



**GLOBAL
INITIATIVE**
AGAINST TRANSNATIONAL
ORGANIZED CRIME

ILLICIT FINANCIAL FLOWS IN BOSNIA AND HERZEGOVINA

ANESA AGOVIC

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FROM VISION TO ACTION: A DECADE OF ANALYSIS, DISRUPTION AND RESILIENCE

The Global Initiative Against Transnational Organized Crime was founded in 2013. Its vision was to mobilize a global strategic approach to tackling organized crime by strengthening political commitment to address the challenge, building the analytical evidence base on organized crime, disrupting criminal economies and developing networks of resilience in affected communities. Ten years on, the threat of organized crime is greater than ever before and it is critical that we continue to take action by building a coordinated global response to meet the challenge.

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Acronyms and abbreviations

AML	Anti-money laundering
BAM	Bosnia and Herzegovina convertible mark
CFT	Countering the financing of terrorism
CSO	Civil society organization
EU	European Union
FATF	Financial Action Task Force
FBiH	Federation of Bosnia and Herzegovina
FID	Financial Intelligence Department
FIU	Financial intelligence unit
IFFs	Illicit financial flows
ITA	Indirect Taxation Authority
MoU	Memorandum of understanding
NGO	Non-governmental organization
NPO	Non-profit organization
NRA	National risk assessment
OCTA	Organized crime threat assessment
SIPA	State Investigation and Protection Agency
VASP	Virtual asset service provider



INTRODUCTION

Illicit financial flows (IFFs) have no universal definition, and in many countries, including Bosnia and Herzegovina, they are not yet defined in law. However, they are widely understood to represent cross-border financial transactions resulting from a host of predicate crimes.

In the Global Initiative Against Transnational Organized Crime (GI-TOC)'s 2023 Global Organized Crime Index,¹ Bosnia and Herzegovina scored 5.85, a slight up-tick from 2022, placing the country eighth out of 44 countries in the criminal rankings for Europe (i.e. the eighth-worst performing nation; the higher the number on this metric, the worse the performance). Bosnia and Herzegovina also scored poorly for its resilience to organized crime, ranking third worst in Europe.

IFFs represent the 'life blood' of crime and corruption. They facilitate the flourishing of corrupt elites that maintain transnational power structures. They are perhaps the most significant obstacle to equality and opportunity in transitioning economies such as those of the Western Balkans.² When analyzing IFFs, it is important to look at criminal activity through the lens of underlying predicate crimes – what the United Nations Office on Drugs and Crime describes as a 'bottom up' methodology.³

European Union (EU) progress reports on Bosnia and Herzegovina have repeatedly made clear the need for greater efforts to tackle corruption and organized crime. The latest, in 2022, noted that no progress had been made. The overall track record on preventing and countering corruption is stymied by both operational inefficiency and political interference.⁴

According to Transparency International's 2023 Corruption Perceptions Index, Bosnia ranks 108 out of 180 countries, below the other five Western Balkan countries.⁵ Bosnia's ranking in this index has been undermined over the past decade by a political crisis and divisions among ethnicities disrupting democratic processes and the rule of law.

YEAR	2018	2019	2020	2021	2022	2023
Ranking	89	101	111	110	110	108

FIGURE 1 Bosnia and Herzegovina's ranking in Transparency International's 2023 Corruption Perceptions Index.

Source: Transparency International

A political crisis fed by nationalism and mistrust peaked in 2022.⁶ This crisis was driven in large part by corruption affairs dating back to public procurement during the COVID-19 pandemic. Both the Federation of Bosnia and Herzegovina (FBiH) and the Republic of Srpska, the two principal entities that make up Bosnia and Herzegovina, were engulfed by such scandals. In the FBiH, around €5 million was spent on ventilators that were inadequate for the needs of patients,⁷ culminating in the sentencing of then prime minister Fadil Novalić to four years in prison in April 2023 for abuse of office and violating public tender law.⁸ Meanwhile, in the Republic of Srpska, oxygen sold to hospitals to treat COVID-19 emergencies was appropriate only for use in industrial machines, and not suitable for human beings.⁹ Despite a solid legal framework, public procurement remains exposed to significant risks of corruption.¹⁰ Bosnia and Herzegovina's 2018 national risk assessment (NRA) acknowledges the abuse of power by politically exposed persons,¹¹ noting that illicit funds have been deposited into the banking system on behalf of natural persons who avoid the procedural framework.¹²



A breakthrough on prosecuting corruption was seen in several indictments and convictions in 2023. Alongside the conviction and sentencing of Novalić, 2023 also saw the arrest and indictment of Ibrahim Hadžibajrić, the mayor of Sarajevo's old town municipality.¹³ Citizens in Bosnia and Herzegovina rank corruption as the fourth most significant problem faced by the country, since this crime is more prevalent than others such as burglary, robbery and assault. Based on a 2021 study, young people emigrating from Bosnia and Herzegovina identify corruption as a factor contributing to their decision to leave the country.¹⁴

Illegal markets are driven by large scale IFFs, and in Bosnia and Herzegovina, corruption is the principal driver. In 2020 alone, smuggling of migrants yielded profits of €7–€10 million.¹⁵ Bosnia and Herzegovina's State Investigation and Protection Agency (SIPA) acknowledges that over the period 2016–2023, a little over €3 million was laundered.¹⁶ However, this is a gross under-estimation of the true extent of the problem. On a global level, money laundering is estimated at approximately 2%–5% of GDP;¹⁷ in Bosnia and Herzegovina, that would equate to between €400 million and €1 billion.

Drug trafficking represents another important component of illegal markets and a source of IFFs. The Balkan route is utilized for the smuggling of heroin, cannabis, cocaine and synthetic drugs into Europe. Heroin doubles in value between the Western Balkans and the EU, while cocaine trafficking takes place from Latin America into the EU via the Western Balkans. The decryption of the Sky ECC messaging app¹⁸ in a Europol coordinated operation¹⁹ uncovered a chain of cocaine trafficking from Latin America to Europe by ships and private planes, often hidden in coal and cans of tuna, but also in shipments including sugar²⁰ and bananas.²¹ This encrypted application had been used for safe communication by more than 2 200 users in Bosnia and Herzegovina (i.e. criminals and their associates). Its decryption also uncovered a vast web of corruption among law enforcement and intelligence employees, prosecutors, judges and politicians.²² There was even a case in which police officers sold information uncovered by investigations into decrypted messages to criminals for €500.²³

The illicit trade in legal goods – notably tobacco and clothes – also remains a major driver of IFFs. It is estimated that more than 20% of the tobacco markets in Montenegro and Bosnia and Herzegovina are illicit; these countries also act as transit corridors for higher profit EU destinations. The GI-TOC estimates that imports to a value of €10.2 billion were vulnerable to mis-invoicing in Bosnia and Herzegovina in 2018.²⁴ In 2021, Bosnia and Herzegovina's Indirect Taxation Authority (ITA) seized tobacco, tobacco products, cigarettes and hookah flavourings with a value of around €2.6 million. The largest number of seizures were conducted in Sarajevo, Tuzla, Banja Luka and Mostar. Illicitly traded textiles to the value of €562 421 were seized in 2021 in Mostar, Sarajevo and Banja Luka.²⁵

Evasion of income taxes is extremely prevalent; employees receive up to 50% of their wages in cash.²⁶ In addition, business owners reported that entrepreneurs under-report their profits by using fake invoices and fabricated employment contracts,²⁷ while freelancers have also been cited as tax avoiders in a context of negligible regulations on freelancing.²⁸ In 2022, the state budget was deprived of more than €2 million by known cases of tax evasion and customs fraud, according to reports,²⁹ although the true extent of the problem is undoubtedly substantially higher. There is also substantial illicit movement of cash through airports and the border crossings with Croatia, notably the Svilaj, Orasje and Gradiska border crossings, where approximately €3 million was confiscated in 2022.³⁰

Since cash transactions are so prevalent in Bosnia and Herzegovina, another significant component of IFFs is cash movement across borders. Cash is often sent by mail or paid into personal accounts and deposited in banks over the counter up to the permitted limit for individual transactions. Cash transactions or related transactions whose value reaches or exceeds 30 000 convertible marks (BAM) (€15 339) should be flagged as suspicious transactions, according to domestic regulations. The Financial Intelligence Department (FID)³¹ in Bosnia and Herzegovina has identified 'money mules'³² as another method of smuggling cash into the country. *Hawala* money

transfer services are relied on heavily in the Western Balkans for facilitating money laundering deriving from drug trafficking and migrant smuggling. The *hawala* system boomed during the migrant crisis, since it was used to pay for smuggling services.³³ Between 2018 and 2020, Western Union services facilitated the transfer of more than €2.8 million to migrants in Bosnia and Herzegovina. The funds were typically sent from countries such as Pakistan, Afghanistan, Morocco and Iraq.³⁴

