



# RESEARCH AND FEASIBILITY STUDY OF THE FORMAL MONEY TRANSFER SECTOR AND ALTERNATIVE REMITTANCE SYSTEMS IN SERBIA

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**MOLI Serbia**

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**RESEARCH AND FEASIBILITY STUDY OF  
THE FORMAL MONEY TRANSFER SECTOR  
AND ALTERNATIVE REMITTANCE  
SYSTEMS IN SERBIA**

**PREPARED BY COUNCIL OF EUROPE EXPERT  
Mr TERENCE DONOVAN**

**BELGRADE  
AUGUST 2013**



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# Foreword

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Economic and organised crime is a rising threat for the national and global economies, with transnational criminal groups becoming increasingly involved in cross-border activities generating billions of Euros of illicit profit. Such groups use modern, sophisticated schemes to hide the proceeds from illegal trafficking in drugs and human beings, corruption, cybercrime or other criminal acts and convert them into “clean”, legitimate business, real estate or other assets.

The present research study into the formal money transfer sector and alternative remittance systems in Serbia was developed within the framework of the “Project against money laundering and terrorist financing in Serbia” (MOLI Serbia), a 2,2 million Euro joint project of the Council of Europe and the European Union implemented throughout 2010-2014.

The MOLI Serbia project aimed to strengthen the legislative and institutional frameworks of combating money laundering and financing of terrorism in the country using a risk-based approach to identifying threats and developing counter-measures at the national and sectorial levels.

This study provides an overview on the risks of money laundering and financing of terrorism in the formal and informal money transfers sectors in Serbia. It contains a thorough analysis of international and regional money

flows and transfer corridors through Serbia, assessing their money laundering and terrorism financing risks. It advises Serbian authorities on various legislative and policy changes to close the gaps in the system to preclude criminal abuse of the money transfers systems.

The research for this study started back in June 2012 with an extensive scoping exercise undertaken jointly with authorities and representatives of the money and value transfers sector in Serbia to gather data on key vulnerabilities and risks. The Council of Europe also held two workshops with authorities to present the findings, international standards, FATF and MONEYVAL recommendations addressing this area.

I am grateful to the Council of Europe expert Mr Terence Donovan, the author of this study. I thank also our partners from the Administration for the Prevention of Money Laundering, the National Bank of Serbia, the Ministry of Interior, the Customs and Tax Administrations, the Office for Cooperation with the Diaspora and Serbs in the Region, the Office for Cooperation with Churches and Religious Communities and the Security Information Agency.

This study is intended for a broad spectrum of anti-money laundering professionals, including regulators and the financial sector in Serbia as well as neighbouring countries.



Jan Kleijssen  
Director  
Information Society and Action against Crime Directorate  
Council of Europe

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## GLOSSARY OF TERMS

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|                    |  |                    |   |
|--------------------|--|--------------------|---|
| <b>AML/CFT</b>     | Anti-money laundering and combating the financing of terrorism                   | <b>LEA</b>         | Law enforcement authorities   |
| <b>AML/CFT Law</b> | Serbia: Law on the prevention of money laundering and the financing of terrorism | <b>ML</b>          | Money laundering  |
| <b>APML</b>        | Administration for the Prevention of Money Laundering (Serbian FIU)              | <b>MONEYVAL</b>    | Council of Europe's Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism |
| <b>ASB</b>         | Association of Serbian Banks   | <b>MoU</b>         | Memorandum of Understanding   |
| <b>BIA</b>         | Security Information Agency (Serbian national intelligence agency)               |                    |   |
| <b>BiH</b>         | Bosnia and Herzegovina   | <b>MTO</b>         | Money transfer operator   |
| <b>BIS</b>         | Bank for International Settlements   | <b>MVTS</b>        | Money and value transfer service  |
| <b>BoP</b>         | Balance of payments  | <b>NBS</b>         | National Bank of Serbia   |
| <b>BPM</b>         | IMF Balance of Payments Manual   | <b>NRA</b>         | National risk assessment  |
| <b>BVI</b>         | British Virgin Islands   | <b>Post Serbia</b> | <i>Pošta Srbije</i> , Serbian postal service  |
| <b>CDD</b>         | Customer due diligence   | <b>PSD</b>         | EU Payment Services Directive   |
| <b>CPI</b>         | Consumer price index   | <b>R.</b>          | FATF Recommendation   |
| <b>CSRDC</b>       | Central Securities Registry, Depository and Clearing House                       | <b>RSD</b>         | Serbian dinar   |
| <b>DVP</b>         | Delivery versus payment  | <b>RTGS</b>        | Real-Time Gross Settlement System   |
| <b>EEA</b>         | European Economic Area (EU plus Iceland, Liechtenstein and Norway)               | <b>Serbia</b>      | Republic of Serbia  |
| <b>EU</b>          | European Union   | <b>SR.</b>         | FATF Special Recommendation   |
| <b>EULEX</b>       | EU Rule of Law Mission in Kosovo*  | <b>STR</b>         | Suspicious transaction report   |
| <b>EUR</b>         | Euro   | <b>SWIFT</b>       | Society for Worldwide Interbank Financial Telecommunication   |
| <b>FATF</b>        | Financial Action Task Force  | <b>TF</b>          | Terrorism financing   |
| <b>FIU</b>         | Financial Intelligence Unit  | <b>TI</b>          | Transparency International  |
| <b>FREN</b>        | Foundation for the Advancement of Economics, Serbia                              | <b>UK FCA</b>      | United Kingdom Financial Conduct Agency   |
| <b>FX</b>          | Foreign currency/foreign exchange  | <b>USD</b>         | United States dollar  |
| <b>GDP</b>         | Gross domestic product   | <b>VAT</b>         | Value Added Tax   |
| <b>Hawala</b>      | Arabic for 'Transfer' <sup>1</sup>   | <b>WTO</b>         | World Trade Organization  |
| <b>IMF</b>         | International Monetary Fund  | <b>WUPSIL</b>      | Western Union Payment Services Ireland Limited  |
| <b>IMF FAS</b>     | IMF Financial Access Survey  |                    |   |

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\* This designation is without prejudice to positions on status, and is in line with UNSCR 1244 and the ICJ Opinion on the Kosovo Declaration of Independence

<sup>1</sup> Term used for trust-based informal funds transfer scheme, with prompt cash payment but without immediate cross-border cash settlement.

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# Executive summary

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## Scope

1. ► The aim of this study, commissioned by the Council of Europe and conducted from May to July 2013 by Terence Donovan, is to undertake comprehensive research of the funds transfer systems in Serbia, including both formal and informal components:
  - ► to identify money laundering and terrorism financing (ML/TF) risks;
  - ► to identify legislative and institutional gaps; and
  - ► to propose substantive remedies where appropriate to address identified vulnerabilities, including through legislative and policy proposals.
2. ► As the use of cash, both in Serbian dinars (RSD) and foreign currencies (FX) – particularly in euros (EUR) – continues to be common in Serbia, the scope of the study includes use and movements of cash, particularly in the context of the shadow economy.

## Output

3. ► This report includes a series of recommendations, some of which are specific (e.g. proposed draft legislation), while others point to the need for additional research. However, many of the proposals are designed to promote further discussion and debate among the Serbian stakeholders.
4. ► In accordance with the terms of reference, the report includes:
  - ► a summary and analysis of the links between funds transfers into/from Serbia and money laundering and/or financing of terrorism,

- particularly related to Balkan organised crime (Part I and Annex 3);
- ► an inventory of all identified means of formal funds transfer within Serbia (Part II).
- ► an inventory of all identified means of formal funds transfer cross-border into/from Serbia (Part II);
- ► a discussion of the proposed liberalisation of financial services in the context of future EU accession and World Trade Organisation (WTO) membership (Part II);
- ► detailed legislative drafting proposals to assist Serbia in achieving full compliance with Financial Action Task Force (FATF) Recommendation (R.) 16 on wire transfers and R.14 on money remitters (Annex 8 and 10, respectively);
- ► an inventory of identified alternative remittance possibilities into/from Serbia (Part III);
- ► a brief analysis of *hawala* in Serbia and a detailed discussion of cash couriers in the context of the Serbian diaspora (Part III);
- ► a detailed review of the literature on diaspora remittances (Part III and Annex 11); and
- ► a first draft of a possible questionnaire for a remittance survey (Annex 14).

## Links to criminal activity

5. ► Interviews with Serbian law enforcement agencies highlighted the following typologies, which can also be found in the published Administration for the Prevention of Money Laundering's (APML's) 2011 Typologies Report<sup>2</sup> and in the 2013 National Risk Assessment (NRA):

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<sup>2</sup> "Money Laundering Typologies in the Republic of Serbia", APML, 2011.

- 
- ▶ abuse of office (corruption): surveys indicate that Serbians consider that corruption continues to be a serious problem;
  - ▶ tax evasion: according to the 2013 NRA this is one of the most widespread forms of financial non-compliance by legal entities in Serbia;
  - ▶ drugs offences: illegal production and distribution of narcotics. The 2013 NRA indicates that illegal proceeds are typically used to purchase real estate (houses, apartments, commercial facilities, construction land), movable assets (passenger and freight motor vehicles, valuables), and to a lesser extent securities;
  - ▶ illegal immigration: some cross-border remittance transactions have been linked to schemes providing assistance to illegal immigrants to gain entry to the EU;
  - ▶ smuggling of goods, particularly excise goods, including cigarettes; and
  - ▶ use of offshore structures: the extent to which offshore structures are used by Serbian businesses is linked to tax evasion and presents a challenge for the implementation of effective anti-money laundering and combating the financing of terrorism (AML/CFT) controls.
6. ▶ Only one Serbian law enforcement agency considered the volumes of funds entering Serbia in cash to be a concern. However, to paraphrase the 2013 NRA, investments in the country made by persons known to be offenders, especially in the privatisation process, foreign trade and construction, are significant. No information is provided on the extent to which remittances or cash are used but this can reasonably be assumed at some stage in this process.
  7. ▶ Money transfer in international payment operations was assessed in the 2013 NRA as a medium-risk sector. According to the NRA, money transfer services are most often abused by persons connected with narcotics smuggling and human trafficking.
  8. ▶ As a method of conversion of cash criminal proceeds to 'clean' money, the APML's 2011 Typologies Report identifies exchange offices as the preferred location for such activity, where the cash can be exchanged into another currency, typically without the need for identification. This is a distinct area for study in itself and not within the scope of this report. However, it could become relevant if, as part of the future liberalisation of money remittance business, exchange offices become agents of money transfer operators (MTOs). This report urges caution.
  9. ▶ In terms of regional issues, strong concerns were raised by Serbian law enforcement agencies regarding the use of the region in or close to Kosovo by drug dealers and other organised criminals as a means of avoiding detection and prosecution.
- Domestic formal money transfer systems**
10. ▶ In describing and reviewing Serbia's formal facilities for domestic money transfer, it is useful to first set out some foundation points.
    - ▶ By law, responsibility for the provision and operation of the domestic money transmission/payments system rests with the National Bank of Serbia (NBS). The applicable legislation is in course of being revised to align with relevant EU directives.
    - ▶ While Serbian banks offer a wide range of electronic payment options that are gaining in popularity, many Serbians continue to prefer to transact in cash. It is understood that substantial amounts of money are held outside the deposit facilities of the banks,
-

- mainly in the form of EUR banknotes (“mattress money”).
- ▶ With regard to currency, there remains a strong preference to hold EUR rather than RSD banknotes, with conversion to RSD as needed for the purpose of domestic transactions.
  - ▶ It is an offence for Serbian residents to conduct domestic transactions in any currency other than RSD, subject to a range of exceptions including payments for the sale, rental and leasing of real estate.
  - ▶ Businesses in Serbia may not accept cash payments of EUR 15 000 or more in its RSD equivalent. Anecdotal information indicates that this prohibition appears not to be widely known or consistently understood and therefore not effectively enforced.
  - ▶ The NBS also provides, by agreement, a clearing facility for non-RSD payments (typically in EUR) for banks in Serbia and Bosnia and Herzegovina (BiH) that have signed up to the agreement, using a facility provided in conjunction with Deutsche Bank.
11. ▶ The following formal domestic money transfer methods are considered in the report.
- (a) Banks:
- ▶ NBS Real-Time Gross Settlement System (RTGS) in RSD;
  - ▶ NBS Clearing System in RSD;
  - ▶ agreement for clearing of transfers in FX within Serbia and BiH;
  - ▶ other non-RSD domestic bank transfers (using Society for Worldwide Interbank Financial Telecommunication (SWIFT) messaging);
  - ▶ use of bank-issued credit and debit DinaCards for RSD payments;
  - ▶ use of Serbian bank-issued Visa, MasterCard and other credit/debit cards;
- ▶ use of non-Serbian bank-issued Visa, MasterCard and other credit/debit cards, in EUR/FX;
  - ▶ use of cheques and drafts;
  - ▶ limited e-banking and m-banking services; and
  - ▶ withdrawal in cash (RSD or EUR/other FX).
- (b) *Pošta Srbije* (Post Serbia) said it conducts 60% of personal domestic funds transfers by means of:
- ▶ postal money order (next day service); and
  - ▶ PostNet money order (immediate funds availability).
- (c) Online payments and e-commerce systems:
- electronic payment of utility and other bills.
- (d) Cash:
- ▶ in RSD, subject to the limit of the RSD equivalent of EUR 15 000 in Article 36 of the Law on the prevention of money laundering and the financing of terrorism (AML/CFT Law); and
  - ▶ in EUR or other FX, particularly for transactions permitted under Article 34 of the Foreign Currency Transactions Act.

#### NBS-operated domestic clearing facilities

| Turnover<br>(RSD billions) | RTGS   | Clearing | Clearing as<br>% of total |
|----------------------------|--------|----------|---------------------------|
| 2010                       | 32,808 | 501.1    | 1.51%                     |
| 2011                       | 33,974 | 493.7    | 1.43%                     |
| 2012                       | 39,234 | 467.0    | 1.18%                     |

12. ► The NBS has invested significant efforts to harmonise national regulations in the field of payment systems with those of the EU. These efforts resulted in the draft law on payment services and draft law on settlement finality in payment systems and securities settlement systems. At the time of this report, the draft laws were in the process of further drafting following industry consultation. Subject to government approval and the parliamentary timetable, the NBS projects that the revised laws may be enacted by the end of 2013 or early 2014.

#### Cross-border formal funds transfer systems

13. ► The following are the formal money transfer methods available for remitting into Serbia:

(a) Banks:

- ► wire transfers based on SWIFT messaging system;
- ► proprietary intra-group systems (operated by one or more foreign-owned banks); and
- ► use of non-Serbian Visa, MasterCard and other credit/debit cards, including prepaid cards, in EUR or other foreign currencies.

(b) Banks as agents or sub-agents for money transfer providers:

- ► Western Union, MoneyGram and RIA (receive only / no send service; receipts in EUR).

(c) *Post Serbia*:

- ► sub-agent of Western Union (receive and send services, in RSD); and
- ► acting for Postal Savings Bank, an agent for Western Union.

(d) Online funds transfer and payment systems:

- ► Moneybookers/Skrill and similar online facilities (receipts lodged to bank accounts or can be withdrawn in RSD at Serbian ATMs); and
- ► potential new currencies and online payment processors.

#### Estimated cross-border funds transfers into Serbia by formal means

| 2011                          | EUR millions | Percentage of total formal |
|-------------------------------|--------------|----------------------------|
| <b>Bank transfers (SWIFT)</b> | 407          | 66%                        |
| <b>Remittances (MTOs)</b>     | 207          | 34%                        |
| <b>Total formal</b>           | <b>614</b>   | <b>100%</b>                |

14. ► According to some banks interviewed, a significant proportion of incoming wire transfers for natural persons represent the receipt of pensions from foreign governments or employments and are therefore considered as low risk. Remittance transactions, on an agency basis for MTOs, are generally for small amounts (typically EUR 300-600 and rarely more than EUR 2 000 or equivalent). This might suggest that overall risks of ML or TF are relatively low. However, one bank in Serbia with substantial remittance receipts in border regions shared the view that up to 50% of its MTO remittances are regarded as suspect, which is reflected in a high volume of suspicious transaction reports (STRs) to the APML.

15. ► Identified risk indicators related to formal funds transfers included:

- 
- ▶ offering or obtaining amounts of funds that were not reasonable for the known circumstances of the sender/receiver;
  - ▶ many receipts coming to one receiver, with unusual sender patterns;
  - ▶ a pattern of payments by one person to a range of receivers;
  - ▶ unexpected combinations of countries and nationalities;
  - ▶ use of false identification documentation; and
  - ▶ reluctance to provide requested information or respond to questions.
16. ▶ The following formal money transfer methods are available for remittances from Serbia:
- (a) Banks:
- ▶ wire transfers based on SWIFT messaging system;
  - ▶ proprietary intra-group systems (operated by one or more foreign-owned banks);
  - ▶ use of Serbian bank-issued Visa, MasterCard and other credit/debit cards, including prepaid cards, in RSD; and
  - ▶ use of non-Serbian Visa, MasterCard and other credit/debit cards, including prepaid cards, in EUR or other foreign currencies.
- (b) *Post Serbia*:
- ▶ Post Serbia as sub-agent of Western Union.
- (c) Online payment and e-commerce systems:
- ▶ PayPal – payment for goods and services (“send-only” service on a cross-border basis).
17. ▶ There are currently some unusual features to the remittances business in Serbia:
- ▶ it is not possible to send money through MTO networks using Serbian banks. Only Post Serbia is permitted to offer outward remittance services using an MTO network;
  - ▶ due to foreign-currency control concerns, the NBS has set monthly limits for the amount that a Serbian resident natural person may transfer abroad (EUR 10 000 except in certain circumstances);
  - ▶ for incoming remittances, with the exception of Post Serbia, funds are paid out only in EUR. Post Serbia pays out in SRD; and
  - ▶ some banks are (sub-)agents for more than one MTO (Western Union and MoneyGram).
- Compliance with FATF Recommendation 16 (R. 16)**
18. ▶ Amendments to the Serbian AML/CFT Law that came into effect in December 2010 included the insertion of Articles 12A-C aimed at bringing Serbia into compliance with the FATF Recommendations on wire transfers. While a major improvement, the revisions may not have succeeded entirely.
19. ▶ Of most relevance at this stage is compliance with the revised R.16, which includes distinct requirements for banks as sender, receiver and intermediary in the wire transfer process. It added a requirement for the sending bank to identify the beneficiary as well as verifying the identity of the sender. All data is to be retained with the payment message (usually a SWIFT message). Where the actual payment is conveyed by a separate route (cover payment), the data must also be maintained with the payment itself.
20. ▶ A further amendment is recommended to Article 12 of the AML/CFT Law to enable
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Serbia to achieve full compliance with R.16. A proposed draft text is included as Annex 8.

21. ► With regard to the effectiveness of implementation of AML/CFT measures for formal funds transfers, the design of the domestic RTGS and clearing systems operated by the NBS makes full compliance achievable. However, a deficiency in the domestic transfer service provided by Post Serbia (in that the identification of the sender is not yet verified) needs to be addressed.

#### **Compliance with FATF Recommendation 14 on money remitters (R. 14)**

22. ► Serbia was criticised in the 2009 MONEYVAL mutual evaluation for the lack of published information on lists of agents (a technicality for now in the case of Serbia) and, of more significance, the absence of AML/CFT supervision of the remittance activities of Post Serbia. Neither issue has been satisfactorily addressed. The supervisory role has been assigned to the APML but is not yet fully in effect.
23. ► Some liberalisation in money remittance services is expected to follow the enactment of the draft law on payment services, possibly early in 2014. This would introduce to Serbia a legislative framework consistent with the EU Directive on payment services (PSD) and the E-Money Directive.
24. ► Some challenging decisions lie ahead for the Serbian authorities on the extent and implications of liberalisation of the payment system, with regard to which some relevant observations are set out in Annex 10. That annex also includes an assessment of possible steps needed to achieve full technical compliance with R.14, regarding which some

potentially significant gaps have been identified that will require further clarification and possibly legislative redrafting (whether by way of primary or secondary legislation, such as an NBS decision).

#### **Regulation and supervision**

25. ► It is for the Serbian authorities to allocate statutory responsibilities for AML/CFT supervision. From an effectiveness perspective, however, the current division of responsibilities between the NBS, the Foreign Currency Inspectorate and the APML (the latter in respect of Post Serbia) increases the risk of inconsistent levels of regulation and supervision of money remittance business. This could be resolved by combining the roles in a single authority. If that is not feasible at this time, stronger co-ordination is recommended to ensure consistent application of AML/CFT measures across all MTOs.
26. ► Interview partners pointed to a number of inconsistencies in requirements and supervision, which it would be helpful for the authorities to address. Examples include duplication of some statutory requirements and conflicting instructions on reporting of some suspicious transactions. Details are contained in Part II of the report.

#### **Future liberalisation**

27. ► In looking forward, a number of issues are explored, including:
- the impact of the home country control concept as a foundation for the European Economic Area (EEA) single market in financial services. Payment service providers could opt to be authorised in one Member State and branch or provide cross-border services

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into other Member States without further authorisation;

- ► broadening of the distribution network for MTO remittance business and perhaps other financial services, potentially to include non-financial services businesses. Opening up the market would increase competition but raises additional compliance challenges;
- ► innovations in the MTO business model, including account customers, cash-to-card and cash-to-account business lines, among others;
- ► increasing influence of the Internet as a means of remitting funds. Online providers can create increased competition and lower costs, but online business can be more difficult to regulate and supervise;
- ► in the event of relaxation of foreign currency controls, there is potential for the introduction of multi-currency ATMs and to increase the scope for outward remittance payments from Serbia. There is friction between the official policy of requiring most transactions to be in RSD and the preference, as reported in Serbia and for diaspora remittances, to hold FX;
- ► opening up to e-commerce: a significant beginning was made in Serbia in April 2013 with the commencement of business by PayPal, and further developments can be expected; and
- ► while the post-accession environment will be largely determined by EU single market provisions, the management of the period of change from the current restrictive environment will be challenging.

#### **Alternative remittance systems in Serbia**

28. ► The following alternative remittance methods are identified and considered in the report:

- (a) *hawala*-type arrangements;
- (b) cash:
  - (i) carried in person or by family members or friends; and
  - (ii) cash couriers, including bus and truck drivers.

#### ***Hawala*-type alternative remittance systems**

29. ► Law enforcement authorities (LEAs) mentioned that some *hawala*-type transactions have taken place in southern Serbia, although with no identified link to international terrorism.
30. ► Serbian LEAs (Ministry of the Interior and the Serbian Security Information Agency (BIA) in particular) should continue to be conscious of and monitor the emergence of *hawala*-type arrangements as part of their normal law enforcement and intelligence operations. Serbian supervisory authorities (NBS and, in particular, the Foreign Currency Inspectorate) should continue to follow-up any indications of unauthorised transfer business. Records of these ongoing efforts should be maintained. The Co-ordinating Committee should, from time to time, place the issue on its agenda and document the outcome of the discussions, thereby monitoring for any change in the current reported situation.

#### **Continuing preference for cash transactions**

31. ► Cash transactions can be conducted in such a manner as to be anonymous and virtually untraceable; the more transactions are in cash, the easier it is to circumvent AML/CFT controls. There is common cause among authorities dealing with AML/CFT, taxation, government financing, anti-corruption and law enforcement to seek to understand cash

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movements in the economy and encourage the use of the formal financial sector.

- 32. ► Significant levels of cash are held in Serbia outside the banking system (estimated at 20-30% of gross domestic product (GDP)). This may be undermining the effectiveness of AML/CFT measures.
- 33. ► Dealers in precious metals and stones ceased to be subject to the customer due diligence (CDD) requirements of the AML/CFT Law. They were removed from the list of obligors on the introduction of the prohibition on accepting cash for transactions in excess of the equivalent of EUR 15 000. Unless there is evidence of meaningful enforcement, the current approach could not be considered effective. The case for reclassifying dealers in precious metals and stones as obligors relates, not only to cash, but to the overall risk of being involved or used in money laundering or terrorism financing schemes.
- 34. ► More and more countries see merit in applying maximum limits on cash transactions. Their objectives relate mainly to the reduction of tax evasion and of the size of the shadow economy. In some cases, the limits being introduced are significantly lower than Serbia's EUR 15 000 level. A summary of limits across a number of EU Member States is included as Annex 12.
- 35. ► Against the background of the strong preference for Serbian natural and legal persons to hold assets and obtain financing in FX, particularly EUR, rather than RSD, the NBS is seeking to implement a strategy of dinarisation.

#### **Cross-border currency declaration**

- 36. ► Pursuant to Article 67 of AML/CFT Law, any natural person who crosses the border

carrying cash or bearer negotiable instruments amounting to EUR 10 000 or more, is obliged to declare it to Customs. Both Customs and the Border Police have implementation roles as part of an integrated border management arrangement.

- 37. ► The NBS increased the previous declaration threshold first from EUR 2 000 to EUR 5 000, then from EUR 5 000 to EUR 10 000. As a result, large volumes of smaller flows are no longer being declared. If, based on the results of a remittance survey or otherwise, there are strong indications that the cash entering Serbia includes material levels of criminal proceeds, the authorities could lower the declaration limit to obtain more accurate information on the nature of the cash entering Serbia.
- 38. ► As noted in the NRA, on failure to declare cash in excess of EUR 10 000 or where there is reasonable suspicion regarding the origin of money or its purpose, the funds will be seized. In 2011, Customs issued the following number of certificates of seized physical currency and bearer negotiable payment instruments:
  - ► 70 certificates to the total amount of EUR 2.17 million; and
  - ► 4 certificates to the total amount of USD 1.07 million.
- 39. ► Of the above amounts, more than EUR 1.9 million and almost USD 1.1 million were seized upon exiting Serbia. According to Customs data, the value of declared physical currency and bearer negotiable payment instruments upon entering, transiting or exiting the country in 2011, for the euro alone, was more than EUR 23 million.

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### Compliance with FATF Recommendation 32 on cash couriers (R. 32)

40. ► The current Serbian provisions are equivalent in terms of operational requirements and powers with the content of R.32, with a reporting threshold of EUR 10 000 (equivalent to the EU level) that is well within the R.32 maximum threshold of EUR 15 000. The legal basis for seizure and confiscation was not explored as it was beyond the scope of this study.
41. ► The effectiveness of cross-border declaration systems is difficult to determine. The Serbian authorities maintain statistics on cash declarations and seizures that provide a useful indication of effectiveness. However, the following effectiveness issues were identified:
- ► resource constraints: effectiveness would benefit from the acquisition of additional assets (which could include more officers to increase search capacity, vehicles, scanners and sniffer dogs);
  - ► the role of the prosecutorial services and judiciary: the legal outcome of seizure cases gives rise to some effectiveness questions;
  - ► legal restrictions: while Customs appear to have been given strong enforcement powers, the Border Police (as a law enforcement authority) are required to produce prima facie evidence of an underlying crime before further police investigation is authorised; and
  - ► inconsistent application of the seizure rules at different border posts.
42. ► In addition, it would be unsafe to conclude that the controls in place with regard to cross-border movements of cash, goods or persons between Serbia and Kosovo are yet effective.

### Alternative remittances – The role of the diaspora

43. ► The principal type of alternative remittance system or informal funds transfer in Serbia takes the form of cross-border cash remittances from the Serbian diaspora, as well as gifts of medium- and high-value goods. The main remittance corridors are from Germany, Austria and Switzerland.
44. ► The pattern of diaspora remittances can be mapped, in broad terms, to the different waves of emigration, with some additional influences, such as:
- ► years spent outside Serbia (whether in temporary or indefinite status);
  - ► whether they are first generation emigrants or children/grandchildren of emigrants;
  - ► whether any family members remained in Serbia and the nature of any such family relationship;
  - ► level of education (generally linked to earning capacity);
  - ► physical distance of current residence from Serbia; and
  - ► whether the emigrant originated from rural or urban Serbia.
45. ► The Serbian economy is heavily dependent on remittances from the diaspora. Based on balance of payments (BoP) estimates, the inflow of remittances to Serbia – by formal and informal means combined – exceeded EUR 2.7 billion in 2012 (when defined broadly to include gifts, grants and social contributions to natural persons). The high level of remittances appears to be continuing in 2013. To put the scale of remittances into context, as estimated by the NBS they represent a multiple of the level of foreign direct investment

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into Serbia and are equivalent to 35-50% of the level of annual export receipts. On a per capita basis, inward remittances exceed one month's average wage.

### **Limitations of available statistics**

46. ► The NBS's method of computing remittances, while consistent with the International Monetary Fund's (IMF's) methodology for BoPs, is probably not appropriate for purposes of this study. The BoP data may be capturing the re-emergence of "mattress money" (FX previously hoarded within Serbia) in addition to newly remitted FX arriving through formal and informal channels, thereby inflating the remittance numbers.
47. ► Although it cannot be identified separately from the statistics, the BoP data presumably also include the proceeds of domestic and international crime being laundered through the Serbian financial system.
48. ► In the absence of reliable data sources to help test these hypotheses and provide greater clarity on the true levels of – and rationale for – remittances into Serbia, it is recommended that a meaningful remittance survey be conducted as soon as is feasible.

### **Risk analysis of alternative remittance practices**

49. ► The report discusses whether there is really a problem with the current alternative remittance practices. The FATF Recommendations (and the EU equivalent) do not require more than is already being done in Serbia. However, based on available information, it is not possible to determine the extent of any abuse for ML or TF purposes of the current remitting practices.

50. ► The supply of FX into Serbia is to be welcomed and any regulatory or law enforcement intervention should not penalise or interfere with legitimate remittances. Any additional regulatory or law enforcement action needs to be proportionate and targeted at isolating the proceeds of criminal activity.
51. ► To assist in isolating criminal proceeds, it would ideally be helpful if legitimate remittances were not transited into Serbia in cash, particularly by use of cash couriers. This could best be encouraged through the use of incentives, in the context of liberalisation of the current payment systems requirements and FX restrictions.
52. ► A variety of initiatives have been taken by the Serbian authorities in recent years, in conjunction with the private sector, to encourage the diaspora to switch to formal remittance channels. The initiatives appear to have had a limited impact.
53. ► Among the likely reasons for this lack of impact appears to be the issue of conversion of the proceeds to RSD (in line with NBS policy) or retention in EUR or other FX (as preferred by the senders and/or recipients). This factor is in addition to those noted from previous studies, including:
  - ► insufficient trust in Serbian banks;
  - ► habit and inertia: attachment to tried and trusted methods;
  - ► pragmatism: "if I need a receipt for tax purposes, I will send through a bank. Otherwise, I will use a bus driver as it is cheaper.";
  - ► access and convenience in the sending jurisdiction and in Serbia;
  - ► relatively high cost of formal remittance methods;

- ▶ preference for direct control of the process, through use of cash; and
- ▶ the high level of anonymity provided by informal remittance methods.

54. ▶ Anonymity is also attractive for purposes of transferring the proceeds of criminal activity, for money laundering and for financing terrorism. However, there is little data available on the extent to which current remittance practices may facilitate criminals to benefit from their crimes.

#### **Incentives to encourage the use of formal remittance channels**

55. ▶ Incentives that could encourage a shift from informal to formal remittance methods include.
- ▶ Taking further steps to instil confidence in the Serbian financial system and in formal remittance channels;
  - ▶ Seeking means of reducing remittance costs (and uncertainty on the net amount to be received). Increased competition could be effective and a range of other possibilities are explored in this report.
  - ▶ Increasing access to and convenience of use of financial services, for which the planned liberalisation should create opportunities.

#### **Disincentives to the continued use of alternative remittance methods**

56. ▶ Some thought could be given by the authorities to applying disincentives to informal remittance methods, particularly the use of cash couriers.
- ▶ It can be argued that bus drivers offering remittance services are committing an offence

under the Law on payment transactions. It is a matter for the authorities to decide whether enforcement measures are appropriate.

- ▶ As an exercise in lateral thinking, if bus drivers have built up many years of successful, reliable and cost-effective experience in providing person-to-person remittance services, some consideration could be given to bringing them within the scope of regulation.
  - ▶ Although it may seem to run counter to the direction of FATF and EU policy, there could be merit in reverting to one of the earlier Serbian cash declaration thresholds. For example, the application of a Serbian threshold at the EUR 2 000 level would yield a meaningful increase in statistical data on cash movements.
  - ▶ Consideration could be given to offering some form of incentive to encourage voluntary declaration at point of entry below the threshold for mandatory reporting.
57. ▶ Action on the following points is recommended.
- ▶ To the extent that the Serbian authorities accept that informal (cash) remittances provide a screen for movements of criminal proceeds, that risk should be included as soon as possible within the scope of Serbia's NRA. Appropriate steps should be discussed among the relevant authorities and an action plan agreed for proportionate measures aiming to isolate criminal from legitimate remittance flows.
  - ▶ Ideally, additional targeted research should be conducted to seek to estimate the extent to which cash being moved across Serbian borders is related to criminal activity.
  - ▶ As noted, to seek to address the broader information gaps, a remittance survey should be

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conducted as soon as possible to check the underlying validity and current relevance of the published research, and to test the accuracy and suitability of the BoP remittance estimates.

### **Proposed remittance survey**

58. ► Suggestions regarding the scope of such a survey are contained in Annex 14, together with a first draft of a detailed remittance questionnaire, for consideration by the Serbian authorities. Among the design points for consideration are the following.
- ► Geographical dispersion – in selecting the locations for sampling, the aim should be to include locations with known migrant links to a range of foreign countries.
  - ► Stratification – based on some of the earlier research, the pattern of remittances differs significantly between rural and urban recipients, which should be reflected in the sample selection. To help determine whether or not *hawala*-type transactions occur in Serbia, consideration should be given to surveying a Muslim region as well.
  - ► Timing – account should be taken of the increased levels of remittances at Christmas, Easter and in summer.
  - ► Currency – the opportunity should be taken to test the degree of resistance to receiving remittances in SRD rather than FX and perhaps to seek to measure non-bank holdings of EUR or other FX (“mattress money”).
  - ► Cash – the survey could seek to determine the extent of, and reasons for, cash holding/usage in preference to use of the formal financial sector.
  - ► Liberalisation – it would be interesting to learn whether there are forms of remittance service that recipients would like to see introduced.

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# Part I – Introduction, scope and background

## Introduction

- I.1 ► This research study of Serbian funds transfer systems was commissioned by the Council of Europe MOLI-Serbia project and conducted between April and July 2013 by short-term expert Terence Donovan. The findings are those of the author and do not necessarily reflect the views of the Council of Europe.
- I.2 ► The terms of reference for this study were developed by the Council of Europe, in consultation with the Serbian authorities, and are included as Annex 1 to this report.
- I.3 ► The research process involved a detailed review of the available literature and a scoping mission to Belgrade conducted from 22 to 24 May 2013 to provide the foundation for a more extensive mission which took place from 12 to 19 June 2013. The process also included a high-level assessment of Serbia's state of compliance with R. 14 on money remitters, R. 16 on wire transfers and R. 32 on cash couriers (henceforth R.14, R.16 and R.32, respectively). The terms of reference included the drafting of proposed legislative amendments, where considered necessary.
- I.4 ► Over the course of the two missions, the author met in Belgrade with a wide range of relevant authorities and financial sector participants. A number of international financial service providers conducting business in Serbia were also invited to participate in this study, of which two responded positively, resulting in interviews outside Serbia with representatives of Western Union and PayPal. Useful background input was also obtained from contacts in the World Bank and from a number of AML/CFT experts in western Europe.
- I.5 ► The author would like to express appreciation to all who provided support and information for purposes of this research project, particularly for their patience and generosity in the course of often detailed and lengthy interviews. Particular thanks are offered to the staff of the Serbian financial intelligence unit (FIU), the APML and NBS for their ongoing support. In many interviews, detailed unpublished information was shared with the author and every effort has been made in the drafting of this report to protect the potential confidentiality of such information. A full list of interview partners is set out in Annex 2.

### Scope and objectives of the study

- I.6 ► In accordance with the terms of reference, the aim of this research and feasibility study is to undertake comprehensive research of the funds transfers systems in Serbia, including both its formal and informal components, in order to identify ML/TF risks, legislative and institutional gaps and, where appropriate, to propose substantive remedies to address identified vulnerabilities, including through legislative and policy proposals. This is a complex topic with a challenging set of objectives, particularly given the available timeframe for completion.
- I.7 ► With research to be based on a combination of qualitative and quantitative analysis of formal and informal data on money transfers, the scope of the study included:

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- (i) the formal electronic funds transfer sector (domestic and cross-border), comprising wire transfers through the banking system (R.16) and money remittances (R.14); and
- (ii) alternative remittance systems in Serbia, with particular focus on the largest source (cross-border funds and goods received from the Serbian diaspora) and on cross-border cash monitoring (R.32).
- I.8 ► As the use of cash, whether in RSD or FX – particularly in EUR – continues to be a widely used medium of exchange and store of value in Serbia, both domestically and for cross-border remittances, the scope of the study includes use and movements of cash, particularly in the context of the shadow economy.

#### Availability of relevant data

- I.9 ► Available statistical data was provided for this study by almost all authorities interviewed and also by the majority of financial sector interview partners. The data have been tabulated and included throughout this report. However, an issue to which much time and effort was devoted in researching alternative remittances in particular, is whether the available data provide a reasonable estimate of the level of activity. As can be seen from the analysis that follows, this report could not conclude that the available official data accurately reflect the flow of cross-border cash remittances, although they may nonetheless be suitable for their intended purpose in the context of the BoP estimates.
- I.10 ► There is therefore merit, as suggested as a possibility in the terms of reference, in proceeding as soon as possible with a targeted remittance survey in order to address the current information gap. As a starting point in the planning for such a survey, a possible

design for a questionnaire has been developed and is included as Annex 14.

#### Output

- I.11 ► This report includes a series of recommendations, some of which are specific (e.g. proposed draft legislation), while others point to the need for additional research. However, rather than seek to be definitive, many of the proposals in this report are intended primarily to provide a framework for further discussion and debate among the Serbian stakeholders.
- I.12 ► In accordance with the terms of reference, the report includes:
- ► a summary and analysis of the links between funds transfers into/from Serbia and money laundering and/or financing of terrorism, particularly in the context of organised crime linked to the Balkans;
  - ► an inventory and risk analysis of all identified means of formal funds transfer within Serbia;
  - ► an inventory and risk analysis of all identified means of formal funds transfer cross-border into/from Serbia;
  - ► a discussion of the proposed liberalisation of cross-border financial services in the context of preparations for future EU accession and WTO membership;
  - ► detailed legislative drafting proposals to assist Serbia in achieving full compliance with R.14 and R.16;
  - ► an inventory of all identified alternative remittance possibilities into/from Serbia;
  - ► a brief analysis of *hawala* in Serbia and a detailed discussion of cash couriers in the context of the Serbian diaspora;

- ▶ a detailed review of the literature on diaspora remittances; and
- ▶ a first draft of a possible questionnaire for a remittance survey.

## Background

- I.13 ▶ According to the FATF Recommendations, as revised in 2012, countries should implement the international standard through measures adapted to their particular circumstances. Before proceeding to analyse Serbia's funds transfer systems and the implementation in Serbia of R.14, R.16 and R.32, this section provides some background and context to assist in understanding the particular circumstances of Serbia. It includes:
- ▶ facts about Serbia of relevance to the topics in this report;
  - ▶ key economic indicators; and
  - ▶ an outline of the financial system, with particular focus on funds transfer.
- I.14 ▶ Serbia is located in the central part of the Balkan peninsula of south-eastern Europe, sharing borders with Bulgaria to the east, Romania and Hungary to the north, Croatia to the northwest, and BiH and Montenegro to the west, with Albania and the former Yugoslav Republic of Macedonia to the south. It is situated at the crossroads between central, southern and eastern Europe, on the main routes connecting western Europe with Turkey and the Middle East.<sup>3</sup> With the accession of Croatia to the EU on 1 July 2013, Serbia shares borders with four EU Member States. Serbia's geographical location and extent of its borders with the EU points to an increased vulnerability to cross-border crime, including various forms of smuggling as well as human trafficking.
- I.15 ▶ In addition, at a regional level, the province of Kosovo has declared its independence, although the existence of a border with Kosovo is not recognised by the Serbian authorities. Relations have been strained and the situation is in transition. Sufficient agreement has been reached between the EU and the authorities in Pristina and Belgrade to permit the EU in late June 2013 to accept Serbia as a candidate country for future EU membership.
- I.16 ▶ Serbia had the 86th largest economy in the world in 2011 according to the latest published World Bank statistics, with GDP valued at USD 37.5 billion. The World Bank classified Serbia as an upper middle-income country based on a per capita gross national income of USD 5 280, ranking it 116th in the world on this measure (101st based on purchasing power parity). These data indicate some slippage in Serbia's rankings in recent years.

