



**GLOBAL
INITIATIVE**
AGAINST TRANSNATIONAL
ORGANIZED CRIME

ILLICIT FINANCIAL FLOWS IN MONTENEGRO

VUK MARAŠ

MARCH 2024



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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This report is an output of the Global Initiative Against Transnational Organized Crime (GI-TOC)'s Observatory of Illicit Economies in South Eastern Europe. The observatory is a platform that connects and empowers civil society actors in Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia and Serbia. It aims to enable civil society to identify, analyze and map criminal trends, and their impact on illicit flows, governance, development, inter-ethnic relations, security and the rule of law, and supports them in their monitoring of national dynamics and broader regional and international organized crime trends.

The report's content is based on qualitative data and analysis collected through interviews with key experts from public institutions, non-profit organizations, the private sector and other stakeholders. We would like to thank our interview partners for their valuable insights and contributions. Special thanks to Saša Đorđević and Anesa Agović for support in preparing this report, and Fatjona Mejdini and Kristina Amerhauser for their helpful comments.

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Acronyms and abbreviations

AML	Anti-money laundering
CFT	Countering the financing of terrorism
CSOs	Civil society organizations
EU	European Union
FATF	Financial Action Task Force
FIU	Financial intelligence unit
GI-TOC	Global Initiative Against Transnational Organized Crime
IFFs	Illicit financial flows
MONEYVAL	Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism
NRA	National risk assessment



INTRODUCTION

In the 2023 Global Organized Crime Index, Montenegro was ranked as having the second highest levels of criminality in the Western Balkans after Serbia, with a score of 5.90, compared to a regional average of 5.60. It achieved a low resilience score of 4.75, the second lowest in the region after Bosnia and Herzegovina. In terms of individual criminal markets, the most problematic are the illicit trade in excisable goods, the cocaine trade, arms trafficking, the cannabis trade and financial crimes.¹

Although Montenegro has made some progress in recent years, it remains a vulnerable target for illicit financial flows (IFFs). Based on analysis by the Global Initiative Against Transnational Organized Crime (GI-TOC), including an evaluation of open-source information and interviews, the general threat level in Montenegro from IFFs is 'medium', and the general assessment of vulnerabilities is 'medium', in line with the conclusions of the last money laundering and terrorist financing national risk assessment (NRA) from 2020.

In Montenegro, IFFs are strongly influenced by the country's role as a transit route for illicit commodities and people moving between Asia and Western Europe. The most significant predicate crime components of IFFs in Montenegro are corruption and abuse of power, with government statistics suggesting that the number of such crimes is steadily increasing year on year.²

Furthermore, IFFs are driven latterly by a large influx of money from Russian investors seeking to reduce domestic economic exposure to fallout from the war in Ukraine that began in February 2022, in contravention of international sanctions against Moscow. The lenient scrutiny of arrivals from Russia and Ukraine, allowing them to bring in substantial assets, notably large amounts of unreported cash, enables their financial support within the country.³

The research for this report also reveals that money channelled out of Montenegro usually ends up in accounts in tax havens and lax jurisdictions with low taxes and no obligation to disclose the ownership of bank accounts.⁴

According to the relevant reports, the country still needs to address fundamental and systemic deficiencies in its criminal justice system, including how organized crime cases are handled in the courts.⁵ Other reports make clear shortcomings in adopting standard operating procedures on financial investigations, particularly those focused on money laundering, to align with European Union (EU) and wider international standards and practices.⁶

Professionals interviewed by the GI-TOC note that Montenegro's financial intelligence unit (FIU) lacks the capacity to lead thorough forensic financial investigations, and they cite this as one of the country's main weaknesses in addressing IFFs.⁷ A big problem for the country is that it does not have any insight into cryptocurrencies and trade through blockchain technology. These channels are thus now an optimal way to avoid taxes and launder money in and through Montenegro.

Montenegro's track record of launching investigations into IFFs continues to improve, but the number of cases successfully concluded remains limited, according to the European Commission.⁸ In 2022, the FIU received 299 suspicious transaction reports and sent 62 notifications to law enforcement agencies.⁹ Some 18 preliminary investigations and five investigations were launched.¹⁰ More money laundering cases reached the courts, including cases where money laundering is a stand-alone offence. However, the number of court decisions on money laundering remains low – just two verdicts against three persons in 2021 and the first half of 2022, both based on plea agreements.