Research for this report consisted of interviews with 15 sources and a critical review of legislation and key literature, notably the NRA for 2018–2022, risk assessments on organized crime, relevant strategies and action plans, and other pertinent published reports by various institutions and organizations. The main interviewees were key experts working for public institutions, non-profit organizations (NPOs), the private sector and other stakeholders. The report also draws on an earlier GI-TOC study, ‘Illicit financial flows in Bosnia and Herzegovina, Montenegro and Serbia’, which was published in 2021 and provided extensive national and regional insights, including an in-depth analysis of the link between predicate crimes and IFFs.³⁵

Bosnia and Herzegovina is a member of the Council of Europe, which mandates a monitoring body, the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL), to monitor member states’ compliance. This body is in turn an associate member of the Financial Action Task Force (FATF), the coordinating body that sets global standards in tackling money laundering and terrorist financing. The country was listed as high risk by the FATF in September 2016 but was removed from this watchdog’s enhanced monitoring programme in January 2018.³⁶

The last published MONEYVAL evaluation on Bosnia and Herzegovina was in 2015, when the country showed enough progress to be removed from the FATF’s grey list. The latest evaluation is due for publication in 2024, and is expected to result in a full analysis of the country’s effectiveness in adhering to the FATF’s ‘immediate outcomes’.³⁷ However, media reports indicate a renewed risk of Bosnia Herzegovina slipping back onto the MONEYVAL grey list, in a context where the country is still to establish a registry of beneficial ownership.³⁸ The key sections of this GI-TOC report and our own analysis are sequenced in recognition of the salience of FATF immediate outcomes 1–8, 10 and 11.

Key challenges

- Authorities in Bosnia and Herzegovina have responded only in limited fashion to IFFs due to deficient understanding of the extent of such flows; the current focus is largely restricted to the licit financial system and trade, with an emphasis on tax evasion.
- Financial investigations are slow and often ineffective, in part because Bosnia and Herzegovina’s criminal code does not set out procedures for property confiscation, or even define the components of a financial investigation.
- Civil society and the media lack knowledge and experience of IFFs, constraining their ability to report on and monitor the effectiveness of the country’s response to the phenomenon, in part due to an absence of publicly available data.
- There is a lack of engagement with experts from civil society, the media and private sector when drafting anti-money laundering (AML) and countering the financing of terrorism (CFT) related primary legislation, amendments, and relevant strategies and documents; a similar absence of expertise undermines financial investigations.
- Donors largely overlook the role civil society and the media can play in monitoring and investigating IFFs.

The role of civil society

The GI-TOC's previous research has made it clear that the fight against IFFs needs to take a holistic approach, in part by engaging relevant stakeholders from law enforcement, the media, civil society, academia and the private sector. In Bosnia and Herzegovina there are more than 25 000 registered civil society organizations (CSOs), although the space for civil society is notably shrinking in the Western Balkans overall. CSOs in Bosnia and Herzegovina that genuinely seek to scrutinize the authorities are being pressured by the government, and only a few organizations now address the issue of corruption, with fewer still focusing on organized crime.³⁹ In the Republic of Srpska, defamation has been re-criminalized by amendments to the criminal code,⁴⁰ while its national assembly has adopted legislation known as the 'foreign agents' law',⁴¹ which is widely seen by activists and journalists as a means of pressuring CSOs that seek to hold the government to account.

While most organizations are finding it difficult to raise funds, in just two years (2020–2021) more than €60 million of public funds were allocated to certain CSOs from the budgets of government entities in Bosnia and Herzegovina, and spent with little to no oversight.⁴² The value of these disbursements could be substantially higher, since some institutions did not publish information on grantees. The process of providing grants was riddled with conflicts of interest, inadequate criteria and nepotism.⁴³ Some public money channelled to NPOs and CSOs is based on political favouritism.⁴⁴ Local politicians in the Brčko District, for example, enabled the distribution of nearly €4.5 million to close political associates without public appeal or consultation.⁴⁵

There is a lack of willingness on the part of civil society in Bosnia and Herzegovina to report, monitor and investigate IFFs. A strengthened civil society, in terms of expertise, capacity and independence, is a crucial element in tackling IFFs.

NATIONAL RESPONSE

Understanding the risk

Immediate outcome 1 under the FATF methodology centres on key authorities' understanding of risk, as well as the effectiveness of their policies and cooperation in AML/CFT efforts. There is a general lack of understanding of IFFs among different stakeholders – from the public sector to civil society and the media. Citizens have little understanding of the negative consequences of IFFs for society, in terms of undermining development and growth.

Bosnia and Herzegovina has undertaken a risk assessment and supplementary assessment of money laundering and terrorist financing as well as action plans for the fight against money laundering and terrorist financing. The NRA covered the period 2018–2022, and in March 2023 a supplement to the NRA covering the period 2022–2024 was adopted.⁴⁶ The supplement is not publicly available, but the GI-TOC has been able to consult a copy. Both the NRA and the supplement were developed based on World Bank methodology, and consisted of a working group and eight sub-groups.

The Council of Europe's anti-money laundering body MONEYVAL back in 2014 and 2015 repeatedly urged institutions in Bosnia and Herzegovina to address AML/CFT deficiencies.⁴⁷ In particular, it cited a lack of progress in formulating and adopting appropriate legislation.

The basis for preparing NRAs in Bosnia and Herzegovina derives from the first recommendation⁴⁸ of the FATF,⁴⁹ which directs countries to identify, assess and understand the risks they face in terms of money laundering and terrorist financing, as well as the steps authorities should take to determine mechanisms to coordinate risk assessments and the allocation of resources to mitigate such risks.⁵⁰

Key assessment reports prepared by the country's institutions to address money laundering and terrorist financing are:

- Supplement to the NRA on money laundering and terrorism financing in Bosnia and Herzegovina 2022–2024;⁵¹ and the Action plan for the fight against money laundering and terrorism financing in Bosnia and Herzegovina 2022–2024;⁵²
- NRA on money laundering and terrorism financing in Bosnia and Herzegovina 2018–2022;⁵³
- Action plan for the fight against money laundering and terrorism financing in Bosnia and Herzegovina 2018–2022;⁵⁴
- FID: Statistical data reports and revealed typologies of money laundering;⁵⁵
- Strategy and action plan for preventing money laundering and financing terrorist activities in Bosnia and Herzegovina and the Action plan for the implementation of the strategy for the prevention of money laundering and financing of terrorist activities 2009–2013;⁵⁶
- Organized crime threat assessment (OCTA) in Bosnia and Herzegovina 2021–2024;⁵⁷ and
- OCTA in Bosnia and Herzegovina 2017–2020.⁵⁸

Adopting these strategies and conducting NRAs have undoubtedly enabled progress in the fight against money laundering and terrorist financing. Legislation and the institutional framework for the detection, prevention and investigation of money laundering and terrorist financing falls under the competence of several levels of government. The framework includes legal definitions of all stakeholders and their roles, including mandatory cooperation and interaction.⁵⁹

With the aim of better adhering to international regulations, Bosnia and Herzegovina's council of ministers has adopted amendments to the rulebook on implementing its AML/CFT law.⁶⁰ According to the 2023 supplement to the NRA, the overall threat of money laundering in Bosnia and Herzegovina was assessed as 'medium to high', alongside the domestic money laundering threat, with 'no change' identified from the previous NRA. Meanwhile, the foreign money laundering threat was assessed as 'medium', with an 'increasing' trend, and the threat of money laundering from unknown origins was assessed as 'medium to low', albeit with an 'increasing' trend.⁶¹ Meanwhile, the threat of terrorist financing is viewed as 'medium', mostly due to certain sectors largely failing to understand their potential vulnerabilities.⁶²

Many different channels are used to move illicit proceeds. Figure 2 below shows the level of the money laundering threat in various key sectors.



LEVEL OF THREAT TO MONEY LAUNDERING					
Sector	High	Medium-high	Medium	Medium-low	Low
Banks	High				
Real estate	High				
Notaries		Medium-high			
Fast money transfer (Western Union and post offices)			Medium		
Securities/loan stocks				Medium-low	
Currency exchange offices				Medium-low	
Casinos				Medium-low	
Precious metal and stone traders				Medium-low	
Auditors				Medium-low	
Accountants				Medium-low	
Microcredit service providers				Medium-low	
Lawyers				Medium-low	
Betting shops				Medium-low	
NPOs					Low
Leasing service provides					Low
Insurance companies					Low

FIGURE 2 Overview of the threat of money laundering by sector.

