



Uncovering
illicit
financial
flows

**HANDBOOK
FOR
JOURNALISTS**

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TRANSFERRING MONEY

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**GUIDE BOOK:
FOLLOWING
DIRTY MONEY**

Ivan Angelovski

Introduction

The term “illicit financial flows” was coined by Global Financial Integrity, a US-based NGO, to replace all other terms like illicit capital flight, black market out-flows and other.

It was later accepted and used by the IMF, World Bank, the United Nations and others.

Basically, it describes illegal movements of money or capital from one country to another. If the funds are illegally earned, transferred or utilized across an international border, it is deemed an illicit financial flow.

Basically, it’s another term for moving dirty money.

But what does it mean and how does it work?

So, you’re a crook, small time, big time, it doesn’t matter.

You have some dirty money on the side that does you little good, and risks you becoming a target for law enforcement.

What do you do?

Of course, you can split some of it with law enforcement or other public officials who can protect you, but if you want to do something more meaningful with it, what do you do?

Your priority is to clean it up and, if you know the right people, and they’re not so hard to find, you’ll see that the international financial system is tailor-made for you.

Money laundering flourishes in darkness, so the people involved like to keep things quiet.

It’s also an operation on a global scale; money travels in an instant, and can get from one side of the world to another in a few clicks, so it’s very hard to estimate its scale.

The International Monetary Fund, IMF, estimates that money laundering could account for between 2 and 5 per cent of the world’s Gross Domestic Product, GDP.

The United Nations Office on Drugs and Crime, UNODC, in 2011 reckoned it accounted for about 2.7 per cent of global GDP.

Either way, trillions and trillions of US dollars are being routinely washed and cleaned for the criminals of the world to enjoy.

The three stages

As defined by the Financial Action Task Force on money laundering, FATF, which was established by the G-7 Summit in Paris in 1989, money laundering involves three stages: placement, layering and integration.

The first stage, placement, means putting dirty money into the legal system. A criminal or a corrupt politician can do this in a number of ways.

For example, they can split it into smaller chunks of cash and make multiple deposits to different bank accounts that don't raise suspicion.

This stage often happens close to where the crime took place because dirty money needs to be placed somewhere before it can safely cross borders, which most often happens in the second phase.

The second phase, layering, is when the money is sent as far away as possible. Criminals do this to distance themselves from the money, and the global financial system helps them at this stage.

Favourite destinations are offshore zones that take pride in their secrecy.

Almost every news report about offshores carries a disclaimer saying not every offshore company is used for money laundering.

This, for example, is from the Offshore Leaks database of the International Consortium of Investigative Journalists, ICIJ:

“There are legitimate uses for offshore companies and trusts. We do not intend to suggest or imply that any people, companies or other entities included in the ICIJ Offshore Leaks Database have broken the law or otherwise acted improperly.”

While this is true from the legal point of view, for investigative journalists there's a story behind every offshore company. The sole purpose of going offshore is to hide or avoid something, and the sole purpose of investigative journalism is to uncover what some want to hide. The only question is whether there is a public interest to do that, and often there is.

Beside offshores, money can be layered in other business or world banking centres – anything with enough financial or business infrastructure to allow money to get lost.

Money in this layering stage can cross multiple borders, multiple times, until the time comes time for it to be invested back, as clean cash.

That's the third phase, integration, when the criminals invest the cleansed cash wherever they want – in business, real estate, status symbols or whatever they please.

Where does it come from?

All criminal acts are sources of dirty money, and all of them have their specifics.

The most dangerous criminal act or behaviour, from a journalistic point of view, is corruption among public officials, because it has greatest impact on the public interest.

That corruption, according to FATF, can take many forms; it can be bribes or kickbacks from dirty businesses, extortion, a conflict of interest, or embezzlement of the budget in many shapes and forms.

Bribery is the most common form of corruption; it proceeds from a private person or legal entity to a government official, directly or through an intermediary. Bribe is always used to get some kind of government favour, such as a contract, immunity from prosecution, information about the ongoing case, or extraction rights for oil, gas, rare metals, etc.

The intermediaries can be family members, their associates, high-school buddies, shell companies or trusts where the corrupt official is the beneficial owner – anything you can imagine. The money may never touch the home country of the corrupt official. FATF cites the case of a Bangkok film festival in which two promoters bribed Thai officials for the rights to sponsor a government-funded film festival.

“The bribes were paid simply by means of the wire transfer of funds from US-based accounts, where the promoters were located, into offshore accounts in third countries maintained by family members of the PEP. The bribes never passed through Thailand, although that was the locus of the corrupt activity,” FATF explained.

Government officials can also create extortion schemes to get money. They can demand a split of the profit. That is similar to a bribe, but, in this case, it’s not the private entity that bribes the corrupt official; the official asks for a bribe himself.

FATF notes the example of Pavel Lazarenko, a former prime minister of Ukraine, who regularly required companies to split the profits with him if they wanted to do business in the country. The companies would transfer a share of ownership to Lazarenko’s associates or family members, and the money would be wired to offshore accounts he controlled.

Self-dealing, on the other hand, happens when government officials, or people connected to them, own companies that get money from the state budget in the form of grants, or government contracts for goods or services, or other ways.

It doesn't matter if the official directly decides on where the state money goes, though it's often the case.

The US Senate's Permanent Subcommittee on Investigations in 2010 reported about Teodoro Nguema Obiang, then Minister of Agriculture and Forestry in Equatorial Guinea and son of the country's President.

As Minister for Forestry, Obiang "instituted a large 'revolutionary tax' on timber", but insisted that the tax payments be made directly to him in cash or through cheques to his company.

"The prosecutors suspect that most, if not all, of Teodoro Nguema Obiang's assets are derived from extortion, bribery or the misappropriation of public funds," the report said.

In the meantime, Obiang became a Vice-President of Equatorial Guinea.

Where does it end?

According to a report prepared for the European Commission, *From Illegal Markets to Legitimate Businesses: The Portfolio of Organised Crime in Europe*, almost all EU Member States register evidence of investments by criminal groups in their legitimate economies.

“Legal companies are often used by [organized crime groups] to cover illicit activities and as ways to infiltrate the local political and business community and the public administration,” the report states.

It said bars and restaurants, construction, wholesale and retail trade, transportation, real estate and hotels all showed high and medium evidence of infiltration by organised crime.

“Emerging sectors are waste and scrap management, renewable energy, casinos, video lottery terminals and slot machines, money service businesses,” researchers concluded.

Everything can be used to launder money. Even artworks.

Recently, on October 30, 2020, the US Treasury Department issued advisory guidance on the potential risk of sanctions arising from dealings in high-value artwork.

Features of the market in high-value art, such as a lack of transparency and a high degree of anonymity and confidentiality, especially concerning the sale and purchase of art, make art attractive for criminals and corrupt politicians.

They use shell companies and intermediaries to purchase, hold, or sell artworks and receive payments.

“These avenues for maintaining anonymity allow blocked persons and other illicit actors to obscure their true identities from other market participants and help to hide prohibited conduct from law enforcement and regulators. The mobility, concealability, and subjective value of artwork further exacerbate its vulnerability to sanctions evasion,” the US Treasury Department said.

The most important words there are “anonymity and confidentiality.”

Money laundering thrives in secrecy.

In 1913, Louis Brandeis, Associate Justice of the US Supreme Court, wrote a series of articles, later published as a book: *Other People's Money and How the Bankers Use It*.

A must-read for every journalist and activist fighting corruption and organised crime, it shows these things didn't start recently and are as old as civilization.

Brandeis wrote that, “publicity is justly commended as a remedy for social and industrial diseases”, naming organised crime and corruption. “Sunlight is said to be the best of disinfectants,” Brandeis added.

And, while a lot of information is still secret, the public now has much more information on financial dealings.

The people who assist the remedial action that Brandeis advocated are investigative reporters.

The amount of information at hand now is far greater than ever before, and while it’s far from perfect, it’s the best it ever was.

Moving money across borders is second nature to organized crime and corrupt politicians. Their dirty or washed money is made internationally and moves internationally, seeking the best investment opportunities.

Corrupt politicians from North Macedonia can invest in apartments in Switzerland or gold mines in Africa. Mafia bosses from Montenegro can run restaurants in New York or invest in their own countries. Moroccan drug dealers sell drugs in France but invest the money in real estate back home. Balkan drug dealers ship cocaine from South America to Spain and the Netherlands but then privatize companies, or buy land in Serbia, or invest in tourism projects in Montenegro. Chinese sex traffickers make money in Italy but invest back home in China.

So, being able to track money flows across borders and jurisdictions is an important skill for every investigative journalist.

Follow the Money

The phrase “Follow the Money” dates back to the Watergate scandal surrounding the Nixon administration in the US in the mid-1970s, and the **1976** movie about it, *All the President's Men*. In an underground car park, Hal Holbrook's character, “Deep Throat”, says it to *Washington Post* reporter Bob Woodward, played by Robert Redford.

The real “Deep Throat,” the FBI Associate Director, Mark Felt, never actually said these words to Woodward. It was just a good catch phrase for the movie, which then transcended into pop culture and collective memory, but the idea behind it is as old as the law itself.

The Latin proverb, “Cui bono?”, which translates as “Who benefits?” stands as a principle in any criminal inquiry: who actually benefits from the crime?

As one study suggests, in all the corruption cases analyzed by the World Bank, the most favoured way to hide corruption is to use some kind of corporate vehicle, whether it's a company, trust, foundation, or fictitious entity.

So, finding out who's behind which company is the priority.

To get into that, you need to learn to dig through international corporate registries.

All company data are kept in company registries. Their role is to take a record of new legal entities, compile all required information, keep that information up to date and make a portion of the information available to the public.

That's a matter of transparency. Some registries are great, offering a lot of company information to the public. Some don't reveal anything.

Registries are government depositories, and can depend on the country's politics – whether they want to be transparent or not. Some offshore destinations take immense pride in being opaque. That's their selling point to people who don't like anybody sneaking into their business.

Registries don't conduct any kind of quality control. They just archive records from companies and log them, making sure all the procedures are correct. If the procedures are met, they're good to go.

Everything else is the job of other government agencies, and investigative journalists.

So, what can you expect from a business registry?

It depends on the country, but in almost every case you'll find proof of the business's existence and legal status – the name of the company, type of organisation, registration date, addresses of a

registered office, names of registered agents, and sometimes their addresses or dates of birth. In some cases, if you're lucky to research a Bulgarian company, the registry will give you the names of previous owners.

Sometimes you'll find financial information, some company documents, names of principals, and names and personal details of legal or natural persons who own the capital.

The problem is that in a lot of registries you find so-called "nominee arrangements". Those are people who assume management or ownership of a company on behalf of somebody else, which is why you may find hundreds of companies registered to the same mailbox.

Online business registries can be great, but the best option to go through business records is to go to the company registry in person.

Most of them will let you come and comb through the archives of a specific company.

Often, you'll find a great level of detail, scanned documents, identity information, etc.

A lot of registries in the world are now online, making access easier for journalists. You can sit in a newsroom in Skopje and browse business information in Moscow or Hong Kong.

However, the level of access varies. Some registries only give the company name, and whether it's registered in a certain jurisdiction.

Others provide an advanced search option, and give company documents, and extensive details on owners, and even on beneficial owners.

Beneficial ownership

The “Cui bono?” idea is also behind the push for public beneficial ownership registries, which is what the EU’s fifth anti-money laundering, AML, directive is all about.

The beneficial ownership concept is proof that the international community admits that the current business system makes it easy for people to play the shell game and hide ownership.

The rules laid out in the 5th AML directive were supposed to help increase transparency about who is really behind legal entities, and stop people from money laundering while safely hiding behind murky establishments. With new rules and centralised bank account registers, Financial Intelligence Units would also get instant access to crucial information about money laundering.

While the idea is a good one, there are ways to go around it. Serbia, for example, has its own beneficial owner’s registry. You must register on the website to get into it, but once you do, you’re free to roam.

In 2019, BIRN published a story on a group of Hungarian, Serbian and Slovenian companies that had won 25 million euros’ worth of contracts to refurbish street lighting in several Serbian towns.

It was happening at a time when political relations between Serbia and Hungary had begun to flourish. After a few high-level meetings between Serbian President Aleksandar Vucic and Hungarian Prime Minister Viktor Orban, companies from these two countries started to work much closer together.

The investigation by BIRN and Hungarian news outlet Direkt36 revealed that the companies that led this process were connected to businesspeople close to the inner circles of Orban, Vucic and Serbia’s Prime Minister, Ana Brnabic.

The group included Balint Erdei, a friend and former business partner of Orban’s son-in-law, Istvan Tiborcz, and Radovan Đumić, whose company, Keep Light, prospered thanks to the public contracts it was winning. Others were Dragoljub Zbiljić and Nenad Kovač, businesspeople with links to Vucic’s ruling Serbian Progressive Party, and Mark Crandall, a former boss of Brnabic’s.

Why were these contracts important? Because the whole arrangement remarkably looked like a scheme investigated by the European Union’s anti-corruption arm, OLAF, in which Hungarian public lighting was refurbished by Elios Innovativ, a company once run by Tiborcz and Erdei.

In the early 2010s, Hungary started upgrading its own street lighting, with the European Union pledging help with funding. A lead role in the refurbishment was played by the company ELIOS Innovativ Zrt.

Elios was established in 2009 and originally run by Tiborcz, husband of Orban's eldest daughter, Rahel, and his friend, Erdei.

After OLAF investigated 35 projects carried out by the company it noted "serious irregularities" and "conflicts of interests" in all of them, with "mechanisms of organised fraud" in almost half of them.

However, OLAF can only issue recommendations to the relevant national and EU authorities. After Hungarian authorities launched an investigation into the ELIOS case, its police said they "had uncovered no crime".

The irregularities that OLAF uncovered included the fact that the technical requirements and prior experience required under the tender "were often unnecessarily high and/or not related to the subject of the contract".

"ELIOS was also often the only bidder, and when it did face competition, those companies often later appeared as subcontractors to ELIOS, raising further questions about the competitiveness of the bidding process," BIRN reported.

BIRN found much the same in the Serbian streetlighting projects. Hungarian ELIOS founded its Serbian subsidiary, ELIOS SRB in 2014. Besides that, the BIRN/Direkt36 investigation uncovered close links between the original ELIOS and three other companies – ESCO ELIOS, ENEF-Energetska Efikasnost, and U Light, a Serbian branch of the Hungarian company of the same name.

In different contracts, with different arrangements, they partnered with Serbian companies close to the ruling Serbian Progressive Party and, in the case of one company, with a connection to Prime Minister Brnabic.

Those companies were Energotehnika Juzna Backa, Resalta, Keep Light, Elektromontaza Kraljevo and Somborelektro.

However, had people looked only at the beneficial ownership registry in Serbia for some of those companies, they wouldn't have had a clue about their high-profile connections.

As the beneficial owner of Resalta, for example, it listed Marko Mrzel, who is actually the company's CEO.

So, beneficial ownership data is useless if companies want to hide who is actually behind them.

In the example of Resalta, although Mrzel was listed as the beneficial owner, the listed owner of 100 per cent of the capital was the Slovenian company Resalta družba za upravljanje energetske storitev.

And to uncover who is behind that, journalists needed to go to Slovenia's business registry, where they found that, at the time, the owner of the Slovenian company was a Dutch company, GGE Netherlands BV.

So, they then needed to go to the Dutch registry, where they had to buy data to see that the owner of the Dutch company was a Luxembourg-based company, PS Ventures, with the registry number B198284.

Then they needed to go to Luxembourg business registry to find that there was no company there called PS Ventures, but that there was a company with the registry number B198284 whose full registered name was Postscriptum Ventures S.a.r.l. Its owners were companies from the British Virgin Islands, Singapore, and Monaco.

Now it starts to look like a rabbit hole. However, in line 10.1 of the Luxembourg registry, journalists found a familiar name: Mark William Crandall, with an address in Belgrade, Serbia.

Crandall is US citizen who, according to his own biography, established the Serbian company Continental Wind whose CEO, before she started to run the Serbian government, was Brnabic.

And, while journalists cannot confirm Crandall as the owner of Resalta, they detect a connection between Brnabic and a company that was a part of the 25m-euros-worth scheme to refurbish lighting in Serbian municipalities.

To link the whole story out, reporters had to delve into Serbian, Hungarian, Slovenian, Croatian, Swiss, Dutch and Luxembourg business registries.

Registries

Knowing where to find those registries and how to navigate them was the most important skill for this story and probably every other story dealing with money changing hands.

There are several important things you need to know about the company in order to search for information.

What is the jurisdiction? Is it an LLC or a JSC or some other legal form? What's the legislation? Are its financial statements open or not? How open is the country's business registry in general? Do you need the registration number of the company – can you get its address? Do you need to pay for information or just register for access?

Every country is different. Bulgaria's business registry is very open as is the United Kingdom's. In Cyprus, on the other hand, or the Netherlands, you can search for basic information, but you need to pay for ownership data or financial records. It's not expensive if you need to check just a few companies, but if you're working on a complex story, the sums can add up.

Things are different with joint stock companies that are publicly traded on stock markets. Their information needs to be transparent, so it's much easier to do a search. The United States' Securities and Exchange Commission is a good example, as is the Canadian Securities Commission.