In the past two years, Montenegro has been urged by the Council of Europe to improve its legal framework, and to boost the financial sector and judiciary's capacities to trace financial flows behind criminal activities.¹¹ The Council of Europe's monitoring body, the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and Financing of Terrorism (MONEYVAL), visited Montenegro to assess the country's progress in implementing anti-money laundering and countering the financing of terrorism (AML/CFT) standards, in accordance with the methodology set out by the Financial Action Task Force (FATF) in 2023. The MONEYVAL report on Montenegro was published in December 2023.¹²

The FATF frames its analysis largely in terms of a country's effectiveness in meeting 'immediate outcomes'. In recognition of the salience of that methodology, the key sections of this GI-TOC report are sequenced to take account of immediate outcomes 1–8, 10 and 11.¹³

Key challenges

- Montenegro faces challenges with IFFs, widespread corruption, abuse of power, and trade-based money laundering, hindering investment.
- The criminal justice system has critical deficiencies, notably in handling organized crime cases and financial investigations.
- The financial sector and judiciary lack adequate capacities to detect IFFs, particularly in the domain of cryptocurrencies.
- The continued existence of the golden passport scheme, an economic citizenship programme, poses a risk for money laundering and corruption, persisting despite recommendations for its discontinuation.
- The capacities and potential of civil society and the media to combat IFFs remain underutilized.

The role of civil society

Approximately 30 out of 5 700 registered civil society organizations (CSOs) in Montenegro concentrate on combating organized crime and corruption. However, their ability to tackle IFFs is heavily constrained. Civil society is experiencing shrinking space for action, encountering verbal attacks from state officials,¹⁴ financial instability and restricted access to information due to limitations on freedom of information and transparency in Montenegro.¹⁵

Despite the Montenegrin government acknowledging civil society as crucial partners in preventing and countering terrorism, money laundering and terrorist financing, the reality feels different to civil society. They feel neglected, although this has fed several new civic initiatives.¹⁶ The country is overlooking the potential of civil society to contribute to policy formation, often dismissing their recommendations. This neglects an opportunity for valuable input and collaboration in shaping effective policies.

Notable anti-organized crime and anti-corruption CSOs in Montenegro such as the Network for the Affirmation of the Non-Governmental Sector and the Institute Alternative are consistently involved in researching IFFs and advocating measures to address this issue.¹⁷ The media is also increasingly interested in investigating and reporting these cases, even though its capacity is limited due to the demands of daily reporting.¹⁸ However, there is little indication that civil society participated in the development of the NRA.

NATIONAL RESPONSE

Understanding the risk

Immediate outcome 1 under the FATF methodology centres on authorities' understanding of risk, as well as the effectiveness of their policies and cooperation in AML/CFT efforts. Montenegro last carried out an NRA in 2020. This report assessed the risk of money laundering in the country to be 'medium' and the risk of terrorist financing as 'low'. However, it also identified a few vulnerable areas and pointed to systemic weaknesses requiring improvement (see Figure 1).



FIGURE 1 Threat level of money laundering from predicate criminal offences in Montenegro.

Source: Government of Montenegro, National risk assessment of money laundering and terrorist financing 2020

The 2020 NRA highlighted an inadequate normative framework in certain areas, insufficient results in the fight against money laundering, inadequate technical capacities, insufficient cooperation between state authorities, inadequate statistical records and poor use of available data.¹⁹ It also noted that while the threat posed by terrorist financing in Montenegro is 'low', the global context meant that the country should be prepared for challenges in this area.

The NRA divides obliged entities (businesses and professionals capable of recognizing money laundering and terrorist financing risks or vulnerable to them) into two main categories: reporting entities in the financial sector and reporting entities in the non-financial sector. They are additionally divided by the risk levels or levels of vulnerability, running from high risk to low risk (see Figure 2 below).



RISK LEVEL:	HIGH	MEDIUM HIGH	MEDIUM	MEDIUM LOW	LOW
Financial sector			Banking sector	Microcredit financial institutions	Insurance sector
			Capital markets	Payment institutions	Investment and development funds
			Leasing service providers	Factoring companies	
				Inward and outward remittance service providers	
Non-financial sector	Persons dealing in real-estate investment transactions, sales and brokerage	Organizers of games of chance	Persons dealing with asset management for third parties		
	Lawyers	Persons dealing with marketing and consulting activities related to business and other management	Persons dealing with the activities and transactions of sale of precious metals and stones		
			Notaries		
			Accountants and auditors		
			Motor vehicle retailers		

FIGURE 2 Reporting entities' vulnerability to money laundering.

Source: Government of Montenegro, National risk assessment of money laundering and terrorist financing 2020

In Montenegro, certain sectors are considered vulnerable to money laundering due to their high-risk exposure.²⁰ These sectors include banking operations, the real-estate market, capital markets, the luxury goods market, games of chance, insurance, investment construction, import–export businesses, and the tourism and hospitality industry. Within the financial sector, the banking system is particularly susceptible to risk due to the significant volume of transactions, the large number of inward and outward cash payments, and the complexity involved in executing international transactions.