Source: Ministry of Security of Bosnia and Herzegovina, Supplement to the national risk assessment on money laundering and terrorism financing in Bosnia and Herzegovina, 2022–2024

According to the NRAs and OCTA reports, corruption, organized crime, criminal association and crimes related to illicit production and drug trafficking are classified as the largest drivers of illegal money in Bosnia and Herzegovina. These crimes are categorized as posing a ‘high’ threat, with ‘no change’ in trend identified.



PREDICATE CRIMINAL OFFENCES	THREAT LEVEL
Corruption and bribery	High
Tax evasion	High
Organized crime Drug trafficking Smuggling and trafficking of firearms and munition Smuggling and trafficking of people Sexual exploitation	Medium-high
Fraud Robbery and theft Extortion and usury Embezzlement Environmental crime (forest theft)	Medium
Illegal trade Unconscionable business operations Illegal mediation Fraud in business operations Abuse of authority in business operations	Medium

FIGURE 3 Level of threat of money laundering from predicate criminal offences.

Source: Ministry of Security of Bosnia and Herzegovina, Supplement to the national risk assessment on money laundering and terrorism financing in Bosnia and Herzegovina, 2022–2024

Bosnia and Herzegovina is very attractive for criminals, not only due to its strategic geographic position, but also due to the ease of hiding and moving funds of illicit origin. Corruption, drug trafficking, smuggling and trafficking of people, weapons smuggling, smuggling/illegal circulation of excise goods, fraud, property crime and tax evasion are the main predicate crimes.⁶³ National legislation does not distinguish between predicate crimes and less serious crimes; thus, all crimes listed in the criminal code of Bosnia and Herzegovina can be considered predicate crimes.⁶⁴

In 2022, the FID published money laundering typologies in Bosnia and Herzegovina and related statistical data.⁶⁵ Security assessments in Bosnia and Herzegovina in 2015,⁶⁶ 2016⁶⁷ and 2017⁶⁸ cited the threat posed by money laundering and terrorist financing, referring to traditional methods of money laundering through real estate, mis- and under-invoicing, tax evasion, smuggling cash, and sending money from the private sector to offshore companies. The security ministry in February 2021 published annual information on security in Bosnia and Herzegovina for 2018 and 2019. During those two years, law enforcement agencies were to focus particularly heavily on economic crime and corruption, as well as money laundering through ‘investments’ and the existence of other illegally acquired assets.⁶⁹ However, there is no published information on security for the period 2020 to 2022.

In addition to these documents, other relevant strategies have been adopted by Bosnia and Herzegovina’s government, notably:

- Strategy of Bosnia and Herzegovina for preventing and combating terrorism 2021–2026;⁷⁰
- Strategy of Bosnia and Herzegovina for preventing and combating terrorism 2015–2020;⁷¹
- Strategy for combating organized crime in Bosnia and Herzegovina 2023–2026;⁷²

- Strategy for the fight against organized crime in Bosnia and Herzegovina 2017–2020;⁷³ and
- Strategy for the fight against organized crime in Bosnia and Herzegovina 2009–2012.⁷⁴

By adopting these documents, Bosnia and Herzegovina has shown a strong commitment to the fight against terrorism, violent extremism and radicalization. It has committed to suppressing terrorist financing.

The latest adopted strategy (2021–2026) envisages strengthening capacity to prevent and detect money laundering and the financing of terrorist activities within both the financial and non-financial sectors. Special attention is also to be paid to administrative supervision and sharing of information between different stakeholders, as well as the misuse of cryptocurrencies in terrorist financing.

International cooperation

International cooperation is the focus of the FATF's immediate outcome 2. In a very complex institutional framework, legislation addressing organized crime, including money laundering, requires inter-sectoral collaboration, and relevant institutions have signed memorandums of understandings (MoUs) to this effect.⁷⁵ Active and efficient establishment of collaboration on a regional and international level regarding money laundering (including money laundering linked to predicate crimes), connected investigations and the processing of financial crimes are all substantial, according to the 2018 NRA. Bosnia and Herzegovina has concluded 40 MoUs on legal assistance with 13 countries; these MoUs set the parameters of bilateral collaboration in providing legal assistance in civil and criminal matters (including criminal acts of money laundering). Bilateral recognition and enforcement of judgments in both civil and criminal matters, and the delivery of court orders and other documents, are also regulated under these MoUs. Such agreements have been concluded with the fellow Western Balkan countries of Montenegro, Croatia, North Macedonia and Serbia, alongside agreements on the mutual execution of court decisions in criminal matters.⁷⁶

Bosnia and Herzegovina's justice ministry is a pivotal institution in ensuring international legal assistance, as set out in the law on mutual assistance in criminal matters.⁷⁷ This law also regulates the sharing of data obtained by the courts and prosecutor's office. In the domestic legal framework and jurisdiction, the courts and prosecutor's office provide information on the ownership of legal entities and other data requested by foreign authorities – including responses to requests from foreign supervisors and law enforcement authorities, as well as tax authorities. Furthermore, the law stipulates that, if needed, joint investigative teams⁷⁸ can be formed to conduct certain investigations in the territory of one or more contracting parties by agreement between the competent prosecuting authority in Bosnia and Herzegovina and the competent judicial authorities of a foreign country.

Over the period 2017–2021, there were 88 cases of legal assistance focusing on money laundering, of which 54 cases stemmed from requests by Bosnia and Herzegovina, while 34 cases were based on requests for mutual assistance from other countries, mostly from Serbia (14) and Croatia (12).

In the same period, the FID submitted a total of seven reports and supplementary reports on money laundering offences and perpetrators in cases initiated on the basis of suspicious transaction reports submitted by foreign financial intelligence units (FIUs).⁷⁹ In 2022 alone, the FID contacted foreign FIUs in connection with 134 cases, while foreign FIUs contacted the FID in regard to 36 specific cases.⁸⁰ Figure 4 below provides an overview of requests exchanged between the FID and foreign FIUs.



COUNTRY	RECEIVED BY THE FID	SUBMITTED BY THE FID
Austria	-	4
Azerbaijan	2	-
Belgium	1	-
Croatia	3	13
Italy	2	-
Germany	2	12
Lithuania	1	-
Montenegro	2	5
Netherlands	-	5
Poland	1	-
Serbia	6	8
Slovakia	-	5
Slovenia	4	7
Switzerland	-	8
Sweden	-	4
Turkey	1	6
United Kingdom	-	12
United States	2	5
Other countries	9	40
TOTAL	36	134

FIGURE 4 Overview of requests Bosnia and Herzegovina's Financial Intelligence Department submitted to and received from foreign financial intelligence units in 2022.

Source: State Investigation and Protection Agency

Within Bosnia and Herzegovina's justice ministry, a special department, the Sector for international and inter-entity legal assistance and cooperation,⁸¹ is staffed by specialized civil servants who focus on providing and requesting international legal assistance. This department also leads the coordination of domestic agencies in responding to requests for mutual legal assistance and ensuring that responses are provided in a timely manner.

The country is a member of INTERPOL and the Egmont Group of Financial Intelligence Units, sharing information and data through these two multilateral bodies. In June 2023, Bosnia and Herzegovina enabled full cooperation between its law enforcement agencies and Europol, by opening a national/joint contact point.⁸²

FBiH's seized property management agency⁸³ and its Republic of Srpska counterpart⁸⁴ do not possess statistical data on frozen and confiscated funds abroad.⁸⁵



Several ongoing projects seek to counter money laundering and terrorist financing, and involve cooperation between national, regional and international stakeholders:

- 'Action against corruption, money laundering and terrorist financing in Bosnia and Herzegovina', implemented by the Council of Europe/EU.
- 'Judiciary against corruption activity in Bosnia and Herzegovina', implemented by USAID.
- 'Regional programme for South Eastern Europe, 2020–2023', coordinated by the UN Office on Drugs and Crime.
- 'Strengthening the fight against transnational organized crime in South-Eastern Europe through improved regional co-operation in asset seizure, confiscation, management and re-use', coordinated by the Organization for Security and Co-operation in Europe.
- 'EU4Justice: Support to the fight against organised crime and corruption in Bosnia and Herzegovina'.
- 'Combating illicit financial flows in the Western Balkans', implemented by the Human Security Collective in cooperation with Western Balkan national institutions.