A lot of money goes through the United States and Canada, so it's a good idea to keep an eye on those databases and learn how to use them.

The best way to learn business searches is by doing them, but there are some useful shortcuts.

Open Corporates, for example, is the largest open database of companies in the world. It's free and simple to use, and you can search under company names or the names of people involved.

A search for "Resalta", for example, produces 14 companies in nine jurisdictions – from Belgium to Colorado to Spain. Following the search results produces more details, but those details depend on the level of openness of the official business registry.

You'll still have to go to the official registry to confirm the information because you don't want to end up with a Mexican construction company when trying to link the Serbian Prime Minister to her former boss.

The same goes when you search the names of people. A search for "Marc Crandall" produces 29 results in five jurisdictions. While that is useful to point you in the right direction, you'll still have to go through official channels – finding the business registry of each jurisdiction and confirming that the person behind the name is the person you're looking for.

The ICIJ's OffShore Leaks Database offers data on 785,000 offshore companies, foundations and trusts from the Panama Papers, Offshore Leaks, Bahamas Leaks and Paradise Papers investigations, and can be extremely helpful in detecting links between people.

The Organized Crime and Corruption Reporting Project, OCCRP, offers an especially useful archive of research material scraped from online sources in more than 300 datasets. OCCRP utilizes the Aleph suite of data analysis tools. These process data, run optical character recognition in PDF's and images and find entities, names and countries.

BIRN also uses Aleph at source.bird.tools, part of the BIRN Investigative Resource desk that's updated daily with new datasets.

All those services collect available leaks or crawl through the web, scraping available business registries and putting all the data in one convenient place.

However, these free options often don't have the details that are behind paywalls or captchas or are in some other way complicated to scrape.

That's where paid services come in.

They offer some of those details, but not for free. Since they're mostly used by businesses to keep an eye on competition, the subscription costs can be high.

Databases such as Nexis and Orbis are overwhelming and have loads of data. Spark-Interfax has lots of information on Russia, Ukraine, Kazakhstan, Belarus, Kyrgyzstan, Moldova and Cyprus, while Sayari has a good mix of Asian, Latin American, former Soviet state and Middle Eastern databases.

Reading financial data

Financial data, after ownership, is the next most important information about the company you'll need to look for.

Balance sheets provide a snapshot of a company's performance, its assets, liabilities and equity, and hide a mass of information.

If a company doesn't have any income or cash flow, just assets that it is moving from one year to another, that could mean the company bought property with dirty money and is sitting on it. Organised crime figures and corrupt politicians often use real estate and especially agricultural land to park their cash, as it rarely loses value.

So, balance sheets are great if you can read through them, but the best financial document for journalists are the audited reports.

These are the annual reports that companies above a certain threshold need to submit, and are very different to balance sheets.

Audited reports are a narrative rundown, a description of what the company did and why, and, most importantly, with whom. It will list the company's performance, organisation, history, equity, the legal and sometimes political circumstances, its earnings, subsidiaries, transactions with legal and private persons, and much, much more.

But that's not a rule. Companies often hide information, knowing they will get away with it. Otherwise, there wouldn't be so many business scandals in the world.

But often, knowingly, or not, companies do reveal a lot of information in their audited reports, and related party transactions are maybe the most important.

Still, only a trained eye could spot details in these transactions, like lowering costs, or inflating sales, and only after cross examining a number of reports.

However, even a quick glance can reveal transfers of funds to politicians, their family members, to companies owned by suspicious people, etc.

Financial documents helped BIRN to uncover the "chaos" at the Macedonian branch of another Austrian company, Alpine Bau.

It was the audit reports that revealed that, between 2010 and 2012, 4 million euros' worth of suspicious contracts were handed out to firms owned by senior Alpine Bau employees in Macedonia.

Using financial statements from the business registry, BIRN Albania detected a monopoly of ten concessionary companies helping them rake in 85 million euros in profits in 2015.

It was also an audit report, and more than 1,000 pages of real estate, banking and company accounts, that helped journalists reveal how Hypo Bank, nationalised in Austria due to its “colossal debt and mountains of risky loans,” handed 42 million euros of loans to an untested and opaque firm involved in a grandiose luxury tourism development in Montenegro.

That scheme involved the Austrian billionaire Martin Schlaff and Montenegrin tycoon Vojin Lazarevic.

Company documents showed that Bigova Bay Doo, a corporate vehicle set up to develop tourism projects, was formed in 2006, just months before it first began applying, and later receiving, Austrian Hypo’s loan of 20 million euros to buy 100 hectares of land.

By analyzing real estate, banking, and company accounts from three countries, BIRN journalists discovered that, despite all the warnings, Hypo awarded a second loan to Bigova Bay Doo for 22 million euros in 2013 as a part of a complex deal between Martin Schlaff’s firm, Robert Placzek Holding, Lazarevic’s offshore company, Aralsoft Limited, and Hypo.

This second loan was awarded despite clear warning signs from the previous audit report, which revealed that the controversial duo had received a 20 million-euro loan with just 8.5 million in collateral.

Land data

Beside financial data, the Bigova Bay story wouldn't have been possible without land information.

Property equals value, so that's one area where people won't play around, even if they are mafia bosses or politicians.

That's why land registries are extremely useful sources.

In 2015, BIRN published a story on land deals of the family members of Mohammed Dahlan, the former chief of security in Gaza and an adviser to the Crown Prince of Abu Dhabi, Mohammad bin Zayed.

Back home in Palestine, Dahlan was accused of embezzling \$18 million of public money. At the time, he was cleared by a court because of his immunity as a public official.

However, documents suggested that in the early 2000s, millions of US dollars were transferred from Dahlan's personal bank accounts to Serbia, which suggested that part of the money was still hidden there.

At the time, both Serbia and Montenegro had given citizenship to Dahlan and his immediate family. Serbia had also handed out passports to some of his associates.

In Serbia, Dahlan's brother and nephews established a company called Alfursan in 2006. The business registry didn't supply a lot of data, since the company was registered to a mailbox of an accountant firm, along with several other businesses.

However, its financial papers, available in the Serbian business registry, revealed the company had around 2 million euros in assets, suggesting it had property somewhere in Serbia.

Now, Serbia's land registry offers a great possibility to search through it with names and registry numbers of people and companies. For this feature, however, you need to register and pay a reasonable fee, but what you get is worth it.

The search revealed that Alfursan bought 50 hectares in 76 plots of agricultural land along the Belgrade-Zagreb highway. Contracts BIRN obtained showed the land was bought in 2006, and is worth about 2 million euros – the amount listed in its financial documents.

Land registry will give you a lot of info. You'll be able to find all the data you need: the plot number, address, size of the land or the built property, who owns it, and whether there are any other owners, or mortgages.

Every country has its own rules on land data. While all of them meticulously gather land data, as it's the base for property taxes, one of the main sources of money for budgets, not all of them make the data available to the public.

According to a white paper presented by Cadasta, a US-based organisation that deals with land rights, "government data sources on land rights are largely inaccessible".

Countries often keep that data to themselves despite the clear benefits of allowing open land data.

"Open land data can reduce barriers to development, reduce corruption, promote conservation, spark the private sector's development of land related services, and increase efficiency," the paper concluded.

The paper cites a *New York Times* project, "Towers of Secrecy," whose series of stories trace shell companies buying high-value real estate across the US to the people behind them, as well as the **UK weekly** *Private Eye*'s interactive map of all the land and property registered in England and Wales in the name of an offshore company between 2005 and July 2014.

Canada has the same problem as the US and the UK.

A detailed report prepared for the government of British Columbia estimated that annual money laundering activity in Canada was worth \$46.7 billion in 2018. A big chunk of "snow-washing," as it's called in Canada, goes through the real estate market.

The report's authors, professors Maureen Maloney, Tsur Somerville and Brigitte Unge, concluded that "through beneficial ownership disclosure, elimination of regulatory gaps, upgrades to federal anti-money laundering legislation and practices, and better data sharing, coordination and cooperation among agencies, a more effective federal/provincial anti-money laundering regime will be built".

Their number-one recommendation was that "the BC government should implement the Land Owner Transparency registry as quickly and effectively as possible".

The report *From Illegal Markets to Legitimate Businesses*, funded by the European Commission, names houses, villas, flats and other immovable properties as "assets preferred for investment by many organised crime groups in Europe.

“In Italy, they constitute more than 50 per cent of the goods confiscated from [organised crime groups] in the past thirty years, representing strategic assets for mafia organisations,” the report concludes.

It’s similar in the Netherlands, France, Spain, or the UK, where “the growth of the real estate market, especially in coastal areas and around capital cities, has collected a great deal of evidence on criminal investments”, it said.

Why do land and real estate attract investments by organised crime?

First, it’s a safe investment.

“Statistics show that, despite recent decreases, the volatility of the real estate market in Europe is still much less than that of the stock market,” the report observed.

Also, real estate can give high returns.

“Much evidence of criminal investments has been found, for example, in tourist areas such as Provence-Alpes-Côte d’Azur in France ... Andalusia, Balearic and Canary Islands in Spain, the Balkan coast on the Adriatic Sea and in European capitals (such as London, Paris, Madrid and Dublin),” the report points out.

Villas give criminals status symbols, flats are used as safe houses, real estate offers a lot of opportunity for mortgage frauds, warehouses are used to store goods, but also, when invested in real estate, dirty money grows on its own – by increasing the value of property, or through renting it.

“A house bought by an [Organised Crime Group] with illicit proceeds, and then regularly rented, is effective for laundering money and producing periodic ‘white returns’,” the report concluded.

Handling leaks

The entire business and banking system in most of the world is organised to make it very easy for criminals and corrupt public officials to exploit it and move money quickly and quietly.

Whistle-blowers, activists, academics, and investigative reporters have gone far and beyond to disclose these systems.

Some lost their lives doing so, went into exile, or ended up in jail. But without them, we wouldn't know about all the people exposed in the FinCEN Files, for example.

The "FinCEN Files" was a 2020 project by BuzzFeed, a US digital media company, and the ICIJ global network of investigative reporters.

ICIJ has mastered collaborative work handling huge data leaks. Previous projects included the Implant Files, Swiss Leaks, Paradise Papers and Panama Papers, which won them a Pulitzer Prize in Explanatory Reporting.

Journalists obtained more than 2,500 Suspicious Activity Reports, SARs, of the United States Department of Treasury, Financial Crimes Enforcement Network – FinCEN. Hence the name of the project, the "FinCEN Files."

SARs are reports sent to FinCEN by a financial institution, be it a bank or any other, detailing suspicious or potentially suspicious activity.

When the FinCEN files were about to come out, Reuters published a blog by Nathan Lynch and Brett Wolf, both from Thomson Reuters Regulatory Intelligence, expressing their fears of the impact of the publication on the future of Anti-Money Laundering, AML, efforts worldwide.

"Businesses that file suspicious activity reports (SARs) will be deeply concerned about the exposure of their compulsory and legally protected filings," they wrote, quoting sources with experience in the private sector and law enforcement.

The article quoted Bill Majcher, a former undercover operative with the Royal Canadian Mounted Police, who said the leak was highly irresponsible and dangerous, regardless of the motives, because the release of the information "could compromise legitimate law enforcement operations as well as putting the reporting entities themselves at risk".

According to Majcher, governments have to "work and deal with bad people" to catch worse people. As a result, financial institutions that submit SARs don't have to know the whole story.

“That’s done by other agencies. Incomplete data getting out there in the public domain can compromise much more serious matters that are in the public interest to keep confidential,” Majcher insisted.

Several other academics, NGO activists, AML experts and law enforcement officers, all people engaged in fighting financial crime, expressed similar fears.

Those persons were strongly against the project, claiming it would have a chilling effect on the fight against financial crime.

We still don’t know if they were right.

But that’s what you often have to face as a journalist. There’s a whole world underneath the surface, and that world shapes the world we see. There’s also a system that’s supposed to govern that underworld, and people, as taxpayers, are financing that system, and expect it to work.

But people also see crooks getting away with it, especially in the Balkans, which means something is wrong.

The system that’s supposed to take care of the crooks is not working, and as a journalist, it’s your job to report it.

Tools to connect all the documents

In 2020, BIRN discovered that companies connected to the husband of a former Serbian government minister, brother of a current government minister, won 27 public contracts worth around 26.8 million euros, including a 3-million-euro bid for a healthcare information system, in the middle of COVID-19 pandemic.

The story was done by analyzing all documents from all public procurements in Serbia, which is a gigantic dataset used for several investigation projects.

The way journalists got to those is another story, but what's important is that it involved 3 million documents, which no one can go through one by one.

You may find yourself in that situation. You'll end up with piles and piles of files, gigabytes of pdfs, word files, scanned documents in image files, tables with thousands of rows and columns and you won't know how to go through it all.

That's where data toolkits Aleph and Datashare fit in.

Aleph, a data toolkit developed by OCCRP, runs on servers, and there are several instances you can already use to upload and analyze your own data.

OCCRP has one, and BIRN also has one, which is more focused on countries in the Balkans.

ICIJ, on the other hand, developed Datashare, which you need to install on your own machine and run with the documents on your hard drive.

Both tools are free and open source, and very effective.

They have advanced features, some so advanced that they can be used only by programmers, but basically, you can use it for one important thing – detecting names of both people and companies.

Whether you go with Aleph or Datashare, your first step is to add your documents. After that, the software will do its magic: it will recognize documents and text, and read through all of them for you, saving time, money and nerves.

When they finish, they will spill out people's names, emails, physical addresses, phone numbers, company names, etc.

You still need to figure out on your own what's important and what's not, you'll also need to keep up with their quirks and errors, just like with any other complex tool, but the end results are amazing.

BIRN was able to find not only the procurements where this company was the main contractor, which can be found through Serbia's procurement website, but also all the procurements in which it was the subcontractor, information hidden deeply in the millions of documents BIRN obtained.

It turned out that the company was often a subcontractor to the state-owned telecommunications company, Telekom.

As legendary British press baron Lord Northcliffe once said: "News is what somebody, somewhere, wants to suppress," so the best stories are always hidden in that information that people make it hard to get. This information, as is often the case, was hidden at plain sight; journalists just needed the right tools for the job.

With this, BIRN was able to figure out that businesspeople close to Serbia's ruling party often used Telekom as a vehicle to win contracts, and ultimately, money.

Red flags

These are some red flags identified by FATF. This is a shortened version of the red flags that can be used by journalists and identified with tools discussed in this manual. Check out the full list [here](#).

- ▶ If a company has a long period of inactivity following incorporation, followed by a sudden and unexplained increase in financial activities.
- ▶ If a company describe itself as a commercial business but cannot be found on the internet or social business network platforms (such as LinkedIn, XING, etc.)
- ▶ If it is registered under a name that does not indicate the activity of the company.
- ▶ If it is registered under a name that indicates that the company performs activities or services that it doesn't actually provide.
- ▶ If it is registered under a name that appears to mimic the name of other companies, particularly high-profile multinational corporations.
- ▶ If it uses an email address with a publicly available domain, such as Hotmail, Gmail, Yahoo, etc.
- ▶ If it is registered at an address that does not match the profile of the company.
- ▶ If it is registered at an address that cannot be located on internet mapping services (such as Google Maps).
- ▶ If it is registered at an address that is also listed against numerous other companies or legal arrangements, indicating the use of a mailbox service.
- ▶ If the company's director or controlling shareholders cannot be located or contacted, or if they do not appear to have an active role in the company, or are listed against the accounts of other legal persons or arrangements, indicating the use of professional nominees.
- ▶ If the company declared an unusually large number of beneficiaries and other controlling interests.
- ▶ If it authorised numerous signatories without sufficient explanation or business justification.

- ▶ If it is based in a jurisdiction that is considered to pose a high money laundering risk, in a low-tax jurisdiction or international trade or finance centre, or regularly sends money to low-tax jurisdictions or international trade or finance centres.
- ▶ If it conducts a large number of transactions with a small number of recipients, or a small number of high-value transactions with a small number of recipients.
- ▶ If it has regular transactions with international companies without sufficient corporate or trade justification.
- ▶ If it maintains relationships with foreign professional intermediaries in the absence of genuine business transactions in the professional's country of operation.
- ▶ If it receives large sums of capital funding quickly following incorporation/formation, which is spent or transferred elsewhere in a short period of time without commercial justification.
- ▶ If it conducts financial activities and transactions inconsistent with the corporate profile.
- ▶ If it is incorporated/formed in a jurisdiction that does not require companies to report beneficial owners to a central registry.
- ▶ If it uses accounts opened in countries other than the country in which the company is registered.
- ▶ If it involves multiple shareholders who each hold an ownership interest just below the threshold required to trigger enhanced due diligence measures.
- ▶ If its financial records show inflated asset sales between entities controlled by the same beneficial owner.
- ▶ If family members with no role or involvement in the running of the business are listed as beneficial owners of legal persons or arrangements.
- ▶ If employees of professional intermediary firms are acting as nominee directors and shareholders.

- ▶ If company records show the resignation and replacement of directors or key shareholders shortly after incorporation.
- ▶ If the officials or board members or the location of the business change frequently without any apparent business justification.
- ▶ If there are complex corporate structures that do not appear to legitimately require that level of complexity, or do not make commercial sense.

