



REPUBLIC OF MACEDONIA

REPORT
FOR CONDUCTED NATIONAL RISK ASSESSMENT OF
MONEY LAUNDERING AND FINANCING OF TERRORISM

Skopje, 2016

ACRONYMS

NRA - National Risk Assessment of Money Laundering and Terrorist Financing

FATF - Financial Action Task Force

EU - European Union

UN - United Nations

RM - Republic of Macedonia

CC - Criminal Code

LPMLTF - Law on Prevention of Money Laundering and Terrorist Financing

Moneyval Committee - Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism

FIA - Financial Intelligence Administration

NBRM - National Bank of the Republic of Macedonia

SECRM - Security and Exchange Commission of the Republic of Macedonia

CSD - Central Securities Depository

MSE - Macedonian Stock Exchange

PRO - Public Revenue Office

ISA - Insurance Supervision Agency

MAPAS - Agency for Supervision of the Fully Funded Pension Insurance

MoF - Ministry of Finance

MoI - Ministry of Interior

FIU - Financial Intelligence Unit

DNFBPs - Designated Non-Financial Businesses and Professions

STR - Suspicious Transaction Report

INTRODUCTION

The REPUBLIC OF MACEDONIA has set and built the system for prevention of money laundering and financing of terrorism in accordance with the international standards and the best international practices.

The international standards have imposed a commitment that policies and institutional response for the prevention of money laundering and financing of terrorism should be set depending on the threats and assessed risk. Building of a system for the prevention of money laundering and terrorist financing adequate to the estimated risk is conditioned by a previously conducted risk assessment of money laundering and terrorist financing.

The obligation to carry out a risk assessment (on national level) is prescribed by the FATF Recommendation¹. Namely, this international standard essentially requires to conduct comprehensive and complementary activities in order to identify, assess, and understand the risk of money laundering and terrorist financing. Consequently, this will develop the basis to create and implement appropriate policies and measures to prevent money laundering and financing of terrorism that should intercept the determined risk, and also to conduct proper allocation of resources. For the responsible entities this will represent the basis for application of the measures and actions to prevent money laundering and financing of terrorism which corresponds to the determined risk.

In order to meet the international standard, i.e. in order to determine the risks of money laundering and financing terrorism in the REPUBLIC OF MACEDONIA, the implementation of the NRA was launched in May 2014. The NRA is a complex of actions implemented by the institutions involved in the system for prevention of money laundering and terrorist financing.

As the first² activity of this kind, the NRA expresses the willingness of the institutions to carry out self-assessment of their own actions, compliance with the risk of money laundering and terrorist financing. This activity simultaneously confirms the political will to improve the system for prevention of money laundering and terrorist financing. The implementation of the NRA included more than 80 representatives of the competent state authorities and entities, all involved in the system for prevention of money laundering and terrorist financing. The work of all participants was divided into 7 different groups³ and coordinated by the FIA.

The REPUBLIC OF MACEDONIA conducted a comprehensive NRA according to the methodology of the World Bank. While conducting the NRA, the World Bank provided: tools for collecting and analysing data and expert assistance for the proper application of the instruments. By consistent monitoring of the provided methodology, the NRA process was developed through three phases: phase one - identification of potential risks and risk factors identified through threats and vulnerability, phase two - analysis of the nature, extent and

¹The new recommendations of FATF were set out in 2012

²The competent institutions involved in the system for prevention of money laundering and terrorist financing took part in the implementation of the Preliminary risk assessment of money laundering in cooperation with the IMF in 2012-2013. The grounds on which this assessment was made, and also the range (only money laundering was covered) differ from those of the World Bank. The experience gained in implementing this assessment has positively influenced the implementation of the NRA.

³Working subgroup 1 evaluated the threats of money laundering and terrorist financing, the working subgroup 2 evaluated the vulnerability of the national system, the working subgroup 3 evaluated the vulnerability of the banking sector, the working subgroups 4, 5, 6 and 7 evaluated the vulnerability of the sectors of securities and insurance and other financial institutions and DNFBPs respectively.

consequences of the identified risks, and the final (third) phase - preparation of report and setting the priorities by defining the activities to intercept the risk. Following the model of the World Bank, for proper realisation of the activities of the NRA as an addition, the REPUBLIC OF MACEDONIA also used the Guidelines for implementation of the national assessment of risk of money laundering and terrorist financing set out by FATF in 2013.

The entire process as a special type of self-assessment conducted by the competent national authorities and entities on their own work, but also on the functioning of the entire system, results in a completed risk assessment of money laundering and financing of terrorism presented in one document-report. This report of the risk assessment of money laundering and financing of terrorism is a refined version of the overall efforts of the involved institutions to identify the threats and to realistically present the vulnerability of the system for the prevention of money laundering and terrorist financing, in whole and separately by sector. The heterogeneity in the configuration of the participants in the NRA provided a broad inter-ministerial consultation during the preparation of this report. The comprehensiveness achieved through the multidisciplinary approach and the availability of reliable data from different sources (official statistics of the relevant institutions, academic research, and analysis of the civil sector) contributed to provide expertise, but also critically during the derivation of conclusions.

As a result of the activities implemented within the NRA, this report represents a basis for the preparation of a National Strategy for the prevention of money laundering and terrorist financing and promotion of the policies and legal framework, relocation of resources, proper development of the control and supervision system, and implementation of the measures by the responsible parties based on the application of the principle “based on risk”.

In order to achieve the objective that the system will be appropriately set in order to respond to the determined risk and that stricter measures will be taken in case of a higher risk and vice versa, in case of a lower risk weaker measures would be used, continuous monitoring and evaluation of new threats from money laundering and financing of terrorism is required for a determined period or whenever there are situations that are different from the terms and conditions in which certain risk is determined.

EXECUTIVE SUMMARY

As a comprehensive activity implemented according to a predetermined methodology and work plan, the NRA identifies and assesses the risk of money laundering and financing terrorism because of its proper solution, i.e. management and reduction. Namely, the risk is determined by three factors: “threat”, “vulnerability” and “consequences”. Theoretically, (the value of) the risk is deduced by (the value of) previously determined and mentioned factors.

The factor that determines the risk are the “threats” which are considered that represent persons, group of persons, objects or activities that have the potential to cause harm (to the state, the economy, the citizens and so on). In order to understand properly the risk and implementation of the overall assessment, it is necessary in the context of “threats” to identify the predicate criminal offences and the revenue they generate (nature, size and volume).

“Vulnerability” is a factor that determines things, processes, activities or absence of activities, parts of the system that the “threats” can use for their easier execution. Different segments of the system for prevention of money laundering and terrorist financing, various financial and non-financial sectors or specified products might be attractive and can be used in order to conceal illegally acquired income or to materialise the targets of terrorism.

“Consequences” determine the impact or the damage that money laundering and terrorist financing cause the state, the economy, the citizens, and so on.

During the implementation of the NRA, the geographical, political, and economic factors relevant to the REPUBLIC OF MACEDONIA were taken into account. The REPUBLIC OF MACEDONIA is a landlocked country located on the Balkan Peninsula with a total area of 25,713 km². The central geographical position makes Macedonia attractive for transit of persons and smuggled goods. The REPUBLIC OF MACEDONIA is a member of the UN, the Council of Europe, OSCE, World Trade Organisation, and other organisations. The REPUBLIC OF MACEDONIA in 2005 received EU candidate status and in 2012 it started High Level Accession Dialogue with the competent institutions of the EU. Membership in international organisations and respect of international obligations constitute a factor for improving the legislation and implementation of reforms for the strengthening of institutional capacities. The REPUBLIC OF MACEDONIA develops the economic growth and employment opportunities policy, while focusing on foreign investments and development of the domestic private sector. According to the data of the World Bank, the GDP of the REPUBLIC OF MACEDONIA for 2015 is 12 billion USD, which ranks the REPUBLIC OF MACEDONIA in 131st position. The implemented reforms resulted in economic progress. In this direction, there is continuous work to increase competitiveness while creating a favourable environment for local businesses that are necessary in order to ensure sustainable growth, create more and better jobs, and also to promote common prosperity. During 2015, the REPUBLIC OF MACEDONIA achieved growth of 3.7 percent. Also, the continued economic activity is reflected in the labour market, where unemployment dropped to 26.1 percent in 2015 from 28.1 percent in 2014. However, in 2015

there was a decline in the trade deficit and net inflows from foreign direct investments. Major trading partners of the REPUBLIC OF MACEDONIA are Germany, Bulgaria, and Italy. Overall, the REPUBLIC OF MACEDONIA has a credit rating BB +.

Taking into account the wide range of factors, conditions and circumstances, while following the established methodology for data analysis with deadline on 31.12.2015, the risk of money laundering and financing of terrorism in the REPUBLIC OF MACEDONIA was assessed.

Table 1 Risk assessment – general conclusions

Threats:	
Criminal offences with high risk for money laundering:	<ul style="list-style-type: none"> • misuse of official position and authority • tax evasion • illicit drug trafficking • trafficking in human beings
System vulnerability:	
National system:	<ul style="list-style-type: none"> • Informal economy • International cooperation in criminal matters • International cooperation for the seizure of property • Transparency of legal entities
Financial sector:	<ul style="list-style-type: none"> • Banking sector
Non-financial sector:	<ul style="list-style-type: none"> • Accountants

The completed analysis showed that in the REPUBLIC OF MACEDONIA there is a medium level threat of money laundering. This estimate is based on the analysis of the revenues gained by committing criminal acts, which can be an object of the action criminal offence of money laundering, regardless of whether these are carried out in the REPUBLIC OF MACEDONIA or in another country. Money laundering in the REPUBLIC OF MACEDONIA is most often associated with economic criminal acts, such as abuse of official position and authority and tax evasion. Except these criminal acts that generate the highest proceeds of criminal acts, they also include illicit drug trafficking, and illegal migration. The completed analysis of the data (provided by the official statistics of the competent investigative bodies, reports on completed seizures of property, studies of the relevant international organisations, etc.) indicates that the abuse of official position, illicit drug trafficking, tax evasion, and smuggling of migrants are crimes specified to be in the high level of threat.

Taking into account that the risk is determined as a function of threats and vulnerability, despite the threats, the vulnerability has been also established, i.e. the analysis of the national system for prevention of money laundering and terrorist financing also determined the fields that can be used for money laundering purposes of national level, generally, and by sector.

The system for combating money laundering and financing of terrorism is defined by the prescribed legislative and the established institutional framework. The CL incriminates money laundering and financing of terrorism in accordance with international standards, the LPMLTF regulates the activities that should be undertaken in the preventive sphere and, in addition,

there are the laws and regulations in the spheres important for successful repression and prevention of money laundering and terrorist financing. From an institutional perspective, legal entities and individuals responsible for taking measures and actions to prevent money laundering and terrorist financing, supervisory authorities, law enforcement and judicial authorities are active participants in the system for prevention of money laundering and financing of terrorism. The central institution which acts as a mediator between these the institutions is the FIA.

Multiple variables have been analysed in order to determine the vulnerability degree of the system for the prevention on money laundering and financing of terrorism established in such manner.

The analysis indicates that the capacity of the system is set within the margins of a low-medium to high risk level and the vulnerability of the system is defined as a value inversely proportional to the values of the capacity. The analysis points to a lack of defined mechanisms for monitoring the implementation of the activities foreseen by the National Strategy for Combating Money Laundering and Financing of Terrorism, the need for greater activity of the Council on combating money laundering and financing of terrorism, issues related to running proper and comprehensive statistics. Therefore, the priority areas that require effective response to overcome the weaknesses are: in the sphere of the informal economy, international cooperation on criminal matters, strengthening of the penalty system, enforcement of orders for seizure of property, strengthening the capacity of judges and prosecutors, transparency of legal entities, etc.

The established situation and analysis indicate medium-low level⁴ of vulnerability of the national system to prevent money laundering and terrorist financing.

Despite the established vulnerability on national level, a vulnerability in the financial and non-financial sector was established. The financial sector is represented by the banking sector, the market for securities, the insurance market and other financial institutions.

The analysis in the financial area by sector indicated a highest degree of vulnerability in the banking sector. From money laundering aspect, the size of the banking sector⁵ in relation to the non-banking financial institutions, the diversity of products and services that banks offer on the market, make this sector attractive for those who seek to legalise proceeds of criminal origin. Accordingly, the inherent risk is high, and as a response to that, the banks are continuously taking measures and actions to prevent money laundering in order to reduce the level of that risk and to minimise it within acceptable limits. According to LPMLTF, the adequacy of the implemented measures to prevent money laundering and terrorist financing by the banks is assessed by the NBRM and the FIA, by performing their supervisory responsibilities. The conducted analysis indicates that the regulation is in large extent compliant with international norms and standards in the area of prevention of money laundering and financing of terrorism, such as the FATF Recommendations, Basel principles, EU directives, etc. However, it was determined that more attention should be given to the implementation of sanctions, in general and in particular when it comes to sanctioning of persons with special rights and authorisations of banks (senior management). Also, in order to reduce the risk, it is necessary to allocate more

⁴The vulnerability of the national competence for prevention has been assessed as low (with a value of 0.18), the overall vulnerability by sectors as medium-low (with a value of 0.36) and the overall vulnerability of the national system has been assessed with a value of 0.59.

⁵With the state as of 31 December 2015, the banks account for 85.9% in the structure of the financial institutions in the FYROM.

resources for the implementation of the obligations to combat money laundering and terrorist financing.

The vulnerability of money laundering and terrorist financing in the market of securities in the REPUBLIC OF MACEDONIA is present, but to a smaller extent, given the underdeveloped market, its shallowness, the small number of instruments traded, the liquidity problems of the majority of securities (lack of their demand), the existence of a strict legislation complied with international treaties and conventions and more. Vulnerability of money laundering also exists in the part of investment funds, in which there appears a trend of increased attractiveness and payments, and the legal regulation of the private equity funds and absence of a regulatory body that controls them appear to be insufficient. The vulnerability of the entire sector is assessed as medium-low.

