roles such as the supervision of reporting entities' AML/CFT obligations, training support and policy coordination.[110] One of the most important ways that financial institutions cooperate with FIUs is through the submission of STRs. Financial institutions are obliged to report to FIUs transactions they suspect are the proceeds of a criminal activity or related to terrorist financing.[111]

The number and quality of STRs submitted varies across the financial institutions. In all Western Balkan countries, banks submit most of the STRs and their reports are of higher quality compared to other reporting entities.[112] This is because, in general, banks have more financial, technological and human resources compared to other financial institutions. Banks typically allocate more resources to their compliance departments, ensuring they have the necessary tools and personnel to effectively monitor and report suspicious activities. Moreover, banks are subject to more stringent regulatory requirements and oversight both during their establishment and throughout their operations. Other financial institutions, especially foreign exchange offices, money or value transfer services and other reporting entities, have more limited capacities.[113]

Financial institution	ALBANIA		BOSNIA AND HERZEGOVINA		KOSOVO		MONTENEGRO		NORTH MACEDONIA		SERBIA	
	#	%	#	%	#	%	#	%	#	%	#	%
Banks	3 495	44.1%	1 742	67.1%	3 382	72.1%	1 214	75.1%	956	70.9%	4 284	44.5%
Money transfer companies	1 540	19.4%	21	0.8%	844	18%	N/A	N/A	146	10.8%	3 273	34%
Microfinance institutions	75	0.9%	429	16.5%	76	1.6%	N/A	N/A	0	0%	N/A	N/A
Payment service providers	N/A	N/A	N/A	N/A	N/A	N/A	345	21.3%	0	0%	N/A	N/A
Financial leasing companies	1	0%	24	0.9%	25	0.5%	11	0.7%	1	0.1%	N/A	N/A
Insurance sector	N/A	N/A	13	0.5%	7	0.1%	2	0.1%	17	1.3%	152	1.6%
Currency exchange companies	55	0.7%	12	0.5%	0	0%	N/A	N/A	0	0%	303	3.1%

FIGURE 3 Number and percentage of total suspicious transaction reports submitted by financial institutions in the Western Balkans, 2019–2023.

NOTE: Statistics for Bosnia and Herzegovina cover the period 2019–2021, as the authorities did not provide statistics for 2022 and 2023, despite requests.

SOURCE: Financial intelligence units of the Western Balkan countries and Council of Europe/Moneyval

Previous GI-TOC research has highlighted the persistent challenge of limited publicly available data, both in terms of quantity and quality, as well as significant obstacles in accessing it.[114] This remains an ongoing issue. Additionally, inconsistent terminology and a lack of standardized data collection process across the region further complicate efforts to conduct cohesive regional analysis.

Financial institutions have a legal obligation to send STRs as part of their efforts to combat money laundering. These reports can be generated in several ways: through software designed to detect suspicious activity, internal reports made by clerks, or specialized IT reports developed by AML staff based on specific typologies. Once these STRs are created, they form the basis for FIUs to create financial intelligence. The FIU analyzes the reports to establish whether money laundering has occurred and – if there is sufficient evidence – sends the case to the prosecutor or other relevant law enforcement agencies.

When a reporting entity submits a STR, it is important that they receive feedback from the FIU. This could include guidance about the quality, relevance, usefulness or outcomes of the STR submitted. Feedback helps reporting entities understand the impact of their reports, improve the quality of their future submissions, and align their monitoring and reporting practices with regulatory expectations. This feedback is also important for assessing the status of specific clients, which enables financial institutions to decide whether to terminate a business relationship. If a customer is accused of money laundering, for example, the institution could deny them loans and other products, or implement an exit strategy by closing their accounts.