Useful links

| | |
|--|---|
| Bosnia's business registry: | https://bizreg.pravosudje.ba/pls/apex/f?p=183:20:412159330354692 |
| Bosnia's land registry: | https://www.katastar.ba/ |
| Bulgaria's business registry: | https://portal.registryagency.bg/CR/reports/VerificationPersonOrg |
| Bulgaria's land registry: | https://kais.cadastre.bg/en |
| Croatia's business registry: | https://sudreg.pravosudje.hr/registar |
| Croatia's financial reports: | http://rgfi.fina.hr/ |
| Croatia's land registry: | https://www.katastar.hr/ |
| Kosovo's registry: | https://arbk.rks-gov.net/ |
| Montenegro's registry: | http://www.pretraga.crps.me:8083/ |
| Montenegro's land registry: | https://ekatastar.me/ekatastar-web/action/elogin |
| Moldova's registry: | http://webinfo.cis.gov.md/company-search |
| Serbia's registry: | http://pretraga2.apr.gov.rs/unifiedentitysearch |
| Serbia's land registry: | https://katastar.rgz.gov.rs/eKatastarPublic/PublicAccess.aspx |
| US Securities & Exchange Commission (SEC): | http://www.sec.gov/edgar/searchedgar/webusers.htm |
| Canadian stock exchange: | http://www.sedar.com/homepage_en.htm |
| South Africa: | http://www.sharedata.co.za/ |
| Hong Kong: | https://www.hkex.com.hk/eng/index.htm |

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|-----------------------------------|---|
| UK stock exchange companies: | http://www.investegate.co.uk/ |
| UK Companies House: | https://beta.companieshouse.gov.uk/ |
| Isle of Man: | http://www.gov.im/ded/pvi/pvi_fr.html |
| Guernsey: | https://www.greg.gg/webLogin.aspx |
| Jersey: | https://www.jerseyfsc.org/registry/documentsearch/ |
| Gibraltar: | https://www.companieshouse.gi/namesearchauth.html |
| Switzerland: | http://zefix.admin.ch/ |
| Belgium: | https://cri.nbb.be/bc9/web/catalog?execution=e1s1 |
| The Netherlands: | http://www.kvk.nl/zoeken/ |
| Luxembourg: | https://www.rcsl.lu/ |
| Cyprus: | http://www.mcit.gov.cy/drcor |
| Cayman Islands: | http://www.ciregistry.gov.ky/portal/page/portal/reghome |
| BIRN Investigative Resource Desk: | https://bird.tools |
| Open Corporates: | https://opencorporates.com/ |
| ICIJ Offshore Leaks Database: | https://offshoreleaks.icij.org/ |
| Investigative Dashboard: | https://www.investigativedashboard.org/ |
| Open Oil: | http://openoil.net/ |

| | |
|--|---|
| Panama Company Registry: | http://ohuiginn.net/panama |
| The full list of FATF's 40 recommendations: | http://www.fatf-gafi.org/media/fatf/documents/recommendations/pdfs/FATF%20Recommendations%202012.pdf |
| All FATF publications: | http://www.fatf-gafi.org/publications/?hf=10&b=0&s=desc(fatf_releasedate) |
| United States Office of the Comptroller of the Currency: | www.occ.treas.gov |
| The United States Department of the Treasury Financial Crimes Enforcement Network: | www.fincen.gov |
| International Money laundering Information Network: | www.imolin.org |
| United Nations Office for Drug Control and Crime Prevention, UNODC: | www.unodc.org/unodc/index.html |
| Transparency International: | www.transparency.org |
| EU Sanctions map: | https://www.sanctionsmap.eu/#/main |
| The US Office of Foreign Assets Control: | www.ustreas.gov/offices/enforcement/ofac/ |
| UK sanctions: | www.bankofengland.co.uk/publications/financialsanctions/index.htm |

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MONEY LAUNDERING THROUGH PROPERTY

Lawrence Marzouk

Money laundering through property

Money pillaged from government coffers and the proceeds of organised crime frequently surfaces in major world capitals and high-end tourist destinations in the form of luxury property purchases.

London is the epitome of this problem.

Not long after leaving office, in 2017, former British PM David Cameron said that London had become a “giant piggy bank for overseas kleptocrats” and Transparency International’s UK branch found more than £5 billion worth of property in the country had been bought with suspicious wealth.

Of course London and the UK are far from alone in having turned a blind eye to the tide of ill-begotten loot washing up on its shore. The penthouses of Manhattan, chalets of the Alps and sun-kissed beaches of Spain have all seen an influx of dirty money.

As a result, this is an important area for watchdog journalists to explore, but also one which requires work across many borders and the unpicking of complex offshore structures.

One important lesson is that proving money-laundering with the tools available to journalists is virtually impossible as it requires proof that the cash comes from the proceeds of crime and that the same money was laundered.

Rather than trying to prove two criminal offences, it is far more realistic to aim at exposing unexplained wealth.

In this chapter we will establish why luxury property is so popular for money-laundering, how the process works, what information you need to underpin an investigation and where to find the data you need.

Why luxury property?

According to Transparency International's UK branch, the high-end real estate sector is particularly attractive to money launderers because it swallows up large amounts of capital in one transaction.

Once purchased, the property can be used to generate income through rent, it can be used as collateral to raise funds in other, legitimate, investments or it can stand empty gaining value as house prices rise.

The latter is the case for a string of homes along The Bishops Avenue in London, known as "Millionaire's Row" according to a Guardian investigation from 2014 <https://www.theguardian.com/society/2014/jan/31/inside-london-billionaires-row-derelict-mansions-hampstead>

The London-based newspaper revealed an estimated £350m worth of empty properties, 16 in total, "registered to companies in tax havens including the British Virgin Islands, Curaçao, the Bahamas, Panama, and the Channel Islands".

In a 2015 report Transparency International UK also pointed out that "luxurious properties in the UK provide a much-sought badge of wealth and respectability". At some point, criminals want that inflated bank balance to translate into luxury living in the form of, for example, prime real estate.

For some this means a luxurious holiday home a long way from the prying eyes of the impoverished citizens they are supposed to be helping. For others, it could be a pied-a-terre in a western country for their spouse or children or a means to secure a foreign passport.

Renovation and other building works offer further opportunities for money-laundering as this can often be paid, at least in part, in cash.

How does it work?

Investment in property tends to take place at the last stage of the money-laundering process, known as integration.

Prior to this the funds will have gone through layering, involving one or a number of transactions aimed at concealing the origin of the money and who received it.

This will often involve the use of complex corporate structures over a number of jurisdictions.

In many popular destinations to buy luxury property, a public register of property owners is available. As a result, those looking to hide ownership need also the help of opaque corporate structures, where the owner is either a strawman/proxy or at least hidden from public view..

Often those looking to hide ownership turn to offshore or tax havens to create firms, such as the British Virgin Islands, Marshall Islands or the Seychelles, which keep directors and the beneficial owners secret.

However, firms registered in countries not traditionally considered as “red flag” destinations are also frequently used.

For example, firms such as “Limited Partnerships” and “Limited Liability Partnerships” in the UK did not until recently require for the owners to be publicly declared. Now there is a requirement by law to do so, but there is virtually no enforcement or scrutiny. Across Europe and in some US states, there exists firms, trusts and partnerships which help conceal ownership.

According to a report by the Swiss Police, the purchase of property through any firm created just for this purpose is enough to raise suspicion, although it emphasized this is not proof of any wrongdoing in itself. <https://www.newsd.admin.ch/newsd/message/attachments/39966.pdf>

Last, ownership can also be concealed through complex loan arrangements between several offshore firms as shown.

For example, an expensive property in Spain is owned by a Spanish firm created solely for the purchase of buying the building. It, in turn, is on paper owned by an unknown central Asian businessman.

What is not declared on the property or company documents is that a controversial public figure from the same country provided a multimillion loan to the Spanish firm through an offshore company. This loan is secured against 75% of shares in the firm, meaning he is, in essence, the majority owner of the building even if this does not appear in Spanish documents.

What to aim for?

It is difficult for journalists to prove criminality given the often limited resources available compared to law enforcement. Journalists can however point towards problematic transactions and relations and raise the question of whether there is wrongdoing.

Exposing money-laundering is even trickier because it involves establishing two crimes.

First you need to establish that the money is indeed dirty and needs laundering. In other words, that it is the proceeds of some sort of criminal act, whether that be bribery, fraud, drug dealing or human trafficking. This earlier offence is known as the “predicate crime”.

Then you must establish that the money from the criminal act was then laundered.

Demonstrating both given the documents available to reporters is virtually impossible.

It is, in fact, much more realistic to aim to show unexplained wealth - that is property, luxury goods, cars, yachts or just a lavish lifestyle which cannot be justified with the official earnings of the individual. This could be a public official with a modest state salary or a supposedly small-time businessman.

In the UK, this is now a legal tool available to the National Crime Agency (NCA) to seize assets without having to prove a crime has been committed.

The first, and most infamous case, was that of Zamira Hajiyeva, the wife of a banker from Azerbaijan.

She was found to have two properties worth in excess of 20million pounds and was unable to justify the origin of her wealth. The NCA is the process of seizing the properties.

Looking for leads

It is possible to scour the publicly available cadastral records of major Western capitals for leads, but a more targeted approach is more efficient.

Here are some tips:

A | Follow the proxy:

While it is standard practice for a specific firm to be created to buy a specific property, it is not uncommon for the same lawyers or proxies to be used in several related properties.

In the case of an investigation into investments in Spain by a public figure from central Asian, dozens of properties were owned through different Spanish firms, which were in turn owned by different offshore firms. All were, however, registered to the same administrator.

While this alone was not proof that the owners were indeed the same, it offered up a list of likely candidates.

B | Put yourself in the criminals shoes:

It is inefficient to scour every corner of the world for hidden loot, so try to put yourself in the mind of the criminal and work out where they are likely to have hidden in.

Individuals from certain countries are more likely to invest in certain countries. This is often about history (and colonialism), prestige and practicalities. Investments from Angola are more likely to be made in Portugal, the former colonial power, than they are from, say, Senegal, which has long-standing ties with France.

Certain countries sell EU passports, so are popular with a certain clientele.

And UK private schools and universities are popular with klepocrats, who might want to buy their offspring a downtown botlhole.

Try to imagine how your target and their family would behave and where they would invest, and start by looking there.

C | Social media

Social media accounts provide a window straight into your target's personal life, usually through family members, friends or associates. These profiles can allow you identify a house frequented by your target which you can then run searches on, or at the very least it will narrow down which cities to concentrate on.

Building a case

In order to piece together your article revealing unexplained wealth, you need to find evidence of a person's official wealth and/or earnings as well as their hidden assets.

Here's how to look for both:

A | Official wealth

For public officials in almost any country in the world, it is usually possible to establish what their monthly salary is. In many countries, senior politicians and officials have to provide declarations of assets.

It is often an offence, sometimes criminal, to make a false declaration.

For a businessman and private citizen, establishing their wealth can be trickier. Useful sources include financial records from their private business activities and online CVs (such as LinkedIn accounts).

B | Hidden Assets

Piercing the secrecy put in place by those wanting to hide the origin of their funds is rarely easy, but is possible if you know where to look.

Land registry/ cadastral documents

These are publicly available in many countries and are obviously the first port of call if you are looking to find out who owns a property.

Here are a few tips to making sure you give yourself a fighting chance of finding out the real owner:

- 1 Don't just find out the current owner - also check for past owners. These could provide clues as sometimes properties are passed between family members or associates. Past owners may know who the real buyer behind an offshore firm - try to interview them.
- 2 Don't rely on documents available online - there is often much more. In the UK, it is essential to call the Land Registry and ask them what documents they hold for a specific property. There are often additional documents that can be ordered which could provide clues. In Spain, you can run searches for all properties owned by a specific company if you request it. In other countries, original mortgage documents are available and can provide clues. Speak to a local journalist and activists, consult transparency laws and push for as much as you can get

Offshore ownership:

If your land registry search hits an offshore firm, do not despair - this is not the end of the road.

Publicly available information on offshore companies in secrecy jurisdictions is sometimes available.

Although it is rarely going to allow you to unpick the ownership of a firm directly, you cannot rule out that there will be a clue hidden somewhere.

In many countries such as the British Virgin Islands, parts of Switzerland and states such as Delaware it is possible to order original company documents which go beyond what is available online. It is sometimes necessary to employ the services of a fixer to submit the request in person and paperwork.

You may also get lucky and the company documents may have been included in one of the growing number leaks. It is worth checking the websites of the ICIJ's <https://offshoreleaks.icij.org/> and OCCRP's data.occrp.org. Reach out and ask them for help.

Last, court documents can provide a clue to the owners of offshore companies as these can frequently end up in court skirmishes. Offshorealert.com is a good place to start, as it aggregates court material from several countries, including some classic offshore destinations.

Pacer is the USA's official court system which can be searched for the names of companies and individuals involved. Recap is a vast archive of these documents made fully searchable <https://www.courtlistener.com/recap/>

Last, the UK high court is also worth checking for clues <https://www.bailii.org/>

Company documents

Company directors and shareholders are often required to provide a residential address, which can provide a clue about where they live.

In a recent investigation into the son of an important official from Azerbaijan, the first clue leading to his hitherto unknown London apartment came from a document submitted as part of his wife's UK based business.

This address was also noted in documents in the Czech registry.

[AHMAD ZADA, Juma](#)

Correspondence address

70 Princes Gate, London, SW7 2XJ

Role **ACTIVE**
Director

Date of birth
November 1979

Appointed on
10 April 2007

Nationality
Azerbaijani

Country of residence
United Kingdom

Occupation
Director

Planning documents

Building work carried out on properties often requires permission from the local authorities and this process is public in many countries.

In the UK, most of the original documents are available online on the website of the local council.

The exception to this rule is Westminster in central London, which is one of the key areas for journalists to investigate for luxury properties. The information is still available but there is a hefty fee.

The original documents available online can be hugely useful in establishing who lives in a property, as was the case in this investigation into the son of an official from Azerbaijan <https://www.occrp.org/en/investigations/luxury-london-residence-of-azerbaijan-officials-son-purchased-with-mysterious-payment-to-shell-company>

Although the property was officially owned by a BVI-based firm, the documents submitted to council showed that the official's son had lived there from the day it was purchased by the offshore firm and that he had reworked the property to his tastes over more than a decade. It also showed how the architect he had employed to work on the property believed that he was the owner.

This last document was referenced in material available from the website of the London Borough of Kensington and Chelsea, but was not available online. It needed to be requested from them under Freedom of Information rules.

6. Juma Ahmadzada has been living in Flats 6, 7 and 8, 69-70 Princes Gate, London SW7 2PA ("the Properties") since Flat 8(15.06.2011), Flat 7(15.06.2011), Flat 6(18.08.2009) with permission from Vremax Limited.
3. In March 2013, Juma Ahmadzada opened a door between flats 6 and 7 to unify the Properties as one dwelling.
4. To the best of my knowledge and belief, the opening of the door between flats 6 and 7 was exercised lawfully and without force, secrecy or permission. I have made no contact with the Landlord or any tenant or any mortgagee of the neighbouring properties and I am not aware of any dispute concerning the use of the door.

And I make this solemn declaration conscientiously believing the same to be true and by virtue of the Statutory Declarations Act 1835.

Declared at 1 Montpelier Street, London

on 4/12/17

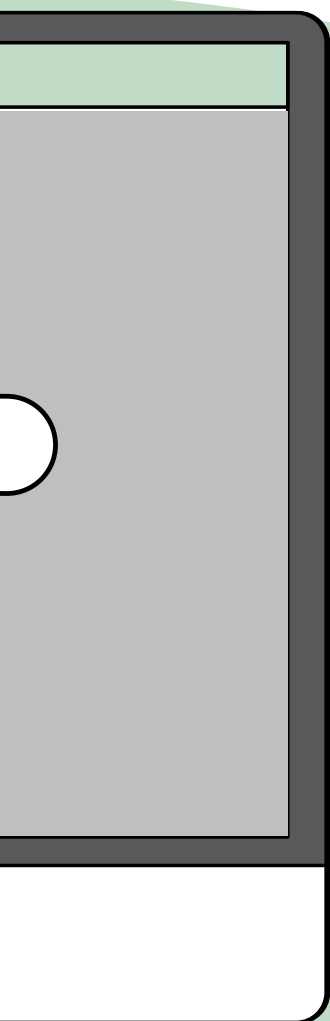
before me

Signed Paul Adkin

A commissioner for oaths or a solicitor empowered to administer oaths.

Lawrence Marzouk is an investigative editor and trainer with Organized Crime and Corruption Reporting Project.





**INVESTIGATING
CORRUPTION IN PUBLIC
PROCUREMENT**

Sabina Fakic

TRAINING MODULE

for investigating corruption in public procurement

Public procurement as a subject of investigation:

In order to carry out their functions, state institutions purchase goods, services and construction works. The procurement of office supplies, fuel, computers, medical equipment, food and medicine for hospitals, as well as the construction and reconstruction of streets, are just some examples of public procurement.

Public procurement is increasingly important in Western Balkan countries. State institutions spend from half-a-billion euros a year (in Montenegro and Kosovo) to 3 billion euros (in Serbia) on goods, services and works that they provide through public procurement procedures.

