NATIONAL RISK ASSESSMENT

NATIONAL MONEY LAUNDERING RISK ASSESSMENT AND NATIONAL TERRORISM FINANCING RISK ASSESSMENT

MONEY LAUNDERING AND TERRORISM FINANCING RISK ASSESSMENT IN THE DIGITAL ASSETS SECTOR

RISK ASSESSMENT OF THE PROLIFERATION OF WEAPONS OF MASS DESTRUCTION

EXCERPT FOR THE PUBLIC

Contents

INTRODUCTION

The Financial Action Task Force (FATF) - an international body that sets standards in the fight against money laundering, terrorism financing and financing the proliferation of weapons of mass destruction - recognized in its recommendation No. 1 that the approach to combating money laundering and terrorism financing based on risk analysis and assessment is an effective way to combat these harmful phenomena.

The aim of risk assessment is to come to conclusions about which sectors and what kind of behavior in the system of a country carry a potentially higher risk of money laundering and terrorism financing, and which is lower, so that the state can adequately respond to identified risks through measures and activities it undertakes, as well as to make adequate decisions on the (re)allocation of resources in accordance with the assessed risks, so that more efforts and resources are directed towards high-risk areas.

Such an approach was adopted by the Republic of Serbia in 2009, with the adoption of appropriate regulations, and the first national risk assessments of money laundering and terrorism financing were conducted in 2012 and 2014, respectively.

The importance of *national* risk assessment is also confirmed by the Law on Prevention of Money Laundering and Terrorism Financing[1] (hereinafter: the Law) from 2017.[2]

Updating the money laundering and terrorism financing risk assessment is also envisaged as an activity in the Strategy for Combating Money Laundering and Terrorism Financing for the period 2020-2024.[3]

A. State activities to reduce the risk of money laundering and terrorism financing from 2018

The action plan that defined the necessary activities for risk mitigation and which arose as a result of risk assessments from 2018 has been fully implemented.

The state's commitment and efforts to reduce the risk of money laundering and terrorism financing in the previous period has led, among other things, to the formation of the Coordinating Body for the Prevention of Money Laundering and Terrorism Financing, the Games of Chance Administration as a separate supervisory authority in the field of

1 "Official Gazette of RS", no. 113/17, 91/19 and 153/20.

2 Article 70 of the Law stipulates that the assessment of the risk of money laundering and terrorism financing at the national level is made in writing and updated at least once every three years. The summary of the risk assessment shall be made available to the public and shall not contain confidential information.

3 Activity 1.1.1: Establishing a methodology and updating the national risk assessment for money laundering and terrorism financing.

games of chance, a series of agreements were signed between state institutions, sectoral laws were amended, the work of supervisory bodies was improved, typologies of money laundering and terrorism financing were published, a working group was formed to control non-profit organizations (associations, endowments and other forms of non-profit organizations), a series of workshops, info sessions, targeted trainings were held in order to acquaint all participants in the system (private and public sector) with the results of risk assessment, raising awareness and improving knowledge about specific areas in which increased risks have been identified.

B. Risk management

In order to have an equal understanding of some key terms and expressions used in risk assessment, it is useful to be familiar with the essential definitions. Many of these terms come from the field of risk management, but these terms are adapted to use in the context of risk assessment of money laundering and terrorism financing.

In general, risk management is a procedure that is very often used in both the public and private sectors to facilitate decision-making and involves the development of appropriate measures to mitigate or reduce the degree of identified risk to a lower or acceptable level.

Risk is a function of three factors: threat, vulnerability and consequences.

Risk assessment is a product or process that is created, i.e., performed on the basis of a methodology that seeks to identify, analyze and understand the risks of money laundering and terrorism financing and is the first step towards mitigating them.

Ideally, the risk assessment contains assessments of threats, vulnerabilities (weaknesses) and consequences.

A threat is a person or group of persons, an object or activity that has the potential to cause harm, for example, to the state, society, economy, etc. In the context of money laundering and terrorism financing, this includes persons involved in criminal activities, terrorist groups and their helpers, funds and assets in the broadest form at their disposal, as well as previous, current and future activities of money laundering and terrorism financing. The threat is described above as one of the risk factors and mainly serves as a basic starting point in understanding the risks of money laundering and terrorism financing. For this reason, understanding the environment in which predicate crimes are committed and the proceeds of crime are created, in order to determine their nature (and possibly scope and size), is an important element in conducting a money laundering and terrorism financing risk assessment.

The notion of vulnerability or weakness used in risk assessment refers to the parts of the system through which the threat can be realized or which can contribute to or enable the carrying out of the activities

which a threat implies, i.e., through mechanisms that can be deterrent to the realization of the threat. Considering *vulnerabilities* in the context of assessing the risk of money laundering and terrorism financing separately from *threats* implies, for example, a more detailed analysis of factors that represent a weakness of the system, control mechanisms to prevent money laundering and terrorism financing or certain specific features of a country. They can also be embodied in the characteristics of a particular sector, financial product or type of service that make them receptive to money laundering or terrorism financing purposes.

A consequence refers to the impact or damage that money laundering or terrorism financing can cause and implies the effect that the predicate crime and terrorist activity can have on financial systems and institutions, as well as on the economy and society in general.

The consequences of money laundering or terrorism financing can be short-term or long-term and affect the population, specific communities, business environment, national or international interests, as well as the reputation and attractiveness of the country's financial sector. Given the challenges in identifying or assessing the consequences of money laundering and terrorism financing, it is accepted that the introduction of the concept of consequences in risk assessment may not be particularly sophisticated, and states may instead choose to focus on achieving comprehensive understanding their threats and vulnerabilities.

When we talk about risk assessment, it is necessary to keep in mind that assessment includes inherent risk and residual risk. Inherent risk is the result of threats and vulnerabilities that are specific to a particular sector. This level of risk is influenced by various factors, and above all the quality and effectiveness of measures for prevention and repression applied by the competent authorities. These factors can reduce the level of risk, if there is consistent and effective law enforcement, advanced supervision, adequate capacity, etc., which ultimately results in lower residual risk. Lower residual risk observed from the standpoint of e.g. obligors, may be influenced by a number of control mechanisms that contribute to reducing the risk of a particular product, service, business practice or way of providing a particular product or service.

It is crucial that the risk assessment is approached in such a way as to enable insight into the extent of different risks, which will help in prioritizing mitigation measures.

Continuous risk monitoring implies cyclical risk assessment at the national level and discussions within the Coordinating Body for the Prevention of Money Laundering and Terrorism Financing[4] and its teams and in working groups for conducting assessments are an extremely important mechanism or format for continuous risk monitoring and coordination

4 Available at: https://www.pravno-informacioni-sistem.rs/SlGlasnikPortal/eli/rep/sgrs/vlada/odluka/2018/54/2 and http: // www. apml.gov.rs/koordinaciono-telo-za-sprecavanje-pranja-novca-i-finansiranje-terorizma.

of all participants in the system for combating money laundering and terrorism financing. In any risk monitoring, the involvement of participants who are a preventive part of the system, obligors under the law, is important, because an efficient and effective system to combat these negative social phenomena can be achieved only through public and private sector cooperation, which will also contribute to timely identification and analysis of all risky occurrences and activities.

C. National Assessment Working Group

On March 4, 2021, the Government of the Republic of Serbia passed the Decision on the Establishment of the Working Group for the preparation of the National Money Laundering and Terrorism Financing Risk Assessment (hereinafter: Working Group). The task of the Working Group is to review the risks identified by the National Money Laundering Risk Assessment and National Terrorism Financing Risk Assessment from 2018, as well as to determine the possible existence of new risks.

Although the official decision on the drafting of the Risk Assessment was issued in March 2021, preparations began in September 2020. It was necessary to collect and consolidate statistical data, analyze regulations and cases, work of supervisory bodies, identified irregularities in supervision procedures, penal policy, cooperation of institutions, as well as to identify possible problems and inconsistencies in the application of regulations, intelligence and more.

The national risk assessment covers a period of three years, from 1 January 2018, when the previous risk assessment was performed, to 31 December 2020.

Having in mind the pertinence of the issue of financing the proliferation of weapons of mass destruction and digital assets, the decision was made to also consider the risks to which the system of the Republic of Serbia is exposed in relation to those two areas, along with updating the money laundering and terrorism national risk assessment strategies.

The national coordinator of the entire risk assessment process and the chair of the Working Group was the same person as in the previous two cycles of the national assessment:

Jelena Pantelic, Senior Advisor from the Administration for the Prevention of Money Laundering.

The members of the Working Group were representatives of the Republic Public Prosecutor's Office, the Prosecutor's Office for Organized Crime, the Ministry of Interior, the Security Information Agency, the Office of the National Security and Secret Information Council, the Ministry of Justice, the Administration for the Prevention of Money Laundering, the National Bank of Serbia and the Securities' Commission.

The Working Group worked in the following subgroups coordinated by representatives of institutions from the system for the prevention and detection of money laundering and terrorism financing:

1. Threats to the System (Miljko Radisavljevic, Deputy Prosecutor, Republic Public Prosecutor's Office and Jasmina Milanovic Ganic, Deputy Prosecutor, Organized Crime Prosecutor's Office);
2. Vulnerability of the National System (Mariana Simic Vujasevic, Senior Adviser, Organized Crime Prosecutor's Office);
3. Vulnerability of the Financial System and Risk Assessment in the Digital Assets Sector (Marko Marinkovic, Director of the Center for Special Control - AML, National Bank of Serbia and Goran Kupresanin, Senior Advisor, Securities Commission);
4. Vulnerability of the Non-Financial System (Danijela Tanic Zafirovic, Senior Advisor, Administration for the Prevention of Money Laundering.);
5. Terrorism Financing and Proliferation Risk Assessment (Vladimir Stevanovic, Senior Adviser of the Prosecutor's Office for Organized Crime and Sanja Dasic, Senior Adviser, Office of the Council for National Security and Protection of Classified Information).

The work of subgroups mostly involved the same officials of relevant bodies and institutions.[5] This contributed to consistency with previous national assessments and easier organization of the process, as well as a better understanding of risks, and ways to analyze them,

Over 200 stakeholder from both the public and private sectors (obligors, associations, chambers, etc.) were involved in the entire process. The active participation of the private sector has directly, but also through numerous associations, contributed to the objectivity of risk assessment. From the very beginning, the private sector was involved in all processes and had the opportunity to share its vision of the legislative and institutional framework, as well as its views on the application of regulations in practice, its understanding and application of risks in the anti-money laundering and anti-terrorism financing system. In this way, it is possible to consider the risks from all aspects, and in order to contribute to the adequate assessment of the efficiency and effectiveness of the system and the consideration of all present risks.

Sixty-five meetings of members of working groups and subgroups, as well as 10 workshops and close to 100 meetings, webinars and info sessions with various representatives of state institutions, but also with representatives of the private sector were held, when there was an opportunity to directly discuss all issues relevant for adequate risk assessment.

During the process, meetings were held with international consultants[6] who helped to resolve certain concerns of the members of the Working Group and to adequately consider the approaches used for risk assessment.

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5 Namely, at the meeting of the Coordinating Body on February 17, 2021, it was stated that updating the National Risk Assessment of Money Laundering and Terrorism Financing is of strategic importance for the Republic of Serbia and that due to the complexity of the process and methodology, it was proposed that to the greatest extent possible, the same persons who participated in the preparation of the national risk assessment from 2018, as well as representatives of institutions, be the coordinators.

6 Workshops with foreign consultants were organized with the support of the Project for the Prevention of Money Laundering and Terrorism Financing in Serbia funded by the Kingdom of Sweden and implemented by the Council of Europe, in relation to understanding of FATF Recommendation No. 1 concerning terrorism financing risk assessment.

G. Risk assessment methodology

D.1. Money laundering and terrorism financing risk assessment

So far, the Republic of Serbia has conducted two national risk assessments related to money laundering and terrorism financing, in 2012/2014 and 2018. Both times, the World Bank methodology was used, i.e., the instrument for national risk assessment devised by the World Bank. The new national risk assessment also used the World Bank methodology, this time updated for the area of terrorism financing.[7]

The World Bank has developed two new methodologies, in addition to the above mentioned one, namely the methodology for assessing risky forms of economic entities and the methodology for assessing the risks of the non-profit sector.

Given that the World Bank methodology is in a sense universal, so that it can be applied to the contexts of different countries, the competent authorities, based on previous experience in risk analysis and assessment, amended this methodology in certain areas to be fully adapted to the situation in the Republic. Serbia, and in that sense, in order to assess the situation as objectively as possible, they have developed their own extended evaluation criteria.[8]

During the risk assessment in 2018, the members of the Working Group developed their own criteria for the assessment of risky business forms. In addition to the new methodology of the World Bank, the criteria from 2018, which were independently developed by the state, were used to assess the risky business forms during the current risk assessment.

Also, the Expert Team for Reviewing the Risk of Cross-Border Threats for 2019 of the Coordinating Body for the Prevention of Money Laundering and terrorism financing updated the criteria from the World Bank methodology related to cross-border threats, taking into account the professionalism and experience of Working Group members and country specifics. This updated list of criteria will be used to assess cross-border threats in the risk assessment in 2021 too, using the World Bank methodology.

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7 Among other things, the terrorism financing risk assessment for the non-profit sector, which was previously an integral part of the terrorism financing risk assessment, is now separate and has a special methodology.

8 For example, in the field of analysis of risky business forms (for which the World Bank has developed its own methodology), the non-profit sector and the like.

D.2. Digital assets and proliferation

A novelty in this cycle of national risk assessment is that for the first time the Republic of Serbia conducted a risk assessment of money laundering and terrorism financing in the digital assets sector[9] and a risk assessment of financing the proliferation of weapons of mass destruction.

The Council of Europe methodology was used to assess the risk of money laundering and terrorism financing in the digital assets sector, and the RUSI methodology of RUSI - Royal United Services Institute was used to assess the risk of financing the proliferation of weapons of mass destruction, i.e., the Guide for the National Risk Assessment on the Proliferation Financing, with the participation and consultation of experts from the USA and the EU.

The competent authorities express special gratitude for the assistance and expert support in the process of national risk assessment to the OSCE Mission to Serbia and the United States Government (*Bureau of International Narcotics & Law Enforcement Affairs International Security and Non-Proliferation/Export Control and Border Security*) that is, the Embassy of the United States of America in Belgrade.

Note: The Republic of Serbia performed a comprehensive risk assessment according to the World Bank methodology. For this purpose, an instrument for national risk assessment of money laundering, designed and made available by the World Bank, was used. The tasks of World Bank experts were limited to the following activities: 1) delivery of instruments; 2) providing expert advice on technical aspects of the instruments; 3) review of draft documents resulting from the national risk assessment and provide advice on the proper use of instruments. Data, statistics and information included in the forms of the Instruments for National Risk Assessment of Money Laundering, as well as the findings, interpretations and assessments in the process of national risk assessment belong to the competent authorities of the Republic of Serbia and do not reflect the views of the World Bank.

9 Digital asset risk assessment is an integral part of risk assessment and was performed within the group for assessing the vulnerability of the financial system.

I NATIONAL RISK ASSESSMENT OF MONEY LAUNDERING AND TERRORISM FINANCING

I.1. MAIN CONCLUSIONS - MONEY LAUNDERING RISK ASSESSMENT

This assessment is the result of an assessment of money laundering threats and national vulnerabilities to money laundering.

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

National vulnerability to money laundering was assessed as "**medium**" based on an analysis of the state's ability to defend itself against money laundering and an analysis of sectoral vulnerability.

The analysis performed in order to achieve the above-mentioned goal for the Republic of Serbia showed that the overall risk of money laundering is "medium".

Predicate criminal offenses that are classified as high threats for money laundering are: abuse of the position of responsible person, tax offenses, abuse of official position, unauthorized production and distribution of narcotics, illegal crossing of the state border and smuggling of people and crimes committed by organized criminal groups.

Most predicate offenses were committed in the national jurisdiction, which is why the threat was assessed as high.

Based on data from criminal proceedings conducted for predicate and criminal offenses of money laundering and the analysis of indictments, it was determined that 45.89% of defendants were prosecuted for self-laundering, 30.30% of defendants were charged with money laundering, while 23.81% of all defendants were charged with money laundering without a predicate offense.

Of the total number of defendants against whom criminal proceedings have been initiated for the criminal offense of money laundering, a total of 19.05% have been prosecuted by the Prosecutor's Office for Organized Crime.

The sectors most exposed to money laundering threats are the real estate sector, the online games of chance sector and the banking sector, followed by the casino sector, accountants and money changers.

Based on the established criteria and analysis of the collected data, it was determined that limited liability companies and entrepreneurs, are the forms of economic entities with a high threat of money laundering, joint stock companies and cooperatives carried a medium level-threat rating and other forms (limited partnerships and partnerships) a low-level threat rating. Meanwhile, the legal form of registered agricultural farms poses a growing threat.

An growing threat in terms of money laundering is environmental crime, the smuggling of protected plant and animal species, and the use of farm sectors for money laundering.

When assessing cross-border money laundering threats, 164 countries were analyzed. Based on the performed analyses, a list of 29 countries that are relevant from the aspect of cross-border threats of money laundering was formed (11 countries were assessed as having a high level of threat of money laundering).

Identified key shortcomings at the strategic level relate to the lack of awareness among actors in the field of anti-money laundering about the complexity of the consequences of money laundering on the economic and financial system in the country, thus weakening the state's ability to effectively combat this issue, the use of different system for electronic case management and data recording, which significantly complicates the keeping of statistics on money laundering cases and requires additional efforts to collect and analyze data when assessing the efficiency and effectiveness of the system.

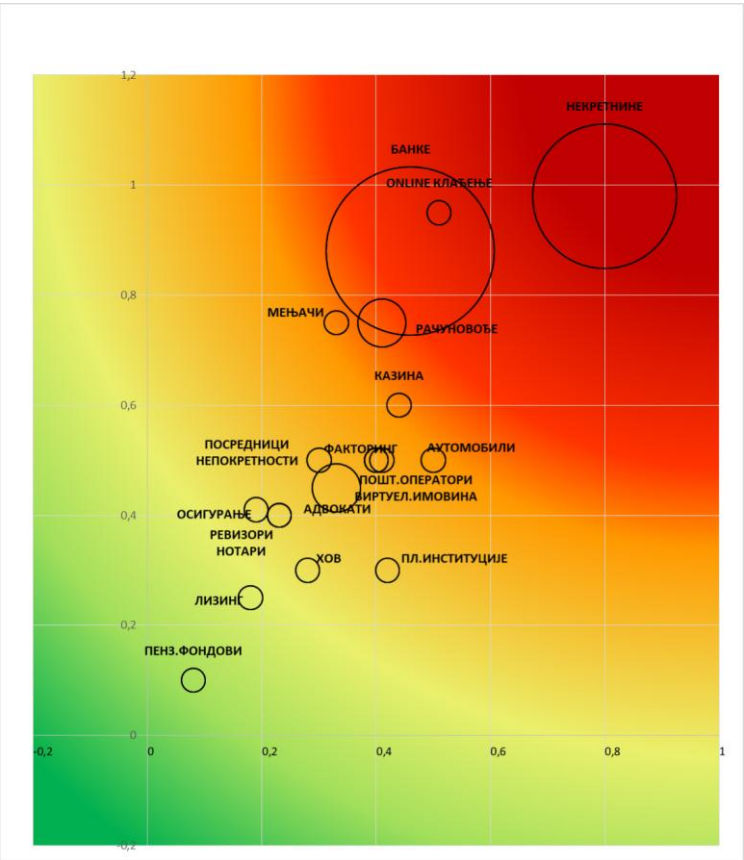
The key shortcomings at the operational level are: lax penal policy, insufficient capacity of state bodies fighting against money laundering, insufficient number of parallel and proactive financial investigations, insufficient use of all legal institutes for confiscation of assets, especially the so-called extended confiscation of property, as well as inadequate control of the procedure of recording and establishing the identity of the beneficial owner.

In the financial part of the system, the most vulnerable institutions are banks, other payment service providers and issuers of electronic money and money changers.

The most vulnerable sectors in the non-financial part of the system are the real estate sector, games of chance and accounting agencies.

	Real estate
High	Online games of chance organizers
	Banks
Medium-high / High	Accountants
	Money changers
Medium-high	Casinos
	Real estate agents
	Attorneys at law
	Virtual asset service providers
Medium	Car trade
	Postal operators
	Factoring companies
Medium/Medium-low	Insurance companies
	Capital market
	Payment institutions and electronic money institutions
Medium-low	Auditors
	Notaries
	Financial leasing providers
Low	Voluntary pension funds

Table: Risk assessment by sectors



Money laundering risk assessment map

I.2. MAIN CONCLUSIONS - TERRORISM FINANCING RISK ASSESSMENT

The National Terrorism Financing Risk Assessment for the period 2018-2020 is based on the assessment of the threat of terrorism, the threat of terrorism financing at the national level, the sectoral risk of terrorism financing and the country's vulnerability to terrorism financing.

The overall risk assessment of terrorism financing in the Republic of Serbia is MEDIUM-LOW, taking into account that:

The threat of terrorism financing posed by terrorists and terrorist organizations is assessed as LOW.

The threat of terrorism financing at the national level was assessed as MEDIUM TO LOW.

The sectoral risk of terrorism financing was assessed as MEDIUM.

The country's vulnerability to terrorism financing was assessed as LOW.

Bearing in mind that no criminal prosecution was undertaken in the observed period for the criminal offense of terrorism and other related crimes, including terrorism financing, the threat of terrorism financing was assessed as LOW.

The threat of terrorism is based on: information and statistics collected by the public prosecutor's office, security services and other competent state bodies.

Based on the collected data, the challenges and threats to national security from the aspect of terrorism are the possibility of return of foreign terrorist fighters, migrant movements, threats related to ethnically motivated terrorism, processes of religious radicalization and jihadist propaganda and activities of local/regional radical Islamist groups. The largest number of threats is of an international character, which the Republic of Serbia can hardly influence, and from that aspect they are assessed as high. However, the legislation, extremely good interdepartmental and international cooperation, which, among other things, implies timely, coordinated and systematic data exchange, mitigate the level of the threat and the final assessment of the threat from terrorism is MEDIUM.

In the scope of the threat of terrorism financing it was also assessed whether the Republic of Serbia represents a financial market, as well as whether economic and/or state entities trade in strategic goods and/or services with zones with an active terrorist threat, which was assessed as LOW.

From the aspect of misuse for terrorism financing, the sectoral risk assessment has shown that

the financial sector is more susceptible to such misuse than the non-financial one. In order to assess these threats, in addition to the legislation, the expert opinion of the supervisory bodies was taken into account, on the one hand, as well as the opinion of the private sector, on the other hand, about the potential financing of terrorism.

The analysis of the sector indicates that not all sectors have the same level of risk, i.e., that most of the sectors are characterized by lower risk in terms of use for terrorism financing purposes. However, the products of the following sectors are very risky and they are:

- issuers of electronic money;
- payment institutions;
- public postal operator;
- authorized money changers;
- digital asset service providers;
- real estate brokers;
- banks.

The assessment of the country's vulnerability to terrorism financing is LOW, especially taking into account the quality of the policy and strategy, the quality of intelligence collection and processing, the adequacy of resources of competent state bodies for combating terrorism, the effectiveness of customs controls, the effectiveness of immigration controls and international cooperation, the comprehensiveness of the legal framework for targeted financial sanctions and the effectiveness of their implementation.

I.3. CONSEQUENCES FOR THE SYSTEM

The risk assessment of money laundering and terrorism financing, in addition to the assessment of threats and vulnerabilities, also took into account the assessment of the consequences for the system.[10] These should be understood as damage that money laundering could cause and involves the effect of criminal activity on the obligor, the financial system, society and economy as a whole.

Given that threats and vulnerabilities are assessed as medium, the consequences for the system should be ranked at the same level.

Of course, money laundering is a global problem to which no state, including the Republic of Serbia, is immune. Money laundering is not only a consequence of a previously committed crime, but it is also a starting point

10 FATF Guidance - National Money Laundering and Terrorism Financing Risk Assessment.

for future criminal activities and has a direct negative impact on the economic and political system, and depending on the scale, it can jeopardize democratic development, economic and financial stability and the transition process in Serbia. Money laundering leads to easier and faster penetration of crime and corruption into the economy, education, health, police, judiciary, the entire state system, and thus further criminalization of the entire society.

The “path" of dirty money is not easy to spot and recognize, which certainly makes it difficult to take timely and effective measures to detect, prevent and combat it. Money laundering takes on new forms every day, with the use of various methods and means.

The biggest and most severe negative effects of money laundering can primarily be seen in the economic field through the reduction of state revenues, transparency and efficiency of the financial system, increasing the "gray economy" and is still not at a satisfactory low level in Serbia, so any increase would cause negative effects on the entire economic and financial system. Money laundering, as a rule, leads to a reduction in budget revenues due to tax evasion. It is one of the most common illegal income that is subject to money laundering. Such situations often further undermine the tax system because they cause an increase in tax rates and liabilities of entities that settle their obligations. All this additionally puts them in an unequal market position and makes business more difficult.

Today, money laundering is a widespread phenomenon. Persons from the criminal world use “legitimate” business and companies and other forms of economic organization to integrate "dirty" money and other assets and conceal the real motives of their business, which is the concealment of the origin of money and assets from criminal activities in the broadest sense (according to EUROPOL SOCTA 2021, *EU Serious and Organized Crime Threat Assessment* in as many as 80% of cases). It should be borne in mind that criminal structures, as a rule, do not take into account the profitability of their investments. Moreover, they tend to invest criminal proceeds in activities that do not have to make a profit (for example, real estate and other high-value goods), given that the goal of investing is to conceal the origin of their money. According to the same report, as many as 68% of money launderers use high-value real estate and goods to invest dirty money.

Creating an effective system of countering this problem requires the improvement of both the legislative and institutional framework with clear tasks in the preventive and repressive part of the system. It is necessary to continue undertaking activities for building, improving and developing mechanisms for the rapid elimination of vulnerabilities in the areas most exposed to the risks of money laundering and terrorism financing. This is especially true for both obligor and supervisory mechanisms. Improvements are also needed in the methods and manner of operation of mechanisms for obligors and supervisory bodies, as well as bodies in charge of law enforcement, police, prosecutors, and courts, with special reference to effective and efficient, i.e., dissuasive sanctions.

An effective and efficient response to money laundering must be clearly defined through the confiscation of proceeds of crime.

In that part, improvements are needed in finding, identifying, monitoring, and determining the value of illegally acquired assets, as a prerequisite for its permanent confiscation.

The consequences for the system of terrorism financing may occur if the implementation of concrete activities of all branches of government and institutions of the Republic of Serbia in the fight against terrorism and terrorism financing is not continued and the continuity of harmonization of the normative framework with recommendations of the relevant international institutions fighting terrorism and the financing thereof is disrupted.

Given that the legal framework is relatively well established in this area, more attention should be paid to defining the criteria and standards that would contribute to the early detection and identification of such persons and transactions with full respect for all principles of a democratic society. With regard to terrorism financing, increased attention is needed both from obligors who have the obligation and interest to prevent the transfer of funds intended for terrorism financing through their systems, and from the competent authorities who have the obligation to prevent misconduct and activity of legal entities for the purpose of fundraising for terrorism financing.

Accordingly, in order to prevent the consequences of terrorism financing, it is necessary to maintain the effective capacity of the system for preventing and combating terrorism and terrorism financing, analyze the normative framework regarding the effectiveness of certain legal solutions and their implementation, continuously improve and perfect staff capacity and renew the technical capacities of the so-called repressive authorities (police, prosecutor's office, security services) and the so-called administrative and preventive bodies (various segments of the Ministry of Finance - Administration for the Prevention of Money Laundering., Customs Administration, Tax Administration) to counter the financing of terrorism and work on raising awareness on the dangers of terrorism and all its manifestations, and exposure to terrorism risk of the so-called vulnerable categories of persons and organizations.

I NATIONAL MONEY LAUNDERING RISK ASSESSMENT

1. MONEY LAUNDERING THREAT

1.1. Applied methodology

As in the previous two national money laundering risk assessments, Serbia carried out the assessment for the period 2018-2020 according to the methodology of the World Bank.

The conclusions on the threats of money laundering in the Republic of Serbia were reached by analyzing data on:

1. Criminal offenses enabling illegal material gain (potential predicate criminal offenses);
2. Predicate criminal offenses in connection with which the procedure for the criminal offense of money laundering was initiated;
3. Frequency of predicate offenses;
4. Amounts of detected/confiscated/estimated illegal material gains from the predicate criminal offense;
5. Involvement of organized criminal groups in the commission of criminal offenses;
6. Insight into the cases of public prosecutor's offices and courts;
7. Professional experience of the members of the Working Group.

At the very beginning, the provisions of the Criminal Code and special laws prescribing criminal offenses were analyzed. In this way, criminal acts have been identified which, according to their legal characteristics, can be predicate criminal acts, i.e., criminal offenses that precede money laundering and the commission of which results in, directly or indirectly, illegal material gain - illegal assets that may subsequently be the object of money laundering, regardless of whether proceedings for money laundering have been initiated in connection with these criminal offenses. In this way, a list of a total of 115 crimes was made. Data on predicate criminal offenses in connection with which money laundering proceedings were initiated were obtained by inspecting the case files of public prosecutor's offices and courts, as well as analyzing annual reports on the work of the Republic Public Prosecutor's Office and statistical reports of competent public prosecutor's offices and courts. Their analysis led to conclusions on the frequency of certain predicate offenses, the amount of proceeds related to the commission of the offense, the sectors through which money laundering was carried out, the participation of organized criminal groups in laundering, recovered cash related to laundering, and numerous other data.

1.2. Analysis of the object of the prosecuted criminal act of money laundering in the period from 2018 to 2020

Money laundering is a very complex system of asset transformation activities that seek to conceal the actual source of dirty money, with the aim of eventually obtaining the illusion of lawfully acquired assets. Thus, the money laundering process aims to turn unlawfully acquired assets into seemingly lawful ones. The Law on Amendments to the Criminal Code[11] prescribes the criminal offense of money laundering among criminal offenses against the economy (Chapter 22) (Article 245).

The national legal framework implies that money laundering means the conversion or transfer of assets, the concealment or false presentation of facts about assets, the acquisition, possession or use of assets. At the subjective level, it is necessary to carry out the above while knowing that the assets originate from criminal activity. The object of the crime is assets that originate from criminal activity. The Criminal Code also provides for the confiscation of money and assets that are the object of money laundering, regardless of the form thereof. When it comes to predicate crimes from which the income that is the object of laundering originates, our legal system applies the "*all crime*" model, according to which all crimes can be predicate crimes.

1.3. Review of predicate criminal offenses as money laundering threats

The FATF recommendation that predicate offenses for the crime of money laundering should cover all forms of serious criminal offenses, and that states should strive to expand this form to the widest range of predicate offenses, is fully implemented in the Republic of Serbia, since money laundering is a criminal offense and it includes any criminal activity. The introduction of the term "criminal activity" in the legal definition of the crime of money laundering means that the existence of the crime of money laundering does not require a final court verdict for the (predicate) crime from which the money or assets originated, but this fact is determined from objective circumstances of the case. When it comes to the methodology used to rank predicate offenses according to the threat of money laundering, the analysis of statistical data for 115 offenses was performed in the following categories: number of persons detected, number of investigations, number of defendants, number of convicted persons, persons against whom a security measure of seizure of objects has been imposed (Article 87 of CC), the number of persons from whom assets were seized (Articles 91-92 CC), and the amount of temporarily and permanently confiscated assets pursuant to the Law on Seizure and Confiscation of Proceeds of Crime,[12] case studies and discussions on the results. In tax-related criminal offenses

11 "Official Gazette of RS", no. 94/16, entered into force on March 1, 2018. 12
"Official Gazette of RS", no. 32/13, 94/16 and 35/19.

data of the Ministry of Finance, Tax Administration - Tax Police Sector were used on the amount of damage caused to the budget of the Republic of Serbia due to tax-related crimes.

For the purposes of the Assessment for the period 2018-2020, based on data from the authorities that make up the repressive part of the system for preventing money laundering - police, prosecutors and courts, it was determined that criminal proceedings were initiated for the crime of money laundering, namely: investigation against 467 persons, indictments against 231 persons and that final judgments were rendered against 133 persons. Convictions were issued against 129 persons, of which 128 natural persons and one legal entity, and acquittal verdicts were passed against four natural persons.

Based on the collected data from criminal proceedings for predicate offenses and money laundering, it was determined that most investigations were initiated for criminal offenses of abuse of office of the responsible person under Article 227 of the CC (against 260 persons, while for money laundering, in the same cases, proceedings were instituted against 200 persons), then, tax-related criminal offenses for the crime of tax evasion under Article 225 of the Criminal Code and tax-related criminal offenses under the Law on Tax Procedure and Tax Administration[13] (against 119 persons, and for crime of money laundering in the same cases - against 110 persons), for the criminal offense of abuse of official position under Article 359 of the Criminal Code (against 28 persons, and for the criminal offense of money laundering against 16 persons)

Regarding the initiated investigations for predicate offenses and the criminal offense of money laundering, the total value of assets that were the object of money laundering is EUR 57,123,698.22.

It was also determined that the largest number of indictments was filed for the criminal offense of abuse of office of a responsible person under Article 227 of the CC (against 88 persons/for the criminal offense of money laundering against 74 persons), for the criminal offense of tax evasion under Article 225 of the CC/for the criminal offense of money laundering against 17), for the criminal offense of abuse of official position under Article 359 of the Criminal Code (against 19 persons/for the criminal offense of money laundering against 10 persons) and the criminal offense of unauthorized production and distribution of narcotics under Article 246 of the Criminal Code against 12 persons/for the crime of money laundering against 8 persons).

The total value of assets that were the object of money laundering on charges of predicate offenses and the crime of money laundering is EUR 23,195,539.9, three properties and three passenger vehicles.

Final convictions for money laundering and predicate offenses were most often handed down for money laundering in joinder with the criminal offense of abuse of office (37), then for money laundering in joinder with the predicate criminal offense of forging official documents

13 Articles 173a and 176, "Official Gazette of RS", no. 80/02, 84/02 – corr, 23/03-corr, 70/03, 55/04, 61/05, 85/05, 62/06, 61/07, 20/09, 72/09, 53 / 10, 101/11, 2/12 - corr, 93/12, 47/13, 108/13, 68/14, 105/14, 91/15, 112/15, 15/16, 108/16, 30 / 18, 95/18, 86/19 and 144/20.

(18), and finally due to the commission of the criminal offense of money laundering in joinder with the predicate criminal offense of forgery of a document (14).

1.4. Frequency of criminal offenses

Collected, processed and analyzed data for determining the frequency of predicate offenses indicate that, with the exception of property offenses, the most common offenses are unauthorized production and distribution of narcotics under Article 246 of the CC, tax offenses, abuse of office of responsible person under Article 227 of the Criminal Code and the criminal offense of abuse of official position under Article 359 of the Criminal Code and criminal offenses against legal traffic, namely forgery of a document under Article 355 of the Criminal Code and forging an official document under Article 357 of the Criminal Code.

1.5. The amount of assets recovered and confiscated

The analysis of the filed indictments for the criminal offense of money laundering showed the highest value of assets that were the object of money laundering in the amount of EUR 6,999,470.38 in the predicate criminal offense of abuse of office of the responsible person. Then, according to the value of assets that were the object of money laundering in the amount of EUR 3,998,774.00, the predicate criminal offense of tax evasion tops the list, followed, as per the value of assets there were the object of money laundering in the amount of EUR 417,733.76, three properties and three passenger motor vehicles, by the predicate offense of unauthorized production and distribution of narcotics.

The analysis of final and unappealable decisions with a conviction for the criminal offense of money laundering, based on the security measure of seizure of objects, money was seized in the amount of 713,386.08 EUR, 31.5 tons of fruit, three passenger motor vehicles, three mobile phones, one apartment and two trailers for the transport of motorcycles, and the amount of proceeds confiscated in accordance articles 91 and 92 of the Criminal Code - money in the amount of EUR 1,324,904.68 and two passenger vehicles.

When it comes to predicate criminal offenses for which no criminal proceedings have been conducted for money laundering (potential predicate criminal offenses), as per the amount of proceeds of crime (EUR 5,165,149.70), the criminal offense of unauthorized production and distribution narcotics stands out.

The highest value of seized items under the measure of seizure of objects under Article 87 of the Criminal Code, in criminal proceedings conducted only for predicate offenses, was recorded with illegal production and distribution of narcotics in the amount of EUR 611,778.12, while as per the measure confiscation of proceeds of crime from Articles 91-92 of the Criminal Code, the highest amount of confiscated material gain of EUR is 7,208,249.40 related to the criminal offense of abuse of office of a responsible person.

1.6. Criminal offenses with a high-level threat of money laundering

The following criminal offenses were assessed as criminal offenses with a high degree of threat in the current National Money Laundering Risk Assessment: tax criminal offenses, abuse of position of a responsible person, unauthorized production and distribution of narcotics, abuse of official position and illegal border crossing and human trafficking from Article 350 of the Criminal Code. It was assessed that criminal acts committed by organized groups also represent a high level of threat of money laundering.

The analysis considered additional criteria, such as assessing the prevalence of gray economy, estimating dark and gray numbers for certain predicate offenses, "drug routes" and migrant movements, the effects of the migrant crisis, and the professional experience of the Working Group members.

1.6.1. Abuse of the position of responsible person under Article 227 of the CC

The criminal offense of abusing the position of a responsible person under Articles 227/234 of the CC, as a predicate offense with a high degree of threat of money laundering, was considered from two aspects, as a "potential" criminal offense of money laundering from which illegal gain is generated and for which there is a risk that it will be involved in the process of money laundering, as well as a predicate criminal offense for the procedure for money laundering was also conducted. An analysis of the criminal offense of abuse of position of a responsible person as a "**potential**" predicate criminal offense of money laundering, established that a total of 4,077 persons were reported for this criminal offense, of which a total of 387 persons were investigated, 320 persons were indicted, while 431 persons were convicted. What determines this criminal offense as a predicate criminal offense with a high degree of threat of money laundering is also the **amount of material gain obtained from this criminal offense**, which amounted to 5,692,205,000.00 dinars (the equivalent of about 48,240,000 EUR). The proceeds of crime confiscated by final court decisions amounted to 850,573,423.16 dinars, the equivalent of which was EUR 7,208,249.4. Also, in the same period, final court decisions involved the seizure of objects in the total value of 8,049,609.00 dinars (the equivalent of about 68,217 EUR).

Regarding the actions of the competent public prosecutor's offices in the Republic of Serbia that conducted unified criminal proceedings against perpetrators of the criminal offense of abuse of office and money laundering, it was established that the competent prosecutor's offices, for the predicate offense of abuse of office investigated a total of 260 persons, while in these proceedings an investigation was initiated for the criminal offense of money laundering against a total of 200 persons, an indictment was filed against a total of 88 persons, and for the criminal offense of money laundering - against a total of 74 persons. The value of the assets that was the object of the criminal offense of money laundering, according to the orders for investigation, amounts to a total of EUR 26,341,550.45, while the total amount temporarily seized under the certificate of temporary confiscation is EUR 555,649.7, as well as three passenger motor vehicles. The amount that was the subject of the temporary security measure from Article 540 of the CCP is EUR 621,073.08 and two passenger motor vehicles, while the total amount of cash related to the criminal offense of money laundering is EUR 1,356,432.4. The value of the assets that were the object of money laundering according to the indictments amounted

to EUR 6,999,470.38.

In this period, 37 persons were convicted of this criminal offense as a predicate crime, while final convictions were passed for this criminal offense as a "potential" criminal offense to money laundering in relation to a total of 431 persons.

Conclusion: In the analyzed period, there was an increase in the average number of reported persons per year for the criminal offense of abuse of the position of a responsible person as a "potential" predicate criminal offense. Furthermore, out of the total number of persons against whom an investigation was initiated for this criminal offense (387 persons), 200 persons were prosecuted in the investigation for the criminal offense of money laundering, to which this criminal offense was a predicate one, which is more than 50% perpetrators of this crime. When this data is added to the fact that a large amount of money was discovered and confiscated as the object of this crime, and that the value of assets that are the object of money laundering in the filed indictments is EUR 6,999,470.38, as well as that almost a third of the prosecuted cases for the crime of money laundering are cases in which the said crime appears as a predicate crime, the unequivocal conclusion is that this crime is characterized by an extremely high degree of threat of money laundering.

1.6.2. Tax offenses

Statistical data were used for the analysis of tax crimes, primarily from the Tax Administration
- Tax Police Sector, because it is estimated that they are the most reliable and comprehensive, and this data was then supplemented by statistical data from the Republic Public Prosecutor's Office, the Prosecutor's Office for Organized Crime and courts with organized crime departments, as well as data from the Ministry of Interior. The analysis of the collected data leads to the conclusion that, given the amount of total damage to the budget of the Republic of Serbia, the amount of tax evasion, the frequency of these crimes and the proceeds, tax crimes are crimes with a high threat from the aspect of money laundering.

According to the **statistics of the Tax Police Sector**, the total damage caused to the national budget by the committed tax crimes amounts to EUR 318,555,048. Further analysis of the above data leads to the conclusion that the majority of total budget damage stems from the criminal offense of tax evasion under Articles 225/229 of the CC, up to 292,673,413 EUR (91.87%).

Observed from the aspect of the risk of money laundering, the statistical data of the Tax Police Sector indicate that in terms of the number of filed criminal charges, the number of reported persons and the number of reported offenses, tax criminal offenses are high risk. The Tax Police Sector filed a total of 3,981 criminal charges for a total of 4,299 tax offenses. A total of 2,449 criminal acts of tax evasion under Article 225/229 of the Criminal Code were detected and reported against 3,442 persons, of which 2,128 responsible persons in legal entities, 1,069 business owners and 245 natural persons.

By observing the aggregate data of the Republic Public Prosecutor's Office, the Prosecutor's Office for Organized Crime and the courts with the Department for Organized Crime, it is determined that criminal charges were filed against a total of 3,632 persons for the **crime of tax evasion** under Articles 225/229 of the Criminal Code, of which the lion's share by the Tax Police (94.77%), investigations were initiated against 375 persons, 461 persons were indicted, and 575 persons were convicted.

Before the competent public prosecutor's offices, in the proceedings initiated for the criminal offense of money laundering, investigations for tax evasion as a predicate criminal offense were conducted against a total of 54 persons. In the same cases, investigations were also conducted for the criminal offense of money laundering against 52 persons. When it comes to the accusations of the criminal offense of tax evasion as a predicate crime, indictments were filed against six persons, while indictments weref filed against five persons also for the criminal offense of money laundering. According to aggregate data, the reported material gain for the criminal offense of tax evasion under Articles 225/229 of the Criminal Code for the observed period amounts to EUR 333,802,952, while the amount of total confiscated property is EUR 584,866, with the value of confiscated items in criminal proceedings amounting to 81,254 EUR. The value of assets temporarily confiscated under the Law on Seizure and Confiscation of the Proceeds from Crime for this criminal offense is EUR 163,000.

Two criminal offenses prescribed by the Law on Tax Procedure and Tax Administration (hereinafter: LTPTA) were analyzed as two predicate high money laundering threat crimes. The first such crime is the criminal offense of **fraudulent presentation of the amount for tax refund and tax credit** under Article 173a of the LCPA and illegal trade in excise products under Article 176 of the LCPA.

An investigation has been initiated against 24 persons for the criminal offense of fraudulent presentation of the amount for tax refund and tax credit from Article 173a of the LCPPA as a predicate crime, and for the criminal offense of money laundering against 23 persons. Also, for the criminal offense of illegal trade in excisable products from Article 176 of the LCPPA, as a predicate crime, investigations were conducted against nine persons, and for the same number of persons also for the criminal offense of money laundering.

The cases of the Prosecutor's Office for Organized Crime, which conducted an investigation against a total of 30 persons for this predicate offense, were analyzed separately, whereas the crime of money laundering an investigation was launched against 24 persons, an indictment against 15 persons and against 12 persons for the crime of money laundering. Also, before the said prosecutor's office, an investigation was conducted for the criminal offense of fraudulent presentation of the amount for tax refund and tax credit from Article 173a of the Law on Tax Procedure and Tax Administration (LTPTA) as a predicate offense against two persons, as well as against two persons for the criminal offense of money laundering.

When analyzing data from all initiated criminal proceedings for predicate offenses of tax evasion, fraudulent presentation of amounts for tax refunds and tax credit and illegal trade in excisable products, it was found that the total value of assets subject to money laundering in investigative proceedings was a total of EUR 15,977,434, while the value of the assets that were the object of laundering from the indictments for these crimes amounted to 3,998,774

EUR. On the other hand, when taking into account data of courts from criminal proceedings related to the predicate offense of tax evasion, it was found that the total amount of confiscated assets according to final convictions for the predicate offense of tax evasion is a total of 407,806 EUR.

To assess the threat of tax crimes for money laundering, in addition to data on detected crimes, the number of investigations, indictments, convictions and material gain, estimates of the size of the gray economy in the country must be considered. From the aspect of the typology of money laundering, the use of the so-called
"phantoms" and "launderers" is more common when it comes to tax crimes as predicate offenses, and such business structures have been used by organized groups. The role of such economic entities is to enable the "siphoning of money" that comes from tax evasion, which service is provided to a large number of interested taxpayers and certainly represents "professional money laundering". Members of organized groups offer their "services" to interested owners of legal entities, which are also taxpayers, enabling them to withdraw money from their accounts on the basis of documentation on non-existent turnover and thus transfer part of economic activities from the formal to so-called "gray zone". In the analyzed period, a total of 503 "phantoms and launderers" were discovered. In addition to helping businesses avoid paying taxes, they are a key instrument for conducting a large number of money transactions between the various businesses involved in the money laundering process, with the aim of illegally concealing on fictitious grounds with such money transfers the origin of the money that is the object of these transactions. The Administration for the Prevention of Money Laundering submitted 40 suspicious transactions reports related to tax crimes as predicate crimes of money laundering. Based on the checks of the Tax Police regarding the submitted reports of the Administration, it was discovered that the total value of the evaded tax amounts to EUR 3,300,472. One of the filed criminal charges also refers to the criminal offense of money laundering, and the value of the assets that were the object of laundering amounted to EUR 7,015,357.

Conclusion: Considering the frequency of these crimes, as well as the fact that they enable the avoidance of taxes and other public proceeds in extremely high amounts and at the same time achieve significant illegal material gain, that there is a notable trend of an increased number of perpetrators of these crimes as predicate criminal offenses, and that this offense is also committed by organized criminal groups, it was concluded that tax crimes are crimes with a high degree of threat of money laundering.

1.6.3. Unauthorized production and distribution of narcotics under Article 246 of the CC

Indicators on the number of reported and prosecuted persons, consistency and frequency of crime, mostly by organized criminal groups, the amount of material gain obtained and the estimated value of the narcotics market in Serbia of almost 280,000,000 EUR, as well as the importance of the transit route itself and the growing trend in the number of detected perpetrators means that this crime is a source of constant threats of money laundering.

According to the combined data of RPPO, OCPO and courts with a department for organized crime, 5,118 persons were reported for this crime alone, without money laundering, an investigation was launched against 4,383 persons, 3,612 persons were indicted, and 2,754 persons were convicted. Regarding the total value of confiscated items (pursuant to Article 87 of CC), it amounts to EUR 611,778 in this period, while the total confiscated proceeds of crime (pursuant to Articles 91 and 92 of CC) are EUR 5,165,149.8.

In addition to the analysis of the criminal offense of unauthorized production and distribution of narcotics under Article 246 of the Criminal Code as a potential predicate criminal offense, considering the cases of money laundering in which the criminal offense occurred as a predicate, it can also be concluded that this criminal offense generates large amounts of "dirty money".

Namely, the analyzed data show that indictments were filed against a total of 12 persons for this predicate crime, and against eight persons also for money laundering. The value of the assets that were the object of money laundering in the indictments is EUR 417,733.76, three properties and three passenger motor vehicles. From the perpetrators of this predicate criminal offense assets were temporarily confiscated, namely money in the total amount of EUR 406,117.8. Four persons were convicted of money laundering, from whom objects were temporarily seized, namely money in the total amount of EUR 565,607, three mobile phones and one passenger motor vehicle.

The high level of threat of this crime, which generates enormous amounts of "dirty money", is indicated by the presentation of the network of roads and the spread of the drug market in the Western Balkans of the *Global Initiative Against Transnational Organized Crime*, [14] with the conclusion that the Western Balkans remain the largest transit region for the cannabis and heroin trade, with an increase in cocaine and synthetic drug trafficking. This research also confirmed the conclusions reached on the basis of data from the Serbian Ministry of the Interior that the illegal drug most often used and seized is - cannabis. The trend of growing this illegal drug on the territory of the Republic of Serbia is certainly on the rise, as indicated by the fact that in 2019 only, 650 kilograms of dried cannabis and 65,581 raw stalks were seized on an organic farm in Stara Pazova of a total weight 3,954 kg, together with the cash intended for the production of this illegal drug.

Conclusion: Considering the fact that our country, given its geographical location, is an important transit route for most narcotics, that certain quantities of narcotics end up on the domestic market, that the drug trade generates enormous revenues, the frequency of criminal offenses, marked involvement of organized criminal groups, significant roles of Serbian nationals in international criminal networks, number of reported and prosecuted persons, amount of benefits obtained and estimated value of the drug market in Serbia, the trend

14 Global Initiative Against Transnational Organized Crime, "SPOT PRICES -analyzing the flow of people, drugs and money in the Western Balkans".

of the increase in the number of detected perpetrators, it is clear that the crime of unauthorized production and distribution of narcotics under Article 246 of the Criminal Code is still a crime of a high degree of threat of money laundering.

1.6.4. Abuse of official position under Article 359 of the CC

What determines the criminal offense of abuse of office under Article 359 of the Criminal Code, as a predicate offense with high threat of money laundering is the number of reported persons, the amount of reported and confiscated assets, and a large number of active officials in the Republic of Serbia who most often appear as the perpetrators of this crime.

Data from the repressive authorities for this crime, which is considered the most representative of corrupt crimes, indicate that the number of reported persons in the previous three years is higher than in the previous risk assessment. The amount of material gain discovered in connection with this criminal offense is EUR 31,291,372.88, and the value of confiscated material gain according to final convictions (pursuant to Articles 91 and 92 of the Criminal Code) is EUR 6,825,498.90, while the permanently confiscated assets managed by the Directorate for Confiscated Assets amounts to EUR 2,670,000. It is precisely this high amount of confiscated proceeds that determines this crime as a high-risk one. In the analyzed period, investigations were initiated against 190 persons, while 494 persons were indicted, with a final verdict rendered against 498 persons.

When it comes to the predicate criminal offense of abuse of official position under Article 359 of the Criminal Code, in connection with which proceedings were conducted for the criminal offense of money laundering, we can see similar trends. In the analyzed period, for this predicate criminal offense, investigations were conducted against a total of 28 persons, and against 16 persons also for to the criminal offense of money laundering. An indictment was filed against 19 persons for the said predicate criminal offense, while an indictment was filed against 10 persons also for the criminal offense of money laundering. The value of the assets that were the object of money laundering according to the orders for investigation amounted to EUR 121,947.00.

Also, in this analysis, data related to the Transparency International Corruption Perception Index, according to which Serbia is ranked 84th in 2020 (out of 180 countries) with a corruption index of 38 (out of 100), were particularly analyzed, as well as research indicating the prevalence of corruption in the Republic of Serbia.

Conclusion: This crime is included in the category of crimes with a high degree of threat of money laundering, because it is a crime that undoubtedly represents corrupt behavior and generates significant material gain. This is evidenced by data on the impressive amount of reported illegal material gain, on the amounts of material gain that was confiscated from the enforcement officers after a final judgment in court proceedings, and especially on assets that were permanently confiscated from those persons and persons related to them as assets arising from a criminal offense. In addition, it is a criminal offense which by its nature implies maximum discretion and concealment. When

these circumstances are connected to the fact that this crime is committed in synergy by persons who have power and people who have money and that it is therefore very difficult to detect, the conclusion is that its susceptibility to money laundering is high.

1.6.5. Illegal crossing of the state border and smuggling of people under Article 350 of the CC

According to the aggregate data of the Republic Public Prosecutor's Office, the Prosecutor's Office for Organized Crime and the courts with a department for organized crime, 751 perpetrators were identified for the criminal offense from Article 350 of the Criminal Code. Investigations were launched against 414 persons, 520 persons were indicted and 503 persons were convicted. This criminal act has generated illegal material gain in the amount of 407,325 EUR. The measure of confiscation of proceeds in the total value of EUR 212,777 was imposed on the perpetrators of that crime.

The Prosecutor's Office for Organized Crime prosecuted a total of 20 organized criminal groups that committed this crime. Namely, the number of reported persons in proceedings before the Prosecutor's Office for Organized Crime is growing from year to year and hence in 2018, investigations were conducted against 38 persons, in 2019 against 37 persons, and in 2020 against 51 persons. In the period 2018-2020, before OCPO, a total of 126 persons were indicted and 134 persons were convicted with final judgments. The total value of seized items in these proceedings is EUR 15,598 and 15 cars, dozens of mobile phones and other items intended for the commission of this crime and material gain in the amount of EUR 183,057 was confiscated. The migrant crisis has also brought the danger that among irregular migrants, refugees and asylum seekers there are also persons who are particularly vulnerable in terms of human trafficking and exploitation, and who need to be recognized and protected.

According to a new report by the Global Initiative Against Transnational Organized Crime, the migrant smuggling market in the Western Balkans is worth at least € 50 million a year. Although this is significantly less than the profits generated in the midst of the humanitarian crisis in 2015, the report shows that the market for smuggling migrants through the region is still considerable.

Conclusion: When considering the potential of this crime as a predicate offense to money laundering, the trend of the increasing the number of perpetrators of this crime was particularly taken in consideration, as well as the smuggling of a large number of migrants, the clear tendency that organized criminal groups operating in the Republic of Serbia take precedence in these activities, as well as that they generate a significant amount of illegal material gain by committing this crime, and it is clear from all the above why this crime must be treated as a crime involving a high threat of money laundering.

1.6.6. Crimes committed by organized criminal groups

When it comes to crimes committed by organized groups, they are considered to be crimes with high threat of money laundering because these are structured groups that have a high degree of organization, defined roles of members and are formed for continuous criminal activity, in order for such an activity to be a source of income for them. That is why every crime committed by organized groups is a predicate crime with a high threat of money laundering.

According to the collected data, the competent public prosecutor's offices conducted investigations into predicate crimes against 568 persons in the initiated money laundering proceedings, of which 134 were investigated by the Prosecutor's Office for Organized Crime. It is concluded that the latter conducted almost a quarter of all investigations that included the crime of money laundering. The said prosecutor's office initiated investigations against a total of 95 persons for money laundering. Further analysis of the proceedings initiated by the Prosecutor's Office for Organized Crime established that the object of money laundering was also criminal proceeds that do not originate from the predicate crime of high or medium-high degree of threat, which further supports the above hypothesis of high threat of money laundering of all crimes committed by organized groups. Considering that, by the definition in Serbia, organized crime is the commission of criminal offenses by organized criminal groups, data on the number of persons prosecuted for the criminal offense of criminal alliance under Article 346 of the Criminal Code are also important. In the observed period, due to 123 cases of the said criminal offense, criminal charges were filed against 44 persons, 34 were indicted, and 66 persons were convicted. A security measure of seizure of objects was imposed on 48 convicted persons, while a measure of confiscation of proceeds was imposed on 37 convicts.

The criminal offense of criminal alliance under Article 346 of the Criminal Code in the analyzed period also appears as a predicate criminal offense of money laundering in criminal proceedings for money laundering initiated by the Prosecutor's Office for Organized Crime. Specifically, in money laundering cases, due to the criminal offense in question, investigations were initiated against 23 persons, of which 14 for money laundering. As for indictments, they were filed against seven persons and money laundering proceedings were initiated against all of them. The value of the assets that are the object of money laundering under these indictments is EUR 2,470,256.42 and proceeds in the amount of EUR 70,164 were confiscated. In these situations, it was a matter of professional money laundering, because criminal groups provided money laundering services to interested persons and charged them by keeping an agreed percentage of the value of the assets that were the object of laundering.

Conclusion: The analysis of the said cases established that the perpetrators committed criminal acts in groups and that they acted in an organized manner with the sole purpose of generating financial gain, and for the stated reasons every criminal act committed in this way was a high-risk crime for money laundering, bearing in mind that the execution of the same generates significant material gain.

Having in mind the number of actions undertaken by organized criminal groups, the gravity of the criminal acts they commit, as well as the amount of illegal material gain obtained by organized criminal groups, we believe that organized crime is a high threat of laundering money.

1.7. Medium level threat crimes

The following criminal offenses are included in the group of medium-level threat for money laundering: fraud under Article 208 of the Criminal Code, criminal offenses of forging of documents, namely forging a document under Article 355 of the Criminal Code and forging an official document under Article 357 of the Criminal Code, human trafficking under Article 388 CC, mediation in prostitution under Article 184 of the CC, as well as criminal activity on the basis of illegal trade in goods, which includes the crime of illegal trade under Article 235 of the CC and the crime of illegal storage of goods under Article 176a of the Law on Tax Procedure and Tax Administration.

It can be noticed that, compared to the previous period, only the criminal offense of fraud under Article 208 of the Criminal Code and illegal trade under Article 235/243 of the Criminal Code have "survived" as medium-threat criminal offenses.

Although the criminal offenses of forging a document under Article 355 of the CC, forging an official document under Article 357 of the CC, trafficking in human beings under Article 388 of the CC, mediation in prostitution under Article 184 of the CC and illegal storage of goods under Article 176a of the Law on Tax Procedure and Tax Administration, according to the previous risk assessment, were classified as a low-risk threat, in the period from 2018 to 2020, there was a tendency for illegal material gain generated by these crimes to be laundered, in order to conceal its illegal origin and for that reason they are classified as medium risk.

1.7.1. Fraud under Article 208 of the Criminal Code

The most reported criminal offense on the territory of the Republic of Serbia in the period from 2018 to 2020 is the criminal offense of fraud under Article 208 of the Criminal Code. In the said period, criminal charges were filed against as many as 11,558 persons. Out of that, an order on conducting an investigation was issued against 382 persons, while a total of 1,422 persons were indicted, and 2,013 persons were convicted.

Material gain obtained by committing this criminal offense in the observed period amounted to EUR 34,695,880. According to data of the Supreme Court of Cassation, the total proceeds confiscated according to the verdicts amounts to EUR 93,006, while under the security measure seizure of objects, the value of confiscated objects amounted to EUR 106,621. According to the Directorate for the Administration of Seized Assets, the amount of permanently confiscated assets is EUR 461.000. The amount of temporarily confiscated assets or frozen income is EUR 110,000. In addition, on the order of the public prosecutor, the disposal of assets consisting of four apartments, one parking space and shares in two family residential family buildings was temporarily prohibited.

A total of 12 persons have been investigated for the crime of fraud as a predicate crime to money laundering. The value of the assets that are the object of money laundering according to the order for the investigation amounted to a total of EUR 4,383,320.62. If we compare the data on the number of persons against whom an investigation was initiated for this crime in the period from 2018 to 2020 with the data from the previous period, there is an obvious tendency of a rise in the frequency of the crime of fraud as a predicate crime to money laundering.

The cross-border element - integration of material gain in the real estate sector in attractive locations, increase in the number of cases of money laundering arising from the crime of fraud, frequency of the crime as part of the possibility of obtaining high illegal material gain, and in particular, data on assets related to this criminal offense - are elements that justify the classification of this criminal offense as a medium-degree threat of money laundering.

1.7.2. Forgery related crimes

The criminal offenses of forging a document from Article 355 of the Criminal Code and forging an official document from Article 357 of the Criminal Code are characterized by a large number of reported and prosecuted persons, and in significant numbers these crimes appear as predicate criminal offenses in money laundering proceedings.

It is characteristic of these criminal offenses that they indirectly enable the acquisition of illegal material gain, and this is precisely the reason why they are classified in the group of criminal offenses that can be predicate to money laundering.

If we analyze the typologies of money laundering, we can conclude that in almost all cases of money laundering, forged documents are used, i.e., that counterfeiting offenses are very often committed during money laundering. However, since illegal material gain is obtained indirectly when it comes to criminal acts of forgery, and not as a direct consequence of the criminal offense, these crimes are classified in the group of medium-threat crimes.

1.7.2.1. Forging a document under Article 355 of the CC

Data from the Republic Public Prosecutor's Office, the Supreme Court of Cassation and the Ministry of the Interior indicate a large number of prosecuted and convicted persons for this crime, and the proceeds according to the criminal charges amounted to EUR 276,643, while the total value of proceeds seized amounted to EUR 4,185.

The specificity of this crime is that it appears in a large number of cases as a predicate crime to money laundering. During 2019, investigations were initiated against 37 persons, of which 36 persons also for money laundering, and the value of the assets that were the object of money laundering amounted to EUR 1,669,000. Fourteen persons were indicted, and a final conviction was passed against the same number of persons. The total amount of money confiscated under the temporary security measure of confiscation of proceeds when it comes to this criminal offense as a predicate to money laundering amounted to EUR 209,376.

It should be noted that these crimes were also committed by organized criminal groups. Precisely the fact that the proceeds that are the indirect consequence of this crime are at a high level, that in the observed period in connection with this crime there were several criminal proceedings for money laundering, which was preceded by criminal activity related to forging of documents that were basis for the transfer of money, and that there have been cases of this crime by organized criminal groups, are the key arguments on the basis of which it is classified in the category of medium risk of money laundering.

1.7.2.2. Forging an official document under Article 357 of the CC

In the observed period, a total of criminal charges were filed against 1,000 persons for this criminal offense, 189 persons were indicted and 146 were convicted.

Investigations were initiated against nine persons for this crime, as a predicate criminal offense to money laundering, and the total value of the assets that were the object of money laundering, according to the order on conducting the investigation, amounted to EUR 512,399.18. Indictments were filed against 40 persons for this crime as a predicate offense, of which 34 persons were charged with money laundering. As per these indictments, the total amount of obtained illegal material gain amounted to EUR 83,143.65.

Comparing data on the number of accused persons of the criminal offense of forging official documents with the data on the number of accused persons for the said crime and the crime of money laundering, we conclude that as much as 18% of the total number of accused persons for forgery are at the same time charged with the crime of money laundering. The fact that the proceeds obtained from this crime is at a high level correlates with the fact that these proceeds were the object of money laundering by almost a fifth of the defendants charged with the crime, is the reason why this crime is classified in the category of medium-risk money laundering offenses.

1.7.3. Trafficking in human beings under Article 388 of the CC

Trafficking in human beings is one of the most prevalent and most profitable criminal activities at the global level, which in most cases is carried out by an organized criminal group for financial gain. It is considered to be one of the fastest growing forms of organized criminal activity in the 21st century.

According to the NGO ASTRA,[15] Serbia is the country of origin, transit, and destination of victims of trafficking.[16] From the beginning of 2002 to the end of 2020, this non-governmental organization

15 ASTRA Antitrafficking Action addresses the problem of trafficking in human beings, including prevention and education, providing direct assistance to victims of trafficking, their reintegration, as well as research and reporting on trafficking in human beings.

16 Available at: https://www.astra.rs/trgovina-ljudima-u-srbiji/.

identified 542 victims of trafficking (an average of 28 victims per year), 437 women, of which 158 minors and 105 male victims, of whom 14 were minors. The majority of victims of trafficking in Serbia are women and minors (87.5%) who are exposed to sexual exploitation, although there is an increase in exploited men, mainly for the purpose of labor exploitation.