The insurance market in the REPUBLIC OF MACEDONIA is at the same level of similar groups of countries in the region and there are actively operating insurance companies, insurance brokerage companies and insurance representation companies. The actions of the participants in the insurance market in the area of prevention of money laundering and terrorist financing is dominantly regulated by the LPMLTF, which the supervision is carried out by the FIA and the SA. Based on the conducted data analysis it has been determined that there is growth in the sector of life insurance by sale of classic type of life insurance products. Having in mind the modest market share of life insurance in the overall portfolio at industry level, the volume of the transactions with insurers (residents), the portion of a single premium, the market is characterised by a medium level of vulnerability from money laundering and terrorist financing.

The system for prevention of money laundering and financing of terrorism actively includes authorised exchange offices, providers of fast money transfer providers and sub-agents, providers of financial leasing, financial companies, savings banks and companies for the management of voluntary pension funds, i.e. the other financial institutions. The analysis of this sector for the risk of money laundering and terrorist financing and the implemented systems for its risk management and vulnerability reduction, indicate a total average risk of money laundering and terrorist financing. The sector of other financial institutions in the overall financial system has a non-material share in terms of the size and the volume of the transactions that are executed. The institutions are licenced pursuant to special laws, thus preserving the fit and proper criteria applicable for the issuing of a work permit in the REPUBLIC OF MACEDONIA. The supervisory authorities and FIA conduct regular on-site and off-site supervision of the institutions' work and the systems implemented for management of the risk from money laundering and terrorist financing.

Besides the financial institutions, the cases of money laundering may also involve DNFBPs. This is the reason that DNFBPs are covered by the LPMLTF and obligated to take measures and actions to prevent money laundering and terrorist financing. Due to the variety of activities they perform, the establishment, licencing and their overall operations are regulated by different laws, but still, the action in the area of prevention of money laundering and financing of terrorism has been supervised by the FIA and the relevant supervisory authorities: PRO, Commission of lawyers and Commission of notaries. The analysis conducted for this sector finds the following weaknesses: lack of specific legislation for the establishment, licencing and operation of real estate agencies, insufficient number of submitted STRs, low quality of the submitted STRs, insufficient knowledge of the concept of actual owner and public official, non-functioning of the Institute of Chartered Accountants and insufficient capacity of the Committee for the oversight of

lawyers. The analysis determined the highest level of vulnerability in the sector of accountants and the lowest among auditors.

PART 1- RISK OF MONEY LAUNDERING

1.1 MONEY LAUNDERING RISK ASSESSMENT

Based on data analyses (last performed on 31.12.2015) provided by reliable sources and conducted according to accepted methodology developed by the World Bank, the risk of money laundering is obtained as a function of the identified “threats” and “vulnerability of the system for the prevention of money laundering”.

The conducted analyses indicate that the risk of money laundering in the REPUBLIC OF MACEDONIA is on a medium level, because the analysis points to medium threat level of money laundering in the REPUBLIC OF MACEDONIA and the vulnerability of the national system from money laundering and terrorist financing is on a medium-low level.

Detecting the vulnerability of the system for prevention of money laundering at national level and by sectors, up to this moment, a series of measures have been taken to improve the system which can be considered as measures to intercept and manage the risk. However, the conducted risk assessment, elaborated in detail in this report, provides a basis for definition and prioritisation of measures that should be consistently applied to further improve the system for prevention of money laundering by applying the principle “based on risk”.

1.2 ANALYSES OF MONEY LAUNDERING RISKS

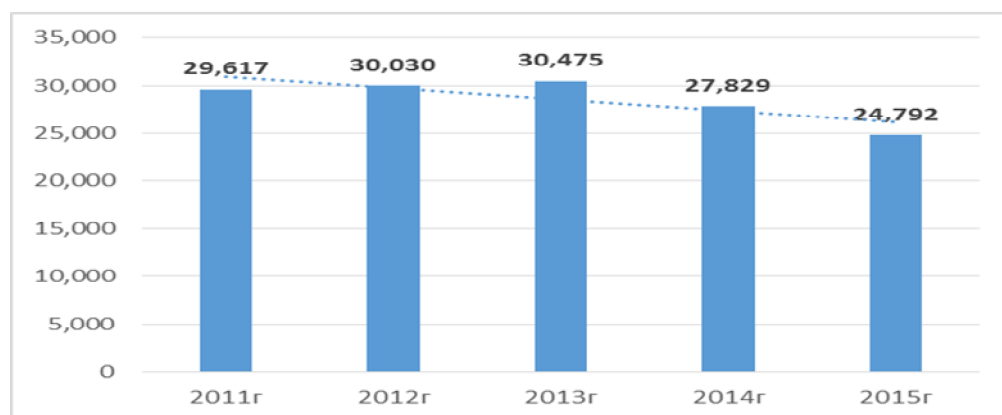
The REPUBLIC OF MACEDONIA is not a regional financial centre. Although the largest part of the transactions are completed through the banking sector, cash transactions still represent a

significant part of the total amount of transactions and are taking place mostly outside the banking sector⁶.

The REPUBLIC OF MACEDONIA is located in the central Balkan Peninsula and represents the crossroad of the corridor east – west, i.e. north - south, thus allowing increased flow of people across the territory of the REPUBLIC OF MACEDONIA on one hand, but also increased flow of illicit goods throughout the territory of the REPUBLIC OF MACEDONIA on the other hand. The fact that some of the neighbouring countries of the REPUBLIC OF MACEDONIA represent a source of certain illegal products, mainly drugs and excise goods, the domestic and foreign criminal groups use the territory of the REPUBLIC OF MACEDONIA as a transit territory, but also as a destination for these illegal goods. The REPUBLIC OF MACEDONIA is a transit country for trafficking of human beings and smuggling of migrants from areas with high migration to Western European countries.

The overall number of unregistered criminal acts in the REPUBLIC OF MACEDONIA is decreasing.

Graphic display 1 – overall number of registered criminal acts in the REPUBLIC OF MACEDONIA for the period 2011 – 2015



The number of registered crimes “money laundering and other proceeds of crime” is 6-12 per year, representing approximately 0.02% of the total number of registered criminal acts. This is due primarily to the fact that the law enforcement agencies do not sufficiently implement parallel financial investigations with the criminal investigation in order to fully clarify the criminal acts, provision of evidence of the predicate offence, and also a solid and undeniable evidence of the existence of money laundering and other criminal proceeds.

The analysis determined medium level of threat of money laundering in the REPUBLIC OF MACEDONIA.

Money laundering in the REPUBLIC OF MACEDONIA is usually related to economic criminal acts, such as: such as abuse of official position and authority and tax evasion. Despite these

⁶ Money Laundering and Financial Crimes Country Database, United States Department of State Bureau for International Narcotics and Law Enforcement Affairs, June 2015,

criminal acts that generate the largest proceeds of criminal offences, they also include illicit drug trafficking and illegal migration.

In the investigated period 2011 - 2015, the period after the executed reforms in the criminal substantive and criminal procedural law, the total damage from the execution of economic criminal acts amounted to over 13.5 billion or about 220 million euros. The overall number of crimes registered in the REPUBLIC OF MACEDONIA is declining, and the number of crimes that usually generate income from criminal acts is constantly rising.

Table 2 – Number of criminal acts that usually generate income from criminal acts during the period 2011-2015

Criminal acts that usually generate income	2011	2012	2013	2014	2015	Total
Illicit drug trafficking	596	604	555	717	611	3,083
Abuse of official position and authority	218	207	801	248	337	1,811
Tax evasion	87	74	91	62	71	385
Migrant smuggling	27	39	52	94	142	354
Total	928	924	1,499	1,121	1,161	5,633

The organised crime groups that operate in the REPUBLIC OF MACEDONIA are mostly involved in illegal drug trafficking, migrant smuggling, violent and serious crime at national and international level. The acquired funds from criminal activities are invested in the financial markets, in legal businesses, movable and immovable property. In the period 2013 to 2015, 70 organised criminal groups were identified, which operate with their criminal activities on a national and international level⁷. The domestic and international criminal groups cooperate for the purpose of committing criminal acts such as illicit drug trafficking, trafficking of human beings, smuggling of products (primarily excise goods), illegal arms trafficking, stolen luxury vehicles, and credit card fraud⁸.

According to their financial power, the majority of the organised crime groups do not dispose large financial resources, which limits their access to resources. However, the legitimate businesses conducted by organised criminal groups are used to increase their financial power, to conceal criminal activities in and out of the country, to launder money, and to invest the illegally acquired assets in movable and immovable property.

The leaders and members of organised crime groups in legal entities appear as founders and managers of several legal entities through which the payment of funds is conducted in order to

⁷ Assessment of threats by organised and serious crime 2015, Mol of the FYROM (http://www.mvr.gov.mk/Upload/Editor_Upload/publikacij%20pdf/SOCTA_v_2.swf)

⁸ Money Laundering and Financial Crimes Country Database, United States Department of State Bureau for International Narcotics and Law Enforcement Affairs, June 2015

conceal the true origin and as individuals who are part of the management team with a dominant role in decision-making. Expertise is represented for the purpose of concealing the criminal activities and evading the law. Organised crime groups use experts or technical tools for certain criminal activities by using professional expertise of its own members or specialised professionals from the legal business structures. Besides the expertise of people who have good knowledge of the laws, the organised crime groups use expert knowledge in the field of illicit drug trafficking, expertise for the legalisation of criminally acquired property and money laundering.

During the period 2013-2015 five criminal groups have been suppressed which executed criminal acts of money laundering by:

- abuse of official position and authority by signing false contracts for false execution of management and consulting services, drawing up false invoices, unjustified funds transfer from one to another legal entity;
- unrealistic increase of the value for catering equipment servicing, and later on establishment of companies abroad in order to transfer funds;
- tendering of construction works that have already been completed and realisation of invoices with false content and legalisation of funds;
- drawing up false invoices for allegedly realised trade turnover, legalisation of goods and performance of transfers and performance of transfers and concealment of funds originating from sale;
- abuse of official position and forgery of documents while allocating land, construction, and legalisation of a facility, as well as specific registration of companies.

Abuse of official position and authority

The abuse of official position and authority is the most often crime in the area of economic - financial offences which causes the biggest material damage. The number of criminal acts' abuse of official position and authority is continuously increasing, while material damage is decreasing. The material damage in 2015 amounted to over 1,800,000,000.00 denars or 30 million euros.

The perpetrators that occur are officials, responsible persons, persons performing activities of public interest, and they are usually executed in joint stock companies, limited liability companies, enterprises, educational institutions, local self-governments, banks. For this crime of the rank of corruptive criminal acts in the REPUBLIC OF MACEDONIA are reported perpetrators of criminal activities within their operations and authorisations in the public administration, presidents and members of boards of trustees, officers and employees in government departments, employees of joint stock companies, trustees, attorneys and other

officials or heads of departments in public institutions, professional services of ministries and other official and responsible persons and holders of state offices. This is an indicator that the abuse of official position and authority is a crime with “high risk level” for acquiring unlawful material interest and its legalisation, by using multiple typologies and instruments of money laundering in national terms, but the money is usually hidden in accounts abroad.

These crimes are executed by taking advantage of the abuse of power and authority by exceeding the limits of the official authority and dereliction of official duty by misuse of a tender procedure, conclusion of harmful contracts, misuse of subsidies, illegally performed judicial proceedings, illegal employment and similar.

When exposing cases of abuse of official position and authority, it is typical that when disclosing the criminal groups, besides the cases of economic crime, they are associated with other incriminations of organised crime, such as money laundering and corruption. In some cases of abuse of official position and authority, it is exactly through this crime that the offenders succeed to circulate, trade, take funds, or other property they acquired by abusing the official position.

Most often the crimes are executed by:

- illegal collection and disbursement of funds;
- sale of property, shares, equipment, and products;
- making illegal or fictitious decisions;
- entering into illegal contract and abuse of such contracts, issuing illegal decisions;
- abuse of procedures (expropriation, denationalisation, pension, etc.);
- abuse of bankruptcy procedure and bankruptcy estate;
- abuse of material resources;
- abuse of tender documentation;
- preparation of forged documentation;
- illegal collection and appropriation of funds from accounts;
- not entering data in records and electronic systems;
- failure to execute compulsory surveillance and control;
- non-enforcement of a procedure, decision, etc.

Tax evasion

Compared to other economic criminal acts, tax evasion after the abuse of official position and authority is a criminal act that generates most income. The trend of executing this criminal act is declining and so is the damage generated by it.

The main forms of tax evasion in the REPUBLIC OF MACEDONIA occur during the preparation of tax declaration by the hiding a part of the income in “offshore” countries, by submitting false declarations or fictitious documents, untaxed benefits, abuse of charitable organisations, concealing corporate ownership and salary calculations. In certain cases tax evasion occurs as a secondary criminal activity in other crime areas while the organised criminals groups use legitimate businesses. Members of organised criminal groups often are managers or authorised persons in legal entities, who, in order to acquire illegal material interest prepare fictitious invoices and contracts for non-existent business relationships.

This work is of high level of risk because of the number of committed criminal acts, the amount of illegally acquired material interest, no confiscation measure being delivered for the investigated period, the international nature of criminal activity.

Illicit drug trafficking

Illicit drug trafficking is one of the most profitable criminal activities involving the largest number of organised criminal groups. The REPUBLIC OF MACEDONIA is a transit area for a part of the international routes for the transportation of drugs, an end-destination and a country where certain types of drugs are produced. There are organised criminal groups involved in the illegal heroin trade that organise the international transport intended for the western nations, and small amounts of drugs end on the domestic drug market.