The need for joint efforts by the country and international actors in addressing the threat of money laundering and terrorist financing was emphasized during a December 2022 conference organized by Bosnia and Herzegovina's security ministry, the Organization for Security and Co-operation in Europe's mission to the country and GIZ, the German development agency.⁸⁶

Supervision

Immediate outcome 3 focuses on supervisory authorities. According to the Law on the Prevention of Money Laundering and Financing of Terrorist Activities in Bosnia and Herzegovina,⁸⁷ the FID and other relevant supervisory bodies are mandated to supervise AML/CFT compliance in the financial sector, known locally as *BiH – bankocentric*. Banking accounts for around 88% of the country's financial sector. Banking has a defined monitoring regime for the prevention of money laundering. This legal and regulatory regime consists of the:

- Law on the banking agency of the FBiH;
- Law on the banking agency of the Republic of Srpska;⁸⁸
- FBiH law on banks and the Law on banks of the Republic of Srpska;
- Decision on supervision of banks and procedures of the FBiH banking agency;⁸⁹ and the
- Decision on the method of conducting bank supervision and implementing supervisory measures (banking agency of the Republic of Srpska).⁹⁰

Supervision and licensing are the purview of the banking agency of the FBiH and the banking agency of the Republic of Srpska. Deploying a risk-based approach, supervision can be both offsite (based on reports provided by banks) and onsite (field visits). A total of 23 banks are licensed to operate (15 in the FBiH and eight in the Republic of Srpska). Brčko District, a single administrative unit of local self-government under the sovereignty of Bosnia and Herzegovina, has no banking agency and is home only to subsidiaries of banks registered elsewhere.⁹¹

Cooperation between the two banking agencies is continuous, according to a senior adviser in the FBiH's security ministry. Such contact is defined by an agreement on cooperation in the field of supervision over the operations of banks. The two banking agencies have signed MoUs⁹² with relevant stakeholders on cooperation and information sharing with national and international authorities and institutions with similar responsibility for supervision, both in the banking sector and extending to other financial organizations. The two agencies have specialized units that focus on preventing money laundering and the financing of terrorism. These units have created manuals that address the unique needs of different sectors.⁹³ When supervising banks, the agencies provide targeted supervision when requested by relevant authorities and institutions.

Alongside banks, the other licensed/registered financial institutions consist of:⁹⁴

- 26 microfinance institutions in Bosnia and Herzegovina (13 in the FBiH and 13 in the Republic of Srpska);
- Four leasing service providers (all in the FBiH);
- Three public postal operators (two in the FBiH and one in the Republic of Srpska);⁹⁵
- One voluntary pension fund (in the Republic of Srpska); and
- 10 insurance brokers, including companies and individuals (six in the FBiH and four in the Republic of Srpska).

In addition to persons obliged to implement measures under Article 4 of the AML/CFT law, designated non-financial businesses and professions are included alongside banks.⁹⁶ The relevant supervisory authorities are as follows:⁹⁷

- For notaries, the FBiH's justice ministry, the Republic of Srpska's justice ministry, and cantonal justice ministries of the FBiH.⁹⁸
- For attorneys, the FID serves as the supervisory authority for AML/CFT at the country level.⁹⁹ The respective bar associations are responsible for overseeing AML/CFT compliance at the entity level.¹⁰⁰
- For accountants and auditors, the FID at the country level, then the FBiH finance ministry,¹⁰¹ the Republic of Srpska's finance ministry and Brčko District's finance directorate.
- For organizers of games of chance (including casinos, betting shops and lotteries), the FID at the country level; the FBiH finance ministry (including the tax administration) and the FBiH finance police; the Republic of Srpska's finance ministry (including the Administration for games of chance); and Brčko District's finance directorate.
- Real-estate agents are respectively supervised by the FID; the FBiH's finance ministry (and the finance police); the Republic of Srpska's finance ministry (including the Administration for games of chance); and Brčko District's finance directorate.¹⁰²
- Dealers in precious stones are respectively supervised by the FID; the FBiH's finance ministry (and the finance police); the Republic of Srpska's finance ministry; and Brčko District's finance directorate.
- Non-governmental organizations (NGOs) are respectively supervised by the FID; the FBiH's justice ministry and the finance police; and the Republic of Srpska's finance ministry.

Important assistance is provided to various agencies by the Central Bank of Bosnia and Herzegovina in the prevention of money laundering and terrorist financing. This monetary authority maintains a central register of accounts of all business entities, and it coordinates the work of the two main geographical entities' banking agencies, guided by an MoU with both agencies.¹⁰³

Alongside the banking agencies, the Financial Information Agency and the Agency for Mediation, Information and Financial Services, respectively, operate in the FBiH and the Republic of Srpska. These institutions respectively keep registers of accounts of business entities opened by authorized organizations in the two geographic entities. The latter agency also keeps a register of accounts of natural persons opened in authorized organizations in the Republic of Srpska.

Virtual asset service providers (VASPs)¹⁰⁴ are not regulated by the legal framework at the state level in Bosnia and Herzegovina, but the latest NRA findings note that there is a threat of money laundering linked to virtual assets, i.e. cryptocurrencies. The use of cryptocurrencies was detected in illicit trafficking of products and commodities online, ransomware and drug trafficking.¹⁰⁵ Significantly, at the entity level, the Republic of Srpska in July 2022 adopted the Law on the Securities Market,¹⁰⁶ which regulates the field of virtual currencies and service providers related to virtual currencies.¹⁰⁷ The Republic of Srpska Securities Commission has established a registry of intermediaries involved in the cryptocurrency trade, and continues to regulate this market.¹⁰⁸

In November 2022, authorities established an inter-sectoral working group to undertake a risk assessment of virtual assets and VASPs in relation to money laundering and terrorist financing.¹⁰⁹ The aim of this exercise was to raise awareness and take appropriate planning measures for the prevention, mitigation and elimination of the risks of virtual assets (and VASPs active in Bosnia and Herzegovina) being exploited for money laundering and terrorist financing purposes. This initiative has also given rise to a draft action plan to combat such risks, covering the period 2024–2027. At the end of 2023, collection was being finalized of binding opinions from competent institutions; the next step is to send the risk assessment and action plan to Bosnia and Herzegovina’s council of ministers for adoption.¹¹⁰

The FBiH’s finance police undertook inspection controls across the period 2017 to 2021, while in most cases such data is missing for Brčko District and the Republic of Srpska.

OFFSITE AND ONSITE SUPERVISORY INSPECTIONS	
Reporting subject	2017–2021
Real-estate agencies	69
Luxury car dealerships	58
Dealers in precious stones	15
NPOs (FBiH)	3
Organizers of games of chance	10
Auditors	0
Accountants	21
Attorneys	0
Notaries	0
Total	176

FIGURE 5 Inspections of reporting entities in Bosnia and Herzegovina for the period 2017–2021.

Source: Ministry of Security of Bosnia and Herzegovina, Supplement to the national risk assessment on money laundering and terrorism financing in Bosnia and Herzegovina, 2022–2024

Only three inspections of NPOs took place in the FBiH during the report period, and there is no data for inspections of NPOs in the Republic of Srpska and Brčko District. The federal justice ministry has complained of deficient resources, both material and human, compromising its capacity to conduct inspection controls.¹¹¹ Authorities in the Republic of Srpska have begun inspections of notaries, in a context where the sector was designated as having a medium to high susceptibility to money laundering.¹¹² Over the period 2017–2021, notaries submitted only 12 suspicious transaction reports to the FID, according to the NRA.

The AML/CFT law defines tasks, responsibilities and obligations in terms of informing the FID of suspected money laundering and terrorist financing. Procedures and scenarios for reporting to the FID are clearly laid out in Article 51 of this law. In filing suspicious activity reports, responsible persons make use of the AML system (a software application for reporting transactions electronically).



This research and previous NRA findings indicate that the FID should improve communication with the banking agencies and other institutions, especially in terms of providing information on the results of investigations stemming from suspicious transaction reports.¹¹³ Enhancing collaboration between law enforcement agencies in Bosnia and Herzegovina requires not only effective inter-agency cooperation but also the further development and reinforcement of communication, coordination and collaboration. These efforts should align with best practice and EU standards to tackle key criminal activities more robustly. An intensive focus should be placed on implementing and realizing the inter-agency memorandums and cooperation agreements already signed. This involves executing joint operational actions, primarily targeting the disruption of organized criminal groups engaged in financial crime, corruption and other unlawful activities.

Authorities should also prioritize finding optimal solutions and consider implementing effective mechanisms to prevent parallel investigations. In terms of domestic inter-institutional cooperation, there is a need to enhance awareness among prosecutors' offices and law enforcement authorities about the functionalities offered by the FID, including AML systems, international cooperation possibilities, urgent data collection from taxpayers, temporary transaction suspensions and continuous monitoring of financial operations. A clear delineation is necessary to determine when inquiries to the FID are expedient and necessary, in accordance with the AML/CFT law. Additionally, efforts should be made to improve communication speed by establishing secure electronic channels, as the conventional method of sending inquiries by regular mail is slow.

