

**GLOBAL
INITIATIVE**
AGAINST TRANSNATIONAL
ORGANIZED CRIME

ILLICIT FINANCIAL FLOWS

The lifeblood of
crime and corruption

JULY 2021

osce Organization for Security and
Co-operation in Europe

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Abbreviations and acronyms

AASCA	Agency for the Administration of the Seized and Confiscated Assets
AML	Anti-money laundering
ANBSC	Agenzia Nazionale per l'Amministrazione e la Destinazione dei Beni Sequestrati e Confiscati alla criminalità organizzata (National Agency for the Administration and Distribution of Goods Seized and Confiscated to Organized Crime)
BAMIN	Balkan Asset Management Interagency Network
CAUSE	Confiscated Assets Used for Social Experimentation
CPI	Corruption Perception Index
CTF	Countering terrorist financing
DPPP	Drejtoria e Përgjithshme e Parandalimit të Pastrimit të Parave
FATF	Financial Action Task Force
FIU	financial intelligence unit
GDP	Gross domestic product
IFFs	illicit financial flows
MER	mutual evaluation reports
NGO	non-government organization
OCG	organized crime groups
OSCE	Organization for Security and Cooperation in Europe
PCOCP	Permanent Conference of Organized Crime Prosecutors
STR	suspicious transaction report
UNODC	United Nations Office on Drugs and Crime



INTRODUCTION

Organized crime is one of the biggest threats to security in the Organization for Security and Cooperation in Europe (OSCE) area. Besides being drivers of illicit activities, criminal groups have also become important economic players. The money that they accumulate buys power and protection. Furthermore, good governance can be undermined by corruption, and (as recognized in MC.DEC/4/16) the combination of the two are potential sources of political tension that undermine the stability of security of participating states. Organized crime and corruption also pervert local economies and undermine development. Added to this, tax evasion and tax avoidance annually deprive citizens of billions of dollars of revenue badly needed for public services. In short, organized crime and its economic impact cut across all three dimensions of the OSCE's work and require a comprehensive response.

Together, the proceeds of crime, corruption and tax evasion that are transferred in and out of an economy are labelled as illicit financial flows (IFFs). IFFs are the 'lifeblood' of crime and corruption. Therefore, a key component of tackling organized crime is to stop such flows. Participating states of the OSCE are becoming increasingly aware of the threat posed by IFFs and have demonstrated the political will to step up efforts to address the financial and economic aspects of organized crime. The challenge is to translate this resolve into remedial action, not least in vulnerable areas such as South-Eastern Europe as reforms to establish a comprehensive system to fight transnational organized crime and corruption are still on-going.

An OSCE commitment to fight transnational organized crime

At the most recent OSCE ministerial council, held in Tirana in December 2020, participating states agreed to the Declaration on Strengthening Co-operation in Countering Transnational Organized Crime (MC.DOC/1/20). In this declaration, foreign ministers of all 57 participating states reiterated their 'grave concern about the negative effects of transnational organized crime on stability and security, including the exploitation of globalized economies and open societies, the undermining of democratic values and governance and the threatening of the safety and security of citizens, directly or indirectly, as well as human rights and fundamental freedoms'. They also underlined the importance of effective and democratic institutions accountable to citizens, criminal justice systems based on the rule of law, and the application of a holistic, comprehensive and coherent approach 'in order to prevent and reduce opportunities for organized criminal groups to operate in, or infiltrate the fabric of, our societies, licit economies, and institutions, or to benefit from the proceeds of their crimes'.

In the past, OSCE-participating states have emphasized the importance of suppressing the financing of terrorism, including its linkages with money laundering and illegal economic activities (see PC.DEC/1063), and the need for combating corruption. For example, in a declaration at the ministerial council in Dublin in December 2012 (MC.DOC/2/12), foreign ministers acknowledged 'the fundamental importance of effectively preventing transfers of the proceeds of crime, the theft, embezzlement and other diversion of public assets, and of recovering stolen assets, for the credibility of our anti-corruption efforts and for economic development'. As they recognized, 'asset recovery requires appropriate legal frameworks and institutions, empowered practitioners with proper skills and resources, proactive and swift international co-operation, networking frameworks and strong political will'. They therefore pledged their support for measures geared towards 'removing barriers to asset recovery, *inter alia*, by increasing the efficiency of legal procedures and preventing abuse of those procedures, enhancing efforts to prevent money-laundering, and strengthening international co-operation on asset recovery'. They declared that they 'encourage continuing efforts in our countries aimed at the recovery and return of stolen assets and the denial of safe haven in our countries to the proceeds of corruption, consistent with applicable law'.



In short, OSCE-participating states have recognized the debilitating effects of illicit financial flows – without explicitly using that term – and have declared their political commitment, as recently as December 2020 (see also MC.DEC/5/06), to strengthen cooperation to address the problem, including the financial and economic aspects of organized crime. How can it be done?

How to analyze illicit financial flows

The study of IFFs seeks to follow the monetary flows linked to organized crime, corruption and tax evasion and to identify entry points to address and help curb such phenomena. However, being illicit, these flows are particularly hard to track. The scope and complexity of IFFs can also be hard to grasp.

In 2020, the United Nations Office on Drugs and Crime (UNODC) published a new definition on IFFs. This new conceptual framework aimed, in part, to clarify the breadth of the phenomenon: not all IFFs stem from illegal activity – some may relate to licit activity but are transacted in an illicit way. Following this UNODC definition, IFFs are defined as:¹

- illicit in origin, transfer or use
- represent an exchange of value, not only a financial transfer
- cover a flow of value over time
- cross an international border.

With regard to methodology, a number of macroeconomic approaches have been developed to measure IFFs. For example, Global Financial Integrity uses the trade mispricing index compiled by the International Monetary Fund to quantify the volume of IFFs leaving developing countries.² For this purpose, it conducts a trade/value gap analysis, examining the difference between a country's stated imports and exports and the import and export balances in the countries of origin and destination, arguing that the entire difference stems from trade mispricing with criminal intent. Other organizations use balance-of-payment methods to look for mismatches in national accounts or profile countries' vulnerabilities to IFFs, using economic indicators and scaling them according to a variety of socio-economic indicators. One example of this approach is that of the Tax Justice Network, in which they consider the secrecy of each country's cross-border investment and trade – i.e. what proportion of GDP is accounted for in each type of transaction – and how important this channel is overall.³ However, most of these approaches are widely criticized.

In contrast, the new UNODC framework recommends a more 'bottom-up' analysis,⁴ in which the key predicate crimes – in particular corruption, illegal markets and tax evasion – are assessed and aggregated. In addition, it is worth looking at channels through which illicit funds flow, namely the financial system, trade and cash (see Figure 1). This can be done by consulting a number of sources, including national statistics, civil-society analyses and international reports. The key benefit of such a dual approach – considering how money is generated and how it moves or is managed – is that it represents two distinct and independent sources of evidence on IFFs. Although this dual approach bears the risk of double-counting, it also provides an opportunity for double-checking financial flows related to underlying crimes, as the same flow can be captured through different lenses.