Illicit drug trafficking is also a criminal act with a high risk of money laundering. This is due primarily to the fact that there is a continuing involvement of Macedonian citizens in criminal activities and drug trafficking in the region and their involvement in the creation of heroin distribution networks in west European countries⁹. Although the domestic market is small compared to those in West Europe, it continues to be attractive for criminal groups primarily due to the geographical position of the REPUBLIC OF MACEDONIA as part of the so-called Balkan Route, and furthermore, illicit drug trafficking will be a profitable criminal market. In the field of money laundering, there is a significant progress in monitoring of the flow of the money generated by this criminal act as evidenced by cases completed during 2010 and 2013¹⁰.

Illegal migration

Illegal migration reaches its highest level in the REPUBLIC OF MACEDONIA with the increased number of migrants from the countries of North Africa and the Middle East, who use the “West - Balkan Route”, as part of the secondary movement, in order to reach their final destination - the countries of the European Union. The illegal crossing of the state border for entrance from Greece to Serbia makes it easier for the local criminal groups that collect money offering reception, security, provision of temporary accommodation and transportation services across the territory of the REPUBLIC OF MACEDONIA and through the illegal crossings.

⁹ Drug Situation Analysis Report South Eastern Europe, UNODC, Paris Pact, Report, November 2011

¹⁰ Assessment of threats by organised and serious crime 2015, Mol of the FYROM
(http://www.mvr.gov.mk/Upload/Editor_Upload/publikacii%20pdf/SOCTA_v_2.swf)

Smuggling of migrants through the REPUBLIC OF MACEDONIA is intensified with the increase of migrants who use the “West - Balkan Route”, which again, increases the registered criminal acts of provision of services by local criminal groups and individuals while crossing the territory of the state.

Criminals groups are increasingly providing smuggling services to migrants in order to avoid border controls and migration regulations. During their transit through the country, they often use the services of organised criminal groups at a certain financial price. Smuggling of migrants is a highly profitable business, in which criminals face low risk of detection and punishment, which makes this criminal activity increasingly attractive in criminal circles. Criminals become more organised on a higher level, realise greater profits, and create professional networks that transcend national borders and regions.

Money laundering threats originating from the region or other states

The REPUBLIC OF MACEDONIA is not a regional financial centre. From the conducted analysis of the condition of direct investment and portfolio investments ¹¹ in the REPUBLIC OF MACEDONIA by countries, it is established that the majority of direct investments in the REPUBLIC OF MACEDONIA in the analysed period 2011 - 2014 are from the Netherlands, Austria, Greece, and Slovenia, and most portfolio investments are from Slovenia, Croatia, and Austria. The majority of direct investments from offshore countries were made from St. Vincent and the Grenadines, British Virgin Islands, Cyprus, and Liechtenstein (on average, over 200 million per year), while based on portfolio investments, they mostly originate from St. Vincent and the Grenadines, British Virgin Islands, and Cyprus (on average, 15 million per year).

From the conducted analysis of direct investment from the REPUBLIC OF MACEDONIA to foreign countries - transactions - by countries, it is determined that most of the investments of the REPUBLIC OF MACEDONIA are directed in Bosnia and Herzegovina, Slovenia, Germany, Serbia, and Albania. There were minor direct investments towards offshore countries, such as Gibraltar, British Virgin Islands, and Cyprus (for the period 2012 to 2015, the total investment towards these countries are less than one million euros)¹².

Transfer of funds through state borders

According to the LPMLTF the Customs Authorities are obliged to register each importation and exportation of cash or securities through the customs of the REPUBLIC OF MACEDONIA if the amount of cash or securities of the bearer exceeds the maximum of 10,000 euros allowed by the law or other regulation. For each importation or exportation, the Customs Authorities are obliged to inform the FIU electronically or by other means of telecommunications.

¹¹ Data for the situation of direct and portfolio investments in the FYROM by country have been acquired from the NBRM website (<http://www.nbrm.mk/?ItemID=3509205177007045B166ED83AC99B8E4>) and they refer to the period 2011 – 2014

¹² Data for direct investments from the FYROM to foreign countries – transactions – by country have been acquired from the NBRM website (<http://www.nbrm.mk/?ItemID=3509205177007045B166ED83AC99B8E4>) and they refer to the period 2011 – 2014

According to data acquired from the Customs Administration, the total amount of funds that were reported as exported, imported, or transited through the REPUBLIC OF MACEDONIA in the period 2010 - 2016 was 107,992,763.00 euros, 7,315,480.00 Swiss francs, and 8,494,726.00 US dollars. The trend of reporting euros is declining and the last three years it ranges from 10-12 million annually, the trend of reporting dollars is variable and ranges from one to two million US dollars annually. The trend of reporting Swiss francs at the border crossings is variable with an increasing trend.

Table 3 – Funds reported at border crossings in the period 2010 – 2015

	2010	2011	2012	2013	2014	2015	Total
EUR	33,215,592	24,564,719	15,697,726	12,232,037	10,076,980	12,205,709	107,992,763
CHF	688,790	994,600	446,500	277,200	3,194,480	1,713,910	7,315,480
USD	2,028,512	1,217,390	1,157,950	1,106,922	1,888,300	1,095,202	8,494,276
AUD	30,150	20,000		30,000	22,000	20,400	122,550
NOK	388,000		154,000	180,000	0	175,000	897,000
FRF	50,000				0		50,000
CAD			40,000		50,000	50,000	140,000
GBP			10,000	19,800	11,190	35,960	76,950

Unlike the trend of reporting funds at border crossings, which is generally unchanged or declining, the trend of non-reporting funds is constantly growing. During the period 2010 – 2015, on the border crossings in the REPUBLIC OF MACEDONIA a total of 4,949,650.00 euros, 445,880.00 Swiss francs, and 271,000.00 US dollars was seized. The trend to seize funds (euros primarily) is constantly growing, i.e. in 2010 there were 103,250.00 euros seized, while in 2015 there were 1,017,830.00 euros seized (4,8 times more). Seizure of Swiss francs and US dollars that are not reported or are partially reported is insignificant compared to the seizure of euros.

Table 4 – Funds seized at border crossings in the period 2013 – 2015

Seized funds	EUR	CHF	USD
2010	103,250	156,000	
2011	90,700	18,000	

2012	268,620		22,200
2013	668,970	42,500	70,300
2014	2,800,280	130,180	141,400
2015	1,017,830	99,200	37,300
Total	4,949,650	445,880	271,200

Most of these funds were seized from Macedonian citizens (funds valued at 1,834,015.99 euros in the period 2013 – 2015), while the most funds were seized from citizens of neighbouring countries – Greece, Serbia, and Kosovo, and also citizens of Turkey.

Table 5 – Funds seized at border crossings in the period 2013 – 2015 by citizenships of the owners of the funds

Country	Registered	Unregistered	Partly registered	Total
Macedonia		€ 1,682,504.71	€ 151.511,28	€ 1,834,015.99
Greece		€ 511,030.00	€ 26.000,00	€ 537,030.00
Serbia	€ 23,000.00	€ 348,787.02	€ 63.100,00	€ 434,887.02
Turkey		€ 194,531.03	€ 13.000,00	€ 207,531.03
Kosovo		€ 147,331.85	€ 22.000,00	€ 169,331.85
Germany		€ 64,945.75	€ 19.000,00	€ 83,945.75
Albania	€ 12,000.00	€ 40,900.00		€ 52,900.00
Hungary		€ 42,993.00		€ 42,993.00
Belgium		€ 40,000.00		€ 40,000.00
Russia		€ 17,000.00		€ 17,000.00
Norway		€ 15,837.66		€ 15,837.66
Netherlands		€ 4,000.00	€ 10,000,00	€ 14,000.00
Slovenia		€ 10,000.00		€ 10,000.00
Romania			€ 7.000,00	€ 7,000.00
Great Britain		€ 5,388.78		€ 5,388.78
Croatia		€ 4,019.09		€ 4,019.09
Bulgaria		€ 3,500.00		€ 3,500.00
Andorra	€ 1,111.42			€ 1,111.42
Total	€ 36,111.42	€ 3,132,768.89	€ 311,611.28	€ 3,480,491.59

Most often, funds of Macedonian citizens were seized when exiting the REPUBLIC OF MACEDONIA (funds valued at €1,306,861.96), while the funds seized from foreign citizens is almost identical at entering and exiting the REPUBLIC OF MACEDONIA.

International exchange

According to the LPMLTF, during the period 2013 to 2015, the FIU has exchanged a total of 265 requests to FIU of foreign countries. The requests relate to receiving information for the purpose of preventing money laundering and terrorist financing. Most requests are exchanged with Serbia – 42, Montenegro - 19, Bulgaria - 18, Kosovo - 17, Slovenia – 16, and US - 13 requests.

The PRO within its jurisdiction shares information with foreign law enforcement agencies. In this period a total of 140 requests were exchanged, mostly with neighbouring Bulgaria (16 requests) and Serbia (12 requests) and nine requests with the Netherlands and Croatia.

No information of mutual legal assistance between the REPUBLIC OF MACEDONIA and foreign countries were provided for the purposes of this assessment.

Shortcomings, weaknesses, and problems in data collection

Other than some basic data registered by the Customs and the Financial Police that can serve as a basis for statistics and the limited statistical data of the Mol, no other organ has comprehensive and detailed statistics on investigations of money laundering prosecutions and convictions or judgments that would show not only the number of persons involved, but also the number of cases/criminal acts, and, that will continue to provide information on the basic predicate criminal crimes and additional features for the respective criminal act of money laundering (whether it was individually charged, etc.).

When collecting data, it has been proved difficult to bond the joint statistics in order to get a complete picture of the situation. The FIU is a state institution with the most established information collection system.

During the data collection, it was determined that no appropriate statistics are kept that will allow examination of the effectiveness of the system for combating money laundering and terrorist financing on a regular basis, i.e.:

- there is no statistical data for interim measures;
- there is no available statistical data for predictive criminal acts, available is only that for final judgments;
- there is no statistical data indicating cases of money laundering by independent/third parties;
- lack of comprehensive and integrated statistical data for the oversight of money laundering and financing of terrorism;
- lack of comprehensive statistical data for mutual international legal assistance.

Based on the identified weaknesses, these proposed measures may lead to overcoming the problems in the field of statistical data:

-Development of methodologies by the law enforcement agencies to monitor cases (Case Management) in which they could process data from the moment they found out about the crime, until its completion with an effective court judgment. Simultaneously to the development of methods and performance standards, information and technical support should be ensured by providing appropriate software solutions.

-Adjustment of the existing statistical data that is not comprehensive.

The Ministry of Interior, on 16.10.2013, started the implementation of specific Standard Operating Procedures for conducting financial investigations. The main objective of these procedures is a more efficient and uniform procedure in conducting financial investigations. The financial investigation is defined as a specialised criminological research that aims to identify and document the proceeds of crime, i.e. to find overall illegally gained property, acquired by committing a crime, and in the prescribed legislation. What is important is that every police officer in the Mol, besides data and evidence of the crime, must provide information or evidence of illegal proceeds and interests from the crime.

Money laundering typologies

Based on the realised cases, several typologies of committing the criminal act money laundering were identified. The most common ways of execution are connected with the use of services for fast transfer of funds, transactions with amounts that are below the statutory threshold for reporting to the FIU executed by several persons, purchase of movable and immovable property, various money laundering techniques based on exchange of goods and use of legal entities registered in the so-called tax havens.

1. During the operation "Detonator" it was determined that six people committed criminal acts "money laundering and other proceeds of crime" and "tax evasion" and during the period 2009 to 2012 they acquired illegal material interests amounting to 5,299,282.00 denars, causing damage to the budget of the REPUBLIC OF MACEDONIA. Namely, these persons, with the intent to gain illegal profit although they had not established a Security Agency, were continuously forcing companies from the cities Vinica and Kochani to accept their "services for insurance of their property and persons", thus committing criminal acts of "extortion". The funds acquired from the provided services amounting to 3,037,865.00 denars were then legalised by presenting one part amounting to 2,442,115.00 denars as a payment for their insurance services and this amount was remitted to the bank account of one of the two companies they were operating, another part amounting to 595,750.00 denars in the form of loans was released into circulation through the account of another company. Other than extortion, they also made illegal profits by not paying prescribed taxes to the REPUBLIC OF MACEDONIA by concealing the real turnover and profit of the company, thus during 2010 and 2011 they did not pay taxes (income, personal income tax and VAT) as well as in the first three months of 2012 (personal

income tax), i.e. they evaded tax amounting to 2,262,417.00 to the detriment of the national budget.

2. An eight-member criminal group consisting of six Macedonians and two foreign nationals (Great Britain and Sweden), acting as lawyers, managers, and employees of a legal entity, abusing official position and authority by signing and drawing up false contracts for provision of managerial and consulting services, executed unjustified transfer of capital from one legal entity to another, thus releasing into circulation of the legal payment operations the amount of 133 million denars.

3. A criminal group consisting of citizens of the REPUBLIC OF MACEDONIA executed criminal acts - illicit drug trafficking, money lending, and extortion and the members acquired illegal interests, so the acquired funds were released in legal payment operations using their own companies, bank accounts, fast money transfer providers. Part of the assets acquired in such manner was used for the acquisition of immovable property in Kosovo. They acquired this property by leading several owners of legal entities for construction and electrical materials and other goods into debtor-creditor relations by purchasing building materials and not paying the amounts for these purchases, thus forcing the legal entities into insolvency and then offering them loans in order they continue their business operations, but with high interest rates and posing threats and blackmailing other members of their families, thus extorting by signing fictitious contracts, notarising them by lawyers and notaries. Besides leading the legal entities into insolvency and using the same serious threats for long periods, they extorted money from many individuals, blackmailing them to sign fictitious, bogus contracts for purchases of real estate. Also, in order to achieve unlawful interests, since the early days of the formation of the criminal association, the members of this criminal group organised and created a network of accomplices and helpers which operated with transport, resale, and distribution of heroin in Switzerland, and the funds obtained from the sale of the drugs were transferred utilising fast money transfer providers. During the period 2004 to 2014, the members of this criminal group, through their personal bank accounts, as well as through the bank accounts of the three legal entities with inflows and outflows of domestic and foreign currency, released into the circulation of the legal banking system of the REPUBLIC OF MACEDONIA the total amount of 227,550,000.00 denars.