Prevention

Immediate outcome 4 in the FATF methodology centres on preventive measures. In Bosnia and Herzegovina, most relevant laws focus on money laundering and terrorist financing, with little appreciation of wider IFFs. However, even the existing AML/CFT laws need to be amended and harmonized with EU standards. Key registries are yet to be established, notably on beneficial ownership.

In addition, while civil society, the media and the private sector are key to tackling IFFs, notably by raising awareness of the damaging effects of such flows – alongside reporting on the exploitation of the private sector and NPOs in money laundering and terrorist financing – such efforts are inadequately recognized and supported by the authorities. Funding is not made available for tackling money laundering and terrorist financing, and investigative media have uncovered most of the scandals that were subsequently investigated by authorities (and led to convictions). One interesting ongoing initiative in strengthening the capacities of NGOs in the country is a GIZ-sponsored project that aims to develop a tool for self-assessment of risks, in terms of vulnerabilities to abuses related to money laundering and terror financing.¹¹⁴

The AML/CFT law defines obliged entities (and these entities' obligations) in terms of relevant staffing and reporting. A 'person under obligation' is required to undertake a risk assessment of money laundering and/or terrorist financing according to guidelines set out by the FID and other supervisory bodies under relevant legislation. Alongside the master AML/CFT law, key by-laws include the rulebook on implementing the AML/CFT law¹¹⁵ and guidelines for filling out forms and entering data electronically for the reporting of financial transactions by obliged entities.¹¹⁶

Obliged entities as designated by the AML/CFT law follow below:

- Banks
- Other financial sectors
 - Securities market
 - Microcredit sector
 - Financial leasing

- Western Union – electronic money transfer through post offices
- Currency exchange offices
- Insurance companies and brokerage companies
- Investment and pension funds
- Non-financial sector
 - Attorneys
 - Notaries
 - Casinos, gambling houses and other organizers of games of chance and special lottery games, particularly betting games, games of chance on machines, internet games and other telecommunication means.
 - Real-estate agents
 - Accountants and auditors
 - NGOs
 - Dealers in precious metals and stone traders
- Legal and natural persons performing the following activities:
 - receiving and/or distributing money or property for humanitarian, charitable, religious, educational or social purposes;
 - transfer of money or value;
 - factoring;
 - forfeiting; and
 - safekeeping, investing, administering, managing or advising in the management of property of third persons.

The FID receives hundreds of reports annually on suspicious transactions, most of them originating from the banking sector. Other sectors lag behind in reporting. While the trend in reporting suspicious transactions is upwards, this does not translate into an increased uptake of cases by competent prosecution offices, since the quality of such reports is often hampered by data deficiencies, notably a failure to flag elements indicating the underlying criminal offence.¹¹⁷

In 2015, Bosnia and Herzegovina made a high-level political commitment to work with the FATF and MONEYVAL to address its strategic AML/CFT deficiencies.¹¹⁸ The FID has since published reports that include statistics on money laundering typologies and trends. However, the authorities need to continue developing preventive measures by:

- raising awareness among all obliged entities on typologies of money laundering and AML duties, as well as providing feedback on suspicious transaction reports;
- improving expert support to obliged entities to meet their commitments under the AML/CFT law, especially AML;
- conceptualizing and providing more education and training to obliged entities within sectors that are marked as more vulnerable to money laundering and terrorist financing;
- educating representatives of relevant institutions and obliged entities on the risks and threats generated by money laundering and terrorist financing, as well as the measures required to mitigate risks;
- instituting more effective supervision of attorneys, accountants, organizers of games of chance and real-estate agents to ensure that all taxpayers comply with AML/CFT regulations; and
- establishing a single register of beneficial owners, thus regulating and harmonizing the ultimate ownership of assets in the country with international AML/CFT standards.



OBLIGED ENTITY	2017	2018	2019	2020	2021
Banks	257	242	407	476	859
Postal operators	10	46	143	129	61
Notaries	1	2	1	2	6
Leasing companies	31	5	6	7	11
Brokerage companies	4	0	0	0	0
Microcredit institutions	211	120	168	179	82
Insurance companies	1	1	0	5	8
Electronic cash transfer	12	22	4	10	7
Funds	0	14	5	3	2
Exchange offices	0	2	2	0	10
Accountants	0	0	1	0	2
Attorneys	0	0	0	1	0
Other	0	1	0	0	0
TOTAL	527	455	737	812	1 048

FIGURE 6 Suspicious transactions reports sent to the Financial Intelligence Department, by sector.

Source: Ministry of Security of Bosnia and Herzegovina, National risk assessment 2022–2024

The AML/CFT law makes clear that obliged entities have the following tasks and duties, among others:

- Conducting risk assessments to determine the risk level of money laundering or terrorist financing;
- Customer due diligence measures;
- Identifying natural person(s), the spectrum of legal persons (including legal representative, client, etc) and beneficial owner(s).

Despite the potential effectiveness of NGOs and proven track record of the media in this arena, they were excluded from the process of drafting the latest action plan and NRA, as were academics.¹¹⁹

While the media in Bosnia and Herzegovina has shown its ability to uncover cases of money laundering, NGOs' capacities are currently much more limited, pointing to a pressing need for providing more AML/CFT education and training for this sector to enable them to become an important component in the fight against IFFs.¹²⁰

Private sector

Immediate outcome 5 centres on legal persons and arrangements. The FATF defines a beneficial owner as the 'natural person(s) who ultimately owns or controls a customer and/or the natural person on whose behalf a transaction is being conducted'.¹²¹ The AML/CFT law partially regulates the issue of beneficial ownership,¹²² acknowledging that this extends to natural persons 'indirectly [...] securing assets' and in cases where such persons are 'the indirect beneficiary of more than 20% of (a) property'.¹²³ However, the continued absence of a register of beneficial owners risks the FATF placing Bosnia and Herzegovina back on its grey list.¹²⁴

Establishing such a register is important in identifying the real owners of companies and other assets, and to disincentivize the misuse of ownership structures for obscuring money laundering and terrorist financing. It is essential for authorities to possess timely information regarding beneficial ownership. Although there is currently no registry at the national level, banks in Bosnia and Herzegovina do possess data on the real ownership of assets. The FID has the authority to request this information, if needed.¹²⁵

The NRA conducted in 2022 and adopted in 2023¹²⁶ recognized the efforts and capacities of obliged entities in evaluating different types of legal persons, including by assessing their vulnerabilities and attractiveness to money launderers and terrorist financiers. The NRA and the OCTA report¹²⁷ acknowledge that the most common types of money laundering utilizing business entities (often mutually linked) are as follows:

Fictitious companies	Setting up fictitious companies to carry out fake legal transactions and using them to transfer money.
Offshore zones	<ul style="list-style-type: none"> ▪ Money obtained illegally in Bosnia and Herzegovina ends up in offshore zones, and money comes into Bosnia and Herzegovina from offshore zones. ▪ The transfer of money to companies under the pretext of payment of legitimate financial obligations.
Dummy companies	Legal business conducting the purchase of non-existent goods and services or over-invoicing.
Virtual partners	Using natural persons as virtual partners to set up fictitious companies, thereby opening accounts to transfer funds.
Investment companies	Using illegally obtained money to invest in real estate and the creation of companies to purchase equipment and resources.
Consulting companies	Payment for fictitious consultancy services through fake invoicing.
Fake loans	<ul style="list-style-type: none"> ▪ The use of suspicious funds for the payment of loans. ▪ Granting high-interest loans linked to legal entities with the aim of withdrawing money from the banking system in Bosnia and Herzegovina and transferring it abroad. ▪ Internal loans between the founder of a company and other business entities.
Fake employment	Abuse of legal entities for employment intermediation through fictitious invoicing of labour services.
Luxury car dealerships	The buying and selling of motor vehicles with money obtained illegally, usually from drug trafficking.

FIGURE 7 Overview of the money laundering typology of business entities.

Sources: Ministry of Security of Bosnia and Herzegovina, Organized crime threat assessment 2021–2024, National risk assessment 2018–2022, National risk assessment supplement 2022–2024

According to recent typologies on money laundering and terrorist financing, there have been instances of the misuse of legal entities through the banking system, particularly in trade-based money laundering. In such scenarios, businesses are utilized as a facade to receive payments for purported services abroad, before disbursing these funds to other business entities or individuals. Members of organized crime groups involved in drug trafficking leverage such companies to invest illicitly gained funds, creating no direct links to the company. Monetary transactions originate from local companies' accounts, directed to the bank accounts of individuals and legal entities abroad unintended to receive the transaction. This compromises communication between legal entities, often through 'business email compromise' fraud or, to a lesser extent, 'CEO' fraud, with subsequent dispersion of payments occurring in cash or through 'money mules.'