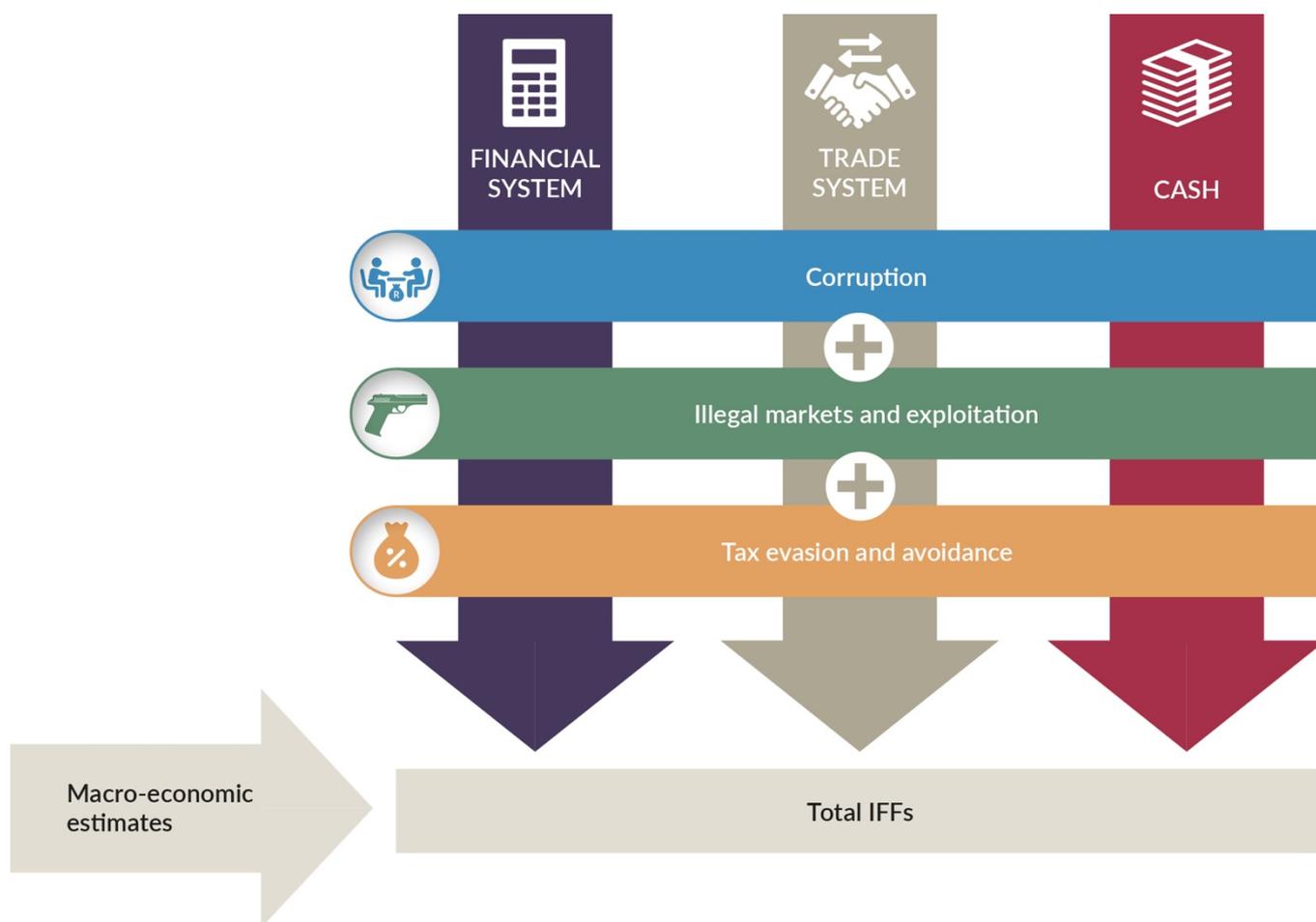


FIGURE 1 The components and channels of IFFs.

Why South-Eastern Europe?

Every reliable indicator suggests that the scale of IFFs is significant and growing. For that reason, it can be difficult and daunting to decide where and how to begin. Furthermore, the nature of the problem is so complex and multifaceted that it can be difficult to identify suitable entry points.

To address the issue in a manageable way, it makes sense to focus on a limited number of countries and a defined set of issues. To that end, the OSCE Secretariat is running an extra-budgetary project (1102121) aimed at strengthening the fight against transnational organized crime in five participating states in South-Eastern Europe (Albania, Bosnia and Herzegovina, Montenegro, North Macedonia and Serbia) and improve regional co-operation in asset seizure, confiscation, management and re-use through improved regional cooperation.

The advantage of focusing on these states is that:

- Albania, as Chair of the OSCE in 2020, put a strong emphasis on preventing and fighting organized crime
- the OSCE runs field activities and programmatic activities in all five countries that focus on aspects that relate to strengthening integrity and good governance and fighting organized crime
- fighting organized crime and corruption are priorities in all five these countries in the context of EU enlargement, for example through the Berlin Process
- there is a sense of regional identity and cooperative frameworks that can facilitate more effective regional cooperation.

In the mentioned project, the OSCE adopts a holistic approach by providing support to the entire cycle of asset tackling through different components:

- Financial investigations, asset seizure and confiscation: This component provides specialized training, supports international certifications and memberships to professional associations, and provides operational support to the Permanent Conference of Organized Crime Prosecutors.
- Asset management: This component contributes toward a cost-effective and efficient management of assets, including through regional cooperation when assets are located abroad. This is achieved by supporting the Balkan Asset Management Interagency Network.
- Social re-use of confiscated assets: This project component the social re-use of confiscated assets through awareness-raising activities and exchange of good practices, mainly targeting civil society organizations and policymakers.

This paper is part of Result 1, Activity 1 of the named project and aims to inform OSCE training activities for judges and prosecutors and provide support to financial intelligence units (FIUs) and other actors to better coordinate their work at national and regional level.



METHODOLOGY

The purpose of analyzing IFFs is to get a better understanding of how resources needed to promote peace, justice, economic development and strong institutions are lost and how it can be addressed.

This report is based on a secondary literature review conducted between February and June 2021.⁵ More than 120 reports, policy briefs and newspaper articles were gathered and analyzed on all components and channels that facilitate IFFs to serve as the baseline assessment. Additional data was gathered through questionnaires sent to the governments of the five countries under review (May and June 2021) to form a better understanding of the institutional response to the phenomenon.⁶ Information was checked and validated through interviews with representatives of OSCE field activities in the region.

This study provides an overview of the vulnerabilities that permit illicit money to be generated and moved in the region. The approach serves not only to identify the sources of the problem but also to analyze the steps taken in these five countries to address the problem so that possible entry points for remedial action can be identified. From here recommendations can be made on further support to strengthen the capacity of the affected states at national and regional levels. It should be kept in mind that the illicit nature of the transactions and the large amounts of money flowing through the financial system make precise measurements difficult. In addition to reporting approximate monetary values, we therefore also refer to the impact of IFFs on the economies and societies of the region where possible. Examples of such impacts include depriving the licit economy of resources that are needed for sustainable development; eroding the functioning of criminal justice systems; weakening state institutions; and discouraging the public and private sector from investing in essential infrastructure.



ILLICIT FINANCIAL FLOWS IN SOUTH-EASTERN EUROPE

South-Eastern Europe are increasingly vulnerable to IFFs as the region becomes more integrated into the global economy, for example through increased trade, digitalization, connectivity, an increase in free-trade zones, and engagement in financial markets. A greater and more diverse range of trading partners and foreign investors (including China, Turkey, Russia and Gulf countries) also increases risks as well as opportunities.

Components of illicit financial flows

IFFs are the mechanisms by which money earned illegally is transferred in and out of economies to criminal beneficiaries globally. Each year, large sums of money are transferred out of South-Eastern Europe and some suspicious transfers flow into the region. The following section considers key crimes through which IFFs are generated, in particular illegal markets, corruption and tax evasion.

Illegal markets

Organized crime remains a serious concern in South-Eastern Europe and a key component of IFFs as illicit goods, people and drugs cross the region on their way to consumer markets. No comprehensive attempt has been made to estimate the value of illicit proceeds gained by organized criminal groups engaged in South-Eastern Europe, nor to determine what proportion of those proceeds represent IFFs (i.e. a flow of value across borders over time). Key illegal markets in South-Eastern Europe are briefly discussed.