Hence, public procurement is very important for the overall economy of these countries, comprising up to 13 per cent of total domestic production of goods and services (GDP), and using about one-third of the countries' budgets.

It is crucial to keep in mind that all these procurements are realized with citizens' money. Hence, when purchasing goods, services or construction works, the authorities are obliged to carry out a process based on transparency, competition and integrity, to guarantee the best value for money.

To achieve this, the conduct of public procurement should be legal, ensuring the equal treatment of, and non-discrimination against, all bidders, and enabling the most economical, rational and efficient use of money. Since it is about spending other people's money, more precisely public money, the process must be public and transparent. In addition, for citizens and companies to be sure that their money is being spent purposefully, rationally and efficiently, the people conducting public procurement must be accountable for their work.

Accountability, one of the main principles of public procurement, should not be shown only towards the companies participating in the public procurement procedures but above all to citizens and their representatives in society – the media and civil society organisations.

Therefore, the media play a key role in monitoring public spending and detecting corruption. Only through the media, through the research and analysis of journalists, can citizens find out whether their authorities are spending their money rationally. Normally, this requires the media having access to the right information about the activities of the authorities and being willing and able to publish this information.

However, for the media to play this role, journalists need to have some knowledge of public procurement issues. This is a complex area, and to be able to monitor, research and report on public procurement, they need to know the manner and procedures involved in their implementation.

Public procurement has been identified worldwide as the most vulnerable area to corruption. Corruption in public procurement affects the efficiency of public spending, creates losses and reduces the quality of public services and opportunities to improve the quality of life.

Public procurement corruption also negatively affects the business sector, increasing corporate costs, reducing competition and worsening the business climate. Greater corruption means less money for road construction, sewage, medicines, medical equipment, schools, heating, etc. So, there is a need to increase knowledge about corruption risks, so that citizens can then recognize it and influence its reduction.

The extremely high risk of corruption in public procurement arises from the fact that it involves the spending of a large amount of money that flows from national and local institutions to the accounts of private companies or individuals.

Although it is difficult to accurately measure corruption in public procurement, various studies have shown that, on average, 10 to 25 per cent of the value of public procurement contracts is lost through corruption.

Corruption risks exist in all phases of public procurement procedures, from the procurement decision and defining the characteristics of the procurement to the selection of the most favourable bid and the conclusion of the contract and its implementation.

Training description:

The training is intended for journalists across the Western Balkan region who have some experience in reporting on the spending of public money. The training is designed to broaden and deepen their knowledge in the field and ensure better investigating and quality reporting.

Training objectives:

The training should achieve the following: (1) advance the skills of journalists to more effectively monitor the spending of public money through public procurement; (2) increase the role of the media in the fight against corruption in public spending and; (3) increase the capacity of journalists to influence institutions, so that they demonstrate greater responsibility and accountability in spending public money.

Methods of delivering the training:

Taking account of the training's objectives, it will be delivered using combined techniques. These include presentations, the use and provision of specific examples from practice, exercises, discussions, and questions and answer sessions. The training will be interactive, taking into account the experience and previous knowledge of the participants on the issue. For all the presentations, previously developed visual presentations will be used.

Training design:

The training will last for four hours, split into three sessions, and will include short breaks between each session. The first and last sessions should last 45 minutes each, and the second session should last two hours.

Training topics:

Session One: Introduction

This is a short, introductory session to familiarize the participants, give an overview of the training and explore the participants' own expectations. This session is designed primarily to detect the general and specific expectations of the participants, so that the lecturers can focus on and respond to these expectations during the presentations, examples, exercises and discussions.

During this session, the participants' prior knowledge of the topic can also be assessed, so that the level and language of conversation can be adjusted accordingly. During this session, participants can also point to certain examples they have investigated, and then, during the training, pay more attention to similar situations.

This session should be conducted as a Q&A and as a focused discussion session.

The session should last about 45 minutes.

Session Two: Where is corruption hidden in every stage of the procurement cycle?

This session is a key one and should present the main procurement cycles and the corruption risks in each cycle: (1) needs assessment and planning, (2) tendering and (3) contract execution.

It is important for this session to pay attention to the first and last phases of the procurement cycle, having in mind that the laws in all Western Balkan countries on public procurement are very

procedural and focused mostly on the middle part of the procurement procedure – the tendering phase. This is of crucial importance, as most corruption cases that have been uncovered show that corruption is set during the first phase, and is practically enabled in the last phase.

During the ‘needs assessment and planning’ phase, corruption can be detected in deciding which goods and services will be procured and in defining the characteristics of the procurement and in the preparation of the tender documents, i.e. the drafting of the technical specifications and contract requirements.

The following situations should be discussed in more detail: when procurement is not necessary and cannot be economically justified, or does not correspond to real needs; when the annual public procurement plan is changing frequently; when the estimated value of the tender is unrealistically high; and when there is an artificially created state of “extreme urgency” to conclude a contract by direct negotiation, without prior tender notice.

An example of an unjustified need for procurement is the procurement of State Powerplants of North Macedonia to excavate coal and tailing, as well as renting equipment and hiring workers. It spends over 30 million euros each year on contracting the same companies, year after year. An investigation by the prosecution revealed overpricing and corruption. Under pressure from CSOs and journalists, the state company finally bought some of the equipment it needed in 2020.

Another example of an unjustified procurement is the procurement of official vehicles by North Macedonia’s government. It takes over 40 cars every three years on operational leases, paying over 40,000 euros per car. The bidder is always the same, as is the type of car, a Volkswagen Passat. The price that the government pays for only three years’ use of these cars is equal to the regular market price for buying the same car.

The unrealistically high prices of procured goods, services and works is also one of the risks for corruption. Research done in North Macedonia compared prices by which different state institutions bought the same product, i.e. 1 ream of printer & copy paper (white, A4, 80 grams, 500 sheets, A class). Prices varied from 2.6 to 5.7 euros per ream. Also, the institution that paid the highest price bought the biggest quantity of paper (8,000 reams), while the institution that paid the lowest price bought the smallest quantity (300 reams).

Building and scaling-up contracts and the total amount of works also indicates potential corruption. The bigger the amount of money for the work, the higher the risk of corruption. Examples of this risk are buildings erected under the government project named “Skopje 2014” under which

government institutions built massive objects in neo-Classical styles in the capital to house state institutions. The new Philharmonic Hall was estimated to cost 7 million euros but ended up with a final cost of 39 million euros. The so-called “New old theater” was estimated to cost 7 million, but in the end cost 37 million euros. Moreover, it did not take more than a few years for these buildings to start leaking and flooding with every rainfall, and for their facades to start peeling off, which further increased suspicions of corruption.

Frequent changes to the procurement plan are also an indicator that needs to be followed up and can lead to uncovering corruption. This especially goes for changes to the estimated value or adding an item that wasn't initially planned. For instance, when one state institution was buying an “earthmover” machine, the initial procurement plan put the value of the procurement at 97,650 euros. However, the plan was changed twice, and the estimated value in the meantime rose first to 130,000 euros and then to 138,000 euros. Two bids were submitted for the tender, the first one with an offer of 137,886 euros and the second with a price of 138,050 euros. The first offer won the tender.

Artificially creating a state of extreme urgency in order to conduct direct negotiations also needs to be followed up. For example, the State Election Commission of North Macedonia conducted tenders with direct negotiations, without prior publication of tender notices, for all elections held from 2016 to 2019, even though not one of these elections was unpredictable in terms of timing. The prosecution opened an investigation into corruption in these tenders after the subject was researched by CSOs and investigated by the media.

Use of discriminatory qualification criteria often leads to corruption. For example, two institutions publish similar tenders. A ministry wants to buy chairs, desks, tables and drawers for an estimated cost of 13,000 euros, while an educational institute wants its chairs and armchairs upholstered for an estimated 9,000 euros. The bidders for the first tender are required only to submit proof of being a registered company; the second requires bidding companies to have a minimum of 500,000 euros annual turnover for the past three years and at least five full-time employees. All these financial requirements, for a tender of only 9,000 euros, to upholster chairs? Knowing that this kind of service is usually performed by small, or family businesses, suspicions arise that this tender has been pre-set to suit a certain big company.

One of the elements commonly used for setting tenders is adjusting the technical specifications to favour a company. Research showed that in 71 per cent of the tenders that state institutions in North Macedonia used to buy cars, only one bid was submitted. And, while 392 new cars were

bought between 2018 and 2020, 71 per cent of these tenders, worth almost 6 million euros, were procured via single-bid tenders.

During the tendering phase, the main risks lie in the selection of the most favourable bid, bid evaluation and bid rigging by companies. More precisely, situations such as limiting the number of bidders by setting difficult criteria; excluding certain bidders; accepting bids that do not meet the technical specification, and cancellation of procedures should be discussed in detail.

Bid rigging is one way to fix a tender. In one tender for buying car accessories, the estimated value of the tender was 8,130 euros. There were two bidders. The first offered 8,117 euros and the second, 37,398. However, the second bidder made a very naïve mistake – changed in the offer the tender requested quantities on its own and was disqualified. The first bidder won the tender. The second bidder that made the mistake and was disqualified has won 30 tenders in the last three years, and so has an extensive experience in public tenders.

Tenders given to the same company over many consecutive years are also worth investigating. One example is the tender for the winter maintenance of streets for the capital, Skopje. The same company has been awarded these tenders since 2011 while the price of this service has increased by 30 per cent in the meantime.

During the contract execution phase, the absence of supervision of implementation of the contracts, lack of sanctions for detected abuses and delays to the implementation/payment of awarded contracts should be discussed in detail.

Lack of supervision of contract execution is a big problem that can point to corruption. This comes from a meal for patients in a hospital in North Macedonia. Research shows that the hospital had a high-priced tender for food, but these meals were not appropriate for the tender or the patients' dietary needs.

Another example was the construction of the new headquarters for a state company in North Macedonia. There were four tenders submitted for this purpose but the building has still not yet been made functional and has already started to deteriorate.

The first contract was signed in March 2013 for 11.6 million euros, with a deadline of October 2014.

An annex was signed in November 2014 for another 3 million euros and a new deadline set for November 2015.

In December 2015, a new contract for completion of construction was signed for 2.6 million euros, with a new deadline of September 2016, with a new company.

In February 2018, a tender notice for a new contract for completion of construction for 100,000 euros was published, but later annulled.

The original estimated cost of construction was 11.6 million euros, while 18 million euros have been spent to date and the building is still not functional.

At the end, a special discussion can be devoted to COVID-19 related procurements where special emphasis should be given to the limited number of companies awarded such contracts, the extensive usage of direct procurement, the high prices paid for obtained products, services and works, and the lack of transparency of signed contracts, needs assessment analyses and information about the execution of contracts.

This session should be conducted with a presentation of the risks by procurement cycle phases, with specific cases and examples from each Western Balkan country, as well as open discussion and questions from participants about their examples or cases they are currently working on.

This session should last for two hours with a short break.

Session Three: Where to search for information about public procurement?

The last session should be devoted to possible sources of information about tenders. In each Western Balkan country, the government electronic portals for public procurement are a valuable source of documents and information to start the investigation.

While it can vary in different countries, information about tender notices, tender documentations, deadlines, opening of bids, contracts, etc. can be found publicly on these portals. In addition, a certain amount of information can be found on the institutions' websites, such as annual procurement plans, tender notices, contract notices, etc.

All other information that is not available publicly on procurement portals and institutions' websites should be obtained by filing FOI requests to the respective institutions. Those are documents and information about submitted bids, evaluations of the bids, minutes from the opening of bids, decisions to initiate public procurement and the selection of the winning bid, etc.

It should be kept in mind that public institutions are less willing to share documents that are not directly connected with the procurement and procurement legislation – but which are sometimes

crucial for an investigation, such as invoices, payment records, delivery reports, etc. Journalists should be advised to start looking for these documents in the early phase of the investigation.

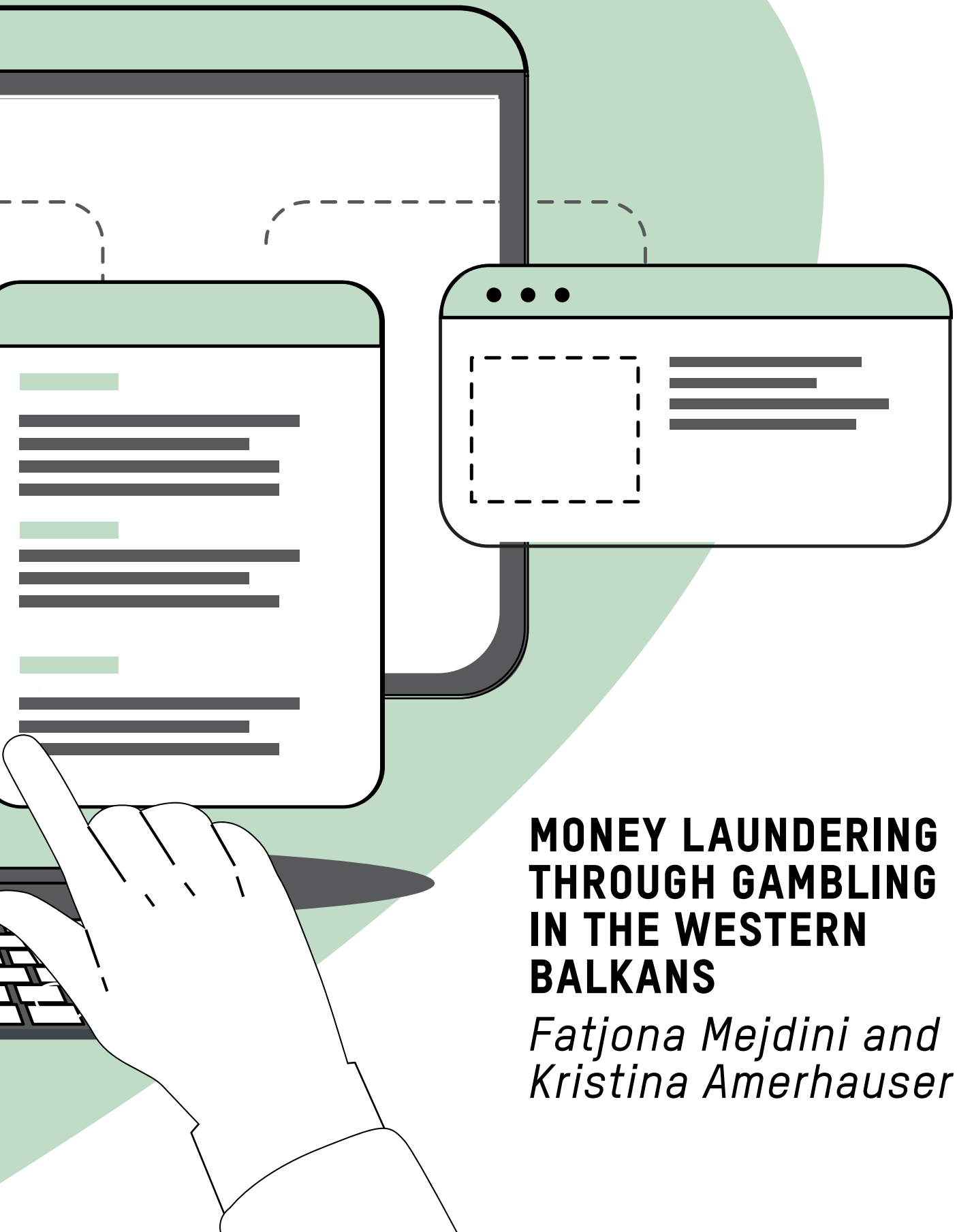
Valuable information about corruption in public procurement can be found in state audit institutions' reports, as well as in the decisions of appeal authorities.

This session should be conducted with a presentation on the documents and information needed for a proper investigation of corruption in public procurement, as well as by discussion and exchange of experiences between the participants.

This session should last for 45 minutes.

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MONEY LAUNDERING THROUGH GAMBLING IN THE WESTERN BALKANS

*Fatjona Mejdini and
Kristina Amerhauser*

Money laundering through gambling in the Western Balkans

Why focus on money laundering through gambling?

Around the world, gambling is regularly associated with organized crime. In popular culture, organized crime figures are often depicted in casinos or around poker tables smoking cigars and drinking hard liquor. Or they are seen in smoke-filled back rooms of the casinos brokering criminal deals.

One reason for this image is the belief that people with links to organized crime are a 'natural partner' of the gambling industry. This stems from the time when gambling was illegal in the United States and then the period when weak regulation meant that those who were able to muscle their way into the business became successful. Furthermore, more than gentle persuasion was sometimes needed to collect gambling debts. Indeed, at times the criminal's 'ability' to collect the money at any cost and keep order is even seen as a prerequisite for operating a successful gambling activity.

But gambling and organized crime are also closely linked because the industry is considered an ideal place to launder money. Billions of euros worth of illicit proceeds are generated annually around the world from organized crime, corruption and tax evasion and then laundered into the formal economy. Different reports and data indicate that one of the most prominent techniques used to launder money – including in the Western Balkans – is gambling. The high volume of cash and the high turnover rate make gambling an easy vehicle to co-mingle dirty and clean money.