Persons dealing with the activity and transactions of real-estate investment, sale and brokerage are considered highly vulnerable in the NRA, due to the sector's size, the high prevalence of cash purchases and the fact that a large proportion of suspicious transaction reports involve real-estate sales. In its organized crime threat assessment, the Montenegrin government identified money laundering through construction and real estate as a high-risk area.²¹ Both the process of construction and the asset class itself can relatively easily absorb large amounts of capital, often without attracting significant scrutiny.

In the non-financial sector, lawyers are also considered as high risk and highly vulnerable, due to the exploitation of legal entities, as well as the internal organization of the Bar Association. The latter does not provide for inspectors to supervise the enforcement of the AML/CFT law. Organizers of games of chance are assessed to be of medium to high vulnerability, due to the sector's size, a high prevalence of high-risk customers (including

non-residents) and the high use of cash. Also in the medium to high category are persons dealing with marketing and consulting activities, due to sector size, use of cash and volume of transactions.

Persons dealing with asset management for third parties are designated as medium vulnerability and risk, due to the sector's size and the volume of transactions; persons dealing with transactions in precious metals and stones are similarly vulnerable. Notaries are designated as medium risk and vulnerability due to sector size and inadequate checks. Accountants and auditors are likewise designated medium risk due to the volume of transactions and payments through invoices. Motor vehicle retailers also fall into this category.

Montenegro's current stance on blockchain, cryptocurrency and financial technology businesses could create multi-faceted risks.²² Authorities sought to start addressing blockchain regulation in early 2022, when then-finance minister Miloško Spajić announced it as a priority.²³ The government he was a member of lost a no-confidence vote later that year. However, his Europe Now movement emerged as the largest party in the June 2023 snap election when Spajić – nominated by newly elected President Jakov Milatović as prime minister designate in August – announced that an incoming administration would work with the world's biggest experts in the field of cyber security on a law that would protect citizens' capital from potential fraud in the crypto world.²⁴ Lawmakers finally voted in a government led by Spajić in late October 2023, although his Europe Now movement is dependent on the support of the pro-Russian Alliance for the Future of Montenegro, pointing to a challenging outlook for coherent policymaking.

Cryptocurrency and blockchain financial flows remain unregulated in Montenegro. Accordingly, cryptocurrency is not regulated as an official means of payment, but its possession and/or use is not prohibited.²⁵ Real estate can be purchased with alternative currencies – for example, Ethereum or Bitcoin, with subsequent conversion into euros.²⁶ Current tax regulations do not include income from cryptocurrencies as a taxable category.²⁷ Owing to its specificity in formal, substantive and legislative terms, it is not possible to subsume this type of realized profit under one of the existing categories in Montenegrin legislation.

Despite the current lack of regulation, according to the Central Bank of Montenegro, cryptocurrencies do not affect the local banking system and are not a threat to it.²⁸ This position was made clear by the central bank when it teamed up with Ripple, a US crypto and blockchain solutions company, to develop a strategy for the launch of a national digital currency.²⁹

In the first move towards regulation of crypto and digital currency flows, the finance ministry established two new directorates in July 2021 – the Directorate for Blockchain and Cryptocurrencies and the Directorate for the Financial System and Financial Technologies (FinTech).³⁰ In July 2021, the central bank established the FinTech Hub – Regulatory Innovation Center, as a place where the financial technology sector and commercial banks would be able to present their innovations and seek the interpretation of the central bank on issues.³¹

The latest EU progress report on Montenegro also points out that the capacity to detect and analyze IFFs in cryptocurrencies needs to be strengthened.³² Similar concerns were voiced by representatives of local and international CSOs. In 2022, the United Nations Development Programme recommended focusing on mitigating the risk of money laundering and terrorist financing in that area. It also recommended establishing licensing and registration requirements for virtual asset service providers, and creating an institutional framework and capacities for monitoring this sector.³³

Corruption poses a significant and tangible risk to Montenegro. In December 2022, Rade Milošević, former head of the revenue and customs administration, was arrested on charges of running a criminal organization. His resignation in October, amid an investigation into missing seized tobacco, preceded the special prosecution's claim that 90% of supposedly destroyed tobacco had been illicitly smuggled. Subsequently, several police and customs officers were arrested in the case. While allegations implicated higher levels of the United Reform Action



movement, Milošević and the party's leadership vehemently denied the accusations. They asserted that private individuals and companies were the actual culprits, and further countered that they were the victims of a political smear campaign with the alleged assistance of the National Security Agency.

These are not the only allegations of cosy arrangements between organized crime and high-level authorities. Vesna Medenica, the former president of the Supreme Court, was arrested for alleged participation in an organized crime group and charged with illegal influence. In addition, Blažo Jovanić, the former long-standing president of the Commercial Court, was arrested on suspicion of leading a criminal group, engaging in corruption and embezzlement.