Drug trafficking

The 'Balkan route' is a long-established drug trafficking corridor, especially for heroin, which enters the region from Turkey on its way to Western Europe. UNODC previously estimated that 60–65 tonnes of heroin flow through South-Eastern Europe each year – worth €960 million in 2020.⁷

Cannabis is the most commonly used and seized drug in South-Eastern Europe. Unlike other drugs, cannabis is also produced in the region. Although Albania has traditionally been the largest producer, cultivation there declined significantly since the peak in 2016. In contrast, evidence suggests that cannabis cultivation – particularly indoors – is increasing in countries such as Bosnia and Herzegovina, North Macedonia and Serbia.⁸ In the production market, a kilogram of cannabis sells for between €1 200 and €1 500, whereas higher-quality skunk (a hybrid variety) grown indoors costs €1 700 to €2 500 per kilogram.⁹ Cannabis grown indoors in Albania has a higher concentration of the active compound tetrahydrocannabinol (THC) than that grown outdoors, meaning a kilogram of indoor-grown cannabis can be sold for between €2 800 (Greece) and €3 200 (Italy). More than 18 tonnes of cannabis were seized in the Western Balkans in 2019, with a wholesale value of around €30 million and a retail value three times as high.¹⁰ When one considers that this represents only a small portion of the amount of cannabis trafficked in and from the region, the potential size of this illicit flow is considerable.



Although relatively little cocaine is generally seized in the Western Balkans (255.4 kilograms in 2019), criminal groups from South-Eastern Europe are major players in the global cocaine business. Over the past decade, they have established a dominant position along the supply chain from the source in Latin America to major markets in Western Europe. These groups are active in OSCE countries with large ports, as witnessed by recent major cocaine busts involving groups from South-Eastern Europe in Belgium, Greece, Spain, Italy, the United Kingdom, the Netherlands and Romania. There is evidence to suggest that Adriatic ports in Albania and Montenegro (such as Durrës and Bar) have also been used to import large shipments of cocaine – usually concealed in containers of fruit or animal hides from Latin America.¹¹ The potential IFFs generated by cocaine deals in the region or by groups from the region operating in more lucrative markets in the EU are considerable: container shipments of cocaine often weigh several hundreds of kilograms and the wholesale price of cocaine per kilogram in the region ranges from €25 000 to €47 000.¹²

Synthetic drugs mostly enter the region from the Netherlands, Belgium, Czech Republic and Bulgaria,¹³ but local laboratories have also been discovered in South-Eastern Europe – more than 140 in Serbia between 2009 and 2019. In addition, the volume of synthetic drugs seized in Serbia has increased from 25 kilograms in 2011 to more than 170 kilograms in 2020.¹⁴ Again, the potential revenue for IFFs is significant.

Migrant smuggling

Since 2015, the ‘Balkan route’ has become a key migration channel to Western Europe. Although many migrants could initially transit the region relatively easily (numerous reports described how they literally ‘walked across South-Eastern Europe’), increasing vigilance at borders, including the construction of border fences and restrictive COVID-19 measures, has created a lucrative market for migrant smuggling.¹⁵ A recent report by the Global Initiative against Transnational Organized Crime (GI-TOC) conservatively estimated that in 2020 alone, the value of the market for the smuggling of migrants in the Western Balkans was €50 million.¹⁶

Most money from migrant smuggling appears to be made outside of the region – especially in Turkey or Greece or countries of origin – as migrants seek out smugglers to facilitate their journey to Western Europe. However, human smuggling services are also offered within South-Eastern Europe, particularly at its southern entry points and northern exits. There, smuggling services are commonly offered at certain ‘choke points’, such as the border between Greece and North Macedonia (around Gevgelija), the Una-Sana canton in Bosnia and Herzegovina (to cross to Croatia), or the northern border of Serbia (to cross to Hungary and Romania), which are particularly difficult to pass.

Illicit trade and counterfeit goods

South-Eastern Europe has a vibrant informal market, where smuggled legal goods (e.g. food, cars, car parts, livestock) and illegally produced or traded products (e.g. counterfeit clothing, tobacco) are readily available. Trade routes that were created decades ago continue to operate today, while new markets have opened up in neighbouring EU countries and Turkey.

One of the most lucrative goods is illicit tobacco, which can take several forms. One form is illicit ‘whites’ (also referred to as ‘cheap whites’), which are cigarettes that are manufactured legally in one country, but normally intended for smuggling into countries where they are not generally available on the legal market. Main routes via South-Eastern Europe come from the East (for example, Bulgaria and Ukraine), the Gulf or the Maghreb.¹⁷ It is also widely known that in the 1990s, cigarette smuggling was effectively a government-sponsored means of financial survival in Montenegro.¹⁸ The trade continues today, albeit on a smaller scale. For example, in May 2019, it was revealed that up to 840 million ‘cheap white’ cigarettes had been exported from Montenegro by a group of mostly offshore firms using similar routes and often the same ‘ghost’ fishing boats or small cargo ships.¹⁹ In another recent case, almost 300 000 boxes of cigarettes were confiscated at the border entering Bosnia and Herzegovina from Montenegro.²⁰ Illicit cigarettes and tobacco enter the region through major ports (such as Durrës in Albania and Bar in Montenegro) and across land borders with Greece and Bulgaria.²¹



There is also a significant local market for cheap cigarettes, which is stoked by about a third of the adult population being smokers²² and cigarettes being relatively expensive because of taxes. Some of these products are produced locally: Bosnia and Herzegovina has a long tradition of tobacco cultivation and Serbia is the only European country where three of the big global tobacco companies have factories.²³ Other counterfeit cigarettes are imported. The market has also expanded to online platforms, where illicit tobacco is increasingly offered.²⁴ Another technique is the bootlegging of cigarettes: this refers to the legal purchase of tobacco products in a low-tax country and their illegal resale in a high-tax domain. According to the Institute of Economics in Zagreb, the Western Balkan region is deprived of more than €200 million annually from the illicit trade of tobacco.²⁵

The market for counterfeit products such as clothing, sports shoes, cosmetics and accessories for mobile phones is also growing. Such counterfeit goods, particularly from China and Turkey, are widely available in South-Eastern Europe.²⁶ The Organization for Economic Cooperation and Development reported that the trade in counterfeit and pirated goods was estimated at 3% of global trade in 2019.²⁷ This figure will likely increase as more consumers shop online owing to increasing digitalization and as a result of the COVID-19 pandemic. This not only generates IFFs but can also exploit consumers or even endanger their health, for example through the purchase of counterfeit medicines or faulty products.

Weapon smuggling

South-Eastern Europe is saturated with weapons that remain from the wars in former Yugoslavia, the civil unrest in Albania in 1997, and unrest in North Macedonia in 2001. Although information on weapon ownership is scarce, it is estimated that the Western Balkan region is home to 3.6–6.2 million firearms, registered and unregistered.²⁸

The average price of weapons in the Western Balkan countries ranges from €10 for a hand grenade to €150–€400 for a pistol. Semi-automatic rifles cost between €150 and €300, whereas automatic rifles can be bought at €200–€400. Explosives from South-Eastern Europe can also be found on the black market: plastic C4 explosive costs between €1 500 and €4 000 per kilogram.²⁹ It is important to note that the weapons are not used only by criminal groups in the region but are also smuggled across Europe, often by groups that are also engaged in the trafficking of other illicit goods.

Weapons also continue to be produced in the region, including anti-tank weapons, explosives, mortars, hand-held rocket launchers and light anti-aircraft guns. In 2017, the Balkan Investigative Reporting Network exposed illicit weapons trade worth €1.2 billion, mostly between South-Eastern Europe and the Middle East.³⁰ All of these cross-border transactions related to arms trafficking create associated IFFs.