<sup>3</sup> Adapted and updated from Council of Europe MONEYVAL, "Mutual Evaluation Report 2009".

I.17 ► The following key statistics provided by the NBS assist in an understanding of the economy.

|  | 2007   | 2008   | 2009   | 2010   | 2011   | 2012   | Q1 2013 |
|--|--------|--------|--------|--------|--------|--------|---------|
| <b>Current account deficit</b> (million EUR)                   | -5 053 | -7 054 | -1 910 | -1 887 | -2 870 | -3 155 | -615    |
| <b>Current account deficit</b> (% of GDP)                      | -17.7% | -21.6% | -6.6%  | -6.7%  | -9.1%  | -10.5% | -8.1%   |
| <b>Import of goods, fob</b> (million EUR)                      | 13 451 | 15 917 | 10 924 | 11 984 | 13 758 | 14 272 | 3 410   |
| <b>Export of goods, fob</b> (million EUR)                      | 6 383  | 7 416  | 5 978  | 7 403  | 8 440  | 8 822  | 2 265   |
| <b>Foreign direct investments</b> (million EUR)                | 1 821  | 1 824  | 1 372  | 860    | 1 827  | 232    | 155     |
| <b>Remittances,<sup>4</sup> annual inflow per capita</b> (EUR) | 360    | 319    | 444    | 419    | 399    | 378    | 393     |
| <b>Average wage, net monthly</b> (EUR)                         | 347    | 402    | 338    | 331    | 372    | 366    | 371     |
| <b>GDP</b> (million EUR)                                       | 28 468 | 32 668 | 28 954 | 28 006 | 31 472 | 29 932 | 7 592   |
| <b>Inflation</b> (CPI %)                                       | 11.0%  | 8.6%   | 6.6%   | 10.3%  | 7.0%   | 12.2%  | 11.2%   |
| <b>Population</b> (million)                                    | 7.38   | 7.35   | 7.32   | 7.29   | 7.26   | 7.24   | n/a     |

Source: National Bank of Serbia and Statistical Office of the Republic of Serbia

I.18 ► The Serbian economy was described by the IMF as follows in July 2013:<sup>5</sup>

“The Serbian economy is recovering from a recession but faces multiple challenges. Robust growth in automotive exports is underpinning the recovery in 2013 and the double-digit inflation is subsiding. However, unemployment well above 20% is a major social concern and large fiscal and current account deficits constitute key vulnerabilities. Structural bottlenecks continue to undermine overall competitiveness and constrain Serbia’s growth potential”.

I.19 ► At the end of 2012, the Serbian banking sector comprised 32 banks (31 are currently listed on the NBS website as at the date of this report) and employed 28 394 people. Net banking sector assets totalled RSD 2 880 billion and capital RSD 591 billion. Of the total number of banks, 21 were in foreign and 11 in domestic ownership. Among domestically owned banks, eight

were State-owned (either by holding a majority share or being the largest individual shareholder) and three were in the ownership of private individuals.

I.20 ► Foreign-owned banks dominated the market, accounting for 75% of total assets, 74% of total capital and 72% of total banking sector employment. Foreign-owned banks operating in Serbia are members of banking groups from 11 countries. In terms of their share in total banking sector assets, the most significant were Italian banks (23%), followed by Austrian (15%), Greek (15%) and French (10%) banks. Banks from other countries held a 12% share in total banking sector assets. State- and privately-owned domestic banks accounted for 25% of total banking sector assets.

I.21 ► The Serbian financial system comprises, according to the websites of the NBS, the Secu-

<sup>4</sup> These data do not necessarily correspond to funds actually remitted cross-border in the time periods indicated. See the later discussion on the compilation by the NBS of the remittance line item for BoP purposes.

<sup>5</sup> IMF Public Information Notice No. 13/76: “IMF Executive Board Concludes 2013 Article IV Consultation with Serbia”, July 2013.

rities Commission and the Foreign Currency Inspectorate<sup>6</sup> within the Tax Administration:

- ▶ 31 banks licensed by the NBS;
- ▶ 28 insurance companies authorised by the NBS;
- ▶ 34 broker-dealers and various other financial market participants authorised by the Securities Commission;
- ▶ over 1 800 Exchange dealers<sup>7</sup>;
- ▶ two agents of Western Union (with no direct business with the public, which is done through banks and Post Serbia, as their sub-agents) but with a wide distribution network as explained in detail later in this report; and

- ▶ Post Serbia, with more than 1 500 offices and 240 franchises nationwide.

I.22 ▶ The topic of financial inclusion has become important in the context of designing effective AML/CFT preventative measures and in providing viable options within the formal financial system, with a view to reducing dependence on informal methods.<sup>8</sup> As a measure of financial inclusion, the following table presents some relevant banking sector access indicators:

| Access indicator<br>(data as at 2011)   | Serbia | Croatia | Bulgaria | Hungary | Germany<br>(2010 data) | Austria |
|---|--------|---------|----------|---------|------------------------|---------|
| <b>Account at a formal financial institution</b><br>(% age 15+)                           | 62.2%  |         |          |         |                        |         |
| <b>Account at a formal financial institution, female</b> (% age 15+)                      | 62.3%  |         |          |         |                        |         |
| <b>Percentage of SMEs with account at a formal financial institution</b> (5-99 employees) | 100%   |         |          |         |                        |         |
| <b>Loan from a financial institution in the past year</b> (% age 15+)                     | 12.3%  |         |          |         |                        |         |
| <b>Automated teller machines (ATMs)</b><br>(per 1 000 sq. km)                             | 32.4   | 71.0    | 49.3     | 54.2    | 248.2                  | 99.0    |
| <b>Automated teller machines (ATMs)</b><br>(per 100 000 adults)                           | 47.1   | 105.9   | 83.2     | 57.7    | 122.3                  | 113.4   |
| <b>Commercial bank branches</b><br>(per 1 000 sq. km)                                     | 6.6    | 23.4    | 35.1     | 14.8    | 31.9                   | 15.1    |
| <b>Commercial bank branches</b><br>(per 100 000 adults)                                   | 9.6    | 34.9    | 59.2     | 15.7    | 15.7                   | 13.2    |

Source: IMF Financial Access Survey (FAS) data

<sup>6</sup> Also known in English as the Foreign Exchange Inspectorate

<sup>7</sup> Sourced from MONEYVAL, "Mutual Evaluation Report 2009": 1 811 dealers operating 2 370 exchange offices.

<sup>8</sup> "Strengthening financial integrity through financial inclusion" FATF, June 2013, available at: [www.fatf-gafi.org/documents/documents/unsgsa-20-june.html](http://www.fatf-gafi.org/documents/documents/unsgsa-20-june.html).

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I.23 ► These data appear to indicate that both traditional and electronic banking services in Serbia are not as easily accessed (probably in more rural areas of the country) as is the case in the selected comparator countries, which were chosen to reflect possible regional peers and more developed financial systems of particular relevance to Serbia. As has also become the norm in other countries due to the financial crisis and the increasing prevalence of electronic banking, bank branch numbers and opening hours have been decreasing in the past couple of years, potentially leading to some worsening of the financial access landscape. However, according to Post Serbia, numbers of post offices have not declined.

#### **Law enforcement perspective – Typologies of financial crime**

I.24 ► While much of the research in this report relates to the operation of domestic and cross-border remittance systems and the issue of large ongoing cross-border cash movements, the main aim of the research is to enhance Serbia's AML/CFT measures. To put that discussion in context, the project included interviews with a range of Serbian law enforcement agencies, a review of ML and TF typologies and collation of other sources of background information on the level and nature of ML and TF believed to be conducted in or through Serbia. The primary focus was to seek to determine the extent to which wire transfers, the use of money remitters and the use of cash – particularly where moved across borders – are significant in Serbia in money laundering schemes and terrorism financing. The following does not seek to represent a comprehensive analysis. However, it serves to provide at least an indication of the background and environment from a law enforcement perspective.

I.25 ► Interviews with Serbian law enforcement agencies highlighted the following typologies, which can be found also in the APML's 2011 Typologies Report<sup>9</sup> and in the 2013 NRA.

- ► Abuse of office (corruption) Serbia was ranked mid-table in the 2012 Transparency International (TI) perception index, scoring 39 out of 100 and ranked 80 out of 174 countries in the survey. According to TI's newly released 2013 Global Corruption Barometer, Serbs interviewed had mixed views as to whether or not the situation was improving, with 34% saying corruption had decreased a lot but, overall, more than 70% saying it remained a serious problem in Serbia.

According to the 2013 NRA, it can be concluded from operational data and direct insight into cases that criminal proceedings for corruption in public enterprises, the health-care sector, the judiciary, the real sector (criminal offences of giving and receiving bribes and abuse of office) involve total proceeds of over EUR 75 million.

- ► Tax evasion, according to the 2013 NRA, is one of the most widespread forms of financial non-compliance of legal entities in Serbia. The payment of tax and other charges is most often evaded by reporting false turnover through "phantom companies", forging documents and bringing smuggled goods or illegally manufactured goods into legal trade flows through companies. The high level of tax evasion is also related to the fact that a significant part of business activity is conducted in cash.
- ► Drugs offences: illegal production and distribution of narcotics. The 2013 NRA indicates that illegal proceeds are typically used to purchase real estate (houses, apartments, commercial facilities, construction land),

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<sup>9</sup> "Money Laundering Typologies in the Republic of Serbia", APML, 2011.

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movable assets (passenger and freight motor vehicles, valuables), and to a lesser extent securities. There is no indication of the extent to which cash usage or remittances may be related to drug offences.

- ► Illegal immigration is a complex issue for Serbia. Some cross-border remittance transactions have been linked to schemes providing assistance to illegal immigrants to gain entry to the EU.
  - ► Smuggling of goods, particularly excise goods, including cigarettes, from/to neighbouring countries, including Bulgaria and BiH.
  - ► Use of offshore structures, while relevant to the tax evasion heading above, is a topic highlighted here separately as the predicate crimes involved may extend beyond tax evasion. Relevant jurisdictions identified by the Serbian authorities include Cyprus, the US (Delaware and other States offering similar anonymity to beneficial owners), the British Virgin Islands (BVI), Switzerland, Liechtenstein and, recently, Liberia. The existence of transactions with these jurisdictions is not in itself evidence of wrongdoing and many transactions are legitimate. Serbian natural persons are not permitted to hold bank accounts abroad but it is permitted in certain circumstances for Serbian legal persons. The extent of use by Serbian businesses of offshore structures presents a challenge for the implementation by Serbian banks of effective AML/CFT controls and has the potential to be linked to predicate offences.
  - ► The facility to use cash for investment of additional “liquidity” in legal persons and for real estate development provides opportunities in Serbia for tax avoidance and, potentially, for the laundering of criminal proceeds.
- I.26 ► The use of MTOs, particularly Western Union due to the scale of its business, was noted as a concern in certain corridors (notably Greece-Serbia, but also Pakistan and Afghanistan) and was suspected of being connected to illegal immigration schemes in which Serbia-based criminals received payment for smuggling illegal immigrants into the EU.
- I.27 ► There was little indication that large movements of cash were being encountered in domestic law enforcement investigations, although smaller amounts of cash were sometimes found.
- I.28 ► From an international perspective, there are occasional large seizures of cash – mostly in EUR – at Serbian borders, following intervention from Serbian Customs and Border Police. Some of these finds arise from information provided through regional and international customs and law enforcement networks, as well as profiling techniques employed locally. In addition to unexplained cash entering Serbia, these seizures have identified the use of Serbia as a corridor for cash movements from west to east, notably to Turkey.
- I.29 ► Serbia has long been reported as a transit route for drug traffickers supplying markets in western Europe. From discussions, it was not clear whether these routes are as widely used at this stage as might have been believed. In any event, this analysis is not about drug movements or other illicit goods but about the movement of their proceeds of sale. Serbian law enforcement agencies did not indicate any large-scale drug-related use of money transfer systems in Serbia, although some “service fees” to Serbs for assisting in drug trafficking had been identified.
- I.30 ► An insight into the scale of the problem is offered by the Ministry of the Interior’s published report of the main outcome of its en-

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deavours for 2011. There is no indication of the extent to which remittances or cash featured in these cases. The following information relates to the section of the report dealing with economic crime (translation from Serbian is approximate):

- I.31 ► In the area of combating economic crime, 9 279 crimes were identified and reported, involving a total of 6 234 persons. The emphasis of the work in this area was the discovery of complex crimes and economic crimes with greater financial impact. The amount of damage/loss caused through the commission of these offences (over RSD 50 billion), as well as material loss to the victims (about RSD 40 billion), is significantly higher than the level of economic crime offences detected in 2010 (loss to the victims RSD 22 billion and material gain about RSD 20 billion)<sup>10</sup>.
- I.32 ► Overall, only one Serbian law enforcement agency considered the volumes of funds entering Serbia in cash to be a concern. However, to paraphrase the 2013 NRA, investments in the country made by persons known to be offenders, especially in the privatisation process, foreign trade and construction, are significant. No information is provided on the extent of use of remittances or cash in this process, but it can reasonably be assumed.
- I.33 ► Money transfer in international payment operations was assessed in the 2013 NRA as a medium-risk sector. According to the NRA, money transfer services are most often abused by persons connected with narcotics trafficking and human smuggling.
- I.34 ► As a method of conversion of cash criminal proceeds to “clean” money, the APML’s 2011 Typologies Report identifies exchange offices as the preferred location for such

activity, where the cash can be exchanged into another currency, typically without the need for identification. This possibility for anonymous money laundering is also referenced in the 2013 NRA as requiring action by the authorities. The ML/TF risks that may arise from the ownership and operation of the many exchange offices in Serbia are themselves a distinct area for study, and not within the scope of this report. However, there is some further reference to the issue in this report in the discussion on possible future liberalisation of money-remitting agent networks as, based on experience in other countries, exchange offices often also become agents of MTOs. Based on the published concerns of the Serbian authorities and experiences reported in other countries, this report will question whether it is appropriate to allow Serbian exchange offices to also offer money remittance services, at least until their level of compliance with AML/CFT requirements can be assured.

- I.35 ► To provide an independent view, a broad study of financial crime in Serbia was conducted in 2006 by the Organization for Security and Co-operation in Europe (OSCE).<sup>11</sup> While the report is somewhat dated at this stage, the summary of predicate offences it identified is broadly consistent with those presented above. The OSCE researchers placed particular emphasis on seeking to identify unexplained cross-border movements of funds using BoP and other data. The most significant finding related to the size of the “import” and “export” transactions between Serbia and a number of jurisdictions offering offshore company and banking facilities. This is consistent with information provided for this report. Some of the offshore centres currently in use also featured strongly in the 2006 OSCE study;

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<sup>10</sup> Ministry of the Interior “Hajznačajniji rezultati MUP-a Republike Srbije u 2011”.

<sup>11</sup> “Report on money laundering and predicate crime in Serbia 2000-2005”, OSCE, October 2006.

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others are added here from the 2013 NRA – Cyprus, the US (Delaware and other States offering similar anonymity to beneficial owners), Belize, the BVI, Switzerland, Liechtenstein and, recently, Liberia. In terms of transfers to/from foreign companies that may be controlled by Serbs, the UK and the Netherlands also feature strongly. This is not to imply that all such transactions are related to criminal activity, whether tax evasion, breach of Serbian foreign currency laws or money laundering. However, links to activities such as the use of phantom companies, false invoicing (e.g. for non-existent consultancy or other service contracts) and transfer pricing feature in investigations conducted by the authorities. As noted, connections to the Serbian privatisation programme were also frequently mentioned in interviews.

- I.36 ► The threats arising from cross-border regional crime are recognised by the Serbian authorities. According to recent media reports (June 2013), Serbian and Montenegrin police forces have agreed to form joint task forces for fighting organised crime and corruption, in recognition of the fact that many crimes that happen in Serbia are connected to Montenegro and vice versa, according to the police chiefs.
- I.37 ► In terms of regional issues, strong concerns were raised by Serbian law enforcement agencies regarding the use of the region in or close to Kosovo by drug dealers and other organised criminals as a means of avoiding detection and prosecution.
- I.38 ► Specific examples of the impact of organised crime in Serbia (and in the Balkans more broadly) are provided in Annex 3, which has been compiled based mainly on media reports. The cases mentioned relate to the period 2009-13 and include that of Darko Šarić.

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# Part II – Formal funds transfer systems

## Objectives of Part II

To complete a research and feasibility study of the formal electronic transfers sector, covering:

- ▶ a description and analysis of the formal money transfer sector and its main characteristics (i.e. size, structure, mode of international and domestic transfers and remittances, and their demographic, geographical and typological dispersal);
- ▶ an assessment of money laundering and terrorism financing risks related to the formal money transfers market; and
- ▶ an analysis of the legislative and regulatory framework in relation to the new R. 16 (wire transfers) in the form of a feasibility study to identify the scope of required draft amendments to existing legislation on electronic transfers; draft legislative proposals and regulations to cover the requirements of international standards in the area of electronic transfers, as well as policy recommendations where needed.

### Structure of analysis

II.1 ▶ This analysis of the formal money transfer sector in Serbia is organised as follows.

- ▶ Domestic funds transfers:
  - summary of factors affecting domestic payment practices in Serbia; and
  - inventory and discussion of available domestic funds transfer channels.
- ▶ Cross-border funds transfers:
  - inventory of available cross-border inward and outward funds transfer channels.

- ▶ Assessment of money laundering and terrorism financing risks related to the formal funds transfers market.
- ▶ Wire transfers: assessment of technical compliance with SR.VII and R.16.
- ▶ Proposed legislative amendments to achieve full technical compliance with R.16.
- ▶ Assessment of effectiveness of implementation under SR.VII and R.16.
- ▶ Money or value transfer services: analysis of money remittances into/from Serbia.
- ▶ Assessment of compliance with SR.VI and R.14.
- ▶ Regulation and supervision in Serbia of current funds transfer operations.
- ▶ Looking to the future: planned liberalisation, new technologies and EU accession.

### Domestic funds transfers

#### Scope of analysis

II.2 ▶ The following analysis represents a broad overview of Serbia's domestic money transfer systems and seeks to include all means used within Serbia for transfer of money or value within the territory of Serbia, including the formal payments systems. This approach was chosen for the sake of completeness, to reflect the current stage of development of the domestic financial system and to provide a stronger basis for a range of recommendations to enhance the AML/CFT measures currently in place in Serbia. In some respects the scope is therefore broader than required by a strict interpretation of R.16 and is relevant also to other FATF Recommendations,

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in particular R.14 dealing with money or value transfer services and R.15 dealing with new technologies.

- II.3 ► While most of the analysis is based firmly on legislation and statistics provided by the Serbian authorities, some of the included references are to views expressed by individuals interviewed in Belgrade regarding the reality of the payments landscape as they saw it. Such anecdotal information, whilst accepted as sincere, was not subject to broad-based or standardised survey methodology and may therefore need to be treated with some caution.

#### **Summary of factors affecting domestic payment practices in Serbia**

- II.4 ► In describing and reviewing Serbia's formal facilities for domestic money transfer, it is useful to first set out some foundation points.

- By law, responsibility for the provision and operation of the domestic money transmission/payments system rests with the NBS:

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“[O]ne of the key legally-mandated functions of the National Bank of Serbia is to regulate, oversee and promote smooth operation of the national payment system.”

Source: NBS website.

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- The applicable legislation is in the course of being revised to align with relevant EU directives, as set out below.
- While Serbian banks offer a wide range of electronic payment options that are gaining in popularity, many Serbs continue to prefer to transact in cash.

- Lack of confidence in banks is reported to be significant in explaining patterns of usage of cash and the selection of financial services, and it is understood that substantial amounts of money are held outside the deposit facilities of the banks, mainly in the form of EUR banknotes (“mattress money”).
- With regard to currency, there remains a strong preference to hold EUR rather than RSD banknotes, with conversion to RSD as needed for the purpose of domestic transactions.
- It is an offence for Serbian residents to conduct domestic transactions in any currency other than RSD, subject to a range of exceptions specified in Article 34 of the Law on foreign currency transactions, last amended in late 2011. Among the exceptions specified in Article 34(5) are:
  - payments for the sale, rental and leasing of real estate;
  - insurance premiums paid to a foreign company;
  - humanitarian aid (e.g. medical expenses);
  - “commodity loans” or loans to resident companies to pay for imports;
  - wages of employees working abroad; and
  - loans to natural persons to purchase real estate in Serbia.
- Anecdotal information indicates that it is not uncommon for person-to-person transactions to take place in Serbia in EUR, including in the case of high-value transactions. However, even within the law, there is substantial scope, as noted above, for EUR-denominated domestic transactions.
- By definition, the domestic payments system operated by the NBS addresses transactions denominated in RSD (with one exception, noted below); transactions in cash in general, and EUR cash in particular, operate outside this formal system.

- ▶ Pursuant to Article 36 of the AML/CFT Law, a person selling goods or providing a service in Serbia may not accept cash payments from a customer or third party to the amount of EUR 15 000 or more in its RSD equivalent.
- ▶ Anecdotal information indicates that the prohibition on the use of cash for transactions exceeding the equivalent of EUR 15 000 appears not to be widely known or consistently understood and therefore appears to be neither effective nor widely enforced.
- ▶ The NBS also provides, by agreement, a clearing facility for international payments, typically in EUR, for banks in Serbia and BiH that have signed up to the agreement, using a facility provided in conjunction with Deutsche Bank. This results in much lower transaction costs for customers of banks within the scope of the agreement.<sup>12</sup> The list of participating banks is included as Annex 4. Outside of this agreement, EUR-denominated transactions between Serbian banks (understood to be a significant part of their business) are settled through the normal non-Serbian correspondent bank arrangements, typically based on the SWIFT messaging system, with associated higher transaction costs for customers.

### **Inventory and discussion of available domestic funds transfer channels**

- II.5 ▶ (Accuracy and completeness of this analysis is subject to verification by the Serbian authorities; considered sufficient for AML/CFT analysis purposes).<sup>13</sup>

- (a) Banks:
  - ▶ NBS RTGS – credit and debit transfers in RSD;
  - ▶ NBS clearing system – credit and debit transfers in RSD;
  - ▶ agreement for clearing of credit and debit transfers in EUR and other FX within Serbia and BiH;
  - ▶ other non-RSD domestic bank transfers (using SWIFT messaging);
  - ▶ use of bank-issued credit and debit DinaCards for RSD payments;
  - ▶ use of Serbian bank-issued Visa, MasterCard and other credit/debit cards;
  - ▶ use of non-Serbian bank-issued Visa, MasterCard and other credit/debit cards, in EUR or other FX;
  - ▶ use of cheques and drafts;
  - ▶ limited e-banking and m-banking services; and
  - ▶ withdrawal in cash (RSD or EUR/other FX).
- (b) *Post Serbia:*
  - (i) postal money order (next day service); and
  - (ii) PostNet money order (immediate funds availability).
- (c) Online payments and e-commerce systems (current and future):
  - (i) electronic payment of utility and other bills;
  - (ii) PayPal – not yet available for domestic payments; and
  - (iii) Potential new “currencies” and payment systems (discussed later).
- (d) Cash:

<sup>12</sup> See [http://www.nbs.rs/export/sites/default/internet/english/35/rlinks/20072103\\_prezentacija\\_kliring.pdf](http://www.nbs.rs/export/sites/default/internet/english/35/rlinks/20072103_prezentacija_kliring.pdf)

<sup>13</sup> This section presents an outline of available facilities as a foundation for a gap analysis from an AML/CFT perspective and, for that purpose, uses the terminology of the FATF Recommendations. A detailed technical presentation on the payments system is beyond the scope of this paper. For a full analysis of the Serbian payments system (as at its date of publication in 2007), see the Bank for International Settlements (BIS) document “Payment systems in Serbia”, prepared by the NBS and the Committee on Payment and Settlement Systems of the central banks of the Group of Ten countries (<http://www.bis.org/publ/cps79.pdf>), also available on the NBS website, which is taken as an indication that the contents are considered by the NBS as still valid.

- (i) in RSD, subject to the limit of the RSD equivalent of EUR 15 000 in Article 36 of the AML/CFT Law; and
- (ii) in EUR or other FX, particularly for transactions permitted under Article 34 of the Law on foreign currency transactions.

A more detailed version of the above inventory, including additional analysis, is presented in Annex 5.

### NBS outline of the domestic payment system

II.6 ► The NBS, on its website, outlines the domestic payments system as follows.

The NBS operates three payment systems:

- ► RTGS system for large value transactions in RSD (minimum RSD 250 000);
- ► clearing systems, with net settlement three times daily, for small value transactions (of up to RSD 250 000). The clearing facility also provides a means of settling transactions in securities on a delivery versus payment (DVP) basis, with simultaneous transfer of securities and funds; and
- ► system of interbank and international clearing payments in foreign currency for banks in Serbia and BiH that have signed up to a settlement agreement using a facility provided in conjunction with Deutsche Bank, as outlined above.

II.7 ► Data exchange in the RTGS and clearing systems is by means of SWIFT-format electronic messaging via the NBS's private network or alternatively through the SWIFT network itself, the choice of network being individual and guided by the respective business policy of each participant in the system. In almost all cases, Serbian banks choose the NBS's private network. As they have the same format, the SWIFT network can serve as backup for the NBS's private network and vice versa.

II.8 ► Since January 2005, the NBS has offered participants an additional service involving the execution (based on MT 102 SWIFT messaging) of small value clearing payments in the RTGS system, at the tariff applicable to clearing payments. This has enabled the banks with better liquidity positions to execute their payments through the RTGS system at a lower tariff and without waiting for the clearing cycles.

| Turnover<br>(RSD billions) | RTGS   | Clearing | Clearing as<br>% of total |
|----------------------------|--------|----------|---------------------------|
| 2010                       | 32,808 | 501.1    | 1.51%                     |
| 2011                       | 33,974 | 493.7    | 1.43%                     |
| 2012                       | 39,234 | 467.0    | 1.18%                     |

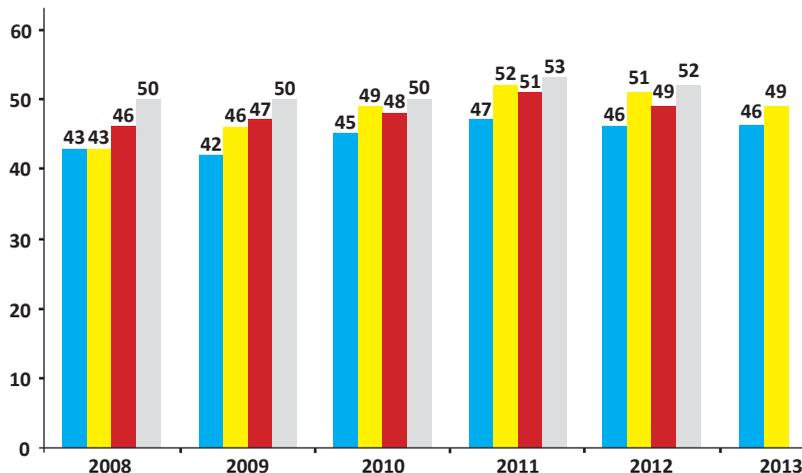
Source: NBS

## NATIONAL BANK OF SERBIA PAYMENT SYSTEM DEPARTMENT

Interbank payments in the NBS RTGS and Clearing system by quarter

January 2008 - June 2013  
(in millions of payments)

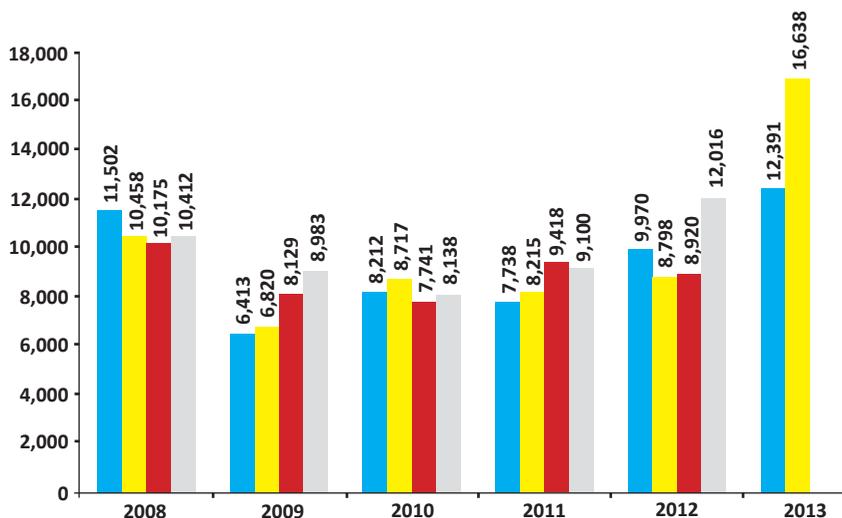
I quarter    II quarter  
III quarter    IV quarter



Value of turnover in the NBS - RTGS and Clearing system by quarter

January 2008 - June 2013  
(in millions of payments)

I quarter    II quarter  
III quarter    IV quarter



Source: Payment System Department

Data download and use allowed.  
Due to the technical reasons, NBS makes no warranties as to the accuracy or completeness of the information.

II.9 ► The following charts provide details of the volume (number and value) of domestic transactions processed through the NBS's systems. Additional statistics and analysis are set out in Annex 6.

- Ministry of Finance (Treasury Administration);
- Central Securities Registry, Depository and Clearing House (CSRDC), and
- the Association of Serbian Banks (ASB).

II.10 ► The participants in the RTGS and clearing system are as follows:

- NBS;
- Serbian member banks;

### Harmonisation with EU directives

II.11 ► The NBS has invested significant efforts to harmonise national regulations in the field of payment systems with those of the EU. These

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efforts resulted in the draft law on payment services and draft law on settlement finality in payment systems and securities settlement systems. The draft laws are designed to align with the main EU directives that create a harmonised, modern and comprehensive set of rules for the provision of payment services at EU level:

- ► Directive 2007/64/EC on payment services in the internal market – Directive on payment services (PSD);
- ► Directive 98/26/EC on settlement finality in payment and securities settlement systems; and
- ► Directive 2009/110/EC on the taking up, pursuit and prudential supervision of the business of electronic money institutions – the E-Money Directive.

II.12 ► At the time of this report, the draft laws were in the process of further drafting following industry consultation. Subject to government approval and the parliamentary timetable, the NBS projects that the revised laws may be enacted by the end of 2013 or early 2014.

### **The role of the post office**

II.13 ► In addition to the use of banks to transfer funds domestically, a range of other options for direct domestic money transfer in RSD is offered through the post office – Post Serbia – as shown in the above table and described below. According to Post Serbia, their services account for 60% of domestic personal funds transfers.

### **Money transfer services**

II.14 ► Post Serbia provides two methods of transferring money to natural persons in RSD within Serbia:

- (i) the postal money order service enables legal or natural persons to send their money to the remittee (natural person) at any address in Serbia, to be made available on the following business day; and
- (ii) the PostNet money order service offers, for an additional fee, the fastest domestic money transfer and is intended exclusively for use by natural persons. The remitted funds are available immediately to be paid out to the remittee at the counter of any post office or to be delivered to the indicated address.

### **Paying bills and making purchases**

II.15 ► Post Serbia accepts cash for payment of amounts due for taxes and various fees, tuition, child care centres and other obligations. It is also possible to make payment of public utilities, telephone, electricity and other original bills issued by legal persons who have concluded a contract on collecting of bills with Post Serbia. For websites that support the PostFin service, payments for online purchases can also be made through Post Serbia

### **Cross-border funds transfers**

#### **Scope of analysis**

II.16 ► The following analysis sets out the range of formal cross-border money transfer systems available to transfer money or value into or from the territory of Serbia. For the most part, the available means mirror those in more developed financial systems, with the exception that the authorities continue to restrict to some extent the channels available for outward funds transfers. As with the earlier discussion of domestic payment systems, the scope of the following analysis is, in some respects, broader than required by a strict interpretation of R.16 and is relevant also to other FATF Recommen-

dations, in particular R.14 dealing with money or value transfer services and R.15 dealing with new technologies.

## Statistics

II.17 ► The data in the following table provide a context for the analysis that follows.

### Estimated cross-border funds transfers into Serbia by formal means

|                                   | 2011<br>(all countries) |                                  | 2004<br>(Germany only)           |
|-----------------------------------|-------------------------|----------------------------------|----------------------------------|
|                                   | EUR<br>millions         | Percentage<br>of total<br>formal | Percentage<br>of total<br>formal |
| <b>Bank transfers<br/>(SWIFT)</b> | 407                     | 66%                              | 80%                              |
| <b>Remittances<br/>(MTOs)</b>     | 207                     | 34%                              | 20%                              |
| <b>Total formal</b>               | <b>614</b>              | 100%                             | 100%                             |

Sources: 2011 data: total receipts (NBS); remittances (Foreign Currency Inspectorate); bank transfers (residual calculation). 2004 data are quoted from the World Bank study on the Germany-Serbia remittance corridor and relate only to funds received from Germany.

II.17 ► Indications are that the data patterns for 2012 and 2013 to date, when available, will not vary dramatically from the 2011 data shown above. If the 2004 estimates for the German corridor, as the largest single source of remittances, are representative of the position at that time for all countries, that would point to a large increase in market share for MTO remittances in the seven years up to 2011.

### Inventory of available formal means of transferring funds into Serbia

- (a) Banks:
- ► wire transfers based on SWIFT messaging system;
  - ► proprietary intra-group systems (operated by one or more foreign-owned banks); and
  - ► use of non-Serbian Visa, MasterCard and other credit/debit cards, including prepaid cards, in EUR or other foreign currencies.
- (b) Banks as agents or sub-agents for money transfer providers:
- ► Western Union (receive only/no send service; receipts in EUR);
  - ► MoneyGram (receive only/no send service; receipts in EUR);
  - ► both Western Union and MoneyGram – some Serbian banks are agents/sub-agents for both;
  - ► RIA (receive only/no send service; receipts in EUR); and
  - ► other – none found, although Unistream had expressed interest in Serbia.
- (c) Post Serbia:
- ► cross-border postal network Giro (not yet operational);
  - ► sub-agent of Western Union (receive and send services, in RSD); and
  - ► acting for Postal Savings Bank, an agent for Western Union.
- (d) Online funds transfer and payment systems:
- ► Moneybookers/Skrill and similar online facilities (receipts lodged to bank accounts or

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can be withdrawn in RSD at Serbian ATMs); and

- ► potential new currencies and online payment processors (some possibilities discussed below).

### **Inventory of available means of transferring funds out of Serbia**

(a) Banks:

- (i) wire transfers based on SWIFT messaging system;
- (ii) proprietary intra-group systems (operated by one or more foreign-owned banks);
- (iii) use of Serbian bank-issued Visa, MasterCard and other credit/debit cards, including prepaid cards, in RSD; and
- (iv) use of non-Serbian Visa, MasterCard and other credit/debit cards, including prepaid cards, in EUR or other foreign currencies.

(b) Post Serbia:

- (i) cross-border postal network Giro (not yet operational); and
- (ii) Post Serbia as sub-agent of Western Union (discussed in detail below).

(c) Online payment and e-commerce systems:

- (i) e.g. *PayPal* – payment for goods and services (“send-only” service on a cross-border basis) and could potentially be authorised for person-to-person payments in future; introduced in Serbia in April 2013 and already gaining in popularity; and
- (ii) potential new currencies and payment systems (see below for outline of some recent and emerging payment systems and technologies).

### **Assessment of money laundering and terrorism financing risks related to the formal money transfer market**

II.19 ► As shown above, the formal funds transfer sector, domestic and cross-border, comprises:

- ► a range of services provided by Serbian banks, mostly for account-holding customers but potentially also for non-account holders; and
- ► money remittance services provided by MTOs under agency arrangements – in Serbia, only by banks and Post Serbia but, in originating countries just as likely to be by non-banks and, in some countries, by non-financial institutions.

II.20 ► To the extent that funds transfer services are provided to account-holding customers of banks or other financial institutions subject to AML/CFT requirements, CDD procedures should already have been completed. There is a higher ML/TF vulnerability in the case of cash transactions for occasional customers.

II.21 ► As noted, the options for funds transfer in Serbia remain, for now, confined to banks and Post Serbia. Many banks indicated that they limit wire transfer facilities to account-holding customers. According to some banks interviewed, a significant proportion of incoming wire transfers for natural persons represent the receipt of pensions from foreign governments or employments and are therefore considered as low risk. Remittance transactions, on an agency basis for MTOs, are generally for small amounts (typically EUR 300-600 and rarely more than EUR 2 000 or equivalent). This might suggest that overall risks of ML or TF are relatively low. However, large volumes of transfers are re-

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ceived into Serbia from other countries (many hundreds of thousands of individual transfers per year). For these receipts, the ML/TF risk depends on the quality of the AML/CFT controls applied in the remitting country and/or applied on a centralised basis by the MTO itself. Moreover, one bank in Serbia with substantial remittance receipts in border regions shared the view that up to 50% of its MTO remittances are regarded as suspect, which is reflected in a high volume of STRs to the APML.

II.22 ► In the course of interviews both within and outside Serbia, a similar range of ML/TF risks were mentioned by banks and others. They included:

- ► offering or obtaining amounts of funds that were not reasonable for the known circumstances of the sender/receiver (e.g. someone known to be dependent on welfare or a pension);
- ► many receipts coming to one receiver, with unusual patterns (e.g. from a range of countries or from a number of different senders in one location);
- ► a pattern of payments by one person to a range of receivers for which no reasonable explanation is offered when requested;
- ► unexpected combinations of countries and nationalities, particularly in certain border areas, likely to be linked to the financing of illegal immigration schemes;
- ► use of false identification documentation; and
- ► reluctance to provide requested information or respond to questions.

II.23 ► The APML confirmed that it receives a steady flow of STRs in relation to funds transfers

that relate to the issues listed above among others. As no distinction between their respective roles is included in the AML/CFT Law, it is unclear whether the suspicious transaction reporting requirement rests with a remittance agent or its sub-agent. As a result, both tend to file in relation to the same suspicious transaction, which may be inflating the APML's statistics.

II.24 ► Perhaps the most efficient method of summarising the relevant typologies for funds transfers is to refer to the list published based on a joint FATF/MONEYVAL study in 2010,<sup>14</sup> an abridged version of which is included as Annex 7. The analysis of common forms of financial crime in Serbia in Part I should also be borne in mind, as should the overview of Balkan organised crime in Annex 3.<sup>15</sup>

#### **Wire transfers – Assessment of technical compliance with SR.VII and R.16**

II.25 ► Effective controls in relation to wire transfers form an important component of overall AML/CFT measures for the reasons set out below. In the absence of requirements in relation to wire transfers at that time, Serbia was criticised in the 2009 MONEYVAL evaluation, receiving a “partially compliant” rating for SR VII. In response, among the amendments to the Serbian AML/CFT Law which came into effect in December 2010, Articles 12A-C were inserted with the intention of bringing Serbia into line with the FATF Recommendations and, in parallel, with the equivalent EU Regulation (EC/1961/2006). Although a substantial improvement on the previous absence of requirements on this topic, it is not clear in a number of respects (at least in the English translation) that Article 12A-C succeeded fully in its objective. Of more relevance at this stage,

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<sup>14</sup> “Money laundering through money remittance and currency exchange providers”, FATF/MONEYVAL, June 2010.

<sup>15</sup> Further relevant typology material can be found on the FATF website, including “Money laundering using new payment methods”, FATF, October 2010”.

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Article 12A-C is not fully aligned with the revised international standard (R.16) or equivalent draft EU regulation.

II.26 ► Some further amendment to the Serbian AML/CFT Law is needed for full compliance with the latest international standard (R.16 of the 2012 FATF Recommendations, in parallel with the revised EU Directive on information accompanying transfers of funds, currently in draft). Proposals for amendment are set out below. For the most part, the proposed amendments are designed to improve the precision and accuracy of the current provisions of the AML/CFT Law and remove any remaining grounds for confusion or doubt as to whether Serbia is fully compliant with R.16.