The fact that criminal activities related to human trafficking are growing from year to year is evidenced by the fact that, according to data of the Center for the Protection of Victims of Human Trafficking, 121 victims were registered in 2019[17], of which 39 victims of human trafficking were formally identified, with children topping the list (64%) along with women (82%) with a share of minors of 59%. The most common type of exploitation is sexual exploitation with 59% of the cases, followed by multiple exploitation and forced marriage. The Center's data also point to the fact that there is a tendency of an increased number of victims among the migrant population and hence in 2019, the Center received 27 reports of suspected trafficking in among migrants. Considering that migrants who cross the territory of Serbia most often come from war-affected areas, and often travel without personal documents and with very modest funds, it was concluded that they represent a particularly vulnerable category for human trafficking.

Due to the existence of grounds for suspicion that the criminal offense of trafficking in human beings under Article 388 of the Criminal Code was committed, criminal charges were filed against a total of 101 persons in the observed period. According to the criminal charges, the obtained material gain amounted to a total of EUR 77,459. An order to conduct an investigation was issued against 82 persons, while 50 persons were indicted. The total number of convicted persons for the said criminal offense was 34. By order of the public prosecutor, one apartment was temporarily confiscated.

Based on data showing that the amount of EUR 58.750 was identified as an object of money laundering in the observed period, it was concluded that the illicit gain obtained from the crime of trafficking in human beings later becomes in a high percentage an object of money laundering.

In the Republic of Serbia, the said criminal offense also appeared as a predicate criminal offense of money laundering in the observed period, so an order was issued against 2 persons to conduct an investigation into the criminal offense of money laundering.

What determined this crime to be classified in the category of moderate crimes is the number of reported cases of trafficking in human beings, which is increasing, the fact that the proceeds of this crime amounted to a total of 77,459 EUR, that most of that amount, about 75% or more precisely EUR 58,750 was later the object of money laundering, and that this crime is most often committed by organized criminal groups for the purpose of financial gain, that the commission of crimes typically involves

17 Data on human trafficking for 2019 are the most complete and therefore will command special attention.

the territories of several countries involved and therefore it was concluded that this is a criminal offense with a medium-high degree of threat of money laundering. For this conclusion, we also had in mind data related to the average number of victims, which grew from year to year.

1.7.4. The criminal offense of mediation in prostitution under Article 184 of the Criminal Code

Criminal charges were filed against a total of 116 persons for the criminal offense of mediation in prostitution in the observed period. An order on conducting an investigation was issued against 13 persons, while indictments were filed against 66 persons, and a total of 22 persons were convicted of the said crime. The Directorate for the Administration of Seized Assets manages the temporarily confiscated amount of EUR 170.000.

In the observed period, the Prosecutor's Office for Organized Crime conducted proceedings against three organized criminal groups with a total of 38 perpetrators of the crime of mediation in prostitution. In one case, pursuant to Article 25 of the Law on Seizure and Confiscation of the Proceeds from Crime, the court temporarily confiscated land from an third party in an attractive location and one family residential building, while the defendant was temporarily deprived of a three-room apartment. This supports the conclusion that the perpetrators of this crime generate high illegal income and possess significant assets derived from the crime whose illegal origin is to be concealed through the money laundering process.

The criminal offense of mediation in prostitution under Article 184 of the Criminal Code has many similarities with the criminal offense of trafficking in human beings under Article 388 of the Criminal Code. Therefore, if one wants to have the most accurate picture of the real state of affairs, these crimes cannot be viewed separately, which is not the case in this analysis. Precisely because of the similarity of these crimes and the realistic assumption that the "dark" figure for both crimes is at a much higher level than official statistics, with both crimes having a pronounced lucrative component, i.e., ultimately having material gain as a goal, they are classified in the category of crimes with a medium-degree threat of money laundering. Due to the fact that this crime generates high illegal amounts, and that in most cases it was committed by organized criminal groups (out of a total of 116 persons reported for committing this crime, as many as 38 were members of organized crime groups (32,76%), the same is classified as a crime involving a medium threat of money laundering.

1.7.5. Criminal activity based on illegal trade in goods

Criminal activity on the basis of illegal trade in goods was considered from the aspect of criminal offenses of illegal trade under Article 235 of the Criminal Code and illegal storage of goods under Article 176a of the Law on Tax Procedure and Tax Administration.

The commission of these criminal offenses undermines lawful trade, as an activity of high importance for the functioning of the economy. It is a form of "gray economy", which threatens budget revenues and represents unfair competition to legal entities.

The latest analysis of the volume of the gray economy in Serbia conducted by NALED[18] in 2017[19] showed that the share gray economy is 15.4 percent of gross domestic product. Every third company operates in the gray zone, with a significant contribution of unregistered companies, which make up more than 17% of the total number of business entities. Out of 100 dinars acquired by working in the gray zone, 38 dinars come from non-declaring the sale of goods and services, i.e., profit, so it is concluded that more than a third of the gray economy is in the area of illegal trade in goods and services.

The share of illegal trade of goods online is becoming increasingly noticeable, and it is assumed that there will be more and more such cases in the future.

According to data of the Tax Administration and the Market Inspection on the type of illegally traded and seized goods, these are mostly textile products, footwear, haberdashery, toys, alcoholic beverages, and as many as 825,992 pieces of goods infringing intellectual property rights have been seized.

It is not only natural persons that engage in illegal trade in goods, but there is also a significant involvement of legal persons as economic entities that carry out illegal trade in goods. According to the Customs Administration, out of a total of 3,708 requests for initiating misdemeanor proceedings related to illegal trade in goods, as many as 2,814 requests were filed against legal entities, while the value of goods that were the object of the offense amounted to an incredible 1,908,469,378.00 dinars or 16,173,470 EUR. Taking into account that the volume of the gray economy, which includes illegal trade in goods, is at a high level and implies the realization of high revenues from the trade of consumer goods, branded goods that can be considered higher value goods, it was concluded that criminal activity based on illegal trade in goods represents a medium-degree threat of money laundering.

1751. Illegal trade from Article 235 of the CC

In the observed period, criminal charges were filed against 854 persons for the criminal offense of illegal trade. According to the criminal charges, the proceeds of crime amounted to EUR 11,219,582. Indictments were filed against 299 persons and a total of 287 persons were convicted. The total value of seized objects according to the final security measure from Article 87 of the Criminal Code and the measure of confiscation of material gain from Articles 91 and 92 of the Criminal Code amounted to EUR 244,855.

18 National Alliance for Local Economic Development.
19 Available at: http://uzmiracun.rs/htdocs/Files/01070/Analiza-obima-sive-ekonomije-2017.pdf.

When it comes to proceedings for the crime of money laundering, criminal charges were filed against nine persons for the crime of illegal trade as a predicate crime to money laundering, while in relation to eight persons, an investigation was launched for the crime of money laundering. The value of the assets that were the object of money laundering was EUR 55,678. An indictment was filed against two persons and the same number of persons were convicted.

On the other hand, in the period from 2013 to 2017, with the criminal offense of illegal trade under Article 235 of the Criminal Code, as a predicate crime in proceedings for the criminal offense of money laundering, material gain of EUR 250,880.00 was discovered, while in the period 2018-2020, material gain of a total of EUR 11,219,582 was discovered, which is almost 45 times more. Also, in the period that is the subject of the current assessment of the risk of money laundering, a measure of confiscation of proceeds from a criminal offense the object of which were two luxury passenger motor vehicles was imposed. Therefore, in the observed periods, the number of persons against whom the investigation was conducted is almost identical, but the amount of material gain is many times higher, which indicates a significant increase in the threat of money laundering from the crime of illegal trade.

1.7.5.2. Illegal storage of goods from Article 176a of the Law on Tax Procedure and Tax Administration

For the analysis of this criminal offense, the data of the Tax Administration were primarily used, considering that this is a criminal offense for the detection of which the said administration is competent. According to data of the Tax Administration, in the observed period, consumer goods in the total value of EUR 1,003,053.10 were found and confiscated from several natural and legal persons, and criminal charges were filed against 25 persons.

According to data of the Field Control of the Tax Administration, the value of permanently seized goods according to the decisions of the field control carried out against 44 taxpayers amounted to about 681,045 EUR.

In essence, this is a criminal offense that involves the illegal storage and keeping of goods for which there is no prescribed documentation of origin. This clearly shows that these are goods that are in the gray zone and that are intended for further trade, which is why this crime is classified as a criminal activity of illegal trade in goods. Given the high value (over EUR 1 million in total) and the amount of trafficked goods found in illegal warehouses, that the object of the crime is often branded products, it was concluded that these are crimes of medium threat of money laundering.

1.8. Low level threat crimes

Starting from the methodology used when ranking criminal offenses according to the degree of threat of money laundering, a list of 115 criminal offenses was established, which directly or indirectly enable the acquisition of illegal material gain. They include, according to the aforementioned criteria

high-level and medium-level threat crimes of money laundering. All other crimes are designated as acts entailing low threat of money laundering because the perpetrators of such crimes do not try to launder illegally acquired assets by concealing their illegal origin, but typically spend them for normal everyday needs.

1.9. Growing threats

1.9.1. Crimes against the environment

Environmental protection is one of the most topical themes not only in Serbia but also globally. According to the European Commission, environmental crime is one of the nine most common criminal activities in the EU, in addition to drug trafficking, human trafficking, migrant smuggling, fraud, arms trafficking, tobacco trafficking, high-tech crime and property crime. They caused economic damage in 2019 of at least 139 billion euros. The Progress Report of the European Commission from 2019, which refers to Chapter 27 - Environmental Protection, states that the Republic of Serbia has reached a certain level of progress in this area and indicates what is needed in the coming period for the Republic of Serbia to meet the requirements in this area. According to relevant estimates, in order to reach the level of European standards in the field of environmental protection in the next ten years, investments of around 8 billion euros are necessary in Serbia for the construction of large infrastructure projects.

In the Republic of Serbia, in the period from 2018 to 2020, there was an increase in the number of committed crimes against the environment. Hence, in 2018, as a result of criminal offenses, namely: environmental pollution under Article 260 of the CC, failure to undertake environmental protection measures under Article 261 of the CC, environmental damage under Article 264 of the CC, destroying, damaging, taking out abroad and bringing in Serbia a protected natural asset under Article 265 CC, introducing dangerous substances in Serbia and illegal processing, disposal and storage of dangerous substances under Article 266 CC, devastation of forests under Article 274 CC, forest theft under Article 275 CC, illegal hunting under Article 276 CC and illegal fishing under Article 277 of the CC, a total of 364 persons were charged and 473 persons were convicted; During 2019, 396 persons were indicted and 398 persons were convicted, while in 2020, 257 persons were indicted and 270 persons were convicted. The higher number of convicted persons than the number of accused in 2018 is a consequence of the fact that verdicts were passed on charges from previous years. The perpetrators of these crimes are in most cases officials or responsible persons who have not complied with the regulations on protection, preservation and improvement of the environment and thus by their actions or omissions have caused pollution of water, air or land, resulting in danger to life or human health.

As environmental crime is increasingly present, the European Union has launched the Environmental Crime Awareness Project, aiming at reaching decisions within the EU related to the priority fight against organized environmental crime.

In the previous period, the Republic of Serbia undertook a number of activities, including the signing in 2019 with the Republic of Italy of the Memorandum of Understanding and Cooperation in Climate Change, Vulnerability, Risk Assessment, Adaptation to Climate Change and Mitigation of Climate Change in order to work together to improve the state of the environment in both national and regional and global contexts.

At the same time, having in mind the publicly available data of the Ministry of Mining and Energy, there is a constant trend of growth in the number of issued energy permits for hydropower plants in the period from 2018 to 2020, when a total of 212 were issued. Namely, from 2007 to 2018, i.e., in 11 years, a total of 162 permits were issued, and in the period 2018-2020, as many as 50 permits were issued. Also, according the publicly available Register of Privileged Electricity Producers, Temporary Privileged Electricity Producers and Renewable Energy Producers kept by the Ministry of Mining and Energy, it is noticeable that in the period from 2010 to 2018, 101 decisions were issued for hydro power plants, and in the period from 2018 to 2020, as many as 88 decisions. At the same time, an increased number of issued decisions for biogas power plants was observed, and hence in the period from 2011 to 2018, 18 decisions were issued, while in the period from 2018 to 2020, as many as 93 decisions were issued.

This clearly indicates the accelerated development of renewable energy sources in which large financial resources are invested. One must particularly bear in mind the fact that the projection of the Ministry of Mining and Energy related to investment plans in the field of energy has envisioned further development of this area, through projects worth nearly 17 billion euros, of which a significant part of the money is earmarked for renewable energy sources. Also, going forward, large investments are expected in the construction of plants for wastewater treatment, the closure of illegal landfills, waste recycling, municipal waste management, management of renewable energy sources, etc. It is important to raise the fight against money laundering and corruption in this area to a higher level in order to purposefully spend the planned funds and prevent any misuse, because investing illegal income is a serious money laundering threat.

At the same time, the Law on the Use of Renewable Energy Sources adopted in the Republic of Serbia stipulates that for the implementation of construction projects with or without management and maintenance of a power plant using renewable energy sources, a strategic partner should be selected, and bearing in mind such growth in this area, there is a real threat that the funds to be invested may be misused or misspent, which will consequently lead to an increased threat of money laundering in this domain, and should be monitored with special care.

1.9.2. Agricultural farms

An analysis of individual cases in which persons were prosecuted for committing the crime of money laundering has determined that the perpetrators of this crime were many persons who have registered farms and as natural persons purposely opened accounts in commercial banks.

They most often appear as defendants within organized criminal groups and organized groups - "professional money launderers", where their role in the crime is to withdraw money paid into farm accounts and then return the money in cash to the organizer or to the persons who hired them on the order of the organizers. It has been noticed that when withdrawing money, employees in commercial banks do not check in detail the documentation submitted by these persons, and very often it is documentation that has no direct connection with agricultural activity. Apparently, "professional launderers" also recognized this as a convenience.

Namely, according to the Rulebook on entry in the register of agricultural farms and renewal of registration, as well as on the conditions for passive status of agricultural farms, the agricultural farm is registered with the Treasury, and during registration it is necessary to submit proof of a special account opened with a bank, to which account the funds generated on the basis of loans, premiums, recourses and subsidies are directed. It is precisely the opening of a dedicated account - for a specific type of transaction - that indicates that such an account can only be used and must only be used for the needs of the farm.

As it was stated, in the cases that were prosecuted in the period from 2018 to 2020, the owners of agricultural farms appear as perpetrators of the criminal act of money laundering within organized groups.

Namely, in one case, money in the amount of 24,706,403.02 dinars was paid into the accounts of agricultural farms, which was then completely withdrawn from the account and returned to the payers. The owners of agricultural farms, on the basis of false documents, issued delivery notes that they allegedly sold fruit, received payments to their accounts, and then withdrew money and returned it to the payer or brokers. At the same time, in three other cases that were prosecuted, the owners of agricultural farms also committed the crime of money laundering within an organized group. In this case, the owners of agricultural farms were organized to hand over blank purchase lists to the defendants by prior agreement, in which the defendants subsequently entered false information in the form of inflated quantities of goods purchased from producers and payments were then made to accounts of agricultural farms in such an inflated amount. The owners of agricultural farms withdrew the paid money from the account, kept a part for themselves in the amount of the value of the goods actually sold, and handed over the rest of the money to the defendants.

In all cases, it can be seen that dedicated accounts were misused, but in different ways, which points to the need for increased control of these entities in the future, because they certainly represent a risky form from the aspect of the threat of money laundering.

Also, according to data of the Treasury Department of the National Bank of Serbia, and having in mind the persons who participated in the commission of criminal acts, 91 of them have registered active agricultural farms. All these farms were established in the period from 2004 to 2016. This speaks in favor of the assumption that they were not registered just to commit crimes, but to engage in

agricultural activity. However, the fact that persons engaged in registered activities commit the crime of money laundering to such an extent indicates a growing threat of money laundering, because the control of cash flows towards these entities is small or almost non-existent.

At the same time, the data of the Agrarian Payments Administration, which deals exclusively with subsidies in agriculture and keeps records of all liabilities to farmers and payments to farms on the basis of subsidies, show that 43 of them used subsidies from the Republic of Serbia, i.e., national measures. This data is worrying, because this is a situation where funds from the budget are allocated to persons who commit the crime of money laundering.

Given the number of farm owners involved in money laundering, the fact that they laundered money for organized criminal groups, even as their members, and the growing trend of the number of farm owners involved in these illegal activities, the conclusion is that it is a structure that will carry an increased level of money laundering threats in the coming period.

1.9.3. Animal smuggling

In 2002, the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES) entered into force in the Republic of Serbia. All species from the CITES list are on the regime of import CITES licenses for imports and export CITES licenses for exports, because in that way their trade is controlled. However, despite this, a large part of protected species of animals and plants is subject to smuggling, given their value on the black market.

According to earlier estimates by Interpol, the money generated annually from animal smuggling amounts to up to ten billion dollars, which puts it in the top five illegal activities in terms of criminal earnings.

Animal smuggling is a specific criminal activity which, given the object of smuggling, requires the involvement of a larger number of persons. Therefore, in most cases, it is carried out by organized criminal groups, which most often smuggle rare species, because it is the most profitable form of that activity.

In the Republic of Serbia, cross-border trade in protected CITES species of plants and wild animals may be carried out only at border crossings where border veterinary and/or phytosanitary inspectors are located. The activity of the Customs Administration is realized in coordination with the veterinary/phytosanitary inspection as professional services that inspect the shipment and validate the certificate, which confirms the correctness of the shipment and approves the continuation of the customs procedure (import/export). In case of irregularities (the consignment is not accompanied by adequate permits, the contents of the consignment do not correspond to the data on the permit, etc.) the inspection of the Ministry of Environmental Protection joins the procedure and measures are taken in accordance with the Ordinance on Cross-border Trade of Protected Species, the Law on the Protection of Nature and the Criminal Code.

According to data of the Customs Administration, the Republic of Serbia is most often a transit country for the smugglers, as shown by data of the Customs Administration for the period from 2018 to 2020, concerning illegal trade in rare wildlife species. Nine cases were recorded, of which eight were related to animals and one to plants. A total of nine persons were prosecuted, five of whom were discovered at the exit from the Republic of Serbia.

However, although the number of detected persons has increased, it is still negligible, especially given the earnings generated by this illegal trade, and it can be concluded that the crime of destruction, damage, export and import of protected natural assets into Serbia from Article 265 of the Criminal Code, remained in the domain of "dark crime" numbers.

In this regard, the conclusion is that in the observed period, illegal income from trade in protected wildlife species was generated, but has not been discovered - a dark figure, which will certainly be incorporated in legal cash flows, in order to be present as income from lawful activities. For these reasons, increased control is needed going forward, primarily at border crossings as places where it is the easiest to detect animals and plants that are classified as protected species.

The Republic of Serbia has recognized the problem of illegal smuggling of protected wildlife species as a potential risk of money laundering. This is supported by the fact that in 2019, together with the Ministry of Defense of the Republic of Italy, a training course was held in Serbia aimed at strengthening the capacity of Serbian authorities responsible for combating crime related to endangered wildlife species.

1.10. Analysis of confiscated material gain

1.10.1. Legal and institutional framework

With regard to temporary measures and confiscations (confiscation of assets), international standards stipulate that states should adopt measures that allow the competent authorities to confiscate laundered assets, proceeds of money laundering or criminal offenses, funds used or intended for use in committing these crimes or assets of corresponding value, without endangering conscientious third parties.

The criminal legislation prescribes three measures of a material nature, the first is a security measure - seizure of objects (Article 87 of the Criminal Code), which is imposed on the perpetrator along with a sanction, and two independent measures, seizure of material gain (Articles 91-92 of the Criminal Code), as well as confiscation of the proceeds from crime, which is prescribed in the Law on Seizure and Confiscation of the Proceeds from Crime. When it comes to the criminal offense of money laundering, according to the provisions of Article 245, paragraph 7 of the Criminal Code, confiscation of assets that are the object of money laundering is mandatory.

1.10.2. Money laundering and predicate offenses

The subject of the analysis was, in the first place, initiated criminal proceedings for the criminal offense of money laundering, in the period 2018-2020, and initiated investigations against 568 persons for the predicate offense, against 416 persons for the criminal offense of money laundering and against 51 persons for the criminal offense of money laundering committed without a predicate offense. Follow the indictments filed against 278 persons for the predicate offense, or against 231 persons for the criminal offense of money laundering (of which against 55 persons for the criminal offense of money laundering committed without a predicate offense). Finally, data on the application of asset-related measures in jurisprudence from 125 cases in which a conviction for the crime of money laundering was passed were statistically analyzed, as well as all completed cases that involved material gain and that could potentially emerge as a predicate criminal act.

From the collected data from the investigations initiated for the predicate criminal offense and the criminal offense of money laundering, in the observed period, it may be seen that the value of the assets that were the object of money laundering amounted to EUR 26,341,550.45. In this predicate criminal offense, the total amount temporarily seized according to the certificate of temporary seizure is EUR 555,649.70 and three passenger motor vehicles. The temporary security measure referred to in Article 540 of the CCP was set at EUR 621,073.08 and two passenger motor vehicles. The total amount of cash recovered related to the crime of money laundering is EUR 1,356,432.4.

When the number of persons against whom an investigation for predicate offenses has been initiated is taken into account, the next most frequent in the structure is the predicate offense of tax evasion under Article 225 of the CC. Here, the value of the assets that were the object of money laundering was EUR 9,279,031.64. For the stated predicate criminal offense, the total amount temporarily confiscated according to the certificate of temporary confiscation is EUR 50,000.00. The total amount of cash recovered in connection with the criminal offense of money laundering is 102,703.00 EUR.

This is followed by an investigation into the predicate criminal offense of abuse of official position under Article 359 of the Criminal Code, in connection with which the value of the assets that were the object of money laundering amounted to EUR 121,947.00. In the case of the said predicate criminal offense, the total amount temporarily seized according to the certificate of temporary confiscation amounts to EUR 16,865.5, while the temporary security measure referred to in Article 540 of the CCP is set at EUR 51,857.42. The total amount of cash recovered in connection with the criminal offense of money laundering is EUR 15,000.00.

The prosecutor's offices initiated an investigation into the criminal offense of money laundering without predicate criminal offense against a total of 51 persons, with the value of the assets that are the object of money laundering amounting to EUR 7,220,208.37, while the total amount seized according to a certificate of temporary seizure amounts to EUR 5.318.164,70, one truck with trailer and one passenger motor vehicle. The temporary security measure referred to in Article 540 of the CCP is determined in the value of one passenger motor vehicle. The total amount of cash recovered in connection with the criminal offense of money laundering is EUR 4,432,982.26.

The conclusion is that the **total value of assets that were the object of money laundering in connection with the investigations** for all the above predicate offenses and the offense of money laundering (against 568 persons for predicate offenses, against 416 persons for the offense of money laundering and 51 persons for the criminal offense of money laundering committed without a predicate criminal offense), in the analyzed period, amounts to EUR 57,123,698.22.

The next step in the analysis was the singling out of the total amount of confiscation certificates (Article 147 of the CCP) in the pre-investigation procedure, which in the cases where defendants were prosecuted for predicate offenses and money laundering amounted to 6,028,291,74 EUR, one truck with trailer and four passenger motor vehicles.

The temporary security measure of confiscation of proceeds from Article 540 of the CCP was determined in the total amount of EUR 851,883.50, four passenger cars, and the ban on the disposal of business premises.

According to data of the Republic Public Prosecutor's Office, in the period from January 1, 2018 to December 31, 2020, an indictment was filed against a total of 278 persons for predicate offenses, and in the same cases against 231 persons for money laundering (of which against a total of 55 persons for the crime of money laundering committed without a predicate offense). In this period, the largest number of charges for predicate offenses relate to those charged with the criminal offense of abuse of office of a responsible person under Article 227 of the CC. The value of the assets that were the object of money laundering in these cases amounted to EUR 6,999,470.38. Proceedings were initiated against 21 persons for the criminal offense of tax evasion under Article 225 of the Criminal Code, and in the same cases against 17 persons for the criminal offense of money laundering, while the value of assets that are the object of money laundering in these proceedings amounted to EUR 3,998,774.00. Due to the predicate criminal offense of unlawful production and circulation of narcotics under Article 246 of the Criminal Code, proceedings were initiated against 12 persons, of which eight persons for the criminal offense of money laundering, and the value of assets that are the object of money laundering is EUR 417,733.76, three properties and three passenger motor vehicles.

When summarizing the total value of assets that were the object of money laundering on charges for all predicate offenses and for the crime of money laundering without predicate offense, we come to the total value of assets of 23,195,539.3 EUR, three properties and three passenger vehicles.

Of course, a correct understanding of the essence of the crime of money laundering is impossible without an analysis of the procedures of confiscated proceeds in jurisprudence, i.e., confiscation of proceeds from crime. Therefore, data from 125 final and unappealable decisions with a conviction for the criminal offense of money laundering were analyzed. The security measure of seizure of objects was imposed with a criminal sanction against the perpetrators of money laundering under Article 245 of the Criminal Code, i.e., namely the predicate crimes of unauthorized production and distribution of narcotics under Article 246 of the CC, illegal trade under Article 235 of the CC, bribery under Article 367 of the CC and smuggling under Article 230 CC, in relation to EUR 713,386.08, 31.5 tonnes of fruit, three passenger motor vehicles, three mobile phones, one flat and two motorcycle trailers. In proceedings

for the criminal offense of money laundering, which ended in a conviction, out of 46 perpetrators, under a temporary seizure of objects measure, a total of **2,038,290.68** EUR, five passenger motor vehicles, three mobile phones, an apartment in Loznica, 31.5 tons of fruit and two trailers were seized.

The said analysis also includes the application of asset-related measures to perpetrators found guilty of money laundering, i.e., money laundering and a predicate crime before the Special Department for Organized Crime of the High Court in Belgrade. Before the Special Department for Organized Crime, in one procedure, a person convicted of the criminal offense of money laundering under Article 231, paragraph 2 in conjunction with paragraph 1 of the CC was imposed a security measure of seizure of objects and had their apartment confiscated. On the other hand, the measure of confiscation of proceeds from Articles 91-92 of the Criminal Code was pronounced in six final judgments and a total of EUR 565,233 was confiscated.

Then, all finally adjudicated cases that resulted in the acquisition of material gain were analyzed, in connection with which no criminal proceedings for money laundering were conducted, in which security measures of seizure of objects were imposed, worth a total of EUR 1,337,806.5 and confiscation of proceeds from crime in the amount of EUR 21,180,346.42. That the acquisition of material gain is especially noticeable among the perpetrators of organized crime is evidenced by the fact that a total of 8,247,516,78 EUR of the said total amount was confiscated before the Special Department for Organized Crime of the High Court in Belgrade, pursuant to Articles 87 and 91-92 of the Criminal Code.

According to the Directorate for the Administration of Seized Assets, the value of income seized or frozen under temporary confiscation orders, from Article 25 of the Law on Seizure and Confiscation of the Proceeds from Crime, totals EUR 14,309,306, while the amount of income permanently confiscated by applying Article 44 of the same law, is EUR 3,131,000.

The criminal offense of abusing the position of a responsible person is still the most common predicate criminal offense. For the assessment period from 2018 to 2020, property in the total amount of EUR 7,276,466.00 was confiscated from 94 persons (of which EUR 3,568,460.00 from 44 persons, before the Special Department for Organized Crime of the High Court in Belgrade), investigations were launched against 387 persons, and a conviction was passed against 431 persons. According to data of the Directorate, the amount of assets seized or frozen according to the decisions on temporary confiscation from Article 25 of the Law on Seizure and Confiscation of the Proceeds from Crime, for this crime is EUR 8,895.00.

According to the number of indictments filed against a total of 494 persons and the number of convictions passed against 498 persons, the criminal offense of abuse of official position (Article 359 of the Criminal Code) is still among the most frequent criminal offenses. The danger it poses is most definitely evidenced by the fact that in the initiated criminal proceedings, 44 persons were deprived of assets in the total amount of EUR 6,825,827.00 (of which EUR 3,680,640.00 from two persons before the Special Department for Organized Crime High Court in Belgrade). According to the Directorate for the Administration of Seized Assets, pursuant to Article 44 of the Law, EUR 2,670,000 was permanently confiscated as assets generated by criminal activity.

The criminal offense of unauthorized production and circulation of narcotics (Article 246 of the Criminal Code) is a criminal offense that poses a high degree of threat of money laundering also due to the confiscated proceeds of crime in the total amount of EUR 5,165,149.8 (of which EUR 261,842.00 before the Special Department for Organized Crime of the High Court in Belgrade). The perpetrators of this criminal offense were imposed security measures of seizure of objects in the total value of EUR 611,778. According to the Directorate for the Administration of Seized Assets, the value of income seized or frozen under decisions on temporary confiscation, from Article 25 of the Law on Seizure of Proceeds from Crime, totals EUR 670,381.

The criminal offense of illegal crossing of the state border and smuggling of persons (Art. 350 CC) also appears as a predicate offense of high threat of money laundering, given that in criminal proceedings against 430 persons, assets in the total amount of EUR 228,792.00 were confiscated (of which 198,656.00 EUR from 182 persons before the Special Department for Organized Crime of the High Court in Belgrade).

1.10.3. Conclusion

Concerning the confiscation of material gain obtained by committing a specific crime, the analyzed data, although typically obtained by direct insight into the case, only partially reflect the actual situation for two reasons. The first reason is a consequence of the existing practice that material gain is often confiscated from the defendant and returned to the aggrieved party in the early stages of the procedure, so in practice there is no decision on confiscation of material gain or statistical data on its value. The second reason is a consequence of the fact that the decision on confiscation of material gain is subsidiary in relation to the decision on the legal claim of the aggrieved party.

A multidisciplinary approach to detecting, evidencing and confiscating material gain is one of the key elements in preventing money laundering, especially in the field of organized crime, because it strikes at the economic foundations of crime.

Effective implementation of the existing legal framework, as well as substantial implementation of binding standards from ratified conventions, are an important segment in the fight against money laundering.

A relevant recommendation is the continuation of efforts to strengthen the capacity for efficient parallel financial investigations, already in the pre-criminal procedure phase in order to effectively prevent the concealment of illegal funds.

In accordance with the above, synchronized efforts of all state authorities, both repressive and preventive, is necessary for a successful fight in the prevention of money laundering.

1.11. "Gray" and "dark" numbers - significance for threat assessment

The "gray number" consists of all reported crimes that have not been clarified, i.e., whose perpetrators have not been identified, while the "dark number" is the difference between actually committed and officially recorded, i.e., reported crimes, due to which the "dark number" cannot be precisely determined. From this aspect, criminal activities can be divided into reported crimes whose perpetrators have been identified, reported crimes whose perpetrators are unknown and completely unknown, i.e., unreported crimes.

The index of "concealment" of crimes depends on the type of crime, and hence the index of concealment is the lowest in murder, then increases through robbery, fraud, aggravated theft and crimes against economic and official duties where the "dark number" is much higher.

"Gray and dark numbers" are extremely important not only from the aspect of the actual volume of criminal activities, but also from the aspect of the value of "income" from criminal activities and potential threats of money laundering.

In the observed period (2018-2020), the largest number of reported crimes, according to MoI records, are crimes against property, where the total number of reported crimes is 103,925, with a percentage of solved crimes of 56.6%, while the total asset-related crimes the benefit, i.e., the value of "income" from asset-related crimes amounts to EUR 1,020,170,573. In relation to crimes against the economy, the total number of crimes was 5,939 with the percentage of solved crimes of 82.95%. The total proceeds from crimes against the economy amounted to EUR 191,485,589.

According to data of the Statistical Office of the Republic of Serbia obtained by using the methodology of statistical research, in the period 2018-2020, for asset-related crimes, public prosecutors decided on reports filed against a total of 46,226 persons, of which 17,150 were known perpetrators and 29,076 unknown perpetrators. Concerning crimes against the economy, decisions were made on charges filed against a total of 7,042 persons, of whom 5,749 were known perpetrators and 1,293 unknown perpetrators. Regarding the crimes of malfeasance in office, in the mentioned period, decisions were issued against a total of 2,321 persons, of which 2,227 were known perpetrators and 94 were unknown perpetrators.

The "dark number", according to professional experience, in asset-related crimes, can be increase by at least 1/3 or 1/4 relative to the number of reported crimes, while in crimes against the economy and crimes of malfeasance in office, we can increase that number by at least 50%, due to typical absence of an aggrieved party, the manner of committing the criminal offense characterized by conspiracy

and often high sophistication, the educational profile of the perpetrator and the very perception of corruption in society.[20]

1.12. Overview of the origin of laundered money - jurisdictions

The analysis of criminal proceedings in cases of money laundering conducted in the period from 2018 to 2020, determined that the largest number of predicate criminal acts, and the laundering of such acquired gain, was committed in domestic jurisdiction. This conclusion is evidenced by data on the number of orders for investigations issued, indictments and final adjudicated cases (out of 95 analyzed prosecutorial cases, the order for investigation due to the predicate act committed in Serbia was issued to 533 persons, an indictment filed against 261 persons, final judgments were rendered against 120 persons).

Significantly fewer criminal proceedings have been conducted in Serbia for laundering money acquired in foreign jurisdictions. The analysis of prosecutorial cases established that orders to conduct an investigation into a predicate crime committed abroad were issued against 20 persons, that indictments were filed against five persons, and that six verdicts were issued on the same crimes.

Even fewer criminal proceedings were instituted where money laundering was prosecuted in connection with predicate offenses committed in domestic and foreign jurisdictions. Namely, in these cases, orders for conducting investigations were issued against 10 persons, indictments were filed against 10 persons, and final convictions were rendered against 2 persons.

The least criminal proceedings were initiated for the criminal offense of money laundering, in which the country of origin of criminal proceeds could not be determined. These are criminal proceedings in which orders for an investigation were issued against 5 persons, indictments were filed against 2 persons, and a final conviction was passed against one person.

Thus, it can be concluded that predicate offenses committed in the domestic jurisdiction represent a high degree of threat of money laundering and that there is no change in the trend compared to the previous Money Laundering Risk Assessment. Predicate offenses committed in foreign jurisdictions, as well as offenses committed in both domestic and foreign jurisdictions, represent a medium-level threat of money laundering, with the trend for offenses committed in foreign

20 As part of this topic, academic papers in this field were discussed and used, including the most important ones: Dark Numbers of Crime (article published on the website: studentius.wordpress.com - 2017); Matijasevic-Obradovic PhD, M. Subotin PhD, Economic Framework and Economic Development of the States of Southeast Europe, Proceedings of the International Scientific Conference in Novi Sad, 2019; A. Stevanovic, The Concept and Characteristics of Economic Crime, 2019; Economic Crime, seminar paper (seminarski-diplomski.co.rs); M. Boskovic PhD, Criminal Methodology; V. Petrovic PhD, Human Resources Management; Z. Stojanovic PhD, Criminal Law - Special Part; Economic criminals are Revealed by Their Carelessness (article published on the website: politika.rs - 2017).

jurisdictions remained unchanged, while the trend for crimes committed in both domestic and foreign jurisdictions decreased. Finally, criminal proceeds for which the country of origin cannot be precisely identified are at low level threat of money laundering, without changes to the trend relative to the previous Risk Assessment.

1.13. Sectors

Sector exposure was considered individually and in a joint context because a comparative analysis identified certain patterns of behavior that are characteristic of certain sectors. Often the activities undertaken are related to one or more sectors. During the analysis, data collected by state bodies and institutions in the framework of regular activities were used for the purposes of annual work reports or fact sheets, as well as for the purposes of this analysis. The nature and market representation of sectors where money laundering is present, the size and number of entities performing predominant activities in the sector, the number of persons employed by obligors under the Law on Prevention of Money Laundering and Terrorism Financing against whom criminal proceedings have been instituted for money laundering, the annual turnover of capital in the sector, and the amount of cash passing through the sector and the number of suspicious transactions reports and persons reported by the Administration for the Prevention of Money Laundering was considered. Furthermore, in addition to insights into money laundering cases identified by the competent courts and prosecutor's offices, data collected from APML, APR, Tax Administration, Games of Chance Administration, MCTI, NBS and others were also analyzed.

Based on a comprehensive analysis of 95 cases in which criminal proceedings were instituted against 568 persons for predicate offenses related to the criminal offense of money laundering, of which criminal proceedings were instituted against 467 persons for the criminal offense of money laundering, it was determined that certain investment sectors are more common when these crimes are committed than others and therefore certain sectors, when linked to other criteria, are considered high-threat sectors, while others are considered medium-risk and low-risk sectors for money laundering.

When analyzing sectoral threats, it was determined that a number of sectors appear for the first time as part of money laundering threats. They have not been considered in the previous risk assessment, partly because these are activities that are not defined as money laundering under the Law on Prevention of Money Laundering and Terrorism Financing (car dealers) or have not appeared in money laundering cases so far, and hence there is no relevant data on the basis of which a precise assessment of the degree of threat would be made. This has influenced the fact that they are classified in the category of medium-risk sectors, taking into account the results of risk assessments of EU countries, as well as the need to monitor trends and activities in these sectors in the future.

For these reasons, the following sectors are included in the medium level of threat: 1. car trade; 2. real estate agents; 3. payment institutions and electronic

money; 4. postal operators; as well as 5. virtual currency-related service providers.

	Level of threat	Sectors
1.	High	Real estate sector
2.	High	Banking sector
3.	High	Sector of online games of chance organizers
4.	Medium-high	Casino sector
5.	Medium-high	Accounting sector
6.	Medium-high	Money changers sector
7.	Medium	Attorneys at law sector
8.	Medium	Audit sector
9.	Medium	Insurance companies sector
10.	Medium	Car trade sector
11.	Medium	Real estate brokerage sector
12.	Medium	Payment institutions and electronic money institutions
13.	Medium	Postal operators
14.	Medium	Virtual currency service providers
15.	Medium-low	Capital markets sector
16.	Medium-low	Factoring sector
17.	Medium-low	Notary public sector
18.	Low	Financial leasing providers sector
19.	Low	Voluntary pension fund management company sector and voluntary pension funds

1.13.1. High threat sectors

1.13.1.1. Real estate sector

The real estate market in the Republic of Serbia is constantly growing, which is evidenced by the number of buildings built and their price. The real estate sector is the most exposed to the threat of money laundering. As part of the real estate sector, two segments were considered: construction/investment in the construction of buildings and purchase and sale of real estate.

This is certainly one of the largest sectors in terms of the number of entities performing activities in this sector. According to data from BRA, the number of entities in the observed period is stable at around 7,500 in average. There is also a constant increase in the number of natural persons investors in construction, who are VAT payers.

According to data of RGA, the total amount of funds invested in real estate in 2018 amounted to 3.6 billion euros, in 2019 to 4.1 billion euros, and in 2020 to 4.2 billion euros. In most cases, payments in this sector were made in cash, and a smaller part from loans. At the same time, cash transfer transactions from the buyer's account to the seller's account, which were preceded by the deposit of cash on the buyer's account, were also considered cash payments.

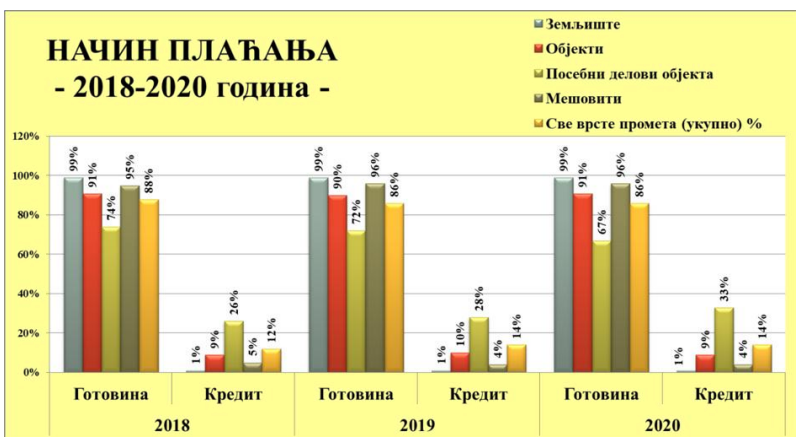


Table: Review of payment methods based on data of the Republic Geodetic Authority

Specifically, when it comes to the method of payment, in 2020 the market was dominated by cash payments with a share of 86%. Land was mostly paid in cash - 99% of the trade and 71% of the trade in specific parts of buildings. Observed by years, in the period from 2018 to 2020, payments from loan funds are slightly increasing in the purchase and sale of specific parts of buildings. In 2020, apartments were paid for in cash in 67% of the trade, and from loan funding in 33% of the trade, as follows: in new construction in 66% of the trade was paid in cash, and in 34% from loan funding, while in old construction the share of payments in cash amounted to 69% of all realized transactions. The largest share in the total funds concerned to the value the trade in apartments - 55% or 2.31 billion euros,

then the share of the value of trade in residential buildings - 10%, construction land - 7%, business premises - 5%, agricultural land - 4%, etc. Similar trends, according to RGA data, continued in 2021.[21]

In the period from 2018 to 2020, the analysis of criminal proceedings for the crime of money laundering determined that "dirty money" was largely invested in the real estate sector. This is indicated by the fact that investigations were launched against 66 individuals, 48 persons were indicted, and 11 persons were convicted of the crime of money laundering, and which persons made investments in the real estate sector, i.e., the purchase of residential and office buildings.

Also, it is important to note that criminal charges were filed against 1,794 persons for the criminal offense of construction of a building without a building permit under Article 219a of the Criminal Code. The analysis found that the investment of "dirty money" is most often done by investing in the construction of residential and commercial buildings for various purposes, as well as in the purchase of apartments, business premises and land for cash. In addition to the said methods of money laundering, a new form of money laundering through illegal construction of buildings and legalization of buildings has been observed in the real estate sector in the Republic of Serbia. Based on the analysis of criminal cases related to the application of this law, the procedure of legalization of facilities is often misused by persons / accused investors or owners of buildings for the legalization of criminal proceeds, with the aim of selling the building through this procedure of legalizing it. When making a decision on the legalization of a building, there is no control over the origin of the funds invested in the construction of such buildings. In that way, the dirty money that was used for construction is introduced into legal flows. (In 23 sampled cases for the criminal offense of construction of a building without a building permit under Article 219a of the CC, it was determined that in only two Belgrade municipalities, natural persons, without a building permit and without any control over the origin of money, built about 150,000 m^2 of residential and commercial buildings, that they invested about 75,000,000 EUR in cash and built buildings of a potential market value of about 150,000,000 EUR).

Having in mind the size of the sector, the number of entities performing activities, especially natural persons VAT payers in construction, the volume and size of the market measured through the amount of money used in real estate trade, large amounts of cash invested in real estate, the use of cash for the unlawful construction of buildings, absence of control over the origin of cash invested in such buildings, a large number of unlawfully constructed buildings and the possibility of their legalization and a large number of criminal proceedings for money laundering in the real estate sector, it was concluded that this **sector is exposed to a high degree of threat of money laundering.**

21 In the first half of 2021, 84% of real estate was paid for in cash and 16% from loan funding. Observed by types of real estate, cash was used to pay for land in 99% of the trade in land, mixed trade in 97% of mixed real estate trade, buildings in 91% of building trade and specific parts of buildings in 68% of the trade in specific parts of buildings. The purchase of specific parts of buildings with a share of 32% was mostly financed from loan funding.

1.3.1.2. Banking sector

According to the NBS data, as at 31 December 2020, 26 banks operated in the banking sector in the Republic of Serbia. The total operating assets of this sector amount to EUR 35,951,332,441.67, and operating revenues to EUR 1,291,437,091.67.

The banking sector remains one of the most exposed to money laundering threats due to its size, complexity and importance within the financial system and market, the large number of clients and transactions, the large number of different services and products it offers, and the fact that payment transactions in the Republic of Serbia go through commercial banks, that economic entities have a large number of accounts in commercial banks, that money is transferred through them and payments for goods and services are made, which opens up great opportunities for investing illegally acquired funds and concealing illegal transactions, makes the sector very attractive for money laundering purposes.

The analysis of money laundering cases in the observed period concluded that the banking sector has been used for money laundering, in order to conceal, through several money transactions, the traces and origins of "dirty money". Namely, in the observed period, investigations were conducted against 367 natural persons and 4 legal entities that used the banking sector, out of which an indictment was filed against 147 natural persons and four legal entities, and 110 persons were convicted. It was also determined that an indictment was filed against one person employed in the banking sector as a manager for participation in the criminal offense of money laundering.

When it comes to suspicious transactions and persons, in the analyzed period, commercial banks submitted a total of 2,535 reports to the Administration for the Prevention of Money Laundering.

What classifies the banking sector as a high-risk sector is the fact that the business of economic entities takes place through the banking sector, that payment operations are performed through commercial banks, that the essence of money laundering activities comes in the forms of finding ways to inject unlawfully acquired funds in the financial system and that the banking sector is most often used for that purpose. One of the phenomena is that multiple transfers are made between related legal entities under the control of OCG, and that electronic banking services are most often used in such situations.

Considering that the banking sector is the most frequently used sector in money laundering offenses, the size of the sector and market share, the volume of moneys and dirty money transferred through this sector, the fact that a large number of persons were prosecuted for criminal offense of money laundering used by the banking sector to launder money, that one of the managers in the banking sector was charged with the criminal offense of money laundering, **the banking sector appears to be exposed to a high level of threat of money laundering**.

1.3.13. Sector of online games of chance organizers

There are three categories of games of chance in the Republic of Serbia: classic games of chance, special games of chance and organizers of prize games in goods and services. As far as classic games of chance are concerned, one legal entity is registered - the State Lottery of Serbia. When it comes to special games of chance, they include: 1) games of chance in casinos (two legal entities registered as organizers); 2) games of chance on slot machines (61 legal entities registered as organizers); 3) games of chance - betting (20 legal entities registered as organizers); and 4) games of chance through electronic means of communication (online games of chance) for which type of games a total of 21 legal entities are registered as organizers. All organizers of games of chance are registered in the form of a limited liability company. Organizers of special games of chance in casinos and organizers of games of chance through electronic means of communication are obligors in accordance with the Law on Prevention of Money Laundering and Terrorism Financing.

The size of the sector is also measured by the amount of cash that is traded through this sector. Total payments in this sector for slot machines, bookmakers and games of chance via electronic communication in 2018 amounted to EUR 2,345,852,974, EUR 3,281,628,401 in 2019 and EUR 4,116,964,130 in 2020.

According to data of the Ministry of Finance and the Business Registers Agency, the domestic market of games of chance (casinos, betting machines and bets via electronic communication) in 2018 generated budget revenues of approximately 8 billion dinars, in 2019 from approximately 8.5 billion dinars, and in 2020 of approximately 9.5 billion dinars.

During 2018, 809,188,681 EUR of incoming payments where received by online games of chance organizers and 754,152,415 EUR of outgoing payments were made by these organizers, while in 2019 1,440,212,851 EUR of incoming payments where received by online games of chance organizers 1,237,706,908 EUR of outgoing payments were made. Finally, in 2020 2.460.665.645 EUR of incoming payments where received and 2.312.808.920 of outgoing payments were made.

For the ranking of the sector of organizers of online games of chance as high-risk, information obtained from the analysis of initiated criminal proceedings for the criminal offense of money laundering was of the greatest importance. Namely, it was determined that criminal proceedings were initiated against 19 persons employed by the organizers of online games of chance for the criminal offense of money laundering. In addition, the money that was the object of laundering was invested in the real estate sector, which sector was assessed with a high level of threat and originates from the crime of tax evasion, which is also a crime with a high-level threat for money laundering. Finally, a significant value of the discovered assets that were the object of money laundering was recorded, and in the specific case it amounted to EUR 1,500,932.97.

In the analyzed period from 2018 to 2020, a total of seven suspicious activities reports were reported by registered obligors, and all seven were reported in 2019. The total amount in the reported reports is EUR 93,711.89. These reports were submitted by three obligors. The subject of the report was 41 natural persons. Most of the reports refer to persons who deposited funds on the registration accounts of the organizers of the game of chance and withdrew the funds after playing for a short while.

Winnings under 103,225.00 dinars are not reported (because they are non-taxable), and no records are kept of purchased betting loans, although this fact clearly indicates the danger of money laundering, especially keeping in mind that unused credit can be withdrawn and presented as winnings in the casino.

When organizing games of chance through electronic means of communication, the element that particularly affects the threat of money laundering is the specificity of identifying the customer, because it is a business without direct contact, and the method of payment for online services is an additional element of threat. This is especially pronounced in the case of organizing games of chance in a mixed system that includes bookmakers and/or slot machines, as it allows to replenish with cash the evidence accounts that are further used for games of chance via electronic means of communication.

Considering that a large number of persons employed by obligors are being prosecuted for money laundering, that the property subject to laundering originates from a high-level ML threat crime, that in addition to the organizer, money laundering also includes the real estate sector where dirty assets are invested, and given the size of the sector, the number of obligors in online games of chance, the difficulties in identifying parties, the unknown origin of the money paid into the accounts, the very small number of suspicious transactions reported in relation to the number of cash payments and withdrawals, and data on the large volume of funds paid into this sector, which shows a significant growth trend in the observed period, all this makes this a sector with a **high level of threat of money laundering.**[22]

1.13.2. Medium-high threat level sectors

1.13.2.1. Casino sector

In the casino sector, obligors under LPMLTF are two registered companies organized in the form of limited liability companies. During 2018, EUR 47,723,814 of incoming payments were received, and EUR 38,534,270 of outgoing payments were made, while in 2019 EUR 46,397,118 of incoming payments were received and EUR 37,318,645 of outgoing payments were made, and in 2020 EUR 24,966,668 of incoming payments were received and EUR 20,351.834 EUR of outgoing payments were made.

Casinos are an active "cash sector" because the purchase and sale of tokens and loans are done almost exclusively in cash and are therefore attractive places for criminals due to the large amount of cash that can be invested or won. The fact that casinos are exposed to the threat of money laundering is supported by the possibility of exchanging chips between third parties, the possibility of using foreign currency and other methods of payment, as well as insufficient cooperation with the Administration for the Prevention of Money Laundering. In casinos, the most important element is the turnover of large amounts of cash and the fact that the parties are natural

22 It is encouraging that this was noticed, and on February 23, 2021, the MLFTRA guidelines were adopted and introduced as binding.

persons who may entail specific risks in relation to the jurisdiction where they come from. So, when it comes to casinos, there are certain elements that increase the risk of money laundering, but their involvement was not observed in money laundering cases.

The casino sector is marked by large amounts of cash of unknown origin that are detected, the number of reports of suspicious transactions in relation to the number of payments and withdrawals is low, a small amount of money is included in reported suspicious transactions (on average 660 EUR per reported suspicious transaction), there exists the ability to manipulate tokens for gambling and all these are indicators that the **level of money laundering threats for this sector is medium high.**

1.1.3.2.2. Accounting sector

The accounting sector is one of the most important sectors in terms of prevention of and protection against money laundering.

The total number of entrepreneurs and companies registered to provide accounting services in RS is slightly increasing. In 2018, 7,908 business entities were registered, of which 2,369 are legal entities, and 5,539 are entrepreneurs. In 2019, 8,059 business entities were registered, of which 2,395 legal entities and 5,664 entrepreneurs, while in 2020, 8,310 business entities were registered, of which 2,424 legal entities and 5,886 entrepreneurs.

The total assets of registered accounting entities in 2020 amount to EUR 295,563,891.67 with total revenues of EUR 330,039,700.

The analysis of criminal proceedings initiated for the criminal offense of money laundering in the period from 2018 to 2020, determined that the defendants include certified accountants. In the initiated criminal proceedings, six accountants are charged with actively undertaking actions of committing the criminal offense of money laundering in the provision of professional services to parties. They did this by creating documentation of untrue content by falsely representing the existence of business relations between different economic entities and creating a fictitious basis for the transfer of funds and assets.

The analysis of money laundering cases showed that in the observed period, investigations were conducted against 17 persons and indictments were filed against seven persons, and that these persons used the sector of accountants to launder criminal proceeds. The value of the discovered assets that were the object of money laundering carried out through this sector according to the issued orders for investigation amounted to EUR 1,505,900.72.

In the same period, proceedings were initiated against accountants for committed economic offenses and violations prescribed by the Law on Prevention of Money Laundering and Terrorism Financing. Proceedings were initiated against 150 legal entities registered for the provision of accounting services for economic offenses, misdemeanor proceedings were initiated against eight accountants entrepreneurs

due to non-compliance with the provisions of the said law. A total of eight final verdicts were passed for economic offenses and one due to a offense/misdemeanor under the same law.

The number of submitted suspicious transactions reports and activities is extremely small, having in mind the number of registered obligors and the nature of the work performed by accountants, and especially the role of accountants in keeping business books and compiling financial reports. Namely, accountants have access to the largest amount of data on the client, his business, and transactions, and consequently it is expected that more suspicious activities reports will be submitted, especially bearing in mind that a large number of criminal proceedings for laundering was related in the area of business and the use of companies.

This circumstance carries a special weight if it is analyzed in the context of legal entities and entrepreneurs, who were found in initiated criminal proceedings to have been used for money laundering, and to whom bookkeeping services were provided by registered legal entities and entrepreneurs. In the initiated criminal proceedings, 179 legal entities and 78 entrepreneurs who were used for money laundering were identified. It was determined that in 2018, a total of 109 external accountants provided accounting services to these companies, in 2019, 103 external accountants and in 2020, 61 external accountants. It is concluded that in 2018, in more than 60% of cases, accounting services were provided by external accountants to legal entities detected in money laundering proceedings. That percentage in 2019 was 57%, and in 2020 - 34%. Also noteworthy is the fact that in relation to legal entities and entrepreneurs, who were found in the initiated criminal proceedings to have been used for money laundering, no reports of suspicious transactions or on the persons were submitted by certified accountants who were providing them with bookkeeping services.

Considering the size of the sector as per to the number of registered obligors, the nature of activities and especially the availability of relevant data and documentation to obligors who provide accounting services, in-depth knowledge of the party and its business, the number of money laundering crimes and the value of money laundering assets, in the execution of which this sector was used through externally engaged accountants, only 19 submitted suspicious transactions reports and persons, as well as criminal proceedings for money laundering in which accountants were also perpetrators of money laundering, **it is concluded that the threat of money laundering by the sector of accountants medium high.**

1.1323. Money changers sector

In the Republic of Serbia, the purchase and sale of effective foreign currency and checks determined in foreign currency by individuals is performed by authorized money changers, whose turnover in 2020 amounted to EUR 10.448 billion. As of December 31, 2020, 2,277 authorized money changers were registered, which perform exchange operations at 3,251 exchange offices.

In the period of three years, the total value of reported cash transactions to the Administration for the Prevention of Money Laundering amounts to EUR 863,503,874.10 on the basis of exchange operations of authorized money changers.

On the other hand, the number of suspicious reports is insignificant (105), having in mind the number of registered money changers and the amount of cash traded through this sector.

The high level of threat in the mentioned sector is also indicated by the fact that one natural person, who is the subject of exchange of information of competent authorities due to suspicion of money laundering, performed exchange operations in the total amount of EUR 8,081,876.21 for a long time, of which 653,445 EUR in 2019, using the services of an authorized money changer.

As criminal activities generate large amounts of dirty money that needs to be converted from one currency to another, and the conversion of that money often precedes its investment in legal flows, especially for the purchase of real estate, this activity is from the aspect money laundering assessed as an activity with a medium high level of threat. Also, the size of this sector, which is measured by the large turnover in billions of euros, the large number of money conversions, and a large number of authorized money changers on one hand, and on the other hand an almost insignificant number of reported suspicious transactions, makes authorized money changers exposed to the threat of money laundering, which threat is defined as a **medium-high level threat of money laundering**.

1.13.3. Medium level threat sectors

1.13.3.1. Attorneys at law sector

By analyzing data on the number of attorneys at law who provide services to clients in this sector, it was determined that the number of attorneys at law is constantly increasing. Namely, according to data of the Bar Association of Serbia in 2020, 11,500 attorneys at law performed this activity, while in 2018 the number was 9,500.

In the period 2018-2020, criminal proceedings were initiated against 4 attorneys at law for the crime of money laundering who were directly involved in the commission of this crime.

As a sector, attorneys at law are exposed to money laundering primarily because of the services they provide to their clients in terms of planning or executing transactions related to the client's asset management; establishment, operation or management of a company; buying and selling real estate or a company; opening and disposing with a bank account, especially related to securities transactions; as well as conducting financial or real estate transactions, in the name and on behalf of the client. Their exposure is largely determined by the fact that some of the services they provide to clients are related to sectors that are assessed as sectors with a high degree of threat of money laundering - the real estate sector and the banking sector.

The final assessment of the attorneys at law as a sector exposed to moderate threats of money laundering, in addition to data from the analyzed criminal proceedings initiated for the crime of money laundering in which attorneys at law appear as direct perpetrators of this crime who had a role to devise money laundering schemes and undertake concrete actions in order to implement such schemes, in any case, was also made bearing in mind the fact that attorneys at law as obligors under LPMLTF did not fulfill their preventive

role in the system of implementation of actions and measures for the prevention and detection of money laundering that are undertaken before, during and after the execution of transactions or the establishment of a business relationship for their clients. When this put in relation to the fact that the legal profession is practiced by a large number of attorneys at law who have submitted a negligible number of suspicious transactions reports in the observed period, it is clear why the legal sector is exposed to **medium-level threats of money laundering**.

1.1.3.3.2. Audit sector

According to data of the Chamber of Certified Auditors in the Republic of Serbia, 73 audit companies were registered and active in 2020 (67 in 2018, 73 in 2019), while the number of licensed certified auditors in 2020 was 321. According to data of the Chamber of Certified Auditors, the total revenues from the audit for the period of three years amount to 9,628,487,748.19 dinars (77,166,561.95 euros).

In the analyzed period from 2018 to 2020, the Administration for the Prevention of Money Laundering submitted a total of 12 suspicious activities reports, of which three reports relate to amendments to reports, i.e., do not represent reports of new activities. Instead, additional information were submitted for companies that have already been subject to reports. One piece of information on suspicious activities was forwarded to the Tax Administration.

The analysis of money laundering cases indicated that 22 economic entities, in the form of limited liability company, were subject to audit and that the audit of financial statements was performed by audit companies. It is interesting that for none of these companies, which had external auditors, the auditors filed reports of suspicious transactions, although like accountants, they know best the business of their clients.

1.1.3.3.3. Insurance sector

As at 31 December 2020, a total of 20 legal entities operated in the insurance sector, of which 16 were insurance companies and four were reinsurance companies, with 10 companies also dealing with life insurance, with a balance sheet total insurance of 2.18 billion euros. Seventeen banks, six leasing providers, one postal operator, 101 legal entities, 77 entrepreneurs and 4,336 licensed natural persons operate as insurance brokers and agents.

The total premium of all insurance (life and non-life) in the Republic of Serbia in 2020 amounted to EUR 915,000,000, with the share of premiums on life insurance amounting to 23.8%.

In the analyzed period, criminal proceedings for money laundering were initiated against two natural persons employed in the insurance sector, whereby “dirty money” was invested in the insurance sector. In the criminal proceedings conducted on the occasion of the investment, it was determined that a total of 59 life insurance contracts were concluded, on behalf of which the total amount of EUR 335,200 was paid.

The characteristics of the insurance sector are the specifics of the insurance industry, and above all the variety of products available to customers, the possibility of one-time payments and annuity payments

in larger amounts than agreed, increase in premiums or contributions, the possibility of purchasing policies that serve as loan collateral, the right to direct compensation from the insured event to third parties and life insurance policies that contain the option to purchase investment units.

The insurance business is classified as a **sector with a medium-level threat of money laundering** because, in the initiated criminal proceedings for money laundering, it was determined that two persons employed in the insurance sector were directly involved in the crime of money laundering, 59 life insurance contracts that were the object of criminal proceedings were not included in suspicious transactions reports and activities, as well as that the number of reported suspicious transactions and activities was generally small, given the volume of turnover in the life insurance sector.

1.1.3.3.4. Car trade sector

Based on the analysis of money laundering cases, the car trade has emerged as a sector in which more and more money is invested from criminal activities. Namely, buying luxury cars was one of the simplest ways of money laundering due to the availability and simple purchase procedure, usually for cash or "cash money", where car dealers are not subject to the Law on Prevention of Money Laundering and Terrorism Financing but only to Article 46 of this Law, i.e., the restriction of cash payments to the amount of up to EUR 10,000, with the obligation to keep records transactions.

In 2020, the activity of car trade was performed by 1,437 entities (1,157 companies and 280 entrepreneurs). In addition to new cars, a large part is the trade in used cars, so according to data of the Customs Administration in the period 2018-2020. 502,953 used cars worth 961,702,105 EUR and 103,946 new vehicles with a total value of 1,482,697,634 EUR were imported. From the point of view of preventing money laundering, the control of the operations of these entities is insufficient and is mainly reduced to the control of receiving cash, i.e., exceeding the limit of EUR 10,000.

In the period from 2018 to 2020, the analysis of money laundering concluded that four persons invested money gained through criminal activities in the purchase of luxury cars whose value reaches several tens or even hundreds of thousands of euros. The amount of money recovered during the investigation into such investments is EUR 55,749 and five cars with an individual value exceeding EUR 30,000.

The high individual value of vehicles or other means of transportation, the possibility of buying cars for cash, a simple procedure of the re-registration of vehicles to another person, a significant number of legal and natural persons performing this activity, large annual trade and large money turnover, mostly cash, lack of adequate control of entities that are engaged in activities and are not accountable under LPMLTF and the initiated criminal proceedings for money laundering in connection with the car trade, indicate that the car/vehicle trade represents a medium-degree threat of money laundering.

1.1.3.3.5. Real estate brokerage

Real estate brokerage and lease refers to the service of brokerage in the trade in and lease of

property and is separate from real estate investment. With regard to the prevention of money laundering, it is regulated by the Law on the Prevention of Money Laundering and Terrorism Financing, which classifies real estate agents as obligors. According to RGA, the real estate market in the Republic of Serbia is constantly growing, which is accompanied by a growing trend in the number of persons engaged in brokerage. According to data of the APR, in 2018, 465 companies and 671 entrepreneurs were registered who were engaged in real estate brokerage. In 2019, 414 companies and 691 entrepreneurs were engaged in this business. In 2020, the number of companies in this activity increased to 467, and the number of entrepreneurs to 725.

The total assets of this sector in 2020 amount to EUR 700,542,296.61, and operating revenues to EUR 112,466,254.23. In the analyzed period 2018-2020, a total of eight suspicious activities reports were submitted by registered entities, and the subjects of suspicious activities reports were a total of 14 domestic natural persons and three foreign natural persons. The total amount of money involved in the suspicious activities reports is 1,250,000 USD and 86,200 EUR. Real estate brokers are assessed as entailing a medium-level threat of money laundering, in view of the fact that they are closely related to the real estate sector, which is classified as a high-level of money laundering; a large number of obligors engaged in this activity and at the same time an insignificant number of submitted suspicious activities reports and extremely high turnover in the real estate market.

1.1.3.3.6. Payment institutions and electronic money institutions

In accordance with the Law on Payment Services, according to the NBS data as of December 31, 2020, 14 payment institutions and two electronic money institutions were registered in the Republic of Serbia. Total assets - business assets of payment institutions amount to EUR 41,004,691, while operating revenues are 38,155,575 EUR. In the same period, the total assets of electronic money institutions amounted to EUR 5,422,191, while operating revenues amounted to EUR 4,094,483. The work of payment institutions, viewed through the danger of money laundering, is reflected in payment services related to payment accounts and remittance services where the payment institution transfers money without opening an account to the party. During 2018, payment institutions submitted 1,297 suspicious activities reports, of which 22 related to payment operations of natural persons with a total value of EUR 353,087.71, while 1,275 reports related to money transfers of the total value of reported transactions of 7,299,734.90 EUR. During 2019, payment institutions reported 968 suspicious transactions reports, of which 77 related to payment transactions with a total transaction value of EUR 2,054,848.09, and 891 related to money transfers with a total transaction value of 5,281,397.86 EUR. During 2020, payment institutions reported a total of 1,053 suspicious transactions reports, of which 82 related to payment transactions with a total value of EUR 2,440,431.67, and 971 to money transfers with a total value of EUR 10,386,476.98.