Why look at on money laundering activities in the first place?

Money laundering is the 'natural' consequence of crimes aimed at profit generation. It is the process by which criminals attempt to disguise the illegal origin of the profits and inject the funds into the economy so that they appear to be from a legitimate source and are rendered usable.

Targeting the money laundering aspect of a criminal activity and depriving criminals of their ill-gotten proceeds means hitting them at their Achilles heel: without a usable profit, the criminal activity will not continue. Thereby it is important to not only go after the proceeds of crime directly but also to have a closer look at how criminals invest and generate more money.

It is important to note that gambling is not inherently illegal or wrong and a well-managed industry can be an important driver for the economy, creating employment, while some of the money created by this industry could also be used for social causes and sports activities. It can also boost tourism and overseas investment. But it needs to be well managed, with proper capacity for oversight and regulation.

It is no secret that there are also many side-effects of gambling, often with negative consequences for the whole society. For example, compulsive gamblers or people with a gambling addiction may be in high distress, often vulnerable to 'alternative methods' to sustain their gambling habit. This makes them easy prey for criminals, who are often the same people secretly running the gambling places or that launder money in this environment. Excessive gambling is also known to increase divorce and suicide rates.

Furthermore, gambling is often associated with other types of crime, including human trafficking as women are sometimes sexually exploited in casinos or hotels close by.¹ Also loan sharking is closely connected to gambling as compulsive gamblers seek loans at a high-interest rate to be able to pay back the debt caused by their addiction and/or to continue playing. As a result, compulsive gamblers enter a vicious circle of being threatened by people who use predatory lending techniques. This problem is widely known in the Western Balkans and has recently been highlighted for example in Serbia.

It is thus of great importance for journalists to better understand how criminals launder their money through gambling and/or how the habit of gambling often also leads to other forms of crime.

1 Andrew Amelinckx, Will gambling bring prostitution with it?, Berkshire Eagle Staff, 6 May 2012, https://www.berkshireeagle.com/news/local/will-gambling-bring-prostitution-with-it/article_d309621d-b4de-52ae-a6b2-b4c8735bb8aa.html.

What do we know about money laundering through gambling in the Western Balkans?

In 2018, the Albanian prime minister Edi Rama announced that the country would partly ban some gambling activities to mitigate the harms to society and fight organized crime involvement in the industry. He said the ban was aimed to 'send a clear message to organized crime that launders money through this activity'.² But what do we actually know about gambling in the region and its links to organized crime?

Gambling – whether at physical casinos, slot machine clubs, sports betting or specialized websites online – is a prominent industry in the Western Balkans estimated to generate millions of euros of profit every year. Profit rates of gambling are up to 70%, which makes the industry an extremely profitable businesses and indeed, gambling continues to flourish across the region. For example, a growing number of casinos and betting shops can be observed across Serbia and North Macedonia. More than half of the 40 gambling licenses issued in North Macedonia, were issued in 2019 and 2020.³ A large number of casinos can also be found in Montenegro, especially in touristic towns along the seaside.

Across the region, members of organized criminal groups and their associates own casinos or are connected to their operations. For example, in a 2012 sting operation 23 members of an organized crime family in North Macedonia were arrested, including former politicians and their relatives, for crimes related to illegal gambling.⁴ Similarly, members of the Kavac and Skaljari clans are reported to have owned several licenses for online gambling and slot machines.⁵ The only company in Montenegro that holds an official license to 'lottery games of chance' has previously been

2 EURACTIV, Albania bans sports betting, restricts casinos in bid to tackle organized crime, 26 October 2018, <https://www.euractiv.com/section/enlargement/news/albania-bans-sports-betting-restricts-casinos-in-bid-to-tackle-organised-crime/>.

3 Global Initiative Against Transnational Organized Crime, Risk Bulletin of the Observatory of Illicit Economies in South Eastern Europe, Issue 4, 7, https://globalinitiative.net/wp-content/uploads/2021/01/WB_WB-RB-04.pdf.

4 Organized Crime and Corruption Reporting Project, Macedonia cracks down on organized crime ring, 10 April 2012, <https://www.occrp.org/en/daily/1480-macedonian-cracks-down-on-organized-crime-ring>.

5 For example, see Jelena Jevanovic, Brnović: Kazino nikad nije radio, Vijesti, 21 November 2017, <https://www.vijesti.me/zabava/53882/brnovic-kazino-nikad-nije-radio>.

connected to organized crime.⁶ Also in Serbia, numerous betting shops are assumed to be closely connected to political parties and hooligan groups.⁷

Gambling and organized crime beyond the Western Balkans: the case of Rade Kotur.

Rade Kotur aka the 'Gambling King' is a Bosnian Serb living in Sweden, known for running a gambling 'empire'. He was also previously linked to organized crime. In 2007, he was arrested in the UK following a raid on his gambling activities, in which 400 slot machines were confiscated in more than 150 different locations across Sweden. In March 2009, he was sentenced to 14 years of prison for murder, illegal gambling and various forms of tax evasion.

Court cases and criminal procedures related to gambling and money laundering are less common. In 2012, the owner of Max Bet in Serbia (who also owns several exchange offices) was convicted of malpractice and organization of illegal gambling – but the conviction was overruled in 2018.⁸ In 2018, in Kosovo the major gambling companies (and their partner outlets), received 700 fines and generated 18 criminal reports. More than 100 slot machines were seized, 28 licenses revoked and 301 locations closed⁹ - but the media in Kosovo paid little attention to the malpractices in the gambling sector.

6 IGRE NA SREĆU I SUMNJIVI UGOVORI: FALSIFIKOVANI PEČATI UPRAVE ZA IGRE NA SREĆU, A POLICIJA ĆUTI, Center for Investigative Journalism Montenegro, 2 March 2021, <http://www.cin-cg.me/igre-na-srecu-i-sumnjivi-ugovori-falsifikovani-pecati-uprave-za-igre-na-srecu-a-policija-cuti/>.

7 Masovna tuča navijača Partizana u Kaću, desetine povređenih, kladionica demolirana, RTV, 7 April 2019, http://www.rtv.rs/sr_lat/sport/fudbal/masovna-tuca-navijaca-partizana-u-kacu-desetine-povredjenih-kladionica-demolirana_1007345.html.

8 KRIMI RAD "MAXBETA" Vlasniku kladionica država oduzela imovinu, pa mu dala titulu KRALJA KOCKE, Direktno, 14 September 2020, <https://direktno.rs/vesti/hronika/301143/vlasnik-maxbeta-oduzeta-imovina-kontic-prebijanje-.html>.

9 Tax Administration of Kosovo, Annual report 2018, <http://www.atk-ks.org/wp-content/uploads/2018/06/RaportVjetor2017-EN.pdf>.

It remains unclear how much illicit money is regularly being laundered through gambling activities across the Western Balkans. One estimate in Albania estimated that Albanians were spending around 700€ million on sports betting annually, of which only 150€ million was through legitimate sites.¹⁰

So how can journalists follow the money across gambling operations in practice?

How can money be laundered through gambling?

There are multiple methods to launder money through gambling. One of the most common is for criminals to invest in casinos or slot machine clubs or to using various techniques when gambling themselves. This might not only be done by the criminals themselves but also by their associates, families and friends. The owner of casinos is not always involved. Some methods that are particularly relevant are:

- ▶ Illicit proceeds are directly invested into the gambling sector by building and buying casinos, slot machine clubs, betting shops or similar establishments. This might go unnoticed in countries that already have a large gambling industry such as Montenegro or North Macedonia. Investment into the gambling sector is often done in the names of family or close associates, foreign chains or offshore companies – especially when local legislation disqualifies people with criminal records of obtaining gambling licenses.
- ▶ Once criminals and their associates own casinos or are closely connected to them, it is easier to launder profits through the tellers. The proliferation of on-site betting facilities like slot machines exacerbates this risk, as money launderers can lose all of their cash in the machines and then receive the proceeds as the business owner.

Example: Some gaming and slot machines can be controlled by software that have certain 'override features' or 'back doors'. This gives casino owners and staff the ability to change the odds of the game, the payout percentages or to even to force jackpot payouts.¹¹

10 EURACTIV, Albania bans sports betting, restricts casinos in bid to tackle organized crime, 26 October 2018, <https://www.euractiv.com/section/enlargement/news/albania-bans-sports-betting-restricts-casinos-in-bid-to-tackle-organised-crime/>.

11 Matt Richtel, From the Back Office, a Casino Can Change the Slot Machine in Seconds, The New York Times, 12 April 2006, <https://www.nytimes.com/2006/04/12/technology/from-the-back-office-a-casino-can-change-the-slot-machine-in.html>.

- ▶ Illicit proceeds are not only laundered by casino owners but also by individuals walking into a casino, buying chips with illicit cash (or transferring money to the casino beforehand) and then playing for a while – preferably on high-odd games. Placing bets on every possible outcome, the bettor will have one or more winners. Sometimes, criminals do not play at all but cash out the chips immediately. When cashing in the chips, they will ask for a cheque or at least a receipt so they can claim the proceeds as gambling wins.

Example: A lawyer was sentenced in New Jersey for embezzling more than \$500 000 and laundering \$250 000 of it through an Atlantic City casino. The defendant wire transferred \$250 000 to the casino and arrived at the casino later the same day to launder the funds. He purchased casino chips and gambled for an hour on a roulette table losing \$10 000. He then cashed out the remaining \$240 000 into currency and left the casino.¹²

- ▶ Money can also be laundered through online betting accounts which require limited identification verification. Money launderers can open an account, make a few small bets and then cash out the rest. Establishing dozens of accounts with small amounts keeps the transactions below the threshold that would trigger a suspicious-transaction report. Online gambling is particularly useful for moving money overseas, as funds can be deposited into betting accounts anywhere in the world.
- ▶ Criminals may also approach legitimate customers and offer them to buy their winnings at a premium. For example, they would approach customers who had won at gaming machine jackpots, accumulated a large amount in casino chips from winnings on table games, or won significant amounts at electronic lotteries, horse racing and sports betting. They would then offer to buy their winnings from them at a premium in order to convert dirty money into a legitimate income.

¹² Office of the General Attorney of New Jersey, New Jersey Division of Criminal Justice “12 Most Wanted” Fugitive Returned to Atlantic County to Face Trial on Charges of Laundering \$250,000 in Stolen Money at Atlantic City Casino, 22 December 2005, <https://www.nj.gov/oag/newsreleases05/pr20051222b.html>.

Example: Spanish authorities discovered that proceeds from drug trafficking were used to buy 'successful' lottery tickets from legitimate customers. Criminals would approach the winners and give them cash in exchange for the lottery ticket. The money won through the lottery ticket would then be paid out to the criminals directly and the source of the income would appear as legitimate.¹³ In a different case, a group of overseas nationals were uncovered to have bought the jackpot proceeds from customers at various clubs in Sydney, Australia worth approximately AUD 1.7 million within one year.

- ▶ Money launderers may retain casino chips or buy casino gift certificates to be used as currency to purchase drugs or other illegal goods. Carrying chips from a drug transaction may also contribute to an alibi for the predicate offence. The recipient of the chips will later cash them at the casino.

The techniques presented here illustrate common techniques, but they cannot be regarded as an exhaustive list. Money laundering methods used by criminal groups are continuously changing and they may also change techniques used to launder money within casinos and online betting sites.

Practical tips on how to investigate money laundering through gambling in the Western Balkans

It is no surprise that there are many ways how a journalist can scrutinize and investigate the gambling sector. Below you can find a list of key elements to look out for, as well as tips on how to look behind the 'games' doors:

- ▶ Look at the gambling licenses issued by government institutions and analyse the process used to allocate them. Try to understand if some of them might include elements of corruption, conflict of interests and/or if the companies are linked to organized crime figures, their family members or associates. Take an extra look at the ownership structure of companies that are registered in offshore havens.

¹³ GAFISUD, Tipologías regionales de GAFISUD, Actividades y Profesiones No-Financieras Designadas (APNFD), 2010, page 15.

- ▶ Being able to read and understand the balance sheets of companies is considered a great skill for journalists and in the case of the gambling sector, it could really set you apart and give you indications about possible malpractices in the sector. If available, also have a look at the activity reports of companies working in the gambling sector, including their financial reports.
- ▶ Talk to the people who gather around a casino or slot machine club. They could share with you observations about the real owners of the place, people that support and protect the operations, regular customers and money launders, loan sharks etc. When you visit the casinos, look out for people known to be part of organized crime but also politicians, high officials in the public administration, and others whose presence in these places could give you some good investigative hints.
- ▶ It is important to take into consideration that although gambling might be legal in the country you are working, chances are high that parallel gambling activities also occur illegally. Often owners of the legitimate industry and their associates may also be involved in these illegal operations, for example to evade taxes or conduct other forms of crimes.
- ▶ Set up contacts with people working at casinos (as well as former employees) and try to understand what is happening inside. Frequent gamblers are also a good source of information. Good investigation hints may come from the key members of the sector itself as a company that follows the laws and regulations might have a problem with their competitors that are using gambling to launder money.
- ▶ Gambling is a very cash intensive business, so it is always interesting to keep an eye out for possible effects that gambling may have on close-by communities. As previously mentioned, gambling has a history of 'attracting' social negative phenomena and has the potential to draw people closer to a number of illegal activities, such as drugs trafficking, prostitution and loan sharking.

What to look out for when gambling governments impose a ban on gambling?

In February 2019, the Albanian government partially banned gambling across the country, getting rid entirely of slot machine clubs and sports betting shops and allowing only a handful of big casinos operating in a market. In March 2019, Kosovo followed suit banning all the gambling activities in the country for 10 years. The developments observed in both countries since the implementation of the ban have taught us some important lessons on what to look out for when gambling is banned:

- ▶ Despite bans, gambling often continues illegally: look out for specific people that organize it and places where it could take place. It is worth taking into consideration that people who organize illegal gambling are often connected and secure protection from local politicians and police, and sometimes also in higher levels. Sometimes remote areas, outside the state's attention, are often chosen to conduct illegal gambling operations.

Example: A few months after imposing the gambling ban, police in Kosovo cracked down on a large-scale operation of illegal casinos in the village of Karachevo on the border with Serbia. The area has been neglected by the Kosovo authorities due to disputes with Serbia and has become infamous as a place where to run illicit activities since the power of authorities continues to be weak and police usually avoid operations since they could bring political consequences.¹⁴

- ▶ Criminals will be creative to keep gambling activities running and will develop new underground activities: therefore, be vigilant and try to find out new ways that are being developed to conduct illegal gambling. Keep in mind that new technology enables new ways of conducting gambling (often via the internet), regardless if they are banned in a specific country.

Example: The banning of sports betting in Albania has created an entire new market of illegal gambling via the internet. Although betting shops were officially closed, sports betting continued illegally online. People who run these networks help gamblers to open online accounts created specifically for this purpose.

¹⁴ Tuesday Reitano and Kristina Amerhauser, Illicit financial flows in Albania, Kosovo and North Macedonia. Key drivers and current trends, The Global Initiative against Transnational Organized Crime, August 2020, <https://globalinitiative.net/wp-content/uploads/2020/08/IFFs-Balkans-English-WEB-Nov2020-1.pdf>.

As a result, the whole action of the government in banning sports betting can be put into question. It has also created a new flow of illicit money that is very difficult to be tracked down.¹⁵

- ▶ The banning of gambling in one country may create 'gambling tourism', often to neighbouring countries. Keep in mind that also gamblers can launder their money through gambling (not just casino owners) and they will look out for new opportunities, often in neighbouring countries.
- ▶ In journalism 'follow the money' is an important piece of advice, but when governments ban gambling, it is equally important to follow the activities of former owners of casinos, slot machine clubs and sports betting facilities. In many cases, former owners may be behind the new illegal initiatives as well. This is because they have experience in the industry and know the market and for these reasons it is easier for them to pull the strings of business also in an illegal way. Former owners may also use their experience in the industry to enter the gambling scene of neighbouring countries.

Gambling is a large and profitable sector in the Western Balkans. As such, it holds significant money laundering potential and encourages different forms of criminality. It is therefore of paramount importance for journalists to closely follow the money and securitize this sector.

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15 Gambling: A Sure Bet? Albania, BBC, 2 May 2021, <https://www.bbc.co.uk/programmes/w3ct2d2j>.





HOW TO INVESTIGATE ASSETS OF THE OFFICIALS

*Centar za istraživačko
novinarstvo (CIN)*

Introduction

Journalists from the Center for Investigative Reporting (CIN) in Sarajevo have been investigating and collecting data on the assets of politicians and officials in Bosnia and Herzegovina (BiH) for more than a decade. This research often results in concrete stories. Also, CIN publishes all the collected information in an online database titled "Politicians' Assets", which is the most comprehensive database available on income, movable and immovable property of officials coming from the ruling and opposition parties in BiH.

CIN published the first such database in 2009, which included the data on the assets of 32 politicians. By 2014, the number of database entries had grown to 200.

In addition to offering citizens a quick, free of charge and comprehensive insight into the assets of elected officials who are paid with public money, this database has become valuable material for future journalistic stories of not only CIN's journalists but also of colleagues from other newsrooms.