International cooperation

International cooperation is the focus of the FATF's immediate outcome 2. Improvement of international cooperation has been highlighted as a key priority in all of Montenegro's strategic documents tackling money laundering and other illegal financial flows. In the past three years, significant data has been obtained from foreign police services and through the cooperation of financial investigative units.³⁴

In 2022, there was a notable increase in the total processed cases of international police cooperation, rising from 9 882 in 2021 to 10 938.³⁵ Specifically, international targeted searches, warrants and notices for individuals also saw an uptick from 3 459 to 3 978 cases.³⁶ Similarly, cooperation cases experienced growth, rising from 6 157 to 6 650 cases.³⁷ However, a significant decrease was observed in the number of foreign international warrants entered, dropping from 30 028 in 2021 to 17 566 in 2022.³⁸ There was a notable surge in 2021, with foreign financial intelligence services initiating a 170% increase in case openings, rising to 115 cases from 46 cases in 2020.³⁹ However, in 2022, this trend reversed significantly, witnessing a sharp decline to 66 cases.⁴⁰

In 2021, Montenegro amended the Law on the Prevention of Money Laundering and Terrorist Financing, based on recommendations by MONEYVAL to clarify the definitions of terrorism financing, acts of terrorism, as well as who constitutes a terrorist and what constitutes a terrorist organization. It also recommended clarifying the definition of a financial institution, virtual currencies, distribution channels, anonymous electronic money, cash, trusts and company service providers. The law was also amended to bring it in line with the international standard set out by the Vienna and Palermo conventions.

As a result of the abolition of FIU Montenegro and the creation of a new FIU within the national police in 2019,⁴¹ Montenegro ceased to be an Egmont member. As a result, the Egmont secure communication network for the exchange of operational and financial intelligence data – which had a significant impact on the FIU's capacities in performing the tasks provided for by law, primarily in the quality of information collected from international partners – was temporarily unavailable.

The new Department for the Prevention of Money Laundering and Terrorist Financing was readmitted to Egmont in November 2020, 11 months after the original FIU's membership was cancelled.⁴² Montenegro has since 2019 signed bilateral memorandums of understanding with the financial investigation units of Serbia, Kosovo, North Macedonia, Slovenia, Cyprus and Azerbaijan.⁴³ Use of a liaison officer and INTERPOL channels were agreed with the United Kingdom, while an INTERPOL channel was agreed with Bosnia and Herzegovina's Financial Intelligence Department.



Supervision

Immediate outcome 3 focuses on supervisory authorities. The AML regulation has pinpointed key supervisory institutions (see Figure 3). As per the NRA, three institutions play a crucial role in combating money laundering and illicit financial transactions: the Special State Prosecutor's Office, the Police Administration and the National Security Agency.⁴⁴

SUPERVISORY AUTHORITY	OBLIGED ENTITY
Capital Market Authority	<ul style="list-style-type: none"> ▪ Companies for the management of investment funds, branches of foreign companies for the management of investment funds and companies from EU member states that are authorized to be directly engaged in the management of investment funds in the territory of Montenegro. ▪ Companies for the management of pension funds. ▪ Investment companies and branches of foreign investment companies whose business activities are prescribed by the law that defines the capital market and that provide: <ul style="list-style-type: none"> – investment services on the capital market in Montenegro; and – ancillary services on the capital market in Montenegro. ▪ Stock exchanges and clearing and depository companies.
Insurance Supervision Agency	<ul style="list-style-type: none"> ▪ Life insurance companies and branches of foreign life insurance companies. ▪ Insurance mediation companies and insurance representation companies; and insurance mediators and insurance representatives in relation to life insurance.
Directorate for Inspection Affairs	<ul style="list-style-type: none"> ▪ Organizers of lottery and special games of chance and online games of chance or games of chance that use other telecommunications means. ▪ Non-profit organizations
Tax administration	<ul style="list-style-type: none"> ▪ Pawnshops
Bar Association of Montenegro	<ul style="list-style-type: none"> ▪ Lawyers and law offices
Notary Chamber	<ul style="list-style-type: none"> ▪ Notaries
Ministry of Finance	<ul style="list-style-type: none"> ▪ Other business organizations, legal persons, entrepreneurs and natural persons engaged in an activity or business of: <ul style="list-style-type: none"> – forfeiting; – auditing, independent auditor, accounting and providing tax counselling; – providing services of founding legal persons and other business organizations, as well as business and fiduciary services; – management of property for third persons; – issuance and management of payment instruments (e.g. cheques, traveller's cheques, credit card, bank promissory notes, payment orders, debit cards), not considered payment services in accordance with the law governing payment operations; – granting loans and mediation in contracts granting loan activities; – investment, trade and mediation in real estate trade; – trade of motor vehicles if the payments are made or received in cash in the amount of €10 000 or more, regardless of whether it is one or several linked transactions; – trade of vessels and aircraft if the payments are made or received in cash in the amount of €10 000 or more regardless of whether one or several linked transactions; or – organizing and conducting biddings, trading in works of art, precious metals and precious stones and precious metal and precious stone products, as well as other goods, when the payment is made or received in cash in the amount of at least €10 000, in one or several linked transactions.