1.1.3.3.7. Postal operators

According to available data, the services of postal operator are provided by 49 licensed legal persons, of which one legal entity is PE "Post of Serbia". According to data from the analyzed criminal proceedings initiated for the criminal offense of money laundering, it has not been found that postal operators are involved in money laundering activities. Also, among the defendants there are no persons employed in the sector of postal operators. Bearing in mind the activity of postal operators, that no suspicious transactions reports or activities were submitted, that they became liable under the Law on Prevention of Money Laundering and Terrorism Financing starting from 1 January 2020, it was decided to classify this sector into

sectors that are exposed to medium levels of threats, primarily in order to monitor this sector in the coming period and to collect relevant data on the basis of which it is possible to make a specific threat assessment.

1.13.8. Virtual currency service providers

The analysis of money laundering threats in the virtual asset service provider sector was performed as part of the July 2021 "Assessment of Money Laundering and Terrorism Financing Risks in the Virtual Asset Sector and Providing Virtual Asset Services".

1.14. Medium to low level threat sectors

1.14.1. Capital markets sector

In the Republic of Serbia, there are a total of five investment fund management companies with total assets of EUR 8,123,058 and operating revenues in the amount of EUR 3,529,416, 18 open-end investment funds with total assets of EUR 431,482,425 and operating revenues in the amount of EUR 6,977,741, as well as 16 broker-dealer companies with total assets of EUR 172,903,708 and operating revenues in the amount of EUR 9,728,916.

In the capital market sector, the threat of money laundering is present to a much lesser extent than in the previously mentioned sectors. Namely, the capital market in Serbia belongs to the group of less developed markets, with poor liquidity of traded securities.

Apart from the underdeveloped market, a large share of inactive clients is noticeable, as is the fact that obligors do not receive cash transactions, but all payments are made through accounts opened with banks. Namely, all financial instruments are dematerialized and nominative, which reduces the possibility of hiding assets and is extremely important from the aspect of attempts to launder money and finance terrorism. All this indicates that the risk of money laundering in this sector is present, but to a lesser extent.

Particularly important is the fact that in the analyzed period an indictment was filed against five natural persons for the criminal offense of money laundering, due to a justified suspicion that they bought shares of one company with dirty money, which they later disposed of.

Bearing in mind that obligors do not receive cash transactions but that payments are instead made through bank accounts, this greatly mitigates the threat of money laundering in the capital market. However, this sector is also exposed to threats due to insufficient insight of obligors into financial transactions intended for investment in securities. Since in the current criminal proceedings it has been established that this sector is involved in money laundering, as well due to other mentioned reasons, **it was concluded that the sector is exposed to a medium-low level of money laundering threats.**

1.14.2. Factoring sector

In the Republic of Serbia in 2020, 29 entities were approved for factoring operations, of which 10 were commercial banks and 19 were specially registered companies. Factoring turnover is continuously growing and reached its highest value and nominal growth in 2019 - 990.1 million euros, and in 2018 it amounted to 782.3 million euros, while in 2020 it decreased by 932,3 million euros due to changed business conditions caused by the Covid-19 pandemic. The share of domestic factoring in the total turnover on the market is dominant and amounts to 89.8% in 2020, while the share of banks in the turnover, which in 2020 amounted to 88.9%, is continuously growing. Factoring jobs are most represented in trade with 51.1%, construction, 10.8% in agriculture and food industry with 10.7%, IT with 7.7% and processing industry with 6%, while all transactions are performed through business banks.

In the analyzed period, only one report on suspicious activities in 2020 was submitted by obligors.

Although there were no recorded cases of money laundering in the factoring sector in the analyzed period, other circumstances that increase the threat of money laundering must be taken into account. Factoring does not know for national borders and as part of the modern way of doing business it is increasingly taking on the character of a multinational legal business, and there are no special rules regarding the prevention of money laundering. The fact that a participant in factoring can be an economic/trading company or generally a legal entity that conducts business in the territory or from the territory of offshore countries or countries of tax havens, countries that do not apply standards in the field of AML/CFT, with unknown and most often hidden owners, indicates the possibility and risk of money laundering.

In view of the volume of turnover in factoring, the fact that transactions are predominantly realized on the domestic market, as well as the large number of banks engaged in factoring, that all transactions are carried out through the banking sector which carries a high threat of laundering money, and the fact that factoring activities were most often performed in connection with trade and construction (which were assessed as sectors with a high level of threat of money laundering), where only one report on suspicious activities was submitted in relation to the realized turnover, it is concluded that the **threat of money laundering in this sector is medium low**.

1.14.3. Notary Public Sector

According to data of the Notary Chamber of Serbia, there are 197 notaries public in the Republic of Serbia.

In the analyzed period, a total of 752,447 documents were notarized or made by public notaries. The size and importance of this sector in the Republic of Serbia is reflected, apart from the number of obligors, in the fact that notaries are entrusted with significant public powers, starting with notarization, drafting documents on legal transactions and other important facts for trade in money, goods and services, as well as deposit operations, i.e., keeping documents, money and other items. These services, due to their characteristics and consequences that they produce in the legal system, indicate a large exposure of the sector to money laundering.

Analyzing the initiated proceedings for the criminal offense of money laundering, it was determined that 11 notaries public certified documents in the form of a special power of attorney for concluding contracts for the sale of real estate, representation in tax proceedings and real estate registration, verified signatures on contracts for real estate, land, certified transcripts of contracts on the transfer of the right to use the land for a fee on the basis of which the illegal real estate transactions in the amount of EUR 1,817,000 was performed. Namely, several defendants identified themselves as owners of valuable real estate on the basis of falsified documentation, which real estate they subsequently sold to conscientious buyers. In transactions with such real estate, notaries public certified the necessary documentation and thus enabled the illegal transfer of property.

In addition, in the criminal proceedings initiated for money laundering, it was determined that a special power of attorney was certified with a forged seal of a notary public, on the basis of which power of attorney an attempt was made to open a commercial bank account intended for the transfer of illegally misappropriated funds.

This sector is directly related to the real estate sector because its transactions can be done only on the basis of notarized contracts. At the same time, the real estate sector itself was assessed as a sector with a high degree of threat of money laundering and an extremely high volume of turnover measured in billions of euros and growing from year to year in the observed period. Furthermore, the use of the notary sector in money laundering proceedings as determined by the analysis of initiated criminal proceedings, without any suspicious transactions reported to APML related to this activity, makes this sector **exposed to the threat of money laundering in a moderately low degree**.

1.15. Low level threat sectors

1.15.1. Financial leasing providers sector

From the point of view of exposure to money laundering threats, the financial leasing sector was assessed as having a low level of threat. In this sector in 2020, a total of 13 entities were active, with total balance sheet assets of EUR 960,963,075 and operating revenues of EUR 20,777,166.67.

The analysis of criminal proceedings initiated for the criminal offense of money laundering did not establish that the subjects of financial leasing were used for money transactions whose origin is illegal or criminal. Also, from the initiated criminal proceedings, it was not recorded that persons employed in the financial leasing sector were accused of committing a crime related to money laundering, nor was money laundering carried out through this sector, which indicates that this sector is exposed to **low-level threats of money laundering**.

1.15.2. Voluntary pension fund management company sector and voluntary pension funds

In the Republic of Serbia, in 2020, there is a total of four companies for the management of voluntary pension funds, with these companies managing seven voluntary pension funds. In 2020, the total net assets of these funds amounted to EUR 391,666,667, while a total of EUR 29,166,666 was paid by the members.

In the period 2018-2020, one suspicious transaction was reported in 2020, the value of which was 295,745.85 RSD. In the analyzed cases of money laundering, it was not established that the activities related to money laundering included any of the services or products offered by pension funds, nor were there any employees from this sector among the defendants. Other institutions that perform direct and indirect control over the business areas of voluntary pension fund management companies and voluntary pension funds have not identified any irregularities that may be related to the prevention of money laundering.

The sector of voluntary pension funds does not represent a high level of threat of money laundering primarily due to the specific functioning of the institutions that perform this activity, the nature of activities and the size of individual transactions, but also due to low participation in the financial market of Serbia, **due to which fact the threat of money laundering in this sector low.**

1.16. Analysis of forms of organization of economic entities - risky forms of companies

According to the conclusions of the previous risk assessment (2018), the bulk of dirty money entered legal flows in the process of privatization of socially-owned enterprises. As this process is almost complete, dirty money in legal flows has found new ways to integrate into the business of economic entities through investments in loans to companies for liquidity, day-to-day business, based on payment of fictitious transactions of goods and services or otherwise. In recent years, there has been a trend of money laundering through fictitious transactions, i.e., money launderers on the basis of fictitious invoices and other legally invalid documents typically depict that certain transactions have been performed, although they have not actually taken place, and thus present incomes that are not realized and then pay taxes on them, by which procedure they in fact launder the dirty money by injecting it in the public sector of the state. Entire business structures

are established that are under the control of one or more connected parties, i.e., members of organized criminal groups in order to inject dirty money into the financial system on the basis of fictitious documentation and through several connected monetary transactions, using the banking system to cover its trail and actual origin, often also using in the chain of transactions and economic entities in offshore zones.

By an analysis of 95 cases of money laundering, it was determined that economic entities are often included in the money laundering chain. Namely, according to data from these cases, 257 business entities were involved in the money laundering process, of which 179 companies and 78 entrepreneurs. The analysis of the forms of organization of the companies involved shows that 175 are organized in the legal form of a limited liability company, one company in the form of a partnership and two as cooperatives. Most of these companies were in the legal status of an active company at the time of the risk assessment and analysis - 127, while 44 are in the status of forced liquidation or liquidation, and four in bankruptcy. According to the size of these companies, according to BRA, they are classified predominantly as micro companies (51), small (44), medium (8), large (3), while 73 are not classified by size. A total of 22 business entities, in the form of limited liability companies, were subject to audit, most often classified in the category of medium-sized companies with an average number of employees of at least 10, to several thousand. It is interesting that for none of these companies, which had external auditors, the auditors filed reports of suspicious transactions, and neither did the external accountants, although both know the business of their clients best.

By analyzing data on the founders and founding capital of these economic entities, it was concluded that for the largest number of economic entities the founder is a domestic natural or legal person 154 (137 natural persons, 17 legal entities, of which four legal entities are founders of one economic entity in the form of a cooperative), while foreign natural and legal persons are the founders of only 25 economic entities, all in the form of a limited liability company. Also, for 11 business entities, the founder is a foreign legal entity, which is also the legal representative - director of the company, of which five are the founders of foreign legal entities from offshore zones. The value of the founding capital usually ranges from the legally prescribed minimum amount of 100.00 dinars to a maximum of 10,000.00 dinars, for 119 companies.

Economic entities Legal form	Registered in the Republic of Serbia	founders		The amount of founding capital	
		residents	non-residents	From 100 to 10,000 RSD	More than 10,000 RSD
LLC	174	154 (88,50%)	25	119	57
Entrepreneurs	78	78		-	-
JSC	2	2	-	-	2
Cooperative	2	2	-	-	-
Partnership	1	1	-	-	1

Table: Form of organization of economic entities involved in the money laundering process

If we look at the structure of economic entities, as well as the manner of their establishment and performance of activity from the aspect of money laundering, it can be concluded that small companies, especially limited liability companies are the target and most vulnerable group.

Size	**MICRO**	**SMALL**	**MEDIUM**	**BIG**	**unclassified**
Form of organization					

LLC	**51**	**44**	**8**	**1**	**73**
Entrepreneurs	**78**	**-**	**-**	**-**	**-**
JSC	-	-	-	**2**	-
Partnership	**1**	**-**	**-**	**-**	**-**

Table: Business entities involved in money laundering items sorted by size

Considering all these data, the conclusion is that limited liability companies are most exposed to money laundering threats because they are easy to establish by only one natural person with a minimum founding capital of only 100.00 dinars, which is less than one euro. They are also easy to close down and at the same time mobile, i.e., suitable for relocation of registered office or change of business activities.

The analysis of the cases showed that such companies and their business structures are most often used by organized criminal groups. Namely, almost half of the companies organized as limited liability companies, 87 of them were detected precisely in cases of money laundering by organized crime, most often professional money launderers. These companies were founded with the aim of performing a specific activity in a specific period, and then after the withdrawal of funds from business accounts, they usually disappear, i.e., are "shut down" by bankruptcy or liquidation. The fact that, out of the total number of companies that were involved in money laundering, 48 of them are in the process of forced liquidation, liquidation or bankruptcy, speaks about this trend.

In such companies, it is sometimes difficult to determine who the beneficial owner is, and thus who ultimately generated profits, because it happens that a company is established by using forged personal documents, and that the person with that personal data is not the beneficial owner of that company. In such cases, it is acknowledged that these are a so-called "phantom" companies, which are recognized as a problem in the previous risk assessment and which are defined as fictitious legal entities, most often established and registered in domestic jurisdiction by an actual or non-existent person at a real or non-existent address, with one basic aim of committing and concealing criminal acts.[23] Thus, such companies are registered according to the lawful procedure, but their founders are fictitious. During the observed period, the Tax Police identified 503 such economic entities established with the ultimate goal of tax evasion, which it characterized as "phantoms" or "launderers" based on established criteria. The detection of these entities is most often achieved by supervising and controlling the operations of economic entities in connection with criminal acts such as: tax evasion, smuggling, illegal trade, unauthorized engagement in certain activities, illegal trade in excise products, abuse of office and abuse of office of the responsible person.[24] Furthermore, in the detection and identification of such economic entities, the Agency for Business Registers has a significant role because it controls economic entities by supervising their registration when it determines that there are grounds for doubting the authenticity of data provided by responsible or authorized persons or if these persons have submitted a false or untrue document.[25]

Case study - business entities under the control of OCG

Members of an organized criminal group founded six economic entities in the form of LLCs. In each of these six companies, the founding capital is at the minimum level

23 Money laundering and its impact on economic development and redistribution of wealth - Dr. Slobodan Radonjic, publisher Desire, 2016, p.155.

24 Criminal offense of tax evasion under Article 225 of the Criminal Code ("Official Gazette of RS", No. 85/05, 88/5, 107 / 05,72 / 09,111 / 09,121 / 12, 104 / 13,1 08/14, 94/16 and 35/19), the criminal offense of Smuggling under Article 236 of the Criminal Code, the criminal offense of illegal trade under Article 235 of the Criminal Code, the criminal offense of Unauthorized Pursuit of Certain Activities under Article 353 of the Criminal Code, the criminal offense of abuse of office of the responsible person under Article 227 CC, criminal offense of abuse of official position under Article 359 of the Criminal Code, criminal offense of illegal trade in excise products under Article 176 of the Law on Tax Procedure and Tax Administration (Official Gazette of RS, No. 80/02, 84/02). . 144/20).

25 Criminal offense under Article 45 of the Law on Registration Procedure in the Business Registers Agency ("Official Gazette of RS", No. 99/11, 83/14 and 31/19).

ranging from 100 to 1,000 dinars. Immediately after registration, the formal founders of these companies handed over all business documentation and authorizations for disposing with the company's funds in bank accounts to one of the members, who undertook all business-related actions from then on via E-banking. All companies have been put in the function of the goals of the organized group, to enable the withdrawal of funds from the accounts of companies that operate legitimately on the basis of the prepared business documentation on fictitious/simulated trade in goods and services and to reduce tax liabilities on these grounds and provide members of the organized group a benefit in the amount of 6% of the value of the alleged transaction. The complete money circulation for all legal entities under the control of an organized criminal group is managed from one center by the organizers via E-banking. After performing financial transactions between companies under the control of OCG on the basis of fictitious business documentation, they were directed to the accounts of one partnership and one entrepreneur, as well as current accounts of several individuals, to be withdrawn in cash and successively repaid to the owners of the paying companies on the accounts of a limited liability company under the control of OCG.

Through these six companies, a fictitious turnover in the amount of EUR 2,317,861 was generated, and members of the organized criminal group received multimillion benefits in commissions only, while over 10 companies avoided paying taxes.

Companies under the control of an organized criminal group operated on average for a period of up to one year, and after the goals of the organized criminal group were achieved, the operations of these companies were suspended.

The sector used is the banking sector for money transfers, first between companies controlled by a criminal group, and then for cash payments, through the accounts of individuals and entrepreneurial business.

To a large extent, in addition to the LLC form, there is a high degree of threat of money laundering in the category of entrepreneurs. The reasons for the susceptibility and use of these entities in the money laundering process are extremely simple form of establishment and registration, as well as the amount of capital, more flexible business conditions in the application of bookkeeping and accounting regulations, the ability to withdraw net profits without too much paperwork and decisions and lower tax rates on profit or income from self-employment, and therefore, as a legal form, it is more convenient and achievable for a larger circle of natural persons. Based on the collected and analyzed data in money laundering cases, entrepreneurs most often appear as participants in fictitious transfers of funds from LLC payers in terms of tax evasion or reduction and greater opportunities to withdraw funds from accounts, without taxation. In cases of money laundering related to organized criminal groups, 13 entrepreneurs were identified who enabled the withdrawal of money from the accounts of companies that performed activities lawfully, which created the conditions for reducing business income and avoiding or reducing tax liabilities. All entrepreneurs involved

in the cases of money laundering are micro economic entities, established by domestic natural persons. Most entrepreneurs performed economic activities in the field of construction as registered construction businesses or companies that perform other construction activities, a total of 48 of them, while five entrepreneurs performed activities in the field of consulting and accounting. It is interesting that at the time of analyzing the data, as many as 43 entrepreneurs were deleted from the register, while only 35 of them are active, i.e., still perform the economic activity for which they were founded.

When considering the tax treatment of business entities, it is important to note that a company that performs activities for the purpose of making a profit, is an obligor of corporate income tax in accordance with the Corporate Income Tax Law, with a single tax rate of 15%. During the year, the obligor i.e., the company, pays this tax in the form of monthly advance payments, the amount of which is determined on the basis of the tax return for the previous year. Unlike a company, an entrepreneur generates income by performing activities and is an obligor of the income tax from independent activities, in accordance with the Personal Income Tax Law. Income from self-employment is considered to be any income from economic activities and provision of professional and other services. The tax rate on income from self-employment is 10%. Regarding the method of calculating and paying taxes, entrepreneurs in Serbia have two options at their disposal: flat rate taxation[26] or entrepreneurs who keep books, or entrepreneurs with personal earnings.

TYPE OF TAX	Limited liability company (LLC)	Entrepreneur	Lump sum entrepreneur
Income tax/tax on income from self-employment	15%	10%	Pays only taxes and contributions according to the decision of the Tax Administration on a lump sum and has no obligation to account for profits
Profit tax (profits) on the owner (tax on dividend)	resident - 15%; non-resident - different rates	0%	Only pays taxes and contributions per the decision of the TA on a lump sum and has no obligation

26 Article 40 of the Personal Income Tax Law stipulates that the right flat taxation cannot be recognized to an entrepreneur who performs activities in the field of accounting, bookkeeping and auditing, tax consulting, advertising and market research, wholesale and retail trade, hotels and restaurants, financial intermediation and real estate activities, in the activity of which other persons invest, whose total turnover in the year is higher than 6,000,000 dinars and who is a obligor of value added tax (VAT).

TYPE OF TAX	Limited liability company (LLC)	Entrepreneur	Lump sum entrepreneur
Total taxation of profits	27,75%	10%	Pays only taxes and contributions according to the decision of the Tax Administration on a lump sum and has no obligation to account for profits
Bookkeeping	Mandatory bookkeeping according to the standard of double-entry bookkeeping/must have an accountant	Obligation to keep books according to the double-entry bookkeeping standard/ does not have to have an accountant	Obligation to keep books according to the standard of simple bookkeeping/does not have to have an accountant

Table: Differences in tax treatment of LLCs and entrepreneurs

Joint stock companies, as a legal form, are less threatened and targeted by money launderers because the conditions for their establishment are more strictly prescribed, they are structurally more complex, and require a larger number of persons and capital. However, joint stock companies are targeted when it comes to privatization because money laundering was done mainly by buying shares or investing in those joint stock companies. Compared to the previous period, they are much less involved in money laundering cases, so their involvement can be considered almost a coincidence.

In money laundering cases, four sports associations also appear as entities involved in money laundering, but their level of threat was assessed as low.

The analysis of the object of money laundering did not show that economic entities had a trust in their founding structure as a form of organization.

Based on the data of the Tax Administration on economic entities involved in money laundering, it was determined that 135 companies organized as LLCs were active in the entire observed period, that 42 obligors were temporarily deprived of tax identification number, while 25 companies were closed down, i.e., ceased to exist, while 111 companies were taxable as obligors, of which 50 obligors were in debt of more than 1,000,000.00 dinars, on all tax bases. Moreover, it was determined that 29 business organized as entrepreneurs, as obligors as on October 30, 2020, were in debt, of which two were in debt of more than 1,000,000.00 dinars. During the observed period, 45 business entities organized as entrepreneurs are active throughout the period, five obligors were temporarily deprived of their tax identification number, while 40 entrepreneurs stopped working, or shut down their business.

The analysis of the generated turnover of these economic entities during the observed period indicates that according to the submitted VAT tax returns, the largest number of these entities had an annual turnover of over 20,000,000.00 dinars, with the largest volume on the domestic market.

The analysis of these data confirmed the conclusion that the largest number of economic entities involved in money laundering detected in money laundering cases, are in fact in the category of small and micro companies, registered with the only goal for their business structures to be used in a short period of time for cash flow or to cover the traces of dirty money. The business structures of these companies are small, mostly reduced to the smallest possible number of employees, often with a volume of turnover that is limited to the flow of dirty money. Taking into account data on tax liabilities, one gets the impression that such companies, regardless of filing tax returns on regular basis, are aware of the fact that they are "time restricted", and most often end up remaining tax debtors. As their founding capital is usually at the level of the minimum founding capital, and the assets are extremely small, after the cessation of activities, there are no funds or assets from which to collect tax liabilities.

ENTREPRENEURS									
	2018			2019			2020		
Turnover volume	Number of obligors	Foreign turnover per member	Import of goods	Number of obligors	Foreign turnover per member	Import of goods	Number of obligors	Foreign turnover per member	Import of goods
Up to 5,000,000.00	-	-	-	-	-	-	6	2	-
5.000.000,00 up to 20,000,000.00	3	1	-	6	1	1	2	-	1
Over 20,000,000.00	16	2	1	13	2	1	12	2	-

Table: Volume of turnover of entrepreneurs by years expressed in value added tax returns

COMPANIES									
	2018			2019			2020		
Turnover volume	Number of obligors	Foreign trade according to Article 24 of the Law on VAT	Import of goods	Number of obligors	Foreign turnover per member	Import of goods	Number of obligors	Foreign turnover per member	Import of goods
Up to 5,000,000.00	22	-	2	2	-	-	1	-	-
5,000,000.00 to 20.000.000,00	19	4	1	3	1	2	-	-	-
Over 20,000,000.00	114	42	47	42	13	33	39	25	37

Table: The volume of turnover of companies by years is stated in the tax returns for value added tax

The analysis of data from supervisory bodies on the assessment of the degree of risk for certain legal forms of economic entities found that the largest number of economic entities with high-risk rating of money laundering was determined for economic entities in the form of limited liability companies classified as micro and small entities, which certainly confirms the results and conclusions of the analysis of the object of money laundering.

Resident legal entities

Clients of supervisory authorities *	Banks	Leasing providers	Accountants	Auditors	Factoring	Insurance
Categorization of the risk level as on 31.12.	**2020**	**2020**	**2020**	**2020**	**2020**	**2020**
Total number of resident legal entities	**391,848**	**13,707**	**2,109**	**4,983**	**271**	**4,001**

Resident legal entities

Clients of supervisory authorities	Banks	Leasing providers	Accountants	Auditors	Factoring	Insurance
Categorization of the risk level as on 31.12.	**2020**	**2020**	**2020**	**2020**	**2020**	**2020**
• Limited liability companies (LLC)	**262,986**	**13,044**	**887**	**3,372**	**252**	**2,593**
Low risk	64.157	2.368	882	2.152	229	2.318
Medium risk	182.813	9.659	5	982	6	190
High risk	16.016	1.017	0	239	17	85
• joint stock companies (JSC)	**6.710**	**160**	**2**	**575**	**17**	**129**
Low risk	2.111	44	2	382	13	114
Medium risk	4.037	91	0	101	2	8
High risk	562	25	0	36	2	7
• other legal forms (limited partnership, partnership)	**3,459**	**131**	**24**	**	**0**	**16**
Low risk	921	56	24	**	0	16
Medium risk	2.398	67	0	**	0	0
High risk	140	8	0	**	0	0
• others (associations, endowments, foundations, sports associations, etc.)	**118,693**	**372**	**233**	**1036**	**2**	**1,263**
Low risk	22.455	58	233	703	2	1.221

Resident legal entities						
Clients of supervisory authorities	Banks	Leasing providers	Accountants	Auditors	Factoring	Insurance
Categorization of the risk level as on 31.12.	**2020**	**2020**	**2020**	**2020**	**2020**	**2020**
Medium risk	91.924	292	0	260	0	15
High risk	4.314	22	0	73	0	27
Natural persons performing the activity (entrepreneurs)	**412.005**	**3,173**	**963**	**	**0**	**1.247**
Low risk	111.357	729	962	**	0	1.107
Medium risk	286.636	2.332	1	**	0	119
High risk	14.012	112	0	**	0	15

Table: Risk categorization of clients of supervisory bodies for economic entities according to the form of organization as of December 31, 2020

** only joint stock companies and large limited liability companies with over 50 employees are obliged to perform the audit*

*** not subject to audit*

Due to the potential risk of money laundering that may arise from the organizational form, clients with the presence of trusts in the founding structure are at higher risk and the activities of these parties are increasingly monitored by obligors.[27]

An analysis of individual cases in which persons were prosecuted for committing the criminal offense of money laundering established that the perpetrators of this criminal offense are to large extent persons who have **registered agricultural farms and as natural persons purposely opened accounts in commercial banks.**

27 In 2020, according to data of the National Bank of Serbia, trusts appear 378 times in the ownership structure of resident legal entities.

They most often appear as defendants as part of organized criminal groups and organized groups - "professional laundering", where their role in committing the crime is to withdraw money paid into the accounts of agricultural farms and then repay the money to the organizer or persons who hired them on behalf of the organizers. Thus, they transfer and convert money, that is, they appear as the last step in the phase of dissemination of dirty money. It was noticed that when withdrawing money, employees in commercial banks do not sufficiently check the documentation submitted by these persons, and most often it is documentation that has nothing to do with agricultural activities, so it is evident that "professional money launderers" recognized this as a convenience.

Namely, according to the Rulebook on entry in the register of agricultural farms and renewal of registration, as well as on the conditions for passive status of agricultural farms, the farm is registered with the Treasury, and during registration it is necessary to submit proof of an opened special account with a bank, to which account the funds generated on the basis of loans, premiums, recourses and subsidies are directed. It is the opening of a dedicated account - for a specific type of transaction - that indicates that only such an account can and must be used for the needs of the agricultural farm. Although the purpose of the open account is clear, it is most often misused to receive payments of money without the basis for payment for which the account was opened.

In the cases that were prosecuted in the period from 2018 to 2020, the owners of agricultural farms appear as perpetrators of the criminal offense of money laundering within organized groups. The activities of the owners of registered agricultural farms, aimed at money laundering, were identified in four cases of money laundering related to organized criminal groups.

Case study

In one case, money in the amount of 24,706,403.02 dinars was paid into the accounts of several agricultural farms, which was then completely withdrawn from the account and returned to the payers. The owners of agricultural farms, on the basis of false documents - issued payment slips that they allegedly sold fruit, received payments to their accounts, and then withdrew money and returned it to the payer or brokers. In this case, the organizers used the owners of agricultural farms who, by prior agreement, handed over blank purchase lists to the defendants, and in which the defendants entered false information in terms of inflated quantities of goods they buy from a particular producer, and then on the basis of that documentation they made payments to the accounts of agricultural farms with inflated value, which the farm owners would then withdraw from the accounts and keep a part for themselves in the amount of the value of goods actually sold or as commissions for services rendered, while the rest was returned to the defendants.

In the said cases, designated opened accounts were misused, albeit in different ways, which points to the need for increased control of these entities going forward, because they most definitely represent a risky form from the aspect of the threat of money laundering.

Also, according to data of the Treasury Department of the National Bank of Serbia, and in views of the persons who have participated in the commission of criminal acts, 91 of them have registered active agricultural farms. All these farms were established in the period from 2004 to 2016. This speaks in favor of them not being registered only for the purpose of committing criminal acts, but in order to engage in agricultural activities. However, the fact that persons engaged in registered activities commit the crime of money laundering to such an extent indicates a **growing threat of money laundering, because the control of cash flows towards these entities is small or almost non-existent.**

At the same time, the data of the Agrarian Payments Administration, which deals exclusively with subsidies in agriculture and keeps records of all liabilities to farmers and payments to farms on the basis of subsidies, show that 43 of them used subsidies from the Republic of Serbia, i.e., national measures. This data is worrying, because we are in a situation where funds from the budget are allocated to persons who commit the crime of money laundering.

Given the number of farm owners involved in money laundering, the fact that they laundered money for organized criminal groups, even as their members, the growing trend of the number of farm owners involved in these illegal activities, the conclusion is that it is a structure that will carry an increased level of money laundering threats in the coming period.

1.16.1. Analysis of initiated criminal proceedings against legal entities

In the reporting period, criminal proceedings were conducted against 11 legal entities. All legal entities prosecuted are established as LLCs. This circumstance additionally indicates the existence of the threat of the highest risk of money laundering for companies established as limited liability companies. Based on data from the case, it is clear that the judicial authorities have recognized the risk of these economic entities for money laundering, as evidenced by the fact that the investigations were launched against three legal entities and then expanded to six more, so a total of nine legal entities were indicted. During the reporting period, final convictions for money laundering were passed in relation to one legal entity. It is from these cases that it can be concluded that companies were most often used in order to make money transfers through their accounts, which conceal the trace and origin of money in order to create the illusion of legality.

Case study

Legal entity A established as a limited liability company received during 2017 a public procurement contract related to the organization of certain events in the area of several municipalities in the south of the Republic of Serbia. During the implementation of contractual activities in 2018, they submitted business documentation to the contracting authority showing a higher value of services performed than those actually performed, or for works that were not performed at all, and the collection of funds was made on the basis of activities that were not actually performed in the amount of 1,454,967.00 dinars. The responsible person in this

legal entity committed in connection with these actions the criminal offense of abuse of the position of responsible person.

The responsible persons in this legal entity are aware that the money is not coming from the activities stipulated in the contract and that more money was charged than the worth of actual services and using the company's business accounts, this "surplus" money was further transferred to several businesses - entrepreneurs. Owners of entrepreneurial shops submitted fictitious business documentation - invoices, bills, etc., to company A as a basis for transferring and receiving money, in order to justify the transfers, so that after receiving money on business accounts, they could withdraw cash and repay it to those responsible persons of the company A. In this situation, dirty money in the amount of 1,234,000.00 dinars, which originates from criminal activity, was disseminated through the account of economic entity A.

Based on a plea agreement, legal entity A was sentenced to a fine in the amount of 5,000,000.00 dinars.

Furthermore, data related to organized criminal groups were especially considered, and the fact that a large number of economic entities in the form of limited liability companies were involved in the money laundering process. Most often, the accounts of these companies were used for a large number of money transfers based on fictitious legal transactions, in order to launder the money through the banking sector and thus create the illusion of lawful income. In only one case of the Prosecutor's Office for Organized Crime, more than 39 economic entities from the entire territory of the Republic of Serbia participated in the money laundering chain, in the form of limited liability companies and five entrepreneurs, whose bank accounts were controlled by one individual - organizer of a criminal group.

In addition to this data, data of the Tax Administration on the criminal offense of tax evasion as a criminal offense that is a high-level threat of money laundering, and which is most often associated with companies, are also considered here. Also, the significance of this crime for this analysis stems from the conclusions that economic entities and their business structures are often used by organized criminal groups precisely with the aim of concealing traces and flows of dirty money.

If we look at the data on the number of initiated proceedings for the crime of tax evasion, we come to the conclusion that most of these proceedings were initiated against economic LLC entities and entrepreneurs, even regardless of the object of money laundering. Of a total of 3197 criminal charges filed for the crime of tax evasion, only 23 cases relate to joint stock companies while the remaining 2,105 relate to limited liability companies and 1,069 to entrepreneurs.

Number of criminal charges filed	2018-2020.
Legal entities	**3.197**
Limited liability companies	**2,105**
Joint stock companies	**23**
Entrepreneurs	**1,069**

Table: Data of the Tax Administration on criminal charges filed in the period from 2018 to 2020 for the criminal offense of tax evasion according to the form of organization of legal entities

Although the number of business entities by legal form of organization, for which criminal charges were filed for the crime of tax evasion, is proportional to the total number of registered business entities, it is evident that given the data on the involvement of limited liability companies in the processes of money laundering in order to disseminate it and cover the tracks through a large number of money transactions, mostly in fictitious legal transactions, these data indicate an extremely high level of threat of money laundering. In cases of use of the business structures of economic entities by organized criminal groups, these structures are most often professional "laundries".

1.16.2. Analysis of requests for international legal assistance

In order to analyze the forms of organization of companies involved in money laundering, through the requests for legal assistance related to the crime of money laundering in the period from 2018 to 2020, it was not possible to obtain complete data. The reason for the impossibility of obtaining data in these requests is the fact that the Ministry of Justice does not record this data separately. Otherwise, the Ministry of Justice identified a total of 152 cases related to the crime of money laundering during the reporting period, of which a significant number were incoming letters rogatory (118).

The cases of international legal assistance dealt with by the Prosecutor's Office for Organized Crime were considered separately, namely 12 cases. Direct insight in these cases established that the letters rogatory referred to 11 business entities, of which 10 were organized in the form of a limited liability company and one in the form of a joint stock company. All companies which the letters referred to have their headquarters in the Republic of Serbia, except for one company that was founded and has its headquarters in Cyprus, for which the verification of a non-resident account opened with a commercial bank based in Serbia was requested. Legal aid was related to checks of business operations, accounts and basis for the transactions of economic entities.

Based on the established criteria and analysis of the collected data, it was determined that limited liability companies and entrepreneurs are forms of economic entities with a high threat of money laundering, joint stock companies and cooperatives were given the medium-level threat rating and other forms (limited partnerships and partnerships) a low-level threat rating. At the same time, the legal form of registered agricultural farms poses a growing threat.

In terms of legal form, limited liability companies predominate, accounting for over 93% of the total number of entities in each of the observed years. On the other hand, it is noticeable that the number of entrepreneurs is growing by the year.

The largest number of legal entities, more than 67%, is organized in the form of a limited liability company (LLC), while slightly less than 2% are legal entities organized as joint stock companies (JSC), legal entities organized in other legal forms (limited partnership, partnership) slightly less than 1%, and other forms of organization (associations, endowments, foundations, sports associations, etc.) account for over 30%.

Looking at the total number of criminal proceedings related to money laundering in the observed period, data show that the specific forms of the economic entities involved most often include limited liability companies (179 in total), entrepreneurs (78 in total), and agricultural farms (91 in total). Other legal forms of companies include joint stock companies (2 in total), partnerships (1), cooperatives (2), sports associations (4).

By far the highest level of threat based on the analysis of money laundering cases is posed by limited liability companies.

This legal form is most often used in the process of money laundering by organized criminal groups.

For the establishment of a company in the form of a limited liability company, relatively small financial resources are required, the amount of founding capital is a minimum of 100,00 dinars (less than 1 euro), a founding act is required, and at least one member / founder.

The rating of the level of risk indicates that the largest number of economic entities with a high level rating for risk of money laundering is determined for economic entities in the form of LLC classified in the category of micro and small entities.

The largest number of requests for international legal cooperation and information exchanged by police and tax authorities relate to the legal form limited liability company.

Since 2018, in the procedure of compulsory liquidation due to the reasons prescribed by Article 546 of the Law on Companies, 31,081 companies were deleted from the Register of Business Entities, of which 30,195 limited liability companies; in the supervision procedure, the Ministry of Economy, as a second instance authority, annulled about 50 decisions of the registrar of the Business Registers Agency on the registration of the registered office address of companies, due to "falsely registered office address".

LIMITED LIABILITY COMPANY

ENTREPRENEURS

AGRICULTURAL FARMS

1.17. Money laundering modalities

Typical methods used for money laundering (modus operandi) have been identified in the Republic of Serbia. Namely, certain typical behaviors of the perpetrators of this crime were noticed, which are actually specific patterns, i.e., modalities by which money is laundered. The analysis of 95 cases of competent public prosecutor's offices in the Republic of Serbia revealed not only that there are different types of money laundering, but relevant conclusions were also made regarding the specifics of the most complex money laundering schemes, the way money is laundered in the relevant sectors through the activities of the perpetrators and that the activities and behaviors of the perpetrators point out precisely the modalities of committing this crime.

Namely, the most commonly used modality of money laundering is the one that could be described as a method of money laundering that involves the transfer of money through the accounts of several legal entities, based on fictitious turnover of goods and services, with the ultimate goal of withdrawing cash. Therefore, on the basis of fictitious turnover of goods or services, money is transferred from the accounts of economic entities that regularly operate on the market to the accounts of economic entities specially established for the purpose of money laundering, i.e., economic entities whose main purpose, e.g., main "business" activity is issuing fictitious invoices, because these economic entities are not performing the activity for which they are registered. The money is then transferred to the current accounts of the so-called "laundry" companies, from which it is withdrawn. It is thereon invested in various lawful economic activities or for the purchase of real estate. Regarding this type of behavior by perpetrators of money laundering, it must be noted that in most cases these are economic entities established in the Republic of Serbia, but often the money is withdrawn from current accounts of economic entities established abroad, which have opened non-resident accounts with foreign banks. In such cases, when the money is transferred to the current accounts of non-resident economic entities, after it is withdrawn in cash, it is transferred across the state border and returned to the country in amounts less than the legal limit for reporting to customs. It has been noticed that this is a modality most often used by professional money launderers.

Another important modality of money laundering would certainly be investing illegally earned money in the purchase of real estate, vehicles, other valuable assets, legal entities or investing cash in the business of legal entities. Namely, when committing the crime of money laundering, in which significant amounts of illegal material gain are obtained by committing predicate crimes, one of the most common ways of converting these assets into legal flows is investing in real estate and other high-value assets. Real estate is bought in cash through payment to the seller or by depositing it in the bank accounts of individuals, when dirty money is presented as savings intended for the purchase of real estate, and then in a short time and with minimum losses, such acquired property is sold by criminals. In this mode of money laundering, the beneficial owners use different persons who are registered as the formal owners of real estate and other high value property originating from illegal activities, instead of them (in the records of the real estate cadastral service or registers of movable property) originating from unlawful activities. That is why in this manner of money laundering, so-called "front persons" are formally registered as the owner of the assets and used to knowingly conceal information about the beneficial owners of the assets, thus creating the possibility that after the sale of valuable goods, the money received is presented as lawful assets. It is important to note that money originating from criminal activity is often used through this modality of money laundering to purchase finished real estate, but also to invest in the construction of residential and commercial buildings or adaptation, reconstruction or upgrade of existing buildings in the real estate market. It is interesting that in this method of execution, "dirty" cash is often used to invest in construction costs within the construction sector, such as payment of salaries to construction workers, payment of construction materials and services to suppliers and contractors and the like.

In the analyzed period, a third most common modality of money laundering was observed, namely the use of legal entities, especially craft shops, entrepreneurs, agricultural farms and individuals for the transfer and payment of cash as simulated liabilities. This is a modality of money laundering that is often resorted to in the Republic of Serbia and is characteristic not only of the commission of the crime of money laundering in which tax crimes appear as a predicate offense, but also in cases where predicate offenses occur as corruption crimes. Money laundering is done by using false business documents in the form of fake invoices, delivery notes, contracts, purchase coupons and the like, all with the aim of creating the illusion of a lawful business activity and creating a false legal basis for money transactions. In that way, the basis for making payments is the fictitious trade in goods and services that have never actually been delivered or provided, payment based on the alleged purchase of agricultural products, secondary raw materials or performed craft works. It is noticeable that the owners of such legal entities or entrepreneurial businesses often use persons who are in difficult financial circumstances, who are drug users, alcoholics or use forged personal documents. Bearing in mind that a large number of agricultural farms are registered in the Republic of Serbia, there is a huge potential infrastructure for the transfer of illegal money, i.e., the environment for this is very favorable, especially when it is taken into account that the owners of agricultural farms often do not see the actual picture of the implications of enabling the "service" of money transfers through their farm accounts. In addition to the described problematic purchase of agricultural products, cash withdrawal is often done through the use of services of persons engaged in the collection, purchase, and sale of secondary raw materials, because it is very difficult to establish that the basis for certain money transfers has been the actual sale of secondary raw materials or that it actually was a fictitious activity.

It is important to note that the analysis of money laundering cases prosecuted in the Republic of Serbia

in the period from 2018 to 2020 found that the most common instrument used in all modalities of money laundering is a loan from the founder-owner of a maintenance company for maintaining current liquidity of the company, because this classic instrument of civil law usually serves to pay the money, whose illegal origin is concealed, to the current account of the company in order to maintain its current liquidity, and then on the basis of loan repayment, the assets are withdrawn from the current account and continue to be used by the owner of the company as laundered cash.

Finally, as we can conclude, the modalities of money laundering in the Republic of Serbia do not differ significantly from the modalities of money laundering applied in other countries. In that sense, the most important modalities of money laundering at the global level should be mentioned: smurfing, use of overseas banks, underground banking, fictitious companies, investing in lawful business, use of the financial market, use of correspondent banking, assistance and donations from abroad and Internet use.[28]

1.18. Typologies of money laundering

Typologies of money laundering represent frequent techniques and patterns of behavior used for money laundering, i.e., frequent patterns and trends in activities aimed at money laundering, which are observed as specific patterns of behavior because they represent a common pattern in the activities of individuals and groups, which is why they are of great importance for detecting and combating money laundering. A basic division of money laundering typologies can be made according to when the object of money laundering is income or assets originating from a clearly predefined and determined predicate criminal offense and when it is not possible to precisely establish the predicate criminal offense or criminal activity from which the assets that are the object money laundering are generated. Thus, the most elementary typologies of money laundering can be described as *money laundering with a predicate crime and money laundering without a predicate crime, which is also called standalone money laundering.*

28 The publication "Typologies of Money Laundering", which is published by the Administration for the Prevention of Money Laundering, May 2019, was used in the development of the topic Modalities of Money Laundering.

Depending on whether the person who "launders" money does so in relation to assets that it has illegally acquired by carrying out predicate criminal activity or "laundering" activity in relation to the assets that have been illegally acquired by another person, we distinguish two types of money laundering typologies. In the first case, that is, when the perpetrators of the criminal act of money laundering "launder" money from the criminal activity that they committed themselves, it is so-called *self-laundering*. In other words, these are cases when the same person is prosecuted as the perpetrator of the crime of money laundering and the perpetrator of the predicate crime. In the other situation, i.e., when the perpetrator of the criminal offense of money laundering has no connection with the predicate criminal offense from which the dirty money originates, i.e., when he launders money that originates from criminal activity committed by other persons, it is *money laundering for another*. In this type of money laundering, the perpetrator of the criminal offense deals exclusively with the manner in which he will launder money for the persons who have committed the criminal offense which the dirty money originates from. It is within this typology of money laundering that the cases of those persons who are engaged in such activities as an occupation have appeared. This is actually a case of *professional money laundering,* which is usually carried out by organized groups. They offer money laundering services to interested parties and charge a commission for the provision of such services. In fact, the basic motive for providing this illegal service is to acquire material gain. The activity is performed for an extended period of time and involves the participation of several persons involved in money laundering. At the same time, there is an action plan and division of roles among these persons, and individuals play the roles of creators of false documentation, money launderers in banks, they transfer of cash across the state border and the like. Often, perpetrators of predicate crimes hire experts, persons with extensive business experience, experts in business, banking and finance, to design schemes for them to legalize income from predicate criminal activities, or to launder that money for them. Therefore, these persons do not take any action in committing the predicate criminal offense, but their role is to figure out how to "launder" the money and actively participate in such laundering.

In relation to the typologies of money laundering for the period from 2018 to 2020, the actions of prosecutors' offices were analyzed in a total of 95 cases related to money laundering, of which nine were cases of the Prosecutor's Office for Organized Crime.

<table>
<tr><th rowspan="2">PERIOD</th><th colspan="4">Indictments</th></tr>
<tr><th>Self-laundering</th><th>Money laundering by a third party (laundering for another)</th><th>Professional money laundering</th><th>Standalone laundering</th></tr>
<tr><td rowspan="2">2018</td><td rowspan="2">20</td><td>12</td><td>2</td><td rowspan="2">3</td></tr>
<tr><td colspan="2">14</td></tr>
<tr><td>total 2018</td><td colspan="4">37</td></tr>
</table>

Indictments				
PERIOD	**Self-laundering**	**Money laundering by a third party (laundering for another)**	**Professional money laundering**	**Standalone laundering**
2019	**44**	34	7	**26**
		41		
total 2019	**111**			
2020	**42**	15	0	**26**
		15		
total 2020	**83**			
total 2018-2020.	**231**			

Table: Number of accused persons according to types of money laundering typologies

Investigations initiated by all competent public prosecutor's offices in Serbia for the criminal offense of money laundering were analyzed. In these cases, investigations were launched against a total of 568 persons for predicate offenses and money laundering. Of this number, investigations against 467 persons were initiated due to money laundering.

In the same period, the competent public prosecutor's offices filed indictments in criminal proceedings initiated for money laundering in relation to a total of 278 persons, of which an indictment was filed against 231 persons for the criminal offense of money laundering. According to the "judicial typologies" of money laundering, 106 persons (45.89%) were charged with self-laundering, 70 for laundering for another, of which 9 persons were charged as professional launderers (30.30%). Indictments were filed against 55 persons (23.81%) for money laundering without a predicate criminal offense.

In relation to the said data, the Prosecutor's Office for Organized Crime initiated investigations against a total of 134 persons, out of which a total of 78 persons were prosecuted for the criminal offense of money laundering. In relation to a total of 66 persons, an indictment was filed, while for the criminal offense of money laundering an indictment was filed against 44 persons, and according to judicial typologies of money laundering, for self-laundering against 21 persons (47.7%), and for laundering for another against 23 persons (31.8%) of which 9 persons are professional money launderers (20.5%).

According to data of the competent courts of the Republic of Serbia, in the period from January 1, 2018, to December 31, 2020, 125 proceedings for money laundering were completed by passing a verdict against 133 persons (128 natural persons and one legal entity). Acquittals were handed down in relation to four natural persons.

Having all the above in mind, it can be concluded that in the Republic of Serbia in the analyzed period, through the prosecution of perpetrators of money laundering, the importance of prosecuting such persons was recognized for all those judicial typologies of money laundering that are characteristic forms of money laundering in other countries. i.e., both in terms of self-laundering and in terms of money laundering for another. In that sense, it was noticed that the importance of the typology of money laundering for others was recognized and that the trend of increasing the number of cases in which criminal prosecution of perpetrators of such crimes had taken place, with special mention of the fact that the activities of judicial bodies were particularly aimed and focused on effective and efficient criminal prosecution and conviction of the so-called professional money launderers, but also perpetrators of the crime of money laundering without a predicate crime, in which notable results have been achieved, and which is certainly evidenced by the statistical indicators listed in this analysis. In the analyzed cases, it is noticeable that the perpetrators were prosecuted because the importance of cooperation of all relevant actors in the anti-money laundering system was recognized, that many cases were discovered thanks to initial information that led to suspicious transactions reports and successful seizures of large the amount of cash during customs and police controls at border crossings in cases of the so-called cross-border cash flows.

1.19. Cash flows and use

This part of the analysis includes relevant data for the assessment period from 1 January 2018 to 31 December 2020, which relate to the submitted data and facts of specific authorities in the system of control over the transfer of cash in terms of issuance of cash, payment of cash into the financial system, transfer of funds abroad or from abroad and the movement of money in the market. Recognition of cash movements at these points is important for the immediate and effective detection of the crime of money laundering or terrorism financing or related crimes.

One of the basic functions of the National Bank of Serbia, as the central bank of the Republic of Serbia, is the issuance of cash (banknotes and coins), and the management of cash flows. In order to obtain a representative picture of the total cash situation in the Republic of Serbia in the past period, it should be borne in mind that total cash **in circulation was 266.7 billion dinars** on December 31, 2020, which is 27.2% more than on the same day in 2019, when the amount was 209.6 billion dinars, which is actually 16.8% more than on December 31, 2018, when there were 182.6 billion dinars of cash in circulation. On the other hand, one should keep in mind NBS data on cash transactions, i.e., physical receipt or giving out of cash. According to the submitted data, the number of transactions reported as **cash** in the amount of EUR 15,000.00 and above in dinar equivalent, in the period from 2018 to 2020, amounts to **EUR 806,720** (264,583 in 2018, 269,925 in 2019, and 272,212 in 2020). From the above data, as an intermediate conclusion, it can be said that there is a noticeable increase in the total balance of cash and reported cash transactions in the said period. In the money transfer system, the NBS, among other things, records payment transactions - withdrawals, deposits and exchange operations performed with banks. For the period from January 1, 2018 to December 31, 2020, cash transactions were registered in

the following amounts - for withdrawals, the amount of EUR 13,721,301,738.00, for deposits EUR 17,371,579,107.00 and for exchange operations EUR 2,483,984,024.3. It should be noted that in the mentioned period, banks submitted a total of **2,535 suspicious transactions reports** in the amount of 1,309,398,555.57 EUR. The submitted suspicious activities reports show that 90% of these reports relate to transactions of legal entities, individuals and entrepreneurs, while the rest relate to other business forms.

According to data of the Serbian Customs Administration, the total amount of reported funds by 2,911 persons at the border crossings when entering and leaving the country, for the period 2018-2020, amounts to 221,671,868.68 EUR, of which a total of 220,282,478.30 EUR was reported at the entrance and 1,389,390.38 EUR at the exit. According to the statistics of the Customs Administration, a total of EUR 13,313,303.11 (various currencies in EUR) was temporarily retained at the entrance and exit for the said three-year period. After discovering and temporarily withholding physically transferable means of payment, when crossing the state border, in the amount higher than the amount prescribed by law or other regulation, the customs authority is obliged to inform the competent public prosecutor's office without delay,[29] and the same obligation exists in cases when it discovers that a person is attempting to transfer lower amounts than prescribed, and there are grounds for suspicion that it is a case of money laundering or terrorism financing or a related criminal offense. The customs authorities discovered 399 cases of violation of the rules on the transfer of cash, and temporarily withheld physically transferable means of payment.

In practice, owing to the Agreement on Cooperation in the Prevention and Detection of Money Laundering, Terrorism Financing and Related Crimes, regarding the submitted data of the Customs Administration on the circumstances of the seizure of physically transferable assets, the competent prosecutor's offices initiated 12 criminal proceedings on the grounds for suspicion indicating that the crime of money laundering was committed. Also, when it comes to this agreement, it should be noted that the five criminal proceedings ended with the adoption of a final judgment on the basis of a plea agreement concluded between the public prosecutor and the defendant. This resulted in the confiscation of money and property that are subject to laundering. At issue: the perpetrators of the crime of money laundering, mostly foreign nationals, were sentenced to prison terms and fines, as ancillary sentences. In addition to the fine, they were sentenced to confiscation of objects, namely: money in the total amount of 300,000 British pounds, 904,700 EUR, three passenger motor vehicles of the brand "Mercedes-Benz" model 350 Bluetech 4, S200D, C200D, one mobile phone.

In other cases of temporary suspension of the transfer of means of payment over the prescribed amount, by a request for misdemeanor proceedings proceedings were initiated against natural persons from whom cash was confiscated, before the local court of law, for violations prescribed by LPMLTF and the Law on Foreign Currency Transactions. After the conducted procedure, the competent courts typically imposed on the perpetrators (domestic and foreign citizens), according to data of the Misdemeanor Court of Appeals, for the said

29 The Agreement on Cooperation in the Prevention and Detection of Money Laundering, Terrorism Financing and Related Crimes, concluded between the Republic Public Prosecutor's Office and the Ministry of Finance of the Customs Administration, on December 28, 2018.

offenses fines, also confiscating undeclared money found during entry in and exit from the Republic of Serbia, in the total amount of EUR 7,219,970 (EUR 1,881,539 in 2018, EUR 2,118,946 in 2019 and 3,219,485 EUR in 2020), under the protective measure of seizure of objects.

Within the Ministry of Trade, Tourism and Telecommunications, the Market Inspection, in the exercise of its competences since 2018, supervises the restriction of cash payments for goods. According to statistical data of the Ministry, for the period 2018-2020, a total of 430 controls on cash payments for goods were performed. For the mentioned period, a total of 36 reports were filed for violation of Article 46 of LPMLTF, which prescribes a limit on cash payment for goods in the amount of 10,000 EUR or more in dinars, 32 reports were filed for car purchases in cash, and four reports against developers for direct real estate sales. Due to the established violation of the rules on the restriction of cash payment for goods from Article 46 of LPMLTF, 27 judgments were passed (25 due to receipt of cash payments when buying a car and two due to direct sale of real estate).

According to data of the Games of Chance Administration of the Ministry of Finance, for all organizers of special games of chance on slot machines, special games of chance in casinos, special games of chance

- betting and special games of chance through electronic means of communication, the total amount of incoming payments for the period 2018-2020 amounts to 9,863,533,105 EUR (of which in 2018 2,393,576,788 EUR, in 2019 3,328,025,519 EUR and in 2020 4,141,930,798 EUR). On the other hand, the total amount of outgoing payments is 8,753,751,758 EUR (of which 2,101,092,384 EUR in 2018, 2,876,063,973 EUR in 2019 and 3,776,595,401 EUR in 2020).

Data from the Administration for the Prevention of Money Laundering indicate that for the analyzed period, the total value of the reports whose object are cash transactions is EUR 31,132,413,230.39. On the other hand, the total number of submitted cash reports in the mentioned period is 819,820 (265,777 cash reports were submitted in 2018, 275,224 in 2019, and 278,819 in 2020). When it comes to data on the total value of suspicious reports whose objects are cash transactions, there were a total of 139,672,121.62. Based on the processing and analysis of collected data obtained from obligors, APML forwarded the data to the competent state authorities, namely to the Organized Crime Prosecutor's Office due to suspicion of unknown origin of funds, in 2018 for a total amount of 652,306.75 EUR, in 2019 for the total amount of 451,150.82 EUR and in 2020 for 991,071.17 EUR. Furthermore, in 2020, information was forwarded due to suspicion of misuse of cash in the total amount of USD 4,934,680.00, which is intended to mitigate the consequences caused by the Covid-19 virus pandemic in the business of economic entities. These funds come from the budget of a foreign country that were misspent. During 2020, the National Bank of Serbia received data on non-compliance with actions and measures by obligors, in the total amount of EUR 285,000.00, and the Higher Public Prosecutor's Office due to suspicion of misconduct in public procurement, received information on the analysis of cash transactions performed in the total amount of EUR 390,000.00.

Regarding the monitoring of cash and detection of proceeds of crime, one should also bear in mind RPPO data on the amount of cash recovered related to the crime of money laundering, which for the assessment period amounts to EUR 6,180,659.76 (various currencies - value in EUR), of which the amount of 1,451,529.66 EUR was recovered related to the criminal offense of abuse of office, 102,703 EUR with the criminal offense of tax evasion, EUR 15,000 with the criminal offense of abuse of office, EUR 4,000 with criminal offense of fraud, 164,000 EUR with the criminal offense of aggravated theft, 4,247.74 EUR with the criminal offense of extortion, 7,125 EUR with the tax criminal offense from Article 173a of LTPTA and 4,432,054.36 EUR with the criminal offense of money laundering without a predicate offense.

1.20. Analysis of cross-border money laundering threats

The assessment of cross-border threats was also an integral part of the assessment of the risk of money laundering, which was adopted by the Government of the Republic of Serbia on May 31, 2018. During this assessment, a list of countries marked with high, medium, and low levels of money laundering threat was established. The assessment in question was submitted to the relevant state authorities, which reviewed on regular basis the existence of perceived threats with regard to the designated countries.

In order to determine the list of countries that pose a threat of money laundering for the period from 2018 to 2020, an analysis of data from relevant state institutions was conducted with regard to a total of 164 countries. Based on the results of the analysis, a list of 29 countries was established, which, according to the criteria of the World Bank and the Expert Team of the Coordinating Body for Prevention of Money Laundering and Terrorism Financing, fall into three different categories - 11 countries with high levels of money laundering threats, fifteen medium-level threat countries and three low-level threat countries.

1. NATIONAL VULNERABILITY

1.1. Quality of money laundering prevention policies and strategies

The key findings of the national vulnerability assessment, determined during the preparation (update) of the national money laundering risk assessment in 2018, in terms of the state's ability to defend itself against money laundering, referred to the absence of a body at the national level to coordinate activities of the participants in the anti-money laundering system, the non-updating of the national risk assessment, inconsistency of statistics on money laundering cases conducted by different state bodies, insufficient internal cooperation and substantial lack of international cooperation in accordance with FATF Recommendation 40.

In the Republic of Serbia, there is a strong political commitment at the high level and support for the fight against money laundering, which is reflected in the existence of national coordination and cooperation mechanisms through the Coordinating Body for Prevention of Money Laundering and terrorism financing,[30] the fact that the coordination mechanism is managed by a high-level representative of the Government (a minister[31]) and continuous strategic planning in this area in accordance with the findings of the national risk assessment.

A new Anti-Money Laundering Strategy (2020-2024) and an Action Plan for the Implementation of the Anti-Money Laundering Strategy (2020-2022) were adopted, the Coordinating Body and its expert teams continued to meet continuously, and other mechanisms of inter-ministerial cooperation and coordination were also developed.

The national risk assessment is updated once every three years, while in the meantime risk analyses are conducted, the results of which are taken into account when updating the national risk assessment. In accordance with the Law on Prevention of Money Laundering and Terrorism Financing, obligors are obliged to make their own risk assessments, harmonize them with the national assessment and to take steps to mitigate the risk of money laundering. The fulfillment of that obligation shall be examined by the supervisory bodies determined by this Law, which also envisages appropriate sanctions for non-fulfillment of these obligations.

The observed shortcomings have been completely or largely eliminated, except in relation to the uniformity of statistical data, in which certain shortcomings still exist, but they have been largely remedied. Namely, on May 3, 2019, the Government of the Republic of Serbia adopted the Guidelines for the Establishment of a Unified Methodology for Reporting and Uniform Monitoring of Money Laundering and Terrorism Financing Cases. The competent state bodies submit statistical data on cases of money laundering and terrorism financing to the Republic Public Prosecutor's Office, which monitors each specific case on the basis of such data, and if necessary, analyses statistical data and compiles appropriate reports. In that context, a web application is being developed aimed at keeping uniform records for money laundering and terrorism financing, which would enable monitoring the development of money laundering and terrorism financing cases, from initial information to a final judgment, and on the basis of which the case and its status could be monitored at any time. This application should contribute to increasing efficiency and provide support in data collection, exchange and storage, formation and maintenance of registers, risk analysis, data analysis and statistical reporting, and its implementation is expected in 2021.

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30 Although the Coordinating Body is the most important national coordination mechanism at the strategic level, it should be noted that coordination takes place at other levels and in different formats (e.g. the Coordination Commission established by the Law on Inspection Supervision) between the competent bodies for the fight against money laundering and terrorism financing, which contributes to the overall harmonization of the work of different bodies and the effectiveness of the system. Intensive cooperation is also taking place at the operational level.

31 From its establishment until July 4, 2019, the Coordinating Body was chaired by the Minister of the Interior and the Deputy Prime Minister, when he was replaced by the Minister of Finance by a decision of the Government of the Republic of Serbia at a session on July 4, 2019.

1.2. The effectiveness of the definition of the crime of money laundering

The legislation of the Republic of Serbia follows the international standards and obligations undertaken by the ratification of relevant international conventions, but it should certainly be noted that in the 2016 Joint Evaluation Report of the Moneyval Committee, the incrimination from the Criminal Code was assessed as "to a great extent harmonized" with FATF technical compliance standards.

Namely, the Law on Amendments to the Criminal Code[32] prescribes the criminal offense of money laundering among criminal offenses against the economy (Chapter 22) (Article 245). The act of committing the basic form of the criminal offense of money laundering under Article 245 of the Criminal Code, includes three alternative ways: 1) execution of the conversion or transfer of assets; 2) concealment or false presentation of asset-related facts; 3) acquisition, possession, or use of assets, while knowing that the assets originate from criminal activity. This corresponds to the notion of money laundering in Article 6, paragraph 1 of the Palermo Convention, and Article 3, paragraph 1, item (b) and item (c) of the Vienna Convention, respectively.

The Republic of Serbia has opted for the "all crime" approach, instead of using an additional threshold or categorization of crimes. This approach includes all criminal offenses as predicate crimes, regardless of the regulation in which they are contained. Namely, by introducing the term "criminal activity" in the definition of money laundering as a criminal offense, in principle, criminal proceedings must not automatically be initiated for a prior (predicate) criminal offense, and the existence of a predicate criminal offense does not have to be determined by a final judgment, although the criminal offense is considered committed only from the moment the court judgment becomes final.

In Serbia, apart from natural persons, the perpetrator of a criminal offense may be a legal entity.

The prescribed penalties for the crime of money laundering are appropriate, proportionate to the gravity and social danger of this crime and within European standards.

According to data collected from the Republic Public Prosecutor's Office and the competent courts of the Republic of Serbia, in the period from January 1, 2018, to December 31, 2020, investigations were initiated against 467 persons for money laundering, indictments were filed against 231 persons and 128 proceedings were completed by passing a verdict (convictions and acquittals) in relation to 133 persons (132 natural persons and one legal entity). In the said period of three years, 128 natural persons and one legal entity were found guilty of the criminal offense of money laundering in the Republic of Serbia in 125 cases, which is about 56% of the number of accused persons. It is important to emphasize that out of this number, 97 proceedings ended with a verdict based on a plea agreement concluded between the public prosecutor and the defendant.[33] In three cases, acquittals were handed down for four persons accused of

32 "Official Gazette of RS", no. 94/16.

33 It should be noted that the court cannot change the agreement, it can either accept or reject it, and when it accepts the agreement and makes a judgment, it does so after a special hearing, not after a full hearing.

the criminal offense of money laundering, whereas in two proceedings, while the defendants of the criminal offense of money laundering were acquitted, three defendants were found guilty of a predicate criminal offense.

Data from convictions for the crime of money laundering show uniformity in the structure of sentences imposed, i.e., that uniform penalties prevail - imposed for crimes committed in joinder (crime of money laundering and predicate offense), as in the previous period, but with the marked difference that there are now a significant number of suspended sentences. Although there are positive trends in terms of sanctioning perpetrators of the crime of money laundering, from the aspect of penal policy, the crime of money laundering is still considered as a "secondary" crime in relation to the predicate crime. Furthermore, the fact that the sentences imposed are closer to the legal minimum must not be overlooked, which brings into question their deterrent effect.

Commercial courts ruled on economic offenses under articles 88, 89, 118 and 119 of the Law on the Prevention of Money Laundering and Terrorism Financing, which sanctioned them as legal entities – obligors of this Law, as well as responsible persons in these legal entities. According to data of the first instance commercial courts, in all commercial courts there were 117 decisions under the Law on Prevention of Money Laundering and Terrorism Financing (LPMLTF) for the requested period, of which 106 were convictions, four were acquittals, and seven were settled in a different manner, according to the court. It should be borne in mind that the largest part of the cases, as many as 64.96%, was resolved in the first instance, without an appeal against the verdict.