In recent years, CIN has published many investigations into the illegal acquisition of property by officials and politicians, manipulation of real estate, or concealment of ownership. The journalists revealed the disparity between the money politicians invested in real estate and their legal income, thus proving the acquired property gain and their involvement in corruption and criminal acts. After the release of such stories, which were proven exclusively based on the official documents, the prosecution bodies reacted. Some politicians have been prosecuted, charged and their property blocked by a court decision, while others have been removed from office due to public pressure.

In this handbook, you can find the methodology for a journalistic investigation into politicians' assets and a kind of dictionary of basic terms that you can come across during your work. This process is by no means easy. The outcome depends on the perseverance, knowledge, and resourcefulness of journalists and the understanding of the editors for the time and money spent on an investigation with an uncertain outcome.

Pre-investigation

You can identify the target of an investigation in several ways: based on a citizens' report, from a journalistic source, but also based on your gut feeling about a person being worthy of investigating. Only after you cross-check the merits of reasons for investigating into someone's assets (e.g., whether that someone performs an important function or whether that someone makes decisions on behalf of citizens and is accountable to them), you identify the target and start the investigation.

The first step is pre-investigation. It includes checking all already known and published data about the target to find out the locations for potential real estate owned by the person of interest.

Hence, based on a few verified facts you can assume other facts, which should be as quickly and efficiently as possible either confirmed or rejected. Any information is welcome. At this point, you should not worry about whether the information you came across is accurate or not because you will definitely determine this during the investigation. This involves a detailed press clipping to find out what other media have already published on the same topic. The comments readers leave below the texts are very important, hence, they deserve particular attention.

Formal and informal conversations with persons who are in any way connected with the subject of investigation are another important source. These can be party colleagues, acquaintances, neighbors, family, friends, work colleagues, or anyone with more information that you are interested in.

If the target ran for office, ask the Central Election Commission of BiH (CEC) for property records that the person filled out during the candidacy or after the appointment. In these forms, in addition to information about the property, you can also find the names of family members, which will be useful to you later in the investigation.

If available, an official resume can also be helpful. People during their life live in different places due to business obligations and private decisions, so you have to assume that they could have real estate in each such place, including in the place of their birth.

Document collecting

Upon completion of the pre-investigation, you will have in front of you a list of cities in which you will search for the real estate of the persons concerned. To collect this information, you will have to contact the municipal courts, i.e., land registry offices in the Federation of BiH and the RS Administration for Geodetic and Property Affairs in the Republika Srpska (RS).

It should be noted that, according to the applicable laws, land registers are public records and when requesting these documents, there is no need to refer to the Free Access to Information Acts.

Your request to these institutions should include at least the name and surname, and the father's name of the target. However, due to varying practice in courts across BiH you might be asked to provide the date of birth, and sometimes even a single identification number (JMBG) of the target. This information is difficult to obtain, so you must make an extra effort to complete your request.

As a rule, land registry offices will respond within 15 days. They will provide you with land registry excerpts (zk izvod), which will be proof that your target is the owner of real estate. It is important to note that for each excerpt you will have to pay a court fee of BAM 5 to 15, depending on the court you have applied to.

BOSNA I HERCEGOVINA
FEDERACIJA BOSNE I HERCEGOVINE
Općinski sud u Sarajevu
ZEMLJIŠNOKNJIŽNI URED
02.11.2020 09:05

Katastarska općina: SP_KUJEVO

BRČU: 066-D-NAR-30-077 111
Zemljišnoknjižni uložak broj: 1235

Zemljišnoknjižni izvadak

A
Popisni list

| R.br. | Broj parcele | OZNAKA NEKRETNINA | Površina | | | Primjedbe |
|-------|--------------|-----------------------------|----------|----|-----|----------------|
| | | | iz | na | ost | |
| 1. | 152/1474 | BuAA, BuAA 0000 07 32 | 0000 | 31 | 32 | vidi Až. nr. 1 |


B
Vlasnički list

| R.br. | UPIS | Primjedba | |
|-------|---|---|--|
| 2. | Ulož: 1/1 Mesto: Perić Marković AMO: 150897845211 Pri: 21.02.2020. godine 066-G-DN-30-018 123 Na osnovu sklopka originala Ugovora o kupoprodaji, zaključenog dana 06.07.2019. godine, broj CPU - 71920, izdatog od strane AŽ. Pds, notara iz Pds, utvrdjeno je pravo vlasništva na nekretnosti u A listu. Primenjeno: dana 18.08.2020. godine - 3. B. | Tip: Vlasništvo Adresa: Klok broj 1, Ilićino Novo Sarajevo | |

C
Teretni list

| R.br. | UPIS | Iznos (KM) | Primjedba |
|-------|--------------|------------|-----------|
| 1. | teretni list | | |

Popis zemljin:



Općinski sud u Sarajevu, ZK uređnik/katastar, Bečova 1, 71000 Sarajevo, Tel: +387 33 567 600
02.11.2020 09:05
* Zbogovna pored broja parcele znači da je parcela glavnostana, odnosno da postoji zajednički recenzi za tu parcelu.
066-D-NAR-30-077 111

Strana 1 od 1

The Land Registry excerpt will usually give you the name and surname and the father's name of the owner, the location of the property, the basis and time of acquisition of the property.

Although this document confirms that someone is the owner, yet you are only at the beginning of your investigation journey. You still need to obtain the documents that prove the basis of acquisition, which can be:

- ▶ Purchase contract
- ▶ Inheritance
- ▶ Gift contract
- ▶ Court ruling
- ▶ Swap contract
- ▶ Division contract

You'll now prepare to send a new request to the same institutions, asking for the above documents. This time, the form of the request is different. If your target of investigation became the owner of the real estate based on a sales contract or a decision on inheritance, enter in your request the data from the Land Registry excerpt - "B" Sheet of the Title Deed.

Pr.18 February 2014 **059-0-Dn-12-000 318**

Based on an authenticated copy of the original **purchase contract** for real estate OPU-IP 453/2012 from 16 May 2012, the ownership of the real estate has been registered in A-sheet.

Pr.06 November 1986 **Dn.1963/86**

Based on the final **inheritance decision** of the Mostar Municipal Court concerning the property O 663/83 from 8 May 1986, the ownership of the real estate has been registered in A-sheet.

So, to obtain the document, you need to indicate the DN number (log) and the basis of acquisition in your request.

If the owner acquired the property based on a gift contract, court judgment, swap contract, or division of the real estate, you will have to look for the history of the land registry excerpt. And here's why.

By giving, swapping or dividing the real estate with close people, your target may be trying to cover up how he/she acquired the real estate. Namely, each Land Registry excerpt gives data on the last action related to that real estate. For example, if your subject donated the property to a family member, in the LR excerpt you will only see the number of the gift contract, but you will not know who donated it to him/her and how the donor acquired the property. In such cases, you should ask the institutions for the mentioned history of the Land Registry statement, which will state the DN number and the earlier acquisition basis, and the name of the donor. Only when you obtain such an LR statement, you should write a new request.

The process is similar if the owner acquired the property based on a court verdict. This will also give you information as to how and why the verdict came about.

In any case, you need to indicate the DN number and the basis for acquisition in your request to obtain the requested document.

Document analysis and examples

In all these documents you will find important information to help you move on with the investigation: detailed information about the property, seller, buyer, gift recipient, donor, time of the trade, price, mortgage information, credit information, and other specifics about business and private relationships of the target, which you cannot find anywhere else.

In the following
CIN stories, you
can see the type
of information
you can find after
you collect all the
documents.

OPU- TP 545 /2009

uknjiženo je pravo vlasništva u korist: Hadžić (Emir) Amina; JMBG: 240376178528 sa dijelom 1/1: -----

2.Lične karte Prodavca, saglasnog supruga Prodavca i Kupca na osnovu kojih je notar utvrdio identitet stranaka kao fizičkih lica -----

Notar upozorava stranke da Prodavac nije dostavila potvrde o izmirenim komunalnim uslugama, te upozorava Kupca na rizik kupovine predmetne nekretnine zbog eventualnih neizmirenih obaveza , ali Kupac izjavi da se nalazi u posjedu stana još od decembra 2008. godine, te da je lično preuzela plaćanje komunalnih obaveza .-----

Nakon što je notar utvrdio da su stranke sposobne i ovlaštene za zaključivanje ovog pravnog posla, poučio ih o pravnom dometu posla, te nakon što su izjavile da su razumjele smisao pravnog posla i da Prodavac i Kupac imaju ozbiljnu i pravu volju za sklapanje istog za ovu notarsku ispravu izjavili su sljedeći:-----

UGOVOR O KUPOPRODAJI STANA

I PREDMET PRODAJE

Član 1.

1.1.Prodavac prodaje, a Kupac kupuje u vlasništvo sa dijelom 1/1 nekretnina označena kao broj poduloška 9971/1, dvosoban stan koji se nalazi u Sarajevu, ulica Maršala Tita br. 1, sprat 2, oznaka 11, a sastoji se od 2 sobe, kuhinje i pomoćnih prostorija ukupne površine 47 m², i dio zajedničkih prostorija i uređaja koji pripadaju stanu i zgradi kao cjelini i zemljište ispod zgrade, upisan u Izvadak iz knjige položenih ugovora Općinskog suda u Sarajevu, br. zč poduloška: 9971, općina KFU Centar -----

1.2. Prodavac je saglasan da Kupac po osnovu ovog ugovora može na svoje ime prenijeti sve preključke komunalne infrastrukture koji posjedu na predmetnom stanu (telefonski, elektropriljučak, vodovodni, kanalizacioni, toplave i dr.) -----

II CIJENA I NAČIN PLAĆANJA CIJENE

Član 2.

2.1 Prodavac i Kupac su na ime prodaje nekretnine iz člana 1. ovog ugovora ugovorili ukupnu kupoprodajnu cijenu u iznosu od 125.000,00 KM (slovima: stotinavedesetpetihijada i 0/00 konvertibilnihmaraka) koju će Kupac isplatiti Prodavcu na sljedeći način: -----
-iznos u visini od 58.000,00 KM (slovima: pedesetosamhijada i 0/00 konvertibilnihmaraka) kupac je isplatio Prodavcu prije zaključivanja ovog ugovora, što Prodavac potvrđuje svojim potpisom na ovom ugovoru da je primila dio ugovorene kupoprodajne cijene u iznosu od 58.000,00 KM (slovima: pedesetosamhijada i 0/00 konvertibilnihmaraka) -----

2.2. Preostali dio cijene u iznosu od 67.000,00 (slovima Šezdesetsedamhijada konvertibilnih maraka) Kupac će isplatiti Prodavcu iz kredita koji će realizirati kod UniCredit Bank d.d. u roku od 15 dana od dana zaključivanja ovog ugovora.

2.3 Prodavac je saglasan da se na nekretnini iz člana 1. ovog ugovora zasnaje hipoteka u korist banke radi obezbjeđenja kredita koji će odobriti Kupcu, a sve u cilju isplate ugovorene kupoprodajne cijene -----

2.4.U slučaju da Kupac ne isplati ostatak ugovorene kupoprodajne cijene iz stava 2.1. ovog člana u visini od 67.000,00 KM , ugovorne strane su saglasne da se ovaj ugovor ima smatrati raskinutim i isti neće proizvoditi pravno dejstvo, te se Prodavac obavezuje u slučaju raskida istog isplaćeni iznos u visini od 58.000,00 KM (slovima: pedesetosamhijada i 0/00 konvertibilnihmaraka) vratiti Kupcu. -----

2.5.Notar upozorava stranke da neće izdavati otpравke ovog izvornika sve dok se ne dostave dokaz o izmirenoj kupoprodajnoj cijeni, osim prepisa (bez clausele intabulandi) za banku radi realizacije kredita i isplate kupoprodajne cijene -----

Stranica 2 od 5

▶ **Assets of Kemal Čaušević, former director of the Indirect Taxation Authority (ITA)**

Čaušević bought five apartments, four offices, and more than 20,000 square meters of land between 2006 and the end of 2012. These properties are located in downtown Sarajevo and at other attractive locations in the city. He paid for at one million and 80 thousand BAM.

▶ **Assets of Faris Gavrankapetanović, former director of the Clinical Center of the University of Sarajevo (KCUS)**

Gavrankapetanović and members of his family bought many properties from 2005 to 2012: four apartments, office space, nine garages, and 4,000 square meters of land. The real estate is located in Sarajevo and Počitelj. He paid for it one million and 867 thousand BAM.

Hence, in these examples, the analysis of the collected documents showed that Čaušević and Gavrankapetanović and their family invested a lot of money in buying real estate. Although that in itself may be interesting, it is not enough for a strong hypothesis in an investigative story.

For that, you need to determine all the circumstances at the time of purchase - whether they had the money and how they earned it - to determine the possible disparity between the money that the target invested in buying real estate and their income in the same period.

To do this, you need to collect data on the career of the target - where he worked, what jobs he performed, and whether he (co)owns a profitable entity. After that, you need to find out how much he earned in those positions over a certain period. For your investigation to be fair and in accordance with the standards of the journalistic profession, you must make an effort to obtain data on their additional income, which can be income from real estate rental, part-time work, copyright, sale of shares, dividends ...

This information is not easy to come by. Part of it may be available in the institutions where they worked (especially, if they worked in public institutions), and some may be obtained from your sources in important positions, which are very important for the realization of the story.

Only when you find out how much income the target earned at the time (and before) the purchase of real estate - you have a hypothesis and a lead of the investigative story.

In the case of Čaušević and Gavrankapetanović, it looks like this:

| | |
|---|---|
| Kemal Čaušević | Faris Gavrankapetanović |
| Real estate value: BAM 1,080.000 | Real estate value: BAM 1,867.000 |
| Total income: BAM 629.000 | Total income: BAM 1,410.000 |
| Period: 2004 – 2012 | Period: 2005 - 2012 |
| Disputed difference: BAM 451,000 | Disputed difference: BAM 457.000 |

In such analysis, it is important to take into account that the target and their families had to have additional costs when buying real estate: real estate taxes, adaptations and furnishing of apartments and business premises, and regular living expenses - as a particularly large expenditure item.

Thus, their already weak purchasing power is significantly reduced by adding these costs. This makes it clear that their total income was not nearly enough to cover property investments.

This way of proving ownership and acquired assets is also important for assessing the accuracy of data reported by politicians in their asset declarations reports.

According to the Election Law in BiH, nominees and elected officials must report with the Central Election Commission (CEC) their income from the previous year and all property belonging to them and their close family members valued upwards of BAM 5,000. It is important to note that the CEC does not check the content of asset declaration reports nor does it impose any sanction for incomplete or false declaration of assets.

That is what makes journalistic investigations even more important.

If you have collected information from land registers and learned about other valuable real estate, you can cross-check the collected data with those provided by officials in the asset declaration reports. This proves that some officials covered up the assets.

Applying this methodology, CIN journalists have discovered the following:

- ▶ **Melika Mahmutbegović**, a member of the FBiH Parliament, failed to report in her asset declaration report that, in addition to the two registered apartments in Bugojno and Sarajevo, she also has two apartments, two business premises, and three garages in these cities. Some of these properties are co-owned by her sisters.
- ▶ **Fahrudin Radončić**, a delegate in the House of Peoples of the BiH Parliament, reported in his asset declaration report earnings of BAM 570,000 from the sale of shares in “Avaz-roto press”, a house and 7.8 hectares of land in Vogošća, which he estimated at BAM 700,000. He also wrote that he owns an apartment worth about 4.2 million marks in Tivat, Montenegro, and land in Plav, which he co-owns with his brothers. He failed to report a yacht in Bar in Montenegro with a market value of around three million BAM.

High-ranked politicians conceal their property, ignoring the law which mandates that they must declare to relevant institutions everything they own.

It may as well happen that in the course of your investigation you fail to confirm the hypothesis that you set at the beginning of the investigation, thus causing your story to “fail”, which is the professional risk that you must be prepared to take. However, in most cases you’d simply need to adjust your hypothesis to the facts you learned during the investigation, being governed by the evidence, as the only lead to a true investigative story.

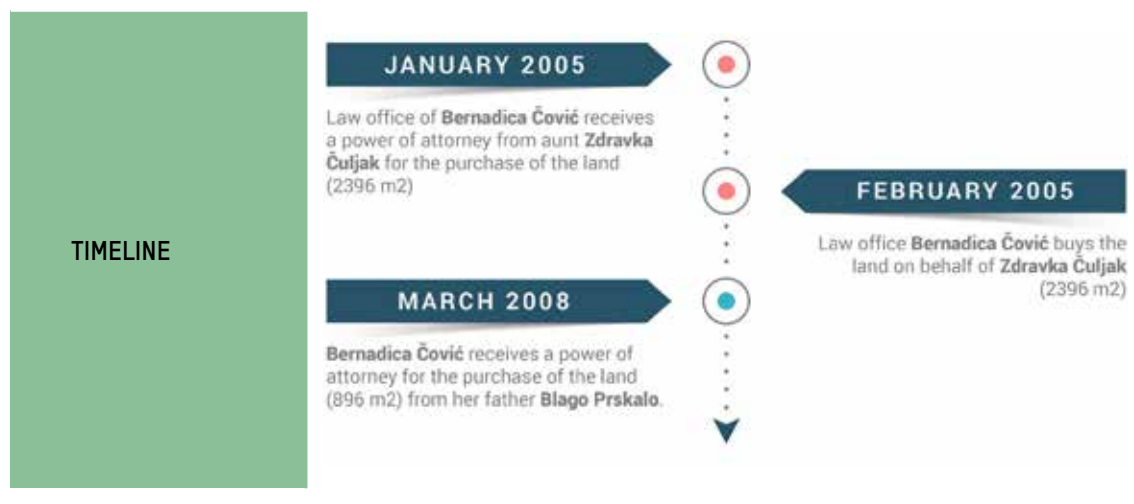
To constantly keep in mind the order of events and the relationships and context in which they took place, the investigative journalist can use the so-called “timeline”. This is a great tool that helps us list all the events that we have identified as important for making the connection with the acquisition of real estate and drawing inferences about the story.