These examples provide an insight into why the foreign money laundering threat was assessed as 'medium', with an 'increasing' trend in the latest NRA. A high-risk of money laundering was also identified with regard to cash payments between natural persons and business entities linked to them.

The most common type of business entities used for money laundering are fictitious companies that are generally used for VAT evasion or the receipt of money from frauds. Several forms of fictitious company have, at various times, been used in the country, for example:

- Shell companies: the most common example, these legal entities are registered on behalf of a person with a fake identity or in the names of 'mules', persons from a criminal milieu or from abroad, who law enforcement agencies are not able to trace upon detection of illegal activity.
- Parallel firms: forging the documentation of an existing company and using it, although this practice appears to have been in abeyance in recent years.

The latest NRA recommends that controls surrounding the registration of business entities be strengthened in order to eradicate the establishment of fictitious companies. However, this has yet to be initiated.¹²⁸

Registration of legal entities is set out by laws on the registration of business entities in the FBiH,¹²⁹ Republic of Srpska¹³⁰ and the Brčko District.¹³¹

- Register of business subjects of Bosnia and Herzegovina;¹³²
- Register of business subjects of the Republic of Srpska;¹³³ and
- Register of business subjects in Brčko District.¹³⁴

In addition to these registries, it is possible to access the following:

- Central securities registry of the Republic of Srpska;¹³⁵
- Register of securities in the FBiH;¹³⁶
- Securities commission of Brčko District;¹³⁷ and
- Joint register of NGOs and foundations in Bosnia and Herzegovina.¹³⁸

Determining beneficial ownership involves untangling complex ownership and control structures. The task is made more complex still by the absence of historical information on ownership structures. In the absence of a public registry on real-estate ownership, private companies maintain databases of registered business entities in the country and charge for data access services on an annual basis.¹³⁹

Additionally, the country lacks a registry of politically exposed persons and their clients. The latest NRA recommends that such registers be established at both local and national levels, and that these registries be updated regularly.

Financial intelligence

Immediate outcome 6 centres on financial intelligence. The competent authorities responsible for combating and preventing money laundering and financing terrorist activities in Bosnia and Herzegovina are:

- The FID;¹⁴⁰
- The FBiH criminal police investigation service¹⁴¹ within the federal police administration and federal interior ministry;¹⁴²
- 10 ministries of interior affairs at the cantonal level;¹⁴³
- Republic of Srpska interior ministry;¹⁴⁴
- Brčko District police;¹⁴⁵
- The ITA.¹⁴⁶

The FID operates under the authority of the SIPA, which is itself an administrative unit within Bosnia and Herzegovina's security ministry.¹⁴⁷ The SIPA has operational autonomy as a policing entity.¹⁴⁸ The SIPA's remit is defined by the Law on the State Investigation and Protection Agency, covering prevention, detection and investigation of criminal offences in Bosnia and Herzegovina, in particular: organized crime, terrorism, war crimes, human trafficking and other crimes against humanity and values protected by international law, and serious financial crime.¹⁴⁹ The FID is the main organizational unit within the SIPA and takes the lead on detecting, investigating and combating money laundering and terrorist financing. An inter-ministerial and expert body established in 2008 – the working group of institutions of Bosnia and Herzegovina for the prevention of money laundering and financing of terrorism – plays the key role in ensuring relevant cooperation and coordination between the various authorities.¹⁵⁰ However, some experts recommend discontinuing the current FID police model, favouring instead an FIU that is a separate and independent administrative unit exclusively designed for the functions of such an entity.¹⁵¹

The AML/CFT law clearly defines the duties and responsibilities of obliged entities in reporting to the FID. The AML system, the software used by banks to report suspicious transactions, is made available and maintained by the FID. In 2020, the software was enhanced to allow banks to submit additional supporting documentation in electronic form when reporting suspicious transactions.

The ITA has the authority to control, inspect and search individuals and vehicles crossing Bosnia and Herzegovina's borders.¹⁵² It has signed MoUs with state institutions – such as the SIPA, the border police and the prosecutor's office – in order to achieve the effective exchange of information and data needed for the investigation of crimes related to money laundering committed by taxpayers. In the period 2017–2021, according to reports submitted by the ITA, tax and VAT evasion, fraud, trade-based money laundering, smuggling of goods, money laundering and organized crime in general resulted in a loss to the public purse of more than €80.6 million (nearly BAM158 million).¹⁵³ The ITA provides citizens with an anonymous reporting system regarding customs, corruption, tax evasion and avoidance, and any form of smuggling.¹⁵⁴

Although obliged entities generally act accordingly and there are controls by the supervisory authorities, there is a need to strengthen control mechanisms as well as the coordination of all authorities involved in curbing IFFs.

Statistics are generally difficult for civil society and the media to obtain, as most institutions do not make such information available on their websites. It is often necessary to rely on repeated requests for information, which are usually not answered in a timely or complete manner. The FBiH has a complex law enforcement system.

According to the constitutional framework, police divisions operate under 10 cantonal ministries for interior affairs and the federal interior ministry.¹⁵⁵ It is important to note that cantonal ministries have no hierarchical subordination to the federal ministry, underlining the decentralization of police.¹⁵⁶ The cantons and the federal ministry are regulated by cantonal and federal laws on internal affairs respectively. The work of cantonal ministries of interior is funded by the cantonal governments. Each of the 10 cantonal interior ministries has a police directorate, all of which have operational independence.¹⁵⁷

According to the Law on internal affairs of the FBiH,¹⁵⁸ under the federal interior ministry there is the federal police administration, which is in charge of preventing and combatting various types of criminal offences, inter-cantonal crime, organized crime and terrorism. Within the federal police administration there is the criminal police investigation service with field offices in Sarajevo, Mostar and Tuzla. This service has a department dedicated to the fight against organized crime and corruption that specializes in the fight against financial and economic crime, corruption and money laundering.



The police directorate of the Brčko District conducts financial crime investigations according to the orders of the district prosecutor's office and the prosecutor's office of Bosnia and Herzegovina. Within this police directorate there is a criminal police unit that houses the department of economic crime and corruption, according to the Law on police of the Brčko District.¹⁵⁹ The department is responsible for investigating cases of corruption, money laundering, financial and economic crime, as well as temporary confiscation of property in connection with those predicate crimes.

The work of the Republic of Srpska's interior ministry and police director is defined by the Law on internal affairs of the Republic of Srpska.¹⁶⁰ Under the crime police administration, a unit for economic crime is in charge of preventing, detecting and conducting investigations into money laundering.

	2017	2018	2019	2020	2021
Number of submitted reports on conducting financial investigation	3	3	12	24	17
Number of submitted supplementary reports on conducting financial investigation	1	-	2	5	-

FIGURE 8 Overview of submitted reports and supplementary information to reports on financial investigations.

Source: Ministry of Security of Bosnia and Herzegovina, National risk assessment supplement 2022–2024

There is continuous collaboration between all relevant domestic and international investigative bodies and institutions, from the SIPA to the Federal Police Administration, cantonal ministries of interior and the Republic of Srpska's interior ministry. Collaboration with Europol, INTERPOL and similar agencies is mediated by the directorate for coordination of police bodies of Bosnia and Herzegovina.¹⁶¹ Although these agencies have reasonable human resource capacities, coordination challenges inevitably arise between such a large number of agencies. Further challenges are presented by the diversity of legal frameworks and defined jurisdictions. Collaboration between high-level entities could therefore be improved; likewise, there should be better coordination on an inter-cantonal level, specifically in terms of data exchange and conducting joint investigations.¹⁶²

Investigations

Immediate outcome 7 centres on investigation and prosecution. Financial crime and corruption are among the biggest threats to Bosnian society, so effective investigation is crucial. The FID is pivotal in the investigation, detection and prevention of money laundering and terrorist financing, since it is a central intelligence unit that receives, collates and analyzes data and documentation. Alongside its analysis of data, the FID spearheads further investigation and passes results to prosecutors and other relevant authorities. Prosecutors now lead the pursuit of financial investigations, while police usually deal with operational and intelligence data.¹⁶³

Criminal procedures in Bosnia and Herzegovina¹⁶⁴ do not define individual procedures on property confiscation, nor the components of financial investigation; likewise, the prosecutor's role in obtaining evidence is not defined. However, this shortcoming was addressed by adopting and implementing laws in 2014 and 2016 on the confiscation of illegally acquired property at the entity and district levels, introducing the key role of the prosecutor in initiating financial investigations.