Corruption

Corruption is a key component in generating IFFs. It is perceived to be a serious problem in South-Eastern Europe, not least by people of the region, and ranges from petty bribes paid to public officials to corrupt transactions related to public works – even to the extent of state capture. A major UNODC survey cited bribery and corruption as the most important problem (after poverty) facing the Western Balkans.³¹

According to the latest results of the Corruption Perception Index (CPI) published in January 2021 by Transparency International, the public sector became even more corrupt in 2020 compared with 2019 indications.³² Furthermore, a comparative analysis of recent CPI scores shows that over the last five years, the perception of corruption in the region has become worse.³³ Another study showed that corruption was experienced by 37% of Western Balkan citizens in 2019, compared with 26% in 2016.³⁴



It is estimated that the cost of corruption to the region amounts to hundreds of millions of euros every year.³⁵ Public procurement, for example, is a major source of corrupt earnings, especially through major infrastructure projects. The term ‘organized corruption’ has also been applied to the region – a symbiosis of organized crime, criminal methods and high-level corruption, which create a crooked ecosystem that enriches and protects those with access to power.³⁶ In short, corruption has the dubious distinction of being both a predicate crime for IFFs and an enabler or channel for illicit funds.

Tax evasion

The third important component of IFFs is tax evasion and tax avoidance. Tax evasion involves the illegal non-payment of taxes through failing to report income, reporting costs that are not legally allowed, or simply not paying taxes. This may apply to individuals or corporations. Tax evasion deprives the state of tax revenue, erodes the credibility of states, undermines the rule of law, and exacerbates inequality by allowing the wealthiest to hide their resources at the cost of the rest of society. Furthermore, it provides perverse incentives to public officials, financial institutions and corporations to increase their profits by circumventing regulations.³⁷

The tax : GDP ratio is 18.3% in Albania, 20.1% in Bosnia and Herzegovina, 17.2% in North Macedonia and 24.1% in Serbia (figure for Montenegro not available). These levels are similar to (and in some cases above) what is seen elsewhere in Europe (average of 19.9%). The size and scale of the informal activities in South-Eastern Europe’s economies contribute to opportunities for large-scale tax evasion.³⁸

Tax evasion in South-Eastern Europe is widespread, especially in cash-intensive businesses and the construction sector. Even in the public sector in many South-Eastern European countries, people are paid a minimum wage and then the rest in cash. Another way of evading tax is to issue goods without invoices in order to circumvent VAT. Companies also evade taxes by under-reporting the number of workers or paying them in cash. As a result of tax evasion, countries in the region suffer considerable tax losses. For example, Serbia loses, on average, €100 million a year, while Montenegro (with an economy one-tenth the size) loses approximately €60 million.³⁹

Evidence suggests that taxes are also avoided by transferring funds out of the region to tax havens and secrecy jurisdictions. Many of these funds find their way back into the region as foreign direct investment.

The channels of illicit financial flows

Illicit funds need systems to ‘flow’. Following the new UNODC definition, there are three main mechanisms: the financial system; the international trade system; and cash transactions.⁴⁰ The following section considers these channels and their linkages across South-Eastern Europe. The focus is specifically on money laundering, which has been highlighted as a key priority in engagement with regional governments.

The financial system

The financial system is the most important channel through which illicit proceeds are moved. All countries in the region have significant domestic and international banking sectors, but the financial system goes beyond the conventional banking sector as it also includes many non-traditional actors such as money-transfer companies, micro-credit organizations and cryptocurrencies. Money channelled into investments in property, securities or other assets is also included in this category.



There appears to be some confusion around the definition of IFFs and money laundering, and the relationship between the two concepts. This has also been confirmed through engagements with governments in South-Eastern Europe. Although money laundering is often considered as a proxy for IFFs, it refers, in fact, rather to the process by which the proceeds of crime (described earlier) are layered into the legitimate financial system. This happens through a three-stage process:⁴¹

- Placement: Illicit proceeds are introduced into the financial system in a way that disguises the true ownership of those funds and seeks to avoid activating the financial industries' anti-money laundering systems.
- Layering: This refers to attempts to transfer the proceeds of crime through a series of complex financial transactions that serve to disguise the true origins of the funds.
- Integration: Illicit funds re-enter the economy in an altered character and disguised as legitimate assets.

Money laundering is generally estimated at 2%–5% of GDP, which is equivalent to between US\$2 and US\$5.2 billion annually in the countries under review.⁴²

MONEYVAL mutual evaluation reports (MERs) give a good overview of key money laundering vulnerabilities, the countries' effectiveness in addressing these vulnerabilities and a rating on technical compliance with Financial Action Task Force (FATF) recommendations.⁴³ MERs have been conducted for all five countries (Albania in 2018;⁴⁴ Bosnia and Herzegovina in 2014;⁴⁵ Montenegro in 2015;⁴⁶ North Macedonia in 2014;⁴⁷ Serbia in 2016.⁴⁸) Although several years have passed since these evaluations, key money laundering vulnerabilities identified in the assessments remain valid today. Common money laundering techniques that could be identified across South-Eastern Europe include:⁴⁹

- (Mis)use of banking services: Most money laundering schemes involve the use of banks at one stage in the transaction process as money is quickly transferred overseas or to connected companies and business partners. Smaller amounts of illicit money are often simply carried to the bank and deposited into accounts or credit cards. Another common method is the use of bank loans and loan guarantees, where connected companies take out loans together and act as guarantor to large (construction) projects, lend each other money internally or borrow money from abroad.⁵⁰ There are reports of large banks located in the region being connected to corruption and organized crime.⁵¹
- Laundering through corruption and real estate: Investment in construction and real estate has a long history of absorbing of illegal monies in South-Eastern Europe, given that the sector is both meaningful in economic share and poorly regulated. Across the region, unusually high growth rates can be observed in the construction industry, sometimes distorting the property market. There are numerous examples from Tirana, Sarajevo or Belgrade, tourist locations around the Montenegrin and Albanian coasts, lake Ohrid or ski resorts in Bosnia and Herzegovina.⁵² Various methods are also used to launder dirty money into construction, for example by declaring the value of the property incorrectly, purchasing construction materials or even apartments in cash or buying shares of construction companies in return for apartments.
- Gambling: The high volume of cash and its high turnover make gambling attractive to co-mingle dirty and clean money in South-Eastern Europe. Indeed, several governments across the region have raised serious concerns about the industry's vulnerability to money laundering. Gambling is legal and flourishing in all countries except Albania, where it was banned in 2019 (with the exception of luxury five-star hotels in Tirana). North Macedonia issued more than half of its active gambling licences since 2019 alone.⁵³ In addition, online betting is popular across the region.
- Laundering through cash-intensive business: Tourism is one of the fastest growing industries across South-Eastern Europe, with new bars, hotels, restaurants, clubs and souvenir shops regularly opening and closing around key attraction areas. These provide plenty of opportunities to mix illegal funds with actual earnings from the business, thereby rendering them indistinguishable from each other.
- Luxury assets: Luxury assets such as works of art, jewellery, cars and yachts are also used for money laundering. In addition, illicit cash is often converted into luxury goods to facilitate their smuggling across borders, and then later converted back into cash.