In view of the above, we should continue to strive to strengthen the penal policy for the crime of money laundering through education, bearing in mind the danger generated by this crime. Also, if we take into account the penalties for economic crimes under the Law on Prevention of Money Laundering and Terrorism Financing, it can be concluded that the penal policy of commercial courts, although showing improvement, is still mostly mild, and that further education should be provided to judges of commercial courts.

1.3. Comprehensiveness of the Law on Seizure and Confiscation of the Proceeds

Serbia has a comprehensive and effective legal framework that regulates the temporary and permanent confiscation of assets, as well as the blockade of proceeds and assets of crime. According to the Moneyval Committee, the legal framework governing this area is “largely in line” with FATF Recommendation No. 4.

Material gain from a criminal offense under the law of the Republic of Serbia is confiscated pursuant to the provisions of the Criminal Code (through the application of the institute of confiscation of proceeds under Articles 91 and 92 CC, as well as through the imposition of security measures for confiscation under Article 87 CC) and the Law on Seizure and Confiscation of the Proceeds from Crime (permanent confiscation of assets generated by criminal activity).

From the moment the criminal offense is discovered and the procedure is initiated until the final verdict is passed, it is possible to apply a series of institutes that ensure that assets acquired by committing a specific predicate criminal offense or arising from a criminal offense are confiscated after a final judgment in criminal proceedings: temporary seizure of objects pursuant to Article 147 of the CCP, temporary measures to secure confiscation of proceeds pursuant to Article 540 of the CCP, as well as the issuance of an order prohibiting the disposal of assets pursuant to Article 24 of the Law on Seizure and Confiscation of the Proceeds from Crime in accordance with Articles 23-37 of the Law on Seizure and Confiscation of the Proceeds from Crime.

The Directorate for the Administration of Seized Assets, as an organizational unit of the Ministry of Justice, manages temporarily and permanently seized assets arising from a criminal offense, assets temporarily seized by an order prohibiting the disposal of objects of crime of the public prosecutor, (Article 87 CC), proceeds of crime (Articles 91 and 92 of the Criminal Code), assets given on bail in criminal proceedings and items temporarily seized in criminal proceedings, as well as assets whose disposal is limited in accordance with decisions of the United Nations and other international organizations of which the Republic of Serbia is a member, and also performs activities related to proceeds arising from economic offenses, i.e., misdemeanors.

In addition to a more proactive approach in conducting financial investigations, in order to improve the quantity and quality of temporary and permanent confiscation of assets, it is necessary to conduct continuous training of judges and prosecutors on the concept of confiscation in general, and on confiscation of proceeds of crime. Given that in practice there is a view that courts rarely accept indirect evidence, especially in cases of unexplained wealth, it is necessary to pay special attention to education on these topics.

1.4. Quality of collection and processing of information by the financial intelligence service (APML)

APML, although formed as an administrative authority within the ministry in charge of finance, enjoys operational independence and autonomy in its work. The competencies of APML[34] are fully in line with international standards in this area and ensure the independence and autonomy of APML in carrying out its activities.

Efforts are being made to strengthen capacity through specialized training of employees, but the lack of a sufficient number of employees is still present.

34 Defined by the Law on Prevention of Money Laundering and Terrorism Financing.

The procedure of STR analysis, from the method of reporting, receipt, analysis and further forwarding, is clearly defined, and the reporting of a transaction as suspicious to APML can technically be performed within an hour, i.e., immediately upon identification by the obligor under LPMLTF. Namely, the exchange of data between the management and banks, money changers, payment institutions and other obligors takes place electronically, the system is automated so that it immediately recognizes whether the person from the SAR is already covered by previous applications or checks, makes the procedure more efficient. According to APML, it is necessary to work on raising the quality of suspicious transactions reports because it was noticed that the quality thereof is not at a satisfactory level for all obligors. In a large number of cases, it is based on the recognition of one indicator, without analyzing the client's risk or recognizing the typology of money laundering. Therefore, special attention in the coming period should be paid to the education of obligors.

In addition to the analysis of suspicious transactions, cash transactions are also monitored at certain time intervals. The most commonly used criteria for searching cash transactions are payments for a certain period above the set criteria/amount (e.g., amount of EUR 100,000 for 10 days), payments by non-residents (e.g., cash payments by non-residents to opened non-resident accounts with commercial banks in Serbia in the cumulative amount of EUR 100,000 in a period of 6 months) etc. There are also alerts in the electronic system for cash transactions above the set amounts.

APML has the right to request data from obligors under LPMLTF, as well as data from state authorities, and may temporarily suspend the execution of a transaction or monitor the financial operations of certain persons if it finds grounds for suspicion of money laundering or terrorism financing.

As the financial intelligence service of the Republic of Serbia, APML exchanges information with the competent authorities of the Republic of Serbia in the field of combating money laundering and terrorism financing, as well as with partner services worldwide through the Egmont Group website, of which it has been a member since 2003, actively participating in international cooperation in the fight against money laundering and terrorism financing.

1.5. Capacities and resources for financial crime investigation

The police, which is part of the Ministry of the Interior, is involved in finding the perpetrators of criminal acts, detecting, and securing traces of financial crimes and gathering evidence in the pre-investigation procedure, as well as conducting financial investigations in parallel with criminal investigations. The police undertake these actions on the order of the public prosecutor who, in accordance with the Code of Criminal Procedure, manages both the pre-investigation procedure and the investigation. The public prosecutor also initiates a financial investigation by issuing an order. The powers of the police in the investigation of financial crime in terms of the standards contained in the FATF recommendation were assessed as "largely harmonized".

These activities fall under the jurisdiction of the Criminal Police Directorate (CPD – "UKP" in Serbian), where the fight against money laundering and financial and economic crime is handled by police officers from the Organized Crime Department (OCD – "SBPOK"), the Crime Prevention Service (CPS – "SSK") and the Anti-Corruption Department (ACD – "OBPK") Within OCD, the Department for the Suppression of Organized Financial Crime and the Department for the Fight against High-Level Corruption, as well as the Financial Investigation Unit, which investigates cases of confiscation of property, i.e., conducts financial investigations, are responsible for dealing with the said criminal offenses. In addition to organizational units within the General Directorate itself, the CPD also has 27 regional police directorates within which there are organizational units dealing with economic crime.

Although there are plans to increase the number of police officers, the capacity of police units dealing with economic and financial crime, including money laundering and financial investigations, is not satisfactory and it is needed to increase it and fill vacancies, as well as to carry out continuous training in the field of money laundering, in particular on new typologies and new methods for their detection and conduct of financial investigations.

Despite the fact that legal provisions do not define the moment of criminal proceedings when a financial investigation is initiated under the Law on Seizure and Confiscation of the Proceeds from Crime, in practice the order to initiate a financial investigation is issued immediately after the order to conduct a (criminal) investigation. Pursuant to FATF Recommendation 31, it is necessary to involve financial investigators (FIU) in the criminal investigation as early as possible, to enable them to access and effectively use all the findings of the criminal investigation, as well as those related to special evidentiary actions. Therefore, it is concluded that the involvement of the Financial Investigation Unit in the pre-investigation procedure must be greater, i.e., financial investigations should be conducted in parallel with criminal investigations, despite the fact that in the pre-investigative proceedings, actions are carried out that could be characterized as investigations and concern the collection of data on the so-called financial profile of the suspect and his family members.

1.6. Integrity of financial crime investigation authorities (including confiscation of property)

In operational terms, the police are independent of other state bodies in performing their police duties and other legal activities within their competence, and according to the Law on Police, police work is based on the principles of professionalism and depoliticization.

The European Commission states in the Progress Report on Serbia for 2020 that the legal framework is still insufficient to guarantee the operational autonomy of the police from the Ministry of Interior (MoI), so the police, during the pre-investigation and investigation phase, continues to submit reports to MoI,

and not only to the prosecutor in charge of the investigation[35] However, data from the police units in charge of investigating financial crime and money laundering show that in the previous period there were no obstacles or pressures on the dynamics or outcome of money laundering investigations.

In 2018, the legal framework of the Internal Control Sector of the Ministry of the Interior was improved, which sector is responsible for controlling the legality of the work of police officers and other employees of the Ministry of the Interior and detecting crimes with elements of corruption and other crimes committed in the service of and in connection with police officers, through the adoption of the Law on Amendments to the Law on Police and accompanying bylaws. These amendments prescribe in more detail the competencies of this sector and the manner of implementing the new institutes for corruption prevention that have been implemented in the Ministry of the Interior since 2019 - integrity test, corruption risk analysis and control of reporting and changes in personal assets.

1.7. Capacities and resources for prosecuting financial crime

Pursuant to the adopted Law on the Organization and Competences of State Authorities in the Suppression of Organized Crime, Terrorism and Corruption, which has been in force since March 1, 2018, it is envisaged that in cases of corruption, financial and economic crime, including money laundering, the Organized Crime Prosecutor's Office (OCPO) and four special anti-corruption departments of the higher public prosecutor's offices in Belgrade, Novi Sad, Nis and Kraljevo, will be competent.

In order to achieve significant results in the prosecution of financial and economic crime, including money laundering, it is necessary to provide the missing human and capacities in terms of physical space of OCPO and special anti-corruption departments of higher public prosecutor's offices, but also to continuously educate prosecutors on new trends, typologies of money laundering and the proactive implementation of parallel criminal and financial investigations.

1.8. Capacities and resources for legal proceedings

The jurisdiction of courts to deal with criminal proceedings for money laundering is defined by the Law on the Organization of Courts, which stipulates that in these cases higher courts try in the first instance, which are also competent for predicate offenses punishable by imprisonment for more than ten years for receiving bribes, abuse of position of a responsible person (from Article 234, paragraph 3 of CC), abuse in connection with public procurement (Article 234a, paragraph 3 of CC) and violation of the law by a judge, public prosecutor and his deputy. Basic courts have subject matter jurisdiction to try other forms of predicate offenses punishable by up to 10 years in prison.

35 Available at: https://www.mei.gov.rs/upload/documents/eu_dokumenta/godisnji_izvestaji_ek_o_napretku/serbia_report_2020_SR.pdf.

The Law on Organization and Competences of State Bodies for the Suppression of Organized Crime, Terrorism and Corruption further specializes the competences of higher courts, thus providing for special departments for combating corruption in higher courts in Belgrade, Novi Sad, Nis and in criminal proceedings for money laundering Kraljevo, as well as the Special Department for Organized Crime and War Crimes of the High Court in Belgrade. The second instance procedure is under the jurisdiction of the appellate courts.

In order to improve the efficiency of the courts, special departments of higher courts in Belgrade, Novi Sad, Nis and Kraljevo need to be provided with adequate administrative capacity, as well as space for holding trials.

Given that judges have the right and obligation of professional development and training that is realized through general programs of continuous training conducted by the Judicial Academy, in the coming period it would be convenient to organize continuous training, both at basic and advanced level in the field of criminal justice, offenses against the economy, economic and financial crime, but also various types of training on money laundering.

1.9. Integrity and independence of financial crime prosecuting authorities and judges

The legal system of the Republic of Serbia contains regulations that prevent and sanction violations of integrity by public prosecutors and deputy public prosecutors. These regulations include criminal liability for the criminal offense of violation of the law by the Public Prosecutor or Deputy Public Prosecutor and other criminal offenses prescribed by the Criminal Code, disciplinary liability for disciplinary offenses prescribed by the Public Prosecutor's Office Act, Code of Ethics for Public Prosecutors and Deputy Public Prosecutors and Code of Ethics members of the State Prosecutors' Council (SPC), integrity plans of public prosecutor's offices and SPC, obligation to report assets provided by the Law on Prevention of Corruption, the institute of Independence Commissioner established by the Rules of Procedure of SPC, immunity for an opinion expressed in conducting official duties prescribed by the Constitution of Serbia, provisions on exemption prescribed by the Code of Criminal Procedure, etc.

As part of the State Prosecutors Council, there is a Commissioner for Independence[36], who had a total of 42 cases pending in the period from 2018 to 2020, of which nine were found to represent undue pressure on public prosecutors.

36 The Commissioner for Independence is primarily competent to act upon requests of public prosecutors and deputy public prosecutors for protection against undue influence, to investigate the existence of undue influence expressed in public, through the media, social networks, public gatherings or in any other public way, as well as through other measures in order to prevent undue influence.

During the same period, the Disciplinary Prosecutor, appointed by SPC, submitted 12 proposals for disciplinary proceedings to the Disciplinary Commission. The basis for initiating disciplinary proceedings were mainly disciplinary reports by public prosecutors against their own either immediate subordinate deputy, or junior public prosecutor, but no disciplinary charges were filed against deputy public prosecutors acting in money laundering and terrorism financing cases.

On the other hand, in the period from 2018 to 2020, no criminal proceedings were initiated against holders of the public prosecutor's office as a result of criminal offenses of malfeasance in office and criminal offenses against the judiciary.

Regarding the integrity and independence of judges in the Republic of Serbia, there are numerous regulations that contain rules on the conduct of judges in the performance of their functions, but also when they are not performing their functions. The protection of the integrity of judges is prescribed by the Constitution of the Republic of Serbia, the Law on the Organization of Courts and the Law on Judges, as well as other bylaws based on these laws. In order to protect the integrity of judges and the successful conduct of court proceedings, in the Republic of Serbia there is a separate criminal offense of obstruction of justice in Article 336b of the Criminal Code, which has been in force since September 11, 2009.

The High Judicial Council prescribed[37] the manner of work and decision-making of the Council not only in cases of political influence on the work of the judiciary, but also in cases of any influence on the work of judges and the judiciary (by the media, attorneys at law, businessmen, civil servants, etc.). In May 2021, a judge competent to act in cases of undue influence on the work of judges and the judiciary was appointed. It is also a novelty that the Council can address the competent heads of authorities, organizations, associations whose employees or members have exercised undue influence,[38] as well as recommend measures to prevent future undue influence.

In addition, members of the Ethics Committee have been appointed,[39] as an intermittent working body of the HJC that monitors compliance with the Code of Ethics for Judges and the Code of Ethics for HJC members and conducts training of judges in the field of ethics. The disciplinary bodies of the High Judicial Council, which have been established as its permanent working bodies, are competent for determining the disciplinary responsibility of judges.

In the said period, indictments were filed against a judge of the Basic Court in Lazarevac and a judge and also the president of the Misdemeanor Court in Kraljevo for committing the criminal offense of accepting bribes. The President (and judge) of the Commercial Court in Zajecar was sentenced to imprisonment, and

37 Decision on Amendments to the Rules of Procedure of the High Judicial Council (HJC) adopted by the High Judicial Council on April 15, 2021.

38 For example, to the head of the state authority - in case the civil servant has exercised undue influence, to the Bar Association - if the attorney at law has exercised undue influence, to the Press Council, a media association or a media editor
- if the journalist has exercised undue influence, the Chamber of Commerce whose member has made an undue influence, etc.

39 At the session of the High Judicial Council held on May 20, 2021, the Rules of Procedure of the Ethics Committee were amended.

the President (and judge) of the Basic Court in Loznica and the judge of the Basic Court in Lazarevac were convicted in the first instance.

Just like public prosecutors and judges, they are obliged to inform the Agency for the Prevention of Corruption about their own assets, income, debts of their family members, or about all significant changes in assets and income if they occur during their term in office. In addition, the Agency decides on the existence of conflicts of interest among public prosecutors and judges.

In its 2020 Progress Report on Serbia, the European Commission expressed concern over the continuing political influence on the Serbian judiciary, stressing that Serbia must strengthen the independence of the judiciary and the independence of the prosecution, including amendments to constitutional and legal provisions related to the selection of judges and prosecutors, career management and disciplinary proceedings for judges and prosecutors.[40] Although the integrity and independence of public prosecutors and judges cannot be viewed unilaterally outside the context of corruption in the state system as a whole, it is important to emphasize that considerable attention is paid to measures for the protection of the integrity and independence of public prosecutors and judges.

Transparency in work is one of the key aspects of preserving the integrity not only of the public prosecutor, but also of every other function. Professional and timely notification of ongoing proceedings, in accordance with legally prescribed restrictions, will also contribute to the protection of the integrity of judicial office holders, which may be endangered, inter alia, by unauthorized influence and pressure and unverified information through the media.

1.10. Quality of state border control mechanisms

The exposure of the Republic of Serbia to cross-border and transnational crime, including smuggling of money across the state border, is high given that the Republic of Serbia borders eight countries and is located in a region at the crossroads between Western Europe and the Middle East.

Integrated Border Management Strategy in the Republic of Serbia 2017-2020, as well as the Action Plan for the Implementation of the Integrated Border Management Strategy 2017-2020 have been harmonized with the five-dimensional model of integrated border management of the European Union. Considering that not all goals from the Strategy have been realized, the Revised Action Plan was adopted in January 2020.

40 Available at: https://www.mei.gov.rs/upload/documents/eu_dokumenta/godisnji_izvestaji_ek_o_napretku/serbia_report_2020_SR.pdf.

The Law on Border Control, which entered into force in 2018, regulates basic and detailed border checks of persons and documents, objects and means of transportation, which are performed in the area of the border crossing.

The Border Police Directorate of the Ministry of the Interior (BPD) performs the tasks of protection of the state border, movement and stay of foreigners, suppression of cross-border crime, irregular migration, and asylum activities.

Based on the Agreement on Cooperation in the Field of Integrated Border Management[41] a Protocol on the Exchange of Data and Information between Services Involved in the Integrated Border Management System was signed, and in December 2019, the first joint integrated risk analysis of border services was prepared.[42] The same year, a secure web platform was also established for the exchange of information between services engaged in integrated border management in order to improve cooperation and joint risk analysis.[43]

The Border Police Administration has intensive cooperation with the competent services of neighboring countries. It is important to note that a system of joint (mixed) police patrols has been established with all countries in the region. Also, joint contact services (center/office) for data exchange have been established with all neighboring countries, with the Serbian and Bulgarian customs services being involved in the work of the center with Bulgaria.

Alternative routes and specific locations at the border that have been identified as suitable for smuggling in terms of the possible absence of geographical barriers with Bosnia and Herzegovina have been blocked. Activities are underway to block roads suitable for illegal crossing of the state border with Montenegro.

In the period from 2018 to 2020, the Border Police Administration carried out 351 seizures of smuggled money across the state border. On that occasion, the total amount of 10,100,288 euros, 839,610 British pounds, 717,800 Swiss francs, 297,480 US dollars and other currencies in the equivalent of 149,885,732 dinars was seized. The riskiest points of money smuggling are border crossings to Bulgaria, Hungary, and Croatia, which accounted for 82% of the total number of seizures in the period from 2018 to 2020, which is not surprising given that they are on the route with the most frequent transit through Serbia.

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41 An agreement on cooperation in the field of integrated border management was signed between the Ministry of Interior, the Ministry of Finance - Customs Administration, the Ministry of Agriculture, Forestry and Water Management (Veterinary Administration and Plant Protection Administration) and the Ministry of Construction, Transport and Infrastructure - Harbor Master's Office.

42 Quarterly and annual risk analysis, as well as joint integrated risk analysis of border services, is based on the *CIRAM 2.0* model.

43 Available at: https://ibm.ite.gov.rs/.

1.11. Comprehensiveness of the customs system and effectiveness of customs control mechanisms in terms of money and similar instruments

The Customs Administration is the body whose competence is to control the entry and exit of dinars and foreign means of payment in international passenger and border traffic with foreign countries.[44]

The Rulebook on Reporting the Transfer of Physically Transferable Means of Payment Across the State Border[45] prescribes the form and content of the application form for the transfer of funds, the manner of filling in and submitting the application and the manner of informing on the obligation to report the transfer for natural persons crossing the state border.

In cases when the passenger - natural person fails to report the transfer of funds and carries an amount higher than allowed and the customs authority establishes it during the control, as well as in case the natural person transfers across the state border an amount lower than allowed, and there is reason to suspect money laundering and terrorism financing, funds will be confiscated. In case of providing false, inaccurate or incomplete information, it will be considered that the applicant has not fulfilled the legal obligation and may be fined, or the customs authorities may temporarily withhold physically transferable means of payment on the basis of LPMLTF. Therefore, money over EUR 10,000.00 that is not reported at the entrance or exit from the country is temporarily withheld by the Customs Administration with the issuance of a certificate to the person from whom the money was detained, until the decision of the competent court[46] confiscating undeclared means of payment is rendered.

For this violation, the Law on Prevention of Money Laundering and Terrorism Financing prescribes a fine in the amount of 5,000.00 to 50,000.00 dinars, while for the same violation, the range of fines prescribed by the Law on Foreign Exchange Operations is from 5,000.00 to 150,000.00 dinars. The difference between the penal provisions of the two mentioned laws is reflected, first of all, in the imposition of a protection measure of seizure of objects that were used or were intended for the commission of an offense or were created by the commission of an offense. This protective measure is of an imperative nature contained the Law on Foreign Exchange Operations, while in the case of committing an offense from LPMLTF there is a possibility of imposing a protective measure of seizure of objects which is optional, and it is necessary that the claimant of the offense procedure to propose the imposition of this measure. In the forthcoming period, it is necessary to harmonize the provisions of these two laws, i.e., to provide for in the Law on Prevention of Money Laundering and Terrorism Financing an imperative protective measure of seizure of objects used or intended for the commission of the offense or arising from the offense.

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44 Article 6 of the Law on Customs Service.
45 "Official Gazette of RS", no. 20/18.
46 Foreign currency funds are paid into the account of the NBS, and if the subject of temporary detention is dinar funds, they are paid into the account of the Treasury.

In order to better coordinate and exchange information, the Customs Administration concluded agreements with the Administration for the Prevention of Money Laundering on August 16, 2018, and on December 28, 2018, with the Republic Public Prosecutor's Office.

The Agreement on Cooperation in the Field of Prevention and Detection of Money Laundering, Terrorism Financing and Related Crimes signed between the Customs Administration and the Republic Public Prosecutor's Office enables a quick check of the origin of undeclared money and timely detection if the money. originates from illegal activities, which would lead to the initiation of criminal proceedings. The signing of the agreement produced immediately visible results, which are reflected in the increase in the number of criminal charges filed by the Customs Administration - in 2018, there were no criminal charges, in 2019 one, and in 2020, twelve criminal charges were filed relating to transferring means of payment across the state border.

In all cases, data on the transfer of physically transferable funds in excess of the allowed amount across the state border or when there are grounds for suspicion of money laundering and terrorism financing, are submitted to the Administration for the Prevention of Money Laundering within 3 days of the transfer.

The staffing capacity of the Customs Administration partially satisfies the needs for efficient customs controls, and the training of employees in the Customs Administration in relation to money laundering is ongoing. During 2019, over 500 customs officers underwent training on "Recognizing the risks of money laundering and terrorism financing in cross-border control of cash transfers", which produced immediate results, so in 2020, despite the Covid-19 pandemic, the amount of temporarily withheld means of payment doubled compared to 2019.[47]

1.12. Effectiveness of domestic cooperation

The previously identified shortcoming related to effective coordination and cooperation at the national level has been overcome by establishing an inter-ministerial Coordinating Body for the Prevention of Money Laundering and Terrorism Financing, which considers the most important issues for the system and brings about initiatives for its improvement.

The basis for operational cooperation of state authorities in the field of prevention of money laundering is defined both in bylaws and in special laws that regulate certain aspects of the field of prevention of money laundering.

The Code of Criminal Procedure (CCP) stipulates that all state bodies are obliged to provide the necessary assistance to a public prosecutor, court, or other body of procedure in order to gather evidence.

47 According to the records of the Customs Administration, in the period from 2018 to 2020, 399 cases of temporarily withheld means of payment were recorded, in which misdemeanor proceedings were initiated.

Furthermore, in accordance with the CCP (Articles 143-146), the bodies in the procedure have the authority to check invoices and suspicious transactions, obtain data directly from obligors and suspend the execution of the transaction.

The Law on Organization and Competences of State Bodies in Combating Organized Crime, Terrorism and Corruption envisages specialization within the police, public prosecutor's offices and courts, and accordingly refers to direct cooperation of specialized departments and services of these institutions in financial and economic crime cases, including money laundering. This law also introduces the institute of liaison officers within the task forces,[48] which provides a good platform for the exchange of operational data and information and coordination in case work.

In accordance with the Action Plans for Chapters 23 and 24, in 2019 the Agreement on the Establishment and Development of the National Criminal Intelligence System (NCIS) was concluded, through which a single platform for secure electronic communication and real-time data exchange should be developed to raise the level of operability to a higher level.

In order to improve the work on the prevention of money laundering, have a more efficient prosecution of perpetrators of this crime and eliminate the perceived shortcomings from the previous risk assessment, an agreement was concluded between state authorities, which should be further improved on in the future.

In addition to improving the cooperation of law enforcement bodies, in the period covered by this risk assessment, measures were taken to improve the coordination of inspection supervision.

1.13. Effectiveness of international cooperation

The Republic of Serbia has a broad basis for providing international legal assistance, bearing in mind that it takes place on the basis of bilateral agreements, multilateral agreements, and domestic legislation. Legal aid can also be provided on the basis of reciprocity.

In the legislation of the Republic of Serbia, international legal assistance in criminal matters is regulated by the Law on International Legal Assistance in Criminal Matters, which defines all forms of international legal assistance in criminal matters. In addition to this law, the Law on Seizure and Confiscation of the Proceeds of Crime in special provisions regulates the provision of international assistance in recovering criminal assets in connection with the prohibition of disposal and temporary and permanent confiscation of proceeds from crime. Provisions related to international cooperation also include the Law on Prevention of Money Laundering and Terrorism Financing, the Criminal Code and the Code of Criminal Procedure.

48 To date, ten task forces groups have been formed and have operated as part of the special departments of the higher public prosecutor's offices for the suppression of corruption, and the deputy prosecutors for organized crime were the leaders of three inter-ministerial task forces.

International legal assistance, in accordance with the Law on International Legal Assistance, is provided by competent courts and public prosecutor's offices, and letters rogatory are submitted through the central authority - the Ministry of Justice, but also directly to the competent judicial authorities, i.e., in emergencies by Interpol, in accordance with the principle of reciprocity.

In the past period, public prosecutor's offices have improved their handling of international legal aid cases through: (1) participation in the work of judicial networks,[49] (2) bilateral cooperation; (3) promoting informal cooperation; and (4) strengthening the capacity of the Public Prosecutor's Office of the Republic of Serbia, including specialization in international legal assistance within the Public Prosecutor's Office and intensifying training in international legal assistance, with special emphasis on legal opportunities for direct and informal cooperation.

In addition, police officers of the Financial Investigation Unit of the Ministry of the Interior achieve active international operational police cooperation through received and sent requests for checks, which are forwarded through existing channels for the exchange of information.[50]

For the purpose of exchange of information with the financial intelligence services of other countries, the Administration for the Prevention of Money Laundering intensively uses protected channels of communication through the Egmont Group, as well as signed agreements on cooperation with foreign financial intelligence services.

The Law on the Prevention of Money Laundering and Terrorism Financing also vests the authorities responsible for supervision under this law with powers for international cooperation, which authorities may, in accordance with the principles of reciprocity and confidentiality, seek mutual assistance to supervise an obligor who is part of a group and who operates in the country from which assistance is sought. The manner of using and maintaining the confidentiality of data is also regulated, in accordance with international standards.

In addition to this general provision, the *National Bank of Serbia* realizes international cooperation with the central banks of other countries and in accordance with the Law on the National Bank of Serbia. In this sense, NBS also concludes agreements on cooperation with central banks of other countries.[51] *The Securities Commission*, as a supervisory authority, also has a mechanism for international cooperation with equivalent institutions of other countries in accordance with the Capital Market Law.

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49 Eurojust, the European Judicial Network, OLAF / AFCOS, the networks and bodies of the Council of Europe (participation in the Consultative Council of European Prosecutors (CCPE), the Bureau of the T-CY Committee and the European Commission for the Efficiency of Justice (CEPEJ)), and the Advisory Group of Prosecutors Of Europe (SEEPAG)

50 Through the CARIN Network, SIENA (Secure Information Exchange Network Application), INTERPOL (the International Criminal Police Organization), EUROPOL (European Police Office) and liaison officers of foreign embassies in the Republic of Serbia.

51 In the period after the previous National Risk Assessment, NBS signed agreements with the European Central Bank (2018) and the Czech National Bank (2021).

The Tax Administration cooperates with the tax administrations of other countries through various forms of exchange of tax information (on request, automatic or spontaneous exchange of information). In the Republic of Serbia, all requests are processed through the Ministry of Finance, which is the competent body for the implementation of the standards of the Global Forum on Transparency and Exchange of Information for Tax Purposes.

1.14. Availability of independent audit

The functioning of the auditing profession is regulated by the Law on Audit, which entered into force on January 1, 2020, as well as bylaws adopted for its implementation.

From the aspect of application of regulations on prevention of money laundering and terrorism financing, it should be emphasized that the provisions of the law incorporate Moneyval Recommendation 28 to prohibit convicted legal and natural persons and their affiliates, as well as associates from being founders and owners of audit firms. Also, this law stipulates that a natural person may not be the founder, i.e., beneficial owner or member of the management body of the audit company, if it has seriously violated or repeated the violation of regulations governing the prevention of money laundering and terrorism financing in the duration of the protective measure of prohibition of performing certain activities that represent the predominant activity of the audit company or the duration of the protective measure prohibiting the responsible person from performing certain activities, i.e., duties that represent the predominant duties of the audit company. The possibility of ordering that the audit company be stripped of its the audit license if the audit company, i.e., the independent auditor, acts contrary to the regulations governing the prevention of money laundering and terrorism financing, is also relevant.

Redefining previously established systems of public supervision and quality control systems in terms of their unification within one institution - the Securities Commission – from 1 January 2020, will greatly influence the further improvement of the independence of supervision from the influence of the profession.

Audit companies are obliged to establish an internal quality control system, the quality and implementation of which in practice is controlled by the Securities Commission.

The obligors of the audit of regular annual financial statements are large and medium-sized legal entities, public companies regardless of size, as well as all legal entities and entrepreneurs with total revenue in the previous year exceeding 4.4 million euros in dinars.[52] Public companies regardless of size are subject to audit in accordance with the Law on Public Enterprises.

52 According to the previously valid law, the criterion, instead of the total income, was business income higher than 4.4 million euros.

Furthermore, all financial institutions[53] are considered large legal entities and are subject to audit.

The law stipulates the obligation for audit companies auditing public interest entities[54] to publish an annual transparency report on their website and on the website of the Chamber of Certified Auditors.

The audit of public funds in the Republic of Serbia is performed by the State Audit Institution (SAI), as an independent state body. The subjects of SAI audits are the users of public funds.

1.15. Level of financial integrity

The legal and regulatory framework for ***corporate governance*** has been significantly improved and aligned with OECD principles of corporate governance, but corporate governance practices are still underdeveloped. All business entities in Serbia are encouraged to adhere to the corporate governance rules included in the corporate governance codes.[55] However, the legislation, as well as the CCIS Corporate Governance Code, does not provide for sanctioning mechanisms in case of violation of the Code.

The Code was accepted as a general code by banks, insurance companies, public companies, and public utility companies, i.e., all those who had the obligation to adopt their own corporate governance code or accept the application of available general codes, and it was accepted by a number of businesses on voluntary basis. The key amendments to the new Law on Public Enterprises also introduce obligations for individual members of the management body (members of the supervisory board and directors) to know and apply the principles and good practice of corporate governance and to further improve personally in this area.

All companies, banks and other financial institutions, insurance companies, financial leasing companies, pension funds and voluntary pension fund management companies, investment funds and investment fund management companies, stock exchanges and

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53 The National Bank of Serbia, banks, insurance companies, financial leasing providers, voluntary pension funds, voluntary pension fund management companies, Central Registry, securities depository and clearing, investment funds, investment fund management companies, stock exchanges and brokerage dealer companies, payment institutions and electronic money institutions, as well as factoring companies.

54 Public interest companies include: 1. large legal entities classified in accordance with the law governing accounting;
2. legal entities that are considered public companies in accordance with the law governing the capital market; as well as 3. all legal entities that the Government, at the proposal of the competent ministry, declares to be legal entities of public interest for the Republic of Serbia, regardless of their size.

55 At the moment, there are two codes of corporate governance in Serbia:
1. The Belgrade Stock Exchange Corporate Governance Code - which contains the principles of corporate governance that must be followed by public joint stock companies whose shares are traded on the Belgrade Stock Exchange.
2. The Corporate Governance Code from 2012, adopted by the Assembly of the Serbian Chamber of Commerce with voluntary application for all capital companies.

brokerage companies, factoring companies, cooperatives, institutions that perform activities for profit, entrepreneurs who keep business books under the double-entry bookkeeping system, as well as branches and other organizational units of foreign legal entities based abroad that perform economic activities in the Republic of Serbia have the **obligation to submit financial statements**.

Financial reports are submitted to the Business Registers Agency in electronic form, signed by a qualified electronic signature of the legal representative. All financial reports and documents accompanying those reports for all obligors are publicly accessible on the Agency's website, and in addition to complete and mathematically accurate financial statements, incomplete and incorrect financial statements of legal entities and entrepreneurs that have not remedied the identified deficiencies, are also published.

In order to improve the transparency of business entities and increase the level of security of legal transactions of all its participants, the Central Record of Proposed Measures is kept, which includes collected data on those businesses, i.e., their owners, directors and members of supervisory boards or other bodies, whose business has been sanctioned by imposing criminal, offense or administrative sanctions that are systematized in one place. These records are publicly available on the website of the Business Registers Agency.

The Republic of Serbia has a high level of **tax transparency** because tax laws provide for the possibility for tax authorities to require individuals and legal entities to provide comprehensive information on their assets and income.

1.16. Effectiveness of tax law enforcement

The Republic of Serbia has a comprehensive regulatory tax framework that governs this area and consists of the LTPTA, as an "umbrella" tax law, and separate tax laws governing specific areas, or other laws related to the work of the Tax Administration.[56]

LTPTA in the section "Tax offenses" defines tax offenses as violations of the provisions contained in tax laws and recognizes two types of tax offenses - general tax offenses of legal entities and entrepreneurs and special tax offenses - violations of provisions contained exclusively

56 Law on Personal Income Tax, Law on Compulsory Social Insurance Contributions, Law on Corporate Income Tax, Law on Excise Duties, Law on Property Taxes, Law on Tax on Non-Life Insurance Premiums, Law on Taxes on Use, Holding and Carrying Goods, as well as the Law on Budget System, the Law on Fiscal Cash Registers, the Law on Inspection Supervision, the Criminal Code, the Law on Misdemeanors, the Law on Determining the Origin of Assets, the Law on Digital Assets, etc.

in LTPTA. Furthermore, LTPTA provides for four criminal offenses: tax fraud in connection with value added tax (Article 173a); endangering tax collection and tax control (Article 175); illegal trade in excise products (Article 176); and illegal storage of goods (Art. 176a). On the other hand, tax crimes are regulated by the Criminal Code. Article 225 prescribes the criminal offense of tax evasion, while Article 226 prescribes the criminal offense of non-payment of withholding tax. Penalties for the commission of tax crimes prescribed in both laws can be considered adequate and dissuasive.

The Tax Administration, as an administrative body within the Ministry of Finance, is the central body that looks over the implementation of tax regulations.

In the previous period, an amendment to the Rulebook on Criteria for the Selection of Large Taxpayers was proposed, which creates the conditions for the administration of between 500 and 600 taxpayers with the largest turnover and share in public revenues. Furthermore, a framework for risk differentiation (FRD) has been adopted, which involves a special approach to the obligor in relation to the risk that the obligor carries for compliance with regulations. A new risk filter for corporate income tax was adopted and a basic set of risk filters for evaded capitalization and transfer pricing was developed. A Transfer Price Control Division has been established in the Tax Control Department. Macroeconomic indicators have been identified that have a significant impact on the possibility of higher collection of public revenues in the future. A control manual has been developed with a special focus on large taxpayers, which is a documented set of control policies and procedures available to all employees.

The Department for Strategic Risks, in cooperation with all sectors of the Tax Administration, has developed **annual tax regulations compliance plans** based on risk mapping in certain types of public revenues, in four domains: registration, filing tax returns, accuracy of reported data and timely collection. In addition to risk mapping in public revenues, compliance plans envisage a number of projects aimed at combating the informal economy, with the exchange of data with other state bodies and joint inspections.

The work of tax control has been strengthened and optimized by merging field and office control with stronger coordination in the field of tax control between all organizational control units at the level of headquarters and associated branches respectively, which has led to more efficient collection of public revenues administered by the Tax Administration.[57] In the period from January 1, 2018 to December 31, 2020, tax inspectors performed 33,814 controls and newly discovered public revenues in the total amount of 65,564,261,587.00 dinars were calculated. The Tax Police Sector filed 3,981 criminal charges against 5,236 persons for 4,820 different criminal offenses, dominated by 4,299 tax offenses. The total amount of damage to the budget of the Republic of Serbia according to the aforementioned criminal charges amounted to 37,589,495,653.18 dinars.

57 In 2020, a total of 1,598 billion dinars of public revenues were collected, which is an increase of 1.65% compared to 2019.

1.17. The level of formalization of the economy

The last comprehensive survey and study of the gray economy was conducted in 2017 by NALED[58] and it found that the gray economy fell from 21.2% in 2012 to 15.4% of GDP in 2017, which indicates that the level of formalization of the economy is high, with a decreasing trend of the informal economy.[59]

The Tax Administration and inspection bodies have a very important role in combating the gray economy, which is coordinated by the Coordination Commission through meetings of 11 working groups, as well as individual cooperation of inspection services.

Since the failure to declare employees, i.e., partial or full payment of wages in cash, is the dominant form of the gray economy, the focus of public policy measures continued to be on **reducing informal employment**. According to data of the Statistical Office of the Republic of Serbia, in 2019 and 2020, the long-term trend of increased formal and declining informal employment continued. The rate of informal employment in 2020, at the level of all activities, was 16.4% and is lower, compared to the same period in 2019, by 1.8 percentage points.[60]

In terms of combating the gray economy, the Tax Administration conducted the control of persons performing unregistered activities,[61] control of recorded turnover through fiscal cash registers,[62] as well as control of the turnover of excise products (tobacco, cigarettes, alcoholic beverages, oil and oil derivatives, coffee, etc.).[63]

On the other hand, in order to prevent the gray economy, inspections are carried out in connection with trade in goods for the green market, in stores or online, with unregistered and registered entities.

Contribution to better **control and prevention of the establishment of so-called "laundries" and "phantom firms"** was provided by the adoption of the Law on the Central Register of Temporary Restrictions on the Rights of Persons Registered

58 Gray economy in Serbia 2017: Estimation of scope, characteristics of participants and determinants.

59 According to data from the mentioned research, in 2017, 16.9% of registered economic entities were engaged in some kind of gray economy. Observed by forms of informal business, approximately one tenth of economic entities (10.8%) have informally employed workers, while 6.9% make payments in cash, although they are VAT payers. On the other hand, according to economic entities, the share of unregistered companies in their activities is 17.2%.

60 Report on the implementation of the National Action Plan for Employment for 2020.

61 Out of 544 performed controls, irregularities were found in 344 persons, which represents 65% of the total number of performed controls, and the tax liability in the total amount of 426,992,905 dinars was determined.

62 This control was performed on 10,928 obligors on the territory of Serbia, during which the labor status of hired workers was checked, and on these two grounds measures of temporary prohibition of performing activities in 4,099 facilities were imposed, and with 3,503 facilities temporary bans on performing activities due to non-recording of turnover through the fiscal cash register.

63 The total value of confiscated excise products by the Tax Police Sector of the Tax Administration is 470,283,103.50 dinars in the period covered by this risk assessment.

them in the Business Registers Agency[64] and the formation of this database which contains in one place systematized data on imposed criminal, misdemeanor, or administrative sanctions to economic entities, i.e., their owners, directors and members of supervisory boards or other bodies.

The biggest shortcoming is the insufficient cooperation of inspection authorities (with the exception of the Tax Administration - Tax Police Sector) with the police, public prosecutor's office and courts. Namely, the inspection services are not sufficiently trained to file criminal charges, charges for economic crimes, and even the number of initiated misdemeanor proceedings does not speak in favor of good cooperation and active use of mechanisms that would effectively sanction legal and natural persons for whom it is found that they have broken the law.

1.18. Availability of a reliable identification infrastructure

Public documents by which citizens, nationals of the Republic of Serbia, prove their identity on the territory of the Republic of Serbia are the identity card and a travel document issued by the competent organizational units of the Ministry of the Interior of the Republic of Serbia. Every citizen of the Republic of Serbia older than 16 has the right to an identity card, i.e., even a citizen older than ten has the right to an identity card.

The system for the production of citizens' identification documents of the Republic of Serbia is centralized and fully harmonized with international standards, which reduces the possibility of misuse of these documents to a minimum.

In the period from 2018 to 2020, the Border Police Directorate of the Ministry of the Interior discovered a total of 10 forged documents of the Republic of Serbia, while police officers from the Service for Combating Organized Crime of the Ministry of the Interior filed four criminal charges for forgery of documents, which is a negligible number in relation to the number of issued personal identification documents.

Data from the UN High Commissioner at the end of 2020 show that 2,139 persons are at risk of statelessness, which is a negligible percentage of the total population. The largest number of citizens who do not have an identification document - ID card are members of the Roma population. In order to enable the citizens to exercise their right to personal documents, the Ministry of the Interior proposed a legal framework and adopted

64 "Official Gazette of RS", no. 12/15.

bylaws[65] in order to enable the citizens to exercise their right to personal documents for the category of citizens who were not able to exercise the right to register their domicile and issue personal documents.

The Law on the Central Population Register, which has been in force since September 1, 2020, regulates the establishment and maintenance, content, manner of use, as well as other relevant issues for the establishment and maintenance of the Central Population Register of the Republic of Serbia.

1.19. Availability of independent sources of information

In Serbia, sources of comprehensive data and information on clients are widely available, which include data on the founders, ownership and management structure of legal entities, as well as financial information. Institutions responsible for the prevention of money laundering can access this data without much difficulty.

Institutions that keep different types of registers relevant for the actions of LPMLTF obligors and competent state authorities are the Business Registers Agency, the Central Registry, the Depot and Clearing Securities, the National Bank of Serbia, the Credit Bureau, the Agency for the Prevention of Corruption, etc.

The Financial Investigation Unit of the Ministry of the Interior has access, in addition to the above, to the databases of the Republic Geodetic Authority, the Tax Administration and the public utility company - JKP "Infostan tehnologije" and JP "Informatika" - a system of unified collection of utility services.

1.20. Availability and access to beneficial owner information

The Law on Prevention of Money Laundering and Terrorism Financing defined in Article 25 the notion of beneficial owner and the obligation to determine the beneficial owner and verify the identity of the beneficial owner by the obligor of this law.

The Law on Prevention of Money Laundering and Terrorism Financing defines the beneficial owner as *a natural person who directly or indirectly owns or controls a party, whereby*

65 In this regard, the Law on Domicile or Residence of Citizens ("Official Gazette of the RS", No. 87/11), the Law on Amendments to the Law on Identity Card ("Official Gazette of the RS", No. 36/11), the Rulebook on the procedure for registration and deregistration of domicile or residence of citizens, registration of temporary residence abroad and return from abroad, passivation of domicile or residence, forms and manner of keeping records ("Official Gazette of the RS", No. 62/13, 106/13 and 3/16), Rulebook on the form of registration of domicile at the address of the institution or center for social work ("Official Gazette of the RS", No. 113/12) and Rulebook on identity card "Official Gazette of the RS", No. 11/07, 9/08 , 85/14 and 112/17 - CC decision).

the party may also be a natural person. A party, in terms of this law, is a natural person, entrepreneur, legal entity, foreign law entity and civil law entity that performs a transaction or establishes a business relationship with the obligor.

The beneficial owner of the company or other legal entity is:

(1) a natural person who directly or indirectly holds 25% or more of a business share, shares, voting rights or other rights, on the basis of which he participates in the management of a legal entity, or participates in the capital of a legal entity with 25% or more, or a natural person directly or indirectly has a predominant influence on the conduct of business and decision-making; [66] or

(2) a natural person who indirectly provides or is providing funds to a company and on that basis has the right to significantly influence the decision-making of the management body of the company when deciding on financing and operations.

In accordance with LPMLTF, the beneficial owner of the trust is the founder, trustee, protector, user if designated, as well as the person who has a dominant position in the management of the trust. This provision applies analogously to the beneficial owner and other persons of foreign law.

The Law on AMLFT provides for the determination of the beneficial owner and verification of the identity of the beneficial owner as one of the obligations of the obligor as part of taking KYC actions and measures when establishing a business relationship, but also when a business relationship is not established and EUR 15,000 or more or funds in the amount of more than EUR 1,000 are transferred. Also, the identity of the beneficial owner is determined and verified when there are grounds for suspicion of money laundering or terrorism financing in relation to the party or transaction, as well as when there is doubt in the truth or authenticity of obtained data on the party and beneficial owner.

The obligor is obliged to establish the identity of the beneficial owner of the party which is a legal entity or a person of foreign law, therefore a trust, by obtaining the following data: name, surname, date and place of birth and domicile or residence of the beneficial owner of the party.[67] The obligor is obliged to also enter the said information in the records of customers, business relationships and transactions.[68]

The procedure or manner of establishing the beneficial owner of a party that is a legal entity or a entity of foreign law is prescribed by law and elaborated in detail through the Guidelines for Establishing the Beneficial Owner.

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66 When a trust or another foreign law entity that has similarities in its function and structure to a trust appears in the ownership structure of a registered business entity, as a member with at least 25% or more of shares, stocks, voting rights or other rights in relation to the trust, it will be recorded Central Register of Beneficial Owners as a natural person who is the founder, trustee, protector, user of the trust (if designated), as well as a person who has a dominant position in the management of the trust, or another person under foreign law.

67 See: Article 25, paragraph 1 LPMLTF.

68 See: Article 99, paragraph 1, item 13) LPMLTF.

guidelines for recording the beneficial owner of a registered entity in the central register issued by the Director of the Administration for the Prevention of Money Laundering. (hereinafter: Guidelines for Establishing the Beneficial Owner).

1.20.1. Central records of beneficial owners

Serbia has adopted the Law on the Central Register of Beneficial Owners, which entered into force on June 8, 2018, which is in line with EU Directive 2015 / 849.[69] This law regulates the obligation to determine the beneficial owner of a registered entity in the unique database on beneficial owners of legal entities and other entities registered in the relevant registers in the Republic of Serbia - Central Register of Beneficial Owners (CRBO).

Companies (except public joint stock companies), cooperatives, branches of foreign companies, business associations and associations (except political parties, trade unions, sports organizations and associations, churches and religious communities), foundations and endowments, institutions, as well as foreign branch offices (companies, associations, foundations and endowments), are obliged to record data on beneficial owners.

The law does not apply to companies and institutions in which the Republic of Serbia, an autonomous province or a unit of local self-government is the only member or founder.

The beneficial owner is registered in CRBO during the establishment of the registered entity and during changes in the ownership structure and members of the registered entity, as well as during other changes on the basis of which the fulfillment of conditions for acquiring the status of beneficial owner can be assessed.

The Law on the Central Register of Beneficial Owners is harmonized with LPMLTF regarding the definition of the beneficial owner. The Central Register of Beneficial Owners is kept electronically, via the website of the Business Registers Agency.

CRBO is a publicly available database that can be accessed by any interested person and searched through the website of the Business Registers Agency, to government services, including the Administration for the Prevention of Money Laundering, as well as through the web service.[70]

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69 Available at: EUR-Lex - 32015L0849 - EN - EUR - Lex (europa.eu).

70 The Minister of Economy adopted the Rulebook on the Manner and Conditions of Electronic Data Exchange Between the Business Registers Agency, State Bodies and the National Bank of Serbia for the Registration of Beneficial Owners (Official Gazette of RS, No. 94/18), which created the conditions for an efficient mechanism of electronic data exchange for the purpose of recording the beneficial owners of registered entities in the Republic of Serbia between the Business Registers Agency, the National Bank of Serbia and state authorities.

BRA has the authority to check whether all registered entities have fulfilled their legal obligation and recorded the data on the beneficial owner within the set deadline. The Law on CESV envisages misdemeanor[71] and criminal liability72 for non-fulfilment of this obligation and the envisaged sanctions prescribed by the Law on CESV are proportional, appropriate, and dissuasive.

The measures imposed on the basis of misdemeanor reports to BRA speak in favor of the need to prioritize the education of judges of misdemeanor courts, on the importance of the application of the Law on CRBO.

1.20.2. Structure of beneficial owners of registered companies

The analysis of the structure of founders and owners of shares in economic entities shows that the largest number of founders or owners of shares in economic entities are citizens of the Republic of Serbia, i.e., legal entities registered in Serbia (86% in 2020), while foreign individuals and legal entities mainly establish, i.e., participate in the establishment of limited liability companies.

The structure of beneficial owners is dominated by domestic natural persons, which are registered in 91% of registered legal entities, foreign natural persons are registered as beneficial owners in 7.58% of legal entities, and the mixed structure of beneficial owners is registered in 1.7% of legal entities. Based on the data from CRBO, it is noticeable that the legal representatives of foreign legal entities are registered as beneficial owners with almost half of these persons.

Considering that when registering the beneficial owner of a legal entity that has a trust in the ownership structure, it is necessary to register the founder, trustee, protector, user, as well as the natural person that has a dominant position in managing the trust. CRBO contains these data for a total of 505 in 2019, and 1,011 persons in 2020. Of that number in 2019, there are 258 foreign and 247 domestic natural persons who are the beneficial owners of legal entities that have a trust in the ownership structure, while in 2020, the number of foreign natural persons who are the beneficial owners from the ranks of trusts is twice as high - 680, compared to 331 citizens of Serbia.[73]

In the process of drafting the National Risk Assessment, the survey collected data from obligors on how to identify the beneficial owner of their clients / parties. Most representatives

71 If the registered entity did not act within the deadline set, BRA it is authorized to initiate misdemeanor proceedings against the registered entity. For the offense due to failing to keep data on the beneficial owner, a fine of 500,000.00 to 2,000,000.00 dinars is prescribed for a legal entity, i.e., a fine of 50,000.00 to 150,000.00 dinars for a responsible person in a legal entity.

72 Article 13 of the Law on CRBO also prescribes the criminal offense of sanctioning the concealment of the beneficial owner of a registered entity by failing to enter data in CRBO or entering false data or changing or deleting accurate data on the beneficial owner. This crime is punishable by three months to 5 years in prison.

73 On the other hand, according to the NBS data, based on data from commercial banks, in 2019, trusts in the ownership structure of resident legal entities appear 287 times, while in 2020 it was 378 times.

None of the obligors[74] who submitted their answers to this question stated that they apply the provisions of LPMLFT and cited the steps set out in the Guidelines for Establishing the Beneficial Owner.

1.20.3. Supervision of the application of the provisions on beneficial ownership

Supervision over the application of the Law on Prevention of Money Laundering and Terrorism Financing by obligors is performed by supervisory bodies which, if they determine the existence of irregularities or illegalities and in connection with the application of provisions concerning determining the beneficial owner and verifying the identity of the beneficial owner, they must request the remedying of irregularities and deficiencies within the deadline they determine, submit a request to the competent authority to initiate appropriate proceedings and take other measures and actions for which they are authorized by law. If in the supervision procedure they discover facts that are or could be related to money laundering or terrorism financing, the supervisory authorities are obliged to inform the Administration for the Prevention of Money Laundering immediately and in writing.

The existence of the Central Register of Beneficial Owners does not exempt obligors from the obligation to identify the beneficial owner by carrying out mandatory KYC actions and measures, as well as the obligation to obtain the prescribed documentation on the basis of which the beneficial owner is determined.

In this regard, it is necessary to continuously train supervisory authorities in order to control the process of recording and determining the identity of beneficial owners more effectively.

3. SECTOR VULNERABILITY

As national vulnerability, in addition to the state's ability to defend itself from money laundering threats, is affected by the vulnerability of certain sectors that can be misused for money laundering, the financial and non-financial part of the system was analyzed: banks, insurance, financial leasing providers, voluntary pension funds, other payment service providers and electronic money issuers, payment and electronic money institutions, capital markets (broker-dealer companies, authorized banks, investment fund management companies and custodian banks), authorized money changers, factoring companies, real estate brokers and real estate agents, organizers of special games of chance in casinos and organizers of games of chance through electronic means of communication, auditing companies, entrepreneurs and legal entities engaged in the provision of accounting services, attorneys at law and notaries, postal operators, as well as investors in the construction of residential and non-residential buildings, trade of precious metals, the activity of car trade performed by entities that are not obligors under this law.

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74 Association of banks, representatives of electronic money institutions, payment institutions, insurance companies, Association of Accountants, Association of Real Estate Brokers, Notary Chamber, Chamber of Certified Auditors, representatives of casinos and electronic games of chance organizers.

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

The largest factor in the financial part of the system of the Republic of Serbia are banks whose balance sheet total is about 90% of the balance sheet total of the entire financial sector, while about 9% concerns the insurance sector, financial leasing sector and voluntary pension fund sector. Individually, from the standpoint of share in the total balance sheet of the financial sector of the Republic of Serbia, broker-dealer companies and investment funds have a share of 1.4% of the total balance sheet assets of the entire financial sector.

As of December 31, 2020, the financial sector of the Republic of Serbia consists of 26 banks, 16 insurance companies, 16 financial leasing companies, four voluntary pension fund management companies, 14 payment institutions, three electronic money institutions, 2,277 money changers, 16 brokerage-dealer companies, nine authorized banks, five investment fund management companies, which manage the assets of 18 investment funds with a public offering, six custodian banks (depositories) and 19 factoring companies.

As of December 31, 2020, the non-financial sector of the Republic of Serbia consists of brokers in real estate transactions and lease, two organizers of special games of chance in casinos and 17 organizers of games of chance via electronic communication, 73 auditing companies, 5,886 entrepreneurs and 2,347 legal entities engaged in the provision of accounting services, 10,930 attorneys at law and 197 notaries public.

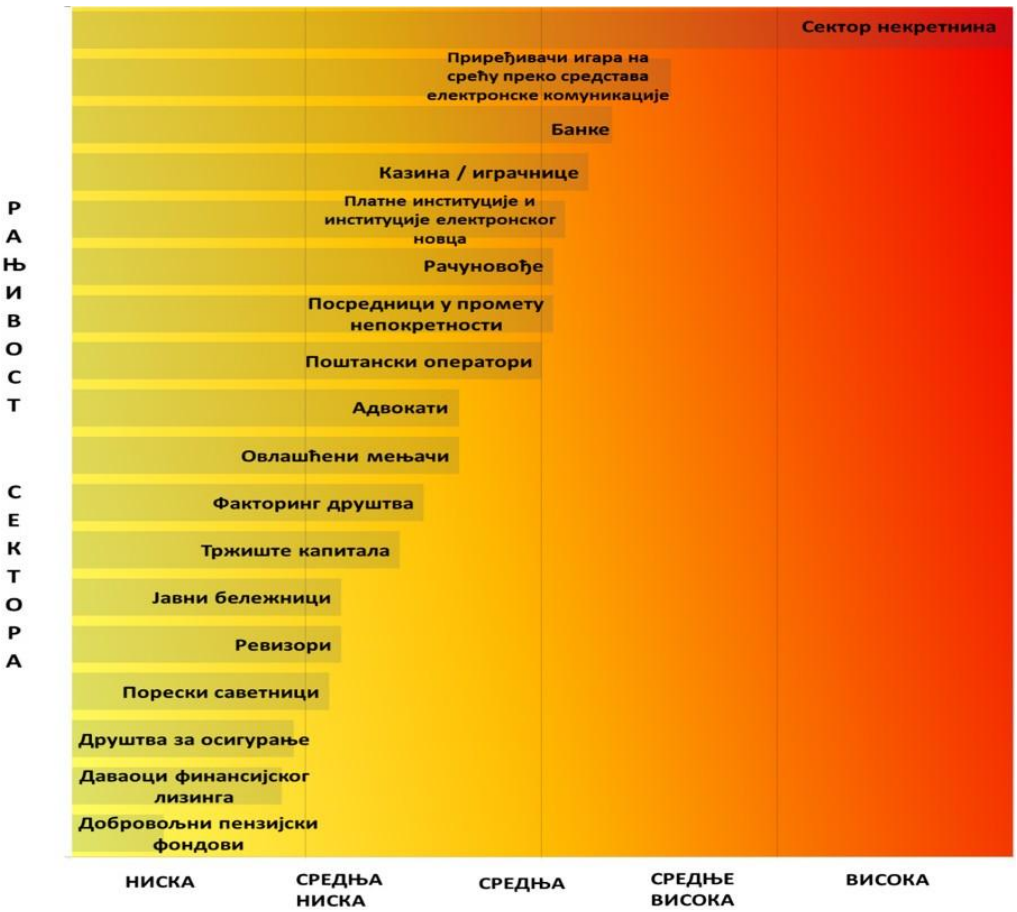
Amendments to the Law on AML/CFT from December 2019 introduced a new group of obligors into the anti-money laundering system, namely 49 persons engaged in postal traffic, one of whom is a public postal operator - the public company "Post of Serbia". This group of obligors was the subject of a money laundering vulnerability assessment for the first time.

Vulnerability was also assessed in entities that are not obligors under the Law on AML/CFT but have an important role in the anti-money laundering system, namely: investors in the construction of residential and non-residential buildings, trade in precious metals, car trade.

Taking into account the market share of the sector, it can be stated that, of all the non-financial sector, the largest share concerns real estate sector, followed by the games of chance sector, attorneys at law, accountants, postal operators, notaries, auditors.

Vulnerability or exposure to money laundering risk by sectors is shown in the table below, noting that the vulnerability assessment of financial institutions is not given in absolute terms, but as greater or lesser vulnerability of a particular sector compared to other sectors.

Tabular presentation of vulnerability assessment by sectors



The assessment of the overall exposure of the financial and non-financial sector to the risk of money laundering, i.e., overall vulnerabilities of the sector, is adopted, inter alia, on the basis of 13 key criteria (comprehensiveness of the legal network for the prevention of money laundering; effectiveness of supervisory procedures and practices; availability and application of administrative measures; availability and application of criminal sanctions; availability and effectiveness of input control mechanisms; employee integrity, knowledge of anti-money laundering prevention by employees; efficiency of the business compliance function; efficiency of monitoring and reporting on suspicious activities; the degree of market pressure in terms of meeting standards in the field of money laundering prevention, availability and access to information on availability of reliable identification infrastructure and availability of independent sources of information). Some of them are more general in nature (e.g. laws and regulations governing the fight against money laundering, organization and functioning of supervision over the implementation of measures to prevent money laundering, expertise and experience of employees, adequate organization of the compliance function, corporate governance), while other criteria are more specific and relate to the implementation of adopted measures to prevent money laundering (e.g. providing appropriate conditions for customer identification and verification of customer identification, transparency of data on beneficial owners, provision of independent sources of information on clients and their work).

The assessment of the sector in the segment of anti-money laundering is based on the existence of a legal framework on preventive measures for the prevention of money laundering that is comprehensive and fully compliant with international standards. The sector assessment also took into account the situation identified in direct and indirect supervision, analysis of reports and questionnaires related to activities in the field of prevention of money laundering and terrorism financing that financial institutions submit to supervisory authorities. In addition to these indicators, the assessment of the compliance of the sector was influenced by the reports on the Republic of Serbia issued by international organizations and institutions, as well as the actions taken on the recommendations of these institutions.

Supervision authorities, in accordance with the competencies under the Law on Prevention of Money Laundering and Terrorism Financing, perform comprehensive supervision using a risk-based approach towards the application of this law by financial institutions.

During the assessment of general variables, in addition to the assessments given by the representatives of supervisory bodies based on their professional knowledge and experience, representatives of the private sector actively participated in the risk assessment.

Based on the conducted comprehensive analysis, it can be concluded that there are no reasons for supervisory concerns regarding the management of money laundering risk by financial institutions.

3.1. Financial sector

3.1.1. Banks

The banking sector of the Republic of Serbia is assessed as moderately vulnerable.

As of December 31, 2020, 26 banks operated in the banking sector of the Republic of Serbia, with a balance sheet total of 4,601,164,000,000 dinars.

Banks in the Republic of Serbia, due to their importance for the financial system, still have a special place in the system of prevention of money laundering and terrorism financing. Undoubtedly, they are the most important obligor under the Law on Prevention of Money Laundering and Terrorism Financing, as they are the biggest factor in the financial part of the system - over 90% of the balance sheet total of the entire financial sector concerns the banks.

The banking sector is exposed to a significant level of risk of money laundering and terrorism financing, primarily due to its size and importance in the financial system, as well as due to the wide availability of

products and new communication technologies in use. However, banks undoubtedly have a high capacity and quality for successful action in the field of combating money laundering and terrorism financing and are making significant efforts to minimize and properly manage this risk, and the banking sector remains the most organized sector when it comes to mitigating the risk of money laundering.

In order to further strengthen the stability of the banking sector and improve the supervision function, as well as harmonize with regulatory changes, the National Bank of Serbia as a supervisor in the field of prevention of money laundering and terrorism financing continuously conducts activities to improve the process of supervisory assessment of money laundering and terrorism financing risk.

The National Bank of Serbia controls banks directly and indirectly.

Immediate controls identified irregularities that do not differ significantly from those identified in the period related to the previous National Risk Assessment, such as, that the bank: did not adequately determine the beneficial owner of the party, mainly in cases where the party has a complex ownership structure (where this number is mostly insignificant in relation to the total number of controlled files); did not take any of the additional measures when opening the account without the physical presence of the party; did not report to the Administration for the Prevention of Money Laundering. a transaction for which there are grounds for suspicion of money laundering (sporadic cases when the number of controlled transactions is observed) mainly as a result of inadequate analysis of transactions; did not obtain all the prescribed information when establishing a business relationship with an official. The identified irregularities also refer to internal acts that are in some parts imprecise and inconsistent with regulatory requirements: the bank did not define the procedure for determining whether a party or the beneficial owner of a party is an official in a systematic and clear manner; or has not defined additional measures to be taken in determining and verifying identity without the physical presence of the party.

In a small number of cases, mutual inconsistency, insufficient precision and ambiguity of certain parts of internal acts was established, as well as disproportion in the number of employees in charge of preventing money laundering in relation to their obligations, given the size of the bank, as well as the prevalence and number of its territorial networks.

In some banks, the money laundering risk analysis does not include a risk analysis in relation to the entire business operations of banks and does not include a risk analysis for each group or type of customer, business relationship, services provided by the obligor within its activities, as well as transactions.

Although in a small number of cases the control determined that the bank did not report to the Administration for the Prevention of Money Laundering. a transaction for which there are grounds for suspicion of money laundering, going forward the training of authorized persons in this segment, should be boosted, as well as in part of determining the beneficial owner of the party, in cases when the party has a complex ownership structure, bearing in mind that these are the two most important areas that can significantly affect the bank's exposure to money laundering risk.

Indirect controls are performed continuously by controlling reports, both regulatory and internal, which are prepared for the management of banks, and which banks are obliged to submit to the National Bank of Serbia together with the adopted internal acts on a monthly basis.

The analysis of the answers to the submitted questionnaires, i.e., the summary of the findings related to the entire banking sector, are published once a year on the website of the National Bank of Serbia.

If during the control significant irregularities are found, the Administration for the Prevention of Money Laundering is immediately notified, and in accordance with the signed cooperation agreement, all findings and measures taken are regularly notified, along with the submission of relevant documentation. In addition to the Administration for the Prevention of Money Laundering, other relevant competent authorities (e.g., Ministry of Finance - Tax Administration, Securities Commission) are informed about the findings of the control where appropriate.

In order to preserve the overall financial stability of the Republic of Serbia, the National Bank of Serbia has envisaged the possibility of extraordinary controls in the field of money laundering and terrorism financing if based on available data it is assessed that the subject of supervision (bank), which is not covered by the adopted annual plan, has committed more serious irregularities. In this regard, in the period from 2018 to 2020, two extraordinary indirect controls were conducted.