According to these laws on the confiscation of criminal proceeds, the prosecutor is in charge of issuing an order to conduct a financial investigation. In addition, according to Article 392 of Bosnia and Herzegovina's criminal procedure code,¹⁶⁵ the prosecutor is obliged, during the investigation and overall procedure, to collect evidence

centring on the accumulation of criminal proceeds.¹⁶⁶ All institutions and agencies are obliged to cooperate with the prosecutor, and within their own jurisdiction to act in accordance with financial investigation orders issued by the prosecutor. In addition to public institutions, courts can order banks, private companies and legal and natural persons to deliver information requested by the prosecutor.

However, there is still space for improving the legal framework by defining the circumstances in which a financial investigation should be carried out, along with improving the specification of needs and the desired end result. In addition, there is a need to raise awareness among prosecutors' offices about the importance of implementing relevant aspects of the AML/CFT law, especially in terms of the detection of criminal proceeds, and the application of temporary suspensions, continuous monitoring, etc.¹⁶⁷ While there are sufficient capacities and resources, financial investigations are not initiated or conducted systematically, and there is no clearly or uniformly prescribed obligation to conduct financial investigations. There is a need for external engagement (by academia and the private sector) for forensic accounting in the prosecutor's office to improve the efficiency of financial investigations.

There are moves afoot in the FBiH and Brčko District to amend legislation to create specialized units that would focus solely on collecting evidence for financial investigations.¹⁶⁸ Investigations, indictments and verdicts for money laundering cases are rare. Over the period 2012–2016, seven prosecutors' offices in Bosnia and Herzegovina did not receive a single report on money laundering, nor did they independently initiate any investigations into money laundering.¹⁶⁹ More recently, there has been an increase in reporting by different law enforcement agencies to prosecutors' offices in Bosnia and Herzegovina on cases related to money laundering.

PROSECUTOR'S OFFICE	2017	2018	2019	2020	2021
Bosnia and Herzegovina	26	11	15	12	12
FBiH	29	37	30	36	47
Republic of Srpska	152	22	23	34	59
Brčko District	–	1	–	–	–
TOTAL	207	71	68	82	118

FIGURE 9 Summary of reports of law enforcement agencies to prosecutors' offices in Bosnia and Herzegovina.

Source: National risk assessment supplement 2022–2024

The overview of reports indicates a peak in the submission of applications/reports in 2017, followed by a significant decline in 2018. Subsequently, there was a gradual rise until the conclusion of the observed period. Most applications/reports in 2017 are associated with cases from the district public prosecutor's office in Trebinje, in the Republic of Srpska. However, the prosecutor's office of Brčko District did not file any reports at all over the period 2017 to 2021.

PROSECUTOR'S OFFICE	2017	2018	2019	2020	2021
Bosnia and Herzegovina	6	2	3	–	4
FBiH	7	7	4	3	5
Republic of Srpska	–	4	34	118	43
Brčko District	–	–	–	–	–
TOTAL	13	13	41	121	52

FIGURE 10 Overview of number of indictments filed by prosecutors' offices in Bosnia and Herzegovina.

Source: National risk assessment supplement 2022–2024

Over the period 2017–2021, the FID filed 57 reports and additional information to prosecutors’ offices in Bosnia and Herzegovina, on criminal offences related to 172 natural persons and 56 legal persons on suspicion of money laundering amounting to nearly BAM105.8 million (more than €50 million), according to the 2022 NRA. According to the 2018 NRA, the bulk of temporarily and permanently confiscated property managed by the federal agency for the management of confiscated property originates from cases initiated and handled by the FID.¹⁷⁰ Over the period 2017–2021, prosecutors’ offices across Bosnia and Herzegovina filed 240 money laundering indictments, with a particular spike in 2020.

NUMBER OF REPORTS SUBMITTED TO PROSECUTORS’ OFFICES IN BOSNIA AND HERZEGOVINA	NUMBER OF REPORTED NATURAL PERSONS	NUMBER OF REPORTED LEGAL PERSONS	VALUE OF SUSPECTED MONEY LAUNDERING	MATERIAL DAMAGE STEMMING FROM REPORTED CRIMINAL OFFENCES	PROPERTY GAIN ACQUIRED THROUGH CRIMINAL OFFENCES
57	172	56	BAM105 752 578	BAM85 011 386	BAM99 376 619

FIGURE 11 Overview of reports (and values) filed by prosecutors’ offices in Bosnia and Herzegovina.

Source: National risk assessment supplement 2022–2024

Confiscation

Immediate outcome 8 centres on the confiscation of criminal proceeds. The confiscation of criminal proceeds is one of the basic elements in combating financially motivated crimes.¹⁷¹ Laws on the confiscation and management of criminal proceeds have been adopted by both the main geographic entities,¹⁷² as well as by Brčko District.¹⁷³ These laws set out the conditions under which criminal proceeds can be seized, as well as the procedures and the role of relevant institutions. However, on a country level there is no mechanism for securing and disposing of temporarily and permanently confiscated property acquired through a criminal act.

International standards for the confiscation of criminal proceeds are incorporated within the laws, including shifting the burden of proof to the accused and provisions for extended confiscation of property.

The 2022 NRA indicates that the existing regulations on the management of confiscated property are in line with criteria set out by the United Nations Convention against Corruption,¹⁷⁴ but it is difficult to assess the institutional capacity for carrying out these responsibilities.¹⁷⁵ According to a legal expert in this area, the capacities of institutions remain deficient in this area, especially in terms of managing these assets; the task is handed to civil servants who have little time alongside their main duties to manage real estate, hotels or vehicles.¹⁷⁶ Challenges therefore surround the implementation of procedures for confiscation and management of criminal proceeds.

Legislation governing extended confiscation needs clarifying, to specify property or material gain ‘derived from criminal activities or crime’ rather than ‘originating from a criminal offence’, to bring it in line with international standards.¹⁷⁷ Extended confiscation is defined under Bosnia and Herzegovina’s criminal code but applied rarely, while its application is even more scant in the Republic of Srpska.

The FBiH’s seized property management agency is an independent federal administrative organization,¹⁷⁸ and it oversees the management of temporarily and permanently confiscated property. Court decisions form the basis of the temporary and permanent confiscation of property. The main task of the agency is to preserve the value or monetary equivalent of an asset during temporary confiscation, as well as to sell it at the estimated market value in cases of permanent confiscation. Proceeds from such sales are paid into the FBiH’s budget.¹⁷⁹

Between 2017 and April 2023, FBiH's seized property management agency reported receiving approximately BAM18.8 million (€9.6 million) worth of permanently confiscated property and BAM15.7 million (€8 million) worth of temporarily confiscated property.

PROPERTY	VALUE OF PERMANENTLY CONFISCATED PROPERTY (€)	VALUE OF TEMPORARY CONFISCATED PROPERTY (€)
Money	2 929 057	3 232 634
Motor vehicles	99 114.60	241 608
Stocks/securities	332.34	250 845
Investment funds	416 746	-
Real estate	1 603 717	2 818 381
Construction machinery and objects	4 740.70	-
Founding shares	3 155 624	1 465 034
Movables	22 365.40	-
Property benefit to be collected	1 389 623	-
TOTAL	9 621 320	8 008 502

FIGURE 12 Overview of value of confiscated property in the FBiH.

Source: Information provided by the FBiH's seized property management agency, by email, 23 June 2023

Data is publicly available on the value of confiscated property overseen by the Republic of Srpska's agency for managing confiscated property.¹⁸⁰ This agency is an administrative organization within the Republic of Srpska's justice ministry, and it was established by the Law on confiscation of property acquired by committing a criminal offence.¹⁸¹ The agency is mandated to deliver tasks ex officio or by order of the prosecution and the court, as well as to manage confiscated property. Over the period 2017–2022, 2017 was the only year when temporary confiscations took place, consisting of a parking spot and two houses valued at BAM490 000 (€250 000). Over the period 2012–2017, the total value of temporarily confiscated property from criminal proceeds was estimated at BAM22 441 687 (€11.4 million).¹⁸² Over the full 11 years from 2012 to 2022, only €560 000 worth of property was permanently confiscated in the Republic of Srpska (see Figure 13 below).