FIGURE 3 Overview of supervisory authorities for obliged entities in Montenegro.

Source: Government of Montenegro, Law on the Prevention of Money Laundering and Terrorist Financing, <https://www.gov.me/en/administration-for-prevention-of-money-laundering-and-terrorist-financing/legislation>

Montenegro has implemented institutional-level reforms in line with best practices. In accordance with the European Commission's recommendations in 2015, the Special Prosecutor's Office was established, specifically tasked with handling the criminal offences of terrorism and terrorist financing.⁴⁵ Additionally, a Special Police Department was created within the Police Administration to address terrorism-related issues. This department collaborates directly with the Special Prosecutor's Office, focusing not only on terrorism but also on areas such as arms smuggling, organized crime and money laundering.

To ensure effective investigations and prosecution within the jurisdiction of the Special Prosecutor's Office, a legal provision exists for the formation of investigative teams comprising personnel from this office, as well as the Police Administration, tax administration and customs administration. The coordination of the investigation team's work falls under the responsibility of the Special State Prosecutor.

In April 2019, changes to rules governing the structure of the police enabled the formation of the Department for the Prevention of Money Laundering and Terrorist Financing, adopting the FIU police model.⁴⁶ This restructuring replaced the former Administration for the Prevention of Money Laundering and Terrorist Financing and established the Department for Financial Intelligence Affairs within the Police Administration.

The objectives were to reinforce the obligation of reporting entities to comply with reporting requirements outlined in the AML/CFT law, enhance the consistent application of indicators for identifying suspicious transactions, and rebuild trust and partnerships between the FIU and reporting entities. These efforts directly contributed to an increase in the number of reported suspicious transactions. This new FIU now assumes all responsibilities previously handled by the former FIU. Furthermore, the officers of the FIU police model are also responsible for implementing other laws, including the Law on Internal Affairs, the criminal procedure code and other relevant regulations.

Montenegro's National Security Agency carries out a range of activities involving the collection, recording, analysis, evaluation, utilization, exchange, storage and protection of data as defined in Article 6 of the Law on the National Security Agency. Continuous efforts are being made to enhance intelligence data-gathering capacities. The agency includes a dedicated department focused on the security challenge of terrorism; this department undertakes necessary intelligence and preventive actions.

The AML/CFT law explicitly designates the Capital Market Authority as the overseeing authority for enforcing this law and its associated regulations within the realm of capital market entities. The laws pertaining to capital markets, investment funds, and voluntary pension funds intricately outline the powers, complete supervisory structure and procedures bestowed upon the Capital Market Authority for overseeing institutions engaged in securities activities. This comprehensive framework ensures robust supervision in the prevention of money laundering and terrorism financing.

Prevention

Immediate outcome 4 in the FATF methodology centres on preventative measures. Prevention of IFFs and money laundering overall is stipulated in detail in the NRA.⁴⁷ To effectively combat money laundering, the NRA highlights the need to strengthen the existing legal framework in specific areas. Additionally, increased efforts should be dedicated to identifying criminal offences that generate illegal proceeds, tracing assets obtained from criminal activities and implementing appropriate investigative measures. These actions will contribute to a higher number of identified and prosecuted money laundering cases, resulting in more convictions and the confiscation of proceeds through financial investigations or money laundering charges.



Improving technical capacities and information systems is crucial, including the integration of available databases. This integration will enable the optimal utilization and analysis of existing databases using advanced analytical tools.

Continuous training and development programmes should be provided to personnel involved in the AML system, including authorized individuals in reporting entities, supervisory authorities, investigative and prosecuting agencies and judges. Given the evolving nature of money laundering with modern technologies and products, ongoing training for all participants in the system is essential. Raising awareness among relevant authorities and the general public about the importance of this issue is similarly critical. Adequate allocation of essential resources is also necessary to achieve the objectives in this field.

To ensure success, close and intensive cooperation among institutions engaged in combating money laundering is indispensable. The prosecutor assumes a pivotal role as the coordinator in this process, requiring a high level of expertise to manage the actions of others efficiently and increase the number of convictions.⁴⁸

Addressing the identified organizational issues in statistics, which are managed differently across institutions dealing with similar matters, is crucial. This can be accomplished by implementing electronic databases and standardized statistical forms that establish connections among institutions. Establishing comprehensive networking systems will further enhance the overall effectiveness of the system.

Private sector

Immediate outcome 5 centres on legal persons and arrangements. The scale of IFFs is difficult to pin down in Montenegro, all interviewees agree, as there is no proper evaluation and research, since official data is deficient. However, estimations exist to gauge this phenomenon.