With the adoption of the new law regulating the prevention of money laundering and terrorism financing, i.e., in the beginning of its implementation on April 1, 2018, the National Bank of Serbia imposes measures and penalties in accordance with the law regulating the business of banks in the process of supervising the application of this law by the banks. In relation to the National Risk Assessment from 2018, these measures are certainly more efficient, having in mind the slow court procedure that was conducted in the previous period, when due to established irregularities, in accordance with the Law on Prevention of Money Laundering and Terrorism Financing, misdemeanor proceedings reports were submitted.

In the Republic of Serbia, there is a comprehensive legal and regulatory framework which provides the National Bank of Serbia, as a public authority, with the appropriate authority to issue or revoke licenses for banks and a sufficient level of trained employees in licensing.

Compared to the previous period, it is important to point out that the awareness of bank management has been raised, which was influenced by a series of trainings held after the previous National Risk Assessment, where all obligors, including banks, were introduced to the Money Laundering and Terrorism Financing Typologies, respectively. Typologies contain examples of money laundering not only for the banking sector, but also for other participants in the financial and non-financial sectors. The Supervisor is satisfied with the level of knowledge in the field of prevention of money laundering by bank employees, as well as the integrity of bank employees.

Banks are successfully fulfilling their compliance functions for the purpose of preventing money laundering and terrorism financing, and there is no reason for supervisory concern regarding the fulfillment of this function.

In the opinion of banks, the integrity of supervisors is not in question, and employees in the organizational units of banks that deal with money laundering and terrorism financing risk management enjoy solid support from the governing bodies. Regarding the knowledge of the prevention of money laundering of employees in banks, the opinion of banks is that, in addition to regular meetings with representatives of the Administration for the Prevention of Money Laundering and the National Bank of Serbia, which are organized by the Association of Serbian Banks or as part as individual projects organized by the Administration for the Prevention of Money Laundering, the exchange of information and experiences must be further intensified, there must be an exchange of concrete examples from practice, open discussions, but also other types of training are required to raise the present state of affairs to an even higher level. In addition to the above, and in the opinion of banks, the communication and coordination of regulators on the interpretation of laws and resolving some practical issues related to the application of laws and bylaws in this area could be improved, with a view to equal application of laws by banks and legal certainty (e.g., different interpretations by the National Bank of Serbia and the Administration for the Prevention of Money Laundering regarding the risk assessment of a client whose identification was carried out using electronic means of communication).

In connection with the assessment of the vulnerability of the banking sector, an assessment of the vulnerability of individual products or services in terms of the possibility of their misuse for the purpose of money laundering was performed.

When assessing the performance of banks in this segment, the fact was taken into account that most banks have an information system that allows them to reliably monitor customers and their transactions (business) and consider unusual patterns of behavior for all risks.

Having in mind the above, it is indisputable that control mechanisms are prescribed for all products, which certainly mitigate the vulnerability of each individual product.

It should be noted that banks are required to prepare a risk analysis of money laundering and terrorism financing in accordance with the Guidelines for the Application of the Law on Prevention of Money Laundering and Terrorism Financing for obligors overseen by the National Bank of Serbia. Also, as in the preparation of the previous National Risk Assessment, in accordance with the Bank's Risk Management Decision, the bank is obliged to timely include the risk of money laundering arising from the introduction of new products / services when identifying and assessing money laundering risks and activities related to the processes and systems of obligors and to inform the National Bank of Serbia about the introduction of a new product no later than 30 days before the planned introduction and to submit the decision on the introduction of a new product and the results of the analysis with all relevant documentation.

In relation to the list of products analyzed for the purposes of the previous National Risk Assessment, two additional products and services were analyzed on this occasion: video identification, as a product that banks started providing after the previous risk assessment, as well as prepaid cards, due to their specifics, and hence this analysis includes the following products:
1. current accounts of legal entities (including entrepreneurs); 2. current accounts of natural persons; 3.

private banking; 4. deposit products of legal entities; 5. deposit products of natural persons;

6. credit products of legal entities; 7. credit products of natural persons; 8. physically transferable means of payment (not cash, but checks, cards, bills of exchange, etc.); 9. asset and trust management services; 10. documentary affairs; 11. correspondent accounts; 12. electronic banking; 13. mobile banking; 14. electronic transfer of small value money (fast transfer); 15. prepaid cards and 16. video identification.

Most of the products analyzed in the previous National Risk Assessment have not changed significantly in the last three years, so their ratings have not changed significantly.

Namely, the analysis of these products concluded that the initial (inherent) vulnerability of an individual product can be high. However, the overall rating of the vulnerability of each individual product, in addition to the rating of inherent vulnerability, is affected by the quality of general anti-money laundering controls as standard anti-money laundering controls applicable to all products, and ultimately vulnerability, generally declining.

All of the above banking products have a medium vulnerability rating (risk exposure).

The analysis showed that the most represented products in the banking sector remain the current accounts of legal entities and individuals, loan products for legal entities, and electronic banking.

However, special control mechanisms have been established for these products, reducing the possibility of them being misused for the purpose of money laundering and terrorism financing. In the case when these products are used by clients who are assessed as high-risk, banks carry out additional controls, i.e., measures during their monitoring, which also reduces the risk of misuse for the purpose of money laundering and terrorism financing.

For example, the inherent vulnerability of current accounts of legal entities is assessed as highly vulnerable, however, when the rating of the quality of general control mechanisms in the prevention of money laundering is taken into account, the rating of the overall vulnerability of this product is medium. The rating of inherent vulnerability for products such as current accounts of individuals, deposit products of individuals and electronic banking is medium-high, while due to the rating of the quality of general control mechanisms in the field of anti-money laundering, the rating of overall vulnerability is medium. Also, according to the assessment of total vulnerability, low-vulnerability can be products of physically transferable means of payment, asset and trust management services, while a prepaid card product is assessed as medium-low.

Bearing in mind that the video identification process is only a manner of establishing and verifying the identity of the client, which further enables the use of other banking products and services, its vulnerability is assessed as low, because it is a process that is no less reliable than identifying somebody physically.

3.1.2. Financial leasing sector

The financial leasing sector of the Republic of Serbia was assessed as low vulnerable, i.e., the rating of the vulnerability of this sector was determined at a low level and is the same as when the National Money Laundering Risk Assessment in 2018 was prepared.

As of December 31, 2020, 16 financial leasing providers held a license from the National Bank of Serbia to perform financial leasing, with a balance amount of 115,315,569,000 dinars.

Based on the assessment of the quality of money laundering and terrorism financing risk management in the indirect (analysis of answers to questionnaires submitted by financial leasing providers to the National Bank of Serbia) and direct supervision of financial leasing providers, submitted by the Administration for the Prevention of Money Laundering, as well as on the basis of other relevant information from external sources, it can be concluded that there are no reasons for supervisory concerns regarding money laundering risk management.

In the period since the previous National Assessment of Money Laundering Risk from 2018, in addition to indirect inspections that are conducted on regular basis based on the analysis of answers to questionnaires submitted by financial leasing providers to the National Bank of Serbia, four direct inspections were conducted.

The key shortcomings identified in direct supervision are mainly related to technical failures. In the specific controls performed, the observed shortcomings were related to: obsolescence of documents on the basis of which the parties were identified, failure to ascertain the exact time of identification, i.e., to initial the identification document on the basis of which the party was identified, omissions during determining the identity of the beneficial owner (both with the providers and suppliers of financial leasing), failure to take additional actions and measures when establishing a business relationship without the physical presence of the party, failure to obtain information on the origin of assets that are the object of the business relationship, information about the total assets that the official possesses, namely documents and other documentation submitted by the party (official) when establishing a business relationship with the financial leasing provider.

In view of the relevant EU regulations, the National Risk Assessment from 2018 and the existing risk profiles of financial leasing providers, it is estimated that financial leasing providers are low vulnerable to the risk of money laundering and terrorism financing, and that the frequency and intensity of previous controls adapted to the identified risk.

3.1.3. Payment institutions, the public postal operator and electronic money institutions

In the sector of other payment service providers and electronic money issuers (payment institutions, public postal operator and electronic money institutions) (hereinafter: Institutions), the vulnerability was assessed as medium. Relative to the National Risk Assessment from 2018, further improvement can be noticed both in the legislative sense and in the expansion of this type of service

providers. The most common types of payment services provided through the Institutions are money transfer services to the payee's payment account (utility bills and other payments) and international money remittance services through the Western Union, RIA, MoneyGram and Small World systems. Clients are natural persons who generally do not establish a business relationship with the Institutions but perform a one-time payment transaction instead.

The Republic of Serbia has comprehensive laws and regulations on preventive measures to prevent money laundering and terrorism financing and an effective supervision regime, with direct and indirect Supervision of the Institutions using a risk-based approach.

Pursuant to the provisions of the Law on Payment Services, the National Bank of Serbia issues licenses for the provision of payment services and the issuance of electronic money, whereby the manner and conditions are prescribed in detail by bylaws. The regulations in question provide for the establishment of internal control measures in order to meet the obligations set out in the regulations governing the prevention of money laundering and terrorism financing. In the observed period, the National Bank of Serbia, in accordance with the Law on Payment Services, issued a total of four licenses for the provision of payment services, two amendments to the license for the provision of payment services and one license for issuing electronic money. So far, there have been no cases of the National Bank of Serbia denying a request / revoking a license to provide payment services or issuing electronic money due to non-compliance with requirements related to the prevention of money laundering and terrorism financing.

Direct supervision of money laundering and terrorism financing risk management is an integral part of the direct Supervision of the compliance of the Institutions' operations and is performed in accordance with the annual plan adopted on the basis of risk assessment. In the observed period, the National Bank of Serbia initiated five direct supervision procedures with institutions that include money laundering and terrorism financing risk management, two direct Supervisions with Institutions, which included money laundering and terrorism financing risk management were suspended because the institutions concerned remedied the identified technical deficiencies within the prescribed period. So far, there have been no criminal sanctions for non-compliance with anti-money laundering and anti-terrorism financing regulations.

According to data from the Questionnaire sent to the Institutions, it was determined that these Institutions had established business strategies that contain clearly defined business objectives, risk management strategies to which risk the Institution is or may be exposed, long-term goals, risk taking principles and risk management, and employees are also familiar with their jobs, duties, and responsibilities. Furthermore, the Institutions have established procedures in the field of prevention of money laundering and terrorism financing and regularly conduct internal audits of the prevention of money laundering and terrorism financing. In the observed period, there was no violation of the integrity of directors or employees of the Institutions, and in this regard, it was concluded that the (vast) majority of employees in the Institutions consider the regime of criminal sanctions for non-compliance with anti-money laundering and terrorism financing to be a deterrent.

Institutions, among other things, take actions and measures that include submitting information, data and documentation to the Administration for the Prevention of Money Laundering. According to data of the Administration for the Prevention of Money Laundering concerning the reported suspicious activities reports of the institutions, carried out through the money transfer system (international remittances) and the transfer of funds from the payment account and to the payment account, the institutions providing these services are reporting suspicious activities annually to the Administration for the Prevention of Money Laundering, as evidenced by the number of these reports in the period from 2018 to 2020. The quality of submitted suspicious activities reports is improving and more detailed analyses have continued before submitted reports to the Administration for the Prevention of Money Laundering. Internet searches, analysis of publicly available information and use of commercial databases are evident in the institutions' reports, which has led to a number of reports where the link with tax evasion or drug trafficking is clearly visible. Suspicious activity reports by institutions are less and concern less with migrant-related transactions, although they still represent the majority of submitted suspicious activity reports, and therefore the practice of comprehensively analyzing all transactions and forwarding all such reports to security services continues.

With regard to the existence of other vulnerability factors, an assessment was made as to whether there were any additional factors that could make the Institutions vulnerable to the risk of money laundering and terrorism financing. Namely, it was determined that: in the case of the factor of anonymous use of the product, anonymity as such does not exist because the services are performed in the physical presence of the client; in the case of factors related to the difficulty of detecting transaction records, there is the possibility of easy monitoring of transaction records; in the case of factors related to the existence of a typology of money laundering by misusing the subject category of financial institutions, the existence of typologies of money laundering in the segment of misuse of the international remittance service is limited; in the case of factors related to the use of this category of financial institutions in schemes of fraud or tax evasion, the existence of the use of this category of financial institutions in these schemes is limited; in the case of factors related to "non-face-to-face" use of products, when it comes to the most commonly used payment services (transfer of funds to the payment account of the payee - utility bills and other payments and international remittance services) these services are used by clients in the business premises of the Institutions, while the use of electronic money in a "non-face-to-face" way is possible whereas electronic money institutions, as obligors of the Law on Prevention of Money Laundering and Terrorism Financing, are obliged in that case too to carry out KYC actions and measures in accordance with the provisions of this Law.

Based on the situation of the Institutions identified in the direct and indirect supervision and the reports submitted by the Institutions to the Administration for the Prevention of Money Laundering, it can be concluded that there are no reasons for supervisory concerns regarding money laundering risk management and terrorism financing in other payment service providers. and electronic money issuers.

3.1.4. Authorized money changers sector

As of December 31, 2020, 2,277 authorized money changers were registered, which perform exchange operations at 3,251 exchange offices, of which 23% are legal entities and 77% are entrepreneurs. Authorized changers that operate at one exchange office make up over 80% of all authorized money changers. The paid-in founding capital of authorized money changers - legal entities in 2020 amounts to about 23,300,000,000 dinars, of which the percentage of resident founding capital is about 70% of the total paid-in capital. The total turnover of the sector amounted to 10,400,000,000 euros in 2020. In the money changers sector, only cash is in circulation - 100% is the purchase and sale of effective foreign currency. During 2020, 56,600,000 transactions were performed, of which 45,600,000 were cash purchases with an average transaction value of 127 euros. The number of executed cash sales transactions was 11,000,000, with an average transaction value of around € 422.

Foreign exchange transactions are transactions of buying and selling effective foreign currency always and only to natural persons, mainly residents, while the share of 0.03% of non-residents in overall transactions is negligible. There are no clients in the sector that are legal entities, there are no arrangements with complex and non-transparent ownership and management structures, no unregistered entities or registered entities providing professional brokerage services in jurisdictions with low levels of control mechanisms to prevent money laundering and terrorism financing, no entities providing professional brokerage services in jurisdictions with a low level of requirements, etc.

Supervision over authorized money changers is carried out by the National Bank of Serbia continuously, through direct and indirect control, based on risk assessment. Indirect control is performed by analyzing data from the Questionnaire on the activities of money changers in the field of prevention of money laundering and terrorism financing, annual reports on internal control and measures taken after that control, as well as insight into available databases. Immediate control, comprehensive and targeted, is performed in the field based on the control plan. Immediate comprehensive control includes control of foreign exchange operations in accordance with the Law on Foreign Exchange Operations and control over the application of the Law on Prevention of Money Laundering and Terrorism Financing, while direct targeted control includes control of the application of the Law on Prevention of Money Laundering and Terrorism Financing.

When the National Bank of Serbia establishes the existence of unlawfulness or irregularities in the course of supervision, it may request the remedying of such unlawfulness and deficiencies within a period determined by it, issue a decision on temporary ban on the performance of exchange operations on the controlled exchange point in a period of up to 30 days, as well as revoke the authorization for exchange operations.

When the National Bank of Serbia establishes the existence of unlawfulness or irregularities in the course of supervision, it may submit a request to the competent authority to initiate the relevant proceedings (request to initiate misdemeanor proceedings, criminal charges, or complaint for an economic offense), for which it is authorized under the Law on Prevention of Money Laundering and Terrorism Financing, the Law on Foreign Exchange Operations and other laws. In the observed period, requests were submitted to initiate misdemeanor proceedings for acting contrary to the provisions of the Law on Prevention of Money Laundering and Terrorism

Financing. The submitted requests refer to the following violations: the authorized money changer did not appoint an authorized person and a deputy authorized person to perform tasks in accordance with the Law on Prevention of Money Laundering and Terrorism Financing, the authorized money changer did not notify the Administration for Prevention of Money Laundering the name and job title of the authorized person and his deputy, the authorized money changer did not establish and verify the identity of the party when performing interrelated cash redemption transactions and did not keep records of these transactions. Also, in the observed period, complaints were filed for economic offenses for acting contrary to the Law on Prevention of Money Laundering and Terrorism Financing.

In the observed period, a certain number of verdicts were passed for violations of the Law on Prevention of Money Laundering and Terrorism Financing, which imposed fines. Also, in the observed period, several proceedings were conducted for economic offenses in which fines were imposed for the accused legal entities and for the responsible persons in the legal entity. According to the competent prosecutor's offices, no investigation were initiated into criminal offenses related to violations of regulations in the field of prevention of money laundering for authorized money changers.

The National Bank of Serbia issues and revokes authorizations for performing foreign exchange operations, organizes training and issues a certificate and keeps a register of certificates for performing foreign exchange operations. Instructions for obtaining authorization with the necessary documentation are available on the website of the National Bank of Serbia, as well as other information related to changes in the data of authorized money changers, presentation of training for certification, documents in the field of money laundering and terrorism financing.

The National Bank of Serbia conducts detailed input controls in accordance with the regulatory framework. Also, in the observed period, relevant trainings were organized in the money changers sector.

The obligation of the money changer is to perform at least once a year an internal control of the performance of prevention and detection of money laundering or terrorism financing and to prepare a report aimed at checking the quality of work and integrity of the employees directly performing exchange operations, as well as the detection and elimination of deficiencies, improvement of internal systems for detecting persons and transactions for which there are grounds for suspicion of money laundering or terrorism financing. The results of supervision showed that authorized persons perform regular internal controls and did not take disciplinary measures against employees, and that most authorized money changers and employees act with integrity but that there is a certain degree of probability that they may fail to recognize certain transactions as suspicious. In the supervision procedure, it was not established that the authorized money changer has failed to provide for regular professional education and training of employees.

The authorized money changer uses the software of a bank or the National Bank of Serbia to perform exchange operations, it possesses the equipment for the use of such software, which is one of the requirements for obtaining an authorization to perform exchange operations. The software records transactions of purchase and sale of effective foreign currency as well as other transactions - by type and amount, according to individual certificates.

The money changer is obliged to issue a receipt to the natural person, using the software, on the purchase and sale of cash. The recording of transactions enables money changers to easily spot transactions for which, according to the list of indicators, they are obliged to apply measures and actions of prevention of money laundering and terrorism financing, i.e., report such transactions to the Administration for Prevention of Money Laundering. Money changers keep records of parties and transactions in the amount of EUR 5,000 or more, records of data submitted to the Administration for the Prevention of Money Laundering for transactions of EUR 15,000 or more and transactions and parties suspected of money laundering or terrorism financing. Also, continuous video recording of the cash register, as well as the ATM, enables the money changer to identify more easily a suspicious transaction, i.e., a person. In the period from 2018 to 2020, about 10% of suspicious activities reports submitted by money changers to the Administration for the Prevention of Money Laundering were forwarded to the competent state authorities for further action, which is an indicator of the quality of these reports.

In the money changers sector, the business is not done through agents. Foreign exchange transactions are transactions of buying and selling effective foreign currency only to natural persons in the Republic of Serbia, so there are no international transactions in this sector. In the exchange sector, anonymous use of products is available in certain cases (the authorized money changer is obliged to identify the party in cases prescribed by the Law on Prevention of Money Laundering and Terrorism Financing, but the money changer may or may not identify the party in each transaction), the transactions are recorded through software and are easy to spot, there is a typology of money laundering related to the misuse of the category of money changers, money changers are used in schemes of fraud or tax evasion in very rare cases, a natural person is always present at the exchange office and there is no indirect product use.

3.1.5. Life insurance market

In the period between the two national risk assessments (2018-2020), the life insurance market in the Republic of Serbia maintained its stability and retained the same share in the financial system. There was no decline in any of the relevant indicators or any significant development. The introduction of life insurance products, which are particularly risky from the point of view of money laundering and terrorism financing, remained only in the initial phase, so that the structure and representation of life insurance products on the market has not changed. The number of companies providing life insurance services has not changed either (ten companies, six of which operate both life and non-life insurance, and four operate only life insurance). The balance amount of the insurance sector (with reinsurance) at the end of 2020 amounts to 314,177,384,000 dinars, while 262,171,569,000 dinars of that concerns insurance companies that perform life insurance business. In the total assets of the financial sector overseen by the National Bank of Serbia, insurance has a share of about six percent.

On the other hand, in the period between the two national risk assessments, there have been significant improvements in the management of money laundering and terrorism financing risks in the

insurance companies, but also improvements in the regulatory framework concerning the supervision of the insurance market in relation to the prevention of money laundering and terrorism financing. These are Amendments to the Law on Prevention of Money Laundering and Terrorism Financing (2019), and accompanying harmonization of its bylaws, as well as the introduction into the legal framework of a new regulation - Decision on Conditions and Manner of Establishing and Verifying the Identity of Physical Persons Using Electronic Means of Communication. The life insurance sector is under regular supervision of the National Bank of Serbia, which includes licensing, control procedures, but also specialized supervision of money laundering and terrorism financing risk management (conducted by a specialized organizational unit of the National Bank of Serbia since 2020 in charge of supervising the management of that risk). Insurance companies have made significant efforts to raise the competencies of their employees, as well as to establish internal control systems and other relevant mechanisms that would not only meet regulatory requirements, but also provide adequate protection mechanisms against potential money launderers or terrorist financiers.

Having in mind the low participation, as well as the still insufficient development of insurance activities (especially life insurance) against very strict regulatory mechanisms, it can be concluded that the life insurance market of the Republic of Serbia is not particularly attractive for money launderers and terrorist financiers. In addition, a vulnerability assessment was performed by groups of life insurance products. Products that include an investment component (and as such are particularly interesting from the point of view of money laundering opportunities) are still in development, albeit still without a clear perspective and with a negligible share in relation to traditional life insurance products.

In the life insurance market in the Republic of Serbia, there is a network of agents and brokers, but in accordance with domestic regulatory solutions, all insurance companies are responsible for the work of their agents, so that among these categories there are no obligors of regulations in the field of anti-money laundering and terrorism financing. Among insurance brokers, the operations of those companies that act as brokers in concluding life insurance contracts and which are also obliged to meet all standards in the field of prevention of money laundering and terrorism financing are also monitored.

Based on the above, the life insurance sector in the Republic of Serbia is assessed as low vulnerable, in terms of the possibility of being used for money laundering and/or terrorism financing. It was determined that there is no reason for supervisory concern, i.e., that the frequency and intensity of previous controls is adapted to the identified risk of money laundering and terrorism financing of insurance activities.

3.1.6. Voluntary pension fund management companies

As of December 31, 2020, four licensed voluntary pension fund management companies (operators) operate on the market of voluntary pension funds in the Republic of Serbia, managing the assets of a total of seven voluntary pension funds, while acting as brokers, four banks are active, as well as one insurance company.

In relation to the overall financial sector which the National Bank of Serbia supervises, the share of voluntary pension funds is 1%, and the share of net assets of all voluntary pension funds in the gross domestic product of the Republic of Serbia (GDP) is 0.8%. The average payment for contributions amounted to 3,292.28 dinars or 28 euros (official exchange rate of the National Bank of Serbia on December 31, 2020), and the average amount of one-time payment was 113,113.31 dinars or 962 euros.

The sector of voluntary pension funds is under regular Supervision of the National Bank of Serbia, which includes licensing, control procedures, but also specialized supervision over the management of the risk of money laundering and terrorism financing.

In relation to the above, it is estimated that the sector of voluntary pension funds is exposed to low levels of threats from money laundering and terrorism financing, and the justification is reflected in the fact that it is a sector that is not "stimulating" and profitable for money laundering given the pronounced social component, as well as the fact that it is an alternative to the financial security that is achieved through the state-run pension system in old age. The activity of voluntary pension funds does not represent a significant source of risk from money laundering and terrorism financing, i.e., it has low vulnerability to money laundering due to: its position in the total share in the financial market of the Republic of Serbia; share in gross domestic product; the nature of activity; as well as the size of individual (exclusively non-cash) transactions - payment of contributions by the members of voluntary pension funds.

3.1.7. Capital markets sector

The identified vulnerability of the capital market sector in the Republic of Serbia is medium low, which means that the risk of money laundering and terrorism financing in this sector is present, but to a lesser extent.

Vulnerability assessment was carried out taking into account the general characteristics and activities of the capital market, capital market share in the structure of the financial system of the Republic of Serbia, illiquid market, large share of inactive clients, the fact that obligors do not make cash transactions and all transactions are carried out through bank accounts, the strict regulations in this area, high awareness of obligors about the risk of money laundering and terrorism financing, compliance with international standards when enacting regulations, as well as supervision based on risk assessment.

The Securities Commission, as the supervisory and regulatory body of the Republic of Serbia, supervises the implementation of the Law on Prevention of Money Laundering and Terrorism Financing by the following obligors:

1. Investment fund management companies, which are authorized to perform investment fund management activities, in accordance with the laws governing investment funds in the Republic of Serbia;

2. Broker-dealer companies, whose regular activities include the provision of investment services to clients, in accordance with the law governing the capital market;
3. Authorized banks, which are an organizational unit of a credit institution whose business includes the provision of investment services in connection with one or more financial instruments, in accordance with the law governing the capital market;
4. Custodians of banks, i.e., depositories (credit institutions), which provide depository services defined by the laws governing investment funds in the Republic of Serbia, keep the account of the investment fund, perform control activities, activities of monitoring the cash flow of the fund and custody of the fund's assets;
5. Audit companies and independent auditors, who in accordance with the Law on Audit have a valid license to audit financial statements;
6. Providers of services related to digital tokens, in accordance with the law governing digital assets.

All financial instruments in the Republic of Serbia are dematerialized and registered, which reduces the possibility of concealing assets and is of great importance from the aspect of attempts to launder money and finance terrorism and misuse of the capital market for these purposes.

The assessment of each individual parameter is based on data available to the Securities Commission, Central Registry, Securities Depository and Clearing House, Belgrade Stock Exchange, National Bank of Serbia, Administration for the Prevention of Money Laundering, judicial authorities, and other institutions in the Republic of Serbia.

When estimating the general variables, the estimates were given by the supervisory authority, and the private sector was consulted, and the estimates of the variables provided by the obligors were also taken into account. In addition to the positively assessed variables related to the comprehensiveness of the legal framework, supervisory procedures, availability and effectiveness of input controls, the degree of knowledge of obligors, what is proposed in terms of improving the anti-money laundering and terrorism financing system is primarily to organize direct presentations and trainings for all obligors within the remit of the Securities Commission, and especially for areas for which a lack of comprehension was determined for obligors under direct supervision (for example, the procedure for determining the beneficial owner). Regarding the reporting of suspicious transactions, the estimate of the Administration for the Prevention of Money Laundering is that this activity among obligors under the jurisdiction of the Securities Commission has improved compared to the previous period, in terms of number and quality of reports, but activities need to be continued to encourage the reporting of suspicious transactions by obligors, through training, provision of the necessary software, etc.

All of the above shows that the degree of vulnerability to money laundering and terrorism financing for participants in the capital market in the observed period 2018-2020 remained unchanged from the previous National Risk Assessment.

3.1.8. Factoring

Factoring companies are assessed as a sector with moderately low vulnerability and a medium exposure to money laundering threats.

Factoring is a financial service of buying and selling an existing outstanding or future short-term monetary claim arising from a contract for the sale of goods or provision of services in the country or abroad. The factor can be a bank or a company.[75] Banks are not obliged to obtain approvals for factoring operations.[76] According to the Serbian Chamber of Commerce, at the end of 2020, ten banks in the Republic of Serbia had a turnover of factoring activities in the total amount of 829,1 million euros, which is 88.9% of total factoring turnover. According to the report of the Association of Serbian Banks, the presence of factoring business is low/medium low. The total turnover of factoring by years in millions of euros for 2018 is 782.3, for 2019 it is 990.1 and for 2020, it is 932.3, of which the turnover of factoring companies for the same years is 122.2, 122 and 103.3 million, respectively. The register of factoring companies is kept by the Business Registers Agency. In 2020, there were 19 registered factoring companies, while in 2019 there were 17, and in 2018 there were 14 registered factoring companies.[77]

This sector is defined by the Law on Factoring, which was amended in 2018 in order to implement the ban on criminally convicted persons to be founders and owners of factoring companies. Today natural and legal persons, that are the founders and owners of factoring companies, must submit proof, in accordance with the law, that they have not been criminally convicted. This obligation extends its effect to previously established factoring companies. In addition to this law, there are regulations that apply to several obligors, namely the Law on AML/CFT and the Guidelines for Risk Assessment of ML/FT (amended in 2020). The guidelines deal with risk mitigation, continuous monitoring, and documentation that the obligor must have, and a special part deals with the types of risks in factoring companies.

In the reference period, the Administration performed 35 indirect inspections. At the end of each indirect control, risk matrices are developed, and the results are ranked according to the degree of risk. According to the results of the matrix, all factoring companies are at the median level of risk, but according to the last ranking, risk mitigation was observed, because 70% of obligors are at medium and 30% at low risk. In 2020, due to the Covid-19 virus pandemic, the planned supervision activities were only partially carried out, and in 2021 the implementation of the plan continued, and three direct supervisions were carried out. In the performed inspections, the application of the provisions of the Law on AML/CFT and the Law on Central Records of Beneficial Owners was controlled.[78] Irregularities related to the risk analysis of obligors, both parties and at the level of the entire business operations (risk self-assessment),

75 Law on Factoring, "Official Gazette of RS", no. 62/13 and 30/18.
76 Regulated by the Law on Banks, "Official Gazette of RS", no. 107/05, 91/10 and 14/15.
77 Data from the Information on the Factoring Services Sector, prepared for the purposes of the National Risk Assessment 2021, by the Group for the Payment System and Non-Banking Financial Institutions of the Ministry of Finance.
78 "Official Gazette of RS", no. 41/18 and 91/19.

which was not carried out in accordance with the guidelines of the supervisory authority. In the second case, the irregularity is reflected in the fact that the change of ownership structure was not recorded within the prescribed period in the Central Register of Beneficial Owners.

Due to the identified irregularities, the inspectors filed a complaint for an economic offense and a misdemeanor complaint. According to the reactions of factoring companies, it was noticed that they believe that the current sanctions regime is severe enough, especially considering that the legal minimum for the penalties is very strict. An important deterrent is that factoring companies pay special attention to their business reputation, so they do not want their business name to be associated with ML/FT or risk being convicted of a ML/FT related offense or misdemeanor.

During the assessment of vulnerability, the conditions that the company must meet in order to be able to perform factoring activities were also considered, and these are the cash capital in the minimum amount of 40,000,000 dinars (must never be less than that amount) and the approval for performing factoring activities issued by the ministry in charge of finance. The Ministry in charge of finance revokes the factoring company's approval for performing factoring operations if it is determined in the supervision procedure that the factoring company has ceased to meet the condition related to share capital, that the approval for factoring operations was given on the basis of false information, if the supervision procedure determines that the factoring company proceeded contrary to the procedure for obtaining approval, i.e., in the case of cessation of factoring operations. Regarding the integrity of employees, the results of indirect supervision show that in 2018 and 2019, all factoring companies made an annual report on internal control, while in 2020 one factoring company did not produce this report. Considering the level of knowledge of employees in factoring companies about AML/CFT, it was determined that, according to the submitted questionnaires, all employees underwent training in the field of AML/CFT. Obligors' employees have access to all information related to the NRA, typologies, and other newspapers, both from the pundits and from representative international bodies and organizations published by APML.

In the reference period, APML provided trainings and nine training courses were held for factoring companies. Efforts were made to ensure that the trainings were accompanied by the adoption of new bylaws, such as the Guidelines of the Administration or other innovations and changes in activities aimed at AML/CFT. Factoring companies have always responded and actively attended such trainings. This obligor has a high level of business compliance, because according to the results of indirect controls, they mostly take actions and measures to which they are obliged by law. In the period from 2018 to 2020, factoring companies reported one suspicious transaction, and the reason for the report was doubt as to the identity of the beneficial owner of the legal representative. This report supports the claim that factoring companies also monitor the risks associated with the client, i.e., the possibility of someone else managing the client’s capital.

The opinion of the private sector is also included in the process of drafting the NRA, which indicates that they are satisfied with the existing system of cooperation and exchange of information, as well as education, while in the next period

it is necessary to intensify trainings related to suspicious activities reporting and beneficial ownership.

Finally, taking into account the reference period, it can be concluded that the cooperation between the supervisory authority and the obligor has been raised to a higher level. In the coming period, the supervisory authority will work intensively on eliminating the identified sectoral shortcomings and further continuous education of obligors.

3.2. Vulnerability of the nonfinancial sector

3.2.1. Brokers in the sale and lease of real estate

Brokers in real estate transactions and lease, as one of the sectors in the non-financial segment, were assessed as moderately vulnerable with moderate exposure to money laundering threats.

The result of the collected data, their cross-referencing and analysis obtained by the supervisory authority on the one hand, and the private sector on the other, led to a more comprehensive analysis of the current situation.

The 2018 National Risk Assessment separated brokers from real estate investors, as it was estimated that these are two completely different activities, although they are covered by the same sector of real estate. Real estate brokerage and lease refers to a service while real estate investors are engaged in the production and sale of real estate at all stages of construction.

Supervision of brokers showed that in 90% of cases, their clients are persons who sell/buy their old (used) real estate.

The number of business entities registered in the Register of Real Estate Brokers and Leasing kept by the Ministry of Trade, Tourism and Telecommunications at the end of 2020 is 1,278, which is a significant increase compared to the previous period. The register of brokers is public, published on the website: www.mtt.gov.rs and anyone interested can inspect the data kept in the register free of charge without restrictions. The share of brokers in the turnover and lease of real estate represents only 0.7% of the share in the total turnover of the Republic of Serbia and speaks of an underdeveloped type of activity, but there is also a slight growth trend compared to the previous period.

In the period 2018-2020, there was an improvement in the normative framework, with the adoption of Amendments to the Law on Brokerage in Real Estate Trade and Lease ("Official Gazette of RS", No. 95/13, 41/18 and 91/19), in order to mitigate the risks related to the prevention of laundering money and terrorism financing. In relation to the amendments to the Law from 2018, which stipulated that members of a company (founder, owner) or entrepreneur or the representative of the company must not have been convicted of crimes against the economy, accepting bribes, giving bribes, fraud, terrorism

and organized crime. By passing the said amendments to the law, this circle of crimes has been significantly expanded. Namely, Article 5 of the Law stipulates that persons in the ownership and management structure must not have been convicted of criminal offenses in the Republic of Serbia or a foreign country and serious violations of regulations governing the prevention of money laundering and terrorism financing. Vulnerability is also reduced by the fact that the ministry in charge of trade may at any time ask the broker to provide proof of no criminal record or directly ask the competent authority to prove it. The amendments to the Law were made in order to directly harmonize with FATF Recommendation 28, which primarily refers to preventing persons from the criminal sphere of society from being in the ownership and management structure, i.e., who have been convicted of criminal offenses and serious violations of regulations governing AML/CFT.

In accordance with that, bylaws were adopted, as follows: Rulebook on the Register of Real Estate Agents,[79] Rulebook on the Professional Exam for Real Estate Agents, [80] Rulebook on Business Premises and Equipment of Real Estate Agents, [81] Rulebook on Records of Brokerage in Real Estate Trade and Lease,[82] thus eliminating the risk that persons convicted of crimes against the economy might engage in brokerage.

Following the amendments to the Law on AML/CFT, the Ministry in charge of inspections in the field of trade passed the Directive on publishing indicators for recognizing suspicions that it is a case of ML/ T in real estate brokers and new Guidelines for Risk Assessment of ML/FT[83] were adopted. The aim of these guidelines is to instruct real estate brokers and leaseholders on how to implement an approach based on ML/FT risk assessment, how to develop and regularly update risk analysis and effectively manage risk through the implementation of adequate actions and measures to detect and prevent ML/FT.

The Market Inspection performed supervision through direct and indirect inspection supervision, as well as through preventive action - official advisory visits.

The most common irregularities identified by the inspection relate to the failure to conduct a risk analysis in accordance with the Guidelines for Risk Assessment of ML/FT risk with brokers in the sale and lease of real estate issued by the competent authority; failure to appoint an authorized person and his deputy; failure to establish the identity of the party; failure to submit to the Administration data on the personal name and job title of the authorized person and his deputy; failure to prepare an annual report on the performed internal control.

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79 "Official Gazette of RS", no. 75/4, 88/18 and 105/20.
80 "Official Gazette of RS", no. 75/14, 39/17, 70/18 and 98/20.
81 "Official Gazette of RS", no. 75/14.
82 "Official Gazette of RS", no. 95/13.
83 On May 28, 2020

Law on Brokerage in Real Estate Trade and Lease also prescribes deletion from the Register of Brokers if the broker ceases to meet any of the conditions for entry in the Register of Brokers referred to in Article 5 of this Law.

In the observed period, deletions of brokers were most often performed on the basis of personal request and expiration of insurance policy, and when it comes to acting contrary to regulations governing the prevention of money laundering and terrorism financing, no deletions were made from the register of brokers.

Professional qualification for performing brokerage activities are acquired by taking the professional exam in accordance with the Rulebook on the Professional Exam for Real Estate Brokers and Leaseholders.

The certificate of passing the professional exam for natural persons (agents) is a condition for lawful performance of brokerage activities, and the main goal is to strengthen the legal certainty of service users and it significantly reduces the possibility of illegal brokerage and real estate lease, i.e., in the future, a person passing the professional exam cannot be someone who is sentenced to imprisonment for a criminal offense in the Republic of Serbia or a foreign country.

According to the above, it can be stated that significant progress has been made in relation to the NRA from 2018, with the adoption of amendments to the special Law on Real Estate Brokerage and Lease, eliminating the risk that persons convicted of crimes against the economy might engage in brokerage. The amendment prescribes a more detailed condition and the necessary documentation required for starting the brokerage activity by registration in the Register of Brokers.

It was noted that there is a need to improve the understanding of obligors related to their obligations under the Law on AML/CFT, as well as their implementation in practice. In cooperation with the Administration for the Prevention of Money Laundering, the Market Inspectorate held 22 trainings for brokers and inspectors in the largest cities in Serbia with the support of the Serbian Chamber of Commerce and the Real Estate Cluster Association and conducted 156 official advisory visits. However, in addition to training, guidelines, the List of Indicators for Detection of Suspicious Transactions and Recommendations for Reporting Suspicious Transactions, real estate brokers reported a small number of suspicious transactions, which indicates that there is still insufficient understanding and insufficient awareness and knowledge in recognizing suspicious transactions and a low level of awareness by individual obligors.

The way to overcome this vulnerability is to intensify training, with a special emphasis on case studies and money laundering typologies, as well as on raising awareness about it.

Brokers and their employees have access to all information related to typologies published by the Administration for the Prevention of Money Laundering and all the new developments related to AML/CFT activities published on the website of the Directorate.

Improvement is especially needed as to the effectiveness of monitoring and reporting suspicious transactions, given that there is insufficient understanding of the importance of enforcement of regulations and insufficient development of brokers' awareness in identifying suspicious persons and transactions in real estate brokerage.

3.2.2. Real estate - real estate investors

Real estate investors are assessed as carrying a high risk of money laundering threats in the non-financial sector.

The 2018 National Risk Assessment separated brokers from real estate investors, because it was estimated that these are two are completely different activities, although they are part of the same real estate sector.

Real estate brokerage pertains to a service, while investors - natural / legal persons in real estate are engaged in the production and sale of real estate at all stages of construction.

It is a sector that has definitely experienced intensive development and which has generated a large amount of money and is a suitable ground for "money laundering" and as such must be better controlled. It should be emphasized that the greatest risk of money laundering is in real estate transactions with investors, in the activity of buying and selling own real estate, especially when you take into account that in Serbia many individuals appear as investors and then as sellers of newly built real estate. According to the Tax Administration, there are 542 such natural persons in the real estate construction business, which carries an increased risk of money laundering, because the payment for construction materials can be made in cash. A typical example of money laundering is mainly the investment of a large amount of cash by a natural person - investor in the construction of real estate, and then the sale of such built real estate and concealment of illegal origin of money invested in construction. And these are the factors that increase the risk of money laundering through this field.

Business entities that perform direct sales of real estate, i.e., investors in the real estate sector are not liable under the Law on AML/CFT, but the latter nonetheless applies to them in accordance with Article 46.

The Market Inspection acts in accordance with the Law on AML/CFT in supervising the restriction of cash payments for goods and in accordance with the Law on Inspection Supervision.

The Tax Administration, in accordance with the Law on Tax Procedure and Tax Administration[84] also constantly controls obligors who are engaged in the construction of residential and non-residential buildings.

The real estate construction activity carries an increased risk of money laundering because the payment for construction materials can be made in cash, and therefore it is necessary to form a single register of issued building permits, which includes investors-individuals. In order to reduce the risk of overestimating or underestimating the consumption of materials for construction, it is necessary to create a unique methodology for determining the norms of consumption of materials in construction, which would reduce the risk of purchasing materials for cash.

The existing Law on VAT[85] has enabled natural persons - investors to register for the VAT system, without having to be registered as obligors - entrepreneurs. Accordingly, it is necessary to improve the normative framework for overcoming problems in this area.

In accordance with the above, it is concluded that the real estate sector is not only vulnerable but also poses a high threat to the system and is therefore assessed as high risk given that it is recognized in money laundering cases and that money acquired through illegal activities is invested in most cases in real estate.

3.2.3. Organizers of special games of chance in casinos

Casinos, as one of the sectors in the non-financial segment, were assessed as a sector that is moderately vulnerable and has a medium exposure to money laundering threats.

Special games of chance in casinos can be organized by legal entities based in the territory of the Republic of Serbia, whose registered activity is gambling and betting on the basis of a permit issued by a government decision. A legal entity may obtain a license to organize special games of chance in casinos if that person or its majority founder has a share in at least one casino and if it has been organizing games of chance in casinos for at least five years.

The permit for organizing special games of chance in casinos in the Republic of Serbia is currently held by two organizers, and both casinos are located on the territory of the city of Belgrade, and the so-called "Live games" on tables, as well as special games of chance on slot machines.

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84 "Official Gazette of RS", no. 80/02, 84/02 - corr., 23/03 - corr., 70/03, 55/04, 61/05, 85/05 - as amended, 62/06 - as amended, 63/06 - corrected as amended, 61/07, 20/09, 72/09 - as amended, 53/10, 101/11, 2/12 - corr., 93/12, 47/13, 108/13, 68/14, 105/14, 91/15 - authentic interpretation, 112/15, 15 / 16, 108/16, 30/8, 95/218, 86/19 and 144/20.

85 "Official Gazette of RS", no. 84/04, 86/04 - corrected, 61/05, 61/07, 93/12, 108/13, 6/14 - adjusted RSD amounts, 68/14 - as amended, 142/14, 5/15 - adjusted RSD amounts, 83/15, 5/16 - adjusted RSD amounts, 108/16, 7/17 - adjusted RSD amounts, 113/17, 13/18 - adjusted RSD amounts, 30/18, 4/19 - adjusted RSD amounts, 72/19, 8/20 - adjusted RSD amounts and 153/20.

When it comes to the vulnerability of this type of games of chance organizers, the most important element that affects it is the use of cash, which is dominant, and the fact that the parties are exclusively natural persons can carry specific risks in relation to the jurisdiction from which they come, such as and exposure to high-risk clients (e.g., politically exposed persons).

In the period 2018-2020, there has been a significant improvement in the normative framework for combating money laundering and terrorism financing in the field of games of chance and harmonization of sectoral law with international standards in this area, with the adoption of the new Law on Games of Chance,[86] creating a legal framework for the Games of Chance Administration, as a specialized supervisory authority in the field of games of chance, and legal conditions have been created for preventive action in preventing money laundering and terrorism financing in the field of games of chance, improving the licensing regime and preventing criminals from being owners or managing legal entities that organize games of chance. The new Law on Games of Chance has achieved that the complete ownership and management structure of the organizers of games of chance must meet the conditions in terms of non-conviction, which makes it more likely that they are not coming from criminal backgrounds.

Namely, in order to mitigate the risks related to the prevention of money laundering and terrorism financing, the new Law on Games of Chance stipulates that when issuing a permit for organizing special games of chance in casinos, in accordance with Article 39, paragraph 3, item 8) of the Law, the documentation related to the fact of conviction, i.e., non-conviction of the applicant, its founder, i.e., owner, beneficial owner, associate and appointed person, must be reviewed.

This provision is in line with FATF Recommendation 28, which provides for the obligation to prevent persons convicted of criminal offenses or their associates from becoming owners or managing legal entities that organize games of chance, thus reducing the vulnerability of the games of chance sector.

When issuing a permit, in accordance with the law,[87] proof of ownership structure is submitted to the beneficial owner, in accordance with the regulations on the Central Register of Beneficial Owners.

The Law on Games of Chance[88] envisages the possibility of revoking the license for organizing special games of chance in casinos, if it is determined that the organizer is not acting in accordance with regulations on prevention of money laundering and terrorism financing, stops fulfilling legally prescribed conditions, etc.

In the part related to entering the casino, the provisions of Article 51, paragraph 4 of the Law on Games of Chance stipulate that adults are allowed to enter the casino, with the obligation of the organizer to

86 "Official Gazette of RS", no. 18/20.
87 Article 39, paragraph 3, item 2) of the Law on Games of Chance.
88 Article 48 of the Law on Games of Chance.

provide a permanent database (name and surname, date and place of birth, place of domicile or residence, citizens' unique identification number or passport number, date and time of entry and exit from the casino, etc.), as well as a written statement of the person stating under material and criminal responsibility that it participates in games of chance for its own account and in its own name. A specific case of determining and verifying the identity of a party when at the entrance of the casino is also regulated by Article 24 of the Law on AML/CFT.

Also, the Rulebook on detailed conditions for conducting audio and video surveillance, the manner of storing documentation and physical protection in the casino, conducting video surveillance and storing documentation in the slot machine club or betting shop,[89] enables the monitoring of areas where transactions take place, i.e., parts of casinos that are under audio and video surveillance, which includes critical areas where money laundering may occur, including gambling tables, slot machines and similar parts of the premises, such as reception and cash register, money and token paths, etc.

The Games of Chance Administration, in accordance with Article 114 of the Law on AML/CFT, has adopted new Guidelines for Assessing the Risk of Money Laundering and Terrorism Financing for Organizers of Special Games of Chance in Casinos and Games of Chance Through Electronic Means of Communication. The aim of the guidelines is to instruct the organizers of special games of chance in casinos and the organizers of games of chance through electronic means of communication on how to implement an approach based on risk assessment of money laundering/terrorism financing.

The assessment of this group of obligors is based, inter alia, on the comprehensiveness of the legal framework, as well as the application of standards related to the prevention of money laundering and terrorism financing, in terms of ensuring the integrity and independence of employees, the effectiveness of compliance, knowledge and understanding of obligors regarding the prevention of money laundering and other indicators, and taking into account the relevant regulations in the field of prevention of money laundering.

- In the part related to the effectiveness of monitoring and reporting on suspicious transactions, this group of obligors still needs to improve their understanding and develop awareness and knowledge in the identification thereof, bearing in mind that the level of reporting suspicious transactions is uneven, which indicates the need to improve these reports, both in number and in terms of quality.

Furthermore, the need for better understanding of obligations under the Law on AML/CFT by obligors and improving the effectiveness of risk management, as well as their implementation in practice is permanent, and specific knowledge that is necessary for participants who are part of the system requires constant improvement, namely it needs to be maintained at a high level, which includes directing additional efforts at actions and measures to prevent and detect money laundering and terrorism financing.

89 "Official Gazette of RS", no. 152/20.

3.2.4. Organizers of games of chance through electronic means of communication

Organizers of games of chance through electronic means of communication - online, as one of the sectors in the non-financial segment, are assessed as a sector that is moderately vulnerable and has a high exposure to money laundering threats.

Pursuant to Article 92 of the Law on Games of Chance,[90] the State Lottery of Serbia and organizers whose registered predominant activity is gambling and betting, which were vested by Games of Chance Administration with the right to organize special games of chance through electronic means of communication, have the right to organize games of chance via electronic means of communication.

Games of chance are organized by 21 legal entities through electronic means of communication. In terms of the number of organizers, there was a significant increase, and most organizers operate as part of the so-called "mixed organizing".

In the case of organizers of games of chance through electronic means of communication, the fact that players are not physically present complicates the process of verifying the identity of the party, i.e., it is one of the important factors influencing their vulnerability.

The following circumstances point to a higher ML risk with organizers of games of chance through electronic means of communication:

- business involving the absence of face-to-face contacts, which may carry certain risks and requires an alternative or additional methods of compliance;
- cash payment enabled: most payments to the organizer via electronic communication are made directly from accounts with financial institutions. However, the obligor can function as part of a mixed event that also includes bookmakers, i.e., games of chance on slot machines, the so-called "ground betting". Thus, parties may be allowed to top up their cash accounts at the place of payment, and then use them for "online" games, and most organizers of special games of chance, through electronic means of communication, operate as a mixed event;
- use of evidence accounts with obligors: without satisfactory internal controls, parties may use these accounts for deposit and withdrawal without gambling and with minimal stakes;
- prepaid cards: using cash to finance a prepaid card poses similar risks as cash.

90 "Official Gazette of RS", no. 18/20.

Accordingly, in this type of organization, the risk exposure is greater due to the large number of transaction flows and the lack of face-to-face interaction.

In the period 2018-2020, there has been a significant improvement in the normative framework, with the adoption of a new sectoral law - the Law on Games of Chance, which sets the legal framework for the establishment of the Games of Chance Administration, as a specialized supervisory authority in the field of games of chance, and the conditions were also created for preventive action in the prevention of money laundering and terrorism financing in the field of games of chance, by improving the licensing regime, i.e., by preventing persons from the criminal world from being owners or from managing legal entities that organize games of chance.

By introducing a provision in the Law on Games of Chance saying that, when obtaining permits and approvals, a certain circle of persons must meet the condition of non-conviction, as well as the possibility of losing work licenses for the same reasons, one acts preventively on the competence of the games of chance activity as a whole.

This provision is in line with FATF Recommendation 28, which provides for the obligation to prevent persons convicted of criminal offenses or their associates from becoming owners or managers of legal entities that organize games of chance, thus reducing the vulnerability of the games of chance sector.

In that sense, the Law on Games of Chance in Article 98 envisages the possibility of revoking the approval of the organizer to perform activities, if he ceases to meet the conditions prescribed by law or does not meet other obligations prescribed by this law, etc.

In that way, there is a positive influence on the behavior of the management structure and employees in performing the activities whose assessment is performed. Non-conviction of the management structure and employees whose obligation is to take actions and measures related to the prevention of money laundering is a condition for performing the activity of gambling and betting, which reduces the vulnerability of the entire games of chance sector.

The Games of Chance Administration has also adopted new Guidelines for Assessing the Risk of Money Laundering and Terrorism Financing for organizers of special games of chance in casinos and games of chance through electronic means of communication. The aim of the guidelines is to instruct the organizers of special games of chance in casinos and the organizers of games of chance through the means of electronic communication on how to implement an approach based on risk assessment of money laundering and terrorism financing.

The organizers of games of chance through the means of electronic communication have to some extent adopted the application of standards related to the prevention of money laundering and terrorism financing, however, the need to improve the understanding of obligors regarding their obligations under the Law on AML/CFT, as well as the fulfilment thereof in practice still exists, and the specific knowledge necessary for the participants who are part of the system requires raising to a higher level.

There is a lack of understanding and a low level of awareness of the importance of adhering to reporting procedures and obligations related to the prevention of money laundering and terrorism financing by some

organizers of games of chance through electronic means of communication.

The adopted business policies and procedures enable obligors to effectively manage risks, and it is necessary for the organizers of games of chance through electronic means of communication to direct additional efforts at actions and measures to prevent and detect money laundering and terrorism financing.

In this sense, the basic task of obligors/organizers of special games of chance through electronic means of communication is to provide the necessary KYC information, to assess whether certain patterns of behavior can be linked to crime and to what extent, and to take all necessary measures in accordance with the law and report suspicious activities to the Administration for the Prevention of Money Laundering.

Adequate business policies and procedures will enable obligors to effectively manage risks, i.e., to focus their efforts on those areas of business that are most susceptible to various types of misconduct in terms of preventing money laundering and terrorism financing. The higher the risk, the more control measures need to be applied, and in that sense, at the level of the entire obligor, it is necessary to introduce policies and procedures for actions and measures to prevent and detect money laundering and terrorism financing.

There is a need to improve the understanding of obligors regarding their obligations under the Law on AML/CFT in the part related to the function of compliance, i.e., specific knowledge necessary for participants who are part of the system requires raising to a higher level.

Accordingly, in this group of obligors, it is necessary to improve the effectiveness of the compliance function, i.e., the effectiveness of risk management. It is necessary for obligors to ensure that employees respect internal procedures and established policies, as well as to encourage an ethical business culture and ethical behavior of employees, to continuously strengthen capacities, knowledge, and awareness of employees about the importance of reviewing and updating risk assessment and effective risk management. Improvement is especially needed in terms of the effectiveness of monitoring and reporting suspicious transactions, as there is insufficient understanding and underdeveloped awareness and knowledge in their recognition and a low level of awareness by some obligors/organizers of games of chance through electronic means of communication.

Also, the growing use of online services in the digital economy, i.e., the development of modern technologies, emphasizes the need to establish strong detection mechanisms.

Accordingly, the awareness of risks, lack of resources and knowledge needed to implement the rules related to the prevention of money laundering and terrorism financing can particularly affect the vulnerability of this sector.

3.2.5. Entrepreneurs and legal entities engaged in the provision of accounting services - accountants

According to the assessment, the accounting sector is moderately vulnerable and has a medium exposure to money laundering threats, with a tendency towards high exposure.

In the reference period, there was a significant improvement in the normative framework, first with amendments to the Accounting Law in 2018,[91] and then with the adoption of a new sectoral law in 2019,[92] primarily by implementing FATF Recommendation 28. Amendments to the Law from 2018 introduced a ban on criminally convicted legal entities and individuals to be founders, owners, or members of management bodies of legal entities engaged in the provision of accounting services, as well as individuals to engage in this activity as entrepreneurs if convicted of pre-identified offenses, including money laundering and terrorism financing. With the enactment of the new sectoral law, this ban has been tightened and expanded, so that a ban on conviction of and imprisonment for crimes committed in the country and abroad has been introduced. The ban applies to accounting firms as well as to the founders, owners, and management structure.

The new sectoral law also introduced the obligation to register in the Register of Accounting Service Providers, kept by BRA, on the basis of a previously issued license by the Chamber of Certified Auditors (hereinafter: Chamber),[93] which, in accordance with the requirements of Moneyval, introduced the obligation of licensing, if the conditions are fulfilled regarding the registration of the predominant activity, non-conviction of the founder, beneficial owner, or member of the management and employment of persons with a professional title in accounting or auditing acquired from a member of the International Federation of Accountants.

The additional mechanism of system protection is reflected in the ban on natural persons to be founders, beneficial owners, or members of management bodies in case of serious or repeated violation of regulations governing AML/CFT in the duration of the protection measure of prohibiting the performance of activities/certain accounting activities or duties. International standards have been fully met with the adoption of this norm and vulnerability has been reduced.

One of the reasons for revoking the accountant's license is acting contrary to the regulations governing AML/CFT, when the Chamber revokes the license to provide accounting services at the reasoned proposal of the body responsible for implementing AML/CFT regulations.

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91 "Official Gazette of RS", no. 30/18.
92 "Official Gazette of RS", no. 73/19.
93 The register started working on January 1, 2021, and the deadline was set for January 1, 2023 for legal entities, i.e., entrepreneurs to harmonize their operations with the provisions of the Law on Accounting.

In addition to the introduction of licensing obligations under the Law on Accounting, the licensing of authorized persons and their deputies was introduced with the Amendments to the Law on AML/CFT from 2019,[94] and the said persons must also not be convicted or have any criminal proceedings pending against them, thereby further reducing the vulnerability of this sector.

In relation to the reference period covered by the previous NRA, an increase in the number of accountants was observed.[95]

In addition to the above, in accordance with the new Law on Accounting, entrepreneurs are subject to classification. According to the previously valid law, all entrepreneurs are treated as micro legal entities.

When assessing the vulnerability of the accounting sector, the results of direct and indirect supervision over the implementation of the Law on AML/CFT were also taken into account.

After each indirect control, a risk assessment matrix is made for each indirectly controlled entity, for the purpose of developing an annual plan of direct supervision. According to the results from the matrices, in the reference period 4% of accountants were at high risk, 74% of accountants were at medium risk, and 22% of accountants were at low risk.

In the period from 2018 to 2020, APML performed direct and indirect supervision over accountants and, as a form of preventive action, sent instructions for work to accountants established in 2019, in order to familiarize themselves with their obligations under the Law on AML/CFT and their induction into the system of combating money laundering and terrorism financing.

The work of the Supervision Division has improved, especially as the number of inspectors has increased, but there is still a mismatch between the number of accountants (over 8,000) and the number of APML inspectors.

In the course of direct supervision of all controlled entities, irregularities were identified, and proceedings were initiated before the competent judicial authorities.

The most common identified irregularities relate to risk analysis, identification of parties, representatives and beneficial owners, appointment of the authorized person, deputy, and member of senior management responsible for the implementation of the Law on AML/CFT and submission of their APML data, determination of procedures for officials and offshore, internal control, annual vocational education program, employee education, lists of indicators and record keeping.

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94 The Rulebook on the Professional Exam for Issuing a License to Perform the Activities of an Authorized Person ("Official Gazette of RS", No. 104/20) prescribes the obligation to take the professional exam with an obligor who has seven or more employees and who does not have any of the prescribed grounds for exemption from obligations to take the professional exam.

95 According to the official data of BRA, there are over 8,000 registered accountants in the Republic of Serbia.

The findings of indirect and direct supervision point to the efficiency of performing indirect Supervision in terms of harmonizing the business of obligors with their obligations under the Law on AML/CFT and raising awareness among this group of obligors about their affiliation to the system and role in combating money laundering and terrorism financing.

Although a total of 28 trainings were held for accountants in the period from 2018 to 2020, it was noticed that despite this there is insufficient understanding and low level of awareness of the importance of taking actions and measures related to AML/CFT by this group of obligors. Therefore, it is necessary to intensify trainings for this group of obligors.

In addition to trainings, APML has developed a new website, which aims to better inform obligors, and a manual for accountants was also developed with models of internal acts,[96] which should contribute to and facilitate the implementation of actions and measures prescribed by the Law on AML/CFT in this group of obligors.

Reports of suspicious transactions were also taken into account when assessing the vulnerability of the accounting sector. The reasons for reporting were various: suspicion about the withdrawal of funds from the account of the legal entity, suspicion of fictitious turnover of goods, advance payments and payments of loans of founders for liquidity in high amounts without proof of origin, failure to submit the required/relevant business documents to a foreign partner in high amounts by related legal entities, connection with legal entities registered at offshore destinations and doubts about the identity of the beneficial owner, suspicion that the person is connected to FT, doubts about fictitious business and money laundering by paying inflated invoices, suspicion that all tax liabilities for employees have not been paid, etc.

Although progress has been made compared to the reference period covered by the previous NRA, as the number of submitted reports has increased by 217% and data from 26% of submitted reports have been forwarded to further proceedings, given the number of registered obligors in this sector (more than 8,000), it can be stated that the number of submitted SAR reports is low and that therefore the intention of APML is to intensify trainings, with special emphasis on case studies, typologies of money laundering, as well as raising the awareness of the fact that accountants may be misused by organized criminal groups as well as individuals.

The work of accountants is one of the key levers of criminal structures in the process of money laundering, because after the criminal act is committed, it is necessary to create the illusion of legality for certain transactions through bookkeeping. The accounting sector is very attractive to potential money launderers because any accounting document that is given for booking, if it is formally correct, will be booked regardless of whether business changes have occurred or not.

96 The Manual for the Implementation of the Law on AML/CFT - for Accountants has been published on the APML website in the section Libraries - Professional texts and brochures: http://www.apml.gov.rs/uploads/useruploads/Documents/Priru%C4%8Dnik-za-primenu-Zakona-o-spre%C4%8Davanju-pranja-novca-i-finansiranja-terorizma-za-ra%C4%8Dunovo%C4%91e-cir.pdf.

Accountants can be misused for the purpose of laundering illegally acquired money through the booking of fictitious income, i.e., income arising from non-existent business, inflated invoices; through the posting of inflated invoices, when products and services are invoiced at unrealistically high prices, which shows inflated income and profit, and creates a false image of the success of the business of legal entities; through the preparation of false earnings reports; by providing advice for tax evasion; through the establishment and management of companies and charities, helping to create complex ownership structures to cover up complex money laundering schemes; through falsification of data in financial statements, etc.

Furthermore, accountants can also provide tax advisory services, which is also attractive for money launderers, because accountants can provide them with expert advice on tax regulations.

Significant progress has been made in this area compared to the previous NRA, primarily by introducing the obligation to license accountants (for which no-conviction is required), as well as by introducing a special Register of Accounting Service Providers, kept by BRA, which will help the public be informed at any time as to who in the Republic of Serbia has a valid license to operate and to provide accounting services.

The private sector, directly and through associations, was involved in the described assessment and gave positive feedback. Accountants consider it very important that they can contact the APML Supervision Division whenever they have any doubts regarding the application of regulations, but believe that the regulatory climate in Serbia is not favorable, because laws are still unclear and inconsistent, there are frequent changes in regulations, complicated procedures and an increasing number of obligations imposed on them, which are not directly related to the performance of accounting services, as well as a lack and high turnover of staff.

In the coming period, it is necessary to work on further education of accountants in the field of application of legal and professional regulations in the field of accounting and on the application of regulations in the field of AML/CFT, in order to further improve the quality of financial reporting and further improve AML/CFT in the Republic of Serbia.

Accordingly, insufficient awareness of the risks, lack of resources and knowledge needed to implement the rules related to AML/CFT by accountants may particularly affect the vulnerability of this sector, and in the coming period further preventive activities should be further improved with accountants, because the better is the prevention, the better will be the implementation of the Law on AML/CFT and the recognition of the role of accountants in this system.

3.2.6. Attorneys at law

Attorneys at law in the non-financial sector were assessed as moderately low vulnerable and, according to the assessment, as moderately exposed to money laundering threats.

The legal profession as an independent, autonomous, and self-regulating profession is regulated by special regulations, as follows: Law on the Legal Profession (hereinafter: Law),[97] the Statute of the Bar Association (hereinafter: Statute) [98] and the Code of Professional Ethics of Attorneys at Law (hereinafter: Code).[99]

The provision of Article 16.3. of the Code stipulates: "An attorney at law is obliged to warn the client of his legal obligation to record and transmit certain data in certain legal cases to the competent authority, before the client entrusts such data to him."

The provision of Article 22.5.10 of the Code stipulates: "An attorney at law is obliged to refuse representation if he has reasonable grounds to suspect that the transaction in which he is required to represent the client would lead to money laundering."

The Code prescribes rules on the treatment of clients' assets as follows:

25.1.7. The money, securities, and other assets entrusted to him by the client and accepted by the attorney at law to be entrusted to him, the attorney at law shall: return to the client without delay when he has reasonable grounds to suspect that it is a case of money laundering.

25.3. The attorney at law is obliged to refuse to accept money, securities, or other value, if he has reasonable grounds to suspect that it is a case of money laundering.

30.2.6. It is not permissible for an attorney at law to receive money or assets from a client that he may reasonably suspect to have been acquired through money laundering.

The provision of Article 241 of the Bar Association of Serbia (BAS) Statute stipulates that a serious violation of the duty of an attorney at law involves a violation of the duties prescribed by the Law, the Statute and the Code, and the following serious violations of the duty of an attorney at law are explicitly prescribed: providing legal assistance in cases where the attorney at law is obliged to deny legal assistance (item 2), representation contrary to the Law, the Statute and the Code (item 6), non-execution and non-compliance with decisions of BAS bodies (item 9), failure to act upon request of BAS bodies (item 10), and serious violation of the Code of professional ethics of the attorney at law (item 42).