YEAR	PROPERTY	VALUE OF PERMANENTLY CONFISCATED PROPERTY (€)
2012	<ul style="list-style-type: none"> ▪ Money ▪ Motor vehicle ▪ Motorcycle 	212 714
2013	<ul style="list-style-type: none"> ▪ Money ▪ Machine for printing 	61 625.40
2014	<ul style="list-style-type: none"> ▪ Money ▪ Aeroplane 	208 884
2015	<ul style="list-style-type: none"> ▪ Money 	569.98
2016	N/A	0
2017	<ul style="list-style-type: none"> ▪ Money ▪ Motor vehicle 	20 545.60
2018	<ul style="list-style-type: none"> ▪ Money ▪ Motor vehicle 	746.26
2019	<ul style="list-style-type: none"> ▪ Money ▪ 10 motor vehicles 	7 971.55
2020	<ul style="list-style-type: none"> ▪ Money ▪ Wood (oak logs) ▪ Three motor vehicles ▪ Textile commodities 	12 896.30
2021	<ul style="list-style-type: none"> ▪ Money ▪ 18 motor vehicles 	11 410
2022	<ul style="list-style-type: none"> ▪ Money ▪ 26 motor vehicles 	18 180.10
TOTAL		555 543

FIGURE 13 Overview of value of permanently confiscated property in Republic of Srpska over the period 2012–2022.

Source: Information provided by the Republic of Srpska's seized property management agency, by email, 6 June 2023

Agencies for confiscation and management of seized properties in the FBiH and the Republic of Srpska do not have any information about the money located outside Bosnia and Herzegovina related to criminal offences that are being investigated in the country. One of the biggest challenges that the FBiH's agency faces in its work is the management of companies, and it still has no mandate for the management of confiscated cryptocurrencies.¹⁸³ Meanwhile, the Republic of Srpska's confiscation agency has insufficient storage capacity for permanently confiscated motor vehicles.¹⁸⁴

Bosnia and Herzegovina makes provisions within its legal framework for the social reuse of confiscated assets, but has limited capacity in practice. Civil society has benefited from the process of social reuse in a number of cases, including through the donation of money or goods.¹⁸⁵ Transparency International has illustrated the key role civil society can play in the process of social reuse of confiscated assets.¹⁸⁶

Bosnia and Herzegovina's AML/CFT law clearly defines the legal requirements for transferring money into and out of the country. According to Article 71, Bosnia and Herzegovina's ITA¹⁸⁷ and its border police are mandated to supervise and control the movement of cash, as well as other monetary instruments. This authority can temporarily hold monetary instruments it suspects are associated with money laundering or terrorist financing. It

is obliged to notify the FID within three days of declarations of cash movements of more than €10 000 across the state border. If there is a suspicion of money laundering and terrorist financing, the ITA is required to notify the FID immediately, regardless of whether the cash was declared or undeclared.

SEIZURES OF UNDECLARED MONETARY ASSETS AT LAND BORDERS AND AIRPORTS					
Sarajevo airport					
Currency	2018	2019	2021	2022	Total
€	116 920	44 300	32 000		193 220
US\$			32 800	61 100	93 900
Tuzla airport					
Currency	2018	2019	2021	2022	Total
€	84 930		28 820	36 935	150 685
Gradiška border crossing					
Currency	2018	2019	2021	2022	Total
BAM				68 720	68 720
€				89 515	89 515
Izačić border crossing					
Currency	2018	2019	2021	2022	Total
€				38 000	38 000
Brčko border crossing					
Currency	2018	2019	2021	2022	Total
BAM		35 636			35 636
€				191 140	191 140
Svilaj border crossing					
Currency	2018	2019	2021	2022	Total
€				2 000 000	2 000 000
Orašje border crossing					
Currency	2018	2019	2021	2022	Total
BAM				660	660
€				984 845	984 845
US\$				355 000	355 000
Croatian kuna				366 000	366 000

FIGURE 14 Seizures of undeclared monetary assets at land borders and airports in Bosnia and Herzegovina.

Source: Information provided by the Indirect Taxation Authority, 13 June 2023



Data provided by Bosnia and Herzegovina's ITA indicates that there is a higher risk of non-declaration of monetary assets at airports, and the border crossings with Croatia, notably at Svilaj, Orašje and Gradiška, where approximately €3 million was confiscated in 2022.¹⁸⁸ The use of 'money mules' is a key trend, often relying on Turkish and Bosnian citizens travelling between Istanbul and Sarajevo, a route well served by airlines.¹⁸⁹

Non-profit organizations in the prevention of IFFs

The FATF urges countries to adopt legislation to govern NPOs with the aim of preventing their potential exploitation for money laundering and the financing of terrorism.¹⁹⁰ In Bosnia and Herzegovina, a law on associations and foundations regulates NPOs, such as associations, institutions, foundations, institutes and religious communities.¹⁹¹ Basic information on all NPOs and foundations can be found in a publicly available register.¹⁹² An NPO in the country can be registered at the cantonal, entity or state level.

Many NPOs are funded by international donors, often the EU or USAID, dependence which activates a range of control measures related to money laundering and terrorist financing. Such measures include transparency in expenditure, and regular reporting to donors and relevant authorities. Since cash transactions are avoided, there is no need to report the movement of funds to the FID.¹⁹³ Over the period 2017–2021, no associations or foundations reported suspicious transactions, cash transactions or related cash transactions, according to the FID. Additionally, in the overall overview of suspicious transactions reports by obliged entities, no NPOs were cited.¹⁹⁴ Moreover, no NPOs were reported for financing terrorist activities over the period 2017–2021.

A Council of Europe terrorism financing risk assessment of NPOs in the Western Balkans and Turkey¹⁹⁵ singled out two particular risk factors, among others:

- Religious/ethnic/cultural NPO funding from high-risk jurisdictions or unverifiable sources;
- Humanitarian/charitable and aid-giving NPOs.

There is a need to invest in supervision, and also to raise awareness among NPOs of their money laundering and terrorist financing vulnerabilities.¹⁹⁶ The GI-TOC has previously reported how Bosnian CSOs have been used as a smokescreen for the misallocation of public funds to entities that are close to and/or founded by the close associates of the ruling parties.¹⁹⁷

The 2022–2024 NRA noted a high risk of money laundering for the NGO sector in Bosnia and Herzegovina, alongside a medium to high risk of terrorist financing.¹⁹⁸ It also flagged the following issues:¹⁹⁹

- The overall register of associations and foundations is outdated and therefore not operational, according to civil society.
- Deficiencies in supervisory controls for financial operations, tax requirements aside.
- Insufficient cooperation and communication between authorities and institutions of different levels of government in Bosnia and Herzegovina exacerbates the money laundering risk for the NGO sector.
- Financial control of NGOs is almost completely absent, including through the absence of a supervisory authority overseeing their financial operations at a state level.

Existing laws are outdated, and laws that do exist are not adequately observed, particularly in terms of the NGO sector's failure to comply with its obligations. The designated supervisory bodies, as mandated by law, do not effectively oversee compliance with legal provisions, rendering supervision ineffective.²⁰⁰

While various initiatives support civil society,²⁰¹ the overall focus of financing and international projects is on strengthening basic institutional capacity, rather than bolstering AML/CFT capabilities per se.



In addition, it should be taken into consideration that civil society can contribute to joint initiatives to improve understanding of the negative consequences of IFFs on society through the following actions:

- strengthening the capacity and increasing the knowledge and understanding of civil society about IFFs;
- participating in working groups focused on legal amendments and integrating best practices from a civil society perspective;
- raising public awareness of the damaging effects of IFFs on the economy and society; and
- investigating and monitoring the effectiveness of the implementation of government measures to counter money laundering and terrorist financing.

RECOMMENDATIONS FOR POLICYMAKERS

- The term ‘illicit financial flows’ lacks a defined legal framework and a common understanding of its channels among stakeholders. The informal economy and tax evasion need to be understood as one of the channels of IFFs, alongside corruption.
- Bosnia and Herzegovina’s Law on the prevention of money laundering and financing of terrorism should be amended to account explicitly for the heightened influence of virtual asset providers and the threats they pose.
- Establish a register of beneficial ownership to record the ultimate ownership of assets in the country in harmony with international AML/CFT standards.
- Advocate for the involvement of civil society in working groups when drafting strategies and action plans.
- Civil society and the media should also receive greater support in monitoring and reporting on the effectiveness of the country’s response to IFFs.
- Promote ongoing education and training of media and civil society on understanding IFFs; invest in training media in the investigation and reporting of IFFs.
- Encourage the engagement of external experts from civil society and the private sector who could provide practical support in managing the confiscation of criminal proceeds, especially in terms of expertise in forensic accounting.
- Launch joint campaigns between civil society, the media and law enforcement agencies, in particular the FID, to further bolster understanding of the scale of IFFs, their harmful effects, and the role of citizens and obliged entities in reporting suspicious transactions.
- Encourage greater civil society engagement in the social reuse of confiscated assets by strengthening their capacities.

Notes

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