Excluding reversals and using methods such as narrow trade misinvoicing, estimates indicate illicit financial inflows at 3.95% of Montenegro's GDP, with outflows at 4.10%.⁴⁹ The country is most vulnerable when it comes to inward foreign direct investments, mostly from Italy, Russia and the United Arab Emirates.⁵⁰

These figures are in line with official calculations. According to finance ministry reports, Montenegro's illicit outflows are equivalent to 4.1% of GDP.⁵¹ The details and methodology on how Montenegro calculated this ratio remain undisclosed.

A former senior official at the central bank told the GI-TOC that the impact of the illegal flows could be estimated through certain indicators in the private sector, both in terms of frequency and value.⁵² According to this source, certain segments of economic sectors are expanding disproportionately without any fundamental reason, notably games of chance and construction work, with the latter categorized as trade-based money laundering. Data from Montenegro's Chamber of Commerce shows that in the first three quarters of 2022, the value of construction market activity was slightly above €500 million, nearing a pre-pandemic peak reached in 2019.⁵³

Various international reports have made clear that Montenegro's economic citizenship programme (golden visa scheme) poses a significant risk when it comes to IFFs.⁵⁴ Despite a decision to end this scheme in 2021, the then government prolonged it for an additional 12 months to December 2022. The former government had publicly committed to phasing out the scheme by December 2022;⁵⁵ however, in June 2022, it decided to lower the requirements to apply for it. In its fourth and fifth reports under the visa suspension mechanism, the European Commission urged Montenegro to phase out the investor citizenship scheme completely as soon as possible.⁵⁶ Montenegro has not yet implemented this request. According to official data, Russian, Chinese and Turkish citizens top the list of beneficiaries of this citizenship programme.⁵⁷

Meanwhile, bank deposits in Montenegro have grown substantially since early 2022, due to Russians and Ukrainians coming to Montenegro after the start of the war in Ukraine.⁵⁸ Since then, a set of new rules has been adopted in the banking sector, especially for Russians, who cannot bring more than €100 000 into Montenegro per person, because all other money is frozen until the sanctions are lifted, according to a senior official at a commercial bank.⁵⁹

The short-term effect on the financial sector of the influx of 70 000 foreigners, mostly Russians, Ukrainians and Turks, is sector growth of more than 10%, equating to more than 20% of GDP through aggregate demand, according to the same official. The inflow from VAT has also increased and the amount of money in circulation is also physically greater.⁶⁰

Commercial banks have been reporting every week on Russian and Ukrainian deposits since the beginning of the war. The procedures are fully harmonized with those applied in the EU and commercial banks comply with them, thus avoiding illegal financial flows.⁶¹

Trade in foreign currencies in Montenegro is growing significantly, predominantly through companies opened by Turkish citizens. Since leveraged trading of the Turkish lira is prohibited in Turkey, many of these transactions are carried out through Montenegro. The state has virtually no insight into foreign currency trades that take place on its territory, according to the senior official at a commercial bank.⁶²

Financial intelligence

Immediate outcome 6 centres on financial intelligence. Montenegro's FIU was established in 2004 as the Administration for the Prevention of Money Laundering and Terrorist Financing. In 2019, the FIU transitioned from an administrative to a police model while maintaining operational independence through legal amendments.⁶³ The Department for Financial Intelligence Affairs has been integrated into the Police Administration.⁶⁴

According to the AML/CFT legislation, the FIU focuses on collecting, analyzing and providing data for detecting and prosecuting money laundering and terrorist financing. It conducts in-depth analyses of relevant data, informs competent authorities upon identifying suspicious activities and collaborates with various databases. The FIU's key tasks include monitoring and blocking financial transactions to combat illicit financial activities effectively.

The FIU's organizational structure significantly influences the quality of financial intelligence information collection. In the previous administrative model, despite good statistics, forwarded information lacked clarity, hindering prosecutors in gathering evidence for money laundering cases. The reports often remained incomplete, lacking necessary conclusions and directions for further investigation.

According to the NRA, the FIU collaborates with reporting entities. Daily, the FIU handles a substantial volume of data, encompassing suspicious transaction reports, cash transactions exceeding €15 000 and other obligations related to client monitoring. In 2022, the FIU received information from commercial banks about 39 068 cash transactions (compared to 38 876 in 2021). Notably, transactions over €15 000 numbered 38 974 (compared to 37 807 in 2021).⁶⁵ This underscores the FIU's crucial role in preventing illicit financial activities. Electronic reporting of cash, suspicious and other transactions can be submitted through the FIU portal.⁶⁶ The portal enhances the efficiency of data collection for analytical reports, aiding in identifying potential money laundering, related predicate crimes, or terror financing offences.⁶⁷