The provision of Article 242 of the Statute of BAS stipulates that for serious violations of the duty of an attorney at law, a fine or deletion from the register of attorneys at law may be imposed.

The provision of Article 104, paragraph 1, item 6) of the Law on AML/CFT stipulates that the supervision of the work of attorneys at law in the application of the Law on AML/CFT is performed by BAS.

As part of the supervision over the implementation of the Law on AML/CFT by attorneys at law, the Bar Association of Serbia performs indirect Supervision - by sending questionnaires, with the analysis of the answers received and data

97 "Official Gazette of RS", no. 31/11.
98 "Official Gazette of RS", no. 85/11, 78/12 and 86/13.
99 "Official Gazette of RS", no. 27/12.

obtained by indirect supervision in the Risk Assessment Matrix, classification of attorneys at law in the categories of high, medium, and low risk in order to make an annual direct supervision plan and conduct supervision in the premises of the controlled attorney at law by inspecting general acts, records and documentation, correspondence and other documents.

In Serbia, 423 indirect controls were performed in 2018, 456 indirect controls were performed in 2019 and 258 indirect controls in 2020. Based on the analysis of the findings of indirect control and the risk assessment matrix, in 2018, BAS performed 25 direct controls, in 2019 it performed 29 direct controls and in 2020 - 13 direct controls.

Article 6, paragraph 1, item 6) of the Law prescribes the condition for entry in the register of attorneys at law: "Not being convicted of a crime that would make the candidate unworthy of practicing law." Article 83, paragraph 1, item 6) of the Law stipulates that an attorney at law's right to practice law ceases in case of conviction for a criminal offense that makes him unfit to practice law - from the date the judgment of the competent court becomes final.

The regulations governing the conditions and procedure for registration in the Register of attorneys at law represent a comprehensive regulatory framework which provides the Bar Association with the powers by which it performs its regulatory function in relation to the legal profession.

Attorneys at law have shown that they are aware of the need to know the matters regulated by the Law on AML/CFT and the knowledge of these matters among attorneys at law is growing. The Bar Academy is of great importance for attorneys at law, where steps have been taken towards optimal education of attorneys at law in the field of prevention of money laundering.

The control found that there is an extensive awareness among attorneys at law that they are obliged to identify and obtain data about the client, which data are entered into electronic records, and some law firms supplemented the official list of indicators with "additional indicators". Awareness of the need for the client to fill out a special questionnaire is particularly extensive among attorneys at law in law firms.

In recent years, attorneys at law have reported suspicious transactions to the Administration, and the number of reports is growing every year. BAS and the Administration have concluded an Agreement on Cooperation, which entails the exchange of information obtained in the exercise of public authority within the competence of the signatories of the agreement, with the obligation to maintain the confidentiality of information exchanged.

3.2.7. Notaries

Notaries are a sector that, according to the assessment, entail a moderate to low exposure to the threat of money laundering. Notaries in the Republic of Serbia started working on September 1, 2014, and they became obligors of the Law on Prevention of Money Laundering and Terrorism Financing on April 1, 2018. As on September 1, 2021, public notary activities on the territory of the Republic of Serbia were performed by 195 notaries public, while on November 1, 2021, that number was 211.

According to the records of the Public Notary Chamber of Serbia, notaries reported a total of 850 cases of suspicion in accordance with the law to the Administration for the Prevention of Money Laundering in the reporting period (2018-2020).

Analyzing the statistical data available to the Chamber, for the purpose of assessing the vulnerability of the notary profession from the aspect of LPMLFT, it was determined that of the total number of reported cases to the Administration, and by type of legal transaction, the largest number refers to real estate contracts in which the purchase price is obviously disproportionate to the market value of the real estate and to contracts related to real estate transactions on the basis of which the payment of the purchase price was in cash or through compensation, for amounts over 10,000.00 euros. A significant number of cases reported to the Administration relate to contracts for the construction and division of buildings, pledges secured by mortgages on real estate based on loan agreements between individuals when the loan is disproportionate to the value of real estate, as well as status changes in legal entities where assets of great value are disposed with. Finally, a number of cases reported to the Administration relate to pre-contract agreements which provide for the fulfillment of contractual obligations before the conclusion of the main contract, as well as the purchase and sale of real estate in the legalization process, and the assignment of mortgage claims for an amount lesser than the amount of the claim.

The Public Notary Chamber of Serbia pays special attention to raising awareness among obligors, primarily about the importance of the role of notaries in the system of combating money laundering. Special importance is attributed to the education of obligors after the appointment of new notaries, for which, before the beginning of its work, the Public Notary Chamber organizes mandatory trainings on the topic of obligations of notaries as obligors of LPMLFT.

Notaries, as obligors of LPMLFT, conscientiously and professionally discharge their duties, making an immeasurable contribution to the fight against money laundering and terrorism financing in the Republic of Serbia.

The above is also indicated by the decision made by the plenary body of FATF on June 21, 2019, based on which the Republic of Serbia is no longer on the FATF list of countries with strategic shortcomings in the field of money laundering and terrorism financing and on which occasion the role and importance of notaries as part of the legal system of the Republic of Serbia was emphasized, which was also highlighted in the European Commission's report on the implementation of the Action Plan for Chapter 23, which assessed notaries as a profession that contributes to legal certainty in the Republic of Serbia.

Having in mind the number of notaries, as registered obligors, a significant number of suspicious activities reports were submitted to the Administration, and it can be said that notaries have correctly accepted the obligations established by LPMLFT.

3.2.8. Auditing firms

Auditing firms belong to a sector whose vulnerability is assessed at a medium-low level and the threats are also estimated at a medium-low level.

The functioning of the auditing profession is regulated by the Law on Audit, as well as bylaws adopted for its implementation. In accordance with the provisions of the said law, until 1 January 2020, the Ministry of Finance was responsible for imposing measures on audit firms and auditors due to violations of the provisions of this law and professional rules when auditing financial statements and pursuant to the new Law on Audit, the imposing of sanctions was vested with the Securities Commission, which further improved the system of imposing sanctions, given that the Securities Commission was vested with the competence to also control the quality of the auditing profession.

In order to assess the vulnerability of the audit sector, factors related primarily to a well-regulated legislative framework were analyzed and considered. Namely, in accordance with the Law on Audit, auditing companies have the obligation to have a license to perform auditing activities and perform audits through licensed certified auditors. Permits and licenses are issued by the Ministry of Finance of the Republic of Serbia, and the Securities Commission has the authority to revoke the license of an audit company, inter alia, if the audit company or independent auditor acts contrary to regulations governing the prevention of money laundering and terrorism financing. Also, the provisions of the Law on Audit accepted the recommendation of the Moneyval Committee in terms of banning convicted legal and natural persons and their affiliates, as well as associates from being founders and owners of audit companies and stipulates that a natural person cannot be the founder or beneficial owner or a member of the management body of an auditing company, if it has seriously violated or repeated a violation of the regulations governing the prevention of money laundering and terrorism financing, which most certainly reduces the vulnerability of the audit sector.

When assessing the size and importance of the audit sector, it was taken into account that in the Republic of Serbia audit is mandatory for regular annual financial statements and consolidated financial statements of large and medium-sized legal entities, public companies in accordance with the law governing capital markets and all legal entities, i.e., entrepreneurs whose total income realized in the previous business year exceeds 4,400,000 euros in dinar equivalent.

The analysis of data revealed a small share of obligors auditing financial statements (clients of audit firms), in the total number of companies obliged to prepare and publish financial statements, which certainly reduces the scope of the audit profession, but on the other hand took into account the fact that audit obligors are mostly large legal entities and high-income individuals.

In addition to the above and having in mind the results of the National Risk Assessment from 2018, data on the activities and form of organization of audited companies were analyzed. The following factors were also taken into account when assessing the vulnerability of the audit sector: the audit cannot be performed through an agent or with an agent or a third party, the audit is performed in direct communication with the client; there is an obligation to keep records; the audit of financial statements is performed for the previous business year; a contract is concluded for each engagement. All of the above indicates a low vulnerability of the audit sector, but the risk of money laundering and terrorism financing among the clients of audit firms always exists, and auditors must not ignore them.

Also, the assessment took into account the fact that auditors have specific knowledge and experience in the field of financial reporting, so it can be said that to some extent there is a risk that this knowledge in an underdeveloped corporate environment and with a lack of corporate mechanisms may be misused.

Considering the envisaged criteria for assessing the legal framework for the prevention of money laundering and terrorism financing, it was assessed that the state has established comprehensive laws and regulations governing the prevention of money laundering and terrorism financing, that they are adequate and in line with European directives and recommendations and compliant with standards in this area, that they are constantly updated and enhanced, but that there is always room for improvement, especially in terms of drafting the necessary bylaws for the implementation of laws.

When considering the effectiveness of supervisory procedures in practice, the fact was taken into account that the Law on AML/CFT, which came into force on 1 January 2020, changed the supervisory authority, so that from that date the Securities Commission supervises the application of both the Law on AML/CFT and the Law on Audit of Audit Companies and Independent Auditors. In the previous period, the Administration for the Prevention of Money Laundering supervised these obligors. Factors that have affected the level of vulnerability to money laundering and terrorism financing in the audit sector are the application of the principle based on risk assessment in continuous (indirect) and direct supervision, absence of cash payments, as well as the fact that supervision of auditing firms in relation to the implementation of the Law on AML/CFT has been carried out since 2011, and the fact that both supervisory authorities have many years of experience in performing supervision in connection with the implementation of the Law on AML/CFT.

Representatives of the private sector actively participated in updating the National Risk Assessment. They especially pointed out the fact that in cases when the company whose audited financial statements are audited, continues to engage with the same auditor, then there is the possibility of monitoring transactions, but that in case of changing auditors, this possibility is reduced, and they also pointed to the need for additional training and direct consultation with the supervisory authority. The legal framework, the imposing of administrative and criminal sanctions, as well as the availability and effectiveness of input controls and licensing, were assessed at a high level by private sector representatives.

From all the above, it can be stated that audit firms, as in the National Risk Assessment from 2018, maintain a successfully established system of prevention of money laundering and terrorism financing, but that it can certainly be improved through training with an emphasis on quality of suspicious transactions reports and that the number of direct inspections should be increased going forward, especially having in mind the fact that the audit sector was assessed with a higher degree of risk compared to the previous risk assessment.

3.2.9. Postal operators

Postal operators in the non-financial sector are assessed as moderately vulnerable and, according to the assessment, are moderately exposed to money laundering threats.

Article 104, paragraph 1, item 7) of the Law on AML/CFT defines that the Inspectorate for Postal Services is the supervisory authority over the application of the Law on AML/CFT for obligors engaged in postal services, the obligation is in force from 2020 and the reporting period covers only the specified year.

Concerning the activity of postal services, postal operators perform it in accordance with a special license, license, or approval, in accordance with Article 64 of the Law on Postal Services. The Ministry, in the procedure of extraordinary inspection supervision, issues a decision to economic entities, as a prior consent for obtaining a permit. The license is issued by the Regulatory Agency for Electronic Communications and Postal Services of the Republic of Serbia (hereinafter: the Agency). Permits issued under the previous law to postal operators are valid until the expiration of the term for which they were issued, while economic entities that obtained a license under the Law from 2019 are obliged to start and perform activities within 30 days from the date of obtaining a license and register the termination of activities before the Agency. The Register of Postal Operators is kept by the Agency, which, after issuing the license, enters postal operators in the said register and records data on the cessation of performing postal services and the like. As at the end of 2020, 49 postal operators have been entered in the register, one of which provides the services of a public postal operator, namely the Public Company "Post of Serbia", Belgrade, while the others provide commercial postal services.

When assessing the risk in the field of postal services, the fact was considered that bylaws have been adopted, i.e., the Rulebook on Methodology and Instructions for the Application of the Risk Matrix, Guidelines for Risk assessment of ML/FT for Obligors Performing the Activity of Postal Services, Directive on Publishing indicators for Identifying Suspicious Transactions Related to AML/CFT for Persons Providing Postal Services. The risk approach is based on the analysis and assessment of AML/CFT risks, which ensures that risks in this area are comprehensively identified, assessed, monitored, mitigated, and managed. When assessing the availability and effectiveness of internal controls, it was taken into account that obligors engaged in the provision of postal services have a set of effective, proportionate, and appropriate administrative sanctions applied in cases of non-compliance with the Law on AML/CFT. The procedures apply to obligors' governing bodies and non-executive employees and the above is conditioned upon compliance with the laws and obligations of obligors related to AML/CFT.

- Types of risks to which postal operators are exposed through the services they provide are based on the financial nature of postal money order services in domestic and international traffic, as well as the transfer and delivery of registered items with marked value, i.e., the financial value of the item. This is of little importance compared to the market share of other participants in the non-financial sector.
- Regarding the inspections conducted in 2020, through advisory visits and indirect inspections by forwarding the Questionnaire, based on the data submitted by obligors

no conduct of postal operators which is in conflict with the prescribed Law on AML/CFT was found.

- Based on data submitted through the questionnaire by the postal operators, it was determined that the employees of the postal operators have embraced the application of AML/CFT, as well as that they acted conscientiously and applied the knowledge gained at trainings in accordance with the annual training plan. Based on that it was estimated that the level of knowledge of employees of postal operators is high. Obligors providing postal services carry out routine internal control over the performance of the prescribed AML/CFT, in accordance with the identified risk of ML/FT, which causes efficient ML/FT risk management. Suspicious transactions reports sent by postal operators to the AML/CFT Administration in the further procedure did not involve elements for criminal sanctions. When assessing the availability and enforcement of criminal sanctions against obligors, it was taken into account that the public postal operator uses software to recognize users/persons, which prevents any disruption of the effective function of compliance with AML/CFT regulations.

Overcoming vulnerabilities in the field of postal services, which is due to the financial nature of the postal order service and the designated value of the contents of the shipment, can be primarily achieved by intensifying further training of commercial postal operators, with special emphasis on case studies and money laundering typologies. It is necessary to further improve the education of postal operators in the field of application of legal and professional regulations as well as on the application of regulations in the field of prevention of money laundering and terrorism financing. Also, direct monitoring should be carried out, which raises awareness of the fact that operators can be misused by organized criminal groups, as well as individuals. All of the above should contribute to further raising the quality of reporting and improving the system of combating money laundering and terrorism financing in the Republic of Serbia.

3.2.10. Car trade - additional threats to the non-financial sector

Car trade was assessed as a medium risk of money laundering threats in the non-financial sector.

While business entities engaged in car trade are not obligors under the Law on AML/CFT, their activity in terms of cash payments is significant from the aspect of vulnerability. Pursuant to Article 46 of the Law on AML/CFT, the above economic entities are subject to a limit of cash payment for goods in the amount of EUR 10,000 or more in dinar equivalent. The restriction also applies if the payment for goods and services is made in several interconnected cash transactions in the total amount of 10,000 euros or more in dinar equivalent.

Among other things, the Market Inspection performed supervision in accordance with the previous Law on Trade,[100] i.e., in accordance with the newly adopted Law on Trade[101,] which stipulates that economic entities engaged in car retail trade are obliged to keep records of procurement, sale and the selling price of the goods, as well as other records on the delivery or transport of the goods. Records are kept on the basis of the Rulebook on Turnover Records.[102]

Also, the Tax Administration constantly controls the obligors engaged in car sales. The Tax Administration, in accordance with its competence from the Law on Tax Procedure and Tax Administration,[103] as well as the Law on Fiscal Cash Registers[104,] supervises economic entities that engage in car trade.

Cross-border trade is regulated by the Customs Law[105] and in accordance with that law, the supervision of car traffic is performed by the Customs Administration, which in the process of monitoring and recording the number of cross-border car imports has recorded higher exports than the import of new cars in the Republic of Serbia, while the import of used cars exceeds the exports thereof, and customs officers in the period from 2018 to 2020, temporarily detained a total of 1,068 motor vehicles.

Significant turnover was realized in the sector, which imposes the need for greater control and supervision.

Accordingly, it is necessary to improve the quality of comprehensive supervision in the coming period by continuous controls and enhanced inter-ministerial cooperation of competent state bodies in these controls.

In accordance with the above, it is concluded that the trade in cars is vulnerable and poses a medium threat to the non-financial sector and that money of unknown origin is invested in car trade.

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100 Article 37, “Official Gazette of RS”; no. 53/10 and 10/13.
101 Article 30, "Official Gazette of RS", no. 52/19.
102 "Official Gazette of RS", no. 99/15 and 44/18 - as amended.
103 "Official Gazette of RS", no. 80/02, 84/02 - corr., 23/03 - corr., 70/03, 55/04, 61/05, 85/05 - as amended, 62/06 - as amended, 63/06 - corrected, as amended, 61/07, 20/09, 72/09 - as amended, 53/10, 101/11, 2/12 - corr., 93/12, 47/13, 108/13, 68/2014, 105/14, 91/15 - authentic interpretation, 112/15, 15 / 16, 108/16, 30/18, 95/18, 86/19 and 144/20.
104 "Official Gazette of RS", no. 135/04 and 93/12.
105 "Official Gazette of RS", no. 95/18, 91/19 - as amended and 144/20.

II TERRORISM FINANCING RISK ASSESSMENT AND NON-PROFIT SECTOR RISK ASSESSMENT

II.1. TERRORISM FINANCING RISK ASSESSMENT

The National Terrorism Financing Risk Assessment for the period 2018-2020 is based on the assessment of the threat of terrorism, the threat of terrorism financing at the national level, the sectoral risk of terrorism financing and the country's vulnerability to terrorism financing.

The overall risk assessment of terrorism financing in the Republic of Serbia is assessed as MEDIUM LOW, taking into account that:

The threat of terrorism financing posed by terrorists and terrorist organizations is assessed as LOW;

The threat of terrorism financing at the national level was assessed as MEDIUM TO LOW;

Sectoral risk of terrorism financing assessed as MEDIUM;

The country's vulnerability to terrorism financing is assessed as LOW.

Bearing in mind that no criminal prosecution was undertaken in the observed period for the commission of the crime of terrorism and other crimes related to it, including the financing of terrorism, the threat of terrorism financing is LOW.

The Republic of Serbia strongly condemns terrorism in all its forms, as well as all forms of extremism and radicalism, aware that the complexity and transnational character of these phenomena requires coordinated action on the broadest global level and addressing all its aspects in order to provide a comprehensive response.

The state is ready, in coordination with all regional and global actors, through various forms of bilateral and multilateral connections, to contribute to combating security challenges, risks and threats at the national, regional, European and global levels. In this sense, the Republic of Serbia is actively involved in activities aimed at combating these challenges, whether they are realized through the United Nations and/or other international and intergovernmental organizations. Also, the Republic of Serbia, as a candidate for membership in the European Union, provides through its active participation a full contribution to European policies in the fight against terrorism while respecting the generally accepted international principles and standards.

From the point of view of the threat of terrorism financing, the consideration of risks at the domestic level in relation to external risks is of priority importance, bearing in mind the fact that terrorism financing is realized in amounts that are disproportionate relative to the damage it can cause, regardless of whether it concerns committing a terrorist act or other activities that terrorists and their sympathizers carry out.

Consequences for the system of terrorism financing may occur if the implementation of concrete activities of all branches of government and institutions in the fight against terrorism and terrorism financing continues and disrupts the continuity of harmonization of the normative framework with the recommendations of relevant international counterterrorism institutions.

Given that the legal framework is relatively well established in this area, more attention should be paid to defining the criteria and standards that would contribute to the early detection and identification of such persons and transactions with full respect for all principles of a democratic society. With regard to terrorism financing, increased attention is needed both by obligors who have the obligation and interest to prevent the transfer of funds intended for terrorism financing through their systems and by the competent authorities who have the obligation to prevent misuse and activity of legal entities for the purpose of collecting funds for terrorism financing.

Accordingly, in order to prevent the consequences of terrorism financing, it is necessary to maintain the effective capacity of the system for preventing and combating terrorism and terrorism financing, analyze the normative framework regarding the effectiveness of certain legal solutions and their implementation, continuously improve and perfect staff capacity and to renew the technical capacities of the so-called repressive bodies (police, prosecutor's office, security services) and the so-called administrative and preventive bodies (various segments of the Ministry of Finance - Administration for the Prevention of Money Laundering, Customs Administration, Tax Administration) to counter the financing of terrorism and work to raise awareness of the dangers of terrorism and all its manifestations, and exposure to terrorism of so-called vulnerable categories of persons and organizations.

1.1. The threat of terrorism financing posed by terrorists and terrorist organizations

In the assessment period 2018-2020, on the territory of the Republic of Serbia there were no acts of terrorism, and thus no fatal consequences thereof. Also, no direct threatening activities related to terrorist acts were registered in the mentioned period.

Analyses of the assessment of the threat from terrorism in the Republic of Serbia have indicated a clear cause-and-effect relationship between the factors that are considered from the aspect of external security in relation to the internal aspects of the threat.

In this context, the challenges, risks, and threats related to terrorism in the Republic of Serbia for many years have been crucially conditioned by global developments, primarily in the Middle East, primarily the dynamics of the most important international terrorist organizations, primarily the so-called **Islamic State** (hereinafter: "IS"), but also militant structures in alliance with **"Al Qaeda"**. As the intensification of military pressure on IS positions has contributed to its weakening

and subsequent loss of territory, faced with a new reality, the terrorist organization was forced to change its strategy, and the focus gradually shifted to threats to internal security, from jihadists returning from the battlefield, local and regional religious extremist structures, potential domicile "sleeper cells", as well as the connection of (mass) illegal migration with these organizations. Also, from the aspect of the said threat, the processes of religious radicalization are important, which processes have been continuously present for years.

In addition to the above assessment of the threat of terrorism in the Republic of Serbia, certain specifics at the domestic level were also considered. Taking into account the above, the assessment of threats from terrorism financing was considered in relation to:

- ethnically motivated extremism and separatist tendencies in certain parts of the territory, often associated with religious / extremist groups, with the possibility of escalating into terrorism. In this regard, when we talk about specific forms of violent extremism that can lead to terrorism in the Republic of Serbia, the most pronounced is ethnic-Albanian extremism. The separatist pretensions of the Albanians in the Autonomous Province of Kosovo and Metohija, which culminated in the illegal unilateral declaration of Kosovo's independence, are not only a direct threat to the territorial integrity of the Republic of Serbia, but also a **long-term factor of instability in the wider region**;
- activities of members and sympathizers of radical Islamist movements and organizations, organizationally and functionally connected with similar movements in the region and beyond;
- continuous propaganda activities of radical religious preachers, individuals, or groups who, by tendentious interpretation of religious teachings, consciously spread the ideology of violent extremism, as well as the radicalization of young persons and converts;
- return of terrorist fighters from conflict areas to Serbia or the countries of the region, further radicalized and trained to carry out a terrorist attack. Looking at its central part, the Republic of Serbia is not among the countries that have a large number of foreign fighters. However, the situation is significantly different in the area of AP Kosovo and Metohija, which is under the temporary administration of the United Nations, in accordance with UN Security Council Resolution 1244, where it is estimated that over 60% of foreign fighters from this region have returned from Syria, mainly in the so-called repatriation processes, which involve the organized reception of terrorists.
- danger of infiltration of terrorists in the conditions of mass influx of migrants and refugees that exceed the capacities of the Republic of Serbia for reception.

In the period under review, the analysis of funds suspected for potential use to finance these threats, a high risk was identified due to:

- impossibility of full identification of participants in money transactions;
- the majority of transactions of fast money transfer in smaller amounts;

- connection of certain money transactions with countries in which intensive terrorist activities take place (Global Terrorist Index list), regions where the mentioned countries are located, as well as with countries that are risky for the Republic of Serbia in terms of terrorism financing (hereinafter: risk areas).

The analysis of suspicious financial transactions of the audited entities revealed the most common directions of movement of funds from risk areas to the Republic of Serbia, as well as from the Republic of Serbia to certain countries from risk areas. These funds, the amount of which in 90% of cases was less than 1,000 euros, were transferred mainly on the basis of financial assistance of family members, and came from personal income, as well as religious groups to help fellow compatriots in domicile countries. Also, the channels that are most often used for the transfer of funds in this period are international payment institutions - money transfer agents.

From the aspect of threat assessment, the inherent risk related to the convenience that financial and trade headquarters may be misused to finance terrorism was taken into account, and it was established that the Republic of Serbia, according to the Global Financial Center index, (hereinafter: GFCI) is not ranked as an international or regional financial center and does not belong to countries with significant levels of transshipment.[106]

Also, the lower exposure of the Republic of Serbia to the threat of terrorism financing is influenced by the fact that the Republic of Serbia, respecting all international standards, especially UN Security Council Resolution 1540, controls the import and export of strategic goods and services and possesses and continuously improves a control system of export of arms and military equipment, as well as dual-use goods. The Republic of Serbia has prepared a separate risk assessment of financing the proliferation of weapons of mass destruction, which includes risk factors for possible misuse of strategic goods and services.

1.2. Sectoral risk of terrorism financing

Taking into account the assessments of the technical compliance of the Moneyval Committee, as well as the adopted amendments to relevant laws in the field of combating money laundering and terrorism financing, compliance with FT laws and regulations can be considered largely in line with international standards.

The basic preventive law in the field of combating money laundering and terrorism financing is the Law on Prevention of Money Laundering and Terrorism Financing (hereinafter: LPMLTF), which defines preventive measures and supervision related to the fight against ML and FT.

106 Available at: https://www.longfinance.net/media/documents/GFCI_29_Full_Report_2021.03.17_v1.2.pdf.

In order to technically harmonize the system of the Republic of Serbia in the field of money laundering and terrorism financing with the Fifth Directive and FATF recommendations (22, 23, 28 and 40 FATF) for which Serbia is assessed as *partially compliant*, amendments were made to the Law on Prevention of Money Laundering and Terrorism Financing on two occasions, at the end of 2019 and at the end of 2020,[107] but also to many other sectoral laws (Law on Games of Chance, Law on Brokerage in Real Estate Trade and Lease, Law on Central Register of Beneficial Owners, Law on Audit, Accounting Law and others). At the end of 2020, Amendments to the Law on Prevention of Money Laundering and Terrorism Financing were enacted in order to harmonize it with the Fifth EU Directive and the Law on Digital Assets, which for the first time in the Republic of Serbia regulates digital assets (digital assets issuance and secondary trade in digital assets, provision of services related to digital assets, lien and fiduciary right to digital assets and supervision over the application of this law).

When performing supervision in accordance with LSPNFT, the supervisory bodies, within the control procedure, consider the area of terrorism financing together with the area of money laundering. In this regard, the manner of control, as well as the number of conducted direct and indirect controls in the field of money laundering does not differ from the manner of control and the number of conducted direct and indirect controls in the field of terrorism financing.

What all supervisory bodies have in common is that no cases of suspicious activities related to terrorism financing have been detected in the procedures of supervision and control in the field of terrorism financing.

From the aspect of misuse for terrorism financing, the sectoral risk assessment showed that the financial sector is more susceptible to misuse than the non-financial one. Sector analysis indicates that not all sectors have the same level of risk, but the products of the following sectors are the most vulnerable in terms of the misuse for terrorism financing:

- issuers of electronic money;
- payment institutions;
- public postal operator;
- authorized money changers;
- digital asset service providers;
- real estate brokers;
- banks.

Issuers of electronic money are more susceptible to misuse for terrorism financing, bearing in mind that money transfers are realized in a way that excludes the banking sector and money transfer agents

107 "Official Gazette of RS", no. 113/17, 91/19 and 153/20.

that have put in place advanced mechanisms for early detection of suspicious transactions, as well as special attention to cases in which:

- the client comes from areas where terrorist activities take place;
- the client tops up cards abroad;
- there are frequent transfers of loans, etc.

Payment institutions are susceptible to the misuse for terrorism financing because they do not establish a continuous business relationship with the users of their services. Also, payment institutions do not have access to the register of bank accounts of individuals, which allows for greater misuse of payment orders. This risk can be mitigated by giving payment institutions access to the check performed in order to establish that the personal name matches the account number.

Authorized money changers and **public postal operators** are subject to misuse for terrorism financing, bearing in mind that they perform activities as sub-agents of payment institutions, where the part the risk is identical to that of payment institutions. In addition, money changers are engaged in the purchase of gold.

In addition to the above, when it comes to sending money through postal money orders in domestic and international postal traffic, the risk is reflected in the inability to fully identify the recipient of funds.

Payment institutions, money changers and the public postal operator should pay attention in cases where:

- they provide money transfer and exchange services in the amount of less than 1,000 euros;
- trade in gold, i.e., jewelry, in an amount that deviates from the usual gold sales by individuals.

The quality of submitted suspicious activity reports - SARs is continuously improving. In these sectors, more detailed analyses were continued before submitting the reports to the Administration for the Prevention of Money Laundering. Internet searches, analysis of publicly available information and use of commercial databases are evident in the reports of payment institutions.

The problem remains the fact that payment institutions dealing with money transfer do not have direct access to more detailed data on persons that participate in transactions, abroad.

International practice shows that terrorist organizations have often been financed through digital currencies, which makes this sector vulnerable. However, no case of misuse of **digital assets service providers** in the Republic of Serbia has been reported so far.

According to FATF indicators, **digital asset service providers** should, among other things, pay attention to cases where:

- there is a suspicion that cryptocurrencies are used to pay for goods and services on Darknet;

- there is suspicion that ransomware is used;
- there is a suspicion that cryptocurrencies are used for extortion - blackmail and sextortion;
- there is a suspicion of unauthorized access to clients' wallets, hacking of registered accounts and similar computer fraud;
- there is a suspicion of business misconduct and making a Ponzi scheme;
- when executing transactions, software for enhanced anonymity of participants in transactions is used - tumblers and mixers, or when exchanging crypto or fiat currencies for cryptocurrencies with enhanced anonymity - Monero, etc.;
- when they register transactions related to risk areas;
- when they provide services to foreign citizens who are originating from risk areas, and who have documents of the Republic of Serbia issued on the basis of temporary residence;
- incomplete details regarding the order for execution of transactions in favor of NPOs (endowments, associations, foundations, etc.) or in favor of natural persons related to the said organization;
- when funds arrive or are directed to digital asset trading platforms - Peer2Peer platforms;
- when funds arrive or are directed to unregistered and unlicensed digital asset service providers in the country or abroad.

In its work, APML also noted that obligors such as exchange offices and payment institutions sign bipartite and tripartite agreements on business cooperation with providers of services related to digital assets, cryptocurrency exchanges and financial platforms issued by third countries, namely those that are registered abroad. In this way, obligors registered for foreign exchange operations also operate as a stock exchange for cryptocurrency trading, they take over the blockchain technology of foreign economic entities and perform the services of payment institutions, i.e., financial platforms, which exposes them to additional risk. The vulnerability of the system is reflected in the fact that the supervision of various services provided by the money changer is carried out by inspectors from different units, so that related activities that may seem benign when considered separately may go unnoticed during control.

Brokers for the sale and lease of real estate are subject to misuse for terrorism financing, bearing in mind that there is no single record of landlords, and therefore no record of tenants. The risk can be mitigated by the effective application of existing regulations governing the sale and lease of real estate, which has enabled the creation of a single system of recording the parties to the contract.

Real estate brokers should pay attention in cases where:

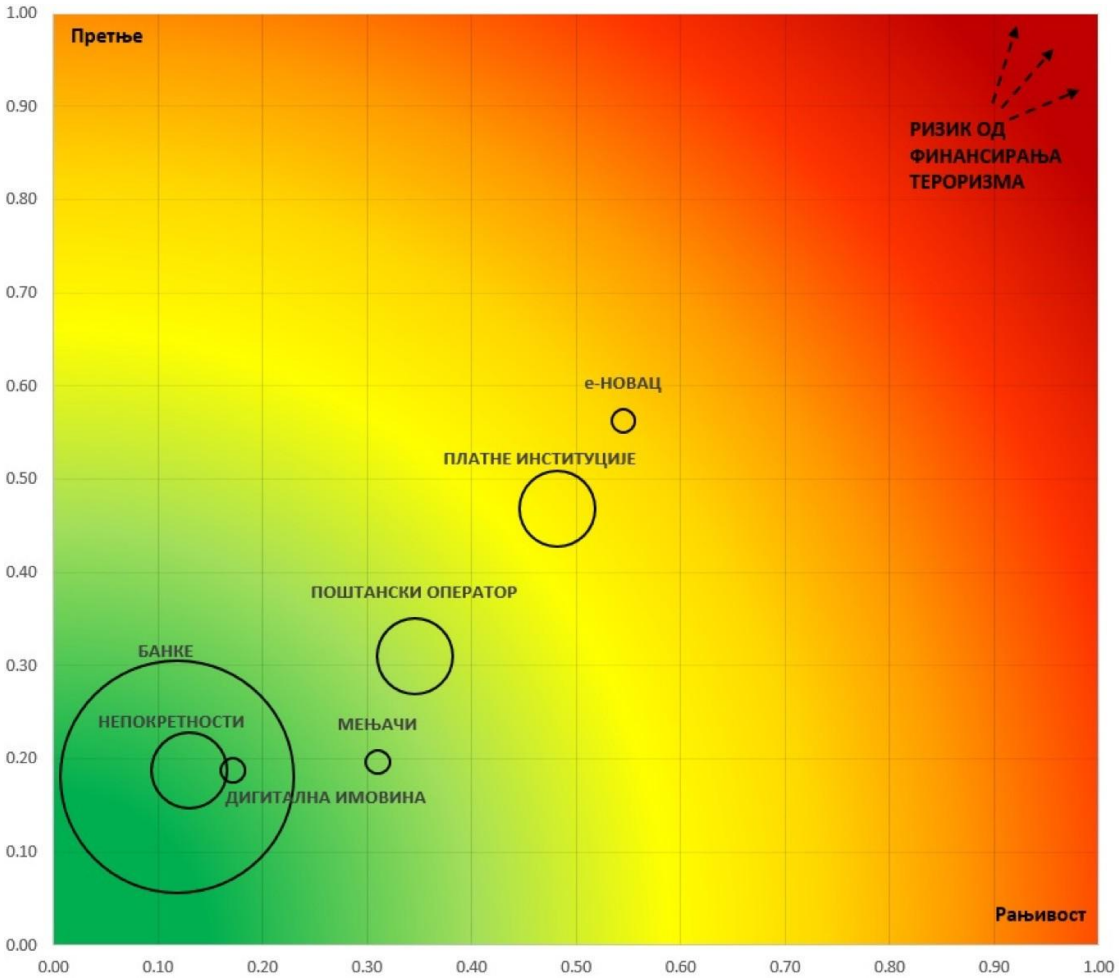
- a person sells several properties in a shorter period of time;
- when they authorize a third party to sell or rent several properties;

- a person sells real estate below the market price;
- persons from risk areas who have documents of the Republic of Serbia obtained on the basis of temporary residence buy movables and real estate or give powers of a attorney for purchasing the same to domestic persons.

Considering that banking products are the most numerous and prevalent, and since the **banking sector** is the leader in the financial system, the susceptibility of this sector to misuse from terrorism financing is not negligible. Adequate and continuous training of employees in the sector, as well as monitoring and harmonization with international standards and international regulations would contribute to mitigating this risk.

Banks should pay attention when they:

- register transactions related to countries where intensive terrorist activities take place;
- provide products and services (especially cash loans) to foreign citizens originating from high-risk areas, who have documents of the Republic of Serbia issued on the basis of temporary residence;
- register quick money transfer transactions in smaller amounts by order of various natural persons from abroad for the benefit of the same natural person resident or non-resident, especially when the truthfulness of the stated purpose of the transaction is doubted (e.g., family assistance, maintenance, etc.);
- incomplete data related to the order for execution of transactions in favor of NPO (non-governmental organizations, endowments, associations, funds, religious organizations, etc.) or in favor of natural persons related to the said organization, in accordance with Articles 11-15 LPMLTF;
- several unusual NPO transactions have been recorded - incoming payments that do not correspond to the expected volume/turnover of the client's business activities;
- procedures do not require the users of banking products and services (loans, current accounts, etc.) to fully identify users or there is a possibility of providing false information;
- the bank's clients perform transactions with financial platforms taking advantage of the anonymity of the participants in the transactions, the unknown origin of the funds and the difficult and slow checks by state authorities;
- client’s transactions point to so-called crowdfunding, namely whether the client raises funds in a legitimate manner and if he uses such funds for the state purpose;
- there is a doubt in the true identity of the person who registers as a bank client through video identification and when verifying the authenticity of personal identity documents that are delivered electronically.



Graph 3 Overview of sectoral risks

Although there have been no indications that, in the Republic of Serbia, other financial and non-financial sectors have been misused for the purpose of financing terrorism, such cases have occurred at the global level, so it cannot be said that these sectors are not vulnerable. In this regard, it is important to continuously maintain the level of knowledge among obligors about possible misuse and, through regular training and publication of relevant reports on international experience (primarily FATF reports on misuse by sector), point out modalities and indicators of misuse.

In general, intersectoral misuse was observed, primarily of electronic money institutions, i.e., payment processors of banks, payment institutions[108] and organizers of special games of chance

108 Especially if we take into account that they use third party products in providing their services to clients (e.g., remote identification), tracking and knowing the clients and tracking their transactions, e.g. FinTech companies).

in casinos, and even more often by organizers of games of chance through electronic means of communication for the purpose of extracting funds of unknown origin and laundering them from accounts/profiles registered with service providers in the games of chance sector. This also increases the risk of terrorism financing.

Online customer identification and document delivery procedures are conducive to misuse such as alteration and falsification of personal identification documents, decisions on temporary residence of foreign nationals, bank statements and balances and identity theft.

Obligors recognized the **risk of misuse of prepaid cards** and significantly limited their services. Although the end user of this type of card is not known, the risk of misuse is reduced by the fact that only non-cash transactions can be made with cards and by the fact that cash withdrawals are not possible at ATMs.

Regarding the interest in the use of prepaid cards in the Republic of Serbia, and based on the collected data, it can be said that it is significant. However, the risk of money laundering and terrorism financing through prepaid cards in the Republic of Serbia is estimated to be low, especially if we take into account that an increasing percentage of banks are giving up this product.

Payments made with mobile (virtual) payment cards are not automatically and directly visible in the system of the National Bank of Serbia. However, if necessary, the National Bank of Serbia may, in accordance with its supervisory function, always obtain data on the operations of all obligors under its supervision, including data relating to payment card payment transactions and fulfillment of obligors' obligations in accordance with regulations in the field of prevention of money laundering and terrorism financing in connection with these transactions.

In case of non-compliance with the Law on Prevention of Money Laundering and Terrorism Financing, obligors are subject to administrative sanctions prescribed by that law, while the legal system of the Republic of Serbia does not provide for criminal sanctions for non-compliance with laws and regulations on combating terrorism financing.

The availability and effectiveness of entry controls, the integrity of employees in the sector, as well as the knowledge and awareness of employees in the sectors about combating terrorism financing are adequate. Banks in the Republic of Serbia have an effective compliance function that is comprehensive and risk-based, which is described in detail in the Money Laundering Risk Assessment for the period 2018-2020.

The application of targeted financial sanctions is regulated by the Law on Restrictions on the Disposal of Assets for the Purpose of Preventing Terrorism and the Proliferation of Weapons of Mass Destruction[109] and the Law on International Restrictive Measures.[110]

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109 "Official Gazette of RS", no. 29/15, 113/17 and 41/18.
110 "Official Gazette of RS", no. 10/16.

The procedure of restricting the disposal of assets is initiated by any legal or natural person who, while performing work or activities, determines that they have transactions or other similar relations with the designated person.

The Administration for the Prevention of Money Laundering has reported cases of restrictions on the disposal of assets in the period 2019-2020, two cases of reports in 2019 by a payment institution and one case of a report in 2020 by the Administration for the Execution of Criminal Sanctions.

The Administration for the Prevention of Money Laundering, in cooperation with the Mihajlo Pupin Institute - Computer Systems, has developed a **search engine that refers to the lists of persons against whom UN sanctions are applied, i.e., of "designated persons".** The search engine enables all natural and legal persons to quickly and easily check whether they have contacts, i.e., business cooperation with the mentioned category of persons, in order to timely implement measures and actions prescribed by the Law on the Restriction of the Disposal of Assets for the Prevention of Terrorism and Proliferation of Weapons of Mass Destruction.

Obligors such as banks and payment institutions have automatic updating and application of UN Security Council lists and national lists of designated persons in their systems, while other groups of obligors in the non-financial part of the system such as accountants, auditors, attorneys at law, notaries can now search the lists of designated persons from the relevant lists of the UN Security Council through the search engine on the official website of the Administration for the Prevention of Money Laundering: http://www.unsearch.apml.gov.rs/.

1.3. The country's sensitivity to terrorism financing

By the decision of the Government of the Republic of Serbia, on July 12, 2018, the Coordinating Body for the Prevention of Money Laundering and Terrorism Financing was established (hereinafter: Coordinating body). This body was established as a permanent body on the basis of the Law on Prevention of Money Laundering and Terrorism Financing in order to achieve effective cooperation and coordination of the competent authorities in this area. The Coordinating Body is tasked, inter alia, with analyzing the functioning of the system for combating money laundering, terrorism financing and financing the proliferation of weapons of mass destruction and proposing measures to improve it, determining the methodology and conducting national risk assessments of money laundering and terrorism financing, as well as monitoring the implementation of the recommendations of national risk assessments through other national strategic documents, along with monitoring the implementation of activities from the Action Plan that resulted from the said National Assessment.

Furthermore, by the Decision of the Government of the Republic of Serbia, on April 18, 2019, the National Coordinating Body for the Prevention and Fight against Terrorism was established. On that occasion, the National Coordinator for the Prevention and Fight against Terrorism was appointed, with the task of coordinating activities in the prevention and fight against terrorism, radicalism and violent extremism leading to terrorism

and ensuring the effective implementation, monitoring, evaluation and reporting on the implementation of the National Counter-Terrorism Strategy. The National Coordinating Body submits quarterly reports on its work to the Government of the Republic of Serbia.

In addition to the mentioned bodies that function at the strategic-tactical level in the Republic of Serbia, several other teams, i.e., working groups have been formed at the lower - operational level, in whose exclusive or partial remit is the fight against terrorism.

At the strategic and political level, important qualitative progress has been achieved through the drafting and adoption of several national strategic and doctrinal documents, such as strategies and risk assessments, which have further rounded off the field of counter-terrorism, and harmonized it with international standards. These documents define the basic course of the policy of the Republic of Serbia in certain areas of importance for the prevention and countering of terrorism and measures for its implementation, which created space for more efficient action of the competent state authorities. Among the most important documents are the National Strategy for Combating Money Laundering and terrorism financing for the period 2020-2024 and the National Strategy for Prevention and Fight against Terrorism for the period 2017-2021 with the accompanying action plans.

The Republic of Serbia is committed to building an effective system for combating money laundering and terrorism financing through the implementation of measures envisaged by FATF, an intergovernmental body that sets international standards in this area.

Significant efforts have been made at the normative level in order to harmonize domestic substantive law with international standards in order to fight terrorism more effectively.

Amendments to the Criminal Code from 2016 and 2019 further harmonized the Code with international recommendations (UN, FATF, MONEYVAL) in terms of criminal offenses related to terrorism, as well as the criminal offense of terrorism financing.

At the same time, Serbia has a comprehensive and effective legal framework that regulates the temporary and permanent confiscation of property, as well as the blockade of proceeds and resources of crime. According to the Moneyval Committee, the legal framework governing this area is "largely in line" with the FATF Recommendation 4.

Proceeds from crime under the law of the Republic of Serbia are confiscated pursuant to the provisions of the Criminal Code (through the application of the institute of confiscation of material gain under Articles 91 and 92 of CC, as well as through the imposition of security measures for seizure of objects under Article 87 CC) and the Law on Seizure and Confiscation of the Proceeds from Crime (permanent confiscation of assets generated by criminal activity).

The Administration for the Prevention of Money Laundering (hereinafter: APML) performs financial and information-related activities: it collects, processes, analyses and forwards to the competent authorities information, data and

documentation obtained in accordance with LPMLTF and performs other tasks related to the prevention and detection of money laundering and terrorism financing in accordance with the law.

APML, in accordance with LPMLTF, collects and analyses data related to persons, transactions and activities related to terrorism financing. This law also regulates the obligation of certain entities (obligors) to report activities that indicate a connection with the financing of terrorism. In addition to the above, the sources of data of the Administration can be requests and letters from foreign partner services.

Year	APML information	Information to APML	Total
2018	11	9	20
2019	2	4	6
2020	/	4	4
Total	**13**	**17**	**30**

Table: Number of information exchanged between APML and foreign financial intelligence services related to terrorism financing

The requests of APML to partner services were related to clarifications of information received from foreign FOS and verification of information for entities that can be linked to terrorism, as well as radicalization and extremism that can lead to terrorism. The requests of the partner services were related to checks regarding the designated persons from the national lists and regarding the persons tied with the terrorist attacks in New Zealand and Austria.

Number of reported reports from obligors on suspicious activities, by year

	2018	2019	2020
Total	**27**	**22**	**18**

Table: Number of suspicious transaction reports related to terrorism financing analysis - Statistics

When it comes to the SARs of payment institutions and banks, over 90% of the entities in the reports were persons for whom requests were previously made to obligors. Other individuals in the reports are linked to terrorism based on publicly available information. It is important to note that it often happens that payment institutions and banks that work as their money transfer sub-agents report the same transactions, which is a problem because it unjustifiably increases the number of FT-related SARs (which can negatively

to affect risk assessment) and increases the risk of error and unnecessary data processing by obligors in the Administration, and thus the costs.

SARs of payment institutions are less and less related to migrant-related transactions, although they still represents the largest share of reported SARs, and therefore the practice of comprehensive analysis of all transactions and forwarding all such reports to security services continues.

APML, in accordance with LPMLTF, exchanges data with the competent state authorities responsible for the fight against terrorism. These state bodies have adequate resources and capacities to successfully deal with the risk of terrorism financing and permanently invest in the improvement of both material and technical resources and professional development of employees in order to acquire knowledge and skills in accordance with the challenges, risks and threats identified at the national, regional and global levels.

The competent state bodies responsible for the fight against terrorism financing are independent in the performance of their duties and other legal activities within their remit, in accordance with the laws governing their setup and competence. These laws are based on the principles of professionalism and depoliticization.

In the analyzed period, during the implementation of measures and actions related to suspicions of terrorism financing, there were no obstacles or pressures on the dynamics or outcome of the investigation.

The capacities of the Prosecutor's Office for Organized Crime, as the public prosecutor's office that has exclusive subject matter jurisdiction to prosecute terrorist acts and related crimes for the territory of the Republic of Serbia, have been significantly strengthened in the period 2013-2017.

The legal system of the Republic of Serbia contains regulations that prevent and sanction violations of integrity by public prosecutors and deputy public prosecutors. These regulations include criminal liability for the criminal offense of violation of the law by the Public Prosecutor or Deputy Public Prosecutor and other criminal offenses prescribed by the Criminal Code, disciplinary liability for disciplinary offenses prescribed by the Public Prosecutor's Office Act, Code of Ethics for Public Prosecutors and Deputy Public Prosecutors and Code of Ethics members of the State Prosecutors 'Council (SPC), integrity plans of public prosecutors' offices and SPC, obligation to report assets provided for by the Law on Prevention of Corruption, the institute of Independence Commissioner established by the Rules of Procedure of SPC, immunity for opinion expressed in conducting official duty, provisions on exemption prescribed by the Code of Criminal Procedure, etc.

The Law on Organization and Competences of State Bodies for the Suppression of Organized Crime, Terrorism and Corruption prescribes the competence of the Special Department for Organized Crime of the High Court in Belgrade to deal with criminal proceedings for terrorism and other related crimes. The second-instance procedure is under the jurisdiction of the Court of Appeals in Belgrade, Special Department.

The administrative and spatial capacities of these courts are adequate for dealing with criminal proceedings for these crimes.

Given that judges have the right to and obligation of professional development and training that is realized through general programs of continuous training conducted by the Judicial Academy, in the coming period it would be expedient to continuously organize education, both at basic and advanced level, in the field of crimes of terrorism and other crimes related to it.

Regarding the integrity and independence of judges in the Republic of Serbia, there are numerous regulations that contain rules on the conduct of judges in the performance of their functions, but also when they are not performing their functions. The protection of the integrity of judges is prescribed by the Constitution of the Republic of Serbia, the Law on the Organization of Courts and the Law on Judges, as well as other bylaws based on these laws. In order to protect the integrity of judges and the successful conduct of court proceedings, in the Republic of Serbia there is a separate criminal offense of obstruction of justice in Article 336b of the Criminal Code, which has been applied since September 11, 2009.

Just like public prosecutors and judges, they are obliged to inform the Agency for the Prevention of Corruption about their own assets, income, debts of their family members, or about all significant changes in assets and income if such changes occur during their term in office. In addition, the Agency decides on the existence of conflicts of interest among public prosecutors and judges.

The efficiency of the system in preventing the financing of terrorism is boosted by the control of the import and export of dinars and foreign means of payment in international passenger and border traffic with foreign countries, which is within the competence of the Customs Administration.

Through the form of "EARLY WARNING", the Customs Administration receives modalities from the Border Police Administration that indicate the specifics of the smuggling of various types of goods and migrants, i.e., the use of means of transport for the purpose of cross-border crime. These modalities are forwarded through the Intelligence Department to all customs offices, border outposts, as well as the Anti-Smuggling Department in order to improve the work in the field of detection and suppression of customs offenses, which in practice has proven to be extremely useful.

At the same time, the Government of the Republic of Serbia adopted the Integrated Border Management Strategy in the Republic of Serbia 2017-2020, which is in line with the existing legal framework of the European Union, as well as the Action Plan for Implementing the Integrated Border Management Strategy in the Republic of Serbia 2017-2020, which defined the strategic goals relating to the concept of integrated border management and contained the objectives of border police, customs, veterinary and phytosanitary inspection, as well as part of the objectives related to migration, visas and asylum.

By signing the Protocol on the exchange of data and information between the services involved in the system of integrated border management, a qualitative step forward was made in the work of the Department of Intelligence of the Customs Administration that collects data on all entities (natural and legal persons) from other state bodies, partner customs administrations of foreign countries and from

citizens' applications. Furthermore, the bodies of the Customs Administration have developed a list of risk indicators for money laundering and terrorism financing, dividing them into basic and special.

The geographical position of the Republic of Serbia, since the beginning of the migrant crisis, has caused a large number of people of Afro-Asian origin, using the so-called Balkan Route, to transit through the territory of the Republic of Serbia, with the aim of landing in one of the EU countries.

In parallel with the above, the security authorities are continuously selecting persons of interest from the categories of migrants, with the aim of identifying potential individuals as possible terrorist actors in our country.

In order to prevent illegal entry into the territory of Serbia, and thus the further movement of migrants from the territory of the Republic of Serbia to the territory of neighboring countries, the Border Police Administration is taking increased measures by deploying additional police forces and technical means at the border with Northern Macedonia and Bulgaria.

Illegal crossings prevented	entry	exit
2018	about 5,000	about 3,500
2019	about 13,000	about 7,000
2020	about 17,000	about 21,000

Concerning migrant routes, we primarily mean:

Entry points - most of the entries were registered from the territory of Northern Macedonia and Bulgaria, while a smaller number of entries were registered from the direction of Montenegro, as well as from the territory of the Autonomous Province of Kosovo and Metohija.

Exit points - Hungary and Croatia are the main exit points for migrations from the territory of the Republic of Serbia, regardless of the intensified control measures.

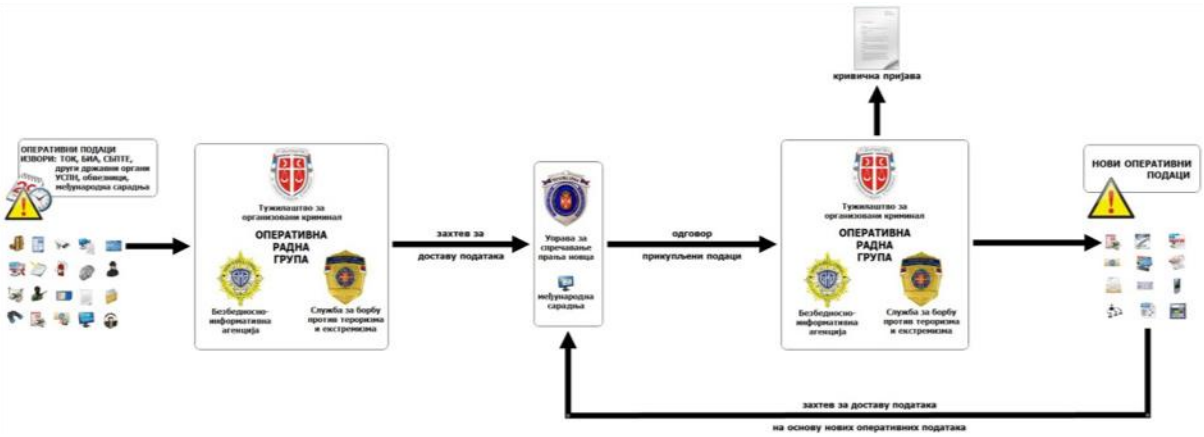
The following modes have been identified by the border police and the criminal police as the main modes of illegal crossing of the state border:

- crossing the state border - green pedestrian line, with or without a guide, most often from Northern Macedonia and on the border with Hungary;
- crossing the state border by hiding in cargo motor vehicles - trucks, most often on the border with Croatia and Hungary;
- crossing the state border using original - "look-a-like" documents;

- crossing the state border on rivers, using larger boats or small - inflatable ones, most often across the Drina River, on the border with BiH.

In several cases, tunnels were discovered on the border with Hungary that lead under the fence.

From the aspect of the effectiveness of domestic cooperation, in the Republic of Serbia, several teams, i.e., working groups have been formed at the operational level, in whose exclusive or partial competence is the fight against terrorism.



The competent state authorities continuously exchange data related to the entities suspected of being related to the phenomenon of terrorism and its financing. During the assessment period, no case was identified that required criminal prosecution for the criminal offense of terrorism and other related criminal offenses.

The Law on the National Database for the Prevention and Fight against Terrorism was adopted by the National Assembly in June 2021.

Meanwhile, the Republic of Serbia actively and effectively participates in international cooperation related to criminal prosecution, pre-investigation procedures and the exchange of intelligence with international partners.

During the assessment period, the competent judicial authorities, in relation to terrorist offenses and other related acts, undertook several types of international legal assistance by issuing letters rogatory or acting on letters rogatory through international cooperation procedures with the competent judicial authorities of different countries. In this regard, international cooperation is ongoing and most requests, regardless of whether they are incoming or outgoing letters rogatory, have been fully processed.

The types of international legal assistance have been requests for extradition, interrogation of suspects, hearing of witnesses, taking statements from citizens, submission of evidence, obtaining

documents, exchanging information, using videoconferencing, conducting covert investigations, and monitoring and recording telephone and other conversations or communications.

In relation to the period covered by the previous risk assessment, the intensity of international cooperation of judicial bodies in the field of detection and prosecution of terrorist offenses and other related criminal offenses remained steady.

In addition to judicial bodies, other competent bodies (security services, parts of the Ministry of the Interior, parts of the Ministry of Finance) maintain a continuous exchange of data with partner services.

From the aspect of application of regulations on the prevention of money laundering and terrorism financing, it should be emphasized that the provisions of the Law on Audit incorporate Recommendation 28 of Moneyval to prohibit convicted legal and natural persons and their affiliates, as well as associates from being founders and owners of audit companies .

Furthermore, the legal and regulatory framework of corporate governance has been significantly improved and harmonized with the Organization for Economic Cooperation and Development on the principles of corporate governance, but the practice of corporate governance is still insufficiently developed. All business entities in Serbia are encouraged to adhere to the corporate governance rules included in the corporate governance codes.[111] However, the legislation, as well as the SCC Corporate Governance Code, does not provide for sanctioning mechanisms in case of violation of the Code.

In addition, the last comprehensive survey and study on the magnitude of the gray economy was conducted in 2017 by NALED[112] and found that the gray economy fell from 21.2% of GDP in 2012 to 15.4% of GDP in 2017, which indicates that the level of formalization of the economy is high, with a declining trend of the informal economy.[113]

A significant contribution to the fight against terrorism financing is provided by a reliable system and good identification infrastructure that prevents the use of forged documents. Public documents by which citizens, nationals of the Republic of Serbia prove their identity on the territory of the Republic of Serbia are identity cards and travel documents, issued by the competent organizational units of the Ministry of Internal Affairs of the Republic of Serbia. Every citizen of the Republic of Serbia over the age of 16 years has the right to an identity card, i.e., every citizen older than 10 years

111 At the moment, there are two codes of corporate governance in Serbia: The Belgrade Stock Exchange Corporate Governance Code - which contains the principles of corporate governance that must be observed by public joint stock companies whose shares are traded on the Belgrade Stock Exchange; and the 2012 Corporate Governance Code adopted by the Assembly of the Serbian Chamber of Commerce with voluntary application to all capital companies.

112 Gray economy in Serbia 2017: Estimation of scope, characteristics of participants and determinants.

113 According to data from the mentioned research, in 2017, 16.9% of registered economic entities were engaged in some kind of gray economy. Observed by forms of informal business, approximately one tenth of economic entities (10.8%) have informally employed workers, while 6.9% make payments in cash, although they are VAT payers. On the other hand, according to economic entities, the share of unregistered companies in their activities is 17.2%.

also has the right to an identity card. The system for the production of identification documents of the citizens of the Republic of Serbia is centralized and fully harmonized with international standards, which reduces the possibility of misuse of these documents to a minimum.

In Serbia, sources of comprehensive data and information on clients are widely available, which include data on the founders, ownership and management structure of legal entities, as well as financial information. Institutions responsible for the prevention of money laundering and terrorism financing can access this data without much difficulty.

In addition to the above, the Law on Prevention of Money Laundering and Terrorism Financing makes a significant contribution to the fight against terrorism financing, defining in its article 25 the notion of beneficial owner and obligation of identifying the beneficial owner and checking the identity of the beneficial owner by the obligors of that Law. A party, in terms of this law, is a natural person, entrepreneur, legal entity, foreign law entity and civil law entity that performs a transaction or establishes a business relationship with the obligor.

During the risk assessment period, owing to good cooperation at the domestic and international level, a significant pool of intelligence was collected on suspicious financial activities of certain persons and organizations of interest which, from a qualitative point of view, were assessed as useful in further operational engagement.

Also, the prevention of terrorism financing both in our country and globally is supported by the laws related to the procedure and mechanism for defining and implementing targeted financial sanctions (Law on the Restriction of the Disposal of Assets for the Prevention of Terrorism and Proliferation of Weapons of Mass Destruction and the Law on International Restrictions) are largely in line with international standards. In order to operationalize measures and activities for the fight against terrorism, terrorism financing and the proliferation of weapons of mass destruction, guidelines, guides and other documents have been adopted.

Supervision of the application of the provisions of the Law on the Restriction of the Disposal of Assets for the Prevention of Terrorism and Proliferation of Weapons of Mass Destruction is performed by the Administration for the Prevention of Money Laundering. In the period 2018-2020, the Management Board did not directly supervise the implementation of the said law, but in accordance with the inspection plans and the estimated risk of terrorism financing among obligors, such supervision is planned in the forthcoming period.

In accordance with LPMLTF, other supervisory bodies control the application of targeted financial sanctions by supervised entities, and, during the assessment period, no irregularities were observed in the application of the Law on the Restriction of the Disposal of Assets for the Prevention of Terrorism and Proliferation of Weapons of Mass Destruction.

The Administration for the Prevention of Money Laundering has reported cases of restrictions on the disposal of assets in the period 2019-2020 and two cases of reports in 2019 by payment

institution and one case of a report in 2020 by the Directorate for the Execution of Criminal Sanctions. Based on these reports, the Minister of Finance issued decisions restricting the disposal of assets in accordance with the Law.

II.2. SECTOR RISK ASSESSMENT NON-PROFIT ORGANIZATIONS

Exposure of non-profit organizations (hereinafter: NPO) from misuse for the purpose of financing terrorism in the Republic of Serbia, in the period 2018-2020, is low to medium, i.e., lower compared to the period covered by the previous risk assessment.

In the period covered by the previous risk assessment, one NPO was misused for terrorism financing purposes, as described in the Terrorism Financing Risk Assessment for the period 2012-2017 and Typologies of Terrorism Financing.

In this regard, in January 2019, seven persons were sentenced to several years in prison by a final verdict for the criminal offense of terrorist association and other criminal offenses related to it, including terrorism financing.

In the period 2018-2020, the competent state authorities in the Republic of Serbia carried out activities in the field of preventing the financing of terrorism, however, the inspections did not confirm the suspicion of terrorism financing, as well as possible misuse for terrorism financing.

When it comes to organizational structure, transparency regarding available information regarding activities, employees, acts that NPOs must adopt, the way to control fundraising at home and abroad, in the context of reducing the vulnerability of the sector to misuse for the purposes of terrorism financing, based on available data obtained through cooperation and public insight into the statutes and financial reports of NPOs, the conclusion is that this sector has well-established practices in place that have a positive impact on reducing vulnerability to misuse.

The risk of exposing the NPO sector to possible misuse for the purpose of terrorism financing is influenced by the following factors:

1. Geographical distribution of the number of associations in specific border areas (where migrant centers are located), where there is a trend of significant increase in the number of these associations after the outbreak of the migrant crisis, which is why it stands out as the dominant factor;
2. General and generically defined goals when registering associations, endowments, and foundations;
3. The lack of planned supervision of endowments and foundations that was supposed to begin in 2020 (epidemiological measures due to the Covid-19 pandemic);

4. Risks in relation to weaknesses in the management culture identified during the exercise of joint supervision.

The following activities contributed to the elimination of the deficiencies identified in the previous risk assessment and risk reduction:

- presentation of the results of the Terrorism Financing Risk Assessment in the Republic of Serbia, which included an analysis of the NPO sector;
- raising awareness that was carried out directly with the representatives of NPOs, including workshops on the modalities of misuse of NPOs for terrorism financing;
- development of guides for donors and search engines of designated persons due to links with terrorism, as well as their presentation to the NPO sector and donors;
- conducting surveys in the NPO sector on the perception of the risk of misuse for terrorism financing and discussing their results;
- unified supervision (establishment of a working group for the control of non-profit organizations, hereinafter: Working Group) and in that sense the selection of members, adoption and drafting of documents at different levels and holding trainings of inspectors of competent institutions for control of NPO activities.

The NPO risk assessment from the aspect of terrorism financing was carried out on the basis of the Typology of Terrorism Financing in the Republic of Serbia and the criteria defined by the NPO Control Working Group, taking into account the World Bank methodology for drafting the NPO terrorism financing sector risk assessment.

2.1. LEGAL FRAMEWORK OF THE NPO SECTOR IN THE REPUBLIC OF SERBIA

In the Republic of Serbia, the term "non-profit sector", or "non-profit organizations", as defined by law and designates organizations based on the freedom of association of several natural or legal persons that are not established for profit, but have the status of legal entity (associations, endowments, foundations, funds), as well as any other form of voluntary association for the purpose of achieving a common and/or general goal and interest which does not use funds and assets for profit, i.e., for financial gain of its founders, members, employees or other persons related to that association and whose work is not regulated by a special law. The basis of the definition is in Article 55 of the RS Constitution and the following laws: Law on Associations, Law on Endowments and Foundations and Law on Endowments, Foundations and Funds.

This definition is harmonized with the FATF definition and according to the same in the Republic of Serbia, 36,219 active NPOs are registered, namely 35,267 associations and 952 foundations and endowments.[114]

The legal framework governing the work and activities of the NPO sector in the Republic of did not change in the previous 3 years.