1.3 VULNERABILITY OF THE NATIONAL SYSTEM FROM MONEY LAUNDERING

The system for combating money laundering and financing of terrorism began to develop with the enactment of the Law on Prevention of Money Laundering¹³ and the establishment of the Directorate for Prevention of Money Laundering in September 2001. The legislative and institutional framework is completed by criminalising the criminal act of money laundering in the

¹³ Official Gazette no.70/2001

Criminal Code, the adoption of the preventive LPMLTF, and the adoption of many other laws and regulations.

Natural and legal entities, supervisory, law enforcement, and judicial authorities actively participate in the system for prevention of money laundering and financing of terrorism and they are required to take measures and actions to prevent money laundering and terrorist financing. The central institution which acts as an intermediary between these institutions is FIA. The legal framework, structure, competence, institutional capacities, and efficiency in the enforcement of the law are subject to independent assessment undertaken by the Moneyval Committee and other international organisations. The effective implementation of the legal framework is an area that needs progress, but a confident step forward is the strengthening of institutional capacities.

To determine the degree of vulnerability of the system for the prevention of money laundering and financing of terrorism an analysis of several variables was conducted, which included: policies and implementation, criminalisation of money laundering, analysis of STRs, capacity and integrity of investigators, prosecutors, judges and investigators for seizure of property, international cooperation in criminal cases and more. Each variable is evaluated in a range of five levels of compliance – the higher the level of harmonisation, the lower the level of vulnerability of the national system is and vice versa.

1.3.1. CRIMINALISATION OF MONEY LAUNDERING

This variable assesses whether the criminalisation of the criminal act money laundering is comprehensive and whether to apply appropriate criminal sanctions.

Money laundering in the REPUBLIC OF MACEDONIA is criminalised with the details in the CC in 1996, 2004, and 2009 and like the other criminal acts in the chapter in which it is systematised, represents the most dynamic part of Macedonian criminal law. The incriminations of money laundering are innovated in order to accomplish the following objectives: a more efficient combat against corruption, organised and economic crime as an important criterion for moving in the process of European integration, implementation of international conventions on the prevention of new criminal forms and improvement of the methods and the means of criminal policy in the fight against organised and economic crime.¹⁴

In accordance with the “all crime approach” imposed by the provisions of the relevant conventions ratified by the REPUBLIC OF MACEDONIA, the object of the action in the main act is money or property acquired by committing a crime or an offence. In Article 122 paragraph 12 of the CC, the term “money” is defined (payment instruments for payment in cash or face value or electronic money which based on the law, are in circulation in the REPUBLIC OF MACEDONIA or a foreign country), section 38 defines the term “property” (which means money or other payment instruments, securities...), also section 16 of this article defines the term “proceeds from a criminal act” (referring to property or interest obtained by a criminal act committed in the REPUBLIC OF MACEDONIA or abroad - according to the principle of dual criminality).

¹⁴Kambovski, V. “Ammendments in the CC in order to prevent financial criminal”, Macedonian Review of Criminal law and Criminology Nos. 2-3, 2008, page 479

The report on the 4th assessment round of the system for prevention of money laundering and financing of terrorism carried out by the Moneyval Committee (2013-2014), it was concluded: *“The REPUBLIC OF MACEDONIA has achieved significant development since the third round of the MONEYVAL evaluation by bringing its anti-money laundering criminal legislation more in line with the wording of the Vienna and Palermo Conventions.”* However, the evaluators identified a technical deficiency, i.e. *“the acquisition of proceeds is not criminalised,”* which represents a partial non-compliance with the standards for material elements of the criminal act money laundering laid down in the Conventions of Vienna and Palermo”. To this end, the working group on amendments to the Criminal Code, which functions under the Ministry of Justice, performed the appropriate additions to the criminal act, aiming at introducing “the acquisition proceeds”. It is necessary that the draft amendments to be adopted and passed by the Government and the Parliament of the REPUBLIC OF MACEDONIA.

The criminalisation of the criminal act and its compliance with international standards greatly affects the actions of the system institutions and their readiness for international cooperation, especially having in mind the transnational character of money laundering.

1.3.2. POLICIES AND IMPLEMENTATION

This variable evaluates whether the state effectively formulates, advocates, and implements the policies to prevent money laundering in order to adequately address the risks of money laundering.

The fight against organised crime is a key priority of the Government which is aware of the seriousness and the consequences caused by money laundering and terrorist financing, and is continuously upgrading the system for prevention, control, and eradication of these crimes.

For the purposes of strengthening the system for prevention of money laundering and terrorist financing, there have so far been three strategic documents prepared and adopted: National Strategy for combating money laundering and terrorist financing for the following periods 2005-2008, 2009-2011, and 2012-2014. The National Strategy to combat money laundering and terrorist financing is a strategic document, which in the medium term ranks the priorities and defines the activities for the promotion of the system for prevention of money laundering and financing of terrorism in the country. This strategy determines a set of activities with obligation for implementation in all relevant institutions in order to overcome the weaknesses and shortcomings, and in order to improve the system for prevention of money laundering and financing of terrorism of the REPUBLIC OF MACEDONIA and the level of its performance. The National Strategy 2012-2014 foresees the following objectives: improving the legal framework and the extent of its effective implementation, strengthening of the institutional capacities, promotion of international cooperation, strengthening of international cooperation and raising the awareness of the subjects on the necessity to take measures for the prevention of money laundering and terrorist financing. Within the National Strategy for combating money laundering and terrorist financing, an institution is determined that will be responsible for its implementation, the necessary means and sources for the funding, and a timetable for the implementation of each activity.

The Council for combating money laundering and financing of terrorism (hereinafter the Council) is responsible for the monitoring and coordination of the implementation of the strategy. By decision of the Government, the Council for combating money laundering and financing of

terrorism was established in 2005, aimed at the promotion of inter-institutional cooperation. The Council's work is coordinated by the director of FIA, and its members include officials from the MoI, the Ministry of Justice, MoF, the Public Prosecutor's Office for combating organised crime and corruption, the Financial Police Office, the Customs Administration, the PRO, the NBRM, the ISA, the MAPAS, the Postal Agency, as well as representatives from the Bar and the Notary Association. The Council is authorised to monitor and coordinate the activities envisaged in the National Strategy for Combating Money Laundering and Financing of Terrorism, to expand the functionality of the system and to propose actions to increase its efficiency. The Council is coordinated by the FIA. The Council meets when required and submits annual activity report to the Government.

Although so far three National Strategies for the combat of money laundering and terrorist financing were adopted which foresee activities and whose implementation should be achieved to improve the efficiency of the entire system, still, the strategy does not provide a detailed mechanism to control the monitoring of the realisation of activities and objectives provided therein.

The commitment to promote their capacities is confirmed by initiating and implementing the NRA, an activity that should contribute to the creation of policies for targeting and use of resources adequate to identified threats and risks of money laundering and terrorist financing.

For the purposes of efficient combat against organised crime and corruption, several activities have been realised nationwide, a number of laws and regulations consistent with the international regulation which regulates the combat against organised crime and corruption have been adopted, new institutions and specialised agencies and bodies to combat crime were established, technical and human capacities of institutions were strengthened by improving the spatial, material, and technical working conditions, training and education of staff was conducted, the number of employees in the institutions was increased, criteria for evaluation of the administrative and public officials at all levels were established.

As specified in the Report of the Moneyval Committee, due to the lack of keeping adequate statistics by the investigative and supervisory authorities involved in the system for prevention of money laundering, not all weaknesses of the system can be perceived and demonstrated and consequently it is impossible to take appropriate action in order to overcome them.

1.3.3. ANALYSIS OF DATA FROM SUSPICIOUS TRANSACTIONS REPORTS

This variable assesses the functionality of the FIU, i.e. whether the FIA effectively performs its core functions of collecting, storing, analysing, and delivering STRs.

According to the LPMLTF, the entities are required to submit data, information and documents to the FIU in case they suspect or have reasonable grounds to suspect that money laundering or terrorist financing was or is committed, or an attempt was made or is made to launder money or to finance terrorism.¹⁵ The FIA has developed a system for electronic submission and data

¹⁵Pursuant to Article 30 of the LPMLFT the subjects are obliged to submit to the FIU data, information and documents in the following cases:

a) then they suspect or have grounds to suspect that:

- money laundering and/or financing terrorism was or is made or an attempt was made or is made to launder money or to finance terrorism, regardless of the transaction amount;
- the property is a proceed from a criminal act;
- the property is related to financing of a terrorist act, a terrorist organisation, or a terrorist;

processing, ASK MK. With the help of this system all the reports on suspicious transactions are submitted electronically and all communications between the FIA and the responsible subjects is performed electronically. This greatly affects the speed of obtaining the necessary data and the quality and speed of the data analysis. Except communicating with the subjects pursuant to the LPMLTF, the FIA also exchanges information with the investigative and supervisory authorities in order to prevent money laundering and terrorist financing. This data exchange also takes place electronically. In the Moneyval Committee's Report it was recommended that the FIA should have direct electronic access to multiple databases, but it is not mentioned which databases these are.

The procedure for the work on cases is regulated by internal procedures prepared in accordance with the procedures of the ISO 9001 standard. The initial inspection procedure, the operating procedures of the Analysis Department, the Department for Prevention of Money Laundering, and the Department for the Combat of Financing of Terrorism, and also the operating procedure of the Commission for the work on cases describe in detail the operating procedures for work on cases, from the submission of STRs, data analysis, to the preparation and submission of a report or a notification to the competent investigative authorities.

Most STRs are submitted by the banking sector, while other sectors lag in reporting, as established in the Moneyval Committee's report. According to the statistics of the reports and the notices which the FIA submit to the authorities, it can be concluded that in recent years the number of submitted notifications and reports which result from the introduction of electronic data and documents has increased.

The FIA determines annually which are the most commonly used typologies, trends and techniques for money laundering and financing of terrorism and which are used by persons who have been subject to analysis and processing, in order to help the subjects identify suspicious activity.

During 2014 and 2015 the FIA set up a system for electronic communication with all the subjects and competent authorities. This system for electronic submission of reports, requests, additional information and documents by subjects and competent authorities allows the FIA a faster and better way to obtain the necessary data.

However, it is necessary to improve the system of feedback on the quality and the results from the submitted STRs by the subjects, as well as the delivery of feedback from the investigative authorities and the prosecutor's office related to the quality and results from the reports and the notifications of the FIA.

1.3.4. CRIMINAL SANCTIONS

This variable assesses the adequacy of the imposed criminal sanctions for the criminal act money laundering.

The penalty foreseen for the criminal act "laundering money and other proceeds of crime" under Article 273 of the CC is imprisonment of one to ten years for natural persons, while if the offender is a legal entity the foreseen sanction is a fine. In the analysed period 2008-2013 a total of 74 persons were effectively convicted for this criminal act.

The highest sentence imposed for the criminal act “laundering of money and other proceeds of crime” under Article 273 of the CC was imprisonment of 10 years for one person, while 11 people were convicted with imprisonment sentence of 5-10 years. No fines were imposed.

It can be concluded that more than one in third of the cases the sentence was probation, and only about one sixth of the convicted persons were sentenced to imprisonment of five years or more. The most common sentences were imprisonment for 2 to 3 years. In terms of legal entities, up to this moment none has been sentenced for the criminal act “money laundering”.

Given the gravity and seriousness of the criminal act “money laundering”, as well as the maximum sentence of ten years foreseen by the CC, not addressing the right of the court to assess the amount of the sanction in each case individually, it can be concluded that in general, the penal policy should become stricter given the fact that approximately in one third of the criminal cases the sentence imposed was probation. This conclusion is supported by the fact that there is no conviction for a legal entity.

On 30.12.2014 the Law on deciding and determining the amount of the fine was adopted and it has been applied since July 2015. The purpose of this law is to harmonise the penal policy of the courts in the REPUBLIC OF MACEDONIA when sentencing, by prescribing objective criteria for determining the type and determination of the amount of the fine. This law also foresees the formation of a Commission for harmonisation of the penal policy as an independent advisory body that will take care of the harmonisation of the penal policy in the imposition of penalties by proposing criteria for the determination of the type and determination of the amount of the fine.

1.3.5. DOMESTIC COOPERATION

This variable evaluates whether the state institutions responsible for combating money laundering and financing of terrorism are mutually coordinated and cooperate effectively in order to prevent money laundering.

Domestic cooperation in the area of money laundering and financing of terrorism prevention is conducted based on the legal framework and also based on the signed memoranda, protocols for cooperation between institutions. Memoranda and cooperation protocols for preventing and combating organised crime are signed between the PRO, the FIA, the Customs Administration, the Financial Police Office, the Public Prosecutor’s Office for combating organised crime and corruption, and the MoI-Public Security Bureau. The FIA has also signed memoranda of cooperation with the supervisory authorities in terms of coordination and cooperation in supervision of the application of measures and actions to prevent money laundering and financing of terrorism by the subjects.

Within the MoI and by decision of the Government¹⁶, a National Coordination Centre for Combating Organised Crime (NCC) is established, which will ensure coordination and exchange of data and information between the MoI, the Customs Administration, the Financial Police Office, the PRO, the FIA and the Public Prosecutor’s Office in order to prosecute organised crime and corruption. The institutions appointed certain representatives that will participate in the NCC. In the following period, in order for the NCC to achieve successful function, its capacity will be strengthened with purchase of IT equipment, development of procedures for

¹⁶Decision for the establishment of a National Coordination Centre for Combating Serious and Organised Crime, Official Gazette No. 58/2014

data exchange between the institutions that participate in the NCC, human resources and training of the NCC employees.