If the FIU identifies potential money laundering or terrorism financing in a case, it notifies the relevant prosecutor's office through an analytical report setting out the reasons for suspicion and supporting documentation. The FIU also has the authority, without prior notification, to independently raise suspicions and request additional information from taxpayers and other authorities to verify suspicions.⁶⁸



Evading formal money transfer systems by physically transporting cash across borders also poses a distinct challenge. The AML/CFT regulations mandate reporting any cash transfer exceeding €10 000 to the customs administration. The customs administration is in turn obliged to notify the FIU about the individual possessing the cash. Moreover, when identifying non-declared money transfers, without evidence linking them to a criminal act, they are often treated as customs violations. In such cases, funds are returned upon payment of fines, rendering the system inefficient and inadequate for property confiscation.⁶⁹

Controls on suspicious transactions have been greatly intensified in recent years and are carried out at several levels (see Figure 4).⁷⁰ Research for this report reveals that commercial banks carry out very detailed control of all financial transactions and special attention is paid to high-value transactions and those originating abroad. On the other hand, there may be significant underreporting from some sectors such as real estate, or games of chance.

ENTITIES REPORTING SUSPICIOUS TRANSACTIONS	2020	2021	2022
Obligated entities (banks, exchange offices, trust funds, etc.)	234	285	234
Government bodies	126	140	90
National FIU initiative	57	25	33
Foreign FIU initiative	46	115	66

FIGURE 4 Suspicious transaction counts filed.

Source: Ministry of Internal Affairs of Montenegro, *Izveštaj Ministarstva unutrašnjih poslova o radu i stanju u upravnim oblastima sa organizacionom jedinicom Ministarstva nadležnom za policijske poslove za 2021. godinu*, May 2022; *Izveštaj o radu i stanju u upravnim oblastima iz nadležnosti Ministarstva unutrašnjih poslova, sa organizacionom jedinicom Ministarstva nadležnom za policijske poslove za 2022. godinu*, April 2023

Montenegro does not have a centralized register of bank accounts, nor is a register of beneficial owners available yet (although it has been proposed). Data in the state cadastre is often outdated. All these factors create obstacles to financial intelligence efforts.

Investigations

Immediate outcome 7 centres on investigation and prosecution. In the three years to the end of 2022, Montenegro's track record in terms of investigations into money laundering continued to improve, according to the European Commission (see Figure 5).⁷¹ Over the period 2016 to 2022, Montenegro launched 80 financial investigations.

However, based on our research, only two investigations were successfully completed.⁷² Since 2021, Montenegro's prosecution has initiated 26 new financial investigations and all of them are pending.

TYPE OF INVESTIGATION	2020	2021	2022
Full investigations	7	n/a	5
Preliminary investigations	10	31	18

FIGURE 5 Money laundering-related full and preliminary investigations.

Source: European Commission

In 2022, the FIU received a total of 299 reports on suspicious transactions and forwarded 62 notifications to law enforcement agencies.⁷³ This led to the initiation of 18 preliminary investigations and five full investigations. According to the NRA, the Special Prosecutor's Office predominantly initiates financial investigations, highlighting limitations in other prosecutorial offices. Amendments to the Law on Confiscation of Proceeds of Crime in 2019 introduced provisions that notably streamlined the initiation process.

The number of money laundering cases brought before the courts has increased, including cases where money laundering was the primary offence. However, the number of court decisions related to money laundering remained relatively low, with only two verdicts reached against three individuals in 2021, both of which were based on plea bargains.⁷⁴

As of the end of June 2022, there were nine pending money laundering cases before the courts, four of which were stand-alone money laundering cases. One ongoing complex case is that of Atlas Bank. This case began in April 2019 and involves 248 defendants who were indicted for charges related to the creation of a criminal organization, money laundering and tax evasion. The case has been sent back to the Special Prosecutor's Office for further investigation.⁷⁵

In most cases, financial investigations are launched after the criminal investigation, which is too late according to interviews and expert reports.⁷⁶ In a very few cases, financial investigations were conducted in parallel with criminal investigations. Financial investigations should be launched in parallel with criminal investigations into organized or serious crime, to trace and confiscate the financial flows behind the criminal activities.

In the preliminary investigation phase, there were not enough parallel financial and criminal investigations that would prove the elements of criminal offences – financial proceeds and property obtained by committing criminal offences or criminal activity. This limits the scope for timely detection and confiscation of illegal proceeds.

Confiscation

Immediate outcome 8 centres on the confiscation of criminal proceeds. Montenegro's legislation thoroughly addresses the confiscation of proceeds obtained through criminal offences, governed by the criminal code, criminal procedure code, and the Law on the Confiscation of the Proceeds of Crime. The latter regulates the seizure and confiscation of the proceeds of criminal activities, and outlines procedures and other relevant aspects. It also covers the management of seized assets, items from legal proceedings and properties used as bail.