However, FIUs in the Western Balkans do not provide comprehensive, systematic and case-by-case feedback on received STRs.[115] While more feedback is provided to financial institutions, especially banks, little feedback is provided to other reporting entities.[116] This has a negative impact on the public–private partnership. According to current and former FIU officials, limited human resources and the large number of STRs pose the main obstacles for FIUs to provide comprehensive case-by-case feedback.[117] Moreover, once the FIU collects, analyzes and disseminates a financial report to law enforcement agencies, it receives little or no feedback.[118] The lack of legislative requirements and poor implementation enable law enforcement agencies to avoid providing feedback to FIUs. The limited understanding of the importance of feedback among law enforcement agencies and a poor culture of cooperation also drive the lack of feedback. As a result, reporting entities and FIUs often have to rely on unofficial channels, such as the media or personal connections, to learn about the outcomes of cases.

International standards

International standards are essential for ensuring a coordinated, effective and comprehensive approach to combating financial crimes, protecting the integrity of the global financial system, and promoting international security and economic stability. They ensure a consistent approach across different jurisdictions, reducing loopholes that criminals can otherwise exploit to launder money in regions with weaker regulations. The need to reduce IFFs falls under the 2030 Agenda for Sustainable Development Goals adopted by the UN; goal 16.4 aimed to significantly reduce illicit financial flows by 2023, for example.[119] The UN, FATF, the Council of Europe and the EU are some of the international organizations that have adopted legislation, policies and recommendations to prevent and combat money laundering. For the Western Balkans, in addition to the adoption and implementation of international frameworks, the alignment with EU standards is particularly important to progress EU integration and accession. Figure 4 shows some of the most important frameworks for the Western Balkans.

Organization	Framework
UN	UN Convention against Transnational Organized Crime and UN Convention against Corruption
FATF	Recommendations 9–21 and 26–27 and Immediate Outcomes 1–6
Council of Europe	Convention on Laundering, Search, Seizure and Confiscation of the Proceeds of Crime and the Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime and on the Financing of Terrorism
EU	Directive (EU) 2015/849 (4th AML Directive), Directive (EU) 2018/843 (5th AML Directive) and Directive (EU) 2019/2177 (6th AML Directive)

FIGURE 4 Main international and EU standards for financial institutions.

SOURCE: UN, FATF, Council of Europe and EU

As an intergovernmental body, the FATF sets international standards to combat money laundering and terrorist financing and assesses countries' implementation of such standards. Countries with serious strategic deficiencies are categorized as high-risk jurisdictions known as 'black list' countries, while those with strategic deficiencies are placed under increased monitoring and known as 'grey list' countries. Currently, no Western Balkan countries are on either list.[120] Moneyval, a permanent body of the Council of Europe, assesses countries on their level of compliance with international standards and the effectiveness of implementation.

While the FATF provides international standards and conducts mutual evaluations of countries to determine their level of compliance and effectiveness, it has a number of deficiencies. For example, the FATF's instruments focus almost exclusively on public institutions and mechanisms within the formal economy, neglecting informality.[121] This is particularly important in countries with high levels of informality, such as the countries of the Western Balkans, as it is an important source and enabler of illicit finance. Previous GI-TOC research in the Western Balkans has shown that while it is important for governments to meet the FATF's recommendations and achieve good mutual evaluation scores, a high level of compliance does not necessary mean that it has an impact in practice.[122] The Western Balkan countries are largely aligned with FATF standards and have a moderate level of effectiveness. However, they face serious issues with illicit finance, as shown throughout the GI-TOC's research. Thus, the FATF ratings do not reflect the actual effectiveness or comprehensiveness of measures in practice. The cases analyzed in this research report highlight recent instances of serious deficiencies in financial institutions, despite legislation being largely aligned with FATF standards.

The 2023 Basel AML Index ranks countries according to their risk of money laundering and terrorist financing based on five areas: quality of framework, bribery and corruption, financial transparency and standards, public transparency and accountability, and legal and political risks.[123] The index shows that the global risk of money laundering and terrorist financing has increased in all the five domains, with the exception of quality of framework, which remained unchanged. Among the 152 countries ranked (out of 10, with 10 being the highest level of risk), there are only three countries from the Western Balkans: North Macedonia (with a score of 4.26), Serbia (4.74) and Albania (4.75).[124] The weakest area identified was corruption and bribery, the key vulnerability noted also in earlier GI-TOC reports on IFFs in the Western Balkans.[125]

Internal control

International standards governing reporting entities' internal controls mandate the need for AML compliance officers. These officers play a crucial role in safeguarding reporting entities against money laundering and terrorist financing, but also in maintaining their integrity and security. Officers' specific placement and reporting structure can vary depending on the size and organization of the reporting entity. For example, a notary or accountant can exercise this function or delegate it to a staff member. In large entities, such as banks, AML compliance officers are typically placed within the compliance or risk management departments.