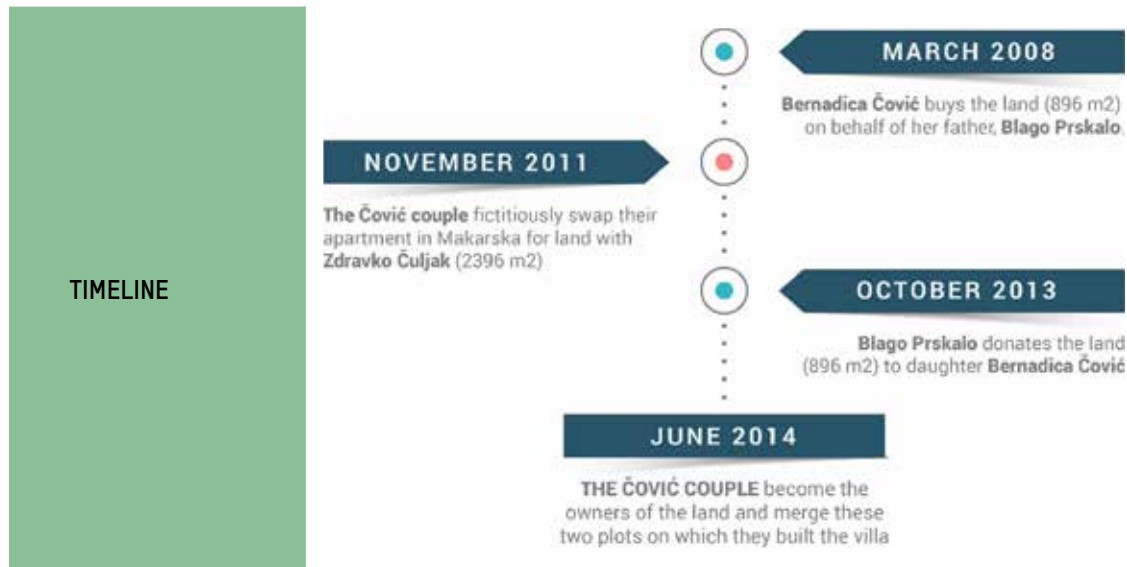
This tool allowed CIN reporters to see important relationships in examples:

► **Property of Dragan Čović, President of the Croatian Democratic Union of BiH**

Dragan and Bernadica Čović have received most of the property the couple owns either as gifts or as purchases they made before 2003. After investigations and prosecutions started against Čović on suspicion that he used public office for personal gain, things changed. In the following years, it was Bernadica Čović who bought property on the family name, and later she received some of that property back as gifts.

In the next example, you can see the timeline showing how the Čović couple became the owners of a property, which they formally never invested in. It is a villa that spreads over an area of half a football pitch.



HOW TO INVESTIGATE ASSETS
OF THE OFFICIALS

Investigative journalism most often deals with complex topics that interfere with the private businesses and business relationships of individuals, hence, the job of an investigative journalist is rarely simple and easy. Yet, it is the only way to write a documented story, which tells about bad people and their misdeeds, and which the judicial authorities with the power to sanction such conduct can rely on.

Investigative journalists point to the weaknesses of social regulations and transgressions made by individuals and groups of people exploiting such weaknesses, and who invest a lot of energy into hiding them skillfully from the public. This is why investigative journalists must have knowledge and skills that are not otherwise indispensable to other journalists.

They must understand and be able to analyze public documents, follow the money and be able to identify in the ocean of data the ones that are important for proving corruption and crime. At the same time, they must be a bit of a psychologist and learn the ways of gaining the trust and winning people of different characters to talk and cooperate with them on sensitive and often dangerous topics.

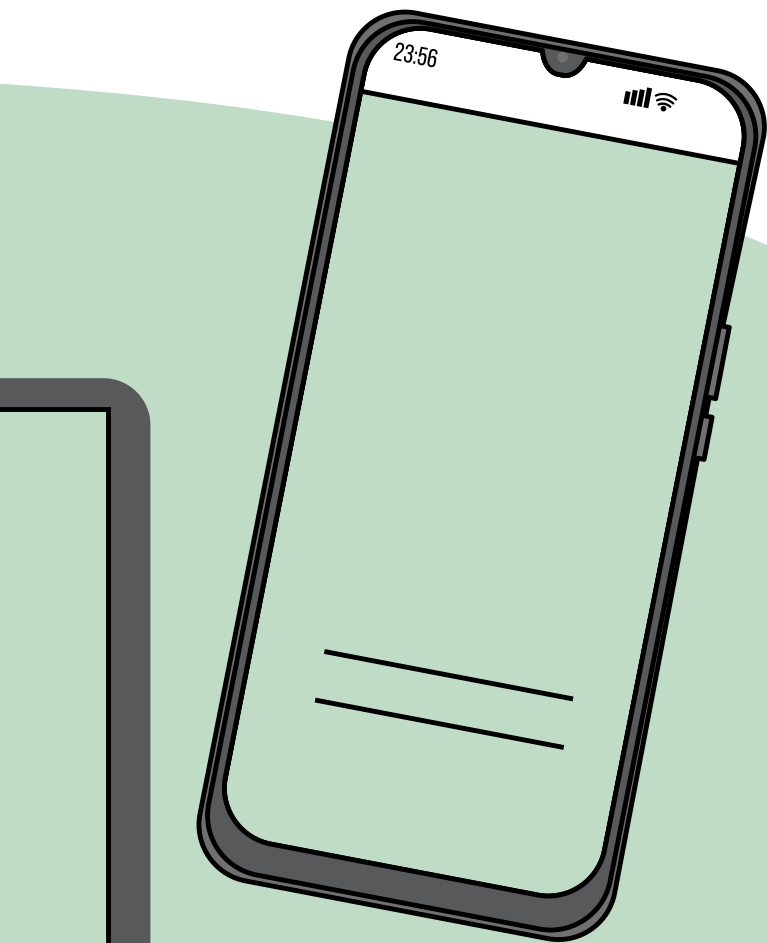
Investigative journalism offers the public the truth that informs their decisions and changes the world. It must therefore rest on a clearly defined methodology and have solid evidence to support its hypotheses.

During their continuous work investigating concealed, unreported, or “non-existing” property, which officials transfer to family members or other people of trust to avoid reporting or proving its origin, journalists from the Center for Investigative Reporting (CIN) have proven many frauds and lies by politicians and other people of interest in Bosnia and Herzegovina.

In this handbook, they transferred part of the experience and methods of investigating the property of politicians, hoping to encourage other colleagues to follow in their footsteps.

Leila Bicackic is director of the Center for Investigative Reporting, CIN in Bosnia and Herzegovina.
Aladin Abdagic is editor-in-chief at CIN.





**CASE STUDY: 'PARTY
GAMES: HIDE AND SEEK
WITH ELECTION CASH'**

Vladimir Kostic

Background

As an investigative journalist, I was into investigating political financing years before I applied for a BIRN Fellowship. I started researching this topic back in 2014, two years after the Serbian Progressive Party, SNS, the mighty ruling party in Serbia, came to power. What appeared as a common element in every research into its finances was the “shadow” of an anonymous, hidden source, or sources, that might be financing the party’s political activities, leaving almost no trace of this illegal action. Illegal, because, under Serbian law on the financing of political activities, all sources of finance, every donor or deal, has to be made known and transparent.

For example, during the 2013 local elections in Zajecar, in eastern Serbia, hundreds of political activists went there for several days, staying in hotels and running up various expenses that were never reported to the Anti-Corruption Agency, ACA, even though the party was legally obliged to report them. I found out that all their expenses, as well as activists’ wages, were paid for in cash with no evidence about the origin of that money. I also reported on a case in which Rudolph Giuliani, former Mayor of New York, visited the Serbian Progressive Party in 2012 during the election campaign, giving it his support.

Until this day it remains unknown who paid for Giuliani’s visit, even though the party had to report all such expenses. Similar things were happening when it came to marketing and advertising – I was investigating how the major national TV stations in Serbia gave huge discounts to the Progressive Party ahead of elections – of up to 90 per cent – apparently losing a lot amount of money over this, raising suspicions that these “favours” by those TV stations and their respective owners were compensated for in other ways.

That is why I decided to apply for the Fellowship with a story about how political parties break the law by hiding their sources of money, with an emphasis on the Serbian Progressive Party. Its power was growing stronger each year and its funds were growing rapidly, ahead of every election, because it had, and has, a well-coordinated system of collecting money from its donors.

I had great sources, different experts and insiders in that field with extensive knowledge and inside information. I was building up those sources years before the BIRN Fellowship. Those people explained the legal framework to me, how the system of political financing worked and can be tricked, and was being tricked by the Serbian Progressive Party. I got more interested in the topic. I closely followed every report published on the ACA website, and read what those parties had reported and what they had avoided reporting. In those financial reports I spotted an interesting thing that no one had investigated or explained – many individual donors had donated exactly the same amount of money, often 40,000 dinars (around 320 euros). What was that about?

I wanted to investigate this, and now I had another opportunity to show how this system of financing political activities in Serbia was being misused by the country's most powerful party which – mainly thanks to those misuses – had in less than a decade grown into an almost almighty political subject with a grip on everything, from parliament to the media.

This topic was also important because those misuses derogated the whole election system in Serbia, making it almost senseless. If someone can put up 10,000 billboards, thanks to its suspicious wealth, and someone else has zero billboards, can voters really make an informed decision? Do they have free political will, or is that will being manipulated and shaped by the Progressive Party's omnipresence? And maybe there is an even more important question; is a hidden source, or sources, injecting millions of euros into this party, strengthening its power and influence, and if so, what cost do we all pay?

Working on a story

When I applied for a Fellowship, I had the vague idea of writing a general story about problems in this field. At that moment I didn't know that the ACA had sent a report to prosecutors urging them to launch criminal proceedings over suspected illegal activity during the 2014 elections. Namely, many individuals had given **the ruling party** exactly the same sum of money, 40,000 dinars, even though some of these donors were welfare recipients. What was even more interesting, even funny, is that some of them paid 39,600 dinars. Why was this? Was it because 400 dinars is the amount the bank takes in commission, and they didn't want to pay those 400 dinars from their own pockets?

These people, the agency suspected, were surrogates or proxies for secret donor(s). Hiding real sources of income is a crime, and so the ACA asked the prosecution to investigate evidence of money laundering by the ruling party.

I heard about this document after I applied for the Fellowship and managed to get access to it. Suddenly my story became much stronger; I had a case study of suspected misuse that I could use. Even more importantly, the document I had the insight into contained a list of a dozen donors' names. Some of them, I hoped, would explain to me how the system works.

But first I had to confirm the authenticity of the document with the ACA. This is a common method in investigative journalism; when we obtain a document or information, we must try to confirm it in other ways, by reaching out to people or institutions that could confirm its authenticity, or by trying to confirm the content of a document itself in different ways, depending on the subject. I asked the ACA for this exact document. And they gave it to me. It was the same one I had already seen.

Now I had a confirmed case of suspected misuse and money laundering by the Serbian Progressive Party, which was hiding its real donors through the system of proxies. But another problem emerged – this was pretty much old news, concerning cases from the 2014 elections. My editor and I now agreed to start working on a broader story about the “playbook” used by various Balkan autocrats, with a broader context: what are the main problems regarding political finances and electoral misuses all across the region that enable these authoritarians to stay in power?

I was about to start writing about this “playbook” when Serbia's presidential elections occurred in April 2017. A month after the election, the ACA published the parties' financial reports on its website. I was lucky; the Serbian Progressive Party had used the old, tested system once again, and its financial report was full of cases of individual donors who, as in 2014, had given it exactly 40,000 dinars. It looked as if someone had actually donated a huge amount of money once again – this time around 2 million euros – that was dispersed and disguised by thousands of individual

donors who had transferred that money in bits and pieces to the party. The number of donors was so immense that the ACA took a week entering almost 7,000 names into its online database.

This was a chance to actualize my story, and I insisted in a conversation with my editor that, instead of a more general playbook, we should push the money-laundering-real-donors-hiding aspect of the story. He agreed.

The next step was to find some donors who could explain the scheme and testify, probably anonymously, about the way the system worked. I had to call some of the people whose names I could find in the ACA report. There were two possible types of donors. The first were welfare recipients who live in poverty and who, in reality, so I suspected, would scarcely give away any money they were given. The other type were those people who weren't welfare recipients and had paid that money into their accounts and then transferred it to the party's account. Many of them had jobs and could either afford this kind of donation, or explain it. So I focused on the welfare recipients, as those cases were clear for me, and I could legitimately ask how they could afford to donate to the Serbian Progressive Party when, at the same time, they lived in poverty and received state funds.

I chose people with specific, unusual names and last names because it was easier to find them and confirm their identities. I crossed their names to other data I could find about them, for example, their hometowns in other publicly available ACA databases, and their phone numbers in phone books. I identified three people from different places in Serbia and called them on the phone. One denied being a welfare recipient. The second one I couldn't get hold of. The third answered my call. We spoke on the phone for an hour. That person didn't explicitly admit receiving money from anyone and transferring it to the party, but the way they talked and the verbal constructions they used confirmed to me in a very subtle way that this person had not donated the party his or her money.

However, although this confirmed that I was on the right path, I couldn't use those people as sources for an article. I had to give up on them.

I realised I wouldn't achieve much if I continued calling unknown people, or even offering to visit them and introduce myself in person. They did not have the confidence to open up and tell their stories. I came up with another idea; I downloaded a list of donors from the ACA website, arranged by their hometowns, and contacted a few trusted colleagues who were born or lived in those towns. I asked them whether they recognised any of the names from the list.

Bingo!

They appeared to know in person some people from those lists. These people then agreed to talk, because they had trust this time. All of them were local party members, and some of them had got jobs due to their party membership and were obliged to do the party favours when they were asked to. Those sources, five of them, all mutually independent, confirmed details about the fraud mechanism. The scheme was always the same; a senior member of the party would offer them 40,000 dinars and ask them whether he/she would pay that money into the party's account. They had all agreed to do so. Some of them were afraid of losing their jobs, and they only agreed to talk to me on condition of staying anonymous. We had the hardest time deciding what amount of information about them we could reveal so as not to jeopardize them, but also to have some "meat", so that the story sounded grounded and confirmed. So we slightly identified one of them, saying only that she was a teacher in a small town in Serbia. That was all.

It was clear that this system was breaking the law. No source of party income should stay unknown under Serbian law, and now I had various confirmations – from the ACA document and five different people – that the Serbian Progressive Party was hiding its real donors.

However, a new problem now emerged. The public in Serbia started digging into the ACA report from the presidential elections in 2017. Some opposition politicians started asking questions about the 40,000 dinars donations, raising their suspicions that something criminal was going on. Fortunately for me and for my story, none of them connected the dots and raised suspicions of party money laundering, because no one, except me and the ACA, had the document stating that the Progressive Party had used this same mechanism in 2014, and that there was a criminal proceeding going on against it.

My panic peaked in the summer of 2017, while my article was in line for editing, when the then director of the ACA said on television that they had opened a criminal case of money laundering. I shuddered because digging there by others would ruin my story. Fortunately, the TV host asked the director nothing about that, and that fact went unnoticed.

So, at that point, I had an exclusive official document, plus confirmation from many different sources and witnesses. Then came a tiring part of the job – scraping all the data about different parties from the ACA website, to analyze and compare the numbers. For example, by comparing how much money each party spent on elections, I found out that the Serbian Progressive Party wasn't nearly so rich for the 2012 elections, before it came to power. Things changed rapidly afterwards and in every following election, when it completely dominated every other party. While growing stronger politically, the party also brought its donor system to perfection, which soon became unbeatable in any level of election due to a superior media dominance it could and did pay for.

I also counted how many individual donors the party had in the 2012, 2014 and 2017 elections. In 2012, it collected 382,000 euros from people who gave the same amount of money. In 2014, it got 924,000 euros this way, and in 2017, over 2.2 million euros. Every year, it became more unscrupulous, and richer. Over that time, it is suspected the party laundered millions of euros whose real source remains unknown until now.

Of course, I encountered a wall of silence in different institutions. The Progressive Party didn't answer any of my calls and emails, and I didn't find out anything spectacular from the ACA and the prosecutor's office. Until now, the prosecution has done nothing to reveal the real sources of the ruling party's income, nor has it interrogated any of its donors. Experts from NGOs I spoke to had an impression that this is the consequence of the growing politicisation of the prosecution. This is one more piece of the authoritarian puzzle – the prosecution office that remains silent about all the incriminating evidence.