The domestic cooperation between the law enforcement authorities is also regulated by internal regulation.¹⁷

The Council for combating money laundering and financing of terrorism is a body established by the Government of the REPUBLIC OF MACEDONIA for the purpose of enhancing inter-institutional cooperation for the prevention of money laundering and financing terrorism. Although the domestic cooperation in combating money laundering and financing of terrorism has reached a higher level since the formation of the Council, its work and activities should be intensified.

The operative cooperation on national level is regulated by the laws which are in the jurisdiction of the investigative authorities and the Law on public prosecution, which determines that the Public Prosecutor is responsible for the cooperation and coordinates the activities with the other state institutions on issues related to the detection of crimes and their perpetrators. In terms of domestic cooperation, it should be said that domestic cooperation is legally defined with the new LCP, according to which, the Public Prosecutor leads the investigation including the preliminary investigation, which means that the Public Prosecutor decides which type of inter-institutional cooperation and activities that will be undertaken. In order to interconnect the authorities, the LCP provides for the establishment of investigation centres and judicial police. The investigation centres within the Public Prosecution are consisted of selected representatives from law enforcement agencies in the REPUBLIC OF MACEDONIA, temporarily deployed in the Investigation centres located in the premises of the Public Prosecution, from where they act jointly on specific checks under the direct control and command of a competent public prosecutor. Currently, staffing of the investigative centres with the foreseen staff is carried out. The Public Prosecutor manages and commands the Judicial Police in order to detect criminal acts. The Judicial police is composed of members of the MoI, the Financial Police Office and the Customs Administration of the REPUBLIC OF MACEDONIA. Considering the short period since the LCP entered into force, this new approach of inter-institutional cooperation requires some time to be fully implemented in all institutions and to implement the law and to establish best cooperation practices.

In order to mark the more and more intensifying inter-institutional cooperation between the investigative authorities, the MoI, the Financial Police Office and the Customs Administration formed joint teams to lead integrated investigations and to provide quality evidence for criminal offenders in coordination with the authorised public prosecutor. These teams more and more often include other state institutions, the FIA, and the PRO, in crime investigations that fall under their jurisdiction. This ensures that conducting parallel investigations of the same persons by different institutions is avoided.

The domestic cooperation between law enforcement agencies is regulated by the Guidelines prepared by the MoI, which determines the manner of conducting criminal investigation in the Police at the MoI, which includes a special section on implementation of joint criminal investigation on inter-institutional and international level.

¹⁷In the MoI, the cooperation on inter-institutional and international level is further developed with the "Guidelines on the manner of conducting criminal investigations in police at the MoI" which includes a special section on "Implementation of joint criminal investigation" and the Cooperation protocol signed with the Public Prosecutor for the combat against organised crime and corruption No. 680/13 of 19.12.2013 year.

The cooperation between agencies responsible for the law enforcement (MoI, Financial Police Office and Customs Administration) and other bodies (FIA and PRO), in coordination with the competent Public Prosecutor, is accomplished by conducting joint investigations. In practice, investigations very rarely begin on a suspicion of having committed a single criminal act, and it is even rarer that they end with criminal charges for committing a single criminal act. In all the above mentioned examples of inter-institutional cooperation, except the mentioned criminal act, most perpetrators were reported for several other criminal acts.

In order to strengthen the inter-institutional cooperation, we should emphasised the beginning of the process for the establishment of a National Criminal Intelligence Database. In 2009, the Government adopted the Law on criminal intelligence database¹⁸, which provides for the establishment of a national criminal intelligence database within the MoI, which will allow processing and submitting data for use between competent state authorities, as well as exchange with foreign subjects in order to prevent and detect criminal acts related to organised crime. The establishment of the National Criminal Intelligence Database will achieve greater coordination between the bodies responsible for combating organised crime, punctual, fast and secure exchange of information, rational use of material and human resources. In the coming period several projects have been planned aiming to improve the information structure of the MoI and other involved institutions, which will create a basis for the establishment of a National intelligence database.

According to the LPMLTF, the FIA may exchange information with the investigative and supervisory authorities in order to prevent money laundering and terrorist financing. The FIA cooperates with the bodies responsible for supervising the implementation of the measures to prevent money laundering and financing of terrorism by subjects, more precisely with: NBRM, SECRM, ISA, PRO, MAPAS, the Postal Agency, and the Commissions at the Notary and Bar Associations which have signed Cooperation Memoranda.

In 2009, within the Banking Association of the Economic Chamber of Macedonia, the AML Committee was established, consisted of members responsible for the prevention of money laundering by all banks. The FIU and the AML Commission hold regular quarterly meetings during which they review the effective implementation of the regulation in the banking sector in order to improve the functioning of the banks and their cooperation with the FIA. This collaboration has proved very successful and useful both for the banks and the FIA. The cooperation with other entities is usually performed through their associations.

In the Moneyval Committee's report it was concluded that the cooperation between the FIA and the law enforcement agencies and supervisory authorities is on a satisfactory level. The flow of information in relation to the requests is moving in both directions, from the FIA towards the law enforcement agencies and vice versa.

1.3.6. INTERNATIONAL COOPERATION IN CRIMINAL CASES

¹⁸The Law on criminal intelligence database was published in the Official Gazette No. 120/2009.

This variable evaluates whether the competent institutions are actively seeking and giving international legal assistance in connection with money laundering investigations and criminal proceedings.

The national legal framework for international cooperation in criminal matters is based on several directly applicable pieces of legislation, as is the practice in most states. The Ministry of Justice is responsible for the implementation of international legal assistance, i.e. for submission of requests by the domestic courts to foreign partners, as well as receiving foreign requests and their forwarding to the national courts.

In the area of international cooperation in criminal matters in the Ministry of Justice - Department for International Legal Assistance, except the application of the domestic law, the multilateral agreements depending of the country whose nationals are participants in the proceedings in the specific case, also applies the bilateral agreements that the REPUBLIC OF MACEDONIA has concluded with other countries. The Ministry of Justice has signed a large number of international, regional, and bilateral agreements with foreign countries that represent the basis for increased cooperation. International agreements on cooperation in criminal matters have been signed with Slovenia, Romania, Bulgaria, Turkey, Ukraine, Serbia, Kosovo, Albania, Bosnia and Herzegovina, Montenegro, and Croatia. Currently the Department is working on signing a contract with Italy.

The REPUBLIC OF MACEDONIA has ratified all the international conventions on money laundering and terrorist financing.

International criminal - legal aid is conducted according to the provisions of the Law on International Cooperation in Criminal Matters¹⁹ and the Law on Criminal Procedure. The Law on International Cooperation in Criminal Matters incorporates the provisions of European conventions.

International legal assistance in criminal matters refers mostly on delivering invitations, decisions, evidence, hearing of certain persons as witnesses, especially in criminal cases from traffic, aggravated theft, trade of narcotic drugs, money laundering, and other proceeds from crime, human trafficking, and other international crime.

Undertaking or carrying out investigative activities is regulated in all bilateral agreements on legal assistance in criminal matters. The action which is required may also refer to giving notification, publishing excerpts from the criminal records, announcements, and similar.

In cases of extradition, it should be emphasised that the REPUBLIC OF MACEDONIA by adopting Amendment XXXII of the Constitution of the REPUBLIC OF MACEDONIA replaced paragraph 2 of Article 4 of the Constitution, according to which a citizen of the REPUBLIC OF MACEDONIA cannot be deprived of his citizenship, nor can he be expelled from the REPUBLIC OF MACEDONIA and cannot be extradited to another state except on the basis of a ratified international treaty, by decision of the court.

These changes allowed Macedonia to conclude several bilateral agreements on extradition of its own nationals (citizens of RM) with Croatia, Montenegro, Serbia and an agreement on amending the extradition agreement with Bosnia and Herzegovina.

¹⁹The Law on International Cooperation in Criminal Matters is published in the official Gazette No. 124 on 20.09.2010, its implementation started on 01.12.2013, along with the new LCP.

Based on the signed agreement with EUROJUST, Macedonia has appointed two contact persons, one from the Ministry of Justice and one from the Public Prosecution for organised crime.

In order to increase the degree of effective and better international cooperation, specific measures were taken on the level of investigative authorities. For the sake of secure exchange of information between Europol and the REPUBLIC OF MACEDONIA, in October 2013 a direct connection was allowed with the application for secure sharing of information and analysis of Europol - SIENA. During 2014, the Mol appointed and sent a liaison officer to the headquarters of Europol, thus opening a Liaison Bureau of the REPUBLIC OF MACEDONIA with Europol.

Over the past years progress was made related to the exchange of information with Europol through participation of the REPUBLIC OF MACEDONIA in two Europol analysis work files (AWF - Analysis Work File), i.e. contact points from different areas of crime.

The Accession Treaties were signed and entered into force, i.e. the Mol of the REPUBLIC OF MACEDONIA participated in five contact points, two of which in the Analysis Work Files for organised and serious crime and three in the Analysis Work Files to combat terrorism. The signing of the operative agreement enabled a more efficient operative cooperation and direct participation of the REPUBLIC OF MACEDONIA in the Analysis Work Files Europol. In the following period the need to connect the Mol and the other national authorities to new contact points within the Analysis Work Files of Europol will be examined, in various areas of crime in order to strengthen international cooperation and exchange of information.

The role of the Public Prosecutor's Office for combating organised crime and corruption is especially emphasised, which despite the conventions of the Council of Europe in the criminal area, most frequently implements the second additional Protocol of the European Convention on Mutual Legal Assistance in Criminal Matters.

Part of criminal cases – requests, extraditions, and transfers - are related to the criminal act money laundering. But, due to the lack of application for keeping statistics and application for electronic management of cases, the Ministry of Justice does not have precise data at its disposal. The report of the Moneyval Committee related to the international legal assistance states *“the effectiveness cannot be presented due to lack of detailed statistics on requests for international legal assistance, particularly that data related to money laundering and financing terrorism”*.

The international legal assistance is getting more complicated having in mind the number of requests for initiation of proceedings by a number of subjects, the translation of documents and keeping statistics in the Ministry of Justice, which requires introduction of a system for keeping statistics and system for electronic management of documents. The sector started applying DMS²⁰, but this is still in its initial phase. This application is necessary to be in correlation with application for the keeping statistics.

In terms of secondary legislation on international cooperation in criminal matters, the Ministry of Justice launched a Twinning project “Strengthening of judicial cooperation in civil and criminal matters” aimed at strengthening the capacity of the Ministry of Justice, public prosecution, courts and other relevant institutions in the field of mutual legal assistance. Within this project

²⁰ DMS - Document management system

will be produced manuals with templates for requests for mutual legal assistance in civil and criminal proceedings.

With the support of OSCE, the public prosecutors developed a Handbook for international legal assistance that includes templates. The Handbook for international legal assistance is expected very soon to be released and to become a useful tool for everyday use by prosecutors.

Based on the LPMLTF, as a member of Egmont, the FIA can request and provide data upon its own initiative or upon request and under conditions of reciprocity to authorised bodies and organisations of other countries, and also international organisations dealing with the prevention of money laundering and terrorist financing. Also, for the purpose of international cooperation, the FIA may conclude cooperation agreements with authorised bodies and organisations of other countries and international organisations dealing with the prevention of money laundering and terrorist financing. By the end of 2015, the FIA has signed 58 memoranda of understanding with the FIAs of 54 countries.

1.3.7. CAPACITY OF THE INVESTIGATORS OF FINANCIAL CRIME

This variable is evaluated whether employees of state investigative authorities have the capacity to effectively investigate criminal acts of money laundering. The term “capacities” includes the criteria: expertise, experience, material resources, and legal authority, necessary elements to run an effective investigation of this crime.

Institutions responsible for the implementation of investigations of money laundering in the REPUBLIC OF MACEDONIA are the Mol, the Financial Police Office, and the Customs Administration.

The Mol, within the Department for suppression of organised and serious crime with competence to act on the whole territory of the REPUBLIC OF MACEDONIA and to participate in international investigations, established the Department for corruption and the Financial Crime sector. Within the Financial crime sector there is a Department for money laundering and financial investigations, where police officers are trained to combat this type of crime. The size of the settlement, the prevalence of crime, the industrial and economic development, and other factors affect whether two police officers or special organisational units, like departments or inspectorates, will manage the financial, economic crime, and corruption issues and their responsibility will be to aim at suppressing the financial, economic crime, and corruption. Thus, the Department of Interior in Skopje established an organisational unit for economic and computer crime, comprised of a Department for financial crime and money laundering with competence to act in the detection and to record the criminal act money laundering.

The establishment of these units was evaluated in the Moneyval Committee report as progress in the Ministry's efficiency.

Within the Public Security Bureau (on central level), a special Unit for strategic planning, standards and quality control was established with responsibility to monitor the quality of the work of police officers, including for financial crime (money laundering) and implementation of financial investigations.

From the overall three sectors in the Financial Police Office, two sectors work on money laundering and financial crime investigations.

In the Customs Administration, the Sector for Control and Investigation - investigation unit - Service for combating economic crime is responsible for conducting investigations into money laundering. The Service for combating economic crime in the Customs Administration is responsible for the prevention, detection, and clarification of customs offences and criminal act in economic crime area which covers the following crimes: tax evasion, customs fraud, money laundering, and all that is connected with avoiding payment of tax duties, taxes, excise duties, and other taxes and illegal financial transactions which are subjects of investigation.

Since an increased volume of crime is determined in the area of financial crime (tax evasion, abuse of official position, drug trafficking, etc.) for which financial investigation is also needed as a prerequisite for proving a criminal act of money laundering, there is need to fill the empty jobs foreseen by the systematisation acts in the investigative authorities. The staffing of the investigative authorities is also necessary, because the financial crime investigators simultaneously act after retrieval, identifying and temporary seizure of illegally acquired property in order to secure the objects of confiscation. In these circumstances, the staffing of the investigative authorities can contribute to increase the efficiency of their operations.