The money laundering techniques described here by no means represent an exhaustive list. Money laundering schemes are changing rapidly, and criminals are quick to adapt to new technologies and techniques. Other widespread concerns include the role of micro-credit institutions, exchange offices, civil society organizations or political-party financing for money laundering. In addition, greater awareness is needed about how cryptocurrencies are being used to move money in and out of the region.⁵⁴

Trade

Given the widespread opportunities to hide crime among legitimate money flows, trade is a key mechanism for moving illicit proceeds in or through South-Eastern Europe. Only limited information is available on the trade channel and previous reports have cited mostly anecdotal evidence to illustrate the phenomenon of under- and misinvoicing.⁵⁵

Goods that are especially vulnerable to trade-based money laundering include those with wide pricing margins or extended trading cycles and which are difficult for customs authorities to examine. FATF have previously highlighted the following key trade categories as particularly vulnerable⁵⁶:

- gold and precious metals
- auto parts and vehicles
- agricultural products and foodstuffs
- clothing and textiles
- portable electronics.

For the analysis of IFFs through the trade channel, the role of free-trade zones in providing opportunities for illicit trade warrants particular attention. There are at least 39 free zones in the five countries included in the focus of this report.⁵⁷ North Macedonia and Serbia have significantly more of these zones than other countries in the region and many are located in places that have previously been identified as hotspots of organized crime.⁵⁸ All free zones in the Western Balkans are export-processing zones, except for the Port of Bar, which is a free trade zone.⁵⁹





FIGURE 2 Free zones across the focus countries.

Source: Siracusa International Institute, Closing the implementation gap: Criminal justice responses to illicit trade in South Eastern Europe and associated challenges, 2020, <https://www.siracusainstitute.org/app/the-institute-launches-a-new-publication-on-the-fight-against-illicit-trade-in-south-eastern-europe/>.

Cash

Cash remains a significant channel of IFFs in South-Eastern Europe, not least because of the region's large informal economies.⁶⁰ Although banknotes and coins are potentially more detectable than virtual money, significant sums of cash are frequently trafficked across South-Eastern European borders – of which only little is detected by border officials. In particular, there appears to be a spike of cash trafficking over the summer months, perhaps because of the diaspora returning home for holidays.⁶¹ The most smuggled currency is the euro.

Reports show that cash is often driven across borders, hidden in special compartments of cars or tour buses or between other goods in trucks. Cash has also been intercepted at airports and seaports. Cash shipments often follow the same routes as illicit goods, but in the opposite direction.⁶²

Alternative ways of moving cash are by sending it via mail, spending it on consumer goods, depositing it into accounts and on credit cards, or taking it to money-transfer companies, from where it can be sent to practically any country around the world within minutes. Several rapid-transfer service providers operate in the region, including Western Union, MoneyGram, post-cash services, microcredit institutions and conventional banks, which have opened a notable number of subsidiaries, not only in cities but also in smaller towns.⁶³

It is worth noting that the hawala system is used to transfer cash into and out of the region. This method of moving money (common in some Islamic countries) is regularly linked to low- to medium-level transactions between members of criminal groups engaged in drug trafficking and migrant smuggling. For example, it has been reported that migrants attempting to cross the region pay for a part of the service upfront in Turkey and Greece by depositing money with a hawala operator, who releases the money only after their safe arrival.⁶⁴ International drug trafficking organizations have also previously been detected using the hawala system or similar methods.⁶⁵

Flows beyond the region

By definition, IFFs in South-Eastern Europe are not limited to a single country. They also do not stop at the region's borders. Funds from the diaspora and organized crime beyond the region (particularly proceeds from cocaine trafficking) are sent back and laundered into South-Eastern European economies. These proceeds are sometimes used to influence local political and electoral processes, as witnessed by claims of illegal campaign financing.



NATIONAL RESPONSES

The five countries focused on in this report have invested significant time, effort and resources in addressing the components and channels of IFFs. The responsibility to detect and prevent both the generation of illicit proceeds and their cross-border movement lies with various ministries and specialized departments. The most important of these are the ministries of finance, justice, interior and trade (see Figure 3).

However, there seems to be a lack of mechanisms or bodies at national level to coordinate this wide range of actors dealing with IFFs. In responses to questions, different institutions tended to focus only on their narrow area of responsibility. This observation was confirmed by interviews with experts from OSCE missions in the region.



FIGURE 3 Government institutions responsible for addressing the channels of IFFs.

One of the key issues identified in this regard is the lack of data sharing among institutions and between countries. Many institutions appear to not have regular access to data collected by other departments and have limited capacity to analyze the data they (or others) gather. The need for establishing central registries or databases was raised by several respondents and during interviews.

The fight against organized crime and corruption is one of the key requirements for EU accession, especially related to chapters 23 and 24 of the EU Acquis. Governments in the region have identified combatting organized crime and corruption as one of their top priorities (see Figure 4) and significant progress has already been made.

	Specialized prosecution office focusing on organized crime and corruption	Organized crime risk assessments	Anti-organized crime strategies
Albania	SPAK – Special Anti-corruption Structure	Yes; latest completed in 2020	Strategy against organized crime (2021–2025)
Bosnia and Herzegovina	Department II of the Prosecutor's Office of Bosnia and Herzegovina – Special Department for Organized Crime, Economic Crime and Corruption <ul style="list-style-type: none"> ■ At entity level, the Republic of Srpska has a special department for the suppression of corruption and organized and serious forms of economic crime ■ At canton level, prosecutor offices include departments of economic crime, corruption, organized crime and tax evasions. 	Yes; conducted for the period 2017–2020 by the council of ministers	None currently noted. Last strategy against organized crime was for 2017–2020.
Montenegro	Prosecutor's Office for Organized Crime and Corruption is currently being reformed.	Yes; latest available version is from 2014	No current strategy on organized crime available, although strategies available to combat corruption, human trafficking, etc.
North Macedonia	Office for the Prosecution of Organized Crime and Corruption (part of the prosecution office).	Yes; latest completed in 2015	National Strategy for preventing corruption and conflict of interest (2021–2025)
Serbia	Prosecutor's Office for Organized Crime.	Yes; latest completed in 2020	No current strategy on organized crime available, but strategies available to combat corruption, human trafficking, etc.

FIGURE 4 Overview of specialized prosecution offices, risk assessments and strategies in the five focus countries.



There is also significant bilateral cooperation, including with countries outside the region, and joint operations and information sharing (e.g. through EUROPOL).

All countries of the region have introduced legislation to prevent and fight corruption, but shortcomings remain, for example, in relation to access to and transparency of public information relating to beneficial ownership registries, money laundering, financing of political parties and electoral campaigns, public procurement, private-sector corruption, conflicts of interest and illicit enrichment. Many of the laws that have been adopted are insufficiently implemented. The result is that the political economy of corruption reaches into all spheres of society.⁶⁶

One initiative to address this situation is the Berlin Process, which is designed to promote regional cooperation among countries of the Western Balkans and their process of EU integration. At the London Summit in 2018, countries of the region pledged to strengthen the implementation of anti-corruption commitments. The GI-TOC is monitoring implementation of these pledges.⁶⁷

Over the past few years, the focus countries included in this report have put special emphasis on enhancing anti-money laundering measures. This was confirmed in our research, as most countries focused on their efforts to tackle money laundering in their questionnaire responses. The countries are all aware of their main vulnerabilities with regard to money laundering and have introduced the relevant anti-money laundering legislation, as summarized in Figure 5.

	Specialized anti-money laundering departments	Money laundering risk assessments	Anti-money laundering strategies
Albania	General Directorate for the Protection of Money Laundering – Drejtoria e Përgjithshme e Parandalimit të Pastrimit të Parave (DPPP) and FIU.	Latest concluded in 2020	Included in strategy against organized crime (2021–2025) and terrorism (2021–2023); National Action Plan also available
Bosnia and Herzegovina	Covered by the FIU: State Investigation and Protection Agency	Latest published in 2019	Action Plan on countering money laundering and terrorist financing (2018–2022)
Montenegro	Sector for Financial and Intelligence Affairs (part of the Police administration)	Latest concluded in 2020	
North Macedonia	Covered by the FIU and the Department against Organized Crime	Latest concluded in 2016	National Action Plan and Anti-Money Laundering Strategy being drafted
Serbia	Administration for the Prevention of Money Laundering and FIU.	Latest concluded in 2018; an update is underway.	Strategy against Money Laundering and Terrorist Financing 2020–2024 and AML/CTF Strategy Action Plan 2020–2022.