AML compliance officers must conduct regular risk assessments to identify potential money laundering risks associated with customers. Officers use various methods such as 'know your customer', customer due diligence and enhanced customer due diligence, and assess risks related to products and geographic locations. These officers utilize sophisticated systems to monitor and analyze transaction patterns, investigate unusual activities and submit STRs to relevant institutions, namely FIUs. Financial institutions must ensure that AML compliance officers are independent from the business lines they oversee and not subordinate to any person managing those lines. In serious cases, AML compliance officers may require direct access to senior management levels who must provide unrestricted access to any necessary information.[126] Unfortunately, such standards are not sufficiently enforced in the Western Balkans.

The integrity of the financial institutions depends also on the integrity of AML compliance officers. They have decision-making powers, access to sensitive information and in-depth knowledge of typologies, methods and trends. They are continually trained and some are certified; the Certified Anti-Money Laundering Specialist qualification is recognized globally as the gold standard in AML certifications by institutions and regulators. Sophisticated software, which includes typologies and trends, also helps AML compliance officers identify suspicious activities. However, complex methods used to obscure the source of funds can inhibit the ability of compliance officers to detect suspicious transactions. In some cases, AML compliance officers – with or without interference from or cooperation with other bank officials or suspects – intentionally overlook suspicious transactions. There is a risk that AML compliance officers may leak sensitive information, make unlawful decisions, cooperate with criminals or ignore suspicious activities. Moreover, a lack of knowledge and specialized training increases the risk of suspicious transactions being undetected, thereby facilitating illicit finance.

Given their important role, AML compliance officers are vulnerable to interference, such as from public officials, criminals, private sector actors and internal management. Resistance to management teams can lead to a compliance officer's dismissal from an AML-related position. Two AML compliance officers in Kosovo were replaced following disagreements within a bank's management team over STRs submitted to the FIU.[127] In Serbia, the turnover of AML staff in banks is typically due to salary issues, with some employees moving to casinos for better financial renumeration. The small number of staff working in compliance departments at banks, compared to the volume of work, is a further challenge, according to some interviews with AML compliance officers.[128]

AML compliance officers contribute to training and awareness by overseeing the design and implementation of training programmes based on risks, needs and the level of staff exposure.[129] However, not all proposed trainings are supported by banks' management teams, especially if the training targets specific branch managers. High turnover of branch managers further exacerbates the issue. AML compliance officers also need to attend regular training programmes to develop their skills, which financial institutions must support. However, some training is conducted merely to fulfil procedural requirements, without significant benefits. Online training, in particular, is considered less effective.[130]

Monitoring transactions of politically exposed persons

Corruption and bribery in the Western Balkans is widespread and is considered one of the predicate criminal offences with the highest threat level for money laundering.[131] In the GI-TOC's Global Organized Crime Index 2023, the average score for state-embedded actors (criminal actors that are embedded in, and act from within, the state's apparatus) in the Western Balkans is 7.08 out of 10, which is significantly higher than the global average of 5.95 and the European average of 4.67.[132] Given the significant corruption in the Western Balkans, particularly among politicians and public officials, it is crucial to closely monitor both their financial and non-financial transactions.