From 2015 through November 2016, the Mol implemented an international project aimed at strengthening the effectiveness of the Mol in connection to money laundering and conducting financial investigations. Within the project the following activities are foreseen: preparation of a gap analysis and assessment of the overall system for financial investigations of Mol and recommendations for improvement, preparation of assessment for the needs and implementation of training and training programme for financial investigations, money laundering, abuse of European funds, financial crime, etc., with the involvement of existing Standard operating procedures for conducting financial investigations.

The Council of Europe, in cooperation with the FIA, as part of the programme South-East Europe, carries out the ongoing "Project for capacity building for the prevention of money laundering and terrorist financing in the REPUBLIC OF MACEDONIA". With planned activities in the field of legislation, institutional framework, personnel and operative capacities, it is expected that the project will enhance the capacity of investigators to prevent money laundering and terrorist financing.

The need of technical support (hardware and software) is still present in most institutions. In the Mol there is ongoing implementation of several solutions that should serve investigations, such as establishing a National intelligence database, implementation of document management system for the Department for suppression of organised and serious crime. But, despite that Mol needs to undertake in the future activities aimed at production (supply) of software and hardware designed for investigations that would facilitate the organisation and the work of police officers, but would also enable the full and timely procedure for checking the accuracy of the information.

From the data from organised and conducted trainings we can see that training related to money laundering, financial crime and conducting financial investigations is continuously carried out, organised by the institutions themselves or as part of projects led by institutions. These trainings are organised and conducted by the Training Centre of the Public Security Bureau, the Academy of Judges and Prosecutors and the Association of Public Prosecutors, exchange of experiences with other countries within the TAIXEX programme of the European Commission,

Twinning projects, participation in training organised by the Europol, Interpol, SELEC and others.

The fact that money laundering and financial investigations are part of the activities that have been given special importance when undertaking activities, there is need to further develop the capacity of the investigative authorities in order to increase the number of investigators, further training and education especially for investigators working in regional SIAs (local acting authority), preparing additional manuals or other types of instruments on the issues of money laundering, and to further educate investigators for the new Standard operating procedures that have been established in the Mol, including conduct of financial investigations.

1.3.8. INTEGRITY AND INDEPENDENCE OF FINANCIAL CRIME INVESTIGATORS

This variable assesses whether the investigators conducting investigations of money laundering can lead investigations without influence and favoritism.

The investigative authorities Mol, the Financial Police Office and the Customs Administration, have adopted laws regulating the code of conduct, the procedure for hiring and evaluating employees.

The Mol operates according to code of police ethics. Also, the Mol has an anti-corruption programme that includes a system of measures such as, employment in the Mol in accordance with prescribed standards, continuous training of police personnel who oppose corruption, introduction of preventive programs against corruption in the Mol and the police, strengthening the integrity, accountability and the code of police conduct, prevention of conflict of interest in performing public duties, spreading public awareness of the harmfulness of corruption with the citizens and transparency in operation as important segments to prevent corruption in the Mol.

Upon proposal of the Financial Police Office, the Minister for Finance adopted a Code of Conduct (as a bylaw) for the financial officers. According to the Financial Police, financial officers are employed by publishing a public announcement, and by exception, without publishing a public announcement. The conditions that must be met are defined in the Law on Financial Police.

The Customs Administration has adopted Rules of Order and Discipline and Code of Conduct of Customs Officers.

According to the Anti-Corruption Law, investigators are obliged within 30 days of their employment or dismissal or in case any change in their assets has occurred, to submit a

property declaration with a statement for conflict of interest or statement of change in their property status. The investigative authorities, in accordance with the existing regulations, can refer to the PRO if they suspect that an employee has disproportionately acquired a property, while the investigation is fully lead by the PRO.

In addition to the analysis for the assessment of the integrity and independence of the investigators of financial crime, there was a survey questionnaire. According to the clarification in the survey, there are low/medium ratings existing pressures on people who lead investigations in the field of financial crime. The impact of corruption and abuse of official authority on persons leading investigations in the field of financial crime, according to the participants in the survey, has a low/medium value representation. In assessing the impact on professional performance of the persons leading investigations in the field of financial crime, in cases where the offenders are influential state personalities, there level of ratings is medium, which speaks of existence of influence when it comes to important people.

1.3.9. CAPACITY OF PROSECUTORS FOR FINANCIAL CRIME

This variable assesses the capacity of public prosecutors that work on cases of money laundering, their efficiency and functionality.

The Public Prosecutor's Office for combating organised crime is responsible for cases involving serious and organised crime and corruption and has jurisdiction throughout the state. It has two divisions: one for drug trafficking, arms trafficking and smuggling of migrants and that other works with economic and financial crimes. Considering the past inflow of criminal charges for this crime, the number of public prosecutors according to the systematisation, but also their current undertaken activities and the obtained results, it is evident that they have the necessary level of experience in the prosecution of this type of crimes.

According to LCP, the establishment of the Investigative centers within the Public Prosecutors Office and the establishment of the Judicial Police, where investigators from the Mol, the Financial Police and the Customs Administration participate and directly cooperate and receive orders from the public prosecutor, points to the fact that continuous measures are taken aimed at strengthening the capacity of public prosecutors.

Given the fact that a new LCP has been applied, which places differently the Public Prosecutor in the proceedings compared to the previous procedural provisions, i.e. the Public Prosecutor's responsibilities and powers have been increased bearing in mind the latest trends of *modus operandi* in carrying out this kind of criminal activities, in order to strengthen the capacity of Public Prosecutors it will be necessary to make additional staffing of the investigation centers that operate within the Public Prosecutors offices, and to conduct trainings, especially with comparative observations of other experiences related to the developed economic and banking systems and electronic movement of money. Currently, the Public Prosecutor's Office for combating organised crime and corruption is staffing its first Investigation Centre.

The Public Prosecution Offices are not yet electronically assigning cases, but there is an ongoing implementation of the IPA project from 2009 "Support in the Implementation of the Reform of the Criminal Justice System" which aims to contribute to the strengthening of the capacity of Public Prosecutors and other relevant institutions involved in the implementation of the reformed criminal legislation. Within this project it is expected to supply the Public Prosecution Office with equipment for the establishment of an integrated information and telecommunication system, including automated system for case management, system and network security and system for audio and video recording.

According to the Law on Public Prosecution, the Law on the Academy of Judges and Public Prosecutors and the Code of Public Prosecutor's Ethics, prosecutors have the right and obligation to perform continuous professional training for the duration of their office, while the failure to complete continuing training is considered a disciplinary violation leading to disciplinary procedure. The Academy for Judges and Public Prosecutors conducts continuous training for judges, prosecutors, police, financial police, customs, as well as officials from other authorities.

During the period analysed, a total of 46 criminal charges were submitted, most of them submitted by the Mol, followed by the Financial Police Office, while some are raised on the initiative of Public Prosecution Offices. The number of criminal charges correspond to the number of investigations, which is a result of well conducted pretrial procedure and quality of collected evidence.

The analysis may point to a difference in the total number of charges raised in relation to the total number of adopted court decisions, due to the fact that the proceedings for many defendants are under way, in one case the procedure is cancelled due to death of the defendant and in another case the procedure is interrupted due to unavailability of the defendant.

In relation to the judgments, in the REPUBLIC OF MACEDONIA during the period 2008-2015, 20 final verdicts were adjudged against 119 persons for money laundering. Out of the total number of final convictions, 2 were lifted according to regular and extraordinary legal remedies and the procedure was returned to the stage of deciding by a trial court.

According to the Moneyval Committee's report: *"This is not an extraordinary figure per se, but it is very likely that it is proportional to the size of the country and the numbers of its financial sector."*

The new LCP has been practically applied since the 1st of December 1 2013 and it offers opportunities for faster completion of the currently ongoing procedures or procedures that started after this date.

As previously mentioned, except the need to introduce electronic management of cases, it is necessary to carry out continuous training of public prosecutors in order to strengthen their capacity to conduct financial investigations.

1.3.10. INTEGRITY AND INDEPENDENCE OF THE PUBLIC PROSECUTORS FOR FINANCIAL CRIME

This variable assesses whether prosecutors working on money laundering cases can lead investigations without influence and favoritism.

The Public Prosecution is a sole and independent public authority and an integral part of the judicial system. Its institutional independence and functional autonomy are guaranteed by the Constitution and law. According to the Law on Public Prosecution, the Public Prosecution service is based on the principles of hierarchy and subordination and the observance of these principles must not jeopardize the independence of public prosecutors to perform their functions.

According to the Law on Public Prosecution, the public prosecutors are elected by the Council of Public Prosecutors of the REPUBLIC OF MACEDONIA without restriction of their mandate and under terms and procedure established by the law. According to this law, the public

prosecutors of the Public Prosecutor's Office for combating organised crime and corruption are elected by the Council of Public Prosecutors from the ranks of elected prosecutors for a 4 year mandate with the right to be re-elected. The conditions and criteria for the appointment and election of public prosecutors are regulated by the Law on Public Prosecution, and the selection procedure is determined in the Law on the Council of Public Prosecutors. The Council of Public Prosecutors is established according to the Law on the Council of Public Prosecutors in 2007. The Council is an independent body which provides and guarantees the independence of public prosecutors in performing their duties.

When selecting and promoting public prosecutors, the factors taken into account are their working - professional experience, verified working results, expert and professional qualities and reputation, all of which are determined according to criteria precisely defined in the law. The dismissal of public prosecutors, according to a predetermined procedure, is responsibility of the Council of Public Prosecutors.

In 2010, the Council of Public Prosecutors adopted a Regulation on the method for assessing the performance of public prosecutors. As set out in the Regulation, the assessment is carried out every two years, for every public prosecutor individually by his directly superior Public Prosecutor. The Code of Ethics for Prosecutors adopted by the Association of Public Prosecutors in 2004, regulates the work of public prosecutors in order to ensure compliance with the standards and principles of impartiality, fairness, independence, confidentiality, accountability, integrity, thus ensuring a high level of professionalism in the execution of prosecutorial functions. On 1 December 2014, the Public Prosecutor of the Public Prosecution Office adopted the Code of Ethics of the Public Prosecutors of the REPUBLIC OF MACEDONIA²¹.

Additionally to the analysis for the assessment of the integrity and independence of the prosecutors there a questionnaire was attached. According to the respondents, the impact of corruption and abuse of official powers on/from public prosecutors working on cases in the area of financial crime was assessed with low/medium rating. This assessment is also established in relation to the influence over the professional conduct of prosecutors in cases where offenders are influential figures.

1.3.11. CAPACITY OF JUDGES

²¹ The Code of Ethics of Public Prosecutors was published in the Official Gazette no.194/2014.

This variable evaluates whether the judges who adjudicate in money laundering court proceedings have the capacity to function effectively. Judges who adjudicate in these proceedings should have the capacity to process cases efficiently and fairly.

According to the Law on Courts, in the judicial system of the REPUBLIC OF MACEDONIA judicial power is exercised by the courts of first instance, the appellate court, the Higher Administrative Court, the Supreme Administrative Court and the Supreme Court.

The jurisdiction of courts is determined by the Law on Courts. According to the Law on Amendments of the Law on Courts of 2008, a specialised court department was established in the Basic Court Skopje I-Skopje, responsible for prosecuting cases of organised crime and corruption on the overall territory of the REPUBLIC OF MACEDONIA. This specialised court department, among other things, is responsible to trial cases of money laundering under Article 273 of the CC.

In first instance the courts adjudicate in councils consisted of two judges and three lay judges for crimes for which the law prescribes a prison sentence of 15 years or life imprisonment, and in chambers consisted of one judge and two lay judges for crimes for which the law prescribes a more lenient sentence. In second instance the courts adjudicate in chambers consisted of five judges for crimes for which the law prescribes a prison sentence of 15 years or life imprisonment, and in chambers consisted of three judges for crimes for which the law prescribes a more lenient sentence. When adjudicating in the second degree of proceeding, the council is composed of two judges and three lay judges. In third instance the court adjudicates in chambers consisted of five judges. When adjudicating court cases, all judges or lay judges and members of chambers are equally involved.

According to the report of the Judicial Council of the REPUBLIC OF MACEDONIA on the work of the courts in the REPUBLIC OF MACEDONIA for 2013, the Court of First Instance Skopje I in 2013 managed to cover the influx of new cases and reduced the pending 6.576 cases, which evaluates it as an efficient and up to date court.

According to the report of the Judicial Council of the REPUBLIC OF MACEDONIA on the work of the courts in the REPUBLIC OF MACEDONIA for 2014, the Court of First Instance Skopje I in 2014 to cover the influx of new cases and reduced the pending 6575 cases, which evaluates it

as an efficient and up to date court. Such report for 2015 has not yet been published by the Judicial Council of the REPUBLIC OF MACEDONIA.

On other levels, more precisely in the Court of Appeals, Skopje and the Supreme Court of the REPUBLIC OF MACEDONIA judgments are made within the Criminal Division of the Appeal Court, i.e. by the Department for criminal acts of the Supreme Court.

In all courts analysed, more precisely the Organised Crime Department of the Court of First Instance Skopje I, the Appellate and the Supreme Court, the number of judges is sufficient and their capacity to solve cases is satisfactory, but due to the fact that the number of new cases is increasing, the number of support staff, counselors and administrators who work with judges should be increased, in order to facilitate and accelerate the work on a daily level.

According to the Law on Courts and the Law on the Academy of Judges and Public Prosecutors, the judges have the right and obligation of continuous professional training for the duration of their office, and the failure to perform continuing training is considered a disciplinary violation leading to disciplinary procedure. The Academy for judges and prosecutors conducts continuous training on topics related to money laundering.

In order to strengthen the capacity of judges who adjudicate cases of money laundering and financial crime, continuous training is required.