FIGURE 5 Overview of anti-money laundering agencies, risk assessments and strategies in the focus countries.

Many institutions continue to have a poor track record of investigations, prosecutions, and convictions of money laundering cases despite a solid legal framework being in place. This may be due, in part, to money laundering cases being difficult to prosecute without the predicate criminal act being proved. Even if the predicate criminal act is proved, investigations often fall short of including specific money laundering investigations and charges. It also appears that legal provisions are sometimes criticized for not being clear enough for prosecutors and judges to understand and consequently work effectively. There is a clear need to regularly publish up-to-date money laundering risk assessments.

Serious efforts have also been put into improving procedures for suspicious transaction reports (STRs) and increasing compliance with these procedures. Yet, although the increase of STRs filed across many countries is impressive, it is important to keep in mind that the filing of STRs is only one indicator of compliance and it does not necessarily speak to the effectiveness of the system. A proliferation of STRs could, for example, indicate a weak filtering system, which is generating too many alerts – many of which may be false positives. In addition, reports show that STRs are commonly circumvented by criminals by dividing large payments into smaller amounts, just below the threshold.⁶⁸ Follow-up to STRs is seldom as rigorous as the filing process.

In response to the questionnaire, no government outlined its procedures to prevent this type of misuse. Instead, many provided information on the administrative fines and procedures in the case that an entity fails to comply with STR procedures. Although most countries have set administrative fines, it is worth highlighting that North Macedonia appears to have a stricter system in place.

All of the focus countries have introduced legislation on asset recovery. It is worth noting that in July 2021, North Macedonia has also adopted a new national strategy for the confiscation of property.⁶⁹ All countries also publish statistics on the seizure of cash and assets. However, there does not seem to be a standardized methodology for gathering and presenting the data (value vs list of items; total value ever seized vs disaggregated value per year; etc.), which makes regional comparison impossible. In addition, the criminal justice process from the initial detection of the crime to the final verdict and seizure of an asset is slow and can take several years; some cases seem to simply disappear into a drawer. Even when there are successful prosecutions, few or no assets are seized. As one person familiar with the situation in Bosnia and Herzegovina said, convicted criminals hardly lose their jobs, let alone their assets.

In most countries information on confiscated assets is not readily available. Cars, motorbikes and other moveable assets are kept in warehouses where their value depreciates. The list of properties confiscated is usually available only after filing a request. Social reuse of assets typically continues to be limited to government organizations, although, as described later, a civil society organization runs several projects on properties confiscated from organized crime in Albania.

There is also little information on government engagement with non-state actors to address IFFs, despite the involvement of several private-sector and civil society organizations being involved in facilitating IFFs. Many non-financial entities, such as notaries or real estate agents, are obliged to submit STRs, but governments acknowledge less compliance among non-financial subjects. General engagement with non-state actors needs to go beyond reporting suspicious transactions and should include awareness-raising campaigns and consultations on how these entities can contribute to government efforts to reduce IFFs. That being said, responses to the questionnaire revealed that some countries, such as Montenegro, have developed 'rulebooks' that provide guidance to partners in the private sector.

With regard to the prevention and detection of cash smuggling, reports indicate that border and customs officials focus more on detecting drugs and migrants than money. The lack of personnel, knowledge, equipment and cooperation with other police agencies make it difficult to intercept cash.⁷⁰ Another reason might be the division of responsibility between border police and customs – as border police usually check luggage and passengers whereas



detecting illicit cash is the responsibility of customs. Even when cash is detected, there appears to be few consequences; one can get away with administrative fines.

Given that governments did not offer insights into how to tackle trade-based flows, these are assumed to be of lower priority for the region at the moment.

Social reuse of assets

Already more than three decades ago, Italian judge Giovanni Falcone understood the vital importance of ‘following the money’ to tackle organized crime effectively and assess the extent of infiltration and presence of organized crime groups (OCGs) in the legal economy. If money is the key motivating factor for criminals, confiscating ill-gotten gains reduces the benefits of crime, discourages the criminals and helps to counter the influence of negative models on local subcultures and communities.⁷¹ It shows that crime does not pay.

This section provides a brief overview of the strategies and frameworks in place for the administration, distribution and social reuse of goods seized or confiscated from OCGs in Italy and Albania.

An avant-garde law

At the time of Falcone’s work against Cosa Nostra, Italian law enforcement authorities could rely on a rather avant-garde legal framework, not least because of the 1982 Rognoni–La Torre flagship law. This law introduced the crime of mafia-style association in the Italian criminal code and was approved by the Italian parliament in September 1982.⁷² Specifically, Art. 1.7 allows for the confiscation not only of the goods that ‘served’ to commit the crime or were possessed by the convicted members of mafia-style organizations, but also of all goods that prosecutors can prove to be connected to the commission of the crime (the price, the product or the profit generated by the crime).⁷³ Importantly, this law enables courts to confiscate all the goods that the defendant possesses or enjoys directly or indirectly on the basis of unjustifiable gaps between the defendant’s lifestyle and the amount of apparent or declared incomes.⁷⁴ In case of discrepancies, the court can decide whether assets of which the legitimate origin has not been demonstrated by the defendant can be confiscated.⁷⁵

Country	Italian system				
	Confiscation of illegally gained assets	Specific provisions on confiscation within anti-organized crime laws	Confiscation of proceeds of crime	National body for confiscated assets	Social reuse of confiscated assets
Albania	✓	✓	✓	✓	✓
Bosnia and Herzegovina	✓	X	X	X (only on the entity level)	X
Montenegro	✓	X	✓	✓	X
North Macedonia	✓	X	✓	✓	X
Serbia	✓	X	✓	✓	✓ ⁷⁶

FIGURE 6 Asset recovery laws in the focus countries.

Note: Extended confiscation of assets refers to the process that allows for the confiscation of property belonging to a convicted person when the crime is likely to result in economic benefit or when the case indicates that the property is derived from criminal conduct.



The law on 'Prevention and fight against organized crime and trafficking through preventive measures against property' (no. 10 192 of 3 December 2009) has been in place in Albania since 2009. It is similar to the Italian Rognoni-La Torre act in that it grants confiscation powers to courts and draws largely on international conventions regulating the matter, such as the UN Convention against Transnational Organized Crime; the Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime; and the Convention on the Financing of Terrorism.

The mechanism

Laws like those enacted in Italy and Albania create the opportunity to act against criminal assets and not just criminal actors.⁷⁷ But what happens once the assets are seized? Several types of reuse are currently possible and frequently enforced, from the simple transfer of illegal profits into the state budget to alternative forms of disposal such as social reuse.

In Italy, at the procedural level, the local court generally decides how to proceed when confiscated assets are relatively easy to manage (such as cars, luxury objects and other moveable assets): goods can become state property, be sold or bestowed to entrusted third parties. If, instead, the confiscated goods are more complex to manage – for example multiple companies with many employees, or major real estate properties – courts can initiate a procedure with the Agenzia Nazionale per l'Amministrazione e la Destinazione dei Beni Sequestrati e Confiscati alla criminalità organizzata (National Agency for the Administration and Distribution of Goods Seized and Confiscated to Organized Crime, ANBSC). Currently regulated by a 2018 decree of the president, the ANBSC is composed of 'judicial administrators' – public servants with the mandate to temporarily manage seized goods or sell or distribute confiscated assets to entrusted civil society organizations.