II.27 ► In replacing SR.VII with the revised R.16, the FATF has simplified and clarified the requirements for a topic that had been technical, complicated and confusing under the previous recommendations, particularly with respect to the differing treatments of cross-border and domestic transfers. In addition to the clearer distinction now made between the roles and responsibilities of the payer's payment service provider and that of the recipient, R.16 also seeks to have requirements imposed on any intermediary in the payment chain. By contrast, Article 12 A-C combines the requirements in relation to both sending and receiving in a manner that could be confusing. No evidence was uncovered that the current legislative provision is causing difficulties for Serbian banks in practice. However, for legal clarity, this report recommends that the Serbian authorities revise Article 12 A-C to set out distinctly the respective roles of Serbian payment service providers, when acting (i) as paying, (ii) as receiving and (iii) (potentially) as intermediary service provider.

### **FATF's objective in adopting the revised provisions of R.16**

II.28 ► It may be helpful to recall the objective in applying controls to wire transfers, which is more specific than the general AML/CFT requirements. According to the FATF's Interpretative Note to R. 16, it was developed with the objective of preventing terrorists and other criminals from having unfettered access to wire transfers for moving their funds, and of detecting such misuse when it occurs. Specifically, it aims to ensure that basic information on the originator and beneficiary of wire transfers is immediately available:

- (a) to appropriate law enforcement and/or prosecutorial authorities to assist them in detecting, investigating, and prosecuting terrorists or other criminals, and tracing their assets;
- (b) to financial intelligence units for analysing suspicious or unusual activity, and disseminating it as necessary; and
- (c) to ordering, intermediary and beneficiary financial institutions to facilitate the identification and reporting of suspicious transactions, and to implement the requirements to take freezing action and comply with prohibitions from conducting transactions with persons and entities designated in relation to terrorism or terrorist activities.

II.29 ► Provisions relating to freezing, seizing, reporting, record keeping and supervision, all of which are required for compliance with the international standard, have not been addressed here as they belong elsewhere in legislation, not in Article 12. However, reference is included elsewhere in this report to the need for Serbia to enact legislation on the freezing of funds potentially linked to terrorism.<sup>16</sup> The topic of supervision is also discussed below.

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<sup>16</sup> Legislation has been drafted but is yet to be enacted.

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- II.30 ► To accomplish these objectives, countries should have the ability to trace all wire transfers. Due to the potential terrorist financing threat posed by small wire transfers, countries should minimise thresholds taking into account the risk of driving transactions underground and the importance of financial inclusion. The European Commission describes the aim in revising its wire transfer regulation as “introducing the minimum requirements essential to ensure the traceability of transfers of funds without going beyond what is necessary to achieve its objectives”.
- II.31 ► A key revision by the FATF is the extension of the wire transfer identification requirements at all stages of the payment process to include the beneficiary as well as the sender.
- II.32 ► A further important clarification is that, where intermediary payment providers are used (e.g. using correspondent banking relationships) the payer/beneficiary details are to accompany not just the payment instructions (SWIFT message) but also the actual payment itself (cover payment – that is, the payment covering the instructions in the SWIFT message).
- II.33 ► R.16 is to be applied to cross-border wire transfers and domestic wire transfers. However, a set of exceptions is set out in the recommendation (and appear largely in parallel in the draft EU regulation). These provisions are reflected in the recommendations that follow.

## **Proposed legislative amendments to achieve full technical compliance with R.16**

### **Serbian AML/CFT Law, Article 12 – Analysis and recommendations**

- II.34 ► A number of areas for improvement have been identified in an analysis of Article 12 A-C of the AML/CFT Law, including the following.
- The scope of Article 12 is overly broad and could be read as seeking to place obligations on Serbian payment service providers in relation to elements of cross-border transfers over which they have no control. Providing distinct requirements appropriate to the role of the Serbian payment service provider, whether acting for the sender, the recipient, or (potentially) as intermediary and using language similar to R.16 and the draft EU regulation, would provide greater clarity and legal certainty.
  - The set of data to be captured in relation to the payment originator (12A(2) and (3)) needs to be brought into line with R.16 and the draft EU regulation. Data requirements in relation to the payment beneficiary need to be added. The requirements for cover payments should be set out explicitly.
  - Greater clarity is needed in distinguishing between account and non-account customers in determining what information needs to be captured.
  - In cases where originator information is incomplete, the requirements of Article 12B are not fully in line with standard industry practice and place an obligation to receive rather than provide the necessary information within the three-day limit specified. This reverses the obligations in R.16 and the draft EU regulation and could be seen as unreasonable and unrealistic in more complex cases.

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- II.35 ► On that basis, the text set out in Annex 8 is suggested for consideration by the Serbian authorities as a basis for full formal compliance with R.16, in a manner compatible with the draft EU regulation. To achieve full compliance with R.16, the Serbian authorities will also need to demonstrate effective implementation, for which adequate time will be needed following the enactment of the amending legislation.
- II.36 ► The draft legislative amendments as proposed in Annex 8 are prefaced with some important explanatory remarks which should be read in conjunction with the draft new Article 12A-G.

#### **Assessment of effectiveness of implementation under SR.VII and R.16**

- II.37 ► Having described the domestic landscape for funds transfers and payment systems, this section considers whether the current arrangements give rise to particular vulnerabilities for ML and/or TF and assess the effectiveness of implementation of AML/CFT measures. Where appropriate, recommendations for further steps are included.
- II.38 ► An assessment is first provided below of Serbia's compliance with R.16 in so far as it relates to domestic funds transfers.

#### **Domestic funds transfer systems – Level of compliance with R.16<sup>17</sup>**

##### **Objective**

- II.39 ► The key objective of the international standard for funds transfers is to ensure that full and accurate data on transfers, and particularly information to identify the payer and payee, is available at short notice when required by FIUs

and LEAs. These data may be of particular interest in investigations of the possible financing of terrorism. This objective, together with the more technical elements of R.16, is analysed separately below with regard to the payment systems operated by the NBS and the services provided by Post Serbia. The following information is based on extensive interviews conducted with staff of the NBS, Post Serbia, the ASB and a selection of individual banks. The analysis is supported, where applicable, with documentary citations and references.

#### **Compliance of NBS (domestic) payment systems with R.16**

- II.40 ► In developing the technical design for the national payments architecture, the NBS had the foresight to base the design on the SWIFT system. In addition to providing the NBS with an effective contingency arrangement in the rare event of technical problems with one of its systems, this decision also makes compliance with the essential elements of R.16 relatively straightforward. As both the RTGS and clearing systems operate to the same informational specifications, they are assessed jointly in this analysis.
- II.41 ► The detailed specifications of the NBS systems are published in the *Official Gazette* in the form of an NBS decision<sup>18</sup> and confirm the requirement for mandatory completion of SWIFT-standard fields identifying the payer and payee (three spaces of 35 characters provided). However, based on the NBS decision, it does not appear to be mandatory on the form to include the account number of the sender or the sender's address (or acceptable alternatives). This contrasts with the explicit provisions of Article 12A, paragraph 2, of the AML/CFT Law.<sup>19</sup>

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<sup>17</sup> This analysis would also be valid for assessing Serbia's compliance with FATF SR.VII (for purposes of any follow-up of the 2009 MONEYVAL mutual evaluation) and in relation to the draft EU regulation on information to accompany funds transfers.

<sup>18</sup> See: [www.nbs.rs/export/sites/default/internet/english/20/plp/instruction\\_swift\\_format\\_messages.pdf](http://www.nbs.rs/export/sites/default/internet/english/20/plp/instruction_swift_format_messages.pdf).

<sup>19</sup> Although the AML/CFT Law does not expressly refer to domestic funds transfers, all wire transfers regardless of the currency are included within its scope, according to Article 12A, paragraph 1.

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- II.42 ► The NBS and a number of banks interviewed confirmed that, in practice, all of the relevant fields are completed. It was not feasible to verify the position independently as part of this analysis but no issues of material concern were identified in the discussions with the banks on the practicalities of payer/payee identification on receipt of domestic remittances.
- II.43 ► The Serbian authorities have not provided for the alternative concessionary approach acceptable for domestic payments under R.16.5 and R. 16.6, and expressed no interest in so doing. The introduction of a lighter treatment for domestic transfers is not being recommended in this report. However, at a later date in the context of future EU membership, a consistency check should be conducted by the Serbian authorities against the requirements in other EEA Member States. A decision can then be made on whether to redefine the information requirements for domestic funds transfers in Serbia. In any event, the acceptable concessionary treatment for domestic funds transfers may be used only where full information on the parties to the transfer is available without delay by other means. Before considering any weakening of the current arrangements, care is needed to ensure that such speedy information access would always be possible.
- II.44 ► To the limited extent that batch transfers are currently processed through the domestic payment systems, the NBS has confirmed in writing that the full details on the payer and payee can be obtained from the batch file. Within these files there is the ability to search data from all individual messages.
- II.45 ► With regard to the effectiveness of implementation, no material issues were identified. A number of banks noted that the available field sizes were not always adequate to accommodate the names of payer or payee, particularly in the case of some legal persons. The resultant abbreviations can lead to additional work in identifying the parties involved accurately, particularly in distinguishing physical from natural persons. However, the fields are already SWIFT-standard and the banks did not indicate that they saw the field size limitation as anything more than a nuisance.
- II.46 ► The NBS confirmed that its payment processing system does not truncate any information from the payment message. All details are retained in full for a time period in excess of the five years required under the international standard.
- II.47 ► One additional point was raised by a small number of banks in relation to the payment code classification fields included by the NBS for analytical and statistical purposes in the payment orders.<sup>20</sup> While not just of relevance to a discussion of wire transfers, the NBS may wish to follow up with banks regarding indications of lack of accuracy in the completion of the statistical fields. Additional guidance and training may be warranted.
- II.48 ► It is recommended that the NBS consider extending the set of mandatory fields specified in its Guidelines for the format and purpose of data exchange messages in payment transactions to provide assurance of full consistency with Article 12A of the AML/CFT Law.
- II.49 ► It is further recommended that the NBS take steps to assess and, if necessary, improve the accuracy of reporting by banks when completing payment code classification fields.

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<sup>20</sup> The arrangements and specifications for payment orders are set out in detail in the "Guidelines for implementing the decision on terms and conditions of performing foreign payment transactions", pursuant to Articles 21 and 45 of the Law on the National Bank of Serbia.

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## Compliance of other domestic funds transfer systems with R.16 – Post Serbia

II.50 ► The other transfer systems that involve electronic funds transfer within Serbia are those operated by Post Serbia.

II.51 ► The allocation of responsibilities for the AML/CFT supervision of the relevant activities of Post Serbia has been changed following the criticism in the MONEYVAL mutual evaluation in 2009. However, the arrangements continue to be complicated and not yet fully effective. Pursuant to Article 83 of the AML/CFT Law, the APML has been given the role of supervising the domestic payment operations of Post Serbia. Although representatives of Post Serbia indicated that they are in frequent contact with the APML, there was no evidence at this stage that the APML has commenced an on-site inspection programme for the post office network. Pursuant to Article 84 of the AML/CFT Law, Post Serbia is supervised by the Ministry of Foreign and Internal Trade and Telecommunications with respect to valuable mail operations, and the Foreign Currency Inspectorate<sup>21</sup> (now within the Tax Administration of the Ministry of Finance) with respect to international payment transactions. From an AML/CFT perspective, the division of supervisory responsibilities for payment transactions is not ideal, is potentially inefficient, and creates the risk of inconsistent treatment of ML and TF risks, unless there is very close ongoing coordination between the APML and the Foreign Currency Inspectorate.

II.52 ► Post Serbia has been acknowledged as having in place detailed AML/CFT customer due diligence requirements, transaction monitoring, STR reporting and staff training. As recommended in the MONEYVAL mutual evaluation report of 2009, a set of suspicious

transaction indicators has been developed and introduced. The IT system monitors transactions and trends, and flags potentially suspicious activity for reporting to the APML.

II.53 ► For cross-border transactions, the only system currently in use is the Western Union remittance service, for which Post Serbia is a sub-agent. A project is being progressed to connect Post Serbia to the international postal giro network, but this will not be introduced until at least the end of 2013. As noted, Post Serbia is the only financial institution currently authorised in Serbia through which money may be remitted out of the country using an MTO system. The characteristics of this service include:

- ► currently only SRD is accepted for outward remittances;
- ► unlike in Serbian banks, funds received through Western Union are dispensed in RSD, not EUR;
- ► Post Serbia has developed a proposal to be allowed to both send and receive in FX in future;
- ► the outward remittance service may be used by both natural and legal persons but for payment only to natural persons (payments to legal persons must be made through a bank); and
- ► there are limits set out in law on the amounts that natural and legal persons can transmit abroad per month, which are subject to requirements to provide supporting documentation in certain circumstances. As these limits are not related to AML/CFT, they are not explored further here.

II.54 ► In terms of compliance with R.16 (paragraph 22 of its Interpretative Note includes money or value transfer service operators within

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<sup>21</sup> Also known as the Foreign Exchange Inspectorate.

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its scope), as the sending payment services provider (Post Serbia in this instance) is entering data directly onto a central Western Union system, the role of intermediary is not really relevant. Post Serbia confirmed that the sender is identified and the identification verified before funds are transferred. Under standard Western Union procedures, the name of the recipient is also recorded. It is also standard procedure that the recipient is required by the receiving Western Union agent to produce identification documents before funds are released. Post Serbia confirmed that they retain records of international transactions for 10 years. The capacity to freeze payments if required by the appropriate authorities was not explored (in the absence of the necessary legislative powers to date), but would appear to be feasible. Other than that, no gaps were noted in terms of compliance (effective implementation) with R.16 for the current international funds transfer business.

- II.55 ► For domestic funds transfers, with regard to compliance with R.16, the distinct roles of remitter, intermediary and receiving payment systems provider do not arise as all roles are fulfilled by Post Serbia and data retained on its system. The only issue is whether the sender and receiver are identified to the extent set out in R.16. According to Post Serbia, the sender is required to complete a form in which identification information is mandatory for both sender and recipient, though it was unclear whether this always included address information or any form of unique identifier. However, there is not yet a practice of verifying the identity of the sender, although its introduction is planned. The identification of the receiver is verified before payout, although it was also unclear whether full due diligence information (to

include address) is always retained. It was also unclear whether records of domestic transfers are maintained for the required minimum period of five years. While the lack of clarity above can easily be resolved and procedures tightened where necessary, the absence of verification of the sender's identity is a material gap in terms of effective implementation, which needs to be addressed without delay for compliance with the provisions of Article 12 of the AML/CFT Law and with R.16.

- II.56 ► A further complication to note with respect to Post Serbia is the fact that it provides a range of customer-facing services on behalf of the Postal Savings Bank, which is licensed as a bank by the NBS. Postal Savings Bank is also a direct agent for the receipt of incoming Western Union transfers, which are paid out in EUR.

#### **Cross-border funds transfer systems** – Level of compliance with R.16<sup>22</sup>

- II.57 ► No material gaps were identified in the course of meetings with the ASB and a selection of Serbian banks with regard to the effectiveness of implementation of Article 12 of the AML/CFT Law (and, by extension, R.16). However, this could not be said to constitute a comprehensive assessment and should not be considered definitive.

#### **Money or value transfer services** – Analysis of money remittances into/from Serbia

- II.58 ► Having analysed wire transfers under R.16, the report now moves on to a study of the other main component of the formal funds transfer system, namely the use of money transfer operators (MTOs), which come also within the scope of R.14.

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<sup>22</sup> This analysis would also be valid for assessing Serbia's compliance with FATF SR.VII (for purposes of any follow-up of the 2009 MONEYVAL mutual evaluation) and in relation to the draft EU regulation on information to accompany funds transfers.

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II.59 ► As noted in the 2009 MONEYVAL mutual evaluation report, under the Law on payment transactions, only Serbian banks and Post Serbia are authorised to provide money remittance services. This remained the position at the time of this report but some liberalisation is envisaged should the draft law on payment services be enacted in due course. This would introduce to Serbia a legislative framework consistent with the PSD and the E-Money Directive.

II.60 ► For now, the international MTOs cannot operate independently in Serbia but can do so only through contracts with Serbian banks and Post Serbia. However, the current landscape is complicated and confusing. The largest provider, with a substantial market share, is Western Union, which operates through five agents, three of which are banks. The two non-banks (EKI Transfers and Tenfore) do not provide services directly to the public but operate through a series of sub-agents which, with one exception, are banks. The exception is Post Serbia, which provides remittance services as a sub-agent of Tenfore. In addition, Post Serbia provides certain counter services for the Postal Savings Bank, an authorised bank that is itself a direct agent of Western Union.

II.61 ► The arrangements for MoneyGram, the second largest MTO, are more conventional with five Serbian banks contracted as direct agents. The third operator, Ria, has one agent bank in Serbia. The full list of agents for all three MTOs as of July 2013 is set out in Annex 9.<sup>23</sup>

II.62 ► There are some unusual features to the remittances business in Serbia:

- ► by direction of the NBS, banks (acting as agents or sub-agents) can offer only receiving services for MTO remittances. It is not possible to send money through MTO networks using Serbian banks;
- ► only Post Serbia is permitted to offer outward remittance services using an MTO network;
- ► as part of its management of Serbia's foreign currency reserves, the NBS has set monthly limits for the amount that a Serbian resident natural person may transfer abroad (EUR 10 000 except in circumstances set out in the relevant NBS decision of 2009 and subject to documentary verification).<sup>24</sup> Foreign currency control concerns explain, at least in part, the current arrangements for MTOs;
- ► for incoming remittances, with the exception of Post Serbia, funds are paid out only in EUR. Post Serbia pays out in SRD; and
- ► some banks are (sub-)agents for more than one MTO (Western Union and MoneyGram).

#### **Assessment of compliance with SR.VI and R.14**

II.63 ► The 2009 MONEYVAL mutual evaluation rated Serbia as partially compliant on SR.VI dealing with money and value transfer services (MVTs), including on the following grounds:<sup>25</sup>

- ► post office branches are not subject to AML/CFT supervision; and
- ► there is no specific requirement for money transfer services to maintain a current list of agents to be made available to the designated competent authority.

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<sup>23</sup> A Russian-based MTO, Unistream, announced in 2010 its intention to enter the Serbian market but its plans do not appear to have come to fruition.

<sup>24</sup> Decision on the conditions for effecting personal and physical transfers of means of payment to and from abroad, pursuant to Article 31 of the Law on foreign currency transactions 2006. Decision last amended in 2009.

<sup>25</sup> A further criticism in the 2009 MONEYVAL mutual evaluation in relation to informal money remittance systems is discussed in Part III of this report.

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- II.64 ► In the subsequent progress reports, the Serbian authorities provided a detailed response on the supervision issue which, based on discussions as part of the preparation of this report, has yet to be fully resolved. Recommendations regarding supervision of money remittance business are included in a later section.
- II.65 ► Given that MTO business may be conducted only by banks and Post Serbia, the criticism regarding the absence of a list of agents can be regarded as a technicality. However, at the time of this report the technical deficiency remains outstanding, pending legislative amendment.
- II.66 ► SR.VI was superseded in the 2012 FATF Recommendations by R.14, on the basis of which Serbia's next AML/CFT evaluation is expected to be conducted.
- II.67 ► As noted, the Serbian authorities (in particular, the NBS) have been working on new payment services legislation consistent with the PSD and the E-Money Directive. The 2012 draft has been through an industry consultation and is currently being redrafted. While the timing of enactment of the final draft is a matter for decision by the Serbian Government and Parliament, the NBS would like to complete work on the legislation by the end of 2013 and enactment may be achievable early in 2014.
- II.68 ► Introducing a payment services regime based on the EU model could imply significant liberalisation of the current approach in Serbia. Some challenging decisions lie ahead, regarding which some relevant observations are set out in Annex 10, including an assessment of possible steps needed to achieve full technical compliance with R.14. It may be that the intention is to achieve such compliance by use of NBS decisions based on powers to be granted under the Law on payment services. In the absence of any additional draft material, the assessment in Annex 10 has been prepared solely on the basis of the 2012 draft of the new law.
- II.69 ► Some additional observations of relevance to preparations for future AML/CFT evaluations:
- a number of potentially significant gaps are identified in the analysis in Annex 10 that will require further clarification and, as noted, possibly redrafting (whether by way of primary or secondary legislation such as an NBS decision);
  - the analysis in Annex 10 refers to a draft law and is therefore of relevance to any future evaluation only if the draft law is actually enacted;
  - effectiveness of implementation will be a key element of future evaluations. To be rated as compliant based on amended legislation, countries need to be able to demonstrate the quality of implementation over a period of time (12 months is often quoted), supported by statistical records where appropriate. This should be borne in mind in setting the timetable for the new legislation;
  - the AML/CFT Law would need to be amended in tandem with the proposed law on payment services to ensure consistency of provisions;
  - in practice, the application of the proposed Article 178 on unauthorised providers, while feasible for conventional financial service providers, could prove challenging if applied also for informal payment services providers (*hawala*-type activities). A particular challenge will be to demonstrate steps taken by
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the Serbian authorities, including LEAs, to identify cases of informal money transfers. This task should probably not be the sole responsibility of the NBS, as could be understood from the proposed Article 178; and

- ▶ pending the enactment of the new Law on payment services, the provision of money remittance services will presumably continue to be limited to banks and Post Serbia, providing a basis for at least a reasonable standard of implementation of AML/CFT requirements. In the event that no change has been made in payment systems legislation by the time of the next evaluation, the NBS might, as a pragmatic step, consider publishing online the list of MTO agents and sub-agents.

### **Regulation and supervision in Serbia of current funds transfer operations**

- II.70 ▶ Responsibility for the supervision of the payments functions within the banking system rests with the NBS. The NBS also has a central role in the development and implementation of the regulation on payment systems and FX controls and operations. The NBS remit includes an active role in AML/CFT supervision, as provided for under the AML/CFT Law.
- II.71 ▶ Responsibility for the supervision of non-bank providers of payment services is divided among other authorities. Exchange offices and certain elements of the MTO business are within the supervisory remit of the Foreign Currency Inspectorate,<sup>26</sup> which was moved in December 2012 to form part of the Tax Administration. While the operations of exchange offices are outside the scope of this report, the MTO businesses are relevant – they comprise agents of Western Union which do not themselves conduct business directly with the public. The companies concerned are EKI Transfers and TenFore, two of the five Western Union agents in Serbia, which have 20 and four sub-agents respectively among the banks, with TenFore also having Post Serbia as a sub-agent.
- II.72 ▶ The transfer of the Foreign Currency Inspectorate resulted from the enactment of the Law on amendments to the Law on tax procedure and tax administration (93/2012), which also made it possible for PayPal to commence certain business operations in Serbia. Another consequence appears to be the removal of any legal basis for the authorisation of EKI Transfers and TenFore, as agents for MTOs. Nonetheless, they continue to be supervised as before by the staff of the Foreign Currency Inspectorate. This absence of a formal basis for their authorisation as payment services providers is not satisfactory and needs to be addressed. It is understood that, once enacted in 2014, the draft law on payment services will deal with this matter.
- II.73 ▶ A deficiency highlighted in the 2009 MONEYVAL mutual evaluation was that the MTO operations of Post Serbia, both using its internal remittance systems and as sub-agent for Western Union, were not subject to any form of AML/CFT supervision. According to the AML/CFT Law, that responsibility falls to the Ministry of Finance. In their submission for the purposes of the December 2012 Second Progress Report to the MONEYVAL mutual evaluation, the authorities indicated that AML/CFT supervision of Post Serbia would be undertaken by the APML (part of the Finance Ministry), but that does not appear to have commenced at the date of this report. It is also unclear how the supervisory role of the APML is to

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<sup>26</sup> Also known as the Foreign Exchange Inspectorate.

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- be co-ordinated with the role of the Foreign Currency Inspectorate with regard to the FX operations of Post Serbia. Overall, the issue of AML/CFT supervision of Post Serbia needs to be comprehensively resolved. This is not to suggest that Post Serbia does not already have a comprehensive AML/CFT programme in place – its existence was noted in the MONEYVAL report and confirmed during an extensive interview as part of this assessment.
- II.74 ► It is recommended that a comprehensive arrangement for the AML/CFT supervision of Post Serbia should be finalised and brought into effect without further delay. The respective roles of the supervisory authorities, if more than one, should be clarified and meaningful co-operation arrangements put in place.
- II.75 ► It is a matter for the Serbian authorities to allocate statutory responsibilities for AML/CFT supervision. From an effectiveness perspective, however, the current division of responsibilities between the NBS, the Foreign Currency Inspectorate and, in due course, the APML (for Post Serbia) increases the risk of applying inconsistent levels of regulation and supervision to MTOs, thereby undermining effectiveness. This could be resolved by combining the role into a single agency or, if that is not feasible at this time, at least introducing a co-ordination mechanism to seek to ensure comprehensive and consistent treatment across all MTOs for AML/CFT purposes.
- II.76 ► It is recommended that the authorities review the effectiveness of the current allocation of AML/CFT supervisory roles and consolidate the roles if feasible or, if not, provide for formal and effective co-ordination mechanisms.
- II.77 ► The NBS does not currently conduct separate onsite AML/CFT inspections of banks' money transfer operations. Relevant inspections conducted by the NBS cover both AML/CFT and payment issues – an approach which has merit, given the significant overlap between the two topics. In the course of interviews conducted for purposes of this report, it was evident that there are significant differences in risk culture across the participating banks (as occurs also in many other countries). Moreover, as part of its preparations for possible EU membership, Serbia has embarked on a period of change and likely liberalisation in payment systems. Against this background, it could be useful for the NBS to conduct a set of short themed inspections across all relevant banks to look at their money remittances business (possibly combined with other AML/CFT or payment systems issues), to compare the effectiveness of the measures in place and identify inconsistencies and gaps. This horizontal approach has proved to be a valuable and efficient additional supervisory tool in other jurisdictions, both as a means of improving the practical knowledge of supervisory staff and highlighting weaknesses that can be more difficult to identify when conducting more broadly based inspections of individual banks.
- II.78 ► The NBS could therefore consider, as a supplement to its current approach to AML/CFT on-site inspections of banks (including their MTO agency business), conducting a set of horizontal themed AML/CFT inspections across all banks, or selected categories of banks.
- II.79 ► In addition to the supervision matter discussed above, issues regarding co-ordination among the relevant AML/CFT authorities
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featured during a number of the interviews conducted for this study. Some examples of the issues raised are as follows.

- (i) Contradictory instructions to banks on reporting of suspicious transactions. On inspection, the NBS is reported to have criticised the non-reporting of certain transactions that matched lists of indicators while the APML is guiding obligors to be more selective in their reporting with the aim of receiving a lower volume of STRs.
- (ii) With regard to sanctions, the NBS applies administrative sanctions not just for the individual offender but also for the designated representative of the bank. Subsequently, the persons concerned may then face a lengthy criminal procedure under the judicial system for the same offence. The question arises as to whether this approach is proportionate or counter-productive.
- (iii) There appears to be a general absence of feedback from the authorities at all stages of the AML/CFT chain. Ultimately, this seems to point to the prosecutorial and judicial authorities, who were not interviewed for purposes of this study and so have not had the opportunity to respond. Overall, however, the lack of feedback to confirm the manner in which suspected ML and TF cases are followed-up appears to be impacting negatively on perceptions regarding the effectiveness of the system.
- (iv) With regard to regulation, a number of possible inconsistencies and overlaps were identified that create scope for confusion and potential for contradiction. The following are some examples mentioned in interviews:
  - ► limits on cross-border cash transfers are set by the NBS but are also contained in Customs rules – a single point of reference would be safer and more efficient; and

- ► banks reported that some elements of the AML/CFT Law do not align with NBS rules, making it difficult to comply with both simultaneously.

- II.80 ► Stronger co-ordination among AML/CFT authorities is recommended to ensure consistency in approach. It is further recommended that any conflicting legislative provisions be reconciled and, where feasible, any overlap eliminated.

#### **Looking to the future: planned liberalisation, new technologies and EU accession**

- II.81 ► The analysis in the following section is intended to be forward-looking and to take into account:

- ► the requirements of the revised FATF Recommendations 2012, under which the first evaluations are due to commence from 2014; and
- ► the commitment of the Serbian authorities to liberalisation in support of the application for full membership of the WTO and to enacting legislation in line with EU provisions with a view to eventual EU accession.

- II.82 ► The commitment to liberalisation implies that decisions will be needed regarding the extent of easing of the current restrictions on currency exchange, payment systems, remittances and e-commerce. This is a broad topic that raises many policy issues but is considered below only as relevant to the scope of this report, with particular regard to cross-border remittances and wire transfers and viewed from an AML/CFT perspective.

- II.83 ► A range of relevant issues is analysed below, under the following headings.

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(i) **The impact of the home country control concept as a foundation for the EEA single market in financial services**

As provided under the PSD (and reflected in the draft law on payment services), payment service providers may opt to be authorised in one Member State and branch or provide cross-border services into other Member States without the need for separate host-country authorisation.

(ii) **Broadening of the distribution network for MTO remittance business and other financial services, potentially to include non-financial services businesses**

Remittance business in Serbia is currently restricted to banks and Post Serbia. Opening up the market would increase competition but raises additional compliance challenges.

(iii) **Innovations in the MTO business model, including account customers, cash-to-card and cash-to-account business lines**

The remittance business internationally is set to rely less on cash transactions and is moving increasingly to electronic methods, creating some compliance benefits but also some additional challenges.

(iv) **Increasing the influence of the Internet as a means of remitting funds**

Online providers can create increased competition and lower costs, but online business can be more difficult to regulate and supervise.

(v) **In the event of relaxation of foreign currency controls, there is potential for the introduction of multi-currency ATMs and to increase the scope for outward remittance payments from Serbia**

There is friction between the official policy of requiring most transactions to be in RSD and the public preference, in Serbia and for diaspora remittances, to hold FX.

(vi) **Opening up to e-commerce**

A significant beginning was made in Serbia in April 2013 with the commencement of business by PayPal. Further developments can be expected in future.

(vii) **The complexity of the transition phase in**

**moving towards the EU single market in financial services**

While the post-accession environment will be largely determined by the EU's single market provisions, the management of the period of change from the current more restrictive environment will be challenging.

II.84 ► The above topics are among those developed in more detail below.

**The impact of the home country control concept as a foundation for the EEA single market in financial services**

II.85 ► EU accession would open Serbia to the single market in financial services. One of the cornerstones of the single market is the concept of "home country control", under which an authorisation in one Member State can permit branching or provision of services on a cross-border basis into other Member States including, in the event of its future accession, Serbia. This model is already widely used across the EEA.

II.86 ► European-owned banks currently licensed by the NBS would have the option in future of surrendering their licenses and instead conducting business in Serbia as a branch of a bank licensed in another Member State. Under the EU's PSD and E-Money Directive, the same options would be available for money remitters and other payment services providers.

II.87 ► Western Union has been systematically migrating its EU businesses, country by country, to its centralised EU base in Ireland (WUPSIL), on a cross-border basis under an authorisation issued by the Central Bank of Ireland. The full extent of Western Union's centralised EU network can be seen from the extensive list of agents on [www.registers.cen-](http://www.registers.cen-)

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- tralbank.ie. As, according to Western Union, this already includes its business in Croatia following its recent accession, it can reasonably be predicted that the same arrangement would be applied to the Serbian business in due course. This could potentially lead to fundamental changes in its network of Serbian agents.
- II.88 ► Under the PSD, the host country is given the opportunity to object prior to the authorisation of each new agent (or list of agents). In the absence of an objection or response, the agent authorisation is granted by the home country supervisor. There have been extensive discussions among EU regulators regarding the practicalities of application of home country rules to agents of payment services operators in other Member States, particularly as regards AML/CFT. The conclusion appears to be that host country AML/CFT requirements would apply to such agency operations. In addition, pragmatic arrangements have been made and local structures put in place by payment services providers to meet the needs of some host country authorities – needs that include the ability to communicate in the local language, to comply with host consumer, conduct of business and data protection requirements, as well to implement host AML/CFT procedures, notably in reporting suspicious transactions to the host FIU. For example, Western Union has created “super agents” in some countries (including Spain) to manage the local sub-agent arrangements and act as point of contact for the FIU.
- II.89 ► Neither MoneyGram nor Ria responded to invitations to provide information for purposes of this study directly,<sup>27</sup> so nothing can be said of any future plans to avail of the single European market facilities.
- II.90 ► Considering the size of the market for remittances into Serbia, new entrants are likely to emerge and may choose to operate on a cross-border basis for efficiency. Russian-originated Unistream, which has already expressed interest in conducting business through agents in Serbia, obtained authorisation in recent years to operate in Greece and Germany. In principle, this could provide a future base for agency operations in Serbia, licensed in one of the other EU Member States.
- II.91 ► From an AML/CFT perspective, the application of the home country principal has given rise to supervision challenges in certain markets. Ongoing home country supervision is not always practical due to language barriers and local consumer protection considerations. As a result, on an exceptional basis, Member States decided in 2010 as a practical implementation measure that, despite authorisation being on a home country basis, host country AML/CFT provisions would continue to be applied. This leaves the host country authorities (FIU and AML/CFT supervisor) in a strong position to deal with the remittance business in their country.
- II.92 ► Currently PayPal’s new operation in Serbia is conducted by its subsidiary in Singapore. However, PayPal’s EU operations are centralised in a licensed bank in Luxembourg and are provided as cross-border services into other EU Member States. It can be expected that, following accession, the Serbian business would migrate to the centralised EU operation and provide services into Serbia without the need for separate local authorisation.

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<sup>27</sup> Some of their agents in Serbia, however, were generous with time and information in responding to questions about the local market.

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**Broadening of the distribution network for MTO remittance business and perhaps other financial services, potentially to include non-financial services businesses**

II.93 ► One of the potential challenges arising from the implementation of the PSD is the nature of the type of distribution network and range of agents that can be engaged by payment services providers. This could be a particular issue for countries such as Serbia that currently restrict money remittance business to, for example, banks and post offices. It is common in other countries that authorised money remittance business may be conducted also by other financial institutions (exchange offices, insurance agents, etc.) and possibly in travel-related businesses such as travel agents and hotels. In some countries, the range of agents also includes supermarket chains, corner shops and/or petrol stations. Such agency networks offer the benefit of easy access (both in terms of opening hours and geographical proximity) and widespread distribution channels that can help to address any financial exclusion issues. However, permitting non-financial institutions to provide financial services has been highlighted as a concern from an AML/CFT perspective in discussions involving EU supervisors. It is not credible that a part-time employee of a petrol station, for example, could be depended upon to have been adequately trained in AML/CFT procedures and to apply those controls effectively. In such cases, payment services providers rely for AML/CFT purposes mainly on the controls built into their centralised IT systems. However, IT systems cannot readily check the validity of customer identification documents or that they really belong to the person presenting them. Caution by the Serbian authorities is therefore urged in deciding on

the categories of businesses that might be authorised to provide remittance services following the enactment of the proposed law on payment services.

II.94 ► Another challenge in implementing the PSD is to ensure that arrangements are in place for suspicious activity to be reported by these centralised payment services operations to whichever FIU is in the best position to act on the information. This issue has not been fully resolved at EU level but progress is being made that is likely to require payment services providers to file their STRs with the host country FIU (and in some cases also with the home country FIU). This places a substantial administrative burden on the payment services provider, requiring them to have expertise in the laws, language and reporting requirements of each host country. An alternative would be for all STRs to be filed with the MTO's home country FIU and to have in place Memoranda of Understanding (MoUs) between the relevant FIUs such that relevant STRs are copied without delay from home to host country.

II.95 ► Hopefully, there will be greater clarity on the STR issue by the time of Serbia's EU accession. In the meanwhile, the question arises as to how best for the APML to receive information on suspicious activity identified by the centralised checking systems of Western Union, MoneyGram and Ria, in so far as it is relevant to business conducted in or into Serbia. It was not clear in discussions with local agents in Serbia whether this information is already being conveyed to them from the centralised systems to enable them to file STRs with the APML (in addition to those on matters they identify locally). Also, in the case of PayPal, it is understood that they would file STRs for Serbian business with the

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Singaporean FIU, pointing to a need for it to have an MoU in place with the APML, if not already in existence.

### **Payment and money transfer technologies**

II.96 ► The following brief discussion does not purport to be a comprehensive review of new technologies, a topic which was addressed in a previous presentation prepared for the APML as part of the MOLI-Serbia project.<sup>28</sup> However, it might be useful to consider briefly some practical examples of emerging payment and transfer business models which have recently become available in Serbia or which may do so in future. The common denominator for these new offerings is their use of technology (e-money, e-commerce or e-currency). In certain cases, these services can operate independently of national governments and authorisation requirements. Such services have the potential to challenge and undermine Serbia's foreign currency controls and it could be useful for the Serbian authorities to consider, in finalising the draft law on payment services, their potential impact on the implementation of the new legislation.

### **Innovations in the MTO business model, including account customers, cash-to-card and cash-to-account business lines**

II.97 ► Among the innovations being made available by MTOs in some markets are online transfers (account to account, to card or to cash dispensers or, alternatively, cash transfers to card or account). In a discussion as part of this research, Western Union expressed a preference for moving from the current model of receiving cash for transfer from occasional "customers" to instead signing up remittance account customers,

to whom full CDD measures would be applied at the outset of the relationship. Scope should therefore be included, in seeking to redesign the remittance model for Serbia, to allow for ongoing innovation by MTOs without compromising basic control principles, including in the application of proportionate AML/CFT requirements.

### **Increasing the influence of the Internet as a means of remitting funds**

II.98 ► The analysis below includes a number of examples of the migration of payment and remittance systems to an online environment.

II.99 ► Skrill (formerly Moneybookers, [www.skrill.com](http://www.skrill.com)) is authorised by the UK Financial Conduct Agency and already provides a means of transfer of funds to its account customers within Serbia, at substantially lower cost than bank transfers or terrestrial money remittance businesses. Balances on accounts can be used for online purchases or withdrawn in cash at ATMs using prepaid MasterCard. Currently, a potential disincentive is that Serbian ATMs are restricted to issuing RSD, while recipients may prefer FX. Also, the already high charges for these prepaid card services are then also subject to FX to RSD conversion fees.

II.100 ► Other online remitters promoting funds transfer into Serbia (mainly for business customers) include [www.Payoneer.com](http://www.Payoneer.com), [www.Transfermate.com](http://www.Transfermate.com) and many others, such as [www.Money2Anywhere.com](http://www.Money2Anywhere.com), who claim to offer services at much lower costs than the conventional channels. Models used for such online remittance services include:

- ► online account or card to (bank) account, using correspondent banking network; and

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<sup>28</sup> "New Payment Methods", MOLI-Serbia, presentation to the APML by Simon Goddard, September 2012.

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- ► online account-to-card or card-to-card, including prepaid debit cards, offering local ATM access. For example, payment details are entered online in order to send money to a recipient who will then receive a Visa or MasterCard Prepaid Card that they can use at any ATM or anywhere such prepaid cards are accepted. This type of model is becoming more common internationally and is already available at least to some extent in Serbia. It is understood, for example, that MasterCard insisted that third parties be permitted to add funds to the card accounts of Serbian cardholders, albeit subject to a relatively low limit.

II.101 ► The application of effective AML/CFT controls to such businesses can be a challenge. However, where the business is based in a jurisdiction committed to implementing the FATF Standards, these models offer the advantage of requiring customer registration and can incorporate an initial verification procedure. In addition, as all transfers are electronic rather than in cash, the fund movements can be tracked if required for law enforcement purposes.

II.102 ► The MTOs currently operating in Serbia are rolling out online remittance services in many of their other markets. Western Union noted, for purposes of this study, that its future strategy will include seeking to move increasingly from non-account “walk-in” cash business to attracting online account customers, to whom due diligence would be applied for AML/CFT purposes. An expansion of account-to-account and account-to-card business is expected, as dependence on cash declines in future.

**In the event of relaxation of foreign currency controls, there is potential for the introduction of multi-currency ATMs and to increase the scope for outward remittance payments from Serbia**

II.103 ► Liberalisation in the conduct by Serbian residents of foreign currency transactions raises particular concerns for the Serbian authorities. However, as noted elsewhere in this report, one of the factors influencing the ongoing high level of cash remittances is the apparent preference among many Serbs to hold EUR or other FX in preference to RSD. Permitting Serbian residents to withdraw foreign-sourced remittances through local ATMs in foreign currencies could perhaps influence the diaspora to move from cash to electronic remittances to some extent.

**Opening up to e-commerce**

II.104 ► PayPal commenced limited operations in Serbia in April 2013 and quickly grew its customer base, providing cross-border payment services for online purchases of imported goods and services. Media reports in June 2013 referred to delays in customs clearance due to the large volume of packages arriving to fulfil online purchases, paid for through PayPal. In view of the current legislative restrictions in Serbia preventing the use of a FX-based service such as PayPal for domestic transfers within Serbia, PayPal decided (for system-based reasons) to restrict its offering to outward payment services at this time. Export opportunities for Serbian businesses could be enhanced in future should a basis be found to also allow payments to be made through PayPal to Serbian residents.