PEPs pose a higher risk of involvement in corruption and financial crimes, which is why international standards are specifically adopted to monitor their transactions and prevent suspicious activity. The FATF has developed specific recommendations for PEPs, for example. The AML legislation in the six Western Balkan countries is largely aligned with FATF recommendations 12 and 22. FATF guidance assists reporting entities to identify PEP clients and monitor their transactions in accordance with

Article 52 of the United Nations Convention against Corruption, which outlines the importance of preventing corruption and illicit financial activities involving PEPs.[133] The recommendations and guidelines are for domestic, foreign and international organizations' PEPs, their family members and close associates. Financial institutions must verify their customers through databases and external information sources.[134] The legislation of the Western Balkan countries is not entirely compliant with FATF recommendations, as shown in Figure 5.

FATF recommendations	ALBANIA[135]	BOSNIA AND HERZEGOVINA[136]	KOSOVO[137]	MONTENEGRO[138]	NORTH MACEDONIA[139]	SERBIA[140]
R.12 Politically exposed persons	LC	–	PC	LC	LC	C
R.22 Customer due diligence	LC	–	PC	PC	LC	LC

FIGURE 5 Levels of compliance of Western Balkan countries with FATF recommendations 12 and 22.

NOTE: As per FATF methodology, levels are compliance are shown with C (compliant), LC (largely compliant), PC (partially compliant) and NC (non-compliant).

SOURCE: Moneyval/Council of Europe

AML legislation defines the criteria for identifying PEPs. However, AML compliance officers in all the Western Balkan countries have expressed concerns about the accuracy and upkeep of PEP registers. Anti-corruption agencies provide banks with PEP lists, but they lack information about the family members and close associates of PEPs. Moreover, legislation on AML and asset declaration is not entirely aligned, with discrepancies regarding what constitutes a PEP. For example, in Kosovo, members of political parties' management boards are defined as PEPs by the AML legislation, but not in the law concerning the declaration of assets. Some banks rely solely on PEP declarations provided by customers, while others conduct additional research to identify PEPs, their family members and close associates.[141] Not all banks in the Western Balkans integrate the PEP list into their systems, instead handling it manually through Excel spreadsheets, leading to operational challenges.

Thus, the lack of a unified and up-to-date PEP register from anti-corruption agencies, central banks and governments is a core problem. Moreover, the absence of a centralized register with accurate information about beneficial ownership significantly hinders the due diligence processes within banks, enabling PEPs to use family members and associates to deposit illicit money into the banking system.

CONCLUSION AND RECOMMENDATIONS

Although financial institutions such as banks have stronger AML controls than other sectors, they are still vulnerable to criminals and illicit finance. Criminals use these institutions to obscure the source of funds and integrate money into the licit economy. As reporting entities, financial institutions play a crucial role because they can detect illicit flows before law enforcement authorities and report early signs of money laundering.

A lack of commitment to preventing and combating money laundering can make financial institutions part of the problem. Financial institutions may inadvertently facilitate illicit finance by failing to take measures to prevent and detect it, such as providing IT tools and training. The facilitation of illicit finance can also be the result of wilful negligence, for example by management teams seeking financial benefits or connections with criminal networks.

International standards set by organizations such as the UN, FATF, EU and Council of Europe provide a framework for combating illicit finance. However, governments and financial institutions have sometimes been found to be only superficially compliant with AML laws or in order to pass FATF assessments. Informality, an important source and enabler of illicit finance in the Western Balkans, features little in FATF standards and assessments. Moreover, FATF mutual evaluations do not provide a true and comprehensive assessment of the actual effectiveness of measures in practice. Despite the fact that legislation is largely aligned with FATF standards, countries in the Western Balkans face serious challenges in preventing and combating illicit finance. The low number of prosecuted and adjudicated cases of money laundering highlights the need for improved knowledge and specialization among prosecutors and judges, in particular.