The Law on the Central Register of Beneficial Owners established the Central Register of Beneficial Owners as a public, unique, central, electronic database on natural persons who are the beneficial owners of a registered entity, and which is maintained by the Business Registers Agency (hereinafter: BRA) in electronic form from December 31, 2018. As at December 31, 2020, 77.45% of associations, 94.24% of endowments and 80.08% of foundations have registered the beneficial owner.

Bearing in mind that 22.47% of the total NPO sector did not fulfill the obligation to register the beneficial owners, it also represents a significant risk from the aspect of not knowing who is the person that is considered the beneficial owner, which calls into question the method of controlling asset management. This risk is reduced by the activities of the competent state bodies in terms of filing misdemeanor charges. In April 2021, APR filed 309 misdemeanor charges against associations, 15 against foundations and one against endowments for failing to register beneficial owners.

The structure of beneficial owners by country shows that about 90% of them are from the Republic of Serbia, and that the remaining countries are always represented by less than 1%.

2.2. Analysis of NPOs from the aspect of terrorism financing

During the preparation of the Risk Assessment of the NPO sector, the methodology of the World Bank for the preparation of the Risk Assessment of the NPO sector for terrorism financing was taken into account in the parts related to:

- total value of NPO sector revenues;
- total value and types of revenues and total expenditures of the NPO sector;

114 Churches and religious communities in the Republic of Serbia are not considered a risky part of the NPO sector for the following reasons: Traditional churches and religious communities are those that have centuries of historical continuity in Serbia and whose legal subjectivity has been acquired on the basis of special laws.
The social and charitable activities of churches and religious communities are separate from their worship activities. Churches and religious communities may establish as part of their social and charitable activities relevant institutions and organizations in accordance with the law, i.e., register them as associations, endowments, or foundations. In that case, these entities, established for the implementation of social and charitable activities, fall under the NPO sector and regulations and criteria apply to them as to other entities of the NPO sector. There are 13 registered foundations in the Republic of Serbia whose founder is a religious community.
Also, professional associations are not considered a risky part of the NPO sector, from the aspect of misuse for terrorism financing. Namely, they have clearly defined goals; in accordance with the defined goals, undertake activities that, in most cases, promote the activities of their occupations; transparent sources of income.

- total value of incoming and outgoing payments of funds from risk areas on the basis of aid and gifts;
- analysis of goals and types of NPO;
- convictions, indictments, and investigations for terrorism-related offenses, including terrorism financing;
- intelligence on terrorism financing or terrorism;
- data from the competence of FOS;
- publicly available data;
- typologies of terrorism financing, including sources, directions of movement and channels used for the transfer of funds, as well as the connection of NPOs with terrorist entities, misuse of NPO programs for financing and recruitment;
- assessing the proximity of NPOs with terrorist entities and collecting and transferring funds for terrorist entities and spending funds on their behalf;
- assessment of inherent sensitivity by categories of NPO profiles (size; type of activity; complex ownership and management structures; financing structure - sources, method of collection and method of transfer: use of cash, digital assets, and alternative transfer systems; organizational structure, etc.);
- state measures to reduce vulnerability: cooperation with the NPO sector on raising awareness of risks, the quality of NPO sector policies, norms regarding NPO registration, transparency of NPO data, impact on the work of the NPO sector;
- NPO measures for reducing the vulnerability of the sector: quality of management, quality of financial management, quality of project management, quality of verification of employee supervision, transparency, and self-regulation.

Based on the developed typologies of terrorism financing, the state authorities of the Republic of Serbia have singled out characteristic indicators in relation to the possibility of misuse of the NPO sector by terrorism financing:

- responsible persons in NPO carry out activities that are not in accordance with the statutory objectives (e.g., creation and distribution of materials and organization of lectures justifying terrorism or activity of a terrorist organization);
- responsible persons in NPOs spend funds in a way that is not in accordance with the statutory goals (purchase of various items: vehicles, military equipment, accessories for training martial arts, providing financial assistance to the families of convicted and killed terrorists);
- NPO building that is not registered for the provision of accommodation and food services is equipped and used for shorter stays of several persons (beds, kitchen, etc.);
- Persons believed to support terrorist activities frequently visit NPO premises;
- An association from Serbia cooperates with NPOs suspected of supporting terrorist activities.

In order to determine the size of the NPO sector in the period 2018-2020, the total revenues of this sector, revenues from donations, grants, subsidies, etc., as well as their share in the gross national income in the period 2018-2019 were considered (data for 2020 have not been published). Having in mind the classification of NPOs by size and legal form in accordance with Article 6 of the Law on Accounting, from the aspect of terrorism financing, both those NPOs that did not submit a financial report, as well as those classified as micro legal entities, are at risk.

In addition, the share of cash inflows of NPOs from risk areas in relation to revenues from donations, grants, subsidies, etc. was analyzed. The analysis determined that, in the period 2018-2020, for this criterion, the stated share of cash inflows is not significant from the aspect of misuse of the NPO sector for the purpose of financing terrorism.

The share of employees in the NPO sector is less than 0.5% in relation to the total number of employees in the Republic of Serbia. Also, the number of employees in the NPO sector is proportional to the income of this sector and is determined by the fact that the NPO sector, for the most part, is financed through project financing.

The number of registered associations in Belgrade and other parts of the Republic of Serbia is not proportional. Namely, 44.6% of the total number of associations are registered in Belgrade, while the remaining 55.4% is almost evenly distributed, so there is no geographical risk in relation to terrorism financing from the aspect of the number of associations in a specific area of the Republic of Serbia. However, the analysis of the geographical distribution of associations in specific border areas (where migrant centers are located) showed a significant increase in the number of associations after the outbreak of the migrant crisis, which makes it a dominant factor in geographical risks in terms of terrorism financing. The competent state authorities of the Republic of Serbia continuously monitor this risk and take adequate measures to mitigate it.

	2014	2020	%
Presevo	42	82	95,23%
Pirot	128	183	42,96%
Dimitrovgrad	33	47	42,42%
Tutin	52	72	38,46%
Subotica	576	755	31,07%
Sid	121	154	27,27%

Table: Number of associations in specific border areas before and after the migrant crisis as a percentage

Regardless of the form of organization of NPOs - associations, endowments, or foundations, it was noticed that too general and generic goals are most often defined during registration.

In associations, the most common are for example "Other" (95.9%), "Sustainable Development", "Culture and Arts", "Environmental protection", and others, while among endowments and foundations, the most prevalent are also "Other goals" (82.7%), "Promotion, protection and improvement of science and education" "Humanitarian activities", "Culture and public information" and others.

Based on the goals defined in this way, it is difficult to obtain concrete data on the actual activities carried out by NPO organizations in the sector.

The analysis of risk assessment related to NPOs as a form of organizing and categorizing the risks of clients who have established business relations with obligors in the financial part of the system (low/ medium/high), provides the following overview of risk structure for NPO sector:

	low	medium	high
Banks	16%	78%	6%
Insurance	97%	1%	2%
Leasing	88%	11%	1%

The analysis was also performed for the non-financial part of the system, where the results also indicated that a smaller number of clients are entities organized in the form of associations that carry a high-risk rating. In the non-financial part of the system, accountants and auditors have rated endowments and foundations as a higher risk, to a greater extent than associations.

In the reporting period, the obligors did not report associations in relation to suspicious activities regarding suspicions of FT.

2.3. Analysis of the NPO sector in relation to specifics in the Republic of Serbia

Since not all NPOs, from the aspect of misuse for terrorism financing, are risky, but also that all the risky ones do not carry the same degree of risk, the criteria defined by the Working Group for NPO Control were applied, based on which they are ranked in five risk categories:

1. low risk
2. low to medium risk
3. medium risk

4. medium to high risk
5. high risk

The analysis determined that in order to have a comprehensive and qualitative review and assessment of the risk of NPOs from misuse for the purpose of financing terrorism in the Republic of Serbia, it is necessary to combine general and special criteria.

The general criteria are defined in relation to the tasks within the competence of inspections that perform control, submission of financial reports, international standards in the field of preventing the misuse of NPOs by the terrorism financing sector, as well as typology of terrorism financing in the Republic of Serbia. On the other hand, special criteria are defined in relation to the data of the security services of the Republic of Serbia.

The general criteria are:

- the non-profit organization performs its activity in the border area, where the reception centers or asylum centers in the Republic of Serbia are located;
- the non-profit organization did not submit the prescribed documentation to the Register of Financial Reports to the Business Registers Agency (financial reports and/or statement of inactivity), for the previous year;
- the non-profit organization has registered more than three changes of registered office with the Business Registers Agency in the previous three years;
- the non-profit organization has registered in the Business Registers Agency more than three changes of representative in the previous three years;
- the non-profit organization has generalized and generically defined goals that as such enable diverse activities;
- two or more non-profit organizations have the same representative;
- two or more non-profit organizations have their registered office at the same addresses, as well as the same contact information (telephone, email address);
- the representative of the non-profit organization is at the same time a representative and/or founder in other entities engaged in economic and other activities.

Special criteria are an integral part of the Procedures and Criteria for Joint Supervision of Non-Profit Organizations adopted by the Coordination Commission for Inspection Supervision and are classified as "restricted".

Also, the negligible number of endowments and foundations in relation to the number of associations (no more than 3%) and their insufficient diversity in relation to specific geographical areas, from which aspect they are at low risk in terms of exposure to terrorism financing, were taken into account. However, the high risk is due to the lack of planned surveillance that was supposed to begin in 2020 (epidemiological measures due to the Covid-19 pandemic), and therefore the overall risk of foundations and endowments is low to medium.

In this way, sets of NPOs are defined that have a number of common criteria, as follows:

- in the group “not risky” are NPOs that have less than three common general criteria;
- in the group "low risk" are NPOs that have three common general criteria;
- in the group "low to medium risk" are NPOs that have four common general criteria;
- in the group "medium risk" are NPOs that have five common general criteria;
- in the group "medium to high risk" are NPOs that have six common general and specific criteria;
- In the group "high risk" are NPOs that have more than six common general and specific criteria.

The most common general criteria are "general and generically defined goals" (e.g., "Other", "Sustainable Development", "Culture and Arts", etc.), "two or more organizations have the same representative and/or founder" and "the headquarters of the organization is located in the border area, or near migrant centers." Other general criteria are almost equally represented along with the most common criteria and none of them has positioned itself as extremely dominant.

Based on the analysis, it was determined that most NPOs are not risky in terms of misuse for terrorism financing. In accordance with the above application of the criteria, the following data related to the number and degree of risk of NPOs were obtained.

Total number	36.219
Low risk	6.915
Low to medium risk	5.279
Medium risk	3.353
Medium to high risk	1.283
High risk	195

Table: Sorted NPO organizations by degree of risk

It is important to note that immediately before each joint supervision, non-risky NPOs are checked, and risky NPOs are checked too in order to possibly determine deviations from the defined sets. In the period 2018-2020 no deviations were observed that would be relevant from the aspect of statistical analysis.

2.4. Supervision of the NPO sector from the aspect of terrorism financing

Inspection supervision of associations is carried out by the Ministry of State Administration and Local Self-Government, through administrative inspectors. The Administrative Inspectorate has prepared a checklist for the supervision of associations, which contains all issues related to the work of associations, which arose from the Law on Associations (from the issue of registering associations to expenditure of funds in accordance with the goals defined by the association's statute). The checklist is publicly available in accordance with the Law on Inspection Supervision.

The ministry in charge of culture supervises the implementation of the Law on Endowments and Foundations. The amendments to the Law on Culture enable the performance of inspection supervision over the application of the said law, whereby the tasks of inspection supervision, as entrusted tasks, will be performed by the Autonomous Province of Vojvodina on its territory.

Also, supervision over the intended use of funds allocated to NPOs from the budget of the Republic of Serbia is performed by the state body that allocated the funds.

Pursuant to the Law on Accounting, the Tax Administration of the Ministry of Finance performs supervision in terms of checking the correctness of recording business changes in the business books and thus monitors the financial operations of NPOs in terms of tax policy.

For the purpose of coordinated work of inspection services in accordance with the initiative of the Ministry of State Administration and Local Self-Government, the Coordination Commission for Inspection Supervision[115] passed, in October 2018, a Decision on Establishing a Working Group to Control NPOs, which defined the tasks of the Working Group. Members of the Working Group achieve their goals through cooperation in coordinating inspection plans, determining the program of the Working Group, organizing and conducting joint inspections, cooperation in conducting independent inspections (mutual information and exchange of data and experiences, pointing out examples of good practice and other forms mutual assistance), harmonization of inspection practice, identifying training needs for inspectors and taking other appropriate actions and measures to achieve the objectives.

115 The Coordination Commission is an inter-ministerial Coordinating Body whose task is to harmonize and coordinate the work of inspections and improve the effectiveness of inspections by harmonizing inspection plans and training programs, improving the exchange of information and professional and ethical standards of the inspectorate, monitoring and evaluation of inspections and inspection supervision.

Before starting the supervision process, the Working Group has:

- adopted methodological documents (procedures and criteria for exercising joint supervision over non-profit organizations and the methodology for performing direct control over associations);
- developed a Risk Matrix through general criteria for selection of entities to be supervised (which are publicly available on the website of the Coordination Commission) and special criteria (which are not publicly available);
- developed annual plans for the supervision of non-profit organizations;
- selected associations and coordinated supervision;
- formed permanent teams of inspectors for direct supervision;
- drafted the report on the conducted joint supervision;
- prepared annual reports on the work of the Working Group;
- reported on the implementation of supervision;
- initiated and maintained trainings for inspectors from across the country.

In the period from November 2018 to December 2020, joint inspections were performed on 79 associations, as follows:

- during 2018, 11 associations from the territory of Belgrade, Subotica, Dimitrovgrad, Tutin, Sid and Presevo were monitored;
- during 2019, 41 associations from the territory of Belgrade, Subotica, Dimitrovgrad, Tutin, Sid, Presevo, Bajina Basta, Zrenjanin, Loznica, Negotin, Prijepolje and Sabac were monitored;
- During 2020, 27 associations from the territory of Belgrade, Subotica, Dimitrovgrad, Presevo, Bajina Basta, Zrenjanin, Loznica, Zajecar, Sabac, Prijepolje and Kikinda were monitored.

	2018	2019	2020
no income	20	19	24
1-100	6	8	8
101-1000	14	11	12
1.001-10000	26	32	25
10.001-50.000	13	9	10
number of employees	108	82	93

Table: Total revenues of controlled NPOs, in 000 RSD and number of employees, by years

The most common areas of achieving the goals of supervised associations are: education, science and research (23,40%), culture and art (18,92%), social protection (18,43%), humanitarian work and programs (16,94%) and human rights protection (12,44%).

In the period from November 2018 to November 2020, the Tax Administration determined in the process of supervision newly discovered public revenues in the amount of 78,094,738.02 RSD and ordered that these revenues be paid.

Thirty-three requests for initiating misdemeanor proceedings were submitted to the misdemeanor court, as follows:

- during 2018, five misdemeanor charges were filed;
- during 2019, 15 misdemeanor charges were filed;
- during 2020, 13 misdemeanor charges were filed.

The basis for filing a misdemeanor report is reflected in the fact that the association has:

- withdrawn cash, without valid documentation to justify the same;
- withdrawn cash for various purchases that are not for the purpose of performing activities: plastering facilities, purchase of fuel, procurement of electrical appliances for furnishing the apartment of the association's representative, procurement of textile products, footwear, clothing, medical examinations;
- withdrawn to pay bills for other natural persons who are not members of the association;
- given loans to the representative and members of his family;
- withdrawn cash for travel and material expenses without valid documentation;
- adapted business premises that are not owned by the association;
- misused funds in the form of payment of rent and all utilities to another individual;
- withdrawn cash from accounts that are not in the name of the association, etc.

In this way, seven associations have spent funds in one-time payments, and in 26 associations, the funds were spent several times (from 4 to 40 times) during the monitored period.

Before the Misdemeanor Court, proceedings on 23 requests are pending, and a conviction was passed on 10 requests, as follows:

- a “warning notice for the legal and responsible person" was issued for five requests;
- a “warning notice for the responsible person” was issued upon one request;
- A fine of 50,000.00 dinars for a legal person and 5,000.00 dinars for a responsible person was imposed on three requests, and a fine of 90,000.00 dinars for a legal person and 15,000.00 dinars for a responsible person was imposed on one request.[116]

In the period from November 2018 to November 2020, the following measures were imposed by the **Administrative Inspection**:

	Data from unified supervision	2018	2019	2020	Total
1.	Number of conducted joint inspections / number of monitored associations	11	41	27	79
2.	Number of measures imposed by the Administrative Inspection	17	52	42	111
3.	Number of measures complied with	14	33	32	79
4.	Number of filed misdemeanor charges	2	8	6	16
4.1	Number of filed misdemeanor charges of the Administrative Inspectorate	2	1	2	5
4.2	Number of filed misdemeanor charges according to the minutes of tax inspectors	0	4	3	7
5.	Number of submitted requests for deletion from the register of associations	2	6	6	14

Table: Measures imposed by the Administrative Inspection

116 Penalties ranging from RSD 100,000 to 1,000,000 for legal entities, from RSD 50,000 to 500,000 for entrepreneurs and from RSD 10,000 to 100,000 for the responsible person.

Administrative inspection measures	2018	2019	2020	Total
1. Election of the bodies of the association	1	8	4	*13*
2. Determining the beneficial owner	5	11	8	*24*
3. Amendments to the statute of the association	1	4	4	*9*
4. Holding assembly sessions in accordance with the statute	1	4	3	*8*
5. Keeping records of members of the association	3	8	7	*18*
6. BRA was informed that the conditions for deletion from the register have been met	2	7	5	*14*
7. Data changes in BRA	1	5	4	*10*
8. Publishing a list of donors	2	1	3	*6*
9. Selection of association representatives	2	1	3	*6*
10. Registration of the activities of the association	0	1	1	*2*
11. Performing activities in accordance with the statute	0	1	0	*1*
12. Convening a session of the Assembly	0	1	0	*1*

Table: Structure of pronounced measures of the Administrative Inspection from the unified supervision

The Administrative Inspectorate submitted seven requests for initiating misdemeanor proceedings due to non-use of assets for the purpose of achieving the statutory goals of the association (Article 41 of the Law on Associations) and based on the minutes of tax inspectors, five requests are still pending.

In most cases, cash was withdrawn without valid documentation and evidence that it was withdrawn and spent for the purpose of performing activities, whereby the association did not use the assets to achieve statutory goals, or without proof that there were used for the purpose of achieving statutory goals, which is particularly significant in terms of terrorism financing.

After the performed supervision, the tax and administrative inspection, in addition to the minutes from their competence, compile a joint report on the performed supervision. Indicators of misuse of NPOs supervised for terrorism financing were not observed in the controls performed during the analysis period.

In addition to the imposed measures arising from the competence of the bodies conducting supervision, the Working Group for Joint Supervision of Non-Profit Organizations is obliged to act in accordance with the Law on Restrictions on Disposal of Assets to Prevent Terrorism and Proliferation of Weapons of Mass Destruction. However, so far there have been no cases of application of the provisions of the said law.

2.5. Transparency of the NPO sector

The Republic of Serbia has clear policies that strengthen the responsibility, integrity, and trust of the public in the management and leadership of NPOs. The state bodies of the Republic of Serbia have full access to information in the administration and management of the NPO sector.

Since NPO, after registration, cannot exist in any other form than a legal entity, all transactions performed by NPO must be through a payment account, i.e., through regulated financial channels.

By implementing the applicable regulations, spreading awareness through educational and advisory programs in the private sector, public authorities continuously encourage the NPO sector to conduct transactions through regular financial channels whenever possible. In this regard, cash transactions are carried out in exceptional cases, which has a considerable impact on reducing the threat and increasing the transparency of the financial operations of the NPO sector. Also, umbrella NPOs encourage other organizations to apply regulations and good practices that stimulate financial transparency. Good accounting practices of NPOs' chartered accountants can also have a positive impact on financial transparency.

Regardless of the legal concepts, increasing the transparency of the NPO sector would be facilitated, among other things, by publishing a list of donors, which was recognized during the joint supervision of the NPO sector, but also by analyzing the response of NPO organizations to the Questionnaire for the Vulnerability of the NPO Sector to Terrorism Financing.

On the other hand, the obligation of submitting financial reports of associations, endowments, and foundations to the Business Registers Agency, i.e., submitting a statement of inactivity for those associations, endowments and foundations that did not have business transactions, or data on assets and liabilities in the business books prescribed by the Law on Accounting.

Charges filed for economic offense against other legal entities - non-profit sector, due to failure to discharge the obligation to submit a financial report:

- for 2016 - 5,297 charges filed;
- for 2017 - 4,489 charges filed;
- for 2018 - 4,925 charges filed.

Furthermore, associations, endowments and foundations are obliged, on the basis of the Law on Corporate Income Tax passed in 2001, the Law on Personal Income Tax passed in 2001 and the Law on Value Added Tax passed in 2005, to submit reports to the Tax Administration.

The financing of the NPO sector from the budget of the Republic of Serbia is carried out at all three levels of government - national, provincial, and local in accordance with the Law on Associations and the Regulation on

Incentives for the Program or the Missing Part of the Funds for Financing Programs of Public Interest.

All activities of state bodies in the field of informing the NPO sector about the risks of terrorism financing were realized with the aim of building awareness and educating NPOs and donors. In this way, NPOs are encouraged to build awareness and share information in communication with their donors on ongoing efforts to prevent the misuse of NPOs and donations for FT purposes.

In cooperation with the NPO sector, state authorities organized several workshops to encourage and implement a training and information program to raise awareness of the NPO sector and donors about the possible risks of misuse for terrorism financing, as well as measures that NPOs can take to reduce these risks.

The Office for Cooperation with Civil Society and the Administration for the Prevention of Money Laundering organized several round tables and seminars with NPOs:

- in May 2018, two round tables were held on the topic "Risks of Misuse of the Non-Profit Sector for Financing Terrorism." Meetings were held in Nis and Novi Sad in the presence of over 50 representatives of civil society organizations;
- in November 2018, a new meeting was held in Belgrade for representatives of civil society organizations on the topic of presenting the National Risk Assessment of Money Laundering and Risk Assessment for terrorism financing;
- in April 2019, training was held on the topic: "How to recognize misuses of the non-profit sector for the purpose of terrorism financing and how to protect yourself" for representatives of civil society organizations from the Republic of Serbia. Participants were introduced to the legal and institutional framework for the prevention of money laundering and terrorism financing, the National Risk Assessment of Money Laundering and Terrorism Financing, but also to the list of indicators for identifying suspicious transactions related to terrorism financing, as well as indicators to identify grounds for suspicion of money laundering or terrorism financing;
- at the end of November 2019, a conference was jointly organized by the Administration for the Prevention of Money Laundering and the Office for Cooperation with Civil Society, in cooperation with the Organized Crime Prosecutor's Office, the Coordinating Body for the Prevention of Money Laundering and Terrorism Financing and Civic Initiatives, named “How to identify (Potential) Misuses of the Non-Profit Sector for the Purpose of Terrorism Financing and How Can Donors be Protected?”. The aim of this meeting was to improve the knowledge and capacity of donors who support the work of civil society organizations in relation to potential risks of misuse of the non-profit sector for terrorism financing, as well as information on current and planned activities undertaken by Serbian authorities relative to non-profit organizations regarding the implementation of the recommendations of FATF and the Council of Europe's Moneyval Committee. The publication "Guide for the Prevention of Terrorism Financing" was presented at the gathering

for donors", with the aim of informing about the potential risks of misuse of the non-profit sector for terrorism financing. The guide is intended for donors who support or finance the work of civil society organizations and contains information on specific mechanisms and tools that can help them protect themselves from potential misuse.

Furthermore, in terms of raising awareness of these misuses, as part of the project Improving the Quality and Efficiency of Reporting on Suspicious Transactions and Key Functions of the Administration for the Prevention of Money Laundering funded by the European Union, the publication "Comparative Analysis of the Process of Registration, Recording, Supervision and Cooperation with Non-Profit Organizations in Selected European Countries" was published.

One of the conclusions of this publication is that the existing legal framework that addresses issues relevant to the analysis is very open and broad in scope, while allowing the nonprofit sector to operate with minimal, statutory restrictions.

One of the priorities for mitigating the risk of NPO exposure to terrorism financing is to promote self-regulation within the sector.

Analysis of the answers to the Questionnaire for Assessing the Vulnerability of the NPO

Sector to Terrorism Financing

The answers collected by the Questionnaire mostly indicated that:

- the vast majority of organizations (92%) believe that the activities they carry out are in accordance with the statutory targets cannot be misused for the purpose of terrorism financing, while 8% of organizations believe that such a possibility still exists if they accept funds from donors which they are not sufficiently informed about;
- more than 94% of organizations stated that they collect monetary donations exclusively through a bank account, while only six organizations stated that they receive cash donations;
- almost all organizations (92%) stated that the public has access to list of their donors, most often online, at personal request or through project reports. Bearing in mind that several responses could be indicated, justification of funds to donors is usually done through regular reporting, at the request of donors and through public disclosure of information. The most common answer to the question regarding the public availability of information on spent funds and implemented activities is that regular reports on spent funds are made public and that this information is available online. A small number of organizations (nine) stated that this information was not publicly available.

After the workshops, cooperation in this area was improved by creating an online Questionnaire in early 2019 by the Office for Cooperation with Civil Society of the Government of the Republic of Serbia (now the Sector for Cooperation with Civil Society in the Ministry of Human and Minority Rights and Social Dialogue) to assess the vulnerability of the nonprofit sector to terrorism financing. The main goal of this questionnaire, which was filled in by 119 organizations, was to

define, in line with the answers obtained, the future cooperation and joint activities related to raising awareness and reducing the risk of terrorism financing in the non-profit sector.

According to the organizations that participated in the survey, the improvement of financial transparency and trust of citizens in the non-profit sector can be achieved with efforts to have greater visibility of the non-profit sector, greater transparency of funding sources and spending as well as if active participation of citizens in projects is increased. Nonprofit organizations also need to improve their communication with citizens and donors and make their budgets more understandable to the public. The key importance of the Questionnaire is reflected in the fact that based on all collected answers, the areas that trainings for the NPO sector must cover are defined, such as selection and vetting of the volunteers, establishing internal control, defining criteria for allocating funds to users, better cooperation with the government sector, checking the list of persons under UN sanctions, etc.

In 2020, it was planned to continue training for the NPO sector in other parts of Serbia, namely in Kraljevo and Pirot in late March and early April, but due to the pandemic caused by the Covid-19 virus, training was postponed until the epidemiological situation becomes more favorable.

When it comes to organizational structure, transparency regarding available information regarding activities, employees, acts that NPOs must adopt, the way to control fundraising at home and abroad, in the context of reducing the vulnerability of the sector to misuse for the purposes of terrorism financing, based on available data obtained through cooperation and public insight into the statutes and financial reports of NPOs, the conclusion is that this sector has well-established practices in place that have a positive impact on reducing vulnerability to misuse.

III RISK ASSESSMENT OF MONEY LAUNDERING AND TERRORISM FINANCING IN THE DIGITAL ASSETS SECTOR

1. INTRODUCTION

1.1. Objective

The Republic of Serbia has so far conducted two national risk assessments against money laundering and terrorism financing, in 2012/2014 and 2018. In view of the topicality of the issue of the financing of proliferation of weapons of mass destruction and digital assets, as well as the recommendations of international institutions, this time it was decided, in addition to updating national risk assessments of money laundering and terrorism financing, to also review the risks the system Republic of Serbia is exposed to in relation to those two areas.

Namely, in the last few years, digital (virtual) assets have attracted significant public attention at the global level, primarily as an object of investment that can bring profit, and to a lesser extent as a means of performing various types of payment transactions due to the volatility of its value. This has led to the trend of detailed regulation of the area of digital assets in recent years, but also to the improvement of international standards for the prevention of money laundering and terrorism financing in this domain.

The first activities in this regard were undertaken by the National Bank of Serbia in 2014, when it issued a public warning that bitcoin is not a legal means of payment in the Republic of Serbia and that, due to the fact that there are no legal protection mechanisms for investors, investing in bitcoin or similar virtual currencies not issued by the central bank and whose value is not guaranteed by the central bank poses a risk and may cause financial losses, and that anyone who engages in these or any other activities related to virtual currencies does so at their own peril and shall bear the financial risks arising from these activities. The National Bank of Serbia has issued similar warnings on several occasions since then, like most central banks at the time.

1.2. Methodology

The assessment of the risk of money laundering and terrorism financing in the digital assets sector was conducted as an independent risk assessment and on the basis of the Council of Europe methodology, taking into account international and domestic experience in this field.

In assessing the risk of money laundering and terrorism financing in the digital assets sector, the current regulations in the Republic of Serbia were taken into account, especially its harmonization with international and European standards in this area, as well as the regime of supervision of service providers.

related to digital assets (hereinafter: DASP),[117] including the results of previous supervisory procedures, as well as other activities and opinions of supervisory authorities. Furthermore, opinions of the private sector were obtained by filling in the submitted questionnaires, namely: financial institutions under the supervision of the National Bank of Serbia (banks, financial leasing providers, payment institutions, electronic money institutions and public postal operator); obligors from the non-financial sector (games of chance sectors, accountants, auditors and factoring); as well as companies that have applied for a license to provide services related to digital assets.

1.3. Working group

On March 4, 2021, the Government of the Republic of Serbia passed the Decision on the Establishment of the Working Group for Drafting the National Money Laundering and Terrorism Financing Risk Assessment (hereinafter: Working Group). The National Coordinator of the entire risk assessment process and the President of the Working Group was Ms. Jelena Pantelic, Senior Advisor from the Administration for the Prevention of Money Laundering.

The members of the Working Group were representatives of the Republic Public Prosecutor's Office, the Prosecutor's Office for Organized Crime, the Ministry of Interior, the Security Information Agency, the Office of the National Security and Secret Information Council, the Ministry of Justice, the Administration for the Prevention of Money Laundering., the National Bank of Serbia and the Securities' Commission.

In addition to members of the Working Group and representatives of these institutions, the representatives of the Ministry of Trade, Tourism and Telecommunications, the Customs Administration, the Business Registers Agency, and the Statistical Office of the Republic of Serbia were directly involved in the risk assessment of money laundering and terrorism financing in the digital assets sector, as well as the representatives of the financial and non-financial sector and DASP.

117 Given that on July 1, 2021, no company was licensed by the National Bank of Serbia or the Securities Commission to provide services related to digital assets, the term DASP in this risk assessment includes companies that provided these services until the date of application of the Law on Digital Assets and which, within the period prescribed by that law, submitted to the supervisory authorities the prescribed request for a license to provide services related to digital assets.

2. SECTOR MATERIALITY AND CONTEXTUAL FACTORS

2.1. Legislation

Virtual currencies, as a type of digital assets, and the one that is predominantly the object of misconduct, were regulated for the first time in the Republic of Serbia with the adoption of the Law on Prevention of Money Laundering and Terrorism Financing (hereinafter: LPMLTF) in December 2017, six months before the adoption of the Fifth Directive on the Prevention of Money Laundering at the level of the European Union (hereinafter: Fifth Directive) in May 2018. Under LPMLTF persons engaged in the provision of services of purchase, sale or transfer of virtual currencies or exchange of these currencies for money or other property via Internet platforms, devices in physical form or otherwise, or who act as intermediaries in the provision of these services, have been introduced in the anti-money laundering and anti-terrorism financing system, by being explicitly recognized as obligors by that law who are obliged to take all actions and measures to prevent and detect money laundering and terrorism financing, including identification of their clients by inspecting personal documents in the physical presence of the persons being identified. Supervision over these persons was then assigned to the National Bank of Serbia. However, LPMLTF then regulated only one aspect of the business of persons providing services related to virtual currencies in the Republic of Serbia, namely the one that is related to the prevention and detection of money laundering and terrorism financing, and therefore the supervision of the National Bank Serbia was limited exclusively to that aspect of their business. Keeping pace with the Fifth Directive, amendments to LPMLTF, which entered into force on January 1, 2020, defined the concept and meaning of virtual currencies, while custodian wallet service providers, whose definition is also in line with the Fifth Directive, were added to the existing circle of obligors.

By continuously assessing the risks of money laundering and terrorism financing in the virtual currency sector and conducting supervision in this area since 2018, the competent authorities of the Republic of Serbia have recognized the need to regulate the area of virtual currencies and other digital assets in the Republic of Serbia in a comprehensive way, i.e., to regulate all aspects of DASP business. In this regard, in December 2020, the Law on Digital Assets was adopted (hereinafter: LDA), Law on Amendments to the LPMLTF, as well as laws on amendments to tax laws, which have been in force since June 2021 and which regulate all aspects of DASP business and digital assets market in the Republic of Serbia, including digital assets issuance currency and digital, i.e., investment tokens) and secondary trading in digital assets, provision of services related to digital assets, as well as supervision over the issuance of digital assets and provision of services related to digital assets.

Competence for decision-making in administrative procedures and supervision in the field of digital assets is divided between the National Bank of Serbia and the Securities Commission, so that the National

Bank of Serbia has jurisdiction in the part related to virtual currencies, and the Securities Commission in the part related to digital tokens. The same division of competencies is established in LPMLTF, which is fully harmonized with LDA. In the event that certain digital assets have the characteristics of both virtual currency and digital token, or in the case that DASP provides services related to both virtual currencies and digital tokens, the National Bank of Serbia and the Securities Commission are competent.

The issuers of digital assets also have obligations under LPMLTF - it is explicitly prescribed that the issuance of digital assets that directly or indirectly allow the concealment of the party's identity (anonymous digital assets) is prohibited, as well as that issuers of digital assets and DASP are prohibited from using information system resources, components, hardware components and information assets that enable and/or facilitate the concealment of the identity of the client and/or that prevent and/or make it difficult to monitor transactions with digital assets. The provision of services related to anonymous digital assets is also explicitly prohibited by LPMLTF. DASP are also obligors of regulations governing the restriction of the disposal of assets in order to prevent terrorism and the proliferation of weapons of mass destruction, based on the explicit provision of LDA.

LDA and LPMLTF are in line with international standards for the prevention of money laundering and terrorism financing set by FATF, i.e., with the revised FATF Recommendation 15, as well as with the Fifth Directive. In addition, the Decision on Guidelines for the Application of the Provisions of the Law on Prevention of Money Laundering and Terrorism Financing for obligors Supervised by the National Bank of Serbia (hereinafter: Guidelines of the National Bank of Serbia), FATF Red Flag indicators for money laundering and terrorism financing related to digital assets have also been implemented in the system for prevention of money laundering and terrorism financing.

2.2. Use of digital assets in regulated sectors

LDA prohibits financial institutions under the supervision of the National Bank of Serbia (banks, life insurance companies/obligors, financial leasing providers, voluntary pension fund management companies, payment institutions and electronic money institutions) from owning digital assets (as well as instruments related to digital assets) and to provide and use services related to digital assets. These financial institutions are not allowed to establish or participate in the ownership or management or administration of DASP, and these prohibitions also apply to persons related to these financial institutions. Financial institutions under the supervision of the National Bank of Serbia cannot even accept digital assets as collateral. Three exceptions to these prohibitions have been identified: (1) the possibility for banks to provide the service of safekeeping and administration of digital assets for the account of users of digital assets, but only in the part of storing cryptographic keys and only after prior notification of the National Bank of Serbia, which assesses the fulfilment of requirements for the provision of that service; (2) the possibility of

financial institutions under the supervision of the National Bank of Serbia being owned by a broker-dealer company and market organizer that provides services related to digital assets, unless permitted by the law governing the operations of a particular financial institution; (3) the possibility for the National Bank of Serbia to prescribe the conditions under which and the manner in which financial institutions under the supervision of the National Bank of Serbia may invest in digital tokens that have the characteristics of a financial instrument or are used exclusively for investment purposes.

LDA enables broker-dealer companies and market organizers licensed by the Securities Commission in accordance with the law governing the capital market to apply for a license to provide services related to digital assets.

LDA explicitly prohibits the acceptance of digital assets in exchange for goods sold and/or services provided by direct transfer of digital assets from consumers to traders (regardless of the type of goods and/or services). Acceptance of digital assets in exchange for goods sold and/or services provided in retail trade can be done exclusively through a DASP, which is licensed to provide digital assets acceptance/transfer services, by a DASP accepting digital assets from consumers, replacing them with the appropriate amount of dinars and transferring dinars to the trader's current account only (and not digital assets), given the legal obligation of discharging all monetary liabilities in the Republic of Serbia in dinars and the obligation of legal entities and entrepreneurs to operate through current accounts.

3. RISK ASSESSMENT OF MONEY LAUNDERING THROUGH PREDICATE CRIMES AND RISK ASSESSMENT OF TERRORISM FINANCING IN THE DIGITAL ASSETS SECTOR

Although a large number of crimes related to digital assets are essentially predicate offenses or money laundering offenses, some perpetrators also use digital assets to avoid financial obligations towards the state and possibly raise funds to finance terrorism. In the Republic of Serbia, based on the frequency of crimes, the most common types of misuse are crimes related to ransomware, various forms of theft of cryptocurrencies (theft of private keys) and transfers to cryptocurrencies addresses under the control of the perpetrator, as well as various forms of fraud related to cryptocurrencies. Frequent problems related to this type of crime are reflected, among other things, in the fact that virtual currencies provide their users with greater freedom, but also require greater responsibility from them, which is usually lacking. Namely, in more and more cases of digital theft

in which the aggrieved parties are citizens of the Republic of Serbia, the circumstance that often contributes to theft is that the "keys" are not adequately secured, primarily due to technical ignorance of how the system of generating and storing public and private keys works with digital assets.

According to DASP, the most common crimes related to the misuse of digital assets or DASP are frauds with the initial offer of virtual currencies, Ponzi schemes (on which supervisors particularly focused on after the OneCoin scandal that hit the region), ransomware that is a consequence of hacking attacks, theft of virtual currencies as a result of hacking attacks, as well as drug trafficking and arms trafficking (available on the black market - dark net). However, DASP believe that DASP are rarely used after the commission of these crimes, because perpetrators want to remain anonymous, so they use OTC trading more often (direct trading between persons without intermediaries).

In the coming period, it is necessary to invest in technological equipment, software tools and the necessary knowledge in terms of human resources for successful investigations, seizure of digital assets and management of seized digital assets, in relation to these crimes.

According to the experience of the Administration for the Prevention of Money Laundering in the period from 2018 to 2020, there is an increased number of reports of suspicious transactions by foreign financial intelligence services related to the games of chance sector, in which fraud, identity theft, unauthorized access to computers and registered accounts at casinos and casinos are committed by citizens of the Republic of Serbia or persons temporarily staying in the Republic of Serbia.

The misuse of FinTech and the anonymity of participants in transactions, along with the rapid execution of high-limit transactions, as well as the possibility to exchange, buy and sell cryptocurrencies for FIAT currencies provided by this sector, are fertile ground for transferring funds from criminal activities from one country to another and withdrawing cash at electronic money institutions or from ATMs in a third country by taking advantage of looser KYC procedures of certain FinTech businesses, as well as casinos and bookmakers.

However, the analysis concluded that the threat of money laundering and terrorism financing using cryptocurrencies is currently low, given that these are medium and lower amounts in which these crimes are committed, with a tendency of medium threat, due to the constant increase in cryptocurrency values through market capitalization, as well as due the very nature of ransomware, theft and fraud related to cryptocurrencies, which incentivizes perpetrators to hide the origin of cryptocurrencies through further transactions, through transactions to private cryptocurrencies, mixer or coin join services, and then convert them into official currency.

4. RISK ASSESSMENT OF MONEY LAUNDERING AND TERRORISM FINANCING ACCORDING TO CLIENT/USER PROFILE

Based on the obtained data and the results of hitherto supervision, it is estimated that in terms of the type of DASP clients, the risks of money laundering and terrorism financing in the digital assets sector exist bearing in mind that DASP in the Republic of Serbia provide their services to individuals and legal entities, including high-risk clients such as officials, as well as residents and non-residents. However, the risks are mitigated due to the strict regulatory requirements applied by DASP in the Republic of Serbia under LPMLTF, including the application of enhanced actions and measures in cases of increased risk of money laundering and terrorism financing (e.g., when the client is an official), as well as due to the number and structure of clients, among which the dominant individuals are residents, while the number of other clients, including officials, is negligible.

It is expected that in the coming period DASP will provide its services to other DASP in the country and abroad, but with the obligation to notify the supervisory authority of cooperation with foreign DASP, these risks are significantly reduced, as well as, along fulfilling the requirement that the country of origin of a foreign DASP must apply all standards in the field of prevention of money laundering and terrorism financing, which will be particularly checked during supervision.

In accordance with the Guidelines of the National Bank of Serbia, DASP under the supervision of the National Bank of Serbia should take into account product risk (services related to virtual currencies), customer risk and geographical risk in providing services related to virtual currencies. These guidelines set out the circumstances that may indicate each of these risk categories, so, for example, the following circumstances may indicate a high risk in relation to the party: the party behaves suspiciously or unusually, avoids providing information or provides incomplete or insufficient data, due to the structure, legal form or complex and unclear relations, it is difficult to determine the identity of its beneficial owner or person who manages it, the party continuously buys high-risk (high-volatile) digital assets, the party performs one or more transactions with virtual currencies successively, i.e., frequently in a short period (24–72 hours), etc.

5. RISK ASSESSMENT OF MONEY LAUNDERING AND TERRORISM FINANCING IN THE DIGITAL ASSETS SECTOR ON THE BASIS OF RELATIONS WITH OTHER ECONOMIC SECTORS

In the observed period, there were no reports of suspicious transactions related to the use of digital assets in the Republic of Serbia, which rely on other economic sectors, but there has been a significant case of cooperation between the competent authorities of the Republic of Serbia and foreign investigative bodies in terms of investigation and extradition of persons suspected of fraud by misuse of digital assets. The use of digital assets in other economic sectors is either not permitted or it is not known that such use of digital assets has existed.

Regarding the risks related to the use of digital assets for investment in commercial enterprises, bearing in mind that investing virtual currencies in commercial enterprises is not allowed, that the Register of Virtual Currency Holders has been established, that companies in the Republic of Serbia must conduct transactions using payment service provider services and have an account with such persons, that the use of cash is limited, it can be concluded that there are a number of mechanisms in place that contribute to reducing this risk.

Regarding the risks related to the investment of commercial enterprises in digital assets, bearing in mind that this phenomenon is very rare in the Republic of Serbia and that based on data provided by DASP it is evident that legal entities are significantly less likely to be DASP clients than it is the case with natural persons (there is already a small volume of use of digital assets in the Republic of Serbia), that companies in the Republic of Serbia must perform transactions using the services of payment service providers and have an account with such persons, that the use of cash is limited, that the Register of Virtual Currency Holders has been established, it can be concluded that said risk is low.

With regard to the risks of money laundering and terrorism financing related to the use of digital assets to obtain the services of financial institutions, given the restrictive regime (ban) on the use of digital assets by financial institutions (both before and after the adoption of LDA), the fact that restrictions on financial institutions are consistently implemented in practice and statements by financial institutions from which it can be inferred that a small number of financial institutions have allowed their business policies to establish business relationships with clients who are DASP, it can be concluded that a number of mechanisms that contribute to mitigating this risk are in place.

With regard to money laundering and terrorism financing risks associated with the use of digital assets to obtain services from obligors in the non-financial sector, certain risks are associated with the use of digital assets to access online gambling (other than in gambling establishments) and online video games and the use of digital assets to purchase other types of (unregulated) goods and services. However, these risks are mitigated since the use of digital assets in these sectors must be exclusively through DASP, which are obliged to implement all actions and measures in accordance with regulations in the field of prevention of money laundering and terrorism financing, must have established a Register of Virtual Currency Holders and private sector statements submitted, hence it can be concluded that said risk is medium.

6. RISK ASSESSMENT OF MONEY LAUNDERING AND TERRORISM FINANCING, BY TYPE OF DIGITAL ASSETS/DASP SERVICES

6.1. Risk assessment by type of digital asset

Based on the obtained data and the findings of hitherto supervision, it was concluded that DASP in the Republic of Serbia mostly deal with Bitcoin (BTC), Ethereum (ETH), Litecoin (LTC) and Bitcoin Cash (BCH) virtual currencies. These virtual currencies are easily accessible and extremely liquid, but they are not stable, on the contrary, their value oscillations are frequent and can be considerable. DASP also do business with stable digital assets (Tether, USD Coin). In terms of security, all these types of digital assets are subject to security risks (blockades, hacking, attacks), but DASP are obliged to ensure stable and secure operations, especially in the part related to the management of DASP's information and communication system in the part of their business related to digital assets, in accordance with the regulations of the supervisory authorities. In accordance with these regulations, DASP, among other things, are obliged to establish an incident management process that will enable timely and efficient response in case of security breaches or functionality of information and communication system resources and to notify the supervisory authority of any incident that has seriously jeopardized or disrupted his business, or which could seriously jeopardize or disrupt their business. LPMLTF has banned DASP from doing business with anonymous digital assets. DASP in the Republic of Serbia do not enable the execution of decentralized or P2P - Peer to Peer (direct) transactions related to digital assets either.

While the use of anonymous digital assets is prohibited in the Republic of Serbia, just as software and hardware solutions and cryptoassets that enable and/or facilitate the concealment of

a party's identity and/or prevent and/or make it difficult to track digital assets transactions, there is still a risk of using anonymous digital assets, i.e., the said software and hardware solutions and cryptoassets in P2P transactions and OTC trading, i.e., there is a certain degree of risk of money laundering and terrorism financing using anonymous digital assets in the Republic of Serbia However, this risk is mitigated by restrictions on transactions with digital assets abroad, regardless of the type of digital assets, which is significantly limited by regulations of the National Bank of Serbia, given that transactions with digital assets abroad, from the Republic of Serbia, are mostly executed using payment cards, but also by the business policy of the largest number of banks in the Republic of Serbia (over 90%)[118] that do not allow the execution of digital assets related payment transactions to their clients.

Risks regarding transactions performed through licensed DASP in the Republic of Serbia are reduced due to strict KYC and monitoring requirements regarding the users of digital assets, which apply without exception, i.e., regardless of the value of individual transactions. There are risks in terms of P2P transactions and OTC trading but given that such a way of conducting transactions with digital assets in the Republic of Serbia is significantly lower than the use of DASP (domestic and foreign), and that in this case the said foreign exchange restrictions apply, risks are significantly reduced.

Regarding the use of unlicensed DASP in the Republic of Serbia, the risks are low (relative to all types of digital assets), as supervisors continuously monitor activities in the digital assets market and react promptly in case of suspicion of unauthorized provision of digital assets related services.

6.2. Risk assessment by type of DASP service

With regard to the types of services provided by DASP in the Republic of Serbia, it was assessed that there is a medium risk of money laundering and terrorism financing, especially with regard to receiving, transmitting, and executing orders related to buying and selling digital assets for third parties, that this service includes receiving and holding of funds and digital assets of users, as well as in terms of services of buying and selling digital assets for cash and/or funds in the account and/or electronic money and exchanging digital assets for other digital assets, especially because these services can also be provided by the means of crypto ATMs. However, the risk is significantly reduced by the fact that these services in the Republic of Serbia can be provided only by licensed DASP that are obliged to apply strict requirements related to the obligation to establish a business relationship with each

118 Based on the answers that the banks submitted to the National Bank of Serbia.

digital asset user,[119] application of KYC measures in each specific case[120] and application of intensified actions and measures in cases prescribed by LPMLTF.[121] The risk is reduced by the fact that the Republic of Serbia has an established system in place of supervision by the National Bank of Serbia and the Securities Commission, as well as a wide range of administrative, civil and criminal sanctions, which have been carefully weighed to be deterrent.

The risks of money laundering and terrorism financing in the provision of other types of services related to digital assets are low, given that they are not significantly represented in the portfolio of services provided by DASP in the Republic of Serbia. Risks are further reduced by strict regulatory requirements that must be applied by DASP licensed in the Republic of Serbia that provide these services, as well as continuous by supervision of supervisory authorities over unauthorized provision of services related to digital assets and prompt sanctioning of these persons. Some of these services are provided to residents of the Republic of Serbia by foreign DASP, but it is estimated that there is a low risk in this regard, which is further significantly reduced by the fact that the business of legal entities and individuals through foreign DASP is significantly limited by regulations of the National Bank of Serbia in the field of foreign exchange operations and the obligations of banks arising from these regulations, since the largest number of payment transactions related to transactions with digital assets abroad are performed using payment cards.

The risk of providing services related to digital assets from unlicensed DASP in the Republic of Serbia is low due to the continuous activities of supervisory authorities to identify such persons and the sanctioning mechanisms available to supervisory authorities established by LDA.

7. RISK TREATMENT

In accordance with the conclusions from the previous chapters, the policy in the digital assets sector is aimed at the complete de-anonymization of transactions that are performed through DASP and the strict application of the so-called *travel rule*.

The National Bank of Serbia, as the supervisory authority, in addition to possessing sufficient capacity to supervise the provision of services related to virtual currencies, continuously trains employees in this field, both internally and in cooperation with international institutions, educational institutions and foreign regulators, in view of the dynamic development in the field of digital assets. Further investments in the development of the capacity of supervisory authorities will depend on the speed of expansion of the use of digital assets in the Republic of Serbia, which will be closely monitored by supervisory authorities. It is especially important

119 Except in the case of application of the exception from Article 16a of LSPNFT.
120 Even when the exception from Article 16a of LSPNFT applies.
121 The application of intensified actions and measures is reduced to situations of increased risk of money laundering and terrorism financing.

to monitor international practices in the supervision of DASP, as well as in the supervision of financial institutions whose clients are DASP, in order to enable both DASP and financial institutions to identify suspicious transactions in this area and to inform the competent authorities. Guidelines, instructions, clarifications, opinions, and announcements published by the supervisory bodies of the Republic of Serbia are especially important in the application of international standards in this area.

In addition, it is planned to continuously organize workshops for the private sector to maintain and develop its capacity to identify risks associated with the use of digital assets, primarily to ensure more comprehensive identification of suspicious transactions related to digital assets.

DASP are expected to strictly comply with said regulations, take the prescribed KYC actions and measures based on risk assessment, as well as intensified actions and measures in cases prescribed by the LPMLTF. DASP should pay special attention to officials, as well as non-resident clients, who may be several in this sector due to the nature of the digital assets sector, and who may be from countries that have strategic deficiencies in the system of prevention of money laundering and terrorism financing. DASP should be aware that for violations of obligations under laws and other regulations, measures and penalties imposed by LDA are imposed, as well as of the possibility of revoking the license to provide services related to digital assets for serious violations of regulations governing the prevention of money laundering and financing terrorism.

The plan is to maintain excellent cooperation between the competent authorities in the field of prevention of money laundering and terrorism financing, especially in the area of digital assets, and to examine the possibilities for its improvement and, if such possibilities are identified, take action to realize the said improvement. The inter-ministerial Coordinating Body for the Prevention of Money Laundering and Terrorism Financing that has been established has made a significant contribution. Its members are representatives of the most important state institutions in the fight against money laundering and terrorism financing. It is also planned to establish closer cooperation with foreign competent authorities for the supervision of the digital assets sector.

Although the legal framework of the Republic of Serbia in the field of digital assets mirrors the most developed countries in terms of the digital assets market and is in line with the latest international standards in this field, given the dynamic development of this area it is necessary to regularly review the adequacy of the legal framework concerning digital assets in the part related to the risks of money laundering and terrorism financing, as well as the guidelines of supervisory bodies. Furthermore, the Republic of Serbia regularly updates the national risk assessment for money laundering and terrorism financing, on the basis of which it adopts a national strategy for combating money laundering and terrorism financing and accompanying action plans for the implementation of these strategies.

With regard to the operational actions of the competent law enforcement bodies, it is planned to continuously conduct trainings, increase the technological level of the equipment, and improve the staff of these bodies.

Additional measures that are not aimed at the prevention of money laundering and terrorism financing but do contribute to mitigating of money laundering and terrorism financing risks are the restrictions imposed by regulations in the field of foreign exchange operations (bearing in mind that the Republic of Serbia has not yet liberalized all transactions in relation to foreign countries), but also in the provisions of regulations governing digital assets and do not relate specifically to the field of prevention of money laundering and terrorism financing, as well as the provisions of regulations in the field of information security. Furthermore, the National Bank of Serbia keeps records of legal entities and entrepreneurs who possess virtual currencies, with the obligation to provide data vested with either domestic DASP for transactions performed through them or legal entities and entrepreneurs themselves, if they have acquired digital assets in another way (mining or direct acquisition from other holders - P2P).

When it comes to supervisory activities, the priority is to conduct direct supervision over all DASP on the market of the Republic of Serbia that receive a license in the first year from the date of starting their business, especially in the prevention of money laundering and terrorism financing. Moreover, it is important to continuously conduct indirect supervision over the digital assets market (especially insisting on the consistent application of DASP obligations related to establishing the identity of all participants in the transaction and keeping data on it, especially when it comes to cross-border transactions), including the identification of persons engaged in the unauthorized provision of services related to digital assets and the taking of prescribed measures. It is also intended to establish cooperation with foreign regulatory and supervisory bodies in the digital assets sector.

Finally, in order to enable adequate monitoring of suspicious transactions (especially cross-border ones), it is planned to improve the reporting mechanisms related to digital assets transactions through card payment systems and foreign electronic money institutions.

8. CRITERIA FOR RISK PROFILING AND PROCEDURES FOR RISK ASSESSMENT OF SPECIFIC DASP

In the Republic of Serbia, services related to digital assets can be provided only by a company (regardless of legal form) that has its registered office in the Republic of Serbia and a license to provide services related to digital assets. All LPMLTF obligors, as well as the general public, have at their disposal a register of licensed DASP in the Republic of Serbia, which is available on the website of the National Bank of Serbia, which is why financial institutions and other LPMLTF obligors can identify both authorized and unauthorized digital assets service providers without difficulty. Supervisory authorities regularly check whether certain persons provide services related to digital assets without authorization and take appropriate measures against those persons if they identify any illegal activities. Supervision of licensed DASP is performed by the supervisory authorities on the basis of a risk assessment of each individual DASP.

Due to numerous regulatory restrictions, as well as the materiality of the digital assets sector in the Republic of Serbia, it is estimated that there is a medium risk of money laundering and terrorism financing in connection with virtual currency transactions, and low risk when it comes to investment and user tokens. When it comes to DASP in the Republic of Serbia, it is estimated that there is a medium risk due to stricter regulations in relation to global standards in the field of prevention of money laundering and terrorism financing, materiality of this sector, as well as the fact that most banks in Serbia disallow transactions with digital assets on a cross-border basis. However, in the coming period, all risks will be continuously monitored and, depending on the development of the market, it is possible to change this assessment, based on the conclusions made in the control procedure and regular monitoring of relevant statistics.

IV RISK ASSESSMENT OF FINANCING THE PROLIFERATION OF WEAPONS OF MASS DESTRUCTION

GENERAL INFORMATION CONCERNING THE RISK ASSESSMENT OF FINANCING THE PROLIFERATION OF WEAPONS OF MASS DESTRUCTION

Risk Assessment of Financing the Proliferation of Weapons of Mass Destruction (hereinafter: WMD) is a strategic document that presents an analysis of the situation in the country in order to identify potential risks of financing the proliferation of WMD in order to timely identify threats and vulnerabilities in this area so as to direct state resources at activities that can help if not eliminate, then mitigate certain risks.

The Republic of Serbia does not own or develop WMD and actively participates in preventing their proliferation, which is defined in a number of strategic documents, and is specifically stated as a goal in the National Security Strategy, Defense Strategy and Strategy for Combating WMD Proliferation.

The preparation of the WMD Proliferation Financing Risk Assessment represents the state's commitment to identify potential vulnerabilities and threats to the Republic of Serbia from the aspect of the global phenomenon of the WMD proliferation threat, including threats and vulnerabilities related to geographical and other specifics of the Republic of Serbia.

Accordingly, the Republic of Serbia does not plan to develop any type of WMD.

The reasons for conducting a risk assessment and accordingly the decision to conduct a threat and vulnerability analysis lie in the fact that although the Republic of Serbia is not directly exposed to risks from financing WMD proliferation, in accordance with the above, it is a transit country and cannot be absolutely immune to potential threats from these activities.

For this reason, the intention of the state is to continuously monitor these risks and the risk assessment is a clear commitment of the Republic of Serbia to recognize the possible existence of these risks, to assess the degree of exposure to their effects and to define the necessary activities to reduce these risks.

A working group composed of representatives of various state bodies was engaged in the preparation of the WMD Proliferation Financing Risk Assessment: Organized Crime Prosecutor's Office, Office of the National Security and Secret Information Council, Ministry of Foreign Affairs, Ministry of Trade, Tourism and Telecommunications, Ministry of Finance (Administration for the Prevention of Money Laundering, Customs Administration), Ministry of Defense, Ministry of Interior, Ministry of Health, Security and Information Agency, Directorate for Radiation and Nuclear Safety and Security, PE "Nuclear Facilities", the National Bank of Serbia, the Securities Commission, the Business Registers Agency and others.

To assess the risk of financing WMD proliferation, the methodology of the RUSI Institute for Defense and Security Studies (RUSI) was used, i.e., the Guide for Conducting a National Risk Assessment of Proliferation Financing, with the participation and consultation of experts from the USA and EU.

The risk assessment of financing the proliferation of WMD was made for the period from 1 January 2018 to 31 August 2021.

*The risk of financing the proliferation of WMD was assessed as "**low to medium**", and taking into account the legislative and institutional framework of the country, existing procedures in the country, licensing procedures, cooperation of domestic and international institutions, analysis of the preventive and repressive system, preventive actions and measures in the system, pre-investigation and investigation procedures, intelligence and other data, sector risks, specific risks related to certain products and services, economic, demographic and geographical position of the country, as well as other factors relevant for the assessment of this type of risk and the final assessment of the country's exposure to threats and vulnerabilities related to the financing of the proliferation of weapons of mass destruction.*

1. OVERVIEW OF THE CURRENT INTERNATIONAL SITUATION/STATE OF AFFAIRS ANALYSIS

In order to better understand the risk of WMD proliferation, here is a brief overview of:

- the security environment of Serbia and the risks determined by its geopolitical position;
- the crises and wars in different regions of the world from which state and non-state actors could try to procure dual-use goods from Serbia or funds that could be used for the production or transfer of WMD;
- the states that are under the UN Security Council sanctions regime;
- risks posed by non-state actors.

1.1. Serbia's security environment and the risks that determine its geopolitical position

The Republic of Serbia belongs to the Balkan region, i.e, the region of Southeast Europe in a broader sense, which in the geopolitical context means that the position of intertwining transit routes connecting Western Europe with the Mediterranean and Southeast Europe significantly complicates Serbia's position.

Having in mind the above, it can be stated that the national security of the Republic of Serbia can be negatively affected by crises in the immediate vicinity, but also in the wider area, especially in the regions

of the Middle East, the Caucasus, and North Africa. The manifestation of classical and transnational threats is becoming more and more pronounced in these areas, with a tendency for the crisis to spill over to the European continent.

It is also important to point out the fact that in the territory of Serbia, as a transit country, smuggling routes from Asia, Africa and Eastern Europe to Western Europe intertwine, which poses an additional challenge to its security, and thus the proliferation of WMD becomes a real danger.

At the same time, the existence of nuclear facilities in the Republic of Serbia, as well as in neighboring countries (Bulgaria, Romania, Slovenia, etc.), carries a significant degree of risk in terms of potential misuse of nuclear and radiological materials for WMD proliferation.

Since globalization has caused the intensification of security threats both in the region and in the world, and thus contributed to their changed character, it is not surprising that today such threats are designated as asymmetric, primarily due to the fact that they come mainly from non-state actors and hence combating them requires new and different methods and greater cooperation at the international level.

The process of globalization, accompanied by the free movement of people, information, goods, services, and capital, leads to an increase in the availability of potentially dangerous substances in everyday life and the economy. This creates a suitable environment for increasing the likelihood of misuse of dual-use goods, i.e., unauthorized transfer of technologies and software electronically by groups, non-state actors or individuals in order to develop and use WMD. These weapons pose a transnational asymmetric security threat, due to the real risk of the proliferation of technology and information for the production and use of these weapons, as well as the difficult predictability of attacks with them. The proliferation of WMD can lead to terrorist attacks, as well as their use in interstate and internal conflicts, and thus result in far-reaching consequences for human lives, the environment, and the economy.

The fact that modern security threats knows no state borders is evidenced by the strengthening of international terrorism and organized crime. The constant complication and changes related to the problem of WMD proliferation are what makes the national security of the Republic of Serbia even more sensitive to attacks with this type of weapons and require constant improvement of cooperation and coordination of available resources. It is especially important to point out the relative obsolescence of technical equipment, which makes it difficult to respond efficiently and effectively to the threat of WMD proliferation.

Furthermore, Serbia, as a responsible member of the United Nations and the Organization for Security and Cooperation in Europe, dedicated to strengthening regional and international peace and security, seeks to prevent the proliferation of WMD in our country by all available mechanisms, starting with arms control and disarmament. Moreover, seeking political solutions to conflict situations and efforts to stabilize and normalize the situation in conflict areas are vital to preventing the proliferation of WMD.

Bearing in mind that Serbia aspires to become a full member of the EU, it strives to implement all obligations arising from potential membership, which, among other things, includes participation in common security and suppression of WMD proliferation.

1.2. Crises and wars

The most significant trends that, according to most serious think tanks in the world, affect the prospects of international security and contribute to the possible proliferation of WMD are: continuous increase in military spending, chronic crisis of arms control systems, increase of serious global and regional geopolitical rivalries, a large number armed conflicts around the world, as well as the activities of various non-state actors and terrorist groups that seek to achieve their goals by force.

Data from the Stockholm International Peace Research Institute (SIPRI)[122] indicate that interstate wars or conflicts between government forces and separatists, insurgents or terrorist groups have been active in 70 countries in recent years. This is illustrated by the following examples on the American continent, in Asia and the Pacific, in Europe, in the Middle East and North Africa, as well as in sub-Saharan Africa.

When it comes to the **American continent**, non-international armed conflicts, according to the definition of international humanitarian law, have been active in seven countries, and the highest intensity conflicts between government forces and insurgents and drug cartels are taking place in Colombia and Mexico.[123]

According to the UN Office on Drugs and Crime, the death rate globally as a result of criminal activity has surpassed that caused by conflict and terrorism combined. The situation on the continent was marked by political tensions and mass demonstrations, and the main cause of the protests was of an economic nature. As for peacekeeping operations in the area, four are still active - two in Haiti and two in Colombia.

Sixteen countries from the **Asia and the Pacific** region were involved in armed conflicts during 2020, opposing the government forces of those countries and 192 different paramilitary, terrorist, separatist, and anarchist groups.

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122 Available at: https://www.sipri.org/sites/default/files/2019-08/yb19_summary_eng_1.pdf.

123 In Colombia, the 2016 peace agreement between the Colombian Armed Forces and the FARC is still in force today. However, the Colombian government has been involved in several armed conflicts with non-signatory groups and as a result,the fragmentation of these groups could lead to the destabilization of an already fragile peace. In the case of Mexico, the highest number of murders was recorded in a hundred years, mainly as a result of the state's fight against organized crime and/or drug cartels. During the election campaign, there was an increase in violence, during which 88 candidates were killed in local elections.

In South Asia, the highest intensity of conflict was recorded in Afghanistan, India, and Pakistan, and in Southeast Asia in Indonesia, Myanmar, the Philippines, and Thailand. Also, two worrying trends have been identified: the rise in identity-related violence based on ethnic and religious polarization, and the increase in the number of transnational jihadist groups, especially in Indonesia, Malaysia, and the Philippines.

On **European** soil, armed conflicts have been raging in Ukraine (between the Ukrainian government and the rebels in Donbas) and in Nagorno-Karabakh (between Armenia and Azerbaijan).[124]

Other negative trends in the field of international security were noted, primarily the growing tensions between Russia and the USA, NATO and some European countries, unresolved conflicts from the past, especially in the former Soviet Union, the Western Balkans and Cyprus.