This is the point when I travelled to neighbouring Macedonia (now North Macedonia). They were facing a completely different reality back then, in which institutions had started doing their job, but not before former PM Nikola Gruevski lost power. I wanted to see how their prosecution worked when there is a political will for that, and how a prosecutor should work.

Back then, in Macedonia, a Special Prosecution had been formed as a result of an agreement between PM Gruevski and the opposition, tasked mainly with investigating allegations of corruption arising from material published by some of the opposition parties. Gruevski thought he could influence the Special Prosecution Office by choosing the main prosecutor, but he was wrong. The three prosecutors – popularly known as Charlie's Angels after the famous US TV show about women crime fighters – proved independent and professional at that time.

I talked with one of them, Lence Ristoska. She said they had faced many obstructions, primarily from courts, due to political influences. But after Gruevski lost power, everything had changed, and one of the cases they had started investigating was similar to the case I was investigating – suspected money laundering during election campaigns. Unlike Serbia's prosecution, Macedonia's prosecution was interrogating many individual party donors in order to establish whether the law had been broken by the former ruling party. As some Macedonian experts confirmed, none of those donors had agreed to talk openly while Gruevski was in power, fearing for their jobs. Everything indicated that prosecutions in the Balkans were still strongly influenced by politics.

After the story

I proved the existence in Serbia of an illegal mechanism but, unfortunately, could not prove where the money came from. I tried to find that out, or at least get some clue or trace from the many different people I spoke to, but in vain. That question remains open and suitable for some future investigations.

President Vucic, however, made a revealing gaffe while trying to claim that his party's finances were completely clean.

Quizzed on suspect donations, he said: "I assume ... [if I say] 'I want to donate 800 euros, but I cannot give 800 euros, it is [not] allowed,' [then I would say to another person], 'Here is the money, please pay our party,'" Vucic said, thereby accidentally confirming that his party probably committed a criminal act.

After the story was published there were a few follow-ups. I discovered that the ACA had reported the 2017 election case to the Ministry of Finance's Administration for Money Laundering Prevention, urging it to check transactions from donations to the ruling party. It refused to do so.

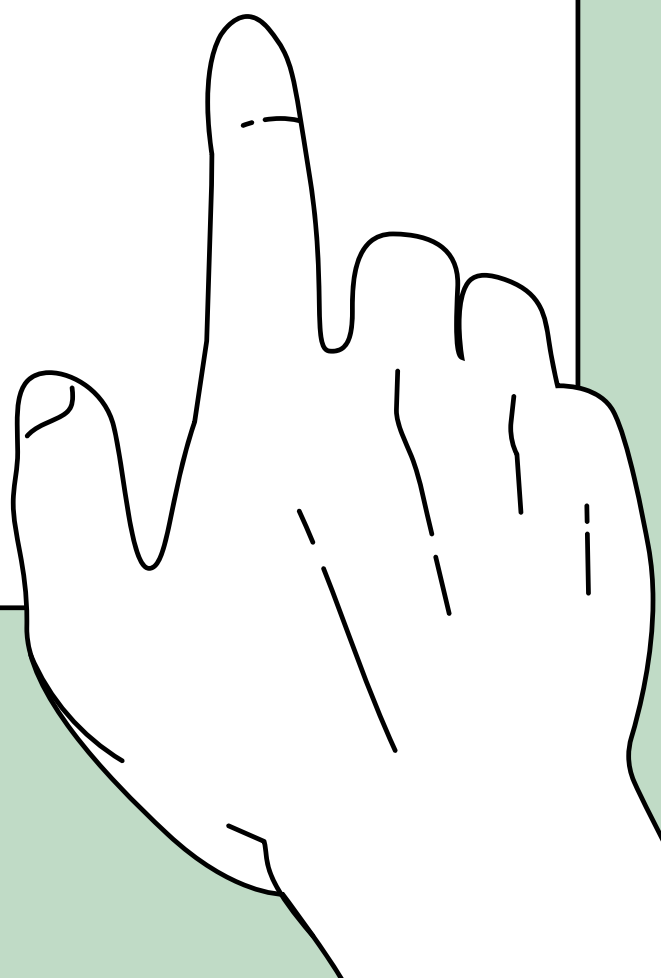
Meanwhile, things changed in the ACA itself. A few months after my investigation, the institution got a new head in Dragan Sikimic. It turned out, as I discovered, that he was one of those individual donors to the party who had donated a suspicious 40,000 dinars. One more piece of evidence of the pervasive political influence of the ruling party on national life.

This political scandal has had no epilogue in Serbia but remains a shameful fact, mentioned in many different international reports. In the latest Human Rights Watch HRW report for 2020, it is stated, about Serbia, that, "campaign finance regulations are weakly enforced".

It noted: "Following the 2017 presidential election, the OSCE reported that the Anti-Corruption Agency (ACA) had decreased the resources dedicated to proactively monitoring campaign funds and did not thoroughly investigate dubious donations."

HRW added: "Balkan Investigative Reporting Network (BIRN) found that the SNS had orchestrated the use of thousands of proxy donors to bypass legal limits on individual donations and disguise the true source of funding."

Vladimir Kostic is a journalist and editor with Center for Investigative Journalism in Serbia





**CASE STUDY: 'THE
SECRET PARTNERSHIP'**

Aleksandar Dimitrievski

How we made the "The Secret Partnership"

"Eksiko /Ексико" is the name of a local company in North Macedonia that is widely known today. A decade ago, it was a topic of interest only for a limited circle of the informed public. Back then, the rumour was that the company was somehow connected to two important men in the country – the chief of State Security and Counterintelligence, UBK, Sasho Mijalkov, and a local tycoon, Orce Kamchev. For a long time, it remained only a whisper, as local media didn't have the freedom, knowledge or funds to investigate the story to its limits. For the first time, the country was facing a delicate and complicated offshore scheme.

Background

One of the earliest mentions of Eksiko in the media dates¹ from 2005, when a Turkish company bought an attractive parcel of land on the slopes of mount Vodno, just above the outskirts of the capital, Skopje. It was and still is the elite part of the city, where most of the diplomatic residences are located. The company bought the parcel in order to invest more than 32 million euros in a private hospital, only to find out that the neighboring parcel – then zoned as forest land – had been recently bought by local companies, including Eksiko. The problem for the Turkish investor was that, without the neighboring parcel, which was state-owned when he decided to invest, he couldn't build an access road to the hospital and have a "green rehabilitation corner". That "forest parcel" would quickly be re-zoned as residential land and local companies, including Eksiko, would go ahead with a plan to build nine residential buildings on the site. In the end, the Turkish investor would sell his plot to Eksiko and its "friends".

Without much fuss, Eksiko continued to acquire attractive parcels of land on the cheap, since they were zoned as forest, agricultural or industrial land, which would later be re-zoned as residential land. The company then started to "invest" in companies that were not listed on the stock exchange, so keeping a low profile. Until the early 2010s, its name only sporadically showed up in the media, mainly regarding small construction public works, such as sidewalk reconstructions. But then Eksiko started expanding operations in joint ventures that are listed on the stock exchange, attracting more interest. By 2012, it would have a strong presence in the food industry, banking, healthcare, hospitality and construction. But Eksiko still managed to keep its profile low, as many databases in the country were not transparent and public at the time, it only acquired minority shares in any businesses it invested in, and it always invested with partners, which later turned out to be also a "shady" practice.

1 <https://time.mk/arhiva/>

Previous work

By the end of 2014, the public would get a clearer picture of Eksiko due to several media reports and claims made by opposition parties. In brief, two facts were confirmed – that Eksiko’s ownership was based in Lugano, Switzerland, and that Mijalkov, director of the UBK, had companies in the Czech Republic. It would take some time to connect Eksiko and Mijalkov. That breakthrough was made by the then largest opposition party, which obtained documents that showed Mijalkov sold one of his Czech companies to a company from Panama, called Tasiga Corp. The legal representatives of Tasiga Corp were Claudio Vidoli, Umberto Caprani and Emilio Binda. Some of those people were also legal representatives of T&MJ Investment from Lugano, which owned Eksiko from 2011.

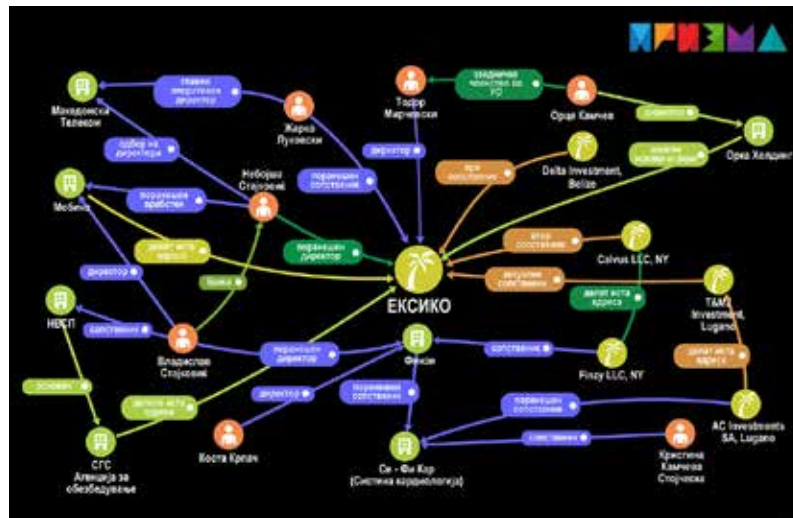
The most comprehensive journalistic story on this was published In March 2015 by BIRN Macedonia. Some of the facts that it would present are:

- ▶ Eksiko’s HQ was in an apartment in a residential building in Skopje;
- ▶ In 2012, it was the 14th most successful company in the country in terms of net profit;
- ▶ The company had several owners since registration in 2001. First, Delta Investment in Belize, from 2008, Calvus LLC, in the US, and since 2011, T&MJ Investments, in Lugano;
- ▶ Emilio Binda and Fabio Armati were at some point representatives in companies in North Macedonia owned by Eksiko;
- ▶ Iskra MM, Arhi D00, Ek-kor D00EL, Pelagonija, Zito Polog, Beton Stip and Zdravje Radovo are some of the companies in which Eksiko has a direct or indirect share of the ownership.

The actual job

In the second half of 2016, thanks to donor funding, my newsroom finally got the chance to investigate aspects of the story that were not reported on. Since most of the homework was now done, we decided to go to Lugano, as the next logical step. From the start, we were aware that we would not uncover many new details in Switzerland due to local legal limitations. So we decided to investigate the story vigorously, but present it as simply as possible. After all, TV is known to be “dumber” than print and online media.

Segment of
the ownership
structure of
Eksiko,
published by
“Prizma”
-BIRN North
Macedonia



The first part of the quest was “local” – a trip to the state business registry office. We obtained via a legal procedure all the company registry info on Eksiko in the country. We needed to double-check what had already been published, but also obtain exact names, addresses and dates. Then we had to check the local companies owned by Eksiko. This task was made easier by the emergence of the first web platform that enables an advanced search of the state business registry (business intelligence).

Due to local legislation, we could only verify the ownership of the LLCs through the business registry. To check the ownership of joint ventures, we had to use different databases. In the end, we could confirm all the previous reports but also uncovered certain changes, such as new managers or percentages of ownership, etc. This process resulted in the collection of hundreds of pages of documents which were then analyzed. Again, the task was made easier, as we were following a path that others had already taken.

After we “updated” and established the local state of affairs concerning Eksiko, we started to fact-check the international relations of the company. In this process, we decided to treat some of the publicly available documents as true (data from business registries from the Czech Republic, Panama, Belize, US) as they were the “past” of Eksiko and not directly important to our approach. As far as the data from Switzerland was concerned, we decided to check everything possible by ourselves, as the company owner was currently based there, in Lugano – T&MJ Investment.

The first step was to use the data that was available online². This resulted in obtaining some basic info, like the HQ of the company that owns Eksiko, T&MJ Investment. We could also confirm the current and the past managers of the company. But, essentially, we couldn’t obtain info regarding the owners of T&MJ Investment. Simply put, Swiss legislation at the time practically enabled the real owners of the companies to hide behind proxy managers. The only info regarding the real ownership of T&MJ Investment (and any other company in Switzerland) that could be obtained was the name of the person/company that established T&MJ Investment in the first place. At that time, though, the information could be purchased online but the documents were sent by regular mail to addresses only in Switzerland. The other option was to go to Ticino Company Registry and purchase the documents at the spot.

All those “tips and tricks” were collected from colleagues from Switzerland that responded to our requests for help. Finding journalists, forums, associations of investigative journalists and NGOs in Switzerland was a mini-quest on its own, as we didn’t have contacts outside the Balkans. Most importantly, we managed to find a local journalist who worked in Lugano to be our “fixer”.

2 <https://www.zefix.ch/en/search/entity/list?name=T%26MJ&searchType=default>

Filming

Every story, especially a TV story, has a certain budget. In the case of our “Secret Partnership”, we had a couple of limiting factors. Switzerland is one of the most expensive (maybe the most expensive) countries in Europe while North Macedonia is one of the poorest. Just to name a few logistical problems, budget accommodation in Lugano or Zurich costs at least five times more than in Skopje, local transport costs were five to ten times higher, and buying documents from the Company Registry can cost a small fortune. As a result, we had to film our story on a tight schedule. Essentially, we had three days.

The focal points of our assignment were:

- ▶ to find the HQ of T&MJ Investment;
- ▶ to speak to the leadership of T&MJ Investment in Switzerland;
- ▶ to obtain all documents from the local company registry regarding T&MJ Investment;
- ▶ Emilio Binda and Fabio Armati were at some point representatives in companies in North Macedonia owned by Eksiko;
- ▶ to find any new connections that T&MJ Investment has with other entities.

The investigation started in Lugano. With the help of our fixer, we found the HQ of T&MJ Investment. The office building at the address was filled with so-called mail-box companies, but our company didn't even have a mailbox on the entrance. We used third-party websites for Business intelligence (subscription-based) on the spot in order to learn that the manager of T&MJ Investment, Alessandro Mauri, was also a manager of one of the other companies that had a mailbox in the building. We asked to see him and were allowed into the premises of the office. First, we were told that Mauri was in the office, but that we would have to wait a bit, as he was in a meeting. After we were asked to introduce ourselves by his secretary, Mauri “magically” disappeared and was no longer in the office. The meeting didn't take place.

The next step was to visit Mauri's home (data obtained legally, through third-party websites for Business Intelligence). We didn't violate his privacy; we only wished to check the address. We found an average home at the location. As there was nothing unusual, we left that part out of the report. We were not ready to break the right to privacy without a strong argument to do so.

The next filming or “investigation” location was the Company Registry Office in Ticino. There, we were finally able to buy all the company info on T&MJ Investment. It now became clear that when T&MJ Investment was first registered, it was owned by another company from Ticino. Digging deeper, we realized that this owner company was, in turn, owned by another company based in another canton in Switzerland. That meant unexpected travel to another canton that would probably reveal little or nothing of importance for our investigation, as the “oldest” company in the structure of interest in Ticino was registered decades ago. Obviously, we were facing a well set-up system that was used for customers in need. The documents that we obtained did give us one name of importance, Emilio Binda, who was an ever-present figure in the companies ultimately related to Eksiko. With some help from colleagues, we managed to find old newspaper articles in Italy that claimed Binda had a share in the “ENImont” scandal of the early 1990s in Italy. We managed to find and film a short interview with a former journalist from Italy (via Skype) that investigated ENImont in the 1990s.

The result

The filming and investigative work done in Switzerland included another two interviews that were used to explain the Ticino system to the general public. Additionally, a TV journalist must take care he has enough footage to tell a story, which means a lot of video material (both specific and general shots). When we returned to Skopje, we went through the documents once again, in case we'd missed something. Only then did I start writing the story.

A ton of work was done in the background, but we decided to stick to the original plan – to tell “as simply as possible” a TV story so that the audience could understand it. We avoided complicated graphs and presentations of many documents, opting for a simple audio and video narrative. The result was a journalistic mini-documentary, around 11 minutes long. In it, we told the public:

- ▶ There is a wealthy place called Lugano in Switzerland;
- ▶ It is the home of the HQ of one of the richest companies in North Macedonia (a company that receives money from the budget and that owns a lot of companies in North Macedonia);
- ▶ But its HQ is nothing more than a file on a shelf in a consultancy company;
- ▶ It hides its ownership in the company registry;
- ▶ The people helping them are known to have helped politicians in the past on issues like money laundering.
- ▶ As previously reported, the company of interest is connected to Sasho Mijakov and Orce Kamcev.
- ▶ <https://www.youtube.com/watch?v=XzwtYMKuQ&t=468s>

The story proved quite popular in North Macedonia, as many segments of society understood the issue. On the other hand, not a single word was contested by the protagonists, the companies involved or the institutions. It has also “aged well”, as our prediction that the money from Switzerland would scarcely be returned to North Macedonia is still true. Due to other developments in the country (the mass wiretapping scandal), Eksiko is a target of investigation of the Basic Prosecutors Office for the fight against organised crime and corruption. But it’s been in that phase for at least three years. Although some of the actors even spent some time in pre-trial detention, no funds have been frozen in the process.

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