1.3.12. INTEGRITY AND INDEPENDENCE OF JUDGES

This variable assesses whether judges who adjudicate money laundering court proceedings to perform their duties without influence and favoritism.

In 2006, the Judges Association of the REPUBLIC OF MACEDONIA adopted a Code of Judicial Ethics, which represents a set of ethical principles and rules of conduct that every member of the Association of Judges of the Republic of Macedonia is committed to respect during the performance of the judicial function.

As part of the Working Programme of the Association of Judges of the REPUBLIC OF MACEDONIA, a new Code of Judicial Ethics was adopted in 2014 harmonised with the EU standards. In order to respect the principles of the Code of Judicial Ethics, the Association of Judges established with this Code an Advisory body, which at the request of judges or the Association of Judges expresses advisory opinions of the judges regarding one or more issues related to the ethical conduct, i.e. the proper performance of judicial duties and how the judges should avoid conflicts of interest of judges in their private lives and to perform their judicial function. Part of the Working Programme of the Association of Judges of the REPUBLIC OF MACEDONIA for 2015 is to increase the professionalism of judges and to comply with the European standards in terms of anti-corruption and conflict of interest through the work of the Advisory body for Judicial Ethics of the Association of Judges of the REPUBLIC OF MACEDONIA.

The principle of independence of the judicial authority is embedded in the Constitution of the REPUBLIC OF MACEDONIA, which provides that the judicial power is exercised by the courts. The courts are independent. According to the Law on Courts, the judges decide impartially based on the law and the free assessment of evidence. Pursuant to Article 11 of the Law on Courts, any form of influence on any ground or by any entity upon the independence and the impartiality of the judge in the performance of his/her judicial function is prohibited. A court decision may be altered or revoked only by a competent court in a procedure prescribed by the law (Article 13 of the Law on Courts). The implementation of an effective and executive court decision should be carried out in the quickest and most efficient manner and it cannot be hindered by a decision of any other state authority (Article 16 of the Law on Courts).

According to the Law on Courts, the judges and court presidents are appointed and dismissed by the Judicial Council the REPUBLIC OF MACEDONIA under conditions and procedures specified by the law. The Judicial Council of the REPUBLIC OF MACEDONIA is an independent judicial body, which ensures and guarantees the independence of the judicial authority, by exercising its functions according to the Constitution and the laws.

The monitoring and evaluation of judges falls within the scope of the powers of the Judicial Council of the REPUBLIC OF MACEDONIA. The assessment of the quality of the executors is generally carried out by their immediate superior in specified period. Each investigator shall draw up a work plan and report on the work done, in which he presents all the activities he had during the period of the report. The quality of the executor is assessed based on the report and the opinion of their immediate superior.

The procedures for unprofessional and neglectful performance of judicial functions, and also the procedure for determining disciplinary responsibility of a judge in exercising his judicial function,

are conducted before the Judicial Council, according to the Law on Amendments of the Law on Judicial Council of the REPUBLIC OF MACEDONIA which regulates these procedures.

According to the Law on Prevention of Corruption it is stipulated that an elected or appointed official (which includes judges and prosecutors), should fill in a questionnaire with detailed inventory of his/her real estate, movable property of greater value, securities, claims and debts, as well as other property in his/her possession or ownership of his family members not later than 30 days from the date of election or appointment. The mentioned persons are obliged to report any increase in their property or the property of their family members. The questionnaires are then submitted to the State Commission for Prevention of Corruption. If they give incorrect data in the questionnaire or if they fail to report changes in assets or if it is established that his property or property of a member of his family is disproportionately higher in relation to the regular income, an audit procedure may be initiated for examination of property and assets of these persons. This procedure is conducted by the PRO. If during the audit of property and assets procedure it is not proved that the property is acquired or increased by regularly reported and taxed income, the PRO may decide to tax the difference between taxable and reported income with 70%. If it is determined that the property is significantly increased, the PRO files a criminal complaint to the competent public prosecutor's office against this person.

A questionnaire was attached in addition to the analysis for the assessment of the integrity and independence of judges. The answers provided in the questionnaire show that there is a larger clarity for corruptive influences. This leads to the conclusion that judges are more exposed to influences during the process of determining the type and the size of the sanction.

1.3.13. CAPACITY OF THE INVESTIGATORS FOR SEIZURE (TEMPORARY CONFISCATION) OF PROPERTY

This variable evaluates whether the investigators responsible for seizure (temporary confiscation) of property have capacities to find the trail and discover the property which derive from crime, so that at the completion of the criminal proceedings it would be confiscated.

According to the current legislation the investigators, prosecutors and judges are responsible for detection, security, seizure, forfeiture and confiscation of property acquired through crime. Within the investigative authorities there are no specialised investigators responsible for detection and temporary seizure of property acquired by crime. Given that the investigators who work on cases of money laundering, financial crime and other types of crime are also responsible for the detection and the temporary confiscation of illegally acquired property,

staffing of the investigating authorities in accordance with the acts for systematisation of work positions is necessary in order to specialise and train investigators who will work on discovering and temporary confiscation of illegally acquired property.

In order to particularise the activities that the investigators should assume in order to conduct financial investigations, tracing and temporary seizure of objects, in 2013, the Mol developed the “Standard operating procedures for conducting financial investigations”.

The conducted analysis and its results for the capacity of investigators of financial crime (point 7) refers to and reflects the capacity of the investigators to perform seizure (temporary confiscation) of property.

Given that the new techniques and technologies allow criminals new ways to hide the illegally gained property, continuous training is necessary for investigators, prosecutors and judges working on the detection, security, seizure, forfeiture and confiscation of illegally acquired property, and also preparing manuals and guidelines for conducting financial investigations.

1.3.14. INTEGRITY AND INDEPENDENCE OF INVESTIGATORS FOR SEIZURE (TEMPORARY CONFISCATION) OF PROPERTY

This variable assesses the integrity and independence of the investigators responsible for seizure (temporary confiscation) of property. Integrity and independence refer to whether these investigators work without pressure and if they properly use their powers.

Within the investigative authorities there are no specialised investigators responsible for tracking the proceeds of crime. The Investigators working on cases of money laundering and financial crime are also responsible for the detection of illegally acquired property. The conducted analysis of the integrity and independence of the investigators of financial crime (point 8) also refers to the integrity and independence of the investigators to seize property.

1.3.15. LEGAL FRAMEWORK FOR SEIZURE OF PROPERTY

This variable assesses whether there are adequate laws which allow seizure, freezing and confiscation of proceeds and items acquired through criminal acts. There should be an effective legal framework which will ensure the confiscation of property acquired by criminal means.

The grounds for confiscation in the REPUBLIC OF MACEDONIA are defined in Article 97 of the CC, as follow:

“No one can retain direct or indirect proceeds obtained by crime. Proceeds from paragraph 1 shall be confiscated by the court decision that determined the crime under the conditions stipulated by this law. The decision for confiscation shall be made in a procedure determined by law and when due to factual or legal reasons it is impossible to conduct criminal proceedings against the perpetrator of the criminal act. Under conditions determined by a ratified international treaty, the confiscated property may be returned to another country”.

Article 97-a foresees confiscation of indirect proceeds. Article 98 of the CC defines the manner of confiscation:

„Direct and indirect proceeds of crime consisted of money, movable or immovable valuable items and any other property, property or assets, tangible or intangible rights shall be confiscated from the perpetrator, and if confiscation is impossible, other property which corresponds to the obtained proceeds shall be confiscated from the perpetrator.

The direct and indirect proceeds shall be confiscated also from third parties, in favor of which the criminal act was committed”.

The law foresees that the proceeds shall be confiscated also from the family members of the perpetrator to whom they have been transferred, if it is obvious that they have not given compensation that corresponds to the value of obtained proceeds or from third parties if they don't prove that they have given compensation which corresponds to the value of the obtained proceeds.

Article 100 foresees confiscation from legal entity and according to this provision, in case the perpetrator of the criminal act gained proceeds in favor of a legal entity, the proceeds shall be confiscated from the legal entity.

Extended confiscation is one of the most important news in the amendments to the CC of 2009. The introduction of extended confiscation is in accordance with the Framework Decision of the Council of Europe of 2005.

Article 98-a specifies the types of criminal offences for which the measure extended confiscation may be imposed. The law foresees confiscation of property acquired during the period prior to the sentence determined by the court according to the circumstances of the case, but not longer than five years before committing the criminal act.

According to the data obtained from the court in 2013, the amount of 946.365 euros was obtained from effective judgments in criminal cases of money laundering that were sentenced with confiscation of property and proceeds.

The amendments to the CC in relation to the confiscation of property and proceeds meet the criteria of the international legal instruments for effective protection of the society against crime with the threat that every property acquired by conducting a criminal act will be confiscated.

The Moneyval Committee's report listed several objections concerning the system of confiscation *"the confiscation regime is still too complicated which may hamper its effective application; this particularly applies to provisional measures (Article 203 and 203 of the CCP) that are inadequately covered and inaccurately defined"*. Despite this observation, the evaluators concluded that the statistics still show that the confiscation system works and that the complexity of the respective provisions of the CC and the CCP do not prevent national authorities to apply them in practice.

1.3.16. ORDERS FOR SEIZURE OF PROPERTY

This variable assesses whether the orders for confiscation of property issued in the procedures are adequate, i.e. that they are in line with the interests of the state, the convicted person and innocent third parties.

The new CCP, applied since December 2013, in Chapter XVII - Measures for retrieval and securing persons and objects in 11 provision meticulously regulated the issue of temporary

securing and confiscation of objects. The provisions of the CCP precisely determine the powers and obligations related to the temporary securing of property, real estate, temporarily freezing of funds, temporary seizure of computer data, seizure or retention of funds deposited in a bank or other financial institution or a bank account, and no one can invoke bank secrecy in order to avoid enforcement of a court decision for temporary freezing, seizure or retention of funds deposited in a bank. The court may, at any moment during the criminal proceedings, at the request of the public prosecutor, issue a provisional measure for seizure of property or items, which, according to the CC should be confiscated or seized or any other necessary provisional measures to prevent the use, expropriation or managing that property or objects.

Important news in the CCP related to the determination of provisional measures is the deadline for proceeding requested by the public prosecutor, where the judge of the previous proceeding is obliged to decide immediately on the request of the public prosecutor, or within 12 hours after receiving the request. These are very important news in the CCP and represent a guarantee for the restriction and prevention of property or means to be alienated or burdened during the procedure and after a submitted proposal for insurance that has long not been decided upon.

In 2009, according to the Law on management of confiscated property, proceeds and items confiscated in criminal proceedings, the Agency for Managing Confiscated Property was established as a legal entity.

The Agency for Managing Confiscated Property executes the effective court decision for confiscation of property in cases in which the measure of confiscation or seizure has been delivered. In its daily operations the Agency faces certain problems in the execution of their responsibilities. Since its establishment, the Agency has undertaken the responsibilities for handling seized objects, properties and proceeds from several institutions, including: courts, Customs Administration, Mol and other authorities responsible for the seizure of property. In order to improve the system for seizure of property and its management, it is necessary to strengthen inter-institutional cooperation with regard to the timely retrieval of property and its securing during the investigation procedure, so that it can be confiscated, the costs for its storage and maintenance and its value to be estimated. Until now, there have been several changes to the Law on management of confiscated property, proceeds and items confiscated in criminal proceedings, but it still necessary to also perform improvement the legal framework, in order to achieve a more efficient management of the confiscated property and efficient execution of the responsibilities of the Agency for Managing Confiscated Property. Also, there are still no records or a single database of confiscated property between institutions, so it is necessary to establish a single database for confiscated property and to connect the Agency with the courts in the REPUBLIC OF MACEDONIA, the Customs Administration etc. This database will be updated with seized items on a daily basis, which will help the Agency to handle cases more diligently and more efficiently in relation to their records in the entirety of the

country, and to further assign or sell these items, in which we hope to be implemented and become a part of a future project.

The Moneyval Committee's report notes that *"in the absence of statistics or any other information related to the use of orders for confiscation and freezing/securing, in general, the effectiveness of the regime for provisional measures in the cases with proceeds from crime cannot be perceived"*.

Although the system for provisional measures and confiscation works, which is confirmed by the analysis of court decisions and confiscation measures imposed, it is still necessary to take measures and activities for establishing a system for keeping proper and full statistics for the implementation of provisional measures and confiscation, in order to perform a full analysis of the effectiveness of this system for implementation of provisional measures and confiscation. The insufficient technical and human capacities of the Agency for Managing Confiscated Property support this conclusion.

There is an ongoing procedure for procurement of computers and other IT equipment, video supervision devices, copier and scanning device, so in the course of 2016, the Agency will fully provide and equip the existing warehouses and yards with complete protection equipment, accessories and instruments. Also, a procedure for the purchase of archiving software has been initiated, as well as warehouse operations software and networking software for their interconnection, in order to improve the workflows and the efficiency of the Agency for Managing Confiscated Property. This procedure will be completed during 2016.

In 2014, through the Agency for Managing Confiscated Property, the REPUBLIC OF MACEDONIA became a member of the international network for cooperation and exchange of data between Member States as regards to the retrieval of proceeds of crime - CARIN (Camden Assets Recovery Inter-Agency Network), which functions within Europol. By joining the CARIN network, the REPUBLIC OF MACEDONIA will strengthen the international cooperation with other countries in terms of retrieval of the Proceeds from Crime.

1.3.17. INTERNATIONAL ASSISTANCE FOR CONFISCATION OF PROPERTY

This variable evaluates whether international legal assistance for the identification and confiscation of property with ultimate goal to hamper the concealment of property acquired through criminal means is actively sought and provided.

According to the Law on international cooperation in criminal matters, the international legal assistance, among other things, includes: temporary securing of objects, property or means related to the criminal act, temporarily freezing, seizure and retention of funds, bank accounts and financial transactions or proceeds of criminal act, confiscation of property and crime proceeds and seizure of objects.