Illegal migration and terrorism are one of the most important security challenges in Europe today. In terms of migration, it is important to point out the cooperation of the EU with Libya and Turkey, while in the field of fight against terrorism, a major challenge remains solving the problem of return of foreign terrorist fighters from international conflict areas.

Furthermore, it is important to note that in 2020, 18 multilateral peacekeeping operations were active on the territory of Europe.

As regards the **Middle East and North Africa**, nine countries have been involved in armed conflicts of varying nature and intensity in the following countries: Egypt, Iraq, Israel, Palestine, Lebanon, Libya, Syria, Turkey, and Yemen. Massive anti-government demonstrations have also been reported in Algeria, Egypt, Iran, Iraq, Jordan, Lebanon, Morocco, the Palestinian Territories and Tunisia.

Regarding the situation in **Sub-Saharan Africa**, eight conflicts in the area were low-intensity, and eight conflicts in Nigeria, Somalia, DRC, Burkina Faso, Mali, South Sudan, Cameroon, and Ethiopia (Tigris region) were identified as high-intensity conflicts. The conflicts in Burkina Faso, Cameroon, Chad, Mali, Niger, and Nigeria have escalated, due to the rise of violent extremism and the growth of armed, non-state groups, led by Boko Haram, which has expanded its influence from Nigeria to Chad. It can be stated that almost all conflicts are internationalized as a consequence of conflicts between state actors and extreme transnational Islamist and other armed groups.

When it comes to peacekeeping operations, 20 such operations are active in sub-Saharan Africa.

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124 The conflicts in Ukraine during 2019 and 2020 were of low intensity, while the conflict in Nagorno-Karabakh from the end of September to November 2020 had all the characteristics of a real war. The conflict ended with the withdrawal of part of the Armenian population living in the disputed area and the takeover of part of the territory by the Azerbaijani armed forces.

1.3. States under UN Security Council sanctions

The following member states are currently under the UN[125] sanctions system: Central African Republic (2013), Guinea-Bissau (2012), DR Congo (2003), Iran (2006), Iraq (2004), Lebanon (2006), Sudan/Darfur (2006), Mali (2017), Libya (2011), DNR Korea (2006), Somalia (1992), Yemen (2015) and South Sudan (2015), as well as Afghanistan/Taliban and Al-Qaeda, list of individuals (2002).

The Ministry of Foreign Affairs duly submits reports on the implementation of sanctions to the competent UN Security Council Committee, when this obligation is provided for in the existing resolutions. This is illustrated by the fact that Serbia submitted seven reports to the UN Security Council Committee established by UN Security Council Resolution 1718, in the period 2006-2017, regarding international restrictive measures imposed against the DNR of Korea. Also, in the period 2006-2015, Serbia submitted four reports to the then UN Security Council Committee established by Resolution 1737, which relate to the introduction of international restrictive measures against Iran.

Moreover, Serbia has regularly submitted reports in other cases, such as the Report on the Implementation of UN Security Council Resolution 2140 on Yemen (2014), the Report on the Implementation of UN Security Council Resolution 1970 on Libya (2011), etc.

1.4. Non-state actors as a threat - Terrorism

Changed global and other circumstances have led to multiple changes in the nature of the terrorist threat. Terrorist structures in the Middle East, North and Sub-Saharan Africa, and the Far East have managed to mobilize and recruit tens of thousands of fighters and many more followers and sympathizers from almost all countries in a short period of time, developing thereby a huge economic and other potential to support terrorist activities. The trend of decentralization of terrorist organizations has reached its final outcome, embodied in the possibility of having self-radicalized individuals who have decided to carry out attacks independently to become the actual perpetrators.

In this regard, radicalization and violent extremism leading to terrorism have been recognized as the current security phenomena that will become increasingly effective in the coming period. The threat of terrorism knows no borders and the response to it must be both national and international, with care for a proper balance between the security of citizens and protection of basic human rights.

125 A list of states, organizations and other entities under the UN Security Council sanctions regime is available in Serbian on the website of the Ministry of Foreign Affairs. This list is regularly updated and is available at: sanctions sb UN 13.07.2021.pdf (mfa.gov.rs).

The development and availability of modern communication and information technologies has increased the risk of their misuse for terrorism purposes not only for communication, financing, propaganda, recruitment, or terrorist training, but also for cyber-terrorist attacks, in which information resources are a means but also an target of attack. An additional threat for the financing of terrorism is the proliferation of weapons of mass destruction and the illegal trade in all types of weapons, as the risk of weapons, including WMD, falling into the hands of groups that are not under state control is growing, especially terrorist groups and individuals.

The countries of the Southeast Europe and Western Balkans region share common interests, but also risks and challenges, and they constantly strengthen national security capacities and improve cooperation and exchange of information between the competent police, intelligence, security, and judicial institutions of the region.

Regarding the strengthening of national security capacities of states, it is essential to harmonize national legislation with the adopted international standards and to sign bilateral agreements on cooperation in the fight against terrorism. All countries in the region have a legal basis for counterterrorism in their constitutions and criminal legislation, i.e., legal acts governing the organization and competencies of state bodies in combating organized crime, as well as in police regulations.

The institutions engaged in all countries of the region are the following: the Ministry of the Interior, the Prosecutor's Office, the courts, the security agencies, the Ministry of Justice, and the Ministry of Foreign Affairs. Practice has shown that none of the institutions has primacy over others in terms of anti-terrorist activities.

The countries of the region and the Republic of Serbia are facing an increase in the radicalization of certain individuals and groups, as well as the strengthening of violent extremism that can lead to terrorism. Serbia also encounters specific situations when it comes to the threat of terrorism, which are characterized by the following:

- ethnically motivated extremism and separatist tendencies in certain parts of the territory, with the possibility of evolving into terrorism, especially in connection with the unilaterally declared independence of Kosovo and Metohija;
- activities of members and sympathizers of radical Islamist movements and organizations, organizationally and functionally connected with similar movements in the region and beyond;
- continuous propaganda activities of radical religious preachers, individuals, or groups who, by tendentious interpretation of religious teachings, consciously spread the ideology of violent extremism, as well as the radicalization of young persons and converts;
- return of terrorist fighters from conflict areas to Serbia or the countries of the region, further radicalized and trained to carry out a terrorist attack and which can serve as a negative role model;

- danger of infiltration of terrorists in the situation of a mass influx of migrants and refugees that exceed the capacities of the Republic of Serbia for receiving them.

Serbia recognizes the UN as a key forum for international cooperation in the fight against terrorism, supports the principles of the UN Global Counter-Terrorism Strategy, and especially the segment related to measures to strengthen international cooperation, i.e., combining national, regional, and international efforts. Also, Serbia supports and implements all the adopted resolutions of the UN General Assembly on measures to combat and prevent international terrorism, including bans on arms exports, as well as bans on non-state actors (terrorist organizations and related individuals). Serbia contributes to the work of the UN by sponsoring key resolutions, implementing them, and supporting the work of the Counter-Terrorism Committee (CTC).

Furthermore, Serbia is a signatory to a total of 15 international legal instruments for the fight against terrorism, which ranks it among the top UN member states in the number of ratified Universal Anti-Terrorist Instruments. When it comes to European cooperation, Serbia is a signatory to numerous conventions regulating the fight against and terrorism, the Agreement on Strategic Cooperation with EUROPOL (entered into force on 16 June 2009), the Agreement on Operational and Strategic Cooperation with EUROPOL (2014) and is a member of the Egmont Group (since July 2003).

2. INTERNATIONAL AND NATIONAL FRAMEWORK

The Republic of Serbia continuously fulfills the obligations arising from the Resolution 1540 of the United Nations Security Council to Prevent WMD Proliferation and Terrorism by Non-State Actors and the means for their transfer (confirmed by Resolution 2572 of 2021).

Also, Serbia is a member, i.e., a state party to all international documents related to the control and non-proliferation of WMD.

The Republic of Serbia has joined or is participating in the work of the following international initiatives:

- Global Initiative to Combat Nuclear Terrorism,
- The Proliferation Security Initiative (PSI), which aims to create a global network for the coordination of the countries involved in preventing the trade in weapons of mass destruction.
- European Union initiative for the establishment of CBRN centers of excellence, where the Republic of Serbia is involved in the work of the regional Center for the region of Southeast Europe, South Caucasus, Moldova, and Ukraine, based in Tbilisi (Georgia).
- Proliferation Security Initiative (PSI) of the Center for Security Cooperation - RACVIAC.

On April 10, 2008, the Government of the Republic of Serbia adopted a conclusion accepting the Information on the commencement of negotiations on the accession of the Republic of Serbia to international control regimes in the field of export of weapons, military equipment, and dual-use goods. In this regard, procedures have been initiated or completed in the following export control arrangements:

- group of nuclear suppliers;
- the procedure for regulating the membership in the Wassenaar Arrangement is underway;
- a procedure has been launched to regulate membership in the Australian Group;
- the Republic of Serbia has not officially submitted a request for status regulation in the Missile Technology Control Regime (MTCR). However, in February 2004, the State Union of Serbia and Montenegro unilaterally agreed to abide by the MTCR document "Equipment, Software and Technology" of 30 May 2003 and the "Guidance for Important Transfers of Sensitive Missiles" of 7 January 1993;
- the plan is to submit a request for regulation of membership in the Zangger Committee.

State authorities have undertaken a number of activities at the national level as well. Thus, in April 2012, the Government of the Republic of Serbia adopted the *National Action Plan for the implementation of UN Security Council Resolution 1540* (for the period 2012-2016) and Serbia became the first country in Southeast Europe and the fifth UN member state to adopt such a plan. Also, in January 2018, it adopted a new National Action Plan (for the period 2018-2022), and a working group for monitoring its implementation was formed, chaired by a representative of the Ministry of Foreign Affairs. Furthermore, the *Strategy for the Prevention of the Proliferation of Weapons of Mass Destruction of the Republic of Serbia* for the period 2021-2025 was adopted.

In order to implement international conventions that regulate this area and to fulfill the obligations from Resolution 1540 of the UN Security Council, the Republic of Serbia has adopted several laws.

Also, in order to eliminate non-state actors as a risk factor for the proliferation of weapons of mass destruction, the Republic of Serbia intends to continue implementing ratified conventions in the field of counterterrorism, as well as to establish an adequate strategic framework for competent authorities.

The developed system of control over the export of arms and military equipment, as well as dual-use goods, defined in all its phases by laws and accompanying regulations in this area, is an important part of the process of accession of the Republic of Serbia to the EU. The Common Position of the EU, which prescribes the criteria for deciding on the issuance of licenses for the export of weapons, military equipment, and dual-use goods (*Common position 944/2008*), is fully incorporated into our legislation in this area. Moreover, the National Checklist of Arms and Military Equipment as well as the National Checklist of Dual-Use Goods are harmonized regularly, on an annual basis, with the relevant EU lists (*EU Military List and EU Dual Use Items List*). This ensures that the same goods that are subject to control in EU member states are subject to licensing in the Republic of Serbia.

In the field of foreign trade in controlled goods, the applicable national legislation consists of:

- the Law on Export and Import of arms and military equipment (hereinafter: AME Law);
- the Law on Export and Import of Dual-Use Goods (hereinafter: DUG Law);
- bylaws;
- ratified international conventions and agreements and other regulations affecting this area.

In addition to the mentioned laws and bylaws, in the positive legislation of the Republic of Serbia, in the field of foreign trade in controlled goods (common name for weapons, military equipment and dual-use goods), other laws apply that regulate more precisely certain issues.

Exports and imports of arms and military equipment, as well as dual-use goods, including the provision of brokerage services and technical assistance in these areas are performed in three or two phases:

1) registration of economic entities for the performance of export and import of arms and military equipment;[126]
2) issuing licenses for a specific export and import business, providing brokerage services and technical assistance;
3) supervision and control of the performance of the above tasks.

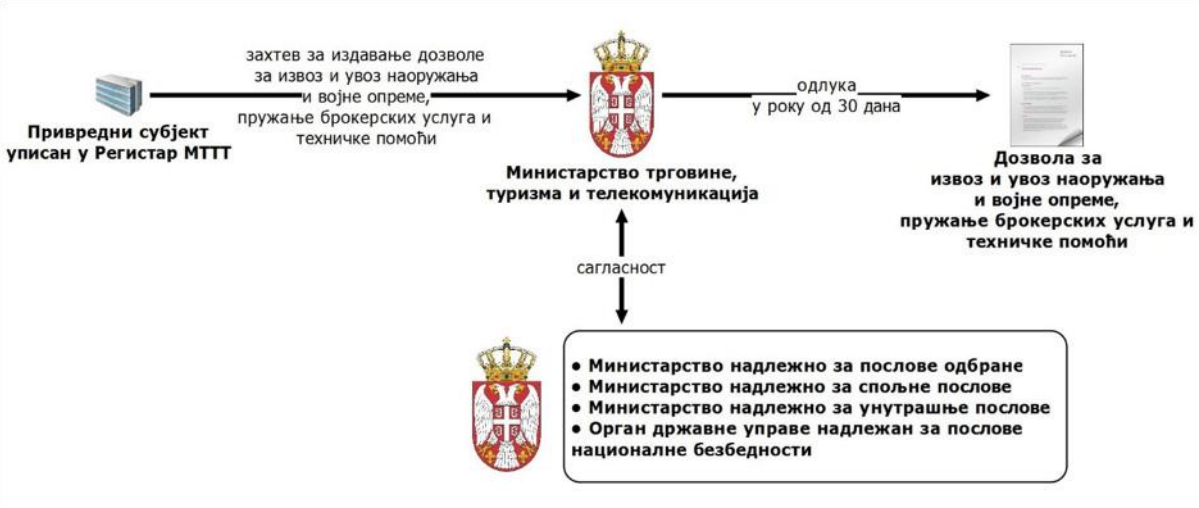
Registration - Exports and imports of arms and military equipment, brokerage services and technical assistance may be performed by a legal entity and an entrepreneur, registered to perform these activities with the competent ministry, according to Article 7 of AME Law. The right to perform the export and import of arms and military equipment, the provision of brokerage services and technical assistance is acquired on the day of entry of persons in the Register kept by the Ministry.

Issuance of licenses - Pursuant to the provisions of Article 12, paragraph 1 of AME Law, as well as Article 10, paragraph 1 of DUG Law, "the license for export and import, provision of brokerage services and technical assistance, as well as the license issued under special conditions, is a document issued by the Ministry".

In the process of deciding on a specific request, MTTT obtains the consent of the ministry in charge of foreign affairs, the ministry in charge of defense, the ministry in charge of internal affairs and the state administration authority in charge of national security in accordance with the provisions of these laws. MTTT may "depending on the type of goods to which the request relates, request the opinion of other ministries, special organizations and agencies competent in the relevant field".

126 There are no special conditions for the registration of economic entities for the performance of activities related to dual-use goods.

The permit is issued on the basis of the consent of all state administration authorities participating in the issuance procedure, and the aforementioned laws stipulate that "if some of the authorities deny their consent, the Government decides on the issuance of the permit." If two or more authorities deny their consent, the permit cannot be issued.



In terms of international cooperation, the Republic of Serbia has developed cooperation with the countries of the region, exchanging information in direct contact with the competent authorities of those countries and their representatives on cases that entail risks of WMD proliferation. Also, the Republic of Serbia has been actively participating in European Union projects aimed at establishing an effective system of export control (drafting laws and their implementation, identification of goods, risk analysis, etc.) for many years.

Finally, the Republic of Serbia provides all requested information upon inquiries from international organizations (e.g., UN working bodies, such as the Panel of Experts on Libya, Somalia, and other countries, as well as the EU-authorized Conflict Armament Research) in relation to the exports of arms and military equipment, as well as dual-use goods.

These circumstances clearly indicate the determination of the state to face these risks and the desire to continuously improve its own system of export controls and other factors that may lead to increased risk. International experience is certainly a significant factor in this regard.

Pursuant to Article 37, paragraph 1 of the Law on Export and Import of Arms and Military Equipment ("Official Gazette of the RS", No. 107/14), the Ministry of Finance adopted the Rulebook on Obligations of Customs Authorities in the Export, Import and Transit of Arms and Military Equipment, which was published on April 3, 2015, in the "Official Gazette of RS", no. 32/15. This Rulebook prescribes the obligations of the customs authorities in the procedure of control of export, import and transit of arms and military equipment.

The competence for issuing permits for the transport of dual-use goods is vested with the Ministry of the Interior, the Sector for Emergency Situations, and the Directorate for Preventive Protection.

Transport and transit of arms and military equipment is regulated by the Law on Export and Import of Arms and Military Equipment ("Official Gazette of RS", No. 107/14). Transport and transit of dual-use goods, which are also "dangerous goods", is performed on the basis of the approval of the Ministry of Interior, and in accordance with the Law on Transport of Dangerous Goods ("Official Gazette of RS", No. 104/16, 83/18, 95/18 - as amended and 10/19 - as amended).

In the procedure of issuance of a permit for the transport of dangerous goods belonging to Class 1 ADR/RID/ADN, which are at the same time weapons, military equipment or dual-use goods, the consent of the ministry in charge of defense shall be obtained.

Transport of AME by air is performed in accordance with the Law on Import and Export of Arms and Military Equipment and based on the approval of the Directorate of Civil Aviation of the Republic of Serbia.

When it comes to the Rulebook on Conditions for Conducting Air Traffic ("Official Gazette of RS", No. 9/18, 56/18, 12/19, 3/21 and 54/21), it is necessary to indicate that it contains safeguards for safe transport of military weapons and ammunition, for the transport of sports weapons and ammunition, as well as for the transport of dangerous goods by air.

The Republic of Serbia is also developing operational capabilities for defense against atomic, biological, and chemical weapons. The mainstay of the development of these abilities is the Army of Serbia, i.e., the CBRN Center based in Krusevac, which has the status of a professional-specialist center for individual training in the field of defense against chemical, biological, radiological, and nuclear threats.

It is especially important to mention the activities of cooperation between Serbia and the International Organization for the Prohibition of Chemical Weapons (OPCW). This cooperation is realized on the basis of the Convention on the Prohibition of the Development, Production, Stockpiling and Use of Chemical Weapons, to which the Republic of Serbia acceded in 2000.

Representatives of the Ministry of Defense and the Serbian Army regularly take part in international gatherings dedicated to the fight against the production and proliferation of biological and chemical weapons as weapons of mass destruction.[127]

Radiation and nuclear security are defined as the prevention, detection and response to theft, sabotage, unauthorized access, illegal transport, misuse, terrorism, or other criminal offenses involving radioactive or nuclear material, as well as related facilities or lifelong activities, their applications and use.

127 Thus, in June 2021, a representative of the Military Medical Academy (also a member of the Commission of the Republic of Serbia for the Implementation of the Biological and Toxin Weapons Convention - BTWC) and a representative of the CBRN

Center participated in an international conference on “Global threats to biological security - Problems and solutions ", in Sochi (Russian Federation).

The Republic of Serbia is home to the nuclear site "Vinca", which is officially defined as such by the state, as well as by the International Atomic Energy Agency. At the site of "Vinca" there are two research reactors with accompanying infrastructure, as well as scientific laboratories that use radiation sources for research and commercial purposes. Also, at this site there are facilities for the treatment and storage of radioactive waste, which are managed by the PE "Nuclear Facilities of Serbia" as the operator. According to the current legal provisions, all radioactive waste generated in the Republic of Serbia must be stored in the prescribed manner and in facilities specially built and intended for that purpose. The existing infrastructure is designed for the reception and storage of liquid and solid radioactive waste until it is moved to a permanent disposal site.

On the territory and across the state border of the Republic of Serbia, traffic and transport of radiation sources is performed regularly, on a daily basis. Industrial radiography devices are transported daily to different locations in the country or in the surrounding countries. Imports of short-lived radiopharmaceuticals, as well as other radioactive for medical or industrial purposes are performed by road or air transport on a regular basis. Also, transit of radioactive materials from other countries is performed through the territory of the Republic of Serbia.

The National Radiation and Nuclear Safety Regime aims to prevent the loss of control over radiation sources located and used in the Republic of Serbia, unauthorized and malicious use of radioactive and nuclear materials, prevent the proliferation of equipment and weapons of mass destruction, protect facilities where radiation sources are located and used, detect and prevent attempts to illegally transport radiation sources across the state border, as well as identify and prevent all potential security threats.

The national radiation and nuclear safety regime is based on the following three elements:

1. Legislative and regulatory framework as well as administrative systems and measures regulating issues of general safety as well as safety of radioactive and nuclear material, associated facilities, installations, and activities;
2. Institutions and organizations in the Republic of Serbia responsible for the implementation of the legislative and regulatory framework and measures for radiation and nuclear safety;
3. Security systems and measures designed to detect, prevent, and respond to security incidents involving or targeting radioactive and nuclear materials, related facilities, installations, or activities.

By acceding to international instruments, incorporating their provisions into domestic law and assuming the prescribed international obligations, Serbia is committed to preventing and sanctioning all attempts to misuse radioactive and nuclear materials, criminal or terrorist acts that may endanger the population, the environment and property, both on its territory and globally.

The primary responsibility for the safety of radioactive and nuclear materials in the Republic of Serbia, which are under regulatory control, rests with the holders of approvals for the performance of radiation activities and nuclear activities. With the introduction of the new legislative framework, which entered into force with the adoption of the Law on Radiation and Nuclear Safety and Security in December 2018, one of the basic conditions for issuing licenses was the implementation of security measures by the licensee in accordance with the type of activity and by categorizing the risk that accompanies engaging in a particular activity.

The safety of nuclear materials and related facilities, owing to the continuity in the legislative framework, is under constant regulatory supervision.

Control and prevention of illegal traffic of radioactive and nuclear materials across the state border is performed by the Customs Administration and the Border Police, using equipment for radioactivity detection, as well as other methods for detecting illegal traffic. Constant investment in equipment, human resources and the construction of a sustainable, self-sustaining system is one of the imperatives of the overall radiation and nuclear safety regime.

Institutions responsible for security - Recognized institutions from the aspect of the national radiation and nuclear safety regime of the Republic of Serbia are the Ministry of Interior (criminal police, border police, emergency sector), security and intelligence structures (Security Information Agency, Military Security Agency and Military Intelligence Agency), the Customs Administration, the Ministry of Defense, the ministry in charge of foreign trade (currently the Ministry of Trade, Tourism and Telecommunications), the Ministry of Foreign Affairs, and the Directorate for Radiation and Nuclear Safety and Security of Serbia.

The Directorate for Radiation and Nuclear Safety and Security of Serbia is directly accountable for its work to the Government of the Republic of Serbia. The competencies of the Directorate are prescribed by the Law on Radiation and Nuclear Safety and Security, and include, among other things, authorization and inspection of activities that include work with radiation sources and radiation protection, adoption of measures for protection of individuals, population and environment from the harmful effects of ionizing radiation, establishing and keeping records of facilities, radiation sources and radioactive waste on the territory of the Republic of Serbia, prescribing conditions for safety of radioactive and nuclear material and facilities in which they are used, defining project bases and emergency events for radiation and nuclear safety and security measures, providing professional support to other state bodies in the field of radiation and nuclear safety and security, etc.

Identification of potential threats - The work of security and intelligence services with the aim of gathering information on potential threats and passing on of such information to and coordination of actions with other competent institutions is the basis which the effectiveness of the entire radiation and nuclear safety system rests on.

The Law on Radiation and Nuclear Safety and Security prescribes the obligation of the Republic of Serbia to prepare the *Design Basis Threat* (DBT)[128]. DBT is a comprehensive description of the intentions, motivations, and capacities of potential threats to radioactive and nuclear materials, as well as the facilities and activities in which these materials are used. Physical and technical protection measures applied by users of radioactive and nuclear materials are designed and applied in such a way as to correspond to the level of potential threat described in the DBT.

Security threats involving or targeting radioactive and nuclear materials, as well as the potential radiological consequences of such an event, can have a significant impact on several countries in a given region, as well as globally.

The fulfillment of assumed international obligations and their incorporation into domestic legislation, shows the commitment of the Republic of Serbia to preserving peace and stability at the regional and international level.

Improvement of the radiation and nuclear safety system in the Republic of Serbia is carried out through the following areas:

1. development and improvement of the legislative framework;
2. protection and control of radioactive and nuclear material under regulatory control as well as related facilities and activities;
3. detection of radioactive and nuclear material outside regulatory control;
4. identification and prevention of potential threats;
5. mechanisms for responding to a security incident with radiological consequences;
6. mechanisms for controlling the trade in dual-use goods;
7. maintaining a national radiation and nuclear safety regime.

An efficient system of radiation and nuclear safety aims to bring under control all radioactive and nuclear materials used in the Republic of Serbia and prevent their use for the production of weapons of mass destruction. Moreover, the illegal trade of radioactive and nuclear materials of foreign origin through the territory of the Republic of Serbia, also intended for the production of WMD, is prevented.

Through its membership in the International Atomic Energy Agency (IAEA) and the signing of the Treaty on the Non-Proliferation of Nuclear Weapons the Republic of Serbia has committed itself to preventing any use of nuclear materials for the purpose of producing weapons of mass destruction. The IAEA devised the system

128 Article 186 of the Law on Radiation and Nuclear Safety and Security.

of safeguards, which are a set of measures that control nuclear material and its application in the signatory countries.

Every institution in the Republic of Serbia that possesses nuclear material subject to notification under the Agreement on the Application of Safeguards is obliged to report that material to the Directorate for Radiation and Nuclear Safety and Security of Serbia, as a designated institution of the Republic of Serbia for cooperation with the IAEA, according to pre-determined procedures, as well as any movement and change in the quantities of nuclear material.

The IAEA inspects nuclear materials and related activities once a year to determine that the nuclear material present is in accordance with the reported reports. The inspection is performed by accredited inspectors who have been appointed in advance and whose appointment has been approved by the Republic of Serbia.

Radioactive and nuclear material used in the Republic of Serbia (material under regulatory control) may be misused, due to theft for the purpose of illegal trade or production of weapons of mass destruction, or due to sabotage that could lead to significant radiological consequences for the population, environment, and property.

Radioactive and nuclear material that is out of regulatory control and whose owner or user is unknown or is otherwise disposed of, poses a potential hazard due to lack of information about its existence or exact location. Detection, disposal, and re-establishment of regulatory control is carried out by legal entities authorized to remove abandoned sources of radiation, as well as using radio-detection equipment located in locations where there is an increased likelihood of finding abandoned sources such as waste storage and secondary raw materials, border crossings or customs checkpoints.

In addition to materials of domestic origin outside of regulatory control, the potential security threat is the illegal trade of radiation sources across the state border, which has the territory of the Republic of Serbia as its ultimate destination or is in transit. Detection of illegal trafficking in radioactive and nuclear materials is performed by members of the Customs Administration and the Border Police, using equipment for radioactivity detection, as well as other specialized methods for detecting illegal trafficking, in accordance with legal provisions and written procedures.

Prevention of criminal acts directed at radioactive and nuclear materials is also done by the security and intelligence services, which within their competences can obtain information on potential threats in the form of individuals or organized groups intent on stealing, sabotaging, or smuggling of radioactive or nuclear materials.

These threats have been reduced to a low risk level by strengthening the nuclear safety culture, thorough and serious security screening of these participants in the security system of protected facilities, with special emphasis in the identified vital zones of applying the rule of "Two persons",[129] as well as improving the system of physical and technical protection in accordance with international standards.

Also, it is necessary to keep in mind cyber threats, which pose an increasingly challenging risk at the global

level due to the constant development of technology, to which special attention is paid through continuous investment in staff training, monitoring of regulatory practices and self-assessment of cyber security in PE "Nuclear Facilities of Serbia ". The possibility of failure of parts of the system and equipment is a permanent risk. This type of risk is also greatly reduced by testing, maintaining, and monitoring the complete nuclear safety system within the PE "Nuclear Facilities of Serbia" through the reliability of each component of the system according to pre-defined procedures.

The process of international cooperation should be emphasized, through which continuous work is being done on improving the complete system of nuclear safety, strengthening human resources, as well as continuous monitoring of international practice.

Through this process, in cooperation with the US Department of Energy, a number of trainings were provided for a large number of employees in the PE "Nuclear Facilities of Serbia", as well as for representatives of all institutions of the Republic of Serbia that are directly or indirectly related to the nuclear safety system. The training system is continuous and takes place regularly with the intention of following all trends in the field of nuclear safety.

The personnel pool of the PE "Nuclear Facilities of Serbia", part of which are certified professionals in the field of nuclear safety, is available at any time to all institutions in any aspect of the nuclear safety system, and especially to the following institutions:

- MoI, in relation to capacity building in the field of nuclear forensics;
- Customs Administration, in relation to the detection of radioactive and nuclear material;
- Directorate for Radiation and Nuclear Safety and Security of Serbia, in relation to the preparation of radiation and nuclear safety strategies, as well as the writing of action plans for the implementation of these strategies.

3. INTERNATIONAL RESTRICTIVE MEASURES

The Law on International Restrictive Measures, adopted in 2016, prescribes the procedure for implementing international restrictive measures introduced, applied, or abolished by the Republic of Serbia

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129 This is the principle of enhanced control in particularly sensitive facilities, i.e., parts of facilities where access by two persons is possible only at the same time.

on the basis of legal acts adopted by the UN Security Council, OSCE, other international organizations of which Serbia is a member, as well as legal acts of other international organizations, when the above is in the foreign policy interest of the Republic of Serbia.

International restrictive measures are imposed on 1) states; 2) international organizations;
3) a natural person who has the citizenship of the Republic of Serbia, and is on the list of persons whom a restrictive measure has been imposed on; 4) a natural person who is not a citizen of the Republic of Serbia, but resides in the territory of the Republic of Serbia and who is on the list of persons whom a restrictive measure has been imposed on; 5) a legal entity established in accordance with the regulations of the Republic of Serbia, which is on the list of persons whom a restrictive measure has been imposed on; 6) a foreign legal entity if it possesses property and assets on the territory of the Republic of Serbia, which is on the list of persons whom a restrictive measure has been imposed on.

International restrictive measures may be: 1) complete or partial severance of diplomatic relations; 2) complete or partial termination of economic and financial relations; 3) interruption of traffic, postal, telegraphic, telecommunication and other connections; 4) ban on arms trade; 5) prohibition of entry into the territory of the Republic of Serbia or crossing its territory; 6) temporary restriction of disposal of assets located on the territory of the Republic of Serbia; 7) temporary restriction on disposal of funds; and 8) other international restrictive measures applied in accordance with international law.

The decision on the application of the imposed international restrictive measures is made by the Government of the Republic of Serbia, at the proposal of the ministry in charge of foreign affairs. International restrictive measures are applied by state authorities, state administration authorities, local self-government authorities, banks and other financial organizations, companies, entrepreneurs, as well as other legal and natural persons.

In order to monitor the introduction and control of the application of restrictive measures, the Record of Data on Restrictive Measures is established, which measures are imposed on countries, international organizations, natural and legal persons to which the restrictive measures apply. When deciding on the issuance of licenses for import, export, brokering or technical assistance in arms and military equipment (AME) or dual-use goods, international restrictive measures are fully applied, especially restrictive measures of the UN Security Council, thus eliminating from this process states, entities, legal or natural persons from the UN consolidated list or other restrictive measures in the records. Also, in order to effectively implement the law, a special working group is formed, chaired by the Ministry of Foreign Affairs, whose members are all institutions responsible for its implementation.

The field of targeted financial sanctions related to the proliferation of weapons of mass destruction and the financing of proliferation of weapons of mass destruction is regulated by the Law on International Restrictive Measures (Official Gazette of RS, No. 10/16) and the Law on Restrictions on Disposal of Assets for the Prevention of Terrorism and Proliferation of Weapons of Mass Destruction ("Official Gazette of RS", No. 29/15, 113/17 and 41/18).

The Law on the Restriction of the Disposal of Assets for the Prevention of Terrorism and Proliferation of Weapons of Mass Destruction prescribes the procedure for designating persons, as well as the procedure for restricting the disposal of assets to a designated person and determines the competencies of state authorities for their implementation. Both procedures are carried out in accordance with the principle of urgency.

Due to non-application of actions and measures in accordance with the provisions of the Law on the Restriction of the Disposal of Assets for the Prevention of Terrorism and Proliferation of Weapons of Mass Destruction, only fines for legal and natural persons are provided in Articles 19 and 20 of the Law (economic offenses and misdemeanors). Sanctions in the form of fines are also provided by the Law on International Restrictive Measures ("Official Gazette of RS", No. 10/16), the application of which is supervised by the Ministry of Foreign Affairs.

In addition to fines, the Criminal Code ("Official Gazette of RS", No. 85/05, 88/05 - correction, 107/05 - correction, 72/09, 111/09, 121/12, 104/13, 108/14, 94/16 and 35/19) envisages imprisonment if it is determined that the criminal offense of "violation of sanctions imposed by international organizations" under Article 384a of the Criminal Code has been committed.

In order to prevent the proliferation of WMD, as well as to fulfill its international obligations under UN Security Council Resolution 1540, the Government of the Republic of Serbia adopted the National Action Plan for the implementation of Resolution 1540 and formed a working group to monitor the implementation of the plan. The plan comprehensively regulates the obligations of state bodies in this field in the period 2018-2022.

The WMD Proliferation Strategy[130] defines objectives in the fight against WMD proliferation, measures to achieve them, as well as measures to monitor the implementation of the strategy. It is important to emphasize that after the adoption of the Strategy, it is planned to form a national Coordinating Body for the implementation thereof, which will replace the existing Working Group for the National Action Plan and will be in charge of implementing both documents.

Global goals in the fight against WMD proliferation include a) preventing individuals, non-state actors and states from illegally possessing weapons of mass destruction; b) preventing the use of WMD by members of criminal and terrorist/extremist groups and organizations, non-state actors and regimes that support terrorism; as well as c) elimination and reduction of consequences in case of possible use of WMD. In order to achieve these goals, states must create adequate legislative frameworks at the national level and implement them effectively and actively participate in achieving international cooperation in this area. Successful implementation of the Strategy implies the incorporation of the envisaged goals and measures for their implementation into other strategic and planning documents, as well as the adoption of procedures for the implementation of defined national policies in the security sector.

130 When writing the Strategy, the implementation of the existing National Action Plan was taken into account, and its provisions were implemented in the Strategy itself, with a validity period until the end of 2022, after which a new plan is expected to be drafted.

In order to coordinate activities to achieve the general goal, the Government of the Republic of Serbia will establish a national Coordinating Body to combat the proliferation of WMD, which will be in charge of monitoring the implementation of the Strategy. The National Coordinating Body should be composed of representatives of the ministries responsible for: Foreign Affairs, Defense, Interior, Justice, Health, Trade, Tourism and Telecommunications, Construction, Transport and Infrastructure, Agriculture, Forestry and Water Management, Environment, Finance (Customs Administration, Administration for the Prevention of Money Laundering), education and science, as well as representatives of the following institutions: Offices of the Council for National Security and Protection of Classified Information, Directorate for Radiation and Nuclear Safety and Security of Serbia, PE "Nuclear Facilities of Serbia", Directorate of Civil Aviation, National Bank of Serbia, Institute of Nuclear Sciences "Vinca", Institute of Physics, Security and Information Agency, the Republic Public Prosecutor's Office and the Business Registers Agency.

EXPOSURE TO THE RISKS OF FINANCING THE PROLIFERATION OF WEAPONS OF MASS DESTRUCTION

Since active and continuous monitoring of activities, for which there have been indications that they may be related to the proliferation and financing of weapons of mass destruction, did not lead to criminal prosecution for any of the crimes related to these activities, nor was any typological case identified that could be presented through this assessment, international experiences in this field were taken into account.

In this regard, the FATF Typologies on WMD Proliferation Financing from 2008, published in the FATF Guidance on counter proliferation financing from February 2018, were used to prepare the Risk Assessment, in order to help public and the private sector in understanding the threats and situations in which clients, transactions and other account activities may be involved in financing the proliferation of weapons of mass destruction (hereinafter: proliferation). Since then, proliferation financiers have developed even more sophisticated networks to hide such activities. Some of the latest techniques to avoid targeted financial sanctions for proliferation are recorded in reports submitted by the UN Panel of Experts - PoE) relevant committees of the United Nations Security Council or committees for specific resolutions of the United Nations Security Council.

In accordance with international experience, as well as through the application of indicators that may be important for identifying activities potentially related to financing the proliferation of weapons of mass destruction, many participants in the system actively monitor these activities and make great efforts to prevent them.

Also, the competent state bodies of the Republic of Serbia continuously monitor and check the indications and risks related to the proliferation of WMD or its financing through mutually coordinated and continuous cooperation.

Checks of competent institutions, taking into account pre-investigation procedures, intelligence, analysis of suspicious activities reports, and other activities carried out by state authorities, border control, export-import business, etc., taking into account the potential risks from financing WMD proliferation, did not reveal any misuse of funds for the purpose of these activities.

4. REGULATORY FRAMEWORK

The Law on Prevention of Money Laundering and Terrorism Financing, "Official Gazette of RS", No. 113/17, 91/19 and 153/20, hereinafter: LPMLTF) prescribes actions and measures to prevent and detect money laundering and terrorism financing, while the Law on the Restriction of the Disposal of Assets for the Prevention of Terrorism and Proliferation of Weapons of Mass Destruction, ("Official Gazette of RS", No. 23/15, 113/17 and 41/18) prescribes, in order to prevent terrorism and the proliferation of WMD, actions and measures to limit the disposal of assets of designated persons, the competence of state bodies to apply these measures, as well as the rights and obligations of natural and legal persons in applying the provisions of this Law.

When taking actions and measures to prevent and detect money laundering and terrorism financing, LPMLTF obligors must not forget the importance of taking preventive actions and measures in recognizing, detecting and preventing the financing of WMD proliferation.

Having in mind the importance of taking preventive actions and measures in recognizing, detecting and preventing the financing of the proliferation of weapons of mass destruction, in August 2018 the Director of the Administration for the Prevention of Money Laundering issued the **Guidance for applying the Provisions of the Law on Restricting the Disposal of Assets in Order to Prevent Terrorism and Proliferation of Weapons of Mass Destruction Related to Preventing the Financing of Proliferation of Weapons of Mass Destruction.** The document aims to not only raise public awareness of the importance of taking preventive actions and measures in identifying, detecting, and preventing the financing of the proliferation of weapons of mass destruction, but also to assist LPMLTF obligors and supervisory authorities in establishing appropriate policies and procedures necessary for the application of the provisions.

This document provides guidelines to LPMLTF obligors on how to associate actions and measures to AML/CFT procedures in order to identify WMD proliferation risks, indicators for recognizing WMD proliferation financing and the application of the provisions of the law governing the application of targeted financial sanctions (Law on the Restriction of the Disposal of Assets for the Prevention of Terrorism and Proliferation of Weapons of Mass Destruction).

First of all, the obligors of LPMLTF are obliged to prepare and regularly update the ML/FT risk analysis

in accordance with LPMLTF, the guidelines of the supervisory authority responsible for the implementation of this law and the risk assessment of ML/FT drafted at the national level. Risk analysis must be proportionate to the nature and volume of business, as well as the size of the obligor, must take into account the basic types of risk (customer risk, geographical risk, transaction risk and service risk) and other types of risk identified by the obligor due to the specificity of the business.

In this regard, the above-mentioned Guidance provides LPMLTF obligors with guidelines on which risks to focus on in order to detect and prevent the financing of weapons of mass destruction, which guidelines can be used in the preparation of risk analysis. First of all, obligors need to determine the **geographical risk of the country**, whether the party's transactions originate from countries that are under sanctions and which are of concern in terms of financing the proliferation of weapons of mass destruction. Also, whether the obligor performs a transaction or establishes a business relationship with a party that comes from a country that is not applying or is not sufficiently applying international standards in the field of prevention of money laundering and terrorism financing.

When it comes to **party risk assessment**, the Guidance draws the attention of obligors to the possibility of the party's involvement in the supply chain of equipment and other products that may indicate weapons of mass destruction, purchase and sale of goods, especially dual-use goods (peacetime and military) which can be classified as a weapon of mass destruction or item for military use, as well as attention related to military research activities, especially if that connection exists with high-risk countries (jurisdictions) engaged in the production of or trade in weapons of mass destruction.

When **assessing the risk of products and services**, it is necessary to take into account the risks of delivery of goods and services originating from countries under sanctions or jurisdictions (countries) of higher risk for the proliferation of weapons of mass destruction; the risk of transactions in various services (representation, commissions, certificates, design documentation, project financing, etc.), insurance activities associated with countries at higher risk of proliferation of weapons of mass destruction or indicating that these are proliferation and financing of weapons of mass destruction; the risk of delivery of sensitive products (goods), especially those that may have a dual purpose (peacetime - military) and especially sensitive to the possible production of weapons of mass destruction.

Therefore, when making a risk analysis in accordance with LPMLTF, obligors should pay attention to these risks and accordingly take appropriate KYC actions and measures.

When, in relation to the said risks, the obligors of LPMLTF determine a high degree of risk from ML/FT, they are obliged to apply intensified KYC actions and measures.

In their plans, the supervisory authorities regularly prescribe the control of the Law on Prevention of Money Laundering and Terrorism Financing and the Law on the Restriction of the Disposal of Assets for the Prevention of Terrorism and Proliferation of Weapons of Mass Destruction. The results of the supervision indicate that obligors in

their systems use lists of designated persons, and it is prohibited to establish a business relationship, as well as to conduct transactions before this type of verification is performed. So far, no irregularity has been identified when it comes to the use of designated persons.

Year of indirect control	National Bank of	Administr Prevefition of Mone	Securities Commission	Ministry of Trade, Tourism and Market Division	Games of Chance Admi
2018	117	379	84	/	/
2019	139	373	76	787	12
2020	84	259	214	/	/
Total	**340**	**1011**	**374**	**787**	
2018	18	3	5	/	/
2019	162	7	5	/	/
2020	196	6	6	/	/
Total	**376**	**16**	**16**	/	/

Table: Direct and indirect control by supervisory authorities for the period 2018-2020.

5. BORDER CROSSING CONTROL

The most significant indicators and challenges on the part of the Customs Administration in the process of controlling the import of arms and military equipment, as well as dual-use goods, which may be related to financing the proliferation of WMD are as follows:

- suspicious country of origin of goods and suspicious senders of goods (especially high-risk countries from the aspect of UN and EU sanction lists, as well as countries with specific risks for the Republic of Serbia);
- suspicious end users of goods;
- unusual route of movement of goods;

- the goods are packed in such a way that it is not possible to easily establish their identity, as well as the procedure of re-export of such goods;
- incomplete or poorly written customs documents;
- incorrectly declared or misclassified goods according to the customs tariff.

6. ANALYSIS OF SUSPICIOUS ACTIVITIES AND REPORTS OF DESIGNATED PERSONS

During the reporting period, the Administration for the Prevention of Money Laundering received a total of 6,847 SAR, there were no reports that directly indicated or the analysis of which concluded that they relate to the financing of WMD proliferation. This also applies to the analysis of cash transactions and suspicious activities reporting of other government agencies.

Taking into account the doubt in the possible connection for financing the proliferation of WMD, in the period 2018-2020, APML conducted a further analysis of 13 suspicious activities reports and additional data were collected. Six information points refer to legal entities, and 7 information points concern natural persons, which is shown by years: In 2018 - 1 (legal entity), in 2019 - 4 (2 for legal entities and 2 for natural persons) and in 2020 - 8 (3 for legal entities and 5 for natural persons).

Additional checks did not indicate any doubts about the financing of WMD proliferation, nor were any risks or indications related to this phenomenon identified.

7. PRIVATE SECTOR AWARENESS OF THE RISKS OF FINANCING THE PROLIFERATION OF WEAPONS OF MASS DESTRUCTION

In order to assess the risk of financing the proliferation of weapons of mass destruction, the answers to the Questionnaire for Risk Assessment of Proliferation of Weapons of Mass Destruction of respondents employed in the private sector, banks, broker-dealer companies, investment fund management companies and voluntary pension fund management companies, factoring companies, from other non-financial sectors (auditing, accounting, etc.), payment institutions and companies from the insurance sector have been analyzed.

Based on the submitted answers, in the part of the Questionnaire concerning the risk related to the party, it can be concluded that the respondents from both the financial and non-financial sectors resort to and search the sanctions lists. The financial sector (banks) searches all lists and most often has access to commercial

databases, while the non-financial sector mostly searches the domestic list of designated persons and the consolidated lists of UNSC through the software that can be found on the website of APML - Designated Persons Search Engine.

Both the financial and non-financial sectors are familiar with the procedure for applying targeted financial sanctions established by the Law on the Restriction of the Disposal of Assets for the Prevention of Terrorism and Proliferation of Weapons of Mass Destruction. Most respondents from the financial and non-financial sectors search for a party based on its place of residence or business in the country that is part of the UN Security Council sanctions regime.

Regarding the analysis of the answers to the questions in the part of the Questionnaire related to commodity risk, the financial sector (mostly banks) has stated that it monitors transactions related to dual-use goods, international payment transactions coming from offshore destinations and from countries under sanctions or jurisdictions (countries) of higher risk of proliferation of weapons of mass destruction, as well as transactions of various services (representation, commissions, project documentation, project financing, etc.) that are associated with countries at higher risk of proliferation of weapons of mass destruction. Even in the non-financial sector, responses such as transactions in dual-use goods from high-risk countries in terms of the proliferation of weapons of mass destruction (accounting, auditing) have been submitted.

Based on the answers of the respondents from the financial sector (mostly banks), it can be concluded that they are familiar with the regulations governing the export and import of dual-use goods and apply enhanced actions and measures for high-risk transactions and participants in transactions.

Regarding the risk associated with the activity, the financial sector stated that the electronic transfer of funds is exposed to the risk of financing weapons of mass destruction. Banks ranked different activities depending on those they are engaged in, but the first three places, they mostly listed electronic funds transfers. In addition to electronic funds transfer, there are also trade finance services.

Both the financial and non-financial sectors agreed that the chemical, defense, and aerospace sectors were most exposed to the risk of financing the proliferation of weapons of mass destruction.

In terms of compliance risks, the financial and non-financial sector does not have a specific strategy and developed procedures that relate exclusively to risk management related to the financing of proliferation of weapons of mass destruction, but that these procedures are an integral part of anti-money laundering procedures. and terrorism financing. Respondents most often perform a check of designated persons when performing CDD actions and measures, while the analysis of the risk of proliferation of weapons of mass destruction is performed as part of the analysis of the risk of money laundering and terrorism financing.

Finally, the analysis of the answer to the question regarding the organization of trainings on international measures related to the financing of proliferation, it has been indisputably found that employees in both financial and non-financial sectors organize training in this area, especially given that regular education, training and professional development in the field of proliferation of weapons of mass destruction is a legal obligation of obligors in accordance with Article 53 of the Law on Prevention of Money Laundering and Terrorism Financing.

Based on the analysis of the responses and opinions of the private sector, it can be seen that the private sector applies the sanctions lists, while the level of knowledge in all sectors needs to be improved regarding the financing of the proliferation of weapons of mass destruction. The financial part of the system, due to its position, and particularly due to affiliation to groups, has shown a higher level of knowledge in relation to the non-financial part of the system.

However, it is necessary to work on the plan of continuous training, especially having in mind the consequences of these phenomena.

8. TYPES OF RISK

A high level of threat from financing proliferation can be the use of covert persons and companies that support the proliferation of weapons of mass destruction and businesses serving as "fronts" and acting on behalf of persons under United Nations and international organizations sanctions whose member is the Republic of Serbia.

In order to reduce this type of risk in the Republic of Serbia, there are a number of regulations and procedures aimed at recognizing the so-called front businesses. Consistent application of regulations in remit of LPMLFT and the Law on Restrictions to Disposal of Terrorist Assets (LRDTA) is one of the ways to reduce risk, bearing in mind the obligations of obligors, especially in the application of regulations related to client identification, determining management and ownership structure, the beneficial owner and monitoring of high-risk countries.

In order to prevent the use of undercover persons and companies, the so-called "front companies" special emphasis is placed on KYC actions and measures, which include the duty of the obligor to establish the identity of the beneficial owner of the party/person of foreign law and verify his identity.

8.1. Financial system

From the aspect of exposure to risks of financing the proliferation of weapons of mass destruction, the financial system is more exposed to the possibility of misuse, taking into account the market share of the financial sector, products, and services, as well as the number of clients.

The largest factor in the financial part of the system of the Republic of Serbia are banks whose balance sheet total is about 90% of the balance sheet total of the entire financial sector, while about 9% concerns the insurance sector, financial leasing sector and voluntary pension funds sector.

When it comes to threats to the financial system of the Republic of Serbia from the aspect of exposure to the risk of WMD financing, these threats concern the possibility of states, organizations and individuals accessing financial institutions and taking advantage of them to finance WMD.

In this regard, it is important whether and to what extent financial institutions and their clients have business relations with countries that are considered high risk from the aspect of WMD proliferation, as well as the way of monitoring business relations and transactions. The NBS actively participates in respecting and implementing United Nations Security Council resolutions, primarily through the supervision of financial institutions to avoid them being used to finance WMD proliferation. Also, the NBS, as a regulator and supervisor, works on continuous strengthening of the capacity of financial institutions supervised in the implementation of obligations arising from the FATF recommendations related to preventive measures through the implementation of KYC actions and measures, reporting suspicious transactions, identification of the beneficial owner of the party, etc. The NBS is taking all necessary measures to strengthen the financial sector, for whose supervision it is in charge, in order to cut off illegal financial flows. The NBS pays special attention to the way in which financial institutions approach the implementation of targeted financial sanctions against certain actors identified in the resolutions of the UN Security Council and other relevant international bodies and organizations.

When it comes to vulnerability, it is reflected in the extent to which products and services offered in the financial system can be used to finance the proliferation of WMD.

8.2. Obligation for legal entities and entrepreneurs to operate through a current account

The Law on Payments of Legal Entities, Entrepreneurs and Natural Persons Who Do Not Perform Activities ("Official Gazette of RS", No. 68/15) prescribes the obligation of legal entities and entrepreneurs to open a current account with a payment service provider, which, in accordance with by the law governing payment services, may maintain a current account (bank, i.e., the Treasury Administration), keep funds on that account and perform payment transactions through that account. These obligations also apply to legal entities and entrepreneurs when performing international payment transactions, in accordance with the regulations on foreign exchange operations. Legal entities and entrepreneurs cannot execute payment transactions in cash and are obliged to pay dinars received in cash on any basis to their current account within seven working days. These obligations significantly reduce the use of cash by legal entities and entrepreneurs, which facilitates the monitoring and identification of transactions that finance the proliferation of WMD.

8.3. Non-resident accounts

During the direct supervision regarding the ML/FT risk exposure of banks, special attention is paid to the establishment of business relations with non-residents and the transactions they perform. It should be emphasized that the number of accounts of non-residents, both natural and legal persons, is small in relation to the total number of accounts in the banking sector of the Republic of Serbia (below 1%), and that non-residents are mostly classified as high risk. Also, transactions of non-residents are performed in accordance with the provisions governing foreign exchange operations, which are also subject to control, especially in the part of prescribed documentation and KYC measures that have been applied.

8.4. Beneficial owners

Obligors under the Law on Prevention of Money Laundering and Terrorism Financing have a good understanding of the requirements as to who is the owner and who controls legal entities, their ownership structure, as well as which identification documents and KYC measures should be implemented, with the banking sector leading the way, as the largest and most important part of the financial system of the Republic of Serbia. Banks have established a compliance monitoring system to assess the effectiveness of their procedures and practices for determining beneficial ownership, including structures containing trusts and other forms of foreign law entities.

Supervision data show that employees in financial institutions are for the most part trained in assessing complex ownership structures and identifying their beneficial owners or persons controlling the party. However, data from direct supervision show that despite the decline in the number of irregularities in determining the beneficial ownership, this type of irregularity still exists.

Although most beneficial owners, according to the banking sector, pose a standard risk, the increased risks faced by banks in determining beneficial ownership remain related to non-resident legal entities, as well as those with foreign law entities in their structure, which are not frequent or not even recognized in the legal and business practice of the Republic of Serbia.

The Law on the Central Register of Beneficial Owners introduced an obligation for a registered entity to have and keep relevant, accurate and up-to-date data and documents on the basis of which it recorded data on the beneficial owner in the Central Register of Beneficial Owners, as well as the obligation to make available and submit the required data and documents on the beneficial owner at the request of the competent state authority and NBS. Failure to act in accordance with the regulations and providing false information for a person authorized for representation in a registered entity is punishable by imprisonment and a fine.

Although there is legislation and an obligation in the part related to beneficial ownership, there is still a certain level of threat, and the use of "front persons" is one of the risks that is constantly present.

8.5. Digital assets

Persons engaged in the provision of the services of purchase, sale or transfer of virtual currencies or exchange of these currencies for money or other assets via Internet platforms, devices in physical form or otherwise, or who act as brokers in the provision of these services, were classified as obligors for the first time with the adoption of the Law on Prevention of Money Laundering and Terrorism Financing ("Official Gazette of RS", No. 113/17) in December 2017. Therefore, even before the adoption of the Fifth Directive of the European Union in the field of prevention of money laundering and terrorism financing on May 30, 2018, these persons were already obligated in terms of LPMLTF, and thus participants in the domestic system of combating money laundering and terrorism financing, supervised by NBS (harmonization with FATF Recommendation 15).

Keeping pace with the Fifth EU Directive, the Amendments to the Law on Prevention of Money Laundering and Terrorism Financing ("Official Gazette of RS", No. 91/19), which entered into force on January 1, 2020, the concept and meaning of virtual currencies were defined, while custodian wallet providers have joined the existing circle of obligors - (Article 4, paragraph 1, item 17 of LPMLTF, whose definition is also transposed from the Fifth Directive.

In December 2020, a law was passed regulating the digital assets market, as well as the procedure for issuing licenses for the provision of services related to digital assets and supervision of persons providing these services (supervision is performed by the National Bank of Serbia and the Securities Commission). In addition, the amendments to the LPMLTF extended the circle of obligors to all providers of services related to digital assets (supervision over the implementation of this law is also performed by the National Bank of Serbia and the Securities Commission), and the law was amended with special provisions concerning digital asset-related service providers.

Furthermore, the National Bank of Serbia amended the Guidelines for the Application of the Law on Prevention of Money Laundering and Terrorism Financing for obligors supervised by the National Bank of Serbia (these guidelines are binding) and adopted the FATF Red Flag indicators for money laundering and terrorism financing. relating to digital assets.

Thus, despite the lack of comprehensive legislation governing the provision of services related to digital assets in the period from 2018 to 2020, some providers of services related to virtual currencies were obligors of LPMLTF in that period, and supervision of compliance the obligations prescribed by this law by the above-mentioned providers was performed by the National Bank of Serbia.

When it comes to threats related to the use of digital assets for the purpose of financing the proliferation of WMD, they concern the possibility that the services of service providers related to digital assets are misused by the state, organizations, and individuals to finance WMD. When it comes to vulnerability, it is reflected in the extent to which products and services offered in the financial system can be used to finance the proliferation of WMD. In this regard, the under the existing regulatory and institutional framework, the digital assets market is regulated in detail by the Law on Digital Assets and bylaws of competent authorities (NBS and Securities Commission), and all providers of services related to digital assets

must obtain a license from the competent authority and are under constant supervision of the competent authorities, which includes supervision over the implementation of all obligations under the Law on Prevention of Money Laundering and Terrorism Financing (all providers of services related to digital assets are obligors of this law).

Furthermore, current regulations prohibit the use of software that ensures the anonymity of digital assets owners, and sellers of goods and service providers in the Republic of Serbia cannot accept digital assets in exchange for goods/services directly, but only through a licensed digital assets service provider.

Pursuant to the Law on Digital Assets, the provisions of regulations governing the restriction of the disposal of assets in order to prevent terrorism and the proliferation of weapons of mass destruction also apply to providers of services related to digital assets. In accordance with the Law on Restriction of Disposal of Assets for the Prevention of Terrorism and Proliferation of Weapons of Mass Destruction, a provider of services related to digital assets is obliged to determine whether it has business or other similar relations with designated person and, if he determines that he has, to limit the disposal of the property of the designated person as soon as possible and to inform the Administration for the Prevention of Money Laundering immediately, and within 24 hours at the latest. Also, in accordance with the Law on Digital Assets, digital assets are considered property, income or other appropriate value in terms of regulations governing the restriction of disposal of assets in order to prevent terrorism and the proliferation of weapons of mass destruction.

Therefore, the risks of misuse of digital asset service providers to finance WMD proliferation have been largely mitigated. However, the vulnerability of the digital assets sector to the financing of the proliferation of WMD can still be reflected in peer-to-peer exchanges/transactions and OTC trading, which can also be done through the use of anonymous digital assets, especially through the deep web, i.e., the darkest part of the internet (dark web), through which drugs and weapons are traded, prohibited pornographic content is exchanged and the like.

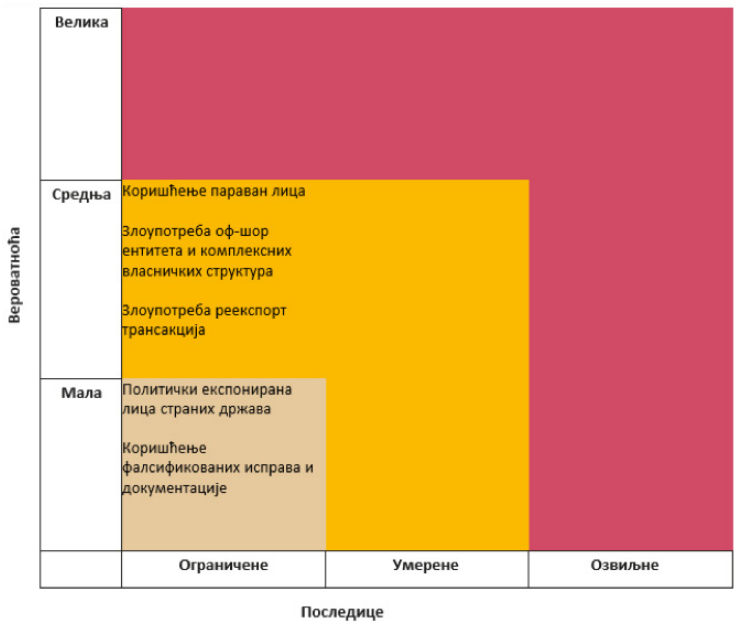
STATE RISK ASSESSMENT FROM FINANCING THE PROLIFERATION OF WEAPONS OF MASS DESTRUCTION

The conclusion of the WMD Proliferation Financing Risk Assessment is providing a risk rating through the criteria offered in the RUSI methodology:

By a comprehensive analysis of the above risk factors, the risk of financing the proliferation of weapons of mass destruction was assessed as low to medium.

From the point of view of threats, the geographical position of the Republic of Serbia and the fact that it is a transit hub between Western Europe and the Black Sea region, as well as a transit route for migrants from war-torn areas of the Middle East and Asia, and the existence of nuclear facilities on the territory of the Republic of Serbia and in some countries in the region, are factors that affect the greater exposure to the risk of financing the proliferation of WMD.

Trade with high-risk countries also carries a higher level of threat, of which the risk of possible diversion of these goods is particularly significant. This type represents a continuous threat and, in that sense, additional checks during the export regime and regular exchange of information are the activities that must be continued, i.e., intensified in certain situations through the inclusion of new institutions that may be potentially important for risk consideration.



This assessment indicates that threats of financing the proliferation of WMD can be identified in the indicators presented as related to the risks of misuse:

- front companies
- offshore entities and complex ownership structures,
- politically exposed persons of foreign countries,
- re-export of transactions,
- forged documents and documentation, etc.

In accordance with the above, the analyses showed that the sectors that can be identified as riskier than others are banking, which carries inherent risk given the volume and value of transactions it covers, and the sector of payment institutions, which is allowed to open and maintain accounts and conduct transactions of an international nature.

The legal framework of the Republic of Serbia contains comprehensive solutions, and the institutions have clearly defined goals and tasks related to the competencies in the field of preventing the financing of the proliferation of weapons of mass destruction. The legal framework is comprehensive in terms of defining these phenomena, the role of monitoring, surveillance, and sanctioning participants in the production of or trade in AME.

National vulnerability was also assessed from the aspect of political and social vulnerability, in which the political will to prevent the financing of WMD proliferation is manifested through clear legal solutions and procedures for issuing licenses for AME trade, cooperation of relevant institutions at home and regular exchange of information. Serbia's commitment to be part of the European Union, as well as the ratification of conventions related to proliferation, clearly speaks of the country's commitment to be part of global efforts to minimize these risks.

The application of LRDTA by obligors and regular supervision indicated that the system in this part did not recognize any irregularities, i.e., that the lists of designated persons were implemented by obligors in accordance with LPMLFT and are in use.

The vulnerability of the system is affected by insufficient knowledge of all actors in the private part of the system, especially related to issues of proliferation, and efforts should be made to establish and improve both general knowledge and specific knowledge related to this phenomenon.

Considering that the risk analysis of financing the proliferation of weapons of mass destruction is a relatively new obligation of states in relation to risk assessments of money laundering and terrorism financing, the consequence is that the level of awareness of the risks of financing the proliferation of weapons of mass destruction is at a lower level compared to money laundering and terrorism financing risks.

Also, it is necessary to continue with the education and improvement of knowledge in relevant state institutions, in view of the new trends related to proliferation. International experience is of great importance in this area.

Regular education of participants in the system relative to recognizing dual-use goods is also one of the factors that is relevant for reducing potential threats and for timely recognition of risks.

LIST OF ABBREVIATIONS

A.D.	Joint-stock company
BRA (APR)	Business Registers Agency
SIA (BIA)	Security Information Agency
SCC	Supreme Court of Cassation
HC	Higher court
HJC	High Judicial Council
AFR	Annual financial report
LLC	Limited liability company
SPC	State Prosecutors' Council
VPFMC	Voluntary pension fund management companies
SAI	State Audit Institution
FLP	Financial leasing providers
CCP	Code of Criminal Procedure
LPMLTF	Law on Prevention of Money Laundering and Terrorism Financing
LVAT	Law on Value Added Tax
LTPTA	Law on Tax Procedure and Tax Administration
LCRBO	Law on Central Records of Beneficial Owners
PC	Public company
FIU	Financial Investigation Unit
LLP	Limited Liability Partnership
CC	Criminal Code
CBPMLTF	Coordinating Body for the Prevention of Money Laundering and Terrorism Financing
SC	Securities Commission
MCTI	Ministry of Construction, Transport and Infrastructure
MoJ	Ministry of Justice
ILA	International legal assistance
MoI	Ministry of Interior
NALED	National Alliance for Local Economic Development
NBS	National Bank of Serbia
NN	Unidentified
NRA	National risk assessment

OECD	Organization for Economic Cooperation and Development
OCG	Organized criminal group
VAT	Value added tax
CCS	Chamber of Commerce of Serbia
ML	Money laundering
TP	Tax Police
TA	Tax Administration
RBA (*Risk-Based Approach*)	Approach based on risk analysis and assessment
RPPO	Republic Public Prosecutor's Office
SAR (*Suspicious Activity Report*)	Suspicious activity report
OCD	Organized Crime Department
BO	Beneficial owner
SCG	Standing coordination group
AML/CFT	Anti-money laundering/counter terrorism financing
ST	Suspicious transaction
ICS	Internal Control Sector
OCPO	Organized Crime Prosecutor's Office
DAP	Directorate for Agrarian Payments
BPD	Border Police Directorate
CPD	Criminal Police Directorate
APML	Administration for the Prevention of Money Laundering
TA	Treasury Administration
CTC	Catering and tourism company
CA	Customs Administration
FATF	Financial Action Task Force
FOS	Financial Intelligence Service
FT	Terrorism financing
CRBO	Central Register of Beneficial Owners