II.105 ► While PayPal and its related e-Bay business are probably the best known, many other providers of e-commerce solutions exist, some of which are likely to target the Serbian market in due course.

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## Example of a new currency

II.106 ► Bitcoin ([www.bitcoin.org](http://www.bitcoin.org)) is not easy to explain. It is defined as a “cryptocurrency” where the creation and transfer of bitcoins is based on an open-source cryptographic protocol that is independent of any central authority. Bitcoins can be transferred through a computer or smartphone without an intermediate financial institution. It is a peer-to-peer, electronic cash system, for which no government authorisation applies. Bitcoin is accepted in trade by some merchants and individuals in many parts of the world. Like other currencies, illicit drug and gambling transactions constitute some of its commercial usage. Although the bitcoin is promoted as a digital currency, many commentators have criticised its volatile exchange rate, relatively inflexible supply, and minimal use in trade at this early stage. Reference to Bitcoin is included in this report to create awareness that means of funds transfer exist, with potential for use by Serbs, over which the Serbian authorities could not exercise control. Systems such as Bitcoin could have serious implications for AML/CFT implementation, although a solution may yet be developed (see media article).<sup>29</sup>

II.107 ► Liberty Reserve was a provider of online cyberfund transfers. It was a Costa Rica-based centralised digital currency service with over one million customers. In May 2013, Liberty Reserve was shut down by US federal prosecutors under the Patriot Act after an investigation by authorities across 17 countries. The US charged founder Arthur Budovsky and six others with money laundering and operating an unlicensed financial transaction company. Liberty Reserve is alleged to have been used to launder more than USD 6 billion in criminal proceeds during its his-

tory. It provides a clear example of the risks of unauthorised online funds transfer operations.

## The complexity of the transition phase in moving towards the EU single market in financial services

II.108 ► The authorities have applied considerable resources to redrafting financial services legislation to correspond with the relevant chapter of the EU’s *Acquis Communautaire*, as a step towards eventual EU membership. This could create a practical difficulty in the intervening period, assuming the legislation is brought into force as planned in advance of accession. The legislative provisions are designed to accommodate a single market environment of which Serbia is not yet a member and could therefore be problematic and confusing if introduced before they could be realistically applied. Perhaps a sensible approach would be to provide that different sections may be commenced at different times, if this is possible with Serbian legislation, with commencement orders being signed only as it becomes feasible to bring each section into force. An example would be the provisions for home country control and provision of financial services on a cross-border basis. Not yet being an EU member, EU countries could not permit Serbian banks to provide services within the EU without separate authorisation, so it would be meaningless to implement a provision for it in Serbian law at this time.

II.109 ► In introducing legislation equivalent to the EU’s single market provisions, care is needed to ensure that appropriate local Serbian requirements are not eliminated too soon and can continue to be applied effectively in the period prior to accession.

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<sup>29</sup> As quoted in ‘Trends in Balkan Organised Crime Activities’ World Security Network, April 2011

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# Part III - Alternative remittance systems

## Objectives of Part III

Research study of the alternative remittance systems in Serbia, covering:

- ► identification and analysis of factors relevant to alternative remittance (size and structure of the shadow economy, peculiarities of cross-border regional business practices, ethnic and diaspora factors, etc.);
- ► description and analysis of cross-border currency declaration systems and analysis of cash movement as an indicator to the use of alternative remittance systems;
- ► typological features of alternative remittance schemes used to transfer various categories of proceeds (i.e. criminal v. non-criminal, etc.), including the extent to which MVTs are susceptible to criminal activity, including to use by organised crime networks in the region for the purposes of money laundering activity; and
- ► policy and practical recommendations to government authorities to regulate and control alternative remittances.

### Structure of analysis

III.1 ► This analysis of alternative remittance systems, as relevant to Serbia, is organised as follows:

- ► nature of alternative remittances encountered in Serbia;
- ► inventory of available informal means of bringing/transferring funds or value into or out of Serbia;
- ► economic and financial environmental factors, including the impact of the shadow

economy, regional/ethnic issues and organised crime;

- ► relevance of *hawala*-type remittance systems;
- ► the importance of cash (in SRD and FX) in the Serbian economy;
- ► cross-border currency declaration system by reference to SR.IX and R.32;
- ► inward remittances and the role of the Serbian diaspora:
  - historical background;
  - estimating the financial significance for the Serbian economy; and
  - analysis of factors influencing diaspora remittances and possible courses of action;
- ► next steps; and
- ► addressing the information gap – designing a remittance survey.

### Nature of alternative remittance systems encountered in Serbia

III.2 ► The term “alternative remittance systems” brings to mind *hawala*-type cashless transfer arrangements (within the scope of R.14 on MVTs services). In the case of Serbia, there have been only minimal recorded indications of the existence of *hawala*-type arrangements. Therefore, when considering informal funds transfers, the emphasis in this report has been placed on the reported large aggregate volumes of cross-border movements of cash (within the scope of R.32 on cash couriers).

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### **Inventory of available informal means of bringing/transferring funds or value into or out of Serbia**

- III.3 ► The following alternative remittance methods were identified:
- (a) *hawala*-type arrangements; and
  - (b) cash:
    - (i) carried in person or by family members or friends; and
    - (ii) use of cash couriers, including bus and truck drivers.

### **Economic and financial environmental factors**

- III.4 ► Research for purposes of this report did not support a finding that the pattern of money laundering linked to criminal activities in Serbia (organised crime or otherwise) is more likely to be conducted through alternative remittance systems. The analysis of criminal typologies in Part I of this report is therefore considered to be relevant both to formal and informal methods of funds transfer. However, to fulfil the report's terms of reference with regard to alternative systems, key points are repeated below for ease of reference and some additional material is added.

### **Shadow economy**

- III.5 ► Despite the ongoing efforts of the Tax Administration and others, the shadow economy continues to be significant in Serbia. A precise measure of its size is not available but a figure of 20% of GDP, plus or minus 5%, is thought to be fairly realistic, although a recent report estimated the shadow economy at up to 30% of GDP. Some elements of the shadow economy (e.g. related to the construction sector) are believed to be growing in the current difficult economic climate. As discussed in detail in this report, shadow economy activity is largely cash-based.

### **Balkan organised crime**

- III.6 ► The UN International Narcotics Control Board in its 2010 annual report,<sup>30</sup> detailing the global trends in the illicit drug market, outlines several interesting aspects with regard to organised crime activities in the Balkans. Regarding the main heroin problem in Europe, the report shows that almost all European heroin originates in Afghanistan, mostly smuggled in through Turkey and the Balkans. According to the report, the four top national markets in Europe account for 60% of all European heroin consumption. They are the UK (21%), Italy (20%), France (11%) and Germany (8%). The majority of the crime networks trafficking heroin into these markets are from the Balkans. The US Department of State's 2010 International Narcotics Control Strategy Report, released in March 2010, says that the Balkan countries remain major transit points for Afghan heroin while the war against traffickers is hampered by corruption and weak State institutions. According to the report, Albania, Bulgaria, Kosovo, Serbia, Croatia, and Bosnia and Herzegovina are used by narcotics traffickers to move Afghan heroin from central Asia to destinations around western Europe.
- III.7 ► As noted in Annex 3, the magnitude of the organised crime groups in the region can be well illustrated by the case of the Šarić network in Serbia. The organisation of Darko Šarić is alleged to have funnelled EUR 1.3 billion to Serbia, but may have amassed up to EUR 5 billion, according to investigators. Šarić and his companions are reported to have laundered the narcotics money through companies in Serbia, Montenegro and some western European countries. The powerful crime clan, said to be one of the major cocaine suppliers in Europe, was involved in an attempt to smuggle 2.7 tonnes of cocaine to Europe

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<sup>30</sup> As quoted in "Trends in Balkan organized crime activities", World Security Network, April 2011.

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from Latin America in the autumn of 2009. Since the sheer amount involved in this trafficking attempt is quite substantial, it can be estimated that the nexus between the South American cartels and those in the Balkans is becoming stronger and of greater importance for the world police authorities. In this case, Serbian and Montenegrin citizens were involved, as well as suppliers from Argentina and Bolivia who worked together for years and in a fashion that resembles the workings of any modern multinational corporation.

### **Privatisation**

- III.8 ► In interviews, Serbian law enforcement agencies shared a number of examples of abuse of the privatisation process, either as a means of laundering the proceeds of crime (as is alleged in the Šarić case) or linked to alleged fraud and tax evasion, as in the following case.
- III.9 ► An example of alleged abuse of the privatisation process, as quoted from Reuters in May 2013, relates to Serbian retail tycoon Miroslav Miskovic who was indicted over a disputed privatisation deal – “the latest twist in the downfall of one the richest and most influential figures in the Balkan country for the past two decades”. Miskovic, his son Marko and seven other people were indicted by Serbia’s organised crime prosecutor for abuse of office and tax evasion. They are accused of siphoning off a total of EUR 25 million from a privatised and now bankrupt road repair company. Miskovic’s Delta Holding has repeatedly denied the tycoon broke any law.

### **Regional issues – Kosovo**

- III.10 ► A perspective on Kosovo was provided during some meetings in Belgrade, indicating a

belief that organised criminal activities (related to drug, illegal arms, and human trafficking) operate beyond the reach of law enforcement, particularly in northern Kosovo. This view is largely supported by international media sources.

- III.11 ► The problem has long been recognised internationally, including at EU level, but effective solutions are difficult to achieve in practice. A technical agreement on sharing intelligence between Kosovo law enforcement agencies and EULEX signed in June 2013 is expected to improve efforts to prevent organised crime and corruption. As more cases are investigated jointly by EULEX and Kosovo police investigators, this agreement will enable the exchange of intelligence, which will further co-operation in the fight against organised crime and other criminal offences in Kosovo, which is not a member of Interpol or Europol. Time will tell whether this latest initiative proves more effective than previous law enforcement initiatives in the region.

### **EU borders – Illegal immigration**

- III.12 ► The financing of illegal immigration – whether into the EU or, increasingly, from one EU Member State to another<sup>31</sup> – appears to be linked at least as much to formal as informal funds transfer methods. It is reported by Serbian banks to be a significant problem, particularly for MTO transfers originating in certain countries and arriving into particular border regions in Serbia. This activity gives rise to numerous STRs filed with the APML.

### **Smuggling**

- III.13 ► Serbian law enforcement agencies identified a wide range of smuggling activities with differing patterns depending on the frontier.

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<sup>31</sup> For example, for the many illegal immigrants in Greece who are seeking to move to other EU member states with better economic prospects.

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With the increase in Serbia's borders with the EU following Croatia's recent accession, it is anticipated that smuggling activities may increase.

### **Diaspora**

III.14 ► The significant role of the diaspora and their preference for informal remittance channels (cross-border cash transfers) is one of the main features of this report.

### **Cash in the economy**

III.15 ► While Serbia has developed a modern financial sector infrastructure, cash usage is still significant in the context of this report as the main medium of exchange in the shadow economy and as the preferred remittance medium for the diaspora. Cash usage is analysed in detail below.

### **Use of EUR and other FX**

III.16 ► A feature of both formal and informal financial activity in Serbia is the preference for use of FX (EUR in particular) for historical reasons, both as a medium of exchange and a store of value. The volume of holdings of FX "mattress money" is not known but, as will be discussed below, it is likely to be large and this, among other things, gives rise to confusion in efforts to measure the amount of actual cross-border remittances.

### **Relevance of *hawala*-type transfers**

III.17 ► As noted, Serbian law enforcement sources did not consider *hawala*-type systems to be significant. However, the possibility of the operation of *hawala* in Serbia, particularly in certain regions, was addressed as part of this research and the findings are set out below.

III.18 ► To clarify, the narrow meaning of informal *hawala*-type systems (also known by other names) refers to an underground banking system based on trust whereby money can be made available across borders without actually being physically transported and without any written record of the transaction. Informal *hawala* is in certain regions an ancient, reliable and cost-effective transfer mechanism. However, due to its anonymity and the absence of record keeping, it can be of particular benefit for the transfer of funds to finance terrorist activities. The topic may be researched further in the available literature, particularly in the joint IMF/World Bank paper "Informal funds transfer systems: an analysis of the informal *hawala* system" (2003), which also includes recommendations with regard to the registration of providers rather than seeking to pursue ineffective enforcement options that would just force participants further underground.

III.19 ► The 2009 MONEYVAL report accepted the authorities' position that there was no evidence at that time of the existence of *hawala* in Serbia. However, the report included the following recommendation:

"Serbian authorities made no indication that they were actively attempting to uncover illegal remittance activity and there is little if any attention being paid to this by relevant ministries and the supervisory authorities. It is recommended that supervisory authorities when inspecting businesses for other matters also be alert to the possibility that illegal remittance activity may be occurring. In addition, Serbian authorities could focus more broadly at looking for signs of underground banking as well as alternative remittance."

### **Update on *hawala*-type systems in Serbia**

III.20 ► Discussions with LEAs as part of the current

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study found limited indications that some *hawala*-type transactions have taken place in southern Serbia, though with no identified link to international terrorism. A number of interview partners pointed to increasing financing and investment (including in Islamic schools and mosques) from the Middle East, Turkey and Azerbaijan. However, there was no specific indication that funding of this nature was of relevance to a discussion on ML or TF.

- III.21 ► There appears to be no mention of *hawala* in the 2013 NRA but it is referenced in detail in the published Serbian National AML/CFT Strategy (last updated in 2008). While some vulnerability to the abuse of *hawala*-type systems appears to exist in Serbia, available intelligence indicates that the risk is limited. Nonetheless, the omission of any mention of informal remittance systems from the NRA needs to be reconsidered.
- III.22 ► R.14 on MVTs, the scope of which includes *hawala*-type systems, specifies that “Countries should take action to identify natural or legal persons that carry out MVTs without a license or registration, and to apply appropriate sanctions”. For compliance with this requirement, it is important that the Serbian authorities can point to practical steps they have been taking, on a regular and ongoing basis, to identify any unlicensed providers of such services. The conduct of such steps and any evidence uncovered should be documented and the records maintained up-to-date. Should cases be identified, appropriate sanctions for conducting unlicensed funds transfers business should be enforced. In that event, a written summary of the facts of each case should be prepared and made available during future evaluations, together with clear, accurate and up-to-date statistics.
- III.23 ► The FATF’s typologies working group is in the process (at the date of this report in July 2013) of conducting further research on the ML/TF implications of *hawala* and similar informal remittance arrangements, based on case studies. Once completed and made available, this research should be of assistance to the Serbian authorities in implementing the following recommendation.
- III.24 ► Serbian LEAs (Ministry of the Interior and the BIA in particular) should continue to be conscious of and monitor for the emergence of *hawala*-type arrangements as part of their normal law enforcement and intelligence operations. Serbian supervisory authorities (NBS and, in particular, the Foreign Currency Inspectorate) should continue to follow up any indications of unauthorised transfer business. Records of these ongoing efforts should be maintained. It is further recommended that the Co-ordinating Committee should, from time to time, place the issue on its agenda and document the outcome of the discussions, thereby monitoring for any change in the current reported situation.

#### **The importance of cash (in SRD and FX) in the Serbian economy**

- III.25 ► The following cannot claim to be a comprehensive analysis of the levels of cash usage in Serbia. The feasibility of such a study would be doubtful in any case due to the lack of reliable data. However, it is important to consider the topic of cash usage as it can be a significant factor in influencing the scope and effectiveness of AML/CFT controls. Cash transactions can be conducted in such a manner as to be anonymous and virtually untraceable – the more of an economy’s transactions are conducted in cash, the easier it is to circumvent any AML/CFT controls

being applied to the formal financial system. There is therefore common cause among authorities dealing with AML/CFT, taxation, government financing, anti-corruption and law enforcement to seek to understand cash movements in the economy and, where feasible, provide incentives to encourage the use of the formal financial sector.

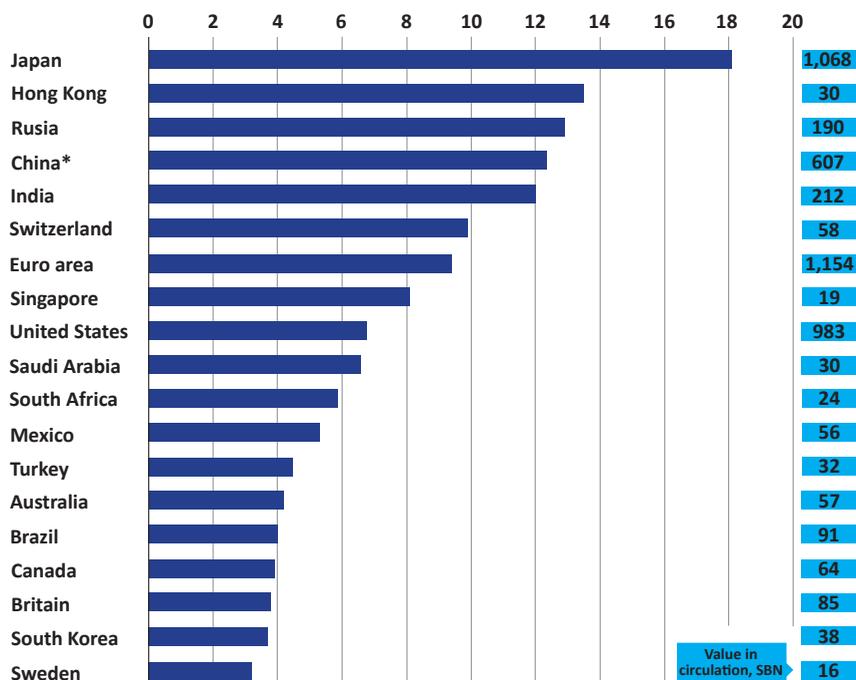
III.26 ► The following chart, published by *The Economist* online<sup>32</sup> and based on data from the Bank for International Settlements (BIS), provides an international comparison based on one measure of relative levels of cash usage across a range of economies.

III.27 ► Although the methodology is probably not directly comparable, online sources suggest that cash usage in Serbia (in RSD) as

a percentage of GDP may be in the 20-30% range, well above the levels in more developed economies, as shown in the above chart, but perhaps mid-range for the Balkans. The following time series prepared by the author, based on published NBS data, and using a simplified form of the methodology discussed by Schneider and Enste (2000), suggests that RSD cash usage in Serbia generally remains within the range of 20-25% of GDP. While undue reliance should not be placed on these estimates, it can safely be concluded that significant levels of cash are held in Serbia outside the banking system, which is one of many factors presenting challenges for the authorities across a range of monetary and fiscal policy issues, as well as impacting the effectiveness of AML/CFT measures.

### HARD CASH

Banknotes and coins in circulation as % of GDP, 2010



Source: Bank for International Settlements

\*2009

<sup>32</sup> "Cash in hand", *The Economist* online, 2 April 2012.

III.28 ► Note that the data below do not include the holdings of FX cash (predominantly EUR) widely reported to be retained by residents of Serbia. In the course of this research, no estimates came to light of the size of these holdings of “mattress money”, beyond a widespread belief that the amount is substantial. Anecdotal (and unverifiable) information also pointed to these FX holdings as likely funding sources for large-value purchases, including of Serbian apartments and other real estate.

### “Shadow” economy

III.29 ► Also relevant to this discussion are the levels of tax compliance in Serbia, the size and nature of the shadow economy and its links to criminal activity more generally. Some estimates of the shadow economy place its size as close to 30% of total economic activity. A possibly more realistic estimate mentioned in the course of interviews in Belgrade is around 20% of GDP.

III.30 ► A recent Foundation for the Advancement of Economics (FREN) study<sup>33</sup> concluded that the shadow economy is one of the greatest challenges facing the Serbian economy; its consequences are manifest in tax evasion, market distortion, unfair competition, and inefficient resource allocation. The study concluded that, among the relevant fiscal causes of the shadow economy are the relatively high fiscal burden on labour; complicated and costly tax procedures; a complicated and opaque tax system; poorly organised, under-staffed, and under-equipped tax administration; poor quality of public services; and a high tolerance for the shadow economy. The most important financial factors were found to be the large share of cash transactions in the total volume of payments, informal financing, and unregistered remittances of migrant workers.

III.31 ► The FREN survey results indicated that 28% of all business entities in Serbia were engaged in the shadow economy. These enter-

### Seeking to estimate levels of cash usage in the Serbian economy

|  | 2007    | 2008    | 2009    | 2010    | 2011    | 2012    |
|--|---------|---------|---------|---------|---------|---------|
| Avg EUR/SRD exchange rate  | 79.98   | 81.47   | 93.94   | 102.90  | 101.96  | 113.00  |
| <b>GDP (million EUR)</b>   | 28,468  | 32,668  | 28,954  | 28,006  | 31,472  | 29,932  |
| <b>M1 (12 mth avg million SRD)</b>                                   | 152,768 | 208,907 | 227,205 | 226,147 | 237,754 | 247,098 |
| <b>M1 (million EUR equiv.)</b>                                       | 1,910   | 2,564   | 2,419   | 2,198   | 2,332   | 2,187   |
| <b>GDP to M1 = Turnover ratio (A)</b>                                | 6.7     | 7.8     | 8.4     | 7.8     | 7.4     | 7.3     |
| <b>Cash in circulation (B)</b>                                       | 62,865  | 74,787  | 83,670  | 89,128  | 88,606  | 107,141 |
| <b>Estimate of cash usage (C = A x B)</b>                            | 421,798 | 587,024 | 698,915 | 699,418 | 656,494 | 782,721 |
| <b>Estimate of cash usage(C) EUR equiv.</b>                          | 5,274   | 7,205   | 7,440   | 6,797   | 6,439   | 6,927   |
| <b>Ratio of estimated usage of cash(Serbian Dinar only)(C)to GDP</b> | 19%     | 22%     | 26%     | 24%     | 20%     | 23%     |

Estimates prepared by the author based on NBS data

<sup>33</sup> “The shadow economy in Serbia – new findings and recommendations for reform”, FREN, March 2013.

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prises and entrepreneurs employed workers informally and/or made payments in cash although they were VAT-payers. New start-ups, businesses in construction and those based in central Serbia are found to be more likely to engage in the shadow economy.

III.32 ► The FREN report contains a range of detailed recommendations for actions to reduce the size and impact of the shadow economy, including fiscal and labour market measures. As regards the financial sector, the report recommended incentives towards the wider adoption of cashless transactions. Emphasis should be placed on incentives that will foster cashless transactions. For example, the use of electronic money for payment operations could be fostered by allowing electronic payments in sectors dominated by cash (such as hospitality, taxis, etc.). Other incentives could include subsidising point-of-sale terminals for small and micro-enterprises, limited tax breaks for electronic payments, and prepaid cards for people without bank accounts to enable their inclusion in the formal sector. On the macroeconomic level, government subsidies and assistance could be paid out electronically, as could various types of contributions. Furthermore, all government payments could be limited to electronic channels only. To ensure that all remaining cash transactions take place primarily within formal channels, field audits should be strengthened to ensure fiscal cash registers are used and receipts issued for all transactions. In addition, clear consensus among economic policymakers regarding the application of a de-euroisation strategy could contribute to a substantial reduction of cash payments – particularly informal ones – throughout the system. The report also included recommendations to reduce the preference for cash usage in inward re-

mittances; these recommendations are included with the other survey results in Annex 11.

III.33 ► The FREN report points out that solving the issues of “phoenix companies” and unfair competition (to which might be added “phantom” companies) would be of particular benefit in tackling the shadow economy. The former would contribute to greater liquidity, primarily among small and medium-sized enterprises, which are often unable to collect receivables and are therefore forced to move part of their business into the shadow economy to be able to survive. One possible solution would be to set up a special registry of all operating bans imposed on managers and owners of enterprises facing criminal or other proceedings. Additional measures are recommended to deal with abuse in the construction sector in particular.

III.34 ► The largely negative findings of the FREN survey contrast somewhat with the position adopted by some of the Serbian authorities in interviews for the current report. In fairness, a range of steps have been taken to seek to reduce the size of the shadow economy. Whilst the measures appear to have had some impact when first introduced, the indications are that the size of the shadow economy seems to have plateaued in recent years and, with the return to recession, is probably increasing – a trend which is not unique to Serbia. Useful initiatives to date include the payment of salaries of State employees electronically, progress made by the Tax Administration in automating controls over point-of-sale terminals and the introduction and scale of use of the domestic Di-naCard system, particularly when serving as a debit and ATM card.

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### **Limit on cash transactions and dealers in high-value goods**

III.35 ► As noted in the MONEYVAL mutual evaluation report in 2009, dealers in precious metals and stones ceased to be subject to the CDD requirements of the AML/CFT Law when they were removed from the list of obligors due to the introduction of a prohibition on businesses (dealing in precious metals and stones or otherwise) accepting cash for transactions in excess of the equivalent of EUR 15 000.

III.36 ► Specifically, Article 36 of the AML/CFT Law provides in paragraph 1 that:

- (1) a person selling goods or rendering a service in Serbia may not accept cash payments from a customer or third party in an amount greater than EUR 15 000 in its RSD equivalent; and
- (2) the restriction laid down in paragraph 1 shall also apply if the payment for goods or a service is carried out in more than one connected cash transaction which in total exceed the RSD equivalent of EUR 15 000.

III.37 ► Article 36 is considered by the Serbian authorities to remove the need for dealers in precious metals and stones to be included as obligors for the purposes of the AML/CFT Law. The MONEYVAL evaluation team expressed serious concerns about the system and efficiency of supervision to ensure that the requirement in Article 36 of the AML/CFT Law is met by economic entities. In this regard, it may result that, due to the lack of an appropriate supervision regime, dealers in precious metals and stones are completely left out of the AML/CFT framework.

III.38 ► The current legislative position regarding dealers in precious metals and stones remains as

set out above. The authorities did not point to any particular enforcement steps they have conducted specifically with regard to such dealers to test the implementation of the cash restriction, beyond the testing of point-of-sale electronic controls conducted for businesses in general by the Tax Administration. Based on this information, no view can be formed as to whether the current arrangements are effective in precluding the involvement of high-value goods dealers in money laundering or terrorism financing schemes. As a policy, it comes dangerously close to a “as crime is against the law, there can be no crime” philosophy. In other words, as it is illegal for a business to accept cash in excess of the equivalent of EUR 15 000, they are therefore not accepting such cash and they could not be involved in or used for money laundering purposes. Unless there is evidence of a meaningful method of monitoring compliance, particularly for high-value goods dealers, it is unlikely that the current approach would be found to be effective in a future evaluation.

III.39 ► A further consideration arises from the reports from Serbian law enforcement agencies that, as in other countries, there is increasing evidence of the use of precious metals, stones and expensive jewellery by criminals as a means of laundering and/or transporting the proceeds of their crimes. It would be unsafe to assume that this is being done entirely without the involvement (consciously or not) of dealers.

III.40 ► The case for reverting to the classification of dealers in precious metals and stones as obligors for purposes of the AML/CFT Law is therefore broader than the matter of large cash receipts, and relates to the overall risk of being involved or used in money laundering or terrorism financing schemes.

III.41 ► It is recommended that the authorities should consider reapplying AML/CFT controls to dealers in precious metals and stones or providing a documented basis for testing the effectiveness of the current cash limits, particularly for high-value goods dealers.

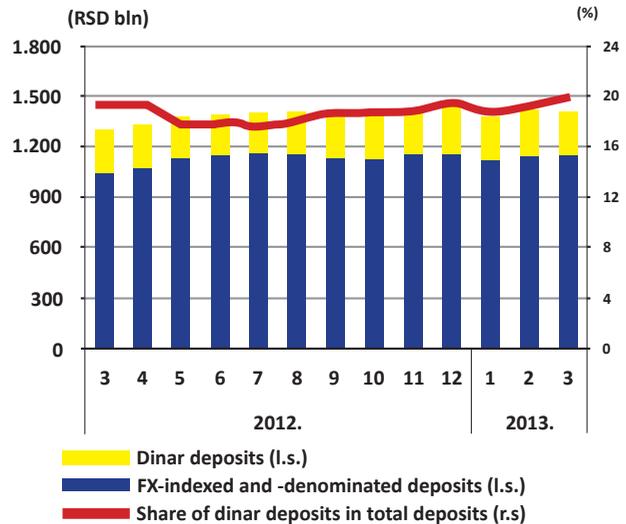
III.42 ► Separately, and for reasons in addition to AML/CFT, more and more countries see merit in applying maximum limits on cash transactions. Their objectives relate mainly to the reduction of tax evasion and of the size of the shadow economy. In some cases, the limits being introduced are significantly lower than Serbia's EUR 15 000 level. A summary of limits being applied or introduced across a number of EU Member States is included as Annex 12. As the situation is fluid, it should be monitored for completeness as further such limits (new limits or further reductions) are anticipated, including in France and Spain.

III.43 ► The Serbian authorities may wish to consider whether to reduce the limit on cash transactions to the levels currently being adopted in some other EU Member States. If they are to have a meaningful impact on the shadow economy, such limits need to be monitored and enforced effectively.

### NBS policy of dinarisation

III.44 ► Against the background of the strong preference for Serbian natural and legal persons to hold assets and obtain financing in FX rather than RSD, the NBS is seeking to implement a strategy of dinarisation. See the NBS Report on Dinarisation of the Serbian Financial System, latest update available for this report is from March 2013. The topic is mentioned here to assist in an understanding of the reasons for financial holdings and flows within Serbia and is relevant also in making sense of the reported statistics for informal flows of foreign currency into Serbia.

**Chart I.3.1.**  
**SHARE OF DINAR DEPOSITS IN TOTAL CORPORATE AND HOUSEHOLD DEPOSITS**



Source: National bank of Serbia

III.45 ► The following chart, taken from the above-referenced NBS report, indicates that RSD-denominated deposits comprise close to 20% of the total deposits held in Serbian banks over 2012/13. Much of the remaining 80% is understood to be held in EUR-denominated accounts. In addition, anecdotal information points to the likelihood of additional and possibly significant amounts of FX being held on behalf of customers in bank safe deposit facilities, although this cannot be verified.

### Cross-border currency declaration system by reference to SR.IX and R.32

III.46 ► The MONEYVAL mutual evaluation report 2009 included a detailed description of cross-border cash controls, to which a rating of partially compliant was applied. While reference was made in the text to the decla-

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ration system now in place, it was not taken into account for the purposes of the 2009 evaluation, as it had not come into effect in time. The provisions came into effect in late 2009 and have therefore been operational for more than three years at this stage.

III.47 ► Pursuant to Article 67 of AML/CFT Law, any natural person who crosses the border carrying cash or bearer negotiable instruments amounting to EUR 10 000 or more is obliged to declare it to Customs.

III.48 ► The rules can be summarised as follows.

- ► Foreign nationals and Serbian nationals who live and work abroad may bring in an unlimited sum of foreign currency and take out a sum of up to the equivalent of EUR 10 000. If the sum of foreign currency being taken into Serbia is declared to a customs officer and a receipt obtained, up to the same sum may be taken out when exiting the country for the first time. Foreign currency that has been withdrawn from a person's own foreign currency account in Serbia may be taken out of the country when accompanied by a bank receipt. SRD may be brought in and taken out to an equivalent value of EUR 10 000, while larger sums may only be brought in if purchased from a foreign bank and accompanied by a receipt from that bank. If FX, SRD and travellers cheques are being taken out simultaneously, their sum must not exceed EUR 10 000.
- ► Foreign citizens living and working in Serbia for longer than one year may take out up to the equivalent of EUR 10 000 in cash or travellers cheques.
- ► Serbian nationals who live and work in Serbia may bring in an unlimited sum of foreign currency and take out a sum of up to the equivalent of EUR 10 000 in cash or

travellers cheques. SRD can be taken out and brought in to an equivalent value of EUR 10 000. Sums larger than EUR 10 000 in SRD may only be brought in if purchased from a foreign bank and accompanied by a receipt from that bank.

III.49 ► The implementing provisions for the cross-border declaration requirements are set out in a Rulebook on cross-border transfer of currency and other bearer negotiable instrument declaration (published in the *Official Gazette of the Republic of Serbia*, No. 78/2009), issued by the Minister of Finance in September 2009 with the aim of implementing measures equivalent to EU Regulation 1889/2005 on cross-border cash. The Rulebook includes declaration forms in Serbian and English, which are disseminated at the border checkpoints. Posters containing basic information on the rights and duties of travellers have been placed in visible locations at border-crossing points, prior to reaching Customs inspection points. However, whilst the images on the posters are easy to see, the clarity of the message would be improved by an increase in the size of the text.

III.50 ► According to Article 69 of the AML/CFT Law, Customs shall temporarily seize the cash or other bearer negotiable instruments that have not been declared and shall deposit them temporarily into the appropriate account with the NBS. A certificate shall be issued in respect of any seized bearer negotiable instruments. According to Article 90 paragraph 2 of the AML/CFT Law, any natural person not declaring to the competent customs body a cross-border transportation of bearer negotiable instruments amounting to EUR 10 000 or more (in RSD or foreign currency) shall be punished for a minor offence with a fine of between RSD 5 000 and RSD 50 000 (Arti-

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cle 67, paragraph 1). If a declaration is made but does not contain all the required data, the natural person shall be punished for a minor offence with a fine of between RSD 500 and RSD 50 000 (Article 67, paragraph 2).

III.51 ► Both Customs and the Border Police have implementation roles as part of an integrated border management arrangement. Customs is primarily a revenue-collecting service of the Ministry for Finance. As noted, Customs was assigned direct responsibilities under the AML/CFT Law. Among the roles of the Border Police is the suppression of organised crime, illegal immigration and human trafficking. Their work has focused on cross-border criminal activity, including smuggling, arms trafficking, luxury goods and cash. This follows the centralisation of roles formerly carried out by the district police.

III.52 ► It is interesting to note the view of Customs that, when it comes to organised criminal groups, criminals take less and less risk when carrying money across the border. They would rather declare the amount they carry in compliance with the law, thereby avoiding the risk of seizure.

III.53 ► Since 2009, Customs has maintained a database of seizures and cash declarations comprising receipts for cash and other means of payment seized temporarily, and containing travellers' personal details and the amounts declared. Copies of information on all seizures and declarations are made available to the APMML for analysis. Information is also shared with regional customs authorities, between which there appears to be a close and productive working relationship.

III.54 ► It is noted that the NBS increased the previous declaration threshold first from EUR 2 000 to

EUR 5 000, and then from EUR 5 000 to EUR 10 000. As a result, large volumes of smaller flows are no longer being declared which has resulted in a loss of valuable statistical data. If, based on the results of the remittance survey recommended in this report, there are strong indications that the cash entering Serbia is likely to include material levels of criminal proceeds, the authorities could consider lowering the declaration limit for a time in order to obtain more accurate information on the nature of the cash entering Serbia.

III.55 ► As noted in the NRA, in the cases of failure to declare the legally stipulated amount of money in excess of EUR 10 000 or of reasonable suspicion regarding the origin of money or its purpose, the funds will be seized. In 2011, the Customs issued the following number of certificates of seized physical currency and bearer negotiable payment instruments:

- ► 70 certificates in the total amount of EUR 2.17 million; and
- ► 4 certificates in the total amount of USD 1.07 million.

III.56 ► Of the above amounts, more than EUR 1.9 million and almost USD 1.1 million were seized upon exiting Serbia. According to the Customs data, the value of declared physical currency and bearer negotiable payment instruments upon entering, transiting or exiting the country in 2011, for the euro alone, was more than EUR 23 million.

#### **Technical compliance with R.32**

III.57 ► It is not within the scope of this study to deliver a full evaluation of Serbia's compliance with R.32. Based on a quick review of the law and discussions in Belgrade, it appears that the

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current Serbian provisions are equivalent in terms of operational requirements and powers with the content of R.32, operating on the basis of a reporting threshold of EUR 10 000 (equivalent to the EU level) that is well within the R.32 maximum threshold of EUR 15 000. The legal basis for seizure and confiscation was not explored as part of this study.

### **Effectiveness of implementation – R.32**

III.58 ► The effectiveness of cross-border declaration systems is difficult to determine. The Serbian authorities have maintained statistics on cash declarations and seizures, which provides a useful measure of effectiveness. However, in the absence of a search of every person, bag and vehicle (an unreasonable prospect), no customs system can claim to be 100% effective. From discussions with Customs and Border Police, the following effectiveness issues were identified in the case of Serbia:

- ► resource constraints – effectiveness would benefit from the acquisition of additional assets (which could include more officers to increase search capacity, vehicles, scanners and sniffer dogs);
- ► the role of the prosecutorial services and judiciary – the legal outcome of seizure cases gives rise to some effectiveness questions. While not explored in detail for this report, the penalties applied in cases mentioned did not always seem proportionate or dissuasive, to the extent that they involved an administrative fine and release of the detained funds;
- ► legal restrictions – while Customs appears to have been given strong enforcement powers, the Border Police (as a law enforcement authority) are required to produce prima facie evidence of an underlying crime before further police investigation is authorised in respect of suspicious funds they

have temporarily seized. This appears to be a contradiction in terms as the case cannot be established without investigation, but investigation is blocked unless the case can be established, with the net result being that the suspicious funds have to be released. This situation needs to be addressed; and

- ► inconsistent application of the seizure rules at different border posts – an initiative in the second half of 2013 will seek to agree a common approach to be applied in practice at all points of entry into Serbia.

III.59 ► In addition, monitoring of movements between Serbia and Kosovo is evidently a sensitive topic. Media reports refer to some parallel customs activities but the situation can best be described as being in transition, with the outcome not yet certain. On that basis, it would be unsafe to conclude that the controls in place in respect of cross-border movements of cash, goods or persons between Serbia and Kosovo are yet effective.

### **Inward remittances and the role of the Serbian diaspora**

III.60 ► In the case of Serbia, the principal type of alternative remittance system or informal funds transfer takes the form of cross-border cash remittances from the Serbian diaspora as well as gifts of medium- and high-value goods. The main informal remittance corridors are from Germany, Austria and Switzerland, although other countries such as France, Italy, the US, Canada and the Scandinavian countries were also mentioned by some sources.

The following section sketches the origins of the Serbian diaspora and draws from available studies on the main remittance corridors. Annex 11 sets out the main findings of those studies in more detail. While

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the studies date mainly from 2006 to 2009, interview partners for the current study expressed the view that there has not been any fundamental change in remittance practices over subsequent years.

III.61 ► The reasons for the diaspora's preference for the use of cash for remittance purposes are explored. Possible incentives to encourage a switch to formal remittance channels are discussed.

### **Historical background**

III.62 ► As is common with many less developed and transition economies, economic migration from Serbia has long been a reality, with a series of waves of emigration occurring for varying reasons from the 19th century onwards. While in many respects the history of Serbian emigration is not dissimilar to the experiences of other countries, there are particular circumstances that need to be taken into account to understand the impact of the diaspora on the Serbian economy.

III.63 ► The Serbian diaspora is large and many Serbs abroad retain close links to their country of origin, particularly through family connections. Studies have shown that there is a significant pattern of inward remittances into Serbia emanating from the Serbian diaspora, using both formal and informal channels. NBS BoP statistics indicate that the level of remittances is around 9-10% of Serbian GDP, making it one of the largest sources of foreign income.

III.64 ► This section of the report seeks to analyse inward remittances by reference to the characteristics of the diaspora as identified in previous published studies. The accuracy and reliability of available statistics on remittances are considered and tested against a simpli-

fied model used to estimate an expected level of remittances. The aim is to provide some basis for determining whether the official statistics overestimate or underestimate the level of remittances. Underestimation is considered likely by international comparison (by the World Bank and others), but there may be factors particular to the Serbian preference to hold FX outside the banking system ("mattress money") that mean the statistics overstate actual cross-border cash receipts. The objective of this analysis is to stimulate discussion rather than to arrive at definitive findings.

III.65 ► In the AML/CFT context, the difficult question needs to be asked as to whether and to what extent some of the remittances, formal or informal, may in reality represent the proceeds of crime. The issue of cross-border cash declarations is discussed and an analysis of Serbia's compliance with R.32 is included. The AML/CFT discussion should be read in the context of the criminal typologies analysed in Part I of this report, including in relation to the proceeds of Balkan organised crime and the possible linkages to Serbia's privatisation programme.