Albania has established a similar agency, called the Agency for the Administration of the Seized and Confiscated Assets (AASCA), after the adoption of Law 9284 of September 2004, and is currently regulated by the Albanian 'anti-mafia' law (no. 10 192 of December 2009).⁷⁸ Under the Ministry of Finance, AASCA is responsible for the administration or use of seized and confiscated assets from organized crime: anything from bank accounts to cars and real estate.⁷⁹ The actual decision for the sale, rent or social reuse of these assets is taken by the inter-institutional committee for measures against organized crime, which is made up of nine members from institutions working to combat organized crime. A special fund has been created by the agency to use money earned from renting out confiscated properties to support civil society organizations, anti-trafficking activities and victims of organized crime.

Social reuse

The social reuse of assets is often the final stage of a comprehensive procedure, which starts with the confiscation order of a given asset.

In Italy, good examples of reuse managed by NGOs and associations working closely with courts and the ANBSC are abundant, and their best practices serve as a model for other countries. The work of *Al di là dei Sogni* is an example of best practices. Since 2004, this NGO 'has started a process of re-conversion to organic farming of hectares of land confiscated from the mafia in Sessa Aurunca (Caserta)'. The project aims to establish a model of sustainable and social agriculture, not only through training and employing disadvantaged and fragile groups but also through involving the local community in a number of awareness-raising campaigns. These span diverse focus areas, such as promoting fair and equal markets, recycling and the use of renewable energy.⁸⁰ Another NGO working on the reuse of confiscated assets is *Comitato don Peppe Diana*, an association established in 2006 in Casal di Principe (Caserta). They run a project called *Progetto Fucina*,⁸¹ which is an active 'laboratory' for local youth to learn about social innovation in a property confiscated from the mafia. The aim is to combine the symbolic value of reusing confiscated assets with local development and youth employment. Thanks to the social entrepreneurship education programme, participants also learn about the mechanisms behind the reuse of assets confiscated from organized crime and how to support other similar initiatives.



In Albania, pioneering work in the social reuse of assets confiscated from organized crime groups has been carried out by an initiative called Confiscated Assets Used for Social Experimentation (CAUSE). This EU initiative linked the local civil society organization Partners Albania with the Italian experience from Comitato don Peppe Diana and Project Ahead. Several study trips to Italy allowed the Albanian organization to learn from the Italian experiences.⁸² So far, CAUSE has successfully transformed three confiscated assets into: a café and library (Durrës); a bakery (Fier); and a handicraft shop and studio (Saranda).⁸³ Transformed premises will soon be opened also in Elbasan.

[H3] Lessons (to be) learned and the symbolic value

Effective, efficient and transparent management of assets confiscated from criminals is crucial to maintain integrity and public confidence in the process. Any problems that arise in the last phase of confiscation proceedings can jeopardize the efforts of the criminal justice system in tracing, seizing and confiscating criminal assets.⁸⁴ In this regard, the long-running Italian experience serves as a reminder that there are still a number of issues that need to be overcome in the appointment of both judicial administrators for the temporary seizure and NGOs for the administration of confiscated goods. Otherwise, the misuse of recovered assets can deepen corruption and strengthen patronage networks. For example, investigations in Palermo, Sicily, have recently revealed a system of corruption within the judiciary related to the management of seized assets.⁸⁵

The social reuse of seized assets also has a symbolic and psychological effect. Giving apartments, companies or parks back to the communities affected by organized crime not only redistributes ill-gotten gains for public benefit but also sends a message of legality: it affirms that 'crime does not pay' and undermines the strength and image of criminal and corrupt actors.⁸⁶ The appropriate use of such assets strengthens a culture of legality, fairness and equality, in addition to creating tangible public goods.



MAIN FINDINGS AND OBSERVATIONS

One of the main findings of this report is that IFFs are not well understood in the region. Although considerable attention is given to some aspects, such as money laundering, responses are stove-piped within countries, there is little cooperation between state structures, the private sector and civil society, and there is little regional cooperation to deal with this transnational issue.

During engagement with government authorities, it became clear that the concept of IFFs received little interest, the term IFFs was generally not widely used, and many interlocutors saw it as synonymous with 'money laundering' or 'organized crime'. Probing institutions about the extent and impact of IFFs also revealed that many different institutions deal with different aspects of the phenomenon, yet no single institution felt responsible for looking at the issue holistically. This reveals both the conceptual confusion surrounding IFFs and the stove-piped national responses and a culture of 'passing the buck'. As a result, agencies are able to highlight specificities of the criminal phenomenon and their responses to it, yet there is little appreciation of the overall impact on security, development and governance in OSCE-participating states in South-Eastern Europe. Concerted national strategies or regional cooperation to tackle this transnational problem also does not seem to exist. In some cases, there was a clear lack of political will to delve deeply into the issue.

The situation is somewhat similar within the OSCE. Elements of IFFs are discussed separately and in different contexts, but a holistic definition of IFFs and discussion of their impact are not offered. Yet IFFs are a cross-cutting issue affecting security (including several phases of the conflict cycle, such as prevention and peacebuilding); economic issues (particularly related to corruption); sustainable development; and good governance. With the OSCE having a comprehensive approach to security and a well-established presence in South-Eastern Europe, it could be well positioned to have a more active role in fostering cooperation (within and between states) and build greater capacity to deal with IFFs. Such an approach is needed as, based on interviews conducted during research for this report, there appears to be a lack of coordination in dealing with IFFs in the affected participating states and also among donors.

More broadly, this issue shows why the OSCE, including its executive structures, should pay greater attention to the political economy of security and governance issues and strengthen both its analytical and operational capacity to support participating states seeking assistance in dealing with the financial and economic aspects of organized crime.



Recommendations

The following recommendations specifically focus on the role that the OSCE Secretariat, specialized units and field missions can have in reducing vulnerabilities to IFFs in South-Eastern Europe. They are designed to allow for a practical, integrated and coordinated regional approach and are divided into recommendations for the OSCE and subsequent engagement with participating states.

Recommendations for the OSCE executive structures

- Raise awareness about the contextual factors that enable IFFs to thrive, such as corruption, informal economies and insufficient implementation of relevant laws.
- Strengthen the capacity and knowledge about IFFs within OSCE executive structures to support executive structures more effectively in responding to requests for assistance from participating states.
- Start to use the term IFFs more often in OSCE discussions and include an explicit mention in relevant OSCE documents.
- Encourage active participation of civil society in discussions and processes to prevent financial and economic aspects of organized crime, explain the impact of IFFs on societies and economies, and engage in the social reuse of confiscated assets.
- Enhance cooperation among OSCE missions in South-Eastern Europe dealing with IFFs and, more generally, organized crime and corruption.
- Include IFFs among the issues for cooperation between the OSCE and the EU, including in the context of trial monitoring in South-Eastern Europe.
- Consider having a dedicated session on the topic of IFFs at a relevant OSCE event (e.g. the annual security review conference, the security committee meeting, or Security Day).

Recommendations for OSCE engagement with participating states

- Work with the EU and UNODC to better explain to OSCE-participating States, including those from South-Eastern Europe the types, magnitudes and risks of IFFs and the relevance and added value of looking at the issue holistically.
- In the spirit of para. 5 of MC.DEC/5/06, work with the relevant authorities to improve data collection and analysis on IFFs, factor the issue into regular risk assessments, and promote the exchange of information on IFFs (and its components) and good practices in dealing with the problem nationally and across the region.
- Work with participating states to coordinate data collection and analysis on a regional level, particularly with regard to asset seizure and recovery.
- In line with paragraphs 12 and 15 of the OSCE Strategic Framework for Police-related Activities (PC.DEC/1049), deliver or facilitate (upon request) specialized training to enhance capacities, including financial investigations, seizures of proceeds of crime, and tracing money laundering.
- Strengthen internal coherence in the fight against IFFs. This complex, interconnected issue requires an integrated response, which could include the creation of national IFF task forces.
- Identify common vulnerabilities among countries in South-Eastern Europe and promote greater regional cooperation to enable a more integrated approach, for example on issues related to beneficial ownership, tax evasion and harmonization of legislation.
- Continue to support cooperation among practitioners working on the management of assets, particularly through the Balkan Asset Management Interagency Network (see the information box below).
- Foster cooperation among prosecutors, for example through the Permanent Conference of Organized Crime Prosecutors (see below).