Over the period 2016–2021, the Special Prosecutor's Office permanently confiscated two apartments and 3 063 square metres of land proven to be criminally acquired. However, official data on confiscation in 2021 does not garner much optimism. No final court orders on asset confiscation were issued that year. At the same time, just two decisions on temporary seizures were issued.⁷⁷ Just a year before, Montenegro had issued 15 final confiscation orders for a total of €5.8 million of assets, including real estate. Twelve decisions on temporary seizures were issued in 2020.⁷⁸ Recourse to the confiscation of assets of equivalent value, in cases where the proceeds of the crime itself cannot be traced, still needs to be inserted into the legal framework.

Also, even when illegal money transfers are discovered, if there is no evidence that the transfer is related to a criminal act, it is usually just classified as a customs violation, and the funds are returned when the owner pays the fine. The system is therefore inefficient and does not enable the confiscation of property in an adequate manner.⁷⁹

According to media, the Special State Prosecutor's Office in Montenegro consistently temporarily seizes property during ongoing court proceedings. However, the same seized property is often returned, leading to financial losses for taxpayers who pay millions in damages from the budget due to improper maintenance or lost profits on the temporarily confiscated property.⁸⁰

In an ongoing recent case, Montenegro faces a multibillion-euro lawsuit over gemstones seized by police in 2012. Montenegro's courts deemed the gemstones to have been brought into the country illegally, and ordered their permanent confiscation. The case involves two South African citizens who registered a company with minimal capital; the company has filed no financial activity or reports for years.⁸¹

Investment in the capacity of the Asset Recovery Office, which resides in the police unit in charge of international police cooperation, has led to an increase in the number of assets detected and traced, according to the NRA.⁸² In 2021, this office received 65 requests from foreign partners, to identify assets acquired through criminal activity, involving checks on 277 individuals and 31 legal entities. Seven requests sent by the office to foreign partners were processed, involving checks for 114 individuals and two legal entities.⁸³

In late 2022, proposed amendments to the 'anti-mafia law' were presented to parliament with the goal of streamlining the confiscation of criminal assets. However, these changes encountered strong pushback and thus have not yet been adopted.

Non-profit organizations in the prevention of IFFs

Immediate outcomes 10 and 11 focus on terrorist financing preventive measures and proliferation-related financial sanctions. The FATF encourages countries to assess the vulnerability of non-profit organizations to infiltration or capture by individuals or networks seeking to channel funds to terror groups. According to Montenegro's most recent NRA, no CSOs have been identified as participating (or harbouring the intention of participating) in terrorist financing activities.⁸⁴ CSOs were therefore not considered a threat in terms of terrorist financing and are not specifically addressed or regulated within the national legal framework for countering terrorist financing.

Broadly, civil society is regulated by the Law on Non-governmental Organizations.⁸⁵ The role of civil society is becoming more visible in monitoring the conduct of government and security institutions, but the current legal framework in terms of freedom of information and overall transparency needs to be further improved. There is a great interest displayed by civil society and the media in the field of money laundering in Montenegro. However, their capacities and understanding of IFFs should be enhanced to improve the effectiveness of their scrutiny.



RECOMMENDATIONS FOR POLICYMAKERS

To enhance the overall approach to countering IFFs, several comprehensive measures are recommended:

- Improve the legal framework for supervision, increase checks at reporting entities, enhance training systems, and elevate the level of transaction analysis and reporting of suspicious transactions.
- Foster collaborative efforts between the government, civil society and the media to develop campaigns that raise public awareness about the detrimental impact of IFFs on the economy, development and social welfare. Emphasize the urgency of addressing IFFs and the necessity of policy reforms.
- Review the legal and operational approach to financial investigations, asset recovery, and the fight against money laundering and tobacco smuggling. Align these efforts with EU and international standards, to establish a robust track record in these areas.
- Improve the effective utilization of financial investigations for asset seizure and confiscation. Conduct targeted risk assessments for sectors most susceptible to corruption, ensuring dedicated action plans.
- Improve the track record of court decisions on money laundering and IFFs, enhance the integration of financial investigations into court proceedings and bolster wider institutional capacity for confiscating the proceeds of crime.
- Establish mechanisms for evidence collection to enhance the quality and quantity of IFF data. Identify government institutions and decision-making processes affected by institutionalized political corruption, also known as state capture.
- Implement coordinated actions against IFFs, money laundering and illegal asset seizure in collaboration with other countries in South Eastern Europe.
- Effectively enforce EU sanctions against Russia and review strategic investments from Russia, China and Turkey, especially those stemming from the citizenship scheme.
- Tackle institutional vulnerabilities related to illicit finance, such as lax regulation of investment screening.
- Enhance capacity to detect and analyze IFFs involving cryptocurrencies, adapting to the evolving landscape of digital financial transactions.
- Implementing these measures collectively will contribute significantly to a more robust and effective framework for combating IFFs.



Notes

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