Public–private partnership is critical in preventing and combating money laundering. The lack of sufficient feedback from FIUs to reporting entities and insufficient inter-agency cooperation also hinder effective enforcement. Despite the limited resources of FIUs and law enforcement agencies, they can still provide more systematic and qualitative feedback on reports received. This can be achieved by clearly defining such a requirement in the relevant legislation and by implementing different methods of providing feedback other than on submitted STRs or reports. For example, the legal framework needs to ensure that various forms of feedback are provided, both from the FIU to reporting entities and from law enforcement to FIUs. In addition to feedback on transactions reported as suspicious, feedback could be given through regular workshops and meetings between reporting entities and FIUs or through joint meetings with law enforcement participation. In Serbia, the FIU meets annually with financial institutions and some designated non-financial entities to discuss challenges, opportunities for cooperation and how to improve information sharing. A similar practice should be adopted where all reporting entities meet regularly with relevant public and private institutions. This would improve both the quality of reporting at the initial stage and the investigation, as well as the prosecution of cases at a later stage.

AML compliance officers play a crucial role in conducting risk assessments, monitoring transactions and reporting suspicious activity. However, they often face challenges such as external and internal interference, limited resources and inadequate support from management teams. FIUs and central banks must play a greater part here in conducting exit interviews with departing compliance officers in order to better understand the circumstances of the situation and ascertain whether the officer was a victim of internal retaliation. While ensuring an adequate salary is of course an important factor in retaining AML compliance officers, it is equally necessary to consider other factors, including independence from interference, availability of relevant resources, sufficient staffing, and access to advanced technology and tools to help officers perform their duties more effectively.

The Western Balkans also lacks a unified and up-to-date register of PEPs, including their family members and close associates, and accurate information on beneficial ownership. Governments could help to address this issue and provide significant support, given the various databases they maintain with detailed information on PEPs, their family members and close associates.

Banks – namely foreign-owned banks – dominate the region's financial sector. Although these banks generally have stronger regulatory frameworks and better adherence to AML measures, other financial institutions, such as microfinance institutions and foreign exchange offices, face significant regulatory compliance challenges. The varied understanding and implementation of AML measures among financial institutions further complicates the situation.

Although the value of money laundered through fast money transfer services, foreign exchanges offices and microfinance institutions is relatively small, these remain an important channel for the transfer of illicit money. Cash-based and rapid transactions, combined with low levels of customer verification, are the main vulnerabilities of these financial institutions exploited for money laundering. The large number of diaspora members allows criminals to mix remittances with illicit funds, further complicating the detection of suspicious transactions. Currency exchange is mainly carried out by structuring large amounts of cash into multiple currencies and small transactions using numerous exchange offices. Exchange into multiple currencies is done to layer the illicit funds and make it more difficult for authorities to trace them. While microfinance institutions play a key role in providing financial services to those who lack access to traditional banking, the weaknesses outlined above make it easier for individuals to obtain frequent loans and quick cash payments without being detected.

Although it has improved financial services, technological innovation in the sector also presents a new set of challenges for detecting and combating illicit finance. For example, the growing use of crypto-currencies poses a significant risk for illicit finance in the Western Balkans. The anonymity offered by these digital currencies, the lack of regulation and limited capacity of law enforcement in some countries, and ineffective oversight in others enable criminals to move illicit funds more easily. Similarly, digital payment applications – while distinct from cryptocurrencies – often operate across multiple jurisdictions, complicating regulatory oversight and enforcement due to differing national regulations. The rapid pace of technological advancement in the digital payments sector has exacerbated this issue, as regulators struggle to keep up with new innovations, potentially creating gaps in oversight. More research is needed in this area to determine whether and how fintech is being used for money laundering in the Western Balkans.

To help tackle some of these challenges, we propose the following recommendations.