### Estimating the financial significance for the Serbian economy

III.66 ► The data in the following table compiled by the NBS indicate that, based on BoP estimates, the inflow of remittances to Serbia, by formal and informal means combined exceeded EUR 2.7 billion in 2012 (when defined broadly to include gifts, grants and social contributions to natural persons). Remittances appear to be continuing at that level in 2013. While the data point to some reduction in total remittances from the highest recorded annual levels of more than EUR 3 billion in earlier years, it is nonetheless remarkable that the levels appear to have been largely sustained despite the depth of the international financial crisis.

III.67 ► To put the scale of remittances into context, as estimated by the NBS they represent a multiple of the level of foreign direct investment into Serbia and are equivalent to 35-50% of the level of annual export receipts. On a per capita basis, inward remittances exceed one month's average wage. It is evident, therefore, that the Serbian economy is heavily dependent on its diaspora.

III.68 ► This analysis is presented on the basis that the above BoP estimates are reliable. For purposes of this research, the NBS provided an explanation of the complex methodology used to arrive at the estimates of remittances and indicated that the approach has been confirmed to be consistent with the IMF's balance of payments manual (BPM5 and BPM6, as appropriate).

### Inflow of remittances and other indicators of Serbia

| ITEM  | 2009      | 2010      | 2011      | 2012      | Q1 2013 |
|---|-----------|-----------|-----------|-----------|---------|
| Remittances, inflow, BPM6 definition (million EUR) <sup>1</sup> | 3,248     | 3,056     | 2,795     | 2,735     | 654     |
| Remittances, inflow BPM5 definition (million EUR) <sup>2</sup>  | 2,668     | 2,422     | 2,110     | 1,989     | 470     |
| <i>of which remitted by formal channels<sup>3</sup></i>         | 588       | 594       | 614       | 658       | 145     |
| Remittances, inflow (% of GDP)                                  | 11.2%     | 10.9%     | 8.9%      | 9.1%      | 8.6%    |
| Current account (million EUR)                                   | -1,910    | -1,887    | -2,870    | -3,155    | -615    |
| Current account (% of GDP)                                      | -6.6%     | -6.7%     | -9.1%     | -10.5%    | -8.1%   |
| Export of goods, f.o.b. (million EUR)                           | 5,978     | 7,403     | 8,440     | 8,822     | 2,265   |
| Foreign direct investments (million EUR)                        | 1,372     | 860       | 1,827     | 232       | 155     |
| GDP (million EUR)   | 28,954    | 28,006    | 31,472    | 29,932    | 7,592   |
| Remittances, inflow per capita (EUR)                            | 444       | 419       | 399       | 378       | 393     |
| Average wage, net (EUR)   | 338       | 331       | 372       | 366       | 371     |
| CPI   | 6.6%      | 10.3%     | 7.0%      | 12.2%     | 11.2%   |
| Population  | 7,320,807 | 7,291,436 | 7,258,753 | 7,241,295 | n.a.    |

Source: National Bank of Serbia and Statistical Office of the Republic of Serbia.

a. Remittances defined in the IMF's "Balance of Payments and International Investment Position Manual", Sixth Edition (BPM6) include gifts, grants and social contributions to natural persons.

b. Remittances defined in the IMF's "Balance of Payments and International Investment Position Manual", Sixth Edition (BPM6) include only pure remittances.

c. Formal channels include money remitted through banking accounts and MTOs.

III.69 ► As an additional comparative test on the validity of the BoP remittance data, it might be useful to attempt an alternative approach. An estimate of flows of remittances could be calculated using the following formula:<sup>34</sup>

$$\text{Remit } ij = \Sigma(\text{migrant } ij * \text{percentage } ij * \text{annual amount } ij)$$

Where:

- ► i = migrant's host country; and
- ► j = migrant's country of origin.

So:

- ► remit ij = total remitted by migrants from country j working in country i;
- ► migrant ij = number of migrants from country j working in country i;
- ► percentage ij = percentage of migrants from country j working in country i who remit; and
- ► annual amount ij = annual amount remitted by migrants from country j working in country i.

III.70 ► For example, the following might be considered a reasonable set of assumptions:

- ► diaspora who do not (or no longer) hold Serbian citizenship are unlikely to be significant remitters to Serbia – this sets the relevant global diaspora population at approximately 1.5 million;
- ► the 2006 World Bank corridor report is used as a basis for proposing that one in three of the diaspora are likely to be in employment (German data, 2006), of whom many will be supporting a family in their adopted country;
- ► as an estimate of disposable income and how much an emigrant might be able to afford to remit, a midpoint of the EU minimum wage and average industrial wage is taken with the aim of reflecting both the manual labourers and industrial/professional workers among the diaspora. The effective tax rate is assumed to be 25%; and

- ► for the purposes of this exercise, it is assumed that no more than 20% of disposable income would be remitted.

Remit Global to RS =  $\Sigma=1.5\text{m Serbian citizens} * 30\%$  in employment and remitting \* EUR2 000 20% of avg. net income

III.71 ► The result can be read from the following table as yielding an expected level of total annual remittances to Serbia of EUR 900 million per year, very far from the EUR 2.7 billion indicated by the BoP statistics.

|                  | Diaspora:<br>(citizens)<br>1 500 000 | Percentage<br>of diaspora<br>remitting: |                |                |
|------------------|--------------------------------------|---|----------------|----------------|
|                  |                                      | 30%                                     | 40%            | 50%            |
| <b>Estimated</b> | <b>500</b>                           | 225.0                                   | 300.0          | 375.0          |
| <b>EUR</b>       | <b>1 000</b>                         | 450.0                                   | 600.0          | 750.0          |
| <b>remitted</b>  | <b>1 500</b>                         | 675.0                                   | 900.0          | 1 125.0        |
| <b>per year:</b> | <b>2 000</b>                         | 900.0                                   | 1 200.0        | 1 500.0        |
|                  | <b>2 500</b>                         | 1 125.0                                 | 1 500.0        | 1 875.0        |
|                  | <b>3 000</b>                         | 1 350.0                                 | 1 800.0        | 2 250.0        |
|                  | <b>3 500</b>                         | 1 575.0                                 | 2 100.0        | <b>2 625.0</b> |
|                  | <b>4 000</b>                         | 1 800.0                                 | 2 400.0        | 3 000.0        |
|                  | <b>4 500</b>                         | 2 025.0                                 | <b>2 700.0</b> |                |
|                  | <b>5 000</b>                         | 2 250.0                                 | 3 000.0        |                |
|                  | <b>5 500</b>                         | 2 475.0                                 |                |                |
|                  | <b>6 000</b>                         | <b>2 700.0</b>                          |                |                |

III.72 ► The simplified interpretation that follows seeks to put these estimates into context.

To reach a level of EUR 2.7 billion based on the above assumptions, possibilities include the following:

- ► 50% of all Serb citizens abroad are remitting an average of EUR 3 500 per person per year;
- ► 40% of all Serb citizens abroad are remitting an average of EUR 4 500 per person per year; and
- ► 30% of all Serb citizens abroad are remitting an average of EUR 6 000 per person per year.

<sup>34</sup> "Estimating global remittance flows: a methodology", Dr Manuel Orozco of Inter-American Dialogue. Available at: [www.ifad.org/remittances/maps/methodology.pdf](http://www.ifad.org/remittances/maps/methodology.pdf).

III.73 ► While not impossible, these numbers appear extraordinarily high by reference, for example, to an annual average wage per person in Serbia in 2012 equivalent to EUR 4 500. The above is a simplistic analysis but sufficient to suggest that the BoP basis of computing remittances may be overestimating and that an alternative explanation is needed to explain some of the EUR and other FX being lodged with banks or converted to RSD.

III.74 ► As a further illustration, the data for Serbian citizens in Germany can be estimated as follows:

Remit Germany to RS =  $\Sigma(0.7\text{m Serbian citizens} * 30\% \text{ in employment and remitting} * \text{EUR}2\,000 * 20\% \text{ of avg. net income}$

| Diaspora in Germany: (citizens) |              | Percentage of diaspora remitting: |              |              |
|---------------------------------|--------------|-----------------------------------|--------------|--------------|
|                                 |              | 30%                               | 40%          | 50%          |
| 700 000                         |              |                                   |              |              |
| <b>Estimated</b>                | <b>500</b>   | 105.0                             | 140.0        | 175.0        |
| <b>EUR</b>                      | <b>1 000</b> | 210.0                             | 280.0        | 350.0        |
| <b>remitted</b>                 | <b>1 500</b> | 315.0                             | 420.0        | 525.0        |
| <b>per year:</b>                | <b>2 000</b> | 420.0                             | 560.0        | 700.0        |
|                                 | <b>2 500</b> | 525.0                             | 700.0        | <b>875.0</b> |
|                                 | <b>3 000</b> | 630.0                             | <b>840.0</b> | 1 050.0      |
|                                 | <b>3 500</b> | 735.0                             | 980.0        | 1 225.0      |
|                                 | <b>4 000</b> | <b>840.0</b>                      | 1 120.0      | 1 400.0      |
|                                 | <b>4 500</b> | 945.0                             | 1 260.0      |              |
|                                 | <b>5 000</b> | 1 050.0                           | 1 400.0      |              |
|                                 | <b>5 500</b> | 1 155.0                           |              |              |
|                                 | <b>6 000</b> | 1 260.0                           |              |              |

To reach a level of EUR 0.9 billion, as shown in the country analysis table below, and based on the same assumptions, possibilities include the following:

- ► 50% of all Serb citizens in Germany are remitting on average between EUR 2 500 and EUR 3 000 per person per year;
- ► 40% of all Serb citizens in Germany are remitting on average between EUR 3 500 and EUR 3 500 per person per year;
- ► 30% of all Serb citizens in Germany are remitting on average between EUR 4 000 and EUR 4 500 per person per year.

III.75 ► The difference in results between the estimates for Germany and globally is interesting; it suggests that Serbs in other countries remit larger amounts per person. One possible explanation (which is largely speculative) is that the diaspora based in countries relatively close to Serbia (e.g. Austria, Germany) may be remitting or bringing home smaller amounts on a regular basis, while Serbs further away (US, Canada, Australia), where it is more likely that emigrants of recent years are well educated and have higher net earnings, are in a position to remit larger amounts.

III.76 ► How can the difference between the BoP statistics and the (admittedly tentative) estimates presented above be explained? The following, or combination thereof, are suggested among the possible factors.

- ► The assumptions on which this paper's estimates are based could be invalid – the Serbian diaspora really is in a position to be so generous to family in Serbia and/or are investing more of their disposable income in the country, in excess of the 20% assumed.

## Inflow of remittances, gifts and grants to natural persons in Serbia by country<sup>a</sup>

| COUNTRY Million EUR | 2007         | 2008         | 2009         | 2010         | 2011         |
|---------------------|--------------|--------------|--------------|--------------|--------------|
| Germany             | 858          | 764          | 1188         | 1063         | 859          |
| Austria             | 423          | 318          | 560          | 501          | 479          |
| Switzerland         | 256          | 240          | 348          | 336          | 322          |
| France              | 206          | 177          | 275          | 253          | 218          |
| Sweden              | 109          | 89           | 146          | 135          | 111          |
| Croatia             | 78           | 84           | 85           | 91           | 94           |
| Russian Federation  | 86           | 83           | 79           | 73           | 68           |
| US                  | 86           | 77           | 75           | 75           | 74           |
| Italy               | 61           | 59           | 67           | 59           | 50           |
| Greece              | 40           | 32           | 47           | 44           | 38           |
| Other countries     | 455          | 417          | 377          | 425          | 482          |
| <b>Total</b>        | <b>2 657</b> | <b>2 342</b> | <b>3 248</b> | <b>3 056</b> | <b>2 795</b> |

Source: National Bank of Serbia

Note:

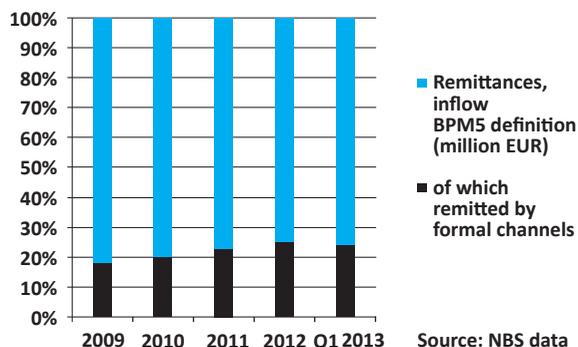
a. Remittances defined in the IMF's "Balance of Payments and International Investment Position Manual", Sixth Edition (BPM6) include gifts, grants and social contributions to natural persons.

- ▶ The BoP data may be capturing the re-emergence of "mattress money" (FX previously hoarded within Serbia) in addition to newly remitted FX arriving through formal and informal channels and intended for early use in consumption, thereby inflating the remittance numbers.
- ▶ Despite the legal restrictions on domestic FX transactions and on cash transactions exceeding the equivalent of EUR 15 000, the remittance calculation may be an indication of significant levels of (possibly large) cash transactions, including in FX, being conducted within Serbia, where the proceeds are then lodged with Serbian banks or converted to RSD.
- ▶ The remittance data in the BoP data are capturing not just legitimately earned foreign income entering Serbia but also the proceeds of domestic and international crime which

is being laundered through the foreign and/or Serbian financial system (e.g. tax evasion, abuse of office – including in relation to privatisations – and organised crime, including human trafficking, smuggling and drug trafficking).

III.77 ▶ In the absence of reliable data sources to help test these hypotheses and provide greater clarity on the true levels of, and rationale for, remittances into Serbia, it is recommended that a meaningful survey be conducted as soon as feasible. Factors to be taken into account in the design of such a survey are discussed later in this report.

## REMITTANCE CHANNELS – FORMAL AND INFORMAL



III.78 ► NBS data, charted above, indicates that not much more than 20% of estimated remittances enter Serbia through formal channels (principally bank-to-bank SWIFT-based wire transfers and funds remitted through MTOs – in decreasing order of remittance volume through Western Union, MoneyGram and Ria). Almost 80% of remittances are shown as coming through informal channels, whether cash carried in person or use of cash couriers, including bus and truck drivers. If accurate, this has significant public policy implications for the Serbian authorities, as discussed below. It also raises issues of relevance for AML/CFT. In that context, it would be appropriate to include the topic within the coverage of Serbia’s newly developed AML/CFT NRA.

### The Serbian diaspora – A recent history

III.79 ► According to the latest information provided by the diplomatic and consular missions of the Republic of Serbia abroad, even though a census of the entire Serbian diaspora has never been attempted, it is estimated that Serbia has a diaspora of 3.5 million people overall. Of this

number, about a million and a half are citizens of Serbia, a considerable number of them having dual citizenship, meaning that they also have the citizenship of their adopted country. Such a large diaspora abroad resulted from a long history of emigration of the Serbian population from their homeland for various reasons and in various periods, ranging from economic, political, religious, cultural and family reasons to emigration caused by violence and persecution.

III.80 ► Geographically, Serbian emigrants are located mainly in the following countries and, in some cases, tend to be clustered in and around certain cities or regions (e.g. Munich, Dusseldorf, Vienna, etc.). The table below sets out indicative data on the size of the Serbian diaspora in the main jurisdictions to which they emigrated. The data are approximations but are adequate for purposes of this study. More precise information may be obtained, if needed, from national census data.

| Country/Region                   | Size of Serbian diaspora<br>(Indicative levels<br>– latest estimates, ‘000) |
|----------------------------------|---|
| Germany                          | 700   |
| Austria                          | 300   |
| Switzerland                      | 200   |
| 4 Nordic countries <sup>35</sup> | 320   |
| France                           | >100  |
| UK                               | 100   |
| Italy                            | 70  |
| Benelux countries                | 50  |
| US and<br>Canada combined        | 300 (in recent waves) <sup>36</sup>   |

Source: Interview at the Office for Co-operation with the Diaspora and Serbs in the Region

<sup>35</sup> Sweden, Norway, Finland and Denmark.

<sup>36</sup> Approximately one million in total in North America with links to Serbia, but most are not Serbian citizens.

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III.81 ► A number of emigration waves can be identified. The Serbian diaspora was the consequence of either voluntary departure, coercion and/or forced migrations or expulsions that occurred in six large waves.

1. To the west and north, caused mostly by the Ottoman Turks.
2. To the east (Czechoslovakia, Russia and Ukraine) from the First World War, until the fall of communism in 1990.
3. To North America (US and Canada), Australia and New Zealand due to economic migration.
4. During wartime, particularly the Second World War and post-war political migration, predominantly to overseas countries (large waves of Serbians and other Yugoslavians went to the US, UK, Canada, Australia and New Zealand).
5. Going abroad for temporary work as “guest workers” and “resident aliens” who stayed in their new homelands during the turbulent 1960s and 1970s (to Austria, Belgium, Denmark, France, Germany, Greece, Italy, the Netherlands, Portugal, Spain, Sweden and the UK). However, some Serbians returned to Yugoslavia in the 1980s.
6. Escaping from the uncertain situation (1991-95) caused by the dissolution of Yugoslavia, the renewal of ethnic conflicts and civil war, as well as the disastrous economic crises, which largely affected the educated or skilled labour forces (i.e. “brain drain”) who increasingly migrated to western Europe, North America, Australia and New Zealand.

III.82 ► The pattern of diaspora remittances can be mapped, in broad terms, to the waves shown above, taking into account a range of additional influences, to include the following:

- ► years spent outside Serbia (whether in temporary or indefinite status);

- ► whether first generation emigrants or children/grandchildren of emigrants;
- ► whether any family members remained in Serbia and the nature of any such family relationship;
- ► level of education (generally linked to earning capacity);
- ► physical distance of current residence from Serbia; and
- ► whether the emigrant originated from rural or urban Serbia.

#### **Issues arising from available remittance corridor studies**

III.83 ► As noted, relevant extracts from available studies of remittances by the Serbian diaspora are included as Annex 11. Some of the main issues identified in that research are discussed below.

III.84 ► One of the themes running through the available literature is that further research is needed. While the statement can always be made to cover the limitations of any research project, it can also be said that the surveys conducted in the period 2006-09, taken together, already provide a basis for a reasonable understanding of the rationale for, and modalities of, remittance flows into Serbia. Clearly, the passage of time would impact on some of the conclusions. For example, if the 2006 research had encountered a middle-aged son in Dusseldorf who had been visiting his widowed father in eastern Serbia four times every year and providing sufficient cash to meet his needs, the needs of the father may have changed since that time or he may since have died. The economic and family circumstances of the son in Germany and his ability to support his father may also have altered. The use of the findings from

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the earlier research therefore needs to be approached with caution and there would be merit in conducting a further survey to test and update the previous results.

### **Analysis of factors influencing diaspora remittances and possible courses of action**

III.85 ▶ Particularly against an AML/CFT background, the following key questions arise.

(i) Accuracy of statistics. How valid are the data available on the following?

- ▶ The diaspora, in aggregate and on a country-by-country basis (given the differences in definition and measurement being used – citizenship, residency, family ties).
- ▶ Formal remittance levels. Is there a need to re-examine the basis on which Serbian banks report to the NBS to ensure that only funds originating from outside Serbia are captured in the numbers, and to provide assurance that records are being accurately maintained by the banks?
- ▶ Informal remittance levels. This will always remain an estimate, but a well-designed survey could be used to test the reliability of the current basis of estimation.
- ▶ The unexplained element. Taking into account the above statistics and the understanding provided by their interpretation, can any view be formed on the proportion of remittances (formal and informal) that can be regarded as legitimate? Is there an unexplained residual element that might represent criminal proceeds?

(ii) Is there really a problem?

- ▶ The FATF Recommendations (and EU equivalent) do not require more than is al-

ready required in Serbia – a requirement to declare amounts in excess of the equivalent of EUR 10 000, supported by effective legal and operational measures. Is there any need to do more?

- ▶ Based on available information, it is not possible to determine the extent of the abuse for ML or TF purposes of the current remitting practices.
- ▶ Although high and sustained levels of remittances can be seen as a mixed blessing according to the economic literature, overall, the supply of FX into Serbia is to be welcomed and any regulatory or law enforcement intervention should not be such as to penalise or interfere with legitimate remittances.
- ▶ Any additional regulatory or law enforcement action needs to be proportionate and targeted at isolating the proceeds of criminal activity.
- ▶ To assist in isolating criminal proceeds, it would ideally be helpful if legitimate remittances were not transited into Serbia in cash, particularly through the use of cash couriers. A change in current practices could best be encouraged through the use of incentives, in the context of some degree of liberalisation of the current payment systems requirements and FX restrictions.
- ▶ A variety of initiatives have been taken by the Serbian authorities in recent years, in conjunction with the private sector, to encourage the diaspora to switch to formal remittance channels. The initiatives appear to have had a limited impact.
- ▶ Among the likely reasons for this lack of impact appears to be the issue of conversion of the proceeds to RSD (in line with NBS policy) rather than retention in EUR or other FX (as preferred by the senders and/or re-

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ipients). This factor is in addition to those noted from previous studies, which include the following.

- A lack of trust in Serbian banks for strong historical reasons, and also a lack of interest in going through the process of obtaining access to financial services, for example in the case of rural recipients.
  - Habit and inertia: no reason to change the pattern of successful past remittance practices.
  - Cost of remittances can be disproportionate to the level of service provided; if already planning to return to visit Serbia, it is cheaper to deliver cash in person or have cash delivered by a family member or trusted friend or neighbour.
  - Control: informal means (including personal delivery) provides greater control and removes uncertainty over the timing of delivery and the net amount received. In contrast, bank transfers are subject to correspondent banking fees, delays and administrative processes.
  - Informal means provide a high level of anonymity.
- ► Anonymity is also attractive for the purposes of transferring the proceeds of criminal activity for money laundering and for financing terrorism. As such, in answer to the original question, there could be a problem but there is little data available to confirm the extent to which current remittance practices may be facilitating criminals to benefit from their crimes.
  - ► There is little indication that non-cash informal remittance arrangements (e.g. *hawal*-type transfers) are in use in Serbia; such evidence as has been uncovered by law enforcement did not identify any links to international terrorism.

### **Diaspora's preference for cash remittances**

III.86 ► Previous studies and surveys identified a hierarchy of reasons to explain why members of the Serbian diaspora prefer to remit to their homeland in cash. The validity of the most significant factors is analysed below. Possible means of countering these factors are discussed. However, in the absence of any recent survey of practices, the analysis is tentative, as there may have been some changes in the factors driving remittance decisions in recent years.

### **Pragmatism**

III.87 ► To set the tone for the analysis that follows, it may be useful to highlight a response included in a previous survey of remittance senders: "If I need a receipt for tax purposes, I will send through a bank. Otherwise, I will use a bus driver as it is cheaper". This is offered as indicative of the pragmatism of service users and indicates the potential for incentives to encourage more use of formal systems.

### **Attachment to tried and trusted methods**

III.88 ► While different remittance patterns can be observed between the various waves of Serbian emigrants, in general the earlier research found a remarkable consistency in the commitment of certain sub-sets of the diaspora to continue to provide financial support to family members in Serbia over long periods of time – in some cases, over several decades. While arrangements had been in place in some countries, notably Germany, to facilitate the diaspora in remitting using formal methods (particularly through specially designed banking facilities), this arrangement was discontinued on the imposition of UN sanctions on Serbia in

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1992. The void was filled in part by bus drivers on regular routes into Serbia from the main European countries of residence of the Serbian diaspora, who provided an informal remittance service, reliably and for an acceptable cost. Reportedly, many among the diaspora see no reason to change from using this method, which has served them well for an extended period. Moreover, the previous bank facilities that had encouraged use of formal methods were never reintroduced.

III.89 ► In addition, it is reported that many Serbs living abroad continue to mistrust Serbian banks for strong historical reasons, including previous bank failures and blocking of access to FX deposits.

III.90 ► At the receiving end, and in view of their age profile and financial circumstances, remittance recipients may have no interest in conducting business through Serbian financial institutions.

III.91 ► While the above viewpoints may be understandable historically, the financial services landscape has seen significant change in recent years. Most Serbian banks are now majority foreign owned. A range of card-based products and e-banking facilities have been introduced. The number of MTOs has increased. Overall, there are grounds for increased confidence in the capacity of formal systems to deliver a relatively safe and reliable remittance service. As is currently the case with many financial systems across Europe and elsewhere, this recognition of progress<sup>37</sup> is subject to the unpredictable effects of the continuing financial crisis. In particular, some of the foreign-owned banks may be under pressure at group level to deleverage

and retrench which could potentially impact on their Serbian operations.

III.92 ► As discussed below, means should be sought to provide additional peace of mind to the diaspora that their formal remittances (when comprising legitimate funds) will be made available safely in Serbia in the agreed amount and within an agreed timeframe, and without fear of negative consequences arising from any potential misuse of the funds or the personal information pertaining to them.

#### **Cost of remittances (and degree of certainty regarding final cost)**

III.93 ► A review of previous surveys and other data sources appears to indicate that the cost of formal remittances to Serbia using the most common corridors (Germany and Switzerland in particular) is high and above the international average. The data for Austria are less conclusive as the available survey references several discounted arrangements available at the time the survey was conducted, through Austrian banks with operations in Serbia.

III.94 ► A simplified and indicative comparison of the relative costs of available methods is set out in the following table.

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<sup>37</sup> "Article IV Consultation: Selected Issues Paper", IMF, July 2013: "At the outset of the crisis, Serbia's banking system had one of the highest capitalization rates among peer countries. Non-performing loans were substantial but well provisioned. Since 2008, the capitalization declined (also partly due to introduction of the Basel II supervisory standard at end-2011), but it remained substantially higher than the regulatory minimum and still stronger than in many peers. The level of banking system liquidity is adequate, and the banking system –excluding a few exceptional cases that needed resolution – is still profitable".

| <b>Remittance method</b>                             | <b>Approximate cost (% of remittance amount)</b>  | <b>Net amount to be received known at the outset?</b>  | <b>Funds usually received in:</b>  |
|--|---|--|--|
| <b>Cash</b> imported by self, relative or friend     | Zero or minimal   | Yes  | EUR or other FX  |
| <b>Use of bus/truck driver</b>                       | From 3%   | Yes, as fee pre-negotiated   | EUR or other FX  |
| <b>Online remitters</b> (e.g. Skrill <sup>38</sup> ) | From 3% based on published fee scale  | Yes, as fee paid by sender   | Where kept in account, assume EUR or other FX. Where withdrawn at ATMs, assume RSD               |
| <b>Banks</b> (mainly SWIFT messaged wire transfers)  | Varies widely. Generally 5-10% but could be higher. Occasionally lower if special arrangement available to diaspora | Not always known at the outset as intermediaries' fees may also be deducted in transit and receiving bank may also apply a charge. FX charges generally also apply | RSD or EUR (or other FX) depending on instructions and on currency of Serbian customer's account |
| <b>MTOs</b> (Western Union, Moneygram, Ria)          | 5-10% based on published fee scale  | Yes, as fee paid by sender   | EUR (except if received through Post Serbia, in which case RSD)                                  |

III.95 ► The World Bank maintains a database for international comparison of remittance costs<sup>39</sup>, which provides the following information for Serbia with regard to the transfer of an amount of EUR 345/CHF 400 in February 2013 in the main remittance corridors. Note that the typical formal remittance to Serbia is reported to be somewhat higher than this amount. Also, it should be borne in mind that, in general, bank wire transfers are less cost effective for smaller amounts, so the World Bank data might not be representative of actual fees applied in practice (assuming the diaspora is more likely to use bank wire transfers for larger remittances). With

MTOs, a premium is included in the cost to achieve the benefit of prompt and time-certain delivery. The full database extract is included as Annex 13.

<sup>38</sup> Formerly Moneybookers, [www.skrill.com](http://www.skrill.com).

<sup>39</sup> Available at World Bank website: <http://remittanceprices.worldbank.org>.

| World Bank database<br>February 2013 – extracts | Remitting to<br>Serbia from: | Germany  | Austria                            | Switzerland                        |
|---|------------------------------|--|------------------------------------|------------------------------------|
|   | Amount sent:                 | EUR 345  | EUR 345                            | CHF 400                            |
| Fee as % of amount remitted:                    |                              |  |                                    |                                    |
| <b>Western Union</b>                            |                              | 6.23%  | 7.25%                              | 14.42%                             |
| <b>MoneyGram</b>                                |                              | 4.64%  | 3.19%                              | 4.64%                              |
| <b>Ria</b>                                      |                              | 3.77%  | n/a                                | 3.77%                              |
| <b>MoneyBookers/Skrill</b>                      |                              | Incomplete data                                      | n/a.                               | 3.10%                              |
| <b>Voicecash</b>                                |                              | n/a.   | 2.32%                              | n/a.                               |
| <b>Postbank (via Western Union)</b>             |                              | 9.68%  |                                    |                                    |
| <b>Banks (range)</b>                            |                              | 3.6-14.5%<br>(not including<br>FX conversion charge) | 3.6-6.2%<br>(excluding<br>outlier) | 1.3-6.3%<br>(excluding<br>outlier) |

(b) The World Bank data above include wide variations that are difficult to explain and not entirely plausible. However, taken at face value, the following tentative conclusions may be drawn.

- ▶ It pays to shop around for remittance fees.
- ▶ Bank wire transfers are not necessarily the most expensive means of remitting (e.g. from Switzerland) but in some cases appear to be hugely uncompetitive for sending small amounts.
- ▶ Western Union (which still dominates the market in Serbia) appears to apply materially higher fees than its competitors.
- ▶ Not shown here, but from the World Bank database it can be observed that costs have reduced in recent years, but not by much, reflecting some increase in competition for Serbian business but suggesting that there is scope for further competition on these corridors.
- ▶ Online providers such as Skrill appear to be significantly cheaper.

III.97 ▶ However, given the noted reservations regarding these data, it is not clear that they would support definitive conclusions.

#### Access and convenience in the sending jurisdiction

III.98 ▶ While previous studies indicate some variations across countries and arising from the economic, financial and educational profile of the diaspora, in general, Serb emigrants tend to have ready access to banking and financial services in their countries of residence, particularly for those based in Germany. Some also maintain bank accounts in Serbia. However, previous surveys focused on legal immigrants for most of whom bank account operation would be mandatory for receipt of wages, pensions and any other State supports.

III.99 ▶ No estimates were encountered for the number of undocumented Serbs abroad (“illegal aliens”) who may also be remitting funds to Serbia. In their case, access to banking services would be difficult if not impossible, as

they would be unable to comply with bank account opening procedures, particularly those relating to AML/CFT. Moreover, to avoid detection, they need to remain invisible to the authorities. Their only option is therefore the use of informal remittance methods.

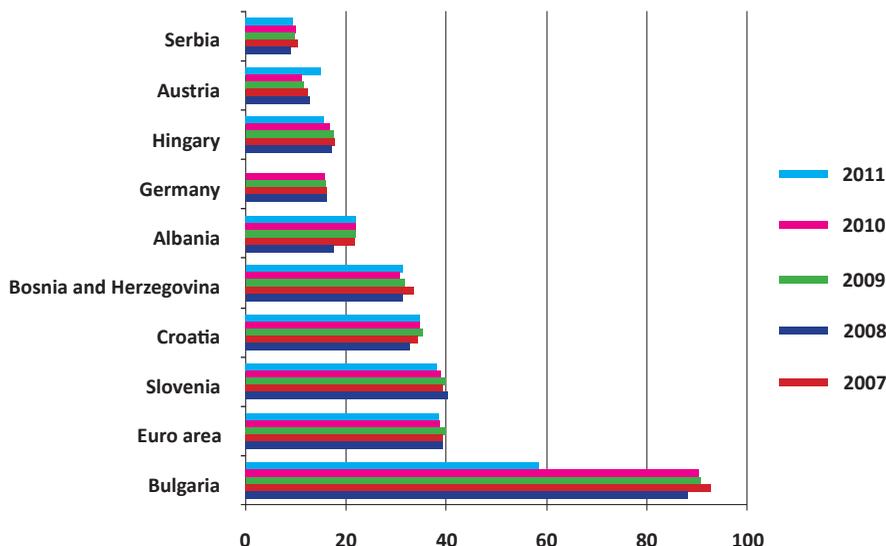
**Access and convenience when receiving funds in Serbia**

- III.100 ► Does difficulty of gaining access to formal remittance providers due to geographical distances or procedural challenges force Serbian recipients to opt for informal methods? This question does not lend itself to a generalised conclusion as remittance circumstances vary across Serbia.
- III.101 ► Some studies provide evidence that there are access barriers, particularly for remote rural villages and recipients who would have difficulty with the forms and other documenta-

tion required by banks. This is significant as it is reported that such cases may represent a sizeable proportion of total remittances received.

- III.102 ► On the other hand, statistics relating to the Serbian banking system as a whole indicate that the country is probably not under-banked and that banks already offer a wide range of modern payment services, including card-based services and the use of ATMs. By international comparison based on World Bank and IMF statistics, access to bank branches (and therefore to their MTO agent services) may be somewhat more difficult in Serbia than in some neighbouring countries and is getting more difficult as branches are being closed. The data in the following table do not include Post Serbia offices that provide remittance services on an agency basis for Western Union. The post office network is extensive and post offices have not been closed.

**COMPARISON OF THE NUMBER OF BANK BRANCHES PER 100 000 ADULTS – AT 10, SERBIA IS LOW AND GETTING LOWER:**



Source: World Bank, World Development Indicators

III.103 ► Another possible deterrent to the use of banks that was highlighted in some interviews is the extent of the administrative procedures to be completed to obtain funds through banks, including in the context of AML/CFT controls. While it would be incompatible with the overall context of this report to criticise the implementation of strong AML/CFT measures, a question can still validly be raised as to whether the procedures applied in some banks are proportionate, risk-based and therefore effective, or whether they are overly bureaucratic and counter-productive. It was not possible to assess this issue in detail as part of this study but there were clear indications of variations in the AML/CFT practices of banks in Serbia. This topic may be of interest to the relevant authorities, which may wish to

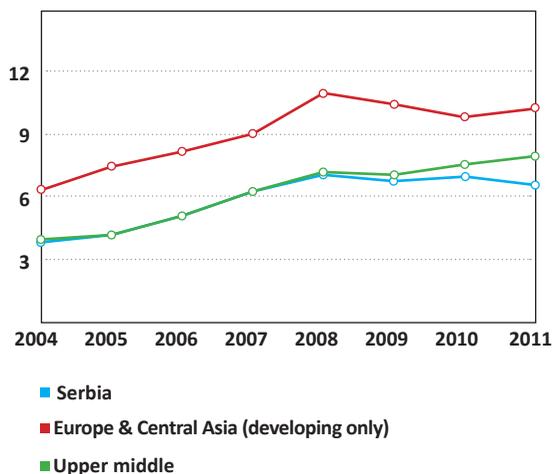
consider further whether training or other steps would be helpful in achieving greater consistency. The overall aim should be to have bank procedures in place that are effective while being proportionate to risk and, at the same time, encouraging and facilitating legitimate new business.

### Financial inclusion<sup>40</sup>

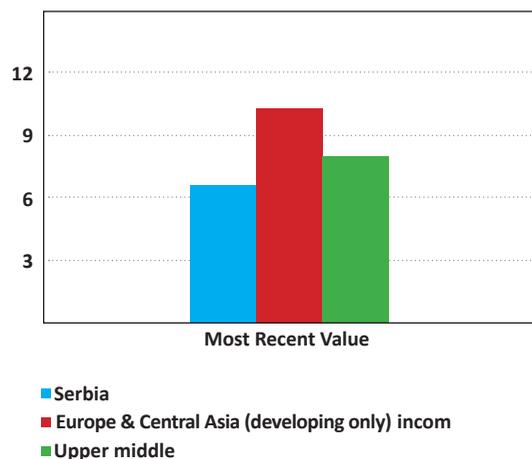
III.104 ► Means of reaching out to communities that are currently under-banked could also be considered, possibly including direct community assistance in explaining and complying with account-opening procedures, given that such communities are likely to be remittance recipients. The potential role of Post Serbia is also relevant to a consideration of financial inclusion initiatives.

## BRANCH PENETRATION

Commercial bank branch penetration (per 1000 sq km):



Commercial bank branch penetration (per 1000 sq km):



Source: IMF's Financial Access Surveys

<sup>40</sup> Further data on financial inclusion indicators for Serbia may be obtained from the World Bank, at <http://data.worldbank.org/country/serbia> and <http://microdata.worldbank.org/index.php/catalog/1156>

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### **Speed of remittance and confidence in timing of delivery**

- III.105 ► It has already been established that, where remittances are required immediately, this need is met by MTOs and it is not unreasonable that they charge a premium for availability of funds within 30 minutes in most cases. While some delays were reported (possibly related to background AML/CFT checking, although this could not be confirmed), in general it is possible to have confidence in the timeframe for completion of the remittance process.
- III.106 ► The timeframe for receipt of remittances through bank wire transfer systems shows wide variation. Although two to three days for delivery can sometimes be achieved, banks often estimate much longer periods and it appears the estimates cannot be relied upon. In addition, interviews in Serbia indicate that additional time (sometimes substantial periods) can be taken by banks before they are willing to provide the funds to the intended recipient. It was not entirely clear whether there may be a valid reason for these delays (e.g. to determine the bona fides of the transaction), but the frustration of some customers was evident.

### **Currency conversion**

- III.107 ► A recurring issue in influencing the choice of informal over formal remittance systems (and probably in choosing between banks and MTOs) is the reported preference to retain funds in FX, notably EUR, rather than be required to convert to RSD. Consideration could be given to providing more options for the retention of remitted funds in FX, if the alternative is the continued use of informal methods under which the funds

will remain in FX in any case (at least until spent locally). It is acknowledged that facilitating FX retention would conflict with the NBS's stated objective of encouraging dinarisation, but perhaps it would still be in the national interest if some accommodation could be made.

### **Are there viable alternatives to encourage the diaspora to move to formal remittance methods?**

- III.108 ► Before discussing the merits of possible action, it may be useful to stand back and review whether there is really a problem that needs to be solved. The following points provide a foundation for a consideration of possible approaches.
- III.109 ► The overall objective should be to avoid any action that might discourage the diaspora from remitting legitimately earned, tax-compliant funds to Serbia, whether for the purposes of gifting or investment. Serbia's economy continues to be dependent on remittance income, as illustrated by the earlier BoP comparisons. At the personal level, the basic standard of living of many Serbian residents depends on continuing flows of remittances.
- III.110 ► Cash and other informal remittances are not in themselves objectionable but, when combined with other factors, may be the means of rewarding criminality. There are also many public policy implications, just some of which are mentioned below.
- ► The anonymity of cash movements facilitates tax evasion, money laundering and, potentially, the financing of terrorism.
  - ► Cross-border cash remittances facilitate the comingling at point of entry of legitimate funds with the proceeds of crime, making it more difficult to identify illegal funds.

- ▶ Cash transfers can encourage the further growth of the shadow economy.
- ▶ Large volumes of cash transactions can undermine monetary policy and other public policy objectives, leaving the economy more difficult to manage.
- ▶ The completeness and reliability of official statistics is impaired in a cash economy, creating additional challenges for the conduct of government. This limits the value of economic data by underestimating the factors that affect certain economic aggregates, including national accounts<sup>41</sup> and, of particular relevance to this report, BoP data.

III.111 ▶ On balance, therefore, there is merit in seeking to persuade the diaspora to opt for formal remittance methods. Also, for those of the diaspora importing cash while on personal visits to Serbia, there may be merit in considering a more comprehensive and effective recording method at the border.

III.112 ▶ In considering possible incentives or disincentives, however, it is best not to lose sight of the reality of human nature. To quote from a study by the IMF's Mohammad El-Qorchi:

“[A]s long as there are reasons for people to prefer [informal] systems, they will continue to exist and even expand. If the formal banking sector intends to compete with the informal remittance business, it should focus on improving the quality of its service and reducing the fees charged. Therefore, a longer-term and sustained effort should be aimed at modernizing and liberalizing the formal financial sector, with a view to addressing its inefficiencies and weaknesses.”<sup>42</sup>

III.113 ▶ Against this background, some possibilities are listed below that could provide constructive encouragement to the diaspora to change to

formal remittance methods, perhaps accompanied by some disincentives to the continuation of informal methods (“carrot and stick” approach). The following points are not intended to be formal recommendations but to be thought provoking and to encourage a debate among the Serbian authorities from which firm and viable proposals could emerge.