- Support OSCE-participating states from South-Eastern Europe to join international efforts to enhance tax transparency and crack down on tax havens and secrecy jurisdictions.
- Support participating states in implementing their anti-corruption commitments such as in the context of the Berlin Process.
- Focus on the vulnerabilities of the growing number of free zones in South-Eastern Europe as enablers of IFFs.
- Support educational programmes (particularly at universities in the region) to increase understanding of and expertise in the topic.
- Increase cooperation with the private sector (for example, lawyers, notaries, real estate agents and professionals in other sectors vulnerable to money laundering) to increase reporting suspicious transactions and use know-your-customer guidelines, and to be more sensitive to the warning signs of IFFs and the consequences of facilitating them.
- Work with participating states to strengthen their capacity to regulate virtual currencies and non-fungible tokens.

The **Balkan Asset Management Interagency Network (BAMIN)** was established in 2014 as an informal network of contacts and a cooperative group of experts in the area of criminal-assets management. BAMIN is supported by the OSCE and currently includes 18 jurisdictions from and beyond South-Eastern Europe. By promoting exchange of information and good practices, the network is enhancing both the cost-efficiency and effectiveness of asset management practices. BAMIN's activities also include ad hoc training, mentoring on asset management issues, and yearly plenary sessions.

The **Permanent Conference of Organized Crime Prosecutors (PCOCP)** was established in 2016 with the support of the OSCE to bolster exchange and mutual cooperation among prosecutors of organized crime, corruption and economic crime. The PCOCP consists of 13 prosecution offices from EU member states as well as countries in South-Eastern Europe and facilitates operational meetings among prosecutors, encourages early exchange of information on transnational cases, and supports the delivery of specialized training activities on the latest trends and developments related to organized crime.



Annex 1: Literature review.

The literature review is provided in a separate file.

Annex 2: Questions included in the questionnaire to OSCE-participating states

- How would you characterize the level of awareness of IFFs in your country?
- How would you assess the impact/threat posed by IFFs to your country?
- What legislation is currently in place in your country in order to address this problem?
- What steps have been taken by your country to improve the prevention and detection of transfers of proceeds of crime? How are suspicious transactions reported?
- Is there a clear procedure for regulating relations between criminal justice institutions, banks and any other relevant financial institutions?
- How are banks and other financial institutions held accountable if they do not proactively identify and signal possible illicit transactions?
- What challenges and successes has your country had in seizing, recovering and returning the proceeds of crime?
- Concerning cooperation with counterparts (i.e. in FIUs) in the region and in other OSCE-participating states, what obstacles are there to information sharing/operational cooperation?
- How could cross-border, regional and international cooperation be improved in dealing with IFFs?
- What additional support could be beneficial from foreign counterparts to more effectively prevent, disrupt and recover IFFs?
- Does your country have any experience in the social reuse of confiscated assets, and if so, can you share some examples? Was there a role for civil society in this process?



Notes

- ¹ UNODC, Conceptual framework for the statistical measurement of illicit financial flows, 12 October 2020, https://www.unodc.org/documents/data-and-analysis/statistics/IFF/IFF_Conceptual_Framework_for_publication_15Oct.pdf.
- ² Global Financial Integrity, Illicit financial flows to and from 148 developing countries: 2006–2015, 28 January 2019, <https://gfiintegrity.org/report/2019-iff-update/>.
- ³ For more information, see: <https://iff.taxjustice.net/#/>.
- ⁴ UNODC, Conceptual framework for the statistical measurement of illicit financial flows, 12 October 2020, https://www.unodc.org/documents/data-and-analysis/statistics/IFF/IFF_Conceptual_Framework_for_publication_15Oct.pdf.
- ⁵ See Annex 1 for the full literature review (supplied as a separate document).
- ⁶ The questions included in the questionnaire sent to the institutions are given in Annex 2.
- ⁷ UNODC, Regional programme for South Eastern Europe (2016-2019), 2015, https://www.unodc.org/documents/southeasterneurope/RP_SEE_2016-2019_Approved.pdf. The wholesale price used here is the weighted average of prices as calculated by GI-TOC experts in the fourth quarter of 2020.
- ⁸ Walter Kemp, Kristina Amerhauser and Ruggero Scaturro, Spot prices: Analyzing flows of people, drugs and money in the Western Balkans, Global Initiative Against Transnational Organized Crime, April 2021, <https://globalinitiative.net/wp-content/uploads/2021/05/Spot-Prices-Analyzing-flows-of-people-drugs-and-money-in-the-Western-Balkans-1.pdf>.
- ⁹ Ibid.
- ¹⁰ Based on data in: Walter Kemp, Kristina Amerhauser and Ruggero Scaturro, Spot prices: Analyzing flows of people, drugs and money in the Western Balkans, Global Initiative Against Transnational Organized Crime, April 2021, <https://globalinitiative.net/wp-content/uploads/2021/05/Spot-Prices-Analyzing-flows-of-people-drugs-and-money-in-the-Western-Balkans-1.pdf>.
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- ¹³ Siracusa International Institute for Criminal Justice and Human Rights, Closing the implementation gap: Criminal justice responses to illicit trade in South Eastern Europe and associated challenges, November 2020, http://www.siracusainstitute.org/app/wp-content/uploads/2020/11/SII-Regional-crime-trends-report_web.pdf.
- ¹⁴ Walter Kemp, Kristina Amerhauser and Ruggero Scaturro, Spot prices: Analyzing flows of people, drugs and money in the Western Balkans, Global Initiative against Transnational Organized Crime, April 2021, <https://globalinitiative.net/wp-content/uploads/2021/05/Spot-Prices-Analyzing-flows-of-people-drugs-and-money-in-the-Western-Balkans-1.pdf>.
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- ¹⁶ Walter Kemp, Kristina Amerhauser and Ruggero Scaturro, Spot prices: Analyzing flows of people, drugs and money in the Western Balkans, Global Initiative against Transnational Organized Crime, April 2021, <https://globalinitiative.net/wp-content/uploads/2021/05/Spot-Prices-Analyzing-flows-of-people-drugs-and-money-in-the-Western-Balkans-1.pdf>.
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- ¹⁹ Most shipments listed Libya as their final destination, but Egypt, North Cyprus and Lebanon were also featured. Visar Prebreza, *et al*, Cigarette smugglers find safe harbour in Montenegro, again, BalkanInsight, 30 May 2019, <https://balkaninsight.com/2019/05/30/cigarette-smugglers-find-safe-harbour-in-montenegro-again/>. Other cases can be found in Visar Prebreza, *et al*, Copying Cleopatra: The cigarette ‘Made in Egypt’, via Montenegro, BalkanInsight, 11 December 2018, <https://balkaninsight.com/2018/12/11/copying-cleopatra-the-cigarette-made-in-egypt-via-montenegro-12-10-2018/>.



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- ²² Tajana Barbic, *et al*, Illegal trade of tobacco products: Smuggling as experienced along the Balkan Route, The Institute of Economics, 2019, <https://www.eizg.hr/UserDocImages/projekti/Balkansmugg/BalkanSmugg-Study.pdf>.
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- ²⁴ Ibid.
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