Recommendations for governments

- Build awareness and strengthen the expertise of investigators, prosecutors and judges on illicit finance and their capacity to investigate, prosecute and adjudicate such cases.
- Enhance monitoring and support by central banks, supervisory authorities and FIUs for financial institutions to strictly implement measures to maintain the integrity of the financial system. Stronger oversight is needed for less supervised financial institutions, such as VASPs and crypto exchange offices, fast money transfer companies, foreign exchange offices and microfinance institutions.
- Develop a single, up-to-date and comprehensive register of PEPs, including their family members and close associates, by integrating data from various public databases. Additionally, establish a central registry with accurate beneficial ownership information to increase transparency and prevent the misuse of corporate structures for illicit purposes.
- Establish formal procedures within central banks and FIUs to conduct exit interviews with AML compliance officers upon resignation, transfer or termination of contract to identify any potential instances of internal retaliation and to understand the reasons for such departures.
- Ensure that comprehensive feedback is provided from FIUs to financial institutions and other reporting entities, but also from law enforcement to FIUs. Digital tools should be explored to facilitate feedback, and regular meetings should be established between FIUs, reporting entities and law enforcement agencies. In addition to feedback, FIUs should provide training to reporting entities to improve the quality of reports and improve the capacity to detect suspicious activity.
- Adopt comprehensive legislation on VASPs by regulating entry requirements and preventing criminals and their associates from holding or being the beneficial owner of a VASP, enforcing a robust supervisory framework. Authorities should support VASPs in improving the understanding of risks, mitigation and prevention measures.
- Identify and assess the risks of money laundering through cryptocurrencies using national and risk assessments and implement a risk-based approach.
- Provide law enforcement and other institutions, such as the judiciary, with specialized training, tools and technology to effectively track and investigate cryptocurrency transactions, as well as to manage frozen, seized and confiscated virtual assets.
- Increase the quantity and quality of data available, ensure consistency of data collection and make it accessible to the general public.

Recommendations for financial institutions

General

- Enhance the training and integrity of officials working in financial institutions to strictly implement measures and ensure AML compliance officers have access to management teams and resources.
- Implement robust procedures to identify and screen potential and existing customers to ensure that they are not involved in illegal activities.
- Provide regular, specialized training to employees on AML/CFT policies, typologies and emerging threats. A special focus should be given to the certification of AML compliance officers with internationally recognized certifications.
- Enhance information exchange with other financial institutions, FIUs and other agencies on issues related to specific transactions or customers, as well as typologies, trends and threats.
- Raise awareness on typologies and trends of illicit finance and provide training to bank officials in addition to AML officers.

Banks

- Enhance international cooperation and data exchange among banks to obtain information and verify the sources of funds of clients, especially non-residents, when making real-estate purchases.
- Strengthen scrutiny of clients who frequently obtain loans and mortgages or repay them unusually quickly and improve capacities to better detect money laundering or other illicit activities through loans.
- Improve the use of analytical tools to detect patterns of frequent, small-value deposits and withdrawals, and report such cases to FIUs for further analysis.

Cryptocurrency services

- Enhance the understanding of staff working in VASPs or crypto exchange offices on compliance requirements, including risks, scrutiny of clients, mitigation and prevention measures, and the importance of identifying and reporting suspicious transactions.

Fast money transfer companies

- Improve the understanding and training of staff to strengthen the implementation of measures to properly verify the identity of the sender or recipient, and to detect PEPs, suspicious clients and transactions.

Foreign exchange offices

- Improve the understanding and training of staff to conduct proper verification of clients and detect cases of frequent and small values below the reporting threshold (smurfing).

Microfinance institutions

- Provide more training to staff to increase their understanding and knowledge of compliance requirements, especially to identify suspicious clients who obtain frequent loans and/or repay them unusually quickly.

Recommendations for non-state actors

- Enhance civil society oversight, build watchdog initiatives with other non-state actors, and develop scorecards to systematically evaluate the performance and accountability of institutions responsible for preventing and combating money laundering.
- Support and encourage journalistic investigations to reveal how illicit finance practices have evolved and to expose wrongdoing.
- Use existing tools to build expertise and knowledge on issues related to illicit finance and money laundering, including the GI-TOC's Global Organized Crime Index and IFFs toolkit for the Western Balkans, and the Tax Justice Network's Financial Secrecy Index.
- Initiate awareness-raising campaigns about the negative impacts of illicit finance on development, governance and social welfare.
- Advocate for the establishment of an open, publicly accessible registers of beneficial ownership across the region.
- Initiate discussion forums with public and private sector actors on issues related to illicit finance and demand inclusion in established public–private initiatives, such as meetings between bank associations and FIUs, to provide civil society perspectives and hold public and private institutions accountable.

NOTES

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