### Some incentives to use formal remittance methods

#### Instil confidence in the Serbian financial system

III.114 ▶ The Serbian banking system is regarded as broadly stable<sup>43</sup> but subject to risks similar to those currently affecting many banking systems, particularly across Europe. An in-depth analysis of the banking system is beyond the scope of this report. The most telling factor, however, is the perception of the diaspora regarding the dependability of the Serbian banking system, influenced by historical experiences. The current degree of foreign ownership and the involvement of a number of well-known international banking groups would be expected to have a positive impact on diaspora perceptions. Recent significant progress in the journey towards EU membership might be even more influential.

III.115 ▶ If remitters have ongoing concerns that their money might not reach its destination in Serbia safely, some thought could be given to offering an independent guarantee or providing insurance, similar to a deposit insurance scheme, to cover this perceived risk.

III.116 ▶ If the remitters' fears are related to a perception that the Serbian authorities might block or sequester the remitted FX even if not in connection with a possible criminal investigation, some thought could be given

<sup>41</sup> Quoted from “Informal funds transfer systems: an analysis of the informal hawala system”, IMF, March 2003.

<sup>42</sup> “*Hawala*”, Mohammad El-Qorchi, IMF Finance and Development, December 2002.

<sup>43</sup> “Staff report for the 2013 Article IV consultation”, IMF, June 2013.

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en to providing meaningful assurances to allay such perceptions, covering the short period in which the funds are in transit into Serbia.

### Reduce costs

III.117 ► It is difficult to draw definitive conclusions from the cost comparison calculations above beyond noting that informal remittance methods (cross-border cash) are generally significantly cheaper than using formal systems, especially where the remitter is carrying the cash on a personal visit to Serbia. However, it would be of benefit to the diaspora and to the Serbian economy if the costs of formal remittance systems could be reduced. Are the current levels of fees charged by banks and MTOs reasonable or do they represent the costs of inefficient transmission systems and/or the taking of super-profits by the remittance providers? Based on the literature and interviews conducted, while there were some historical indications of banks seeking to build market share by offering incentives to attract diaspora business, there was also an acknowledgement that pricing was set based on what the market would bear (potentially generating super-profits). This indicates that, while competition has increased somewhat in recent years on some important remittance corridors, there remains insufficient competition to lower prices to a more attractive level from the perspective of the diaspora.

III.118 ► In the course of research for this report, interview partners identified a number of initiatives in recent years to facilitate the diaspora in remitting to Serbia through formal systems. Some examples included the following.<sup>44</sup>

- ► One of the Serbian-owned banks had a presence in Frankfurt (since closed).
- ► As a promotion, one Serbian bank agreed to waive its fees for receiving remittances (although the fees from the remitting bank remain).
- ► By arrangement with Ria (and potentially others), funds could be remitted directly to Serbian DinaCards. This initiative did not succeed as it involved conversion to RSD. The offer is no longer promoted.

III.119 ► It could be useful for the authorities to compile a full inventory of such initiatives and incentives as some of the schemes could be worth reintroducing or extending. While some questions are raised in this report regarding the accuracy of the EUR 2.7 billion BoP estimate for annual remittances, it is nonetheless remarkable that Serbian banks do not appear to be targeting this potential market, as it would appear to have substantial potential for profit and new business generation. One possible explanation is that it may not be in their interests financially. The extent of current linkages between Serbian banks and MTOs, from which a steady income flow is already being generated for the agent banks, could be jeopardised by introducing a more competitive remittance service or other new business incentives.

III.120 ► The progress towards EU accession could provide increased opportunities to attract further financial sector business to Serbia (potentially increasing competition) and, if feasible, seek to introduce the EU remittance-pricing regime, ideally as early as possible before accession. This approach was suggested as long ago as 2006, including in the World Bank's Germany-Serbia remittance corridor study, but progress is not yet

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<sup>44</sup> This is not an exhaustive list – other examples probably exist.

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evident. EEA financial institutions are not permitted to charge more for intra-EEA cross-border remittances than they charge for domestic transfers. If feasible, extending this pricing limit to include the EEA-Serbian corridor could result in a meaningful reduction in costs for diaspora remittances. This would require EEA banks to subscribe, for example, to a voluntary pricing agreement, which could be valuable to them in attracting more business. Increased business at lower prices could still result in increased net profits, particularly taking into account cross-selling opportunities.

III.121 ► The best means of reducing prices is to encourage increased competition. In the context of the proposed amendments to payment services legislation (in line with the PSD) and with the aim of also achieving full membership of the WTO, the Serbian authorities have an opportunity to encourage new entrants into the remittance market. Online providers appear to offer the best possibility for lower-priced remittances.

III.122 ► For those among the diaspora interested in investing in Serbia, another option suggested in the literature is to market bonds that are designed to meet the investment appetite of non-resident private investors. While this could be linked to the authorities' plans to develop the RSD securities market, some thought could also be given to EUR-denominated issues, if it is found to attract more interest from the diaspora.

### **Increase access and convenience**

III.123 ► The liberalisation inherent in the proposed new legislation on payment services provides an opportunity to consider licensing a wider range of providers of formal remittance ser-

vices, thereby increasing competition. Based on the earlier cost comparisons, increased use of online remittance services, particularly if combined with widely available local facilities for accessing cash (for example through ATMs, retail outlets or potentially Post Serbia, among others), could assist with financial inclusion as well as shift the balance away from informal remittance providers.

III.124 ► There is evidence to suggest that conflicts of public policy may be impacting on the efficiency of bank remittance services, including in complying with tax-related and AML/CFT requirements. As noted above in relation to the application of proportionate AML/CFT controls, there would be merit in examining further the reasons for current time-consuming administrative procedures for the receipt of remittances in banks, as the overall aim should be to have bank procedures in place that are proportionate to risk, while encouraging and facilitating legitimate new business. Avoiding delays and disruption to legitimate business should be accepted jointly by the banks and the authorities as a valid objective without sacrificing essential controls.

### **Applying disincentives to the use of cash couriers**

#### **Focus on bus/truck drivers**

III.125 ► From previous studies, the informal remittance method of using the services of bus/truck drivers (henceforth bus drivers, for simplicity) on regular routes into Serbia features strongly in reports of interviews. However, one statistic indicates that just 5% of remittances arrive through this method.

III.126 ► Bus drivers, like everyone else, are subject to the requirement to declare at Customs any cash they are carrying into Serbia in excess

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of EUR 10 000. However, there was little indication that bus drivers are receiving particular attention from Customs in relation to known remittance practices.

- III.127 ► It can be argued that, in providing a remittance service without a licence from the NBS, bus drivers are committing an offence under the Law on payment transactions. It can further be argued that, for remittances originating in EEA countries, bus drivers may also be committing an offence under EU Regulation No. 1889/2005 on controls of cash entering or leaving the Community, if carrying more than EUR 10 000 in cash or cash-equivalent instruments. It is a matter for the authorities to decide whether enforcement measures are appropriate and, if so, it would be helpful first to ensure that cost-effective remittance alternatives are in place to avoid forcing the informal remittance trade further underground.

### **Consider regulating bus drivers**

- III.128 ► As an exercise in lateral thinking, if bus drivers have built up many years of successful, reliable and cost-effective experience in providing person-to-person remittance services, some consideration could be given to bringing them within the scope of regulation – if they were willing – while pursuing enforcement action against those who are not willing. This would entail at least providing adequate AML/CFT training and requiring them to comply with basic CDD and record keeping requirements, and perhaps to deliver these records to Customs at the point of entry. Some amendment to the proposed law on payment services would be needed to provide for a lighter application of requirements, for example, for minimum capital). If the concept of licensing bus drivers separate-

ly is considered impractical, another possible option would be to allow them to operate as agents for a Serbian-licensed payment services provider. These suggestions are put forward mainly to stimulate debate. However, experience in other countries has shown the value of working to legitimise and control well-established practices (unless they are damaging to the public or national interest) rather than seeking to eliminate them, as the latter objective is often self-defeating.

### **Reduce cross-border reporting threshold**

- III.129 ► Although it may seem to run counter to the direction of FATF and EU policy, there could be merit in reverting to one of the earlier Serbian cash declaration thresholds, provided there is capacity for Customs to operate and control the system. As noted elsewhere in this report, there is a growing trend among EU Member States to seek to limit cash transactions. Cross-border cash limits lower than that of Serbia apply in some countries. The application of a Serbian threshold at the EUR 2 000 level, for example, would yield a meaningful increase in statistical data on cash movements, although with costs arising from inconvenience and potential delays for travellers, and from the additional staff needed to collect and process the declaration forms. Some countries (e.g. Azerbaijan) have opted to introduce electronic machines for the declaration of cross-border cash, with a view to a more efficient declaration system.

### **Offer incentive to cash carriers to declare voluntarily**

- III.130 ► If previous surveys are accurate, most informal remittances comprise the donor, a relative or friend bringing cash or goods into Serbia in person. There appears to be little reason to interfere with this practice,

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the main negative impacts of which relate to incomplete official data and the potential to mix the proceeds of crime with the flow of legitimate proceeds. It is suggested that, rather than applying large-scale enforcement, consideration be given to offering some form of incentive to encourage voluntary declaration at the point of entry below the threshold for mandatory reporting. Possible incentives could be designed around:

- ▶ a waiver of the fee or penalty (assuming such might otherwise be applied for non-declaration);
- ▶ granting some form of tax concession to the recipient of the remittance;
- ▶ making arrangements for improved rates for conversion of FX to SRD, for which evidence of declaration would be required; and
- ▶ requiring evidence of customs declaration for bank lodgements at a lower threshold (perhaps EUR 2 000 equivalent).

III.131 ▶ The overall aim of this section was to encourage the development of methods and schemes to incentivise those using informal remittance systems to opt voluntarily to use formal systems instead or, where they do not, to declare the cash they bring to Serbia. The ideas introduced above might not be viable in their current form, but better alternatives might be identified through combining the views of public and private sector interests.

### **Recommended next steps**

III.132 ▶ Action on the following points is recommended.

- ▶ In so far as the Serbian authorities accept that informal cash remittances provide a screen for the movement of criminal proceeds, that

risk should be included within the scope of Serbia's NRA as soon as possible. Appropriate steps should be discussed among the relevant authorities and an action plan agreed for proportionate measures aiming to isolate criminal from legitimate remittance flows.

- ▶ Ideally, additional targeted research should be conducted to seek to estimate the extent to which cash being moved across Serbian borders is related to criminal activity. This is primarily a matter for law enforcement agencies (including Customs, the Ministry of the Interior and the BIA), as it is unlikely that participants in a survey of remitters and remittances would be likely to reveal any criminal links. The collation of cash movement data from existing cases, profiling of suspects and regional and other cross-border law enforcement co-operation could be used to deepen the knowledge base on the remittance issue and thereby increase the effectiveness of the measures currently applied by Customs and, where appropriate, the Border Police further.
- ▶ To seek to address the broader information gaps, a remittance survey should be conducted as soon as possible to check the underlying validity and current relevance of the research published, and to test the accuracy and suitability of the BoP remittance estimates for this purpose. Some suggestions regarding the scope of this survey are included in this report.

III.133 ▶ The findings of this additional research should also be helpful in guiding the authorities, and the NBS in particular, in deciding on the development of the Serbian financial sector. In particular, it should help to decide on the extent of additional liberalisation that may be warranted in consideration of the most appropriate payments,

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remittance and FX channels to encourage or, at least permit, in the context of proposing legislative revisions to parallel the PSD and to further Serbia's application for membership of the WTO.

### **Addressing the information gap - designing a remittance survey**

III.134 ► The case has been made for a survey to be conducted to provide an updated profile of remittance behaviour and patterns, and to test the hypotheses put forward in this and other research projects.

III.135 ► Suggestions regarding the scope of such a survey are contained in Annex 14, together with a first draft of a detailed remittance questionnaire, for consideration by the Serbian authorities. Among the design points for consideration are the following:

#### **Geographical dispersion**

- ► In selecting the locations for sampling, the aim should be to include locations with known migrant links to a range of foreign countries. Regular bus routes might provide a useful guide to such links.

#### **Stratification**

- ► Based on some of the earlier research, the pattern of remittances differs significantly between rural and urban recipients. A sample of each should be included.
- ► To provide further indication as to whether or not *hawala*-type transactions occur in Serbia, consideration should be given to including also a Muslim region within the scope of the survey.

#### **Timing**

- ► Account should be taken of the increased levels of remittances at Christmas, Easter and in summer.

#### **Currency**

- ► The opportunity should be taken to test the degree of resistance to receipt of remittances in SRD rather than FX.
- ► Some consideration could be given to including questions on non-bank holdings of EUR or other FX ("mattress money"), in terms of amounts and reasons for holding in cash.

#### **Cash usage**

- ► Consideration could be given to adding further questions to determine the extent of, and reasons for, cash holding/usage in preference to use of the formal financial sector.

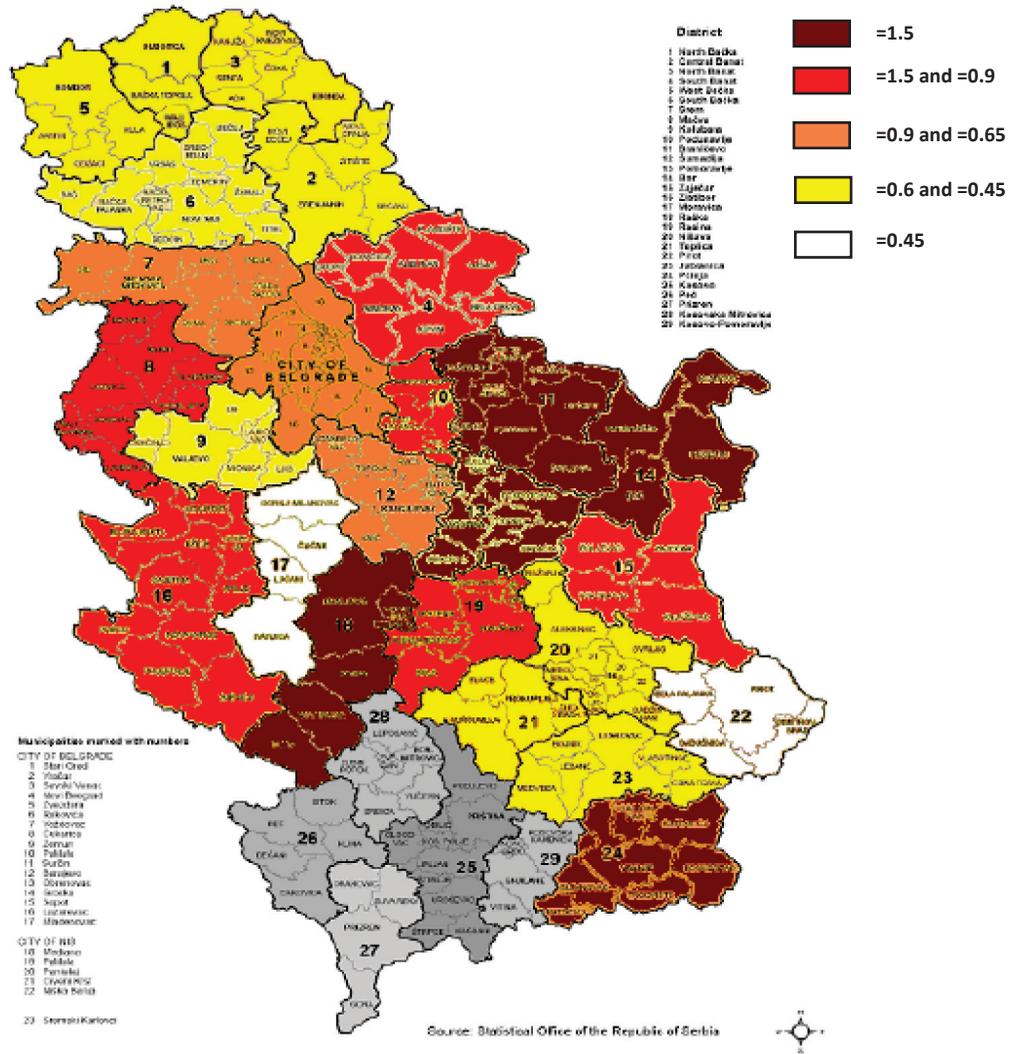
#### **Possibility of future liberalisation of remittance services**

- ► It would be interesting to learn whether there are forms of remittance service that recipients would like to see introduced.

III.136 ► The following regional map of Serbia indicates each region's incidence of migration relative to its share in GDP. It may provide a useful guide in selecting locations in which to conduct the remittance survey.

# REPUBLIC OF SERBIA - DISTRICTS AND MUNICIPALITIES

State as of 1. January 2005



**NOTE:** Map indicates color-coded bloks based on the ratio of the percentage of migrants abroad in a region to the percentage of the population in the region. The highest ratio indicates the highest incidence of migrants abroad relative to the region's share in GDP.  
**SOURCE:** Statistical Office of the Republic of Serbia

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# Main findings and conclusions

## Indicators of money laundering and financing of terrorism

1. ► An analysis of Serbian criminal activity, particularly in the context of Balkan organised crime, would place Serbia in the category of a potentially high-risk jurisdiction for money laundering. Available information does not support a definitive conclusion on the extent to which the proceeds of these crimes are processed through the Serbian financial system but there is potential for the amount of laundered funds to be substantial.
2. ► Money laundering in Serbia is believed to be conducted by a variety of methods, ranging from cash converted anonymously at exchange offices to the use of legal persons (Serbian and offshore) in schemes linked to the proceeds of:
  - ► tax evasion, false invoicing, fraud and other fictitious transactions;
  - ► abuse of office, corruption and abuse of the privatisation process;
  - ► illegal immigration and human trafficking; and
  - ► the smuggling of drugs, cigarettes and other excisable goods, precious metals, etc.
3. ► There is little evidence of the existence in Serbia of *hawala*-type alternative remittance systems. Nonetheless, the authorities need to continue to monitor for the possibility of such activities and document their efforts and findings on this topic for evaluation purposes.
4. ► The Serbian authorities completed their first NRA in 2013, which includes a detailed analysis of money laundering risks and typologies. Among its conclusions is that there is little indication that Serbia is used in the financing of international terrorism. The NRA

is an ongoing process and will need to be updated regularly. This report recommends that the topics of cash usage, diaspora remittances and ongoing monitoring for hawala be added to the scope of the NRA.

## Compliance with relevant FATF Recommendations

5. ► R.16. Amendments to the AML/CFT Law in late 2010 included the insertion of provisions (as Article 12 A-C) on wire transfers to comply with the then FATF Special Recommendation VII. With the revision of the FATF Recommendations in 2012, the replacement R. 16 is more explicit in its assignment of responsibilities and also introduced some new elements (e.g. on cover payments). Further revision of the Serbian AML/CFT Law will be needed to ensure full technical compliance with R. 16. Proposed draft provisions are included in this report.
6. ► R.14. Serbia has embarked on a process of liberalisation of currency exchange controls and of elements of its payments system with a view to full membership of the WTO and in preparation for future EU accession. Enabling legislation has been drafted and was reviewed for this report to the extent relevant to an analysis of funds transfers. Based on the draft law, it was difficult to form a firm view on future compliance with R. 14 on money transfer operators. However, a number of potentially material issues were identified and are highlighted in this report for consideration by the NBS.
7. ► R.32. Serbia has implemented cross-border currency declaration requirements equivalent to those in EU Member States (and

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therefore well within the threshold specified as a maximum under R. 32). However, questions remain about some aspects of the effectiveness of the procedures, including in terms of the follow-up to seizures of cash. These issues are highlighted in the report for consideration by the authorities.

- 8. ► The effectiveness of implementation of the AML/CFT requirements for wire transfers, money remittances and cross-border cash declarations was also considered as part of this study. While the findings are generally positive, recommendations for some structural improvement are included in the report, including as regards aspects of supervision.

#### **Understanding the flow of funds into Serbia**

- 9. ► As evidenced in previous studies, Serbs living and working abroad (the diaspora) have a long history of remitting funds to support family members and, in some cases, to invest in housing and other assets in their homeland. The report summarises previous findings to try to understand the rationale for these remittances – from the perspective of senders and receivers – and the reasons why a large proportion (perhaps half) is remitted in cash, including by the use of cash couriers (often bus drivers).
- 10. ► There is little information available to indicate the extent to which the proceeds of crime may be entering Serbia in the guise of genuine diaspora remittances.
- 11. ► The preference for use of cash remittances has the potential to undermine the effectiveness of AML/CFT measures and facilitate criminals in benefiting from their crimes. To stimulate debate among the Serbian authorities, the report discusses at length a range of possible incentives (positive and negative) that might help to

influence the diaspora to switch from informal to formal remittance channels.

- 12. ► Considerable attention was devoted to trying to explain the substantial reported levels of inward remittances (EUR 2.7 billion in 2012) from the Serbian diaspora. It did not prove possible to verify the remittance volume data. The data normally quoted for this purpose are compiled using a BoP methodology which, although appropriate for its own purpose, might not provide an accurate basis for estimating the amount of cash crossing into Serbia as well as funds arriving through the formal financial sector.
- 13. ► A possible explanation is that the BoP estimates may also be capturing the re-emergence of some of the reportedly large volume of cash (mainly in EUR) held by Serbians outside the account facilities of the Serbian banks (“mattress money”).

#### **Addressing the information gap**

- 14. ► To understand more fully the impact of diaspora remittances and their reasons for their continuing to prefer cash, the report proposes conducting a targeted survey. A draft questionnaire template is included, for consideration by the authorities.

#### **Summary of main recommendations**

- 15. ► Tables of recommendations follow, organised by topic. As this is primarily a research paper, many of the items in the recommendations tables are more in the nature of proposals or suggestions aimed at stimulating discussion. Even where these suggestions prove not to be feasible in practice, consideration of them by the authorities might identify a more viable alternative means of addressing the highlighted issues.

# Recommendations

As this is a research paper rather than a formal evaluation, many of the recommendations it contains are in the form of suggestions for consideration by the authorities. Some are more specific, however, including for points brought forward from the MONEYVAL 2009 mutual evaluation and not as yet satisfactorily addressed, as well as steps needed to achieve compliance with the relevant FATF Recommendations in the 2012 version.

Potentially significant data gaps were identified in the course of the research for this paper. The following recommendations are aimed at addressing those gaps.

Some specific recommendations have also been included in relation to achieving technical compliance with the relevant FATF Recommendations in the 2012 version. Although few in number, these recommendations are material.

## A. Relevant matters outstanding for the MONEYVAL mutual evaluation 2009

| Ref. | CATEGORY                        | NATURE OF PROBLEM  | RECOMMENDED ACTION   | BY        | TIMING                       | RISK |
|------|---------------------------------|--|--|-----------|------------------------------|------|
| A.1  | Supervision and R.26            | Incomplete AML/CFT supervision of Post Serbia  | Commence effective AML/CFT supervision of outstanding business lines | APML      | As soon as is feasible       | M    |
| A.2  | Cash and R.28                   | Dealers in precious metals and stones are not obligors under AML/CFT Law (as taking cash >EUR 15 000 is illegal) | Consider reclassifying them as obligors                              | APML      | Next revision of AML/CFT Law | M    |
| A.3  | Alternative remittance and R.14 | No evidence of focus on <i>hawala</i>  | Consider <i>hawala</i> when conducting operations. Document outcome. | LEAs/APML | Ongoing                      | L/M  |
| A.4  | MBO agents and R.14             | No requirement to list MBO agents  | Provide in legislation   | NBS       | Q1 2014                      | L    |

## B. Other technical compliance with FATF Recommendations 2012

| Ref. | CATEGORY             | NATURE OF PROBLEM  | RECOMMENDED ACTION                                 | BY                  | TIMING      | RISK |
|------|----------------------|--|--|---------------------|-------------|------|
| B.1  | Wire transfers R.16  | Art.12 AML/CFT Law needs to be updated   | Consider proposed legislative amendment in Annex 8 | Mainly APML and NBS | By end 2013 | M/H  |
| B.2  | Money remitters R.14 | Unclear if proposed law on payment services will comply with R.14.                             | Address issues raised in Annex 10                  | Mainly NBS          | By end 2013 | M/H  |
| B.3  | R.14                 | Currently no legal basis to authorise non-bank agents of MTOs (e.g. EKI Transfers and TenFore) | Address in legislation                             | NBS and FCI         | By end 2013 | M/H  |
| B.4  | R.14                 | Possibility of allowing exchange offices to conduct money remittances in future                | Caution urged based on international experiences   | NBS                 | Ongoing     | H    |

Potentially significant data gaps were identified in the course of the research for this paper. The following recommendations are aimed at addressing those gaps.

## C. Addressing information gaps

| Ref. | CATEGORY                           | NATURE OF PROBLEM  | RECOMMENDED ACTION                                      | BY                | TIMING    | H/M/L |
|------|------------------------------------|--|---|-------------------|-----------|-------|
| C.1  | Remittance data                    | Volume of cross-border cash remittances unknown. Accuracy of estimates difficult to verify | Conduct remittance survey                               | N B S / SORC      | Nov. 2013 | H     |
| C.2  | Cash linked to criminal activity   | Little intelligence information appears to be available                                    | Conduct additional research on typologies               | MUP/ BIA/ Customs | End 2013  | M     |
| C.3  | Payment Code Classification Fields | Some indications of poor data quality  | Test accuracy and take steps to improve where necessary | NBS               | Ongoing   | M     |

A number of issues were identified which could impact on the effectiveness of implementation of AML/CFT controls. The following recommendations are relevant.

#### D. Issues affecting effectiveness of implementation of FATF Recommendations 2012

| Ref. | CATEGORY                           | NATURE OF PROBLEM  | RECOMMENDED ACTION   | BY              | TIMING                       | RISK |
|------|------------------------------------|--|--|-----------------|------------------------------|------|
| D.1  | R.14/R.16                          | Post Serbia does not yet verify senders of funds   | Require verification and test implementation   | APML            | ASAP                         | H    |
| D.2  | Cross-border cash – R.32           | Current declaration threshold valid but high for Serbian standard of living  | Consider reverting to one of previous thresholds to improve data collection                    | NBS/ Customs    | Suggestion for consideration |      |
| D.3  | Use of cash to settle transactions | Unclear whether enforcement action is applied for current EUR 15 000 limit, especially for dealers in high-value goods | Demonstrate and document enforcement action  | Tax admin       | Ongoing                      | M/H  |
| D.4  |                                    | Current EUR 15 000 limit higher than in some EU Member States (see Annex 12)   | Consider lowering limit  | APML/ Tax admin | Suggestion for consideration |      |
| D.5  | Cross-border cash seizures         | Issue regarding effectiveness of post-seizure procedures at prosecutorial and/or judicial level                        | Review current laws and procedures. Amend as needed to improve effectiveness. Provide training | LEAs            | As soon as is feasible       | M/H  |

Of relevance also are cases where structural, operational or resource issues for the relevant authorities may be hampering their effectiveness.

### E. Structural, operational and resource constraints

| Ref. | CATEGORY                 | NATURE OF PROBLEM  | RECOMMENDED ACTION   | BY              | TIMING                           | H/M/L |
|------|--------------------------|--|--|-----------------|----------------------------------|-------|
| E.1  | AML/CFT Supervision R.14 | Challenge to maintain consistent implementation when multiple supervisors involved – NBS, FCI and APML (for Post Serbia) | Consider consolidating role into single AML/CFT supervisory authority. If not, put in place co-ordination mechanisms | Relevant bodies | Suggestion                       |       |
| E.2  | Supervision R.16         | Not clear that wire transfers and remittance business given sufficient attention in onsite inspections                   | Consider conducting horizontal themed inspection programme (see report Part II)                                      | NBS             | Suggestion                       |       |
| E.3  | Resources                | Resource constraints impacting on Customs and Border Police  | Meet resource needs for staff, vehicles and specialist equipment   | Relevant bodies | As soon as feasible in each case | M     |
| E.4  |                          | Unsuitable premises impacting on APML.   | Assign premises with appropriate security  | Min. of Finance |                                  | M     |
| E.5  |                          | Additional staff will be needed for new law on payment services.   | Recruitment planned  | NBS             |                                  | M     |

Serbia developed a first detailed NRA in 2013 to comply with R. 1. The NRA will need to be kept under ongoing review. A number of additional issues are identified in this study that warrant inclusion in the next edition of the NRA.

### F. Additional points for inclusion in the NRA

| Ref. | CATEGORY      | NATURE OF PROBLEM  | RECOMMENDED ACTION | BY   | TIMING          | H/M/L |
|------|---------------|--|--------------------|------|-----------------|-------|
| F.1  | <i>Hawala</i> | No reference to <i>hawala</i> -type systems in current NRA.  | Add to NRA.        | APML |                 | M     |
| F.2  | Cash usage    | Insufficient attention to risks of cash usage (for cross-border remittances and domestic transactions) in current NRA. | Expand in NRA.     | APML | In next version | M     |

A key theme of the research is the significant role of diaspora remittances and the extent of reliance on cash. The recommendations on this topic are more in the nature of suggestions and are intended to encourage debate in the search for constructive and viable proposals:

**G. Encouraging the diaspora to switch from informal to formal remittance methods**

| Ref. | CATEGORY  | NATURE OF PROBLEM   | RECOMMENDED ACTION (examples)   | BY                                    |                              |
|------|---|---|---|---------------------------------------|------------------------------|
| G.1  | Diaspora remittances in cash or using cash couriers | Over-reliance on alternative remittance system (cash/couriers), possibly disguising links to money laundering/ financing of terrorism | Consider further initiatives to enhance perception of trust in Serbian financial system; consider guarantees/insurance (see report Part III)                                | As soon as feasible, in each category | Suggestion for consideration |
| G.2  |   |   | Seek means to improve access to financial services and to reach out to any unbanked in Serbia   |                                       | Suggestion for consideration |
| G.3  |   |   | Assemble inventory of initiatives (previously tried or otherwise) to encourage diaspora to use formal remittance methods; consider which to (re)introduce                   |                                       | Suggestion for consideration |
| G.4  |   |   | Seek to increase competition in remittance sector to reduce costs; seek agreement of providers to provide certainty on net amount of remittance to be received, net of fees |                                       | Suggestion for consideration |

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# Annexes

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1. ▶ Terms of reference
2. ▶ Meeting partners and contributors
3. ▶ Insights into organised crime
4. ▶ List of banks from Serbia and BiH participating in the NBS Agreement on clearing of international and interbank payments
5. ▶ Inventory of available means of transferring funds within Serbia
6. ▶ General indicators of the RTGS and clearing system in 2012
7. ▶ Money laundering through money remittance and currency exchange providers, FATF/MONEYVAL (2010)
8. ▶ Suggested legislative provisions in the AML/CFT Law to comply with R.16 on wire transfers
9. ▶ Money transfer operators (MTOs) in Serbia – July 2013
10. ▶ Analysis of compliance with R.14 on money remitters
11. ▶ Remittance corridor studies – a survey of the international literature
12. ▶ EU Member States with thresholds other than EUR 15 000 for cash transactions or imposing stricter requirements
13. ▶ Cost of remitting EUR 345 from Germany to Serbia – data relate to February 4, 2013
14. ▶ Criteria for a targeted remittance survey

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# Bibliography

## Annex 1

### Terms of reference

#### Objective

1. ► To complete a research and feasibility study of the formal electronic transfers sector, covering:
  - ► a description and analysis of the formal money-transfer sector and its main characteristics (i.e. size, structure, mode of international and domestic transfers and remittances, and their demographic, geographical and typological dispersal);
  - ► an assessment of money laundering and terrorism financing risks related to the formal money transfers market; and
  - ► an analysis of the legislative and regulatory framework in relation to the new R. 16 (wire transfers) in the form of a feasibility study to identify the scope of required draft amendments to existing legislation on electronic transfers; draft legislative proposals and regulations to cover the requirements of international standards in the area of electronic transfers, as well as policy recommendations where needed.
2. ► To complete a research study of the alternative remittance systems in Serbia, covering:
  - ► identification and analysis of factors relevant to alternative remittance (size and structure of the shadow economy, peculiarities of cross-border regional business practices, ethnic and diaspora factors, etc.);
  - ► description and analysis of cross-border currency declaration systems and analysis of cash movement as an indicator of the use of alternative remittance systems;
  - ► typological features of alternative remittance schemes used to transfer various categories of proceeds (i.e. criminal v. non-criminal, etc.), including the extent to which MVTs are susceptible to criminal activity, including to the use by organised crime networks in the region for the purposes of money laundering activity; and
  - ► policy and practical recommendations to government authorities to regulate and control alternative remittances.

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## Annex 2

### Meeting partners and contributors

The author expresses appreciation to all who contributed to this research project, including:

Administration for the Prevention of Money Laundering

National Bank of Serbia

Border Police

Customs Administration

Foreign Currency Inspectorate of the Tax Administration

Ministry of the Interior (police)

Office for Co-operation with the Diaspora and Serbs in the Region

Office for Co-operation with Churches and Religious Communities

Security Information Agency

Tax Administration

EKI Transfers

Association of Serbian Banks

Alpha Bank

*Banka Poštanska Štedionica* (Postal Savings Bank)

*Čačanska banka*

*Credy banka*

*Komercijalna banka*

*Pošta Srbije* (Post Serbia)

*Société Générale Banka Srbija*

International Monetary Fund

Organization for Security and Co-operation in Europe

World Bank

Western Union

PayPal

The author also wishes to thank the staff of the Council of Europe office in Belgrade, and in particular the staff assigned to the MOLI-Serbia project, whose support was invaluable.

## Annex 3

### Insights into organised crime

I.39 ► The following insights into Serbian and Balkan organised crime were gathered from online sources and have not been independently verified for the purposes of this report. They should be regarded, therefore, as no more than indicative. It is worth noting that, in many instances, Serbian organised crime is difficult to distinguish from Balkan organised crime in general and can cut across all borders and divides, geographical, cultural, religious and ethnic. A further example is provided by the so-called “pink panther” jewel theft gang.<sup>45</sup> Evidence of linkages to Serbian organised crime has been found in all parts of the world, including Australia and South America.

I.40 ► The reputation of Serbia (and the Balkans in general) in relation to organised crime is supported by the various media reports collated below from online sources. Note that they relate mainly to the period from 2009 to mid-2010, and note also the acknowledged impact of Operation Balkan Warrior.

- In January 2009, Ivica Dačić, at that time the Serbian Interior Minister, estimated that some 30 to 40 serious organised crime groups were operating in Serbia. The figures did not include smaller criminal groups but more organised ones that were involved in drug and arms trafficking, human trafficking, murder and protection rackets.
- In September 2009, 22 members of the Elez group were arrested by the Serbian police, dubbed the most dangerous gang in the western Balkans. The leader, Darko Elez,

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<sup>45</sup> Media reports – 26 July 2013. A member of the notorious “Pink Panther” jewel thief gang escaped from a Swiss prison after accomplices rammed a gate and fired at guards, police say. Milan Poparić, a Bosnian national, had been serving a sentence of six years and eight months for robbing a jewellery store in the Swiss city of Neuchatel in 2009. Police said Poparić was affiliated to the “Pink Panther” network: prime suspects in a series of spectacular thefts. According to Interpol, the group has targeted luxury watch and jewellery stores in Europe, the Middle East, Asia and the US, netting over EUR 330 million since 1999. Interpol has dubbed them the “Pink Panther” gang. The gang is believed to have a core membership of about 40 people, many of them from the Balkans.

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was captured along with five other members in Serbia, and 13 members, of whom three were police officers, were captured in Bosnia and Herzegovina.

- ▶ Police seized 2.8 tonnes (2,800 kg, worth EUR 120 million) of cocaine shipment from Uruguay on October 17 2009 in a joint BIA and US Drug Enforcement Administration operation. On October 31 2009, Serbian police arrested over 500 people in the biggest anti-drug bust ever in Serbia. The Ministry of the Interior organised the Morava operation, which would focus on drug trafficking to young people in primary and secondary schools, and clubs and cafes, and would involve 2 000 police officers searching the whole country.
- ▶ In November 2009, Argentine police arrested five Serbian drug couriers and seized 492 kg of cocaine in Buenos Aires, one of the largest drug busts in 2009. The routes of the drugs were from Uruguay and Argentina via Central and South Africa to Northern Italy and Turkey to Montenegro. Furthermore, Serbian organised crime experts estimated 10 000 foot soldiers were part of five major organised crime groups operating in Serbia. A courier package of 5 kg of cocaine was intercepted from Paraguay, and four people from Belgrade were arrested.
- ▶ The arrests were part of Operation Balkan Warrior; an international drug smuggling case that involves mainly the Zemun clan. A person named as leader of the drug ring is Željko Vujanović.
- ▶ In December 2009, Minister Dačić said “half of the Serbian sport clubs are led by people with links to organised crime”. 21 kg of heroin (USD 1.5 million) were found in a Belgrade flat rented by a Montenegrin national. The drugs were brought from Turkey.
- ▶ In January 2010, a 20 acre (81 000 square metres) lot illegally owned by the Zemun clan was seized at Šilerova Street in Zemun, Belgrade – the clan’s headquarters.
- ▶ On 19 February 2010, the Minister of the Interior Ivica Dačić said that more than 50 suspects were arrested in an ongoing operation aimed at financial crime and money laundering conducted in Valjevo, Novi Sad, Belgrade, Šabac, Sremska Mitrovica, Čačak and Sombor.
- ▶ In 19 March 2010, the then Serbian President Boris Tadić vowed all-out war on the Serbian mafia, and particularly drug trafficking, which is considered the biggest threat to society. Tadić has evidence that Serbian cartels have attempted to penetrate State institutions to destabilise the government. Tadić said, “The latest property seizures prove that those groups have laundered narco money by investing not only into their personal houses and land but also in tourism, factories and distribution of the press”.
- ▶ On 28 March 2010, two Bosniaks from Novi Pazar (Serbian citizens) were arrested at Zagreb airport with at least 1.7 kg of cocaine for the Serbian drug market. The pure cocaine came from Lima in Peru, where they had spent the month travelling from Belgrade. The drugs were soaked into their clothes, the estimated worth on the streets of Croatia was EUR 70 000.
- ▶ In 2010 it was revealed that, in 2008 and 2009 in Italy, the Šarić gang had ousted the Ndrangheta organisation from the drug market. With the emergence of the gang on Italian soil, it offered better quality cocaine for a lower price, effectively gaining the market from 2007 to 2009 and trafficking cocaine from South America. Operation Balkan Warrior was successful in Italy with over 80 people arrested.

- ► The Ministry of the Interior Report for 2009 reported that the police had uncovered seven organised crime groups and arrested 86 people. At the end of 2009, there were 27 active registered organised crime groups, each with over 200 members.
- ► It was concluded that by mid-2010 Operation Balkan Warrior Operation had substantially decreased crime in Serbia.

I.41 ► Another perspective may be obtained from the ongoing case of Darko Šarić. According to Serbian authorities, Šarić was leader of powerful Balkan criminal organisation that had been trafficking cocaine for years from South America through the Balkans, Italy and Slovenia to western Europe and had made a profit of around a billion euros each year.

Company records show that much of the money was laundered by Šarić by investing it in the privatisation of important hotels in Serbia and in buying companies from people who were charged or convicted for involvement in organised crime – mostly cigarette smuggling. Šarić also got EUR 30 millions when he sold Serbia's leading distribution company to a German media concern. Šarić controlled many other companies in Serbia and Montenegro that were involved in various activities, from media, cement and construction to kindergartens and nightclubs.

Darko Šarić fled before he was arrested, but some of his associates were arrested and prosecuted. Some members of his group now live in Montenegro where the government has so far not acted to arrest them and extradite them to countries where they are wanted. Darko Šarić's real assets in Serbia have been seized by the authorities but he still allegedly has property in Montenegro. This example is included as an indicator of the scale of criminal proceeds potentially entering Serbia from just one criminal organisation and the linkages to Serbia's privatisation programme. There were indications in some interviews that other similar scenarios may also exist in Serbia.

## **Annex 4**

### **List of banks from Serbia and BiH participating in the NBS Agreement on clearing of international and inter-bank payments**

#### **Serbian banks**

1. AIK banka a.d. Nis
2. Piraeus banka a.d. Beograd
3. Credi banka a.d. Kragujevac
4. Cacanska banka a.d. Cacak
5. Banca Intesa a.d. Beograd
6. Hypo-Alpe-Adria Bank a.d. Beograd
7. Alpha bank a.d. Beograd
8. Jubmes banka a.d. Beograd
9. Komercijalna banka a.d. Beograd
10. Findomestic banka a.d. Beograd
11. Eurobank a.d. Beograd
12. Privredna banka a.d. Beograd
13. Raiffeisen banka a.d. Beograd
14. Univerzal banka a.d. Beograd
15. Srpska banka a.d. Beograd
16. NLB banka a.d. Beograd
17. Opportunity banka a.d. Novi Sad
18. NBS – Account for the operations of the Foreign Exchange Department

#### **Bosnia and Herzegovina (BiH) banks**

1. Balkan Investment Bank a.d. Banja Luka
2. Procredit bank d.d. Sarajevo
3. Sberbank a.d. Banja Luka
4. Pavlovic International a.d. Slobomir. Bijeljina
5. Sberbank d.d. Sarajevo

## Annex 5

### Inventory of available means of transferring funds within Serbia

(The accuracy and completeness of this analysis is subject to verification by the Serbian authorities; considered sufficient for AML/CFT analysis purposes)<sup>46</sup>

#### (a) Banks

| Type                                       | Method  | Indication of cost  | Relevant for R.16? |
|--|---|---|--------------------|
| (i) Domestic wire transfer                 | RTGS – credit and debit transfers in RSD using <sup>47</sup> NBS RTGS system (if in excess of RSD 250 000 and immediate settlement required); compatible with SWIFT messaging standard.   | No indication that cost unreasonable by international comparison.                 | Yes                |
| (ii) Domestic wire transfer                | Clearing – credit and debit transfers in RSD using <sup>48</sup> NBS clearing system (if not in excess of RSD 250 000 and/or periodic settlement selected); compatible with SWIFT messaging standard.   | No indication that cost unreasonable by international comparison.                 | Yes                |
| (iii) Domestic/cross-border wire transfers | Clearing of International payments – credit and debit transfers in EUR or other foreign currency within Serbia and BiH; by agreement with NBS using Deutsche Bank facilities; compatible with SWIFT messaging standard.   | Cost lower than standard correspondent/SWIFT fees.                                | Yes                |
| (iv) Domestic wire transfers <sup>49</sup> | Other non-RSD domestic payments – credit and debit transfers in EUR or other foreign currency for banks within Serbia that have not signed up to NBS agreement at (iii) above, using standard correspondent bank arrangements, based on SWIFT messaging standard. | High fees.  | Yes                |
| (v) Card-based payment                     | Use of bank-issued DinaCard (domestic debit and credit cards) for RSD payments; popular for smaller payments in particular.   | Fees and charges reported to be lower than typical for debit/credit cards.        | No <sup>50</sup>   |
| (vi) Card-based payment                    | Use of Serbian bank-issued Visa, MasterCard and other credit/debit cards withdrawals from ATMs in RSD only; increasingly used.  | Fees and charges as typical for debit/credit cards.                               | No <sup>51</sup>   |
| (vii) Card-based payment                   | Use of non-Serbian Visa, MasterCard and other credit/debit cards, including prepaid cards, in EUR or other foreign currencies; <sup>52</sup> withdrawals from Serbian ATMs in RSD only; level of usage reported to be low but growing rapidly.                    | Fees and charges high as currency exchange and “roaming” charges likely to apply. | No <sup>53</sup>   |
| (viii) Paper-based payment                 | Use of cheques, drafts and other paper-based means of funds transfer; no longer popular (clearing operated by the ASB).   | Fees and charges as typical for such instruments.                                 | No                 |
| (ix) Online electronic                     | Limited e-banking and Internet banking transaction services and increasing use of m-banking services facilities for existing customers. <sup>54</sup>   | Fees lower than wire transfers or credit/debit cards.                             | No                 |
| (x) Cash                                   | Withdrawal in cash (RSD or EUR/other FX) at Serbian Bank A and redolgement in cash at Serbian Bank B.   | No or minimal fee, but evidence of source may be needed for redolgement in cash.  | No                 |

<sup>46</sup> This section presents an outline of available facilities as a foundation for a gap analysis from an AML/CFT perspective and, for that purpose, uses the terminology of the FATF Recommendations. A detailed technical presentation on the payments system is beyond the scope of this paper. For a full analysis of the Serbian payments system (as at its date of publication in 2007), see the BIS document “Payment systems in Serbia”, prepared by the NBS and the Committee on Payment and Settlement Systems of the central banks of the Group of Ten Countries (<http://www.bis.org/publ/cps579.pdf>), also available on the NBS website, which is taken as an indication that the contents are considered by the NBS as still valid.

<sup>47</sup> Unless the transfer is between accounts held with the same bank

<sup>48</sup> Ibid.

<sup>49</sup> Typically settled using correspondent banking facilities outside Serbia.

<sup>50</sup> Except if possible in future to use for person-to-person payments.

<sup>51</sup> Ibid.

<sup>52</sup> “Payment card operations of banks in the Republic of Serbia” International Scientific Conference, Gabrovo, November 2010, sourced on [www.singipedia.com](http://www.singipedia.com).

<sup>53</sup> Except if possible in future to use for person-to-person payments.

<sup>54</sup> These facilities were (in 2007, according to the BIS CPSS Red Book) used only for transmitting information on a client’s account balance or on all the transactions carried out from a client’s account, and general information (e.g. foreign exchange rates), but not for the issuance of payment orders. M-banking services are expected to expand significantly, with new offerings from a number of banks and the announcement by Telenor in April 2013 of its intention to enter the m-banking market in Serbia through the acquisition of KBC Banka in an agreement that also involved asset acquisition by *Société Générale Banka Srbija*.

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**(b) Post Serbia (Pošta Srbije)**

| Type                              | Method   | Relevant for R.16? |
|-----------------------------------|--|--------------------|
| (i) Internal system –electronic   | Postal money order – next day RSD funds transfer through any post office.                      | Yes                |
| (ii) Internal system – electronic | PostNet money order – immediate availability of RSD funds transferred through any post office. | Yes                |

**(c) Online payments and e-commerce systems (includes some expected future developments).**

|   |   |                  |
|---|---|------------------|
| (i) Bilateral arrangements                                | Facilities for electronic payment of utility bills and a range of other contractual obligations through Serbian banks and Post Serbia.                              | No               |
| (ii) E-commerce (not yet available for domestic payments) | E.g. PayPal – payment for goods and services and potentially person-to-person payments; not available (yet) for domestic use. See under cross-border systems below. | No               |
| (iii) Potential future electronic systems                 | Potential new currencies and payment systems (see below for outline of some recent and emerging payment systems and technologies)                                   | Not at this time |

**(d) Cash**

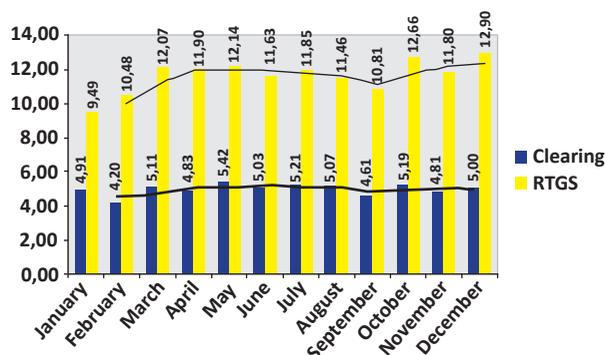
|                                |   |    |
|--------------------------------|---|----|
| (i) Domestic currency payments | In RSD, subject to the restriction under Article 36 of the AML/CFT Law on cash transactions exceeding the equivalent of EUR 15 000. However, the effectiveness of this restriction is an open question.   | No |
| (ii) Foreign currency payments | In EUR or other foreign currency, subject to the restriction that, by law, only RSD may be used to settle transactions, except where provided under Article 34 of the Law on foreign currency transactions (e.g. in relation to the sale, rental or leasing of real estate, among a list of other exceptions). It is not clear how widely this restriction is applied or enforced, particularly for transactions between natural persons. | No |

## Annex 6

### General indicators of the RTGS and clearing system in 2012

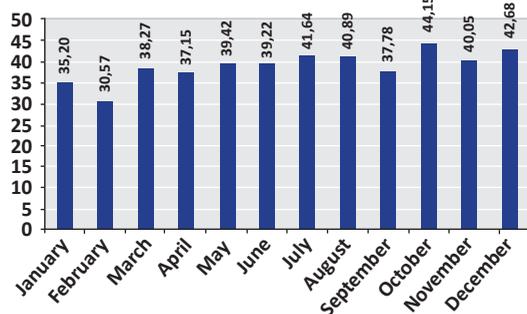
In the course of 252 business days in 2012, 198.6 million payments were processed in the NBS RTGS (139.2 million or 70%) and clearing system (59.4 million or 30%). The average number of payments was 787 965 per day, of which 552,256 were in the RTGS and 235,709 in clearing.

Monthly overview of RTGS and clearing payments in 2012  
(in million payments)



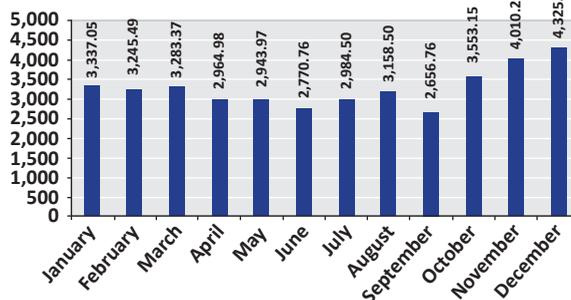
Value of turnover in clearing system

RTGS system - value of turnover per month 2012  
(RSD billion)



Value of turnover in RTGS system

RTGS system - value of turnover per month 2012  
(RSD billion)



(Source: National Bank of Serbia, Payment System Department)

The value of turnover in the RTGS system amounted to RSD 39,234 billion, while clearing turnover reached RSD 467 billion or just 1.18% of the total. Daily turnover in the RTGS and clearing system averaged RSD 155.7 billion and RSD 1.9 billion, respectively.

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## **Annex 7**

### **Selected typologies for money remittance business**

#### **“Money laundering through money remittance and currency exchange providers”, FATF/MONEYVAL, 2010**

- ▶ Transferring/receiving funds without any apparent economic reason or unrelated to any underlying transaction.
  - ▶ Transfers paid by large cash amounts in different sums in a short period of time.
  - ▶ Unusually large cash payments in circumstances where payment would not normally be made in cash.
  - ▶ Money transfers to/receipts from high-risk jurisdictions without reasonable explanation, which are not consistent with the customer’s usual foreign business dealings.
  - ▶ Personal remittances sent to/received from jurisdictions that do not have an apparent family or business link.
  - ▶ Remittance outside usual migrant remittance corridors.
  - ▶ Personal funds sent at a time not associated with salary payments.
  - ▶ The sender does not seem to know which amount to be transferred until it is counted.
  - ▶ The sender shows no interest in the costs of the transfer costs.
  - ▶ The sender/receiver has no relation to the transaction country and cannot sufficiently explain why money is sent there/received from there.
  - ▶ The sender/receiver has a note with information about payee but, when asked, hesitates on whether to mention the purpose of payment.
  - ▶ Large or repeated transfers between the account of a legal person and a private account, particularly if the legal person is not a resident.
- ▶ Large or frequent transfers/receipts of money.
  - ▶ Use of groups of people to send money.
  - ▶ Receiving money from/sending to a variety of people in different parts of the world.
  - ▶ Multiple senders toward a single individual.
  - ▶ Reluctance to provide identification documentation.
  - ▶ Attempting to use false identification or a fictitious name.
  - ▶ Frequent transactions in amounts under (but close to) the reporting threshold.
  - ▶ Transfers from/to remittance corridors known for criminal activity such as drugs, prostitution, fraud, illegal immigration, etc.
  - ▶ Number of transactions for the same customer but using different name spellings, false addresses or identification, parts of which (e.g. address) change over time.
  - ▶ Transmission of funds by the same customer on the same day to different locations, whether purportedly to the same or different recipients.

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## Annex 8

### Suggested legislative provisions in the AML/CFT Law to comply with R.16

The proposed draft legislative amendments below are prefaced with some explanatory remarks, as follows.

- (i) The term “payment service provider” is used in the draft legislation for consistency with the international standard and draft EU regulation.
- (ii) R.16 and the draft EU regulation, although largely compatible, are arranged differently. The EU approach is more prescriptive and the following draft provisions are modelled more closely on the draft EU regulation, with some variations to exclude provisions that relate only to current EU Member States.
- (iii) Concessions in the draft EU regulation which the Serbian authorities may choose to accept or reject are shown below in italics.
- (iv) In case the Serbian authorities wish explicitly to provide scope for payment service providers to apply more stringent requirements (i.e. not avail of certain permitted concessions at this stage), some suggestions are included as underlined text in italics below.
- (v) Optional or alternative text suggestions are shown in square brackets.
- (vi) The proposed text is designed for the pre-accession period. On accession, any EU regulation then in force would, due to its legal status, automatically apply directly in Serbia (as in all EU Member States) without the need to be transposed into Serbian law.<sup>55</sup>
- (vii) Note that R.16 also includes within its scope (in paragraph 22 of the Interpretative Note to R.16) MVTs operators (i.e. money remitters) and their agents. This should be taken into account in the Serbian AML/CFT Law when defining the term “payment service provider” for the purposes of Article 12.
- (viii) The proposed wording of Article 12B(1) and

12E(1) provides explicitly for cover payments, in compliance with R.16.<sup>56</sup> In so doing, the text is also in line with the BIS guidance on cover payment messages,<sup>57</sup> which includes helpful background material and explanations of the distinction between sequential and cover wire transfer payment arrangements, with particular focus on the implications for AML/CFT. (Extracts from the BIS paper are included for ease of reference as Annex XX to this report).

- (ix) Compliance with R.16 requires that appropriate legal provision be made for freezing actions and the prohibition of transactions with designated persons, to comply with the obligations of UN Security Council Resolutions 1267 and 1373. Serbia was criticised in the MONEYVAL mutual evaluation report 2009 in the absence of such freezing provisions and received a non-compliant rating under Special Recommendation III. The issue is still in the course of being addressed in the form of the draft law on freezing of assets with the aim of preventing terrorism, which proposes broadly based freezing requirements. Early enactment of legislative provisions to enable freezing of funds suspected of being linked to terrorist activity is recommended.
- (x) Requirements consistent with R.16 are to be applied to financial institutions. Currently in Serbia, the scope of coverage would appear to be relevant to banks and Post Serbia in practice. However, this is likely to expand in future and any additional categories of financial institution permitted to provide electronic funds transfers would need to be included within the scope of Article 12. In addition to money remitters, this could potentially also include some securities firms depending on their methods of operating accounts or settling transactions on behalf of clients.

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<sup>55</sup> In contrast, that step would be required for an EU directive.

<sup>56</sup> This is the only material change from the draft shared earlier with the Serbian authorities.

<sup>57</sup> “Due diligence and transparency regarding cover payment messages related to cross-border wire transfers” BIS, May 2009.

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**Law on the prevention of money laundering and the financing of terrorism (AML/CFT Law)**

**Scope**

**Proposed Article 12A (“Scope”)**

- (1) The requirements of this Article shall apply to transfers of funds, in any currency, which are sent or received by a payment service provider established in [the Republic of] Serbia.
- (2) The requirements of this Article shall not apply to transfers of funds carried out using a credit or debit card, or a mobile telephone or any other digital or information technology device, where the following conditions are fulfilled:
  - (a) the card or device is used to pay for goods and services;
  - (b) the number of the abovementioned card or device accompanies all transfers flowing from the transaction.
- (3) The requirements of this Article shall apply when a credit or debit card, or a mobile telephone, or any other digital or information technology device is used in order to effect a person-to-person transfer of funds.
- (4) The requirements of this Article shall not apply to transfers of funds where:
  - (c) the transfer of funds entails the payer withdrawing cash from his or her own account;
  - (d) funds are transferred to public authorities as payment for taxes, fines or other levies within [the Republic of] Serbia;
  - (e) both the payer and the payee are payment service providers acting on their own behalf.

**Obligations on the payment service provider of the payer**

**Proposed Article 12B (“Outgoing payments”)**

- (1) The [Serbian] payment service provider of the payer [wire transfer originator] shall [collect accurate and complete information on the payer sufficient to] ensure that the transfer of funds is accompanied by, and the message relating to the transfer of funds includes, the following information on the payer:<sup>58</sup>
  - (a) the name of the payer;
  - (b) the payer’s account number where such an account is used to process the transfer of funds, or a unique transaction identifier where no such account is used for that purpose;
  - (c) the payer’s address, or [if the payment service provider cannot obtain the payer’s address] one or more of the following data in relation to the payer instead of the address:
    - national identity number;
    - [unique] customer identification number; or
    - date and place of birth.
- (2) The [Serbian] payment service provider of the payer [wire transfer originator] shall ensure that transfers of funds are accompanied by the following information on the payee [beneficiary]:
  - (a) the name of the payee; and
  - (b) the payee’s account number in all cases where such an account is to be used to process the transaction, or a unique transaction identifier where no such account is to be used for that purpose.
- (3) Before transferring the funds, the payment service provider of the payer shall verify the accuracy of the information referred to in Article 12B, paragraph 1, of this Law on

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<sup>58</sup> This proposed text provides both for the direct transfer of funds in relation to a SWIFT message and for cover payments, where the SWIFT message is conveyed separately (to the payment service provider of the payee) while the actual payment is sent indirectly through one or more intermediary service providers.

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the basis of documents, data or information obtained from a reliable and independent source, except as provided in Article 12B, paragraphs 4 and 5 of this Law.

- (4) Where funds are transferred from the payer's account with the [Serbian] payment service provider, the verification referred to in Article 12B, paragraph 1, of this Law shall be deemed to have taken place where a payer's identity has been verified in accordance with Articles 13 to 18 of this Law and the information obtained by this verification has been [stored] [retained] by the payment service provider in accordance with Article [XX] of this Law;
- (5) In the case of transfers of funds made other than from an account with the payment service provider of the payer, the requirement in Article 12B, paragraph 3, of this Law to verify the information referred to in Article 12B, paragraph 1, of this Law shall not apply if:
  - (a) the amount of the transfer does not exceed the equivalent in RSD of EUR 1 000; and
  - (b) there is no information to indicate to the payment service provider that the transfer is linked to other transfers of funds which, if their value is added to the transfer in question, would cause the total to exceed the equivalent of EUR 1 000; and
  - (c) there is no suspicion of money laundering or terrorist financing.
- (6) *Notwithstanding the provisions of Article 12B, paragraph 5, of this Law, payment service providers may, as part of the implementation of their risk-based approach, choose to verify the information referred to in Article 12B, paragraph 1, of this Law where the amount of the transfer does not exceed the equivalent in RSD of EUR 1 000.*

#### **Optional Article 12C** **(“Concessionary treatment for domestic payments”)**

- (1) *Where both the payment service providers of the payer [originator] and payee [beneficiary] of the transfer are established within [the Republic of] Serbia:*
  - (a) *the requirements of Article 12B, paragraph 1, of this Law are not mandatory but the payment service provider of the payer may opt to comply with them;*
  - (b) *the payment service provider of the payer:*
    - *shall, at a minimum, accompany the transfer with the account number of the payer or a unique transaction identifier;*
    - *shall, upon request from the payment service provider of the payee or any intermediary payment service provider, make available the information on the payer or the payee in accordance with Article 12B, paragraphs 1 and 2, of this Law within three working [business] days of receiving that request.*

#### **Optional Article 12D** **(“Concessionary treatment for batch payments”)**

- (1) *In the case of batch file transfers on behalf of a single payer, the payment service provider of the payer is not required to apply the requirements of Article 12B, paragraphs 1 and 2, of this Law to the individual transfers bundled together therein, provided that the batch file contains the information referred to in that Article and that the individual transfers carry the account number of the payer or their unique transaction identifier;*
- (2) *Notwithstanding the provisions of Article 12D, paragraph 1, of this Law, the payment service provider of the payer may opt to apply the requirements of Article 12B paragraphs 1 and 2, of this Law to the individual transfers bundled together within a batch file transfer on behalf of a single payer.*

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## Obligations on the payment service provider of the payee

### Proposed Article 12E (“Incoming payments”)

- (1) The [Serbian] payment service provider of the payee shall detect whether the fields relating to the information on the payer and the payee in the messaging system and, in the case of cover payments, in the payment and settlement system used to effect the transfer of funds, have been filled in using the characters or inputs admissible within the conventions of that system.
- (2) The payment service provider of the payee shall have effective procedures in place in order to detect and shall determine whether any of the information on the payer and the payee required under Article 12A-D of this Law is missing.
- (3) For transfers of funds amounting to more than the RSD equivalent of EUR 1 000, the payment service provider of the payee shall verify the identity of the payee if it has not already been verified in accordance with Articles 13 to 18 of this Law.
- (4) For transfers of funds amounting to the RSD equivalent of EUR 1 000 or less, the payment service provider of the payee need not verify the identity of the payee, unless there is a suspicion of money laundering or terrorist financing.
- (5) *Notwithstanding the provisions of Article 12E, paragraph 4, of this Law, payment service providers may, as part of the implementation of their risk-based approach, choose to verify the identity of the payee if it has not already been verified in accordance with Articles 13 to 18 of this Law where the amount of the transfer does not exceed the equivalent in RSD of EUR 1 000.*

### Proposed Article 12F (“Missing information”)

- (1) The payment service provider of the payee shall establish [and document] effective risk-based procedures for determining when to execute, reject or suspend a transfer of funds lacking the required payer and payee information and the appropriate follow-up action.
- (2) If the payment service provider of the payee becomes aware, when receiving transfers of funds, that information on the payer and the payee required under Article 12B of this Law is missing or incomplete, it shall either:
  - (a) reject the transfer; or
  - (b) suspend the transfer and immediately send a request to the payment service provider of the payer for complete information on the payer and the payee as set out in Article 12B, paragraphs 1 and 2, of this Law.
- (3) *If the payment service provider of the payer does not provide the information set out in Article 12B, paragraphs 1 and 2, of this Law in response to the request at Article 12F, paragraph 2(b), of this Law within [five]<sup>59</sup> working [business] days of the sending of such a request, the payment service provider of the payee shall reject the transfer.*
- (4) Where a payment service provider regularly fails to supply the required information on the payer set out in Article 12B, paragraph 1, of this Law, the payment service provider of the payee shall take steps, which may initially include the issuing of warnings and setting of deadlines, before either rejecting any future transfers of funds from that payment service provider or deciding whether or not to restrict or terminate its business relationship with that payment service provider. The payment service provider of the payee shall inform the APML of any such termination of its business relationship with another payment service provider.

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<sup>59</sup> A period of five days is suggested as more realistic than the current Serbian limit of three days in which a bank must obtain missing data. Applying a fixed limit is already much more stringent than R.16 which, in 16.15, calls for “risk-based policies and procedures for determining (a) when to execute, reject, or suspend a wire transfer lacking ... required information ... and (b) the appropriate follow-up action”. If a fixed limit is to be set by law in Serbia for the requesting bank, it is suggested that an addition of at least two further working days for sending the request and considering the response could be deemed more realistic. The alternative is to leave some risk-based discretion to the banks as to the action to be taken and timeframe for obtaining information.

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- (5) The payment service provider of the payee shall consider missing or incomplete information on the payer and the payee as a factor in assessing whether the transfer of funds, or any related transaction, constitutes reason for suspicion of money laundering or terrorist financing. In case of such suspicion, a report shall be made to the APML in accordance with the requirements of the AML/CFT Law.
  - (6) If the payment service provider should determine that missing or incomplete information on the payer and the payee does not constitute reason for suspicion of money laundering or terrorist financing, it should create and retain an official record of the analysis conducted and the basis for determining that a report should not be made to the APML.

#### **Obligations on intermediary payment service providers**

##### **Proposed Article 12G ("Intermediary payment service provider")**

- (1) [Serbian] intermediary payment service providers shall ensure that all the information received on the payer and the payee that accompanies a transfer of funds is kept with the transfer.
- (2) The intermediate payment service provider shall establish [and document] effective risk-based procedures for determining when to execute, reject or suspend a transfer of funds lacking the required payer and payee information and the appropriate follow-up action.
- (3) If the intermediate payment service provider becomes aware, when receiving transfers of funds, that information on the payer and the

payee required under Article 12B of this Law is missing or incomplete, it shall either:

- (a) reject the transfer; or
  - (b) suspend the transfer and immediately send a request to the payment service provider of the payer for complete information on the payer and the payee as set out in Article 12B, paragraphs 1 and 2, of this Law.
- (4) *If the payment service provider of the payer does not provide the information set out in Article 12B, paragraphs 1 and 2, of this Law in response to the request at Article 12G, paragraph 2(b), of this Law within five working [business] days of the sending of such a request, the intermediate payment service provider shall reject the transfer.*
  - (5) Where a payment service provider regularly fails to supply the required information on the payer set out in Article 12B, paragraph 1, of this Law, the intermediary payment service provider shall take steps, which may initially include the issuing of warnings and setting of deadlines, before either rejecting any future transfers of funds from that payment service provider or deciding whether or not to restrict or terminate its business relationship with that payment service provider. The intermediate payment service provider shall inform the APML of any such termination of its business relationship with another payment service provider.
  - (6) The intermediate payment service provider shall consider missing or incomplete information on the payer and the payee as a factor in assessing whether the transfer of funds, or any related transaction, constitutes reason for suspicion of money laundering or terrorist financing. In case of such suspicion, a report shall be made to the APML in accordance with the requirements of the AML/CFT Law.

- (7) If the intermediate payment service provider should determine that missing or incomplete information on the payer and the payee does not constitute reason for suspicion of money laundering or terrorist financing, it should create and retain an official record of the analysis conducted and the basis for determining that a report should not be made to the APML.

- ► EKI Transfers offers Western Union services (receipt but not sending of funds; funds paid out in EUR) through the following sub-agents:

|                       |                         |                    |
|-----------------------|-------------------------|--------------------|
| AIK banka             | Banca Intesa            | Crédit Agricole    |
| Credy banka           | Čačanska banka          | Dunav banka        |
| Erste banka           | Eurobank                | Findomestic        |
| Hypo Alpe Adria Group | Jubmes banka            | Komercijalna banka |
| Marfin banka          | NLB Banka               | OTP Banka          |
| Piraeus Bank          | Privredna Banka Beograd | Raiffeisen banka   |
| Univerzal banka       | Vojvođjanska banka      |                    |

## Annex 9

### Money transfer operators (MTOs) in Serbia – July 2013

**Western Union**, still the largest MTO in Serbia operates in Serbia through five agents, three of which are banks:

- Postal Savings Bank;
- *Société Générale Banka Srbija*; and
- Unicredit Bank Serbia Jsc.

The other two agents are companies that manage a number of sub-agent contracts. They continue to be supervised by the Foreign Currency Inspectorate but, following a legislative change effective from December 2012, do not themselves currently hold authorisations to conduct payment services. This issue is expected to be addressed with the enactment, probably in 2014, of the draft payment services law. Some of the banks listed below are also agents for MoneyGram (e.g. Eurobank) or Ria (e.g. Credy banka). The companies and their sub-agents are as follows.

- ► TenFore offers Western Union services through the following five sub-agents:

|                       |                 |                  |
|-----------------------|-----------------|------------------|
| Receive only, in EUR: | Moskovska banka | Opportunity Bank |
|                       | Srpske banka    | Volksbank        |

Send and receive, in RSD: Post Serbia (*Pošta Srbije*)

- ► MoneyGram provides receive-only remittance services, in EUR, through five agents:

|                 |                       |              |
|-----------------|-----------------------|--------------|
| Alpha Bank      | Eurobank EFG          | Piraeus Bank |
| Privredna banka | Sberbank a.d. Beograd |              |

- ► Ria provides receive-only remittance services, in EUR, through one agent: Credy banka.

## Annex 10

### Analysis of compliance with R.14 on money remitters

| <b>Text of FATF R.14</b><br>(Numbering and parsing added for ease of reference)   | <b>Relevant provisions in Serbian Draft law on payment services</b>   | <b>Analysis of technical compliance with R.14</b>   |
|---|---|---|
| (1) "Countries should take measures to ensure that natural or legal persons that provide money or value transfer services (MVTs) are:"  |   |   |
| (1)(a) "licensed or registered; and"  | To operate a payment system, an operator needs a licence (payment system licence) issued by the NBS (proposed Article 154).   | Compliant with 1(a).  |
|   | A comprehensive application procedure and capital requirement is proposed (Articles 155 and 156, respectively).   | Further supports 1(a).  |
| (1)(b) "subject to effective systems for monitoring and ensuring compliance with the relevant measures called for in the FATF Recommendations."   | Extensive powers for NBS supervision of holders of payment system licences, including their agents, are proposed in Articles 172-177.<br><br>The draft law makes no explicit reference to compliance with AML/CFT obligations.  | Could be relevant to (1)(b) but see also next point.<br><br>It could be argued that there is no need to make explicit reference to AML/CFT obligations as long as the AML/CFT Law is amended at the same time to include holders of payment system licences as obligors under that Act (to the extent that they are not already included as banks or another category of financial institutions). |
| (2) "Countries should take action to identify natural or legal persons that carry out MVTs without a license or registration, and to apply appropriate sanctions."  | Article 178 of the draft law would provide for powers of the NBS to verify and prohibit any unauthorised operation of payment services.   | This could provide a basis for compliance with (2).   |
| (3) "Any natural or legal person working as an agent should also be licensed or registered by a competent authority, or the MVTs provider should maintain a current list of its agents accessible by competent authorities in the countries in which the MVTs provider and its agents operate." | The draft law does not make clear whether agents of holders of payment system licences would themselves need to be registered or authorised in their own right. <sup>60</sup>   | Basis for compliance with the first option under (3) is unclear.  |
|   | While there is no explicit provision that would require a holder of a payment system licence to "maintain a current list of its agents accessible by competent authorities", such a requirement could potentially be applied by the NBS using powers available under the final paragraph of the proposed Article 160. In addition, the proposed Article 168 would oblige the NBS to maintain and publish a registry of payment systems and, in accordance with the final paragraph, to prescribe in detail the contents and manner of keeping the specified registry. | This could potentially provide a basis for compliance with (3), although it would be preferable to be more explicit regarding a requirement for the separate authorisation or registration of agents or the maintenance (preferably on a publicly accessible basis) of a register of agents.  |
| (4) "Countries should take measures to ensure that MVTs providers that use agents include them in their AML/CFT programmes and monitor them for compliance with these programmes"   | There is no explicit reference to "measures to ensure that MVTs providers that use agents include them in their AML/CFT programmes and monitor them for compliance with these programmes".  | Such a requirement could potentially be applied by the NBS using powers available under the final paragraph of the proposed Article 160. Pending clarification on this point, basis for compliance with (4) is unclear.   |

<sup>60</sup> The draft law does not make clear whether agents of holders of payment system licences would themselves need to be registered or authorised in their own right.

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## Annex 11

### Remittance corridor studies

#### – A survey of the international literature

1. ► The following text selectively reviews the analysis conducted, mainly in the period 2006-09, on the principal remittance corridors – Germany, Austria and Switzerland. While the data used is a number of years old, according to interview partners for the current study, the findings appeared to be considered still valid in general. Little appears to have changed over recent years, particularly in terms of the continuity of financial support provided by the diaspora and the methods used to deliver that support. Reference is also included below to a further study (UK/Serbia), which highlights the significant difference between rural and urban patterns of experience of emigration and remittance flows.

#### Germany (2006)

2. ► This World Bank report<sup>61</sup> analysed the Germany-Serbia remittance corridor. It examined why remittance flows take place outside the financial system and presented a series of practical recommendations to promote the use of financial institutions to transfer money home, reduce fees, encourage greater competition to enhance the developmental impact of remittances, and improve the regulation and integrity of the money transfer industry.
3. ► The 2006 World Bank Germany-Serbia corridor report provided the following useful summary. During the late 1960s and early 1970s, emigrant flows increased significantly, particularly after Germany and Yugoslavia signed an agreement on “guest workers” in 1969 that allowed Yugoslavs to work temporarily in Germany in industries requiring both unskilled and skilled labour. The

number of Yugoslav workers in Germany increased from 99 000 in 1968 to 469 000 in 1971. The first generation of foreign workers consisted mostly of single men aged 20 to 40. The number of women immigrating to Germany by themselves increased in subsequent years. In 1973, Yugoslav citizens accounted for 17.7% of foreigners living in Germany, constituting the second largest group of foreigners after the Turks. Most foreign workers were employed in the States of North Rhine-Westphalia, Baden-Württemberg, Bavaria, and Hessen, where the core of industrial activities are concentrated.

4. ► Under the agreement on “guest workers”, foreign workers were supposed to return to their home countries and be replaced by new ones once their contracts expired. In practice, however, many foreign workers stayed in Germany permanently. This served the interests of employers, who wanted to keep their experienced workers, and of the workers themselves, who increasingly came to regard Germany as their home and who wished to take advantage of the better income opportunities.
5. ► As a result of the oil shortage and subsequent economic slowdown in the early 1970s, the German Government suspended the recruitment of foreign labour from all non-EC countries in 1973. As a result, from 1973 to 1988, the number of Yugoslav workers in Germany declined from 471 000 to 295 000. The ban nevertheless influenced many foreign workers to stay in Germany permanently, as it would have been more difficult or impossible for them to return to their home country temporarily and then come back to Germany to work. During this period, family reunification and the birth of Serbian children in Germany increased the total number of Serbs in Germany.

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<sup>61</sup> “The Germany-Serbia remittance corridor – challenges of establishing a formal money transfer system”, World Bank, 2006.

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6. ▶ With the fall of socialist regimes in central and eastern Europe beginning in 1989, a new flow of migration from Serbia to Germany occurred. This trend was further exacerbated by the rapid increase in the number of refugees arising from the disintegration of the former Yugoslavia and the wars in the region in the early 1990s.
  7. ▶ As part of the “guest workers” agreement, the former Federal Republic of Germany and the former Republic of Yugoslavia established a mechanism to allow workers to transfer money to their relatives in Yugoslavia through banking institutions. Under this mechanism, Yugoslav banks were allowed to open branches (or representative offices) in Germany to process money transfers (including pension payments) to Yugoslavia. Banks usually offered this service at a minimum (or no cost) in order to attract new deposits and foreign exchange currency. This mechanism operated well during the 1970s and 1980s, providing rapid and reliable services to the Yugoslav community in Germany.
  8. ▶ This system had to be dismantled in 1992. As part of the economic sanctions imposed by the UN against Serbia in 1992 (UN Security Council Resolution 757), the German authorities had to close all branches and offices of Serbian banks. This forced the Serbian diaspora in Germany, and elsewhere, to look for alternative ways to transfer money home, including the use of cash couriers and bus drivers to transport cash from Germany and other European countries to Serbia. The use of informal channels to transfer money did not stop even after the UN economic sanctions against Serbia were lifted in 1995.
  9. ▶ Due to the loss of confidence in the domestic banking institutions, caused by the failure of banks and the freeze of saving deposits in 1994, the use of informal channels became much more widespread among the Serbian diaspora. In order to avoid having their money deposited in a bank in Serbia, Serbs living abroad were reluctant to send money home through financial institutions. Although confidence in the banking system has improved in recent years, as evidenced by the growing amount of bank deposits, it has not been fully restored and most Serbs still prefer to use informal mechanisms to transfer money home.
  10. ▶ The 2004 figures on remittance flows from Germany to Serbia indicate that the use of informal channels still remains the most important channel used by Serbs to transfer money home. Many Serbs in Germany continue sending money home through bus drivers or relatives and friends that travel to Serbia. Given the proximity between these two countries, migrants bring their money in cash to their relatives in Serbia, especially during major holiday seasons. Moreover, many Serbs who receive a pension from Germany travel back to Germany by car every two or three months to collect their payments in person.
  11. ▶ The World Bank report argued that despite the availability of modern payment platforms to transfer money from Germany to Serbia through financial institutions and the fact that practically all documented foreign workers in Germany have a bank account, it was estimated at that time that only 50% of all remittances from Germany to Serbia took place through banks and licensed money transfer operators.
  12. ▶ The extensive use of informal channels to send money reduces the developmental im-
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pact of remittances in Serbia, because remittances through informal means do not have the same multiplier effect as bank deposits. If more remittances were received in Serbia through banks or other financial institutions, the Serbian financial system would be deeper, thus increasing the availability of resources to finance economic activities in Serbia. Moreover, the use of financial institutions to remit money would broaden the access of recipient households in Serbia to more financial services that would help them improve their living standards.

13. ► The report argued that there are various factors that discouraged migrants at that time from using financial institutions to send money home, including:
  - ► limited (but growing) trust of Serbs in their banking institutions;
  - ► high fees for using remittance products offered by financial institutions;
  - ► low competition in the remittance marketplace; and
  - ► a limited (but growing) level of bank penetration in Serbia.
14. ► This study also argued that there is also a need to increase the supply of financial products available to Serbs who send or receive remittances on a regular basis. Financial institutions do not offer Serbs in Germany attractive instruments to invest in Serbia, acquire real estate, or contribute to the development of their towns. Investments by the Serbian diaspora have occurred outside the financial system. Similarly, by law, Serbian banks could not offer consumer credit or mortgages to remittance-receiving households, unless they have a regular source of income from Ser-

bia. Finally, the report pointed out the importance of improving data on remittance flows between Germany and Serbia.

15. ► Given the large amount of remittance flows that Serbia receives every year, better information on remittances is needed to assess their impact on consumption, savings, and investment. Moreover, improved data is needed for the formulation of policies and to assess the impact of remittances on poverty alleviation. Better data is also needed to monitor the integrity of the financial system and detect, as well as prevent, abuse related to money laundering or terrorist financing activities.
16. ► The World Bank report noted that 28% of the Serbs in Germany were working and paying contributions to the social security system in 2003. It was not possible to know whether the number of Serbs working in Germany might actually be larger due to unaccounted and undocumented workers. According to the Registration Office for Foreigners in Germany, on average, Serbs had lived in Germany for 16.3 years and more than 65% of Serbs had lived in Germany for more than ten years, at the time of the study in 2006.

#### **Austria (2008/09)**

17. ► A similar pattern was observed in a study on the Austrian-Serbia corridor,<sup>62</sup> although with even higher use of informal channels, which could be as a result of the closer geographical proximity of the two countries.
18. ► The Austrian report included the following interesting findings on demographic and socio-economic topics. The existing research on remittances sent to Serbia comes to the conclusion that remittances are used

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<sup>62</sup> "Remittances from Austria", Oesterreichische Entwicklungsbank AG, April 2009.

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by receiving families for consumption, health-related expenses, utilities, phone service, petrol for cars, and household appliances and furniture. Over the past 40 years, by far the largest investment above and beyond consumption has been in housing, followed by land and agricultural activities. More recently there had been increased investment in urban housing, including housing blocks in the cities nearest the rural homes of emigrants.

19. ► The research concluded that four factors determine the use and investment of remittances: socio-demographic status; the environment in which they are received; knowledge of investment possibilities; and, lastly, attitudes toward financial services. Younger households are less risk-averse and therefore tend to be those open to investing in small and medium-sized enterprises. The most active investors and savers are higher than average income households. Older people spend more of their remittances on health, while middle-aged people tend to spend it on housing. It also noted that in Serbia the environment offered people very few opportunities to invest beyond housing and land. Moreover, investment behaviour is partially determined by the knowledge that remittance receivers have about the financial system and services available. Although many remittance receivers have bank accounts, their use of them and of bank services in general is limited.
20. ► The objectives and emphases of the above studies covered a range of important socio-economic and public policy issues, including those of relevance to State financing and the financial sector (the contribution of remittance flows to FX reserves and poverty reduction; fiscal issues and potential fuelling

of the shadow economy; income distribution and investment in housing, health and education, to name but a few). However, there was little reference in those studies to the issue of criminal proceeds that might be mingled with legitimate cash remittances.

#### Switzerland (2006)

21. ► According to the International Organization for Migration (IOM) study on the Switzerland-Serbia corridor,<sup>63</sup> a limited number of temporary permits were made available to workers from several neighbouring countries, including the former Yugoslavia in the 1970s. It was under this migration scheme that large numbers of Serb migrants came to Switzerland to work over the following two decades. In the 1990s, the Swiss Government began phasing out the seasonal “guest worker” programme, which ended formally in 2002. Under pressure to build more open relations with the EU, a new migration framework was introduced restricting labour immigration to citizens of the EU and to a small number of high-skilled workers from outside the region – a policy that continues today. Consequently, migration opportunities for citizens of the former Yugoslavia changed quickly, making access to the Swiss labour market increasingly difficult. However, by this time, a large Serb population had already established permanent residency in Switzerland, a status which allowed them to facilitate a small but constant flow of new immigrants for family reunification, feeding a present-day Serbian diaspora of approximately 200 000 people.
22. ► Beyond the offer of legal labour migration opportunities and the role of social networks in facilitating migration in this corridor, people have historically left – and continue

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<sup>63</sup> “A study of migrant-sending households in Serbia-Montenegro receiving remittances from Switzerland”, International Organization for Migration (IOM), September 2006.

to leave – Serbia mainly because of lack of adequate employment opportunities at home. This fact is reflected in the unemployment rate.

**Reasons given for migrant relatives emigrating from Serbia (2006 survey)**

|                          | Entire Data Set | 1968 to 1990 | 1990 to 2005 | 2000 to 2005 |
|--------------------------|-----------------|--------------|--------------|--------------|
| <b>Economic hardship</b> | 76%             | 78%          | 63%          | 55%          |
| <b>Join relative</b>     | 16%             | 8%           | 31%          | 36%          |
| <b>New opportunities</b> | 7%              | 12%          | 3%           | 4.5%         |
| <b>War and other</b>     | 1%              | 2%           | 3%           | 4.5%         |
| <b>Total</b>             | 100%            | 100%         | 100%         | 100%         |

- 23. ► The majority of Serbian migrants living in Switzerland are likely to originate from rural areas. These were the communities that provided large numbers of men and women interested and willing to participate in seasonal “guest worker” programmes during the 1970s and 1980s – the peak migration years in this corridor – and from where members of their families joined them in later years. Heads of household explain that their relatives went to Switzerland, rather than to other labour migration destinations such as Germany or Austria, primarily because of social networks of friends, family and acquaintances who had already established residency and work in Switzerland and could therefore help facilitate their migration.
- 24. ► This is a family-oriented diaspora. Nearly all (90%) of people’s migrant relatives in Switzerland are married, almost always to another Serbian national, and have, in most cases, one or two children. In 13% of cases, the migrant’s spouse lives in Serbia and in 28%

of cases, the migrant’s children live in Serbia, providing motivation for regular travel and transnational economic activities, such as the sending of remittances.

- 25. ► Migrant-sending households from the surveyed areas are most commonly headed by older men with low levels of formal education. Only about half are engaged in the labour market, mainly as agricultural workers, whereas the rest are retired or unemployed. Their total household income averages 990 Swiss francs (CHF) – approximately EUR 600 – per month, 40% of which comes from remittances. Migrant relatives living in Switzerland who originate from these households are most commonly the adult children or, in fewer cases, the parents of these Serbian heads of household.
- 26. ► At a household level, the IOM’s research indicated that remittances have a significant impact. Nearly all migrant-sending households from the two regions surveyed received remittances from Switzerland. These households received, on average, CHF 4 800 per year (EUR 3 600 approximately), although a small number of households received much larger transfers of up to CHF 50 000 (EUR 33 000 approximately) – most commonly for the purchase or upgrade of housing. In addition to cash remittances, many households receive non-cash remittances in the form of goods.
- 27. ► Of households surveyed, 40% have been receiving remittances for more than 20 years. Remittances support regular consumptive costs that require ongoing support.
- 28. ► The vast majority of remittances in this corridor are sent through informal channels, either hand-carried by migrants, friends or acquaintances during visits home, or sent

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- with bus drivers travelling back and forth regularly between Switzerland and Serbia, a practice which has historical roots. There is a long tradition of informal transfers in this corridor, illustrated by the fact that 83% of respondents report that they have always received their money this way.
29. ► The reason for these choices is mostly a question of trust. People trust informal methods far more than formal mechanisms such as banks, which people systematically distrust for historical reasons. Financial and convenience costs are secondary determinant factors in people's decision-making process. Speed is a tertiary determinant. These issues help explain why more people do not send their money through banks even though almost half of the households interviewed have bank accounts, or via MTOs, where transfers can be made almost immediately.
  30. ► In terms of frequency, one third of households receive remittances once a month while another one third of households receive money and/or goods just once or twice per year.
  31. ► Remittances sent from Switzerland to Serbian households are mainly used to support recurrent living costs and basic needs, such as utilities (water, electricity and gas), phone service, petrol for cars and farm machinery, food, medicine and health care, household appliances, and furniture. Only a small number of households use remittances to pay for basic education, reflecting the older composition of many recipient households. Remittances are very rarely used to pay for non-essentials such as loans to others or debt repayment. Remittances used for investment purposes are generally limited to housing or agricultural activities.
  32. ► The socio-economic profile of migrant-sending households from non-surveyed parts of Serbia, particularly in urban areas such as Belgrade, may differ significantly in composition and patterns of migration and remittance flows.
  33. ► These findings differ from the conclusions of a parallel study conducted recently by the Swiss Forum for Migration and Population Studies (SFM) in Switzerland,<sup>64</sup> in which 600 telephone surveys were conducted with Serbian men and women living in Switzerland. The SFM study concluded that Serbian households in Switzerland send, on average, CHF 3 000 (approximately EUR 2 400) to Serbia every year (using median calculations), but only CHF 1 000 (approximately EUR 800) per year to individual recipients.
  34. ► One likely explanation for this large difference in research findings is the sample. The IOM's sample was limited to migrant-sending households from two rural regions of Serbia – areas with significant rates of poverty and unemployment and large elderly populations with extended dependence on remittance income as a form of regular economic support. The SFM sample included a broader cross-section of Serbian migrants, who likely originate from both rural and urban areas, and from families of more diverse socio-economic backgrounds and demographic make-up, whose need for and reliance on remittances as a form of monthly support may vary more widely.
  35. ► The SFM data suggest that this level of dependency cannot be generalised for the entire population, indicating that remittance patterns to other kinds of migrant-sending households may be very different, particularly to households in urban areas, in bet-

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<sup>64</sup> "Remittance behaviour of Serbian migrants living in Switzerland – A Survey" Swiss Forum for Migration and Population Studies, September 2006.

ter social-economic positions, and/or with younger members who can generate earned income to complement remittance flows from Switzerland.

36. ► The SFM report included the following interesting statistics from the population surveyed:

#### Period of time receiving remittances from Switzerland

| Number of years receiving remittances (surveyed in 2006) | If pattern unchanged in 2013, equivalent years: | Percentage of households reporting this frequency |
|--|---|---|
| 20+  | 27+   | 40%   |
| 14-19  | 21-26   | 29%   |
| 5-13   | 12-20   | 14%   |
| <5   | <12   | 6%  |
| Data not available                                       | Data not available                              | 11%   |

#### Households receiving goods (in-kind) from relatives in Switzerland

|                     |     |
|---------------------|-----|
| Yes:                | 71% |
| No:                 | 21% |
| Data not available: | 8%  |

#### Type of goods received

|     |  |
|-----|--|
| 55% | Household equipment (washing machine, fridge, freezer, etc.) |
| 11% | Consumption goods (clothing, mobile phone, television, etc.) |
| 2%  | Production goods (machines, etc.)                            |

#### Primary method by which Serbian households receive remittances

|     |                       |
|-----|-----------------------|
| 74% | Hand carried          |
| 11% | Bank transfer         |
| 5%  | Bus driver            |
| 1%  | Post or travel agency |
| 9%  | Data not available    |

Note: in 1% of households reporting hand-carrying as their transfer method, the recipient goes to Switzerland to pick up the money.

37. ► Estimates by the World Bank help place this figure in context, highlighting the fact that very few remittance corridors report such high rates of informal transfers (World Bank, "Global economic prospects 2006").

#### Determinants for chosen transfer method

|     |                       |
|-----|-----------------------|
| 46% | Reliable/trust/secure |
| 12% | Convenient            |
| 11% | It is the only choice |
| 10% | Cost                  |
| 6%  | Fast                  |

38. ► These findings are supported by a parallel study conducted by Lenora Suki, a consultant to the European Bank for Reconstruction and Development (EBRD) who surveyed Serbia's banking community and reports, (Suki, 2006: 1-2)<sup>65</sup>:

"Due to [the] financial crisis and the economic blockade of the country during the war, Serbs became accustomed to sending their money via informal means. Geographic proximity has helped maintain this practice over the years, although Serbia's financial sector has developed rapidly and is primarily in the hands of foreigners. Nonetheless, lingering low confidence in the financial system in Serbia discourages Serbs abroad from sending their money through formal channels."

<sup>65</sup> Lenora Suki "Remittances in Serbia and financial sector development: business opportunities and priorities for investment", The Earth Institute at Columbia University, September 2006.

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39. ► For a long time, bus lines were the primary mode of transportation linking Serbs with Switzerland, and during the war in the former Yugoslavia, represented a critical lifeline between the diaspora and their relatives back home. As the remittance practices among this population are relational and trust-based, it is not surprising that over the years, many migrants have relied on these bus drivers, whom they often know personally, to deliver money and in some cases goods to their relatives. Drivers charge a fee for this service, sometimes considered a “tip”, which is either a percentage of the cash being delivered or a fixed amount for the delivery of goods.
40. ► Remittance transfers via bus drivers are considered highly reliable, reasonable in cost and convenient. Even the speed of the transaction is considered acceptable for many people, except in the case of emergency. Transfers via bus drivers arrive in the recipients’ hands approximately one day after they are handed over to the bus driver in Switzerland. The World Bank points out that Serbian banks often require recipients to withdraw their remittance funds in local currency (RSD) rather than in FX.
41. ► Remittances have transformed housing in some rural villages. Enormous remittance-financed houses line the streets. Some of these homes feature Swiss architectural design and are made from building materials sent from Switzerland. In some cases, these homes have ten rooms or more, many of which sit empty and unused. Other examples can be found of homes with luxury features such as Jacuzzi bathtubs, but no running water.
42. ► Migrants from Belgrade are more likely to be higher skilled than their rural counterparts. This is related to the finding that, in Switzerland, a large part of this diaspora is engaged in skilled employment, working as professionals, health care workers, small business owners, etc. The SFM’s study reports that 71% of Serbs in Switzerland have a secondary or tertiary education – a much higher number than that reported by households in the IOM’s surveyed rural regions. Similar to Serbian migrants from the surveyed rural areas, urban migrants living in Switzerland also maintain transnational ties with their relatives in Serbia, but may visit less frequently. They may also remit less money and/or send money less frequently than their rural counterparts.
43. ► If this hypothesis is true, it could help explain why SFM’s report estimates a much smaller average remittance transfer size and reports a higher quantity of migrants remitting less frequently than IOM’s surveyed rural population. Additionally, migrants from urban origins may more commonly send small remittances intended as gifts for the purchase of leisure goods, or larger amounts in the case of a special needs or an emergency. This is because remittances to urban areas likely act more commonly as a financial safety net rather than as a regular income stream – for the reasons presented earlier – because recipient households are likely to be better off economically, and are more likely to have younger members at home who can generate earned income to complement remittance flows. This hypothesis is supported by the SFM’s reported finding among non-remitting migrants, the largest number of whom claim not to send remittances because no one in the family in Serbia needs money.
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44. ► **The SFM's recommended strategies to enhance remittance flows and economic development impact**

**Strategy 1: improve formal remittance transfer services to increase remittance flows through formal channels**

- ► Reduce the cost of formal transfers by improving and streamlining banking/financial policies and practices to help open up the market to more providers and promote competition, in turn reducing cost and improving service quality.
- ► Form and promote new partnerships between financial service providers in key corridor countries and Serbia to increase people's trust in the financial system and their use of financial institutions for remittance transfers.
- ► Increase banking literacy among recipients and remitters, place special emphasis on how banks can meet the particular needs of different groups.
- ► Distribute information to remittance senders and receivers about the various transfer options available – relative costs, speed, etc. and their comparative advantages and disadvantages. Identify and place special emphasis on remitters sending money regularly or monthly and who are not currently using formal transfer services.

**Strategy 2: improve financial services available to migrants and migrant families in order to integrate more people into the formal banking system, facilitate more formal flows, increase savings and expand investment in SMEs**

- ► Design mechanisms to link remittance transfer services via financial institutions to savings accounts offering incentives for re-

mittance recipients to maintain a portion of their remittance income as savings.

- ► Adapt banking practices and policies, and financial laws, to allow remittance recipients to withdraw funds in foreign currency.
- ► Provide affordable credit to migrants and migrant families for local and transnational SME start up/expansion and allow families to use remittance income as a form of collateral.
- ► Target remittance senders and recipient households whose socio-demographic characteristics make them most likely to be interested in investment-oriented financial services.
- ► Create new/special financial products for those remitters and remittance recipients who express a preference for investment in education and health.
- ► Create new/special financial products for older remittance recipients and the migrants sending remittances to them to support their preference or need to spend remittances on medical care. One possibility is the creation of a transnational medical insurance policy.

**Perceptions of the diaspora in general**

**European Bank for Reconstruction and Development (EBRD) (2006)**

45. ► Over the past forty years, a large number of Serbs or, more precisely, Yugoslavs (prior to the 1990 breakup of Yugoslavia) have emigrated to western Europe, the US, Canada and Australia, among other destinations. A large proportion of that Serb diaspora now lives in western Europe but maintains close transnational ties to their families in Serbia.
46. ► Starting in the late 1960s, Serbs, and particularly those in western Europe, became accustomed to sending their money via informal

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means, travelling back and forth between their host countries and their hometowns. Following the break up, the financial turmoil and economic blockade of the country during military conflicts with other States of the former Yugoslavia forced Serbs to continue this practice. Geographical proximity to western European destinations has helped to maintain this practice over the years. The sequestration of the population's foreign currency savings in 1991-92 continues to reverberate in the memory of Serbs, fuelling their lingering doubts about the health of the country's banks.

47. ► Unlike many countries in which informal transfers are common, Serbia appears to benefit from modern and good quality payments infrastructure. Nor is the geographical accessibility of financial services in question. In fact, the sector has expanded rapidly since the lifting of economic sanctions in 1995, accelerating since recent privatisations placed many of the country's major financial institutions in the hands of foreigners. All financial institutions participating in this study indicated that payments systems function well. Electronic payments and payment card usage in Serbia were among the fastest growing in south-eastern Europe. New foreign owners in the financial sector will continue to invest in expanding their products and services to converge with those offered by other members of their bank group (World Bank, 2004).
48. ► The keys to increasing formalisation of remittances in Serbia lie with increased awareness, better data, financial education and enhanced attention from the major banks. The managers of Serbia's major financial institutions are aware of the large financial flow represented by remittances. However, as

most banks have been focused on corporate business or on reorganisation and privatisation, the potential of Serbs abroad and their families has received little direct attention. In addition, many respondents suggest that the recipients of remittances – rural, uneducated and older people – have little interest in banking services.

49. ► In order to increase the potential of remittances and the contribution of the Serb diaspora, the private sector, governments at all levels and civil society organisations must clarify the profile of the diaspora and remittance recipients, improve the quality of statistical data and information about the market, extend the public's awareness of the value of financial services and adapt existing products and services to better meet the needs of migrants and their families. The case of Serbia represents excellent potential on all counts.
50. ► The data collected from financial institutions suggests that Serbs in Germany are more likely to use formal channels for their transfers than any other country with an important Serb population. In most sending countries, a much smaller percentage of senders and receivers appear to have relationships with banks for the purpose of sending money home. In Serbia, few of these clients are identified as using their banking relationship for much more than cash management.
51. ► Low education, close transnational ties, frequent travel and lack of confidence in the banking sector, as well as entrenched habit developed over years of war and economic blockade, influence the preference of Serbs to send money through friends, family and bus drivers. The following challenges related

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to remittances in Serbia and their increased intermediation by formal institutions are highlighted:

- ▶ high cost for the services of formal institutions;
  - ▶ little competition among institutions for money transfer business;
  - ▶ ease and reliability of informal channels;
  - ▶ lack of confidence in financial institutions;
  - ▶ lack of transparency related to services, fees and standards of service;
  - ▶ incomplete information about flows and diaspora;
  - ▶ regulatory uncertainty and other challenges of the financial system;
  - ▶ lack of access to financial institutions; and
  - ▶ preference for consumption driven partially by pent up demand after the war, the economic blockade, and over-investment in real estate.
52. ▶ In observing that informal transfers are the most popular option, the EBRD report concludes that in most remittance-receiving countries with geographical proximity to the sending country and few travel restrictions, informal methods of transferring money are often reliable and cost-effective, as well as anonymous. This latter point is of particular significance for the AML/CFT aspects of the current study.

#### **IMF studies of informal remittance systems (IMF 2004, Maimbo)**

53. ▶ A key finding of the IMF's work on hawala-type and other informal remittance systems is that the cost effectiveness and speed of informal remittance systems cannot be regu-

lated away, nor should they be. Instead, their transparency should be enhanced through the creative application of regulatory and supervisory standards that minimise the risk of financial abuse.

54. ▶ The IMF study poses the question of whether it is feasible to target illegal acts perpetrated through informal remittance channels without affecting the numerous innocent persons who remit honest money home to their relatives, or without disrupting trade or harming legitimate enterprises. Regulating informal remittance systems out of existence does not address the primary apprehensions and concerns of the diaspora regarding use of the formal channels and could have the undesired effect of causing informal remittance channels to go deeper underground.

#### **Serbian remittances in the 21st century<sup>66</sup>**

55. ▶ **Formal channels** – one possible explanation for the high volume of payments from abroad to Serbian bank accounts is that these may be the pensions of retired gas-tarbiters (“guest workers”) who have returned to Serbia.
56. ▶ **Informal channels** – it is estimated that the Serbian diaspora sends at least as much money through informal channels as through banks and MTOs. There are additional factors associated with informal economic circuits, such as care, knowledge, social capital and social investments, none of which can be matched by any formal channel. Three other very important aspects are the following.
- (i) Continual dependency on remittances. Unlike in other post-communist eastern European countries, remittances have been continually

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<sup>66</sup>“Serbian Remittances in the 21st century: making sense of the interplay of history, post-communist transformation of social classes, development policies and ethnographic evidence”, European University Institute (Florence), January 2010.

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present since the mid-1960s in the then Yugoslav and today's Serbian economies.

(ii) The urban-rural divide. There is a significant difference in sending practices between migrants from urban and rural parts of Serbia, embedded in a long-lasting economic, political and social divide between Belgrade and the rest of mostly rural Serbia (including different patterns of migration from Belgrade and from other parts of Serbia). The IOM report on the Switzerland-Serbia remittance corridor acknowledged that there are reasons to believe that remittance sending/receiving practices are different in Belgrade than they are in two rural areas in central and south Serbia where the research was conducted.

(iii) The social consequences of remittances. All these development reports ignore the social consequences of remittances. One of the key factors in determining these consequences would be transformations in the basic relationship between parents and children and the way these are constituted and changed by material culture and relations of gifting.

57. ► Since the early 1990s, and as a direct or indirect consequence of the fall of Yugoslavia, Serbia has become a country of massive population movements. On the one hand, there was a large wave of emigration of the young, skilled and particularly the highly skilled population in search of employment, political stability and security abroad. In parallel to this ran another stream of emigration consisting mostly of relatives of the pre-1990 "guest workers", emigrating from Serbia under family reunification requests. On the other side, there was a significant immigration wave of refugees and asylum seekers to Serbia from Slovenia, Croatia, BiH and Macedonia, as well as a very large number of internally displaced persons (IDPs) from Kosovo. In 2003, Serbia was host country to

575 000 registered refugees from the former Yugoslavia, and IDPs from Kosovo (Grečić, 2003: 5-6). For many of these immigrants Serbia was just a temporary refuge, because the country itself was also in turmoil and had no resources to provide housing, financial support and employment for such a large number of refugees and IDPs. In other words, Serbia in the 1990s simultaneously experienced almost every form of migration (economic migration, "brain drain", family unification, refugees, IDPs, victims of trafficking and forced return migration).

58. ► To Serbian parents in Belgrade, many of whom were born before or during the Second World War and share traditional patriarchal values typical of Serbia in the first half of the 20th century, it is not acceptable to receive material support from children. They made a clear distinction between the money that their son or daughter would send occasionally and remittances such as those which Yugoslav *gastarbajteri* on temporary work in Germany in the 1970s and 1980s used to send to their families.

59. ► Diasporas can be extremely heterogeneous, which can seriously hinder any attempt for making sound generalisations. Immigrants from different migration waves have different reasons – political, economical and personal – for emigrating. They also come from different social classes and have different experiences in host societies, which can all lead to quite diverse remitting practices.

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## **Annex 12**

### **EU Member States with thresholds other than EUR 15 000 for cash transactions or imposing stricter requirements**

#### **Belgium**

Cash payments exceeding EUR 5 000 when purchasing one or more goods are prohibited.

#### **Bulgaria**

CDD for cash transactions amounting to 10 000 Bulgarian lev (BGN) or more (approximately EUR 5 113) and a reporting obligation for any cash payment exceeding BGN 30 000 (approximately EUR 15 339).

#### **Denmark**

Retailers and auctioneers may not receive cash payments of 100 000 Danish krone (approximately EUR 13 417) or more irrespective of whether payment is effected in one instance or as several payments that seem to be mutually connected.

#### **France**

Transactions over EUR 3 000 are prohibited when the debtor has their place of residence in France or is acting in a professional capacity. Also prohibited are transactions over EUR 15 000 when the debtor does not have his place of residence in France.

#### **Italy**

It is forbidden to transfer cash, in EUR or foreign currency between different persons when the value of the transaction, even if subdivided, is EUR 1 000 or more in total.

#### **Latvia**

Merchants dealing with precious metals, precious stones and articles thereof must report when a client pays cash to the amount of 10 000 Latvian lats (approximately EUR 14 100) or more.

#### **Romania**

Payment operations between legal entities shall be made only by non-cash payment.

#### **Slovenia**

Persons selling goods shall not accept cash payments exceeding EUR 15 000 from their customers or third persons when selling individual goods. This includes legal entities and natural persons who organise or conduct auctions, deal in works of art, precious metals or stones or products thereof, and other legal entities and natural persons who accept cash payments for goods.

Source: European Commission, based on a study on the application of the Anti-Money Laundering Directive, February 2013 by Deloitte. Note that, based on media reports, there have been further developments on this topic (e.g. in Spain) and more are pending (e.g. France).

## Annex 13

### Cost of remitting EUR 345 to Serbia

#### Remitting EUR 345 from Germany to Serbia

Data relates to 4 February 2013.

| Firm name                                 | Firm type | Fee          | Exchange rate margin (%) | Total cost Percentage (%) | Total cost (EUR) <sup>▲</sup> | Transfer speed     |
|---|-----------|--------------|--------------------------|---------------------------|-------------------------------|--------------------|
| Ria (cash-to-cash in EUR)                 | MTO       | 13.00        | 0.00                     | 3.77                      | 13.00                         | Same day           |
| MoneyGram (cash-to-cash in EUR)           | MTO       | 16.00        | 0.00                     | 4.64                      | 16.00                         | Less than one hour |
| Western Union (cash-to-cash)              | MTO       | 18.00        | 1.01                     | 6.23                      | 21.49                         | Less than one hour |
| Western Union (online)                    | MTO       | 26.50        | 1.01                     | 8.69                      | 29.99                         | Less than one hour |
| Postbank via Western Union (cash-to-cash) | Bank/MTO  | 29.90        | 1.01                     | 9.68                      | 33.39                         | Less than one hour |
| Moneybookers *                            | MTO       | 0.50         | Not disclosed            | <i>0.14</i>               | <i>0.50</i>                   | 3-5 days           |
| Postbank *                                | Bank      | 1.50         | Not disclosed            | <i>0.43</i>               | <i>1.50</i>                   | 3-5 days           |
| Postbank *                                | Bank      | 8.50         | Not disclosed            | <i>2.46</i>               | <i>8.50</i>                   | 3-5 days           |
| CommerzbankAG *                           | Bank      | 12.50        | Not disclosed            | <i>3.62</i>               | <i>12.50</i>                  | 3-5 days           |
| Hamburger Sparkasse *                     | Bank      | 15.00        | Not disclosed            | <i>4.35</i>               | <i>15.00</i>                  | 6 days or more     |
| Sparkasse KölnBonn*                       | Bank      | 25.00        | Not disclosed            | <i>7.25</i>               | <i>25.00</i>                  | 6 days or more     |
| Sparkasse KölnBonn*                       | Bank      | 30.00        | Not disclosed            | <i>8.70</i>               | <i>30.00</i>                  | 6 days or more     |
| HypoVereinsbank *                         | Bank      | 37.50        | Not disclosed            | <i>10.87</i>              | <i>37.50</i>                  | 6 days or more     |
| Deutsche Bank *                           | Bank      | 39.00        | Not disclosed            | <i>11.30</i>              | <i>39.00</i>                  | 6 days or more     |
| Berliner Volksbank *                      | Bank      | 40.00        | Not disclosed            | <i>11.59</i>              | <i>40.00</i>                  | 6 days or more     |
| Stadtsparkasse München *                  | Bank      | 50.00        | Not disclosed            | <i>14.49</i>              | <i>50.00</i>                  | 6 days or more     |
| <b>Bank average</b>                       |           | <b>25.90</b> | <b>0.00</b>              | <b>7.51</b>               | <b>25.90</b>                  |                    |
| <b>Bank/MTO average</b>                   |           | <b>29.90</b> | <b>1.01</b>              | <b>9.68</b>               | <b>33.39</b>                  |                    |
| <b>MTO average</b>                        |           | <b>14.80</b> | <b>0.40</b>              | <b>4.69</b>               | <b>16.20</b>                  |                    |
| <b>Total average</b>                      |           | <b>22.68</b> | <b>0.19</b>              | <b>6.76</b>               | <b>23.34</b>                  |                    |
| <b>Total average in Qtr 3 2012</b>        |           | <b>19.90</b> | <b>0.11</b>              | <b>5.88</b>               | <b>20.29</b>                  |                    |

\* Exchange rate not disclosed at time of sending. As a consequence, data in italics above may not represent the full cost.

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## Remitting EUR 345 from Austria to Serbia

Data relates to 7 February 2013

| Firm name                           | Firm type | Fee          | Exchange rate margin (%) | Total cost Percentage (%) | Total cost (EUR) <sub>▲</sub> | Transfer speed     |
|-------------------------------------|-----------|--------------|--------------------------|---------------------------|-------------------------------|--------------------|
| Volksbanken (account-to-account)    | Bank      | 9.80         | -1.04**                  | 1.80                      | 6.23                          | 3-5 days           |
| Voicecash (online EUR)              | MTO       | 8.00         | 0.00                     | 2.32                      | 8.00                          | 2 days             |
| Voicecash (online USD)              | MTO       | 8.00         | 0.69                     | 3.01                      | 10.39                         | 2 days             |
| MoneyGram (cash-to-cash in EUR)     | MTO       | 11.00        | 0.00                     | 3.19                      | 11.00                         | Less than one hour |
| Erste Bank (account-to-account)     | Bank      | 6.00         | 1.89                     | 3.63                      | 12.53                         | Next day           |
| Bank Austria (account-to-account)   | Bank      | 14.50        | 2.03                     | 6.23                      | 21.50                         | 3-5 days           |
| Western Union (cash-to-cash in EUR) | MTO       | 25.00        | 0.00                     | 7.25                      | 25.00                         | Less than one hour |
| <b>Bank average</b>                 |           | <b>10.10</b> | <b>0.96</b>              | <b>3.89</b>               | <b>13.42</b>                  |                    |
| <b>MTO average</b>                  |           | <b>13.00</b> | <b>0.17</b>              | <b>3.94</b>               | <b>13.60</b>                  |                    |
| <b>Total average</b>                |           | <b>11.76</b> | <b>0.51</b>              | <b>3.92</b>               | <b>13.52</b>                  |                    |
| <b>Total average in Qtr 3 2012</b>  |           | <b>13.83</b> | <b>0.94</b>              | <b>4.95</b>               | <b>17.08</b>                  |                    |

\*\* Possibly a temporary promotional rate.

## Remitting CHF 400 from Switzerland to Serbia

Data relates to 6 February 2013

| Firm name                                      | Firm type | Fee          | Exchange rate margin (%) | Total cost Percentage (%) | Total cost (CHF) <sup>▲</sup> | Transfer speed     |
|--|-----------|--------------|--------------------------|---------------------------|-------------------------------|--------------------|
| Credit Suisse (online CHF)                     | Bank      | 5.00         | -1.45**                  | -0.20                     | -0.81                         | 3-5 days           |
| Credit Suisse (online EUR)                     | Bank      | 5.00         | 0.05                     | 1.30                      | 5.19                          | 3-5 days           |
| Moneybookers (online)                          | MTO       | 0.62         | 2.95                     | 3.10                      | 12.42                         | 3-5 days           |
| Credit Suisse (account-to-account)             | Bank      | 25.00        | 0.05                     | 6.30                      | 25.19                         | 6 days or more     |
| Ria (cash CHF to cash EUR)                     | MTO       | 9.00         | 5.21                     | 7.46                      | 29.83                         | Same day           |
| MoneyGram (cash CHF to cash EUR)               | MTO       | 25.00        | 3.63                     | 9.88                      | 39.52                         | Less than one hour |
| Western Union (cash-to-cash in local currency) | MTO       | 40.00        | 2.68                     | 12.68                     | 50.73                         | Less than one hour |
| Western Union (cash CHF to cash EUR)           | MTO       | 40.00        | 4.42                     | 14.42                     | 57.69                         | Less than one hour |
| <b>Bank average</b>                            |           | <b>11.67</b> | <b>-0.45</b>             | <b>2.46</b>               | <b>9.85</b>                   |                    |
| <b>MTO average</b>                             |           | <b>22.92</b> | <b>3.78</b>              | <b>9.51</b>               | <b>38.04</b>                  |                    |
| <b>Total average</b>                           |           | <b>18.70</b> | <b>2.19</b>              | <b>6.87</b>               | <b>27.47</b>                  |                    |
| <b>Total average in Qtr 3 2012</b>             |           | <b>17.44</b> | <b>2.82</b>              | <b>7.18</b>               | <b>28.72</b>                  |                    |

\*\* Possibly a temporary promotional rate.

Source: World Bank website, <http://remittanceprices.worldbank.org>.

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## Annex 14

### Criteria for a targeted remittance survey

The survey should have regard to the following factors:

- ▶ The Statistical Office of the Republic of Serbia has experience in conducting or commissioning household surveys. The design of the attached survey could benefit from that experience. The following proposals are intended to provide a starting point for the design process and some topics for consideration.

#### Geographical dispersion

- ▶ In selecting locations for sampling, the aim should be to include locations with known migrant links to a range of countries. Regular bus routes could provide a useful guide.
- ▶ Subject to budget constraints, consideration should be given to conducting some survey testing in the main remittance-sending countries (Germany, Austria and Switzerland).

#### Stratification

- ▶ Based on some of the earlier research, the pattern of remittances differs significantly between rural and urban recipients. A sample of each should be included.
- ▶ To provide further indication as to whether *hawala*-type transactions occur in Serbia, a Muslim region should be included within the scope of the survey.

#### Timing

- ▶ Account should be taken of the increased levels of remittances at Christmas, Easter and in summer. A question has been included below for this purpose.

#### Currency

- ▶ The opportunity should be taken to test the degree of resistance to receipt of remittances in SRD rather than FX. A question has been included for this purpose.
- ▶ Some consideration could be given to including questions on non-bank holdings of EUR or other FX (“mattress money”), in terms of amounts and reasons for holding in cash.

#### Cash usage

- ▶ Consideration could be given to adding further questions to determine the extent of and reasons for cash holding/usage in preference to use of the formal financial sector.

#### Possibility of future liberalisation of remittance services

- ▶ It would be useful to learn whether there are forms of remittance service that recipients would like to see introduced. A number of relevant questions have been included.

# Sample Questionnaire<sup>67</sup>:

## Household survey of remittance receivers in Serbia 2013

### Migrant and household profile

- (1) Has someone in your household left the country to live/work abroad? YES/NO
- (2) If YES, who went to work/live abroad, where do they live now and when did they first leave?

|                 | Migrant's relationship with interviewee | Gender        | Year of birth | Year of initial departure | Place of current residence |               |
|-----------------|---|---------------|---------------|---------------------------|----------------------------|---------------|
|                 |   |               |               |                           | Country                    | City/region   |
| <i>Example:</i> | <i>Daughter</i>                         | <i>Female</i> | <i>1967</i>   | <i>1997</i>               | <i>Austria</i>             | <i>Vienna</i> |
| Relative (a)    |   |               |               |                           |                            |               |
| Relative (b)    |   |               |               |                           |                            |               |
| Relative (c)    |   |               |               |                           |                            |               |

- (3) Why did your relative(s) decide to leave Serbia? (Separate reply for each relative).

Economic hardship/in need of money  
 Political reasons/war  
 To search for new opportunities  
 To study  
 To join a relative/partner  
 Other (please specify)  
 No response

- (4) Why did your relative choose their current country of residence rather than another country?

(May choose more than one of the following).  
 Offered work/likely to find work  
 Knew or joined someone there  
 Easy to get to/from – geographical proximity  
 Similar language/culture  
 Other (please specify)  
 No response

<sup>67</sup> This template draws in part on the sample used for the IOM paper, "A study of migrant-sending households in Serbia-Montenegro receiving remittances from Switzerland", 2006.

(5) Are your relatives in paid employment in their country of current residence?

YES/NO/Do not know

(6) Did your relatives have paid employment locally in Serbia before emigrating?

YES/NO/Do not know

(7) What is the highest level of formal education that your relative(s) completed?

None

Primary school

Secondary school

Technical school (post-secondary)

University graduate

Post-graduate degree

Other (please specify)

No response

(8) What is your relative's marital status?

Single

Married/with partner

Divorced

Engaged

Widowed

Other

No response

(9) Do your relatives have children? If so, how many, what ages and in what country and city/region do they live?

(10) Information about person being interviewed and his/her household.

|                                | Male/<br>female | Year of birth | Highest education<br>level completed | In employment<br>(waged) Y/N | Type of work |
|--------------------------------|-----------------|---------------|--------------------------------------|------------------------------|--------------|
| Interviewee                    |                 |               |                                      |                              |              |
| Other<br>household<br>members: |                 |               |                                      |                              |              |
| 1                              |                 |               |                                      |                              |              |
| 2                              |                 |               |                                      |                              |              |
| 3                              |                 |               |                                      |                              |              |
| 4                              |                 |               |                                      |                              |              |
| 5                              |                 |               |                                      |                              |              |

**Remittances**

(11) Do you or does someone in your household receive money/remittances from your relative(s) living abroad? YES/NO/No response

(12) If YES, from which country or countries? (Mark as many as apply from the following list).

Germany  
Austria  
Switzerland  
France

Italy  
Netherlands  
Belgium  
Sweden  
Norway  
Denmark  
Croatia  
UK  
US  
Canada  
Australia  
New Zealand  
Other (please specify)  
No response

(13) In the past 12 months, how much money has your household received from your relative(s) abroad and how often has money been received?

| Amount | Currency | Usual frequency of receipt (monthly, twice per year, once per year) | How many actual receipts in past 12 months? | Is this more frequent, less frequent or the same frequency compared with the previous 12 months? | Is this amount more, less or the same compared with the previous 12 months? |
|--------|----------|---|---|--|---|
|        |          |   |   |  |   |
|        |          |   |   |  |   |
|        |          |   |   |  |   |

(14) For how long has your household been receiving remittances from your relative(s) abroad?

Less than 2 years  
2-4 years

5-7 years  
8-10 years  
11-20 years  
More than 20 years

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(15) Over that period, has the amount or frequency of remittances changed?

More/less received  
More often/less often

What is the reason for this change?  
Change in employment/income/financial needs of relative(s) abroad  
Change in needs or financial circumstances of your household  
Other (please specify)  
No response

(16) Are there particular times of year when you usually receive remittances?

YES/NO  
If YES, select as many as apply from the following.  
Christmas period (December/January)  
Easter (April/May)  
Summer holidays (July/August)  
Other (please specify)

(Alternative headings could be provided for Muslim respondents)

(17) How do you normally receive your remittances? (Assign "1" for the most usual from the following list; "2" for the next most usual).

Hand-carried by your relative  
Hand-carried by another family member  
Hand-carried by friend or neighbour  
Bank as money remitter (e.g. Western Union, MoneyGram, Ria – please specify which used)  
Post office (e.g. Western Union or postal electronic transfer – please specify which used)  
Bank transfer  
Online provider (deposited to bank account using Moneybookers/Skrill or other online provider)  
Added to debit/credit card balance and available for withdrawal at ATM

Mail/post  
Bus driver  
Other (please specify)  
No response

(18) Have you always used this method? YES/NO  
If NO, please indicate which method was previously used (from the list above).

(19) Why is the current method preferred?  
(Select one or more).

Lowest cost  
Reliable/trustworthy  
Convenient location  
Fast  
Only available option  
Delivers money to the house  
Safest  
Other (please specify)  
No response

(20) How much time does it take for money to arrive from abroad?

Less than 1 day  
1 day  
2-3 days  
4-7 days  
More than 7 days (if so, please clarify)  
No response

(21) Do you have to pay a fee to receive your remittances? YES/NO

If YES, specify the type of fee and the amount.

(22) Would you prefer to receive money in:

Serbian dinars  
Euro or other foreign currency  
No preference

(23) Have you ever received funds from someone in your community acting on behalf of your relative(s) abroad but without cash being brought into Serbia (hawala-type arrangement)? YES/NO

(24) Does anyone in your household receive a pension from abroad? YES/NO

If YES:

From which country/countries?

How is it received?

Into the Serbian bank account of the recipient

Into a foreign bank account of the recipient

By cheque

Recipient has to travel abroad to collect the pension

Other (please specify)

(25) What is your total monthly household income? (Specify whether in Serbian dinars, euro or other foreign currency).

| Remittance income        | Earned income (wages, pensions, etc.) | All other income         | Total                    |
|--------------------------|---------------------------------------|--------------------------|--------------------------|
| <i>(Monthly average)</i> | <i>(Monthly average)</i>              | <i>(Monthly average)</i> | <i>(Monthly average)</i> |

(26) What do you use your remittance income for? (Add a table of consumption and investment options, to be completed in order of priority).

(28) Who decides how the remittances are spent?

Recipient

Relative sending money from abroad

Both (jointly)

Other (please specify)

(27) If remittances are received in foreign currency, to what extent are they converted to Serbian dinar by your household?

(29) Do you have a bank account? YES/NO

<10% converted

11-25%

26-50%

51-75%

76-99%

100%

If YES, what do you use the bank account for? (Select as many as apply from the following).

Sending or receiving remittances from abroad

Managing cash flow

Loans – drawing down or repaying

Saving

Other (please specify)

(30) Do you have any credit or debit cards? If so, how much do you use them?

DinaCard

YES/NO

Used: Frequently/occasionally/rarely/never

Other dinar debit card

YES/NO

Used: Frequently/occasionally/rarely/never

Dinar credit card

YES/NO

Used: Frequently/occasionally/rarely/never

Foreign currency debit card

YES/NO

Used: Frequently/occasionally/rarely/never

Foreign currency credit card

YES/NO

Used: Frequently/occasionally/rarely/never

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(31) If you do not have a bank account, why not?  
(Select one or more from the following).

- No bank close to home or work
- Do not trust banks
- Banking processes are too complicated  
and confusing
- Banks ask too many personal questions  
– I prefer my privacy
- I do not have any money to put in a bank
- I can manage my finances without the need  
for a bank account
- Other reason (please specify)
- No response

(32) If you or your relatives do not use banks for remittance business, would you or your relatives be more likely to use bank remittance services in any of the following cases? (Select one or more of the following).

- Bank was easier to access (located closer to you or had longer opening hours)
- There was more certainty about when the remittance would arrive from abroad
- There was more certainty about the amount of the net remittance that is paid out to you (i.e. fee was known in advance)
- Banks lowered their remittance fees
- Banks reduced the level of forms you have to complete or written statements you have to provide when obtaining your remittances

(33) As an alternative to receiving cash from your relative(s) abroad, would it be helpful to you if they could instead add the money to your DinaCard or other debit card for you to spend in Serbian dinars? YES/NO

If NO, why not?

(Select one or more from the following).

- I prefer to deal in cash
- I prefer to hold euros (or other foreign currency)

Other (please specify)

(34) If you do not like to deal with banks, are there other local providers of financial services that you would be comfortable to deal with? YES/NO (If YES, select one or more from the following).

- Exchange office
- Post office
- Insurance provider
- Other (please specify)
- No response

(35) Apart from money, do you receive other kinds of goods from your relative(s) abroad?  
YES/NO

If YES, what kind(s)?

(Select as many as apply from the following).

- Household appliances and equipment
- Consumption goods  
(including clothes and electronics)
- Production goods  
(machines for manufacturing, farm machinery, etc.)
- Other (please specify)

(36) What improvement would you like to see in services available from banks, the post office or delivered through ATMs?

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