The temporary securing and seizure of objects or property is a matter regulated in detail by the CCP and the Law on international cooperation in criminal matters. According to this law, objects, documents and property and proceeds temporarily seized, as well as the acts and decisions on temporary seizure, shall be delivered to a foreign competent authority at its request, after the completion of procedure for international legal assistance in the REPUBLIC OF MACEDONIA.

Also, the confiscation of property and proceeds in the procedure for international legal assistance is executed in accordance with the provisions of the CC, the CCP and the international treaties. The Law on international cooperation in criminal matters provides the submission of spontaneous information by the national judicial authority of a competent foreign authority, under the condition of reciprocity and without previous request for international legal assistance. In terms of mutual cooperation for the execution of confiscation orders and orders for freezing property or evidence, the principle of dual criminality is applied, i.e. cooperation depends on whether the offence is punishable under the domestic legislation.

Examples for practices of good cooperation:

In October 2008, the Public Prosecution Office filed to the Court of First Instance Skopje I, Department for Organised Crime and Corruption an indictment against a person who abused official position and authority to gain illegal proceeds. In order to hide the proceeds, the person remitted the funds to personal bank account in a foreign country and after that he moved the funds to his personal bank account in Germany, thus committing the crime of money laundering under Article 273 of the CC. According to the Decision for the manner and conditions under which the residents which are not authorised banks may open and hold accounts abroad, adopted by the Central Bank, residents may hold accounts abroad, issued by the NBRM, resident may have accounts in a foreign country only with prior approval of the NBRM, and the defendant did not submit this approval during the procedure. The Court of First Instance Skopje I, Department for organised

crime and corruption, with decision dated 05.04.2012, declared the accused guilty for the crime of money laundering in accordance to Art. 273 of the CC and sentenced him to imprisonment of five years. According to Article 97 and 98 of the CC, the direct or indirect proceeds obtained by crime were seized from the defendant, consisted of cash in the amount of 511.544.00 American dollars in his account bank in Germany, funds which at the request of the Public Prosecutor's Office of the REPUBLIC OF MACEDONIA and according to the decision of the Court of First Instance Court in Germany were seized in June, 2008. In April 2012, the Appellate Court in Skopje confirmed the decision of the Court of First Instance Skopje I, Department for organised crime and corruption. In October 2012, the Supreme Court of the REPUBLIC OF MACEDONIA rejected the defendant's appeal against the judgment of the Court of First Instance Skopje I and the judgment of the Court of Appeal as unfounded. In this case, the procedure was conducted under the old CCP, which established existence of elements of transnational criminal acts executed out of the territory of the REPUBLIC OF MACEDONIA, and what is particularly important in relation to the perpetrator is that the direct and indirect proceeds obtained by a criminal act are seized, which earlier, by decision of a foreign court - Court of First Instance in Germany, at the request of the Public Prosecutor's Office of the REPUBLIC OF MACEDONIA, were seized until the final resolution of this criminal case.

- The Ministry of Justice received request for legal assistance from the Ministry of Justice and Freedom of France requesting international legal assistance with proposition to issue provisional measure - temporary suspension of transaction and temporary seizure of money based on the European Convention for mutual legal assistance in criminal matters and the Second additional protocol and in accordance with Article 4 and Article 24. The judge of the Court of First Instance Skopje I, deciding on the proposal to issue a provisional measure – temporary suspension of transaction and temporary seizure of money, submitted by the Public Prosecutor's Office for organised crime and corruption, due to a main suspicion for executing a criminal act – fraud, issued a Decision which determines provisional measure - temporary suspension of transaction and temporary seizure of money due to a reasonable suspicion that a crime has been committed -fraud. The Decision prohibits raising funds from a bank account opened at a bank in the REPUBLIC OF MACEDONIA.*

However, despite the developed legal framework and the harmonisation of the legislation with the EU *acquis* in the field of international legal assistance, there is no proper and comprehensive statistics on international cooperation in confiscation of proceeds, as part of the general problems that the authorities face within the international legal assistance (see Section 6. International cooperation in criminal matters).

1.3.18. AUDIT AND ACCOUNTING STANDARDS AND PRACTICES

This variable assesses whether there are meaningful accounting and auditing standards and practices, which increase financial transparency and ensure access to correct and reliable accounting records and financial statements.

The performance of audit and accounting matters in the REPUBLIC OF MACEDONIA is regulated by the Law on Companies, the State Audit Law, the Law on Accounting, the Law on accounting for non-profit organisations, and other regulations governing the conduct of accounting and auditing.

According to relevant laws, the REPUBLIC OF MACEDONIA applies the international accounting and auditing standards of the International Federation of Accountants (IFAC) published in the Official Gazette and updated annually to comply with the current standards as they are amended or adopted by the International Federation of Accountants (IFAC).

According to the Law on Companies every trader is obliged to keep accounts in the manner specified by this Law and accounting regulations. The legal entities according to the Law on Companies have an obligation to prepare annual accounts and to submit them to the Central Registry no later than the end of February of the next year for the year for which the annual accounts are prepared.

According to the Law on accounting matters, the accountants and the chartered accountants are organised in the Institute of Accountants and Chartered Accountants. One of the responsibilities of the Institute is to issue certificates for accountants and certified accountants and to revoke the working licences. Also, pursuant to the Law on Accounting, one of the responsibilities of the Institute of Chartered Accountants is to coordinate, implement, and continuously monitor the International Accounting Standards. The Institute of Accountants and Chartered Accountants is established, but it still does not function. Due to that, at this moment no other body controls the application of international accounting standards, a responsibility which should be the Institute's. Despite that, the accountants are obliged to respect the IFAC's

Code of Ethics for Professional Accountants and the acts of the Institute of Chartered Accountants and Chartered Accountants of the REPUBLIC OF MACEDONIA.

According to the Law on Audit, the statutory auditors, audit firms and certified auditors-sole proprietors are subject to a system of quality control in order to achieve compliance of the work of the auditors with the procedures for auditing prescribed by the International Standards on auditing, the IFAC's Code of Ethics for Professional Accountants, and the national law. In order to promote high professional standards and improve the quality of audit services, the certified auditors are associated in the Institute of Certified Auditors. Among other things, one of the competencies of the Institute is to apply and to monitor the implementation of International Standards for Auditors, the IFAC's Code of Ethics for Professional Accountants and the acts of the Institute in audit firms and statutory auditors. The Institute of Certified Auditors may impose measures for violation of International Standards for Auditors, IFAC's Code of Ethics for Professional Accountants and the acts of the Institute. On its website in the Register of audit firms and certified auditors, the Institute of Auditors publishes data on disciplinary measures for violations of International Standards for Auditors, IFAC's Code of Ethics for Professional Accountants and the acts of the Institute. According to the Statute of the Institute of Certified Auditors, the statutory auditors and audit firms are subject to a system of quality control in order the work of the auditors to comply with the procedures for auditing prescribed by the International Standards on Auditing, IFAC's Code of Ethics for Professional Accountants and the national law. According to the Law on Audit, the Institute of Certified Auditors carry out quality control checks of statutory auditors.

The system of quality control is very important for providing high quality audit services and to increase the reliability of the issued financial information. The Regulations on the manner and procedures for quality control of statutory auditors defines the basic principles and procedures of the quality control verification. Based on the results of the performed quality control, the Institute can impose measures for public warning, a fine, and temporary or permanent revocation of membership in the Institute. Upon proposal of the Institute, the Council for advancement and oversight of the audit issues and revokes the licence for performing work on audits.

According to the statistics for submitted reports on suspicious transactions to the FIA, in the period 2013-2015, the auditors and accountants submitted 1 STR, which is a negligible quantity compared to the total submitted reports on suspicious transactions.

1.3.19. TAX DECLARATIONS

This variable assesses whether the transparency of financial operations of natural and legal persons and the exchange of information between tax authorities and the investigating authorities is being ensured. The rating is determined taking into account the following criteria:

- The tax system requires physical and legal entities to provide comprehensive information on tax administration for their income and assets.

Natural persons

According to the Personal Income Tax Law, all natural persons are required to submit annual tax declaration for the earned income following the end of the year for which the tax is determined by the 15th of March next year. The tax declaration displays all income by type of income earned in the year for which the tax is determined, with data for the amount of the income and paid personal income tax. On the other hand, the Personal Income Tax Law prescribes the obligations of all legal entities (payers of income of natural persons) to submit a report on all income paid to natural persons. The payer is obliged to submit to the PRO annual report on the gross income of the taxpayer, the calculated and paid taxes and contributions after deduction and the total paid net income by the 31st of January next year. In this way, the PRO has full data on the incomes of natural persons on different grounds. The failure to submit annual tax declaration foresees a fine of 500 to 1,000 EUR in MKD.

Table 8: Presentation of submitted declarations PIT-AIT by year²²

Year	Number of total submitted declarations PIT-AIT
2011	174,032
2012	174,181
2013	177,050
2014	421,959
Total	947,222

²² PIT-AIT-Annual Income Declaration for personal tax on income. The data in the table are provided by the Public Revenue Office.

Legal entities

According to the Law on Companies, legal entities have the obligation to prepare annual accounts and to submit it to the Central Registry no later than the end of February next year for the year for which annual accounts are prepared.

The Central Registry after processing the data of the annual accounts submitted annually by legal entities, submits them electronically them to the PRO. This data is then processed by the PRO and loaded into appropriate applications which enable insight into the submitted annual accounts and a detailed overview of the property and incomes of legal entities. Additionally, pursuant to the Law on income tax, legal entities are required to perform the determination and payment of income tax based on the form "TB - tax balance for the taxation of non-deductible expenses" from 31.12.2013, or based on the form "TB - tax balance" from 01.01.2014 year submitting it to the PRO in the deadline prescribed for the submission of the annual declaration in accordance with the Law on Companies and accounting regulations. The forms "TB - tax balance for the taxation of non-deductible expenses" and "TB - tax balance" must contain information on the total income generated in the year and profit for the business year.

THE PRO introduced the possibility of electronic filing of tax declaration since July 2006 and during the first phase of the implementation of the project the service was only available to large taxpayers. As of July 2008, the service e-taxes is available to all legal entities and proprietors in the REPUBLIC OF MACEDONIA. Currently, the use of the e-taxes system for taxpayers (legal entities, sole proprietors, craftsmen, freelancers, etc.) is mandatory.

In order to improve voluntary compliance and voluntary reporting of taxes, the PRO conducted several activities in order to inform and educate taxpayers about their obligations through:

- educational visits and meetings with target groups and categories of taxpayers,*
- media campaigns (e.g. filing an annual tax return by individuals),*
- informing taxpayers about their legal obligations, deadlines for their completion, changes in the legislation, etc., through the website of the PRO*
- publication of brochures and informative materials aimed at educating the taxpayers to meet their tax obligations for a certain type of tax or type of income,*
- introduction of mobile tax desks (since 2012) in order to meet the needs for tax services to taxpayers from smaller settlements where the PRO does not have offices.*

In order to raise the awareness among citizens for reporting and payment of tax obligations, the PRO has a legal obligation to publish on its website a list of debtors for debts of value

added tax (VAT), income tax, personal income tax, compulsory contributions for social insurance, whose total amount of debt is higher than 120,000 MKD for individuals and sole proprietors and over 300,000 MKD for legal entities.

The competent authorities can access information per taxpayer held by the tax administration when conducting investigations for prevention of money laundering. The PRO cooperates and exchanges information with other bodies (including competent authorities for investigating prevention of money laundering) in accordance with legal provisions, and also, according to signed memoranda and protocols for cooperation and exchange of information which define the type of data that will be exchanged electronically and in writing (in cases of large documentation in paper form).

According to Article 26 of the OECD Model Tax Convention, information can be exchanged with international investigative authorities. Namely, the PRO cooperates and exchanges information with other tax administrations based on signed agreements for the avoidance of double taxation. The REPUBLIC OF MACEDONIA has signed 47 international agreements on avoidance of double taxation, 44 of which have been applied. 25 of these contracts have been concluded with EU member states.

Verification and confirmation of good practice was conducted during 2013 and 2014 when the OECD's Global Forum on transparency and exchange of information for tax purposes conducted Phase II of the evaluation process of the practical application of the legislation in the REPUBLIC OF MACEDONIA and the functioning of the exchange of information for tax purposes in accordance with the OECD model. Namely, the evaluation assessed the practical application of international standards of transparency and exchange of information. The overall assessment is "conformity to a large extent (Largely Compliant)", i.e. 8 elements have been assessed as compliant (Compliant) and two as highly compliant (largely compliant rating).

As a result of the measures taken to increase financial discipline among natural persons and legal entities, the number of annually submitted PIT-AIT is increased, which can be seen from the statistics, resulting in reduction of the criminal act tax evasion as a predicate offence for money laundering in the criminal convictions that have been filed recently.

1.3.20. TRANSPARENCY OF LEGAL ENTITES

This variable assesses the transparency of legal entities, particularly when identifying their rightful owner.

The legal framework for the establishment and the business activities of legal entities is governed by the Law on Companies.

The only Commercial Register of legal entities is conducted at national level in a centralised manner in the Central Register of the REPUBLIC OF MACEDONIA. The Commercial Register contains the registration data of a legal entity and accessories (documented evidence) for each entity. The data that are entered in the Commercial Register are foreseen by the Law on Companies. The data includes, inter alia, the designation and identification of the founders (name, registration number or passport number, address, and in case of founders legal entities, name, headquarters' address and registration number) and data of members of the management and supervisory board.

Excepting this data, according to the experience that the banks have gained, the regulation should provide for the allocation of a unique identification number of the subject non-resident legal or natural person before the commencement of business activity in the REPUBLIC OF MACEDONIA (existing companies and individuals should be given a reasonable period to comply). It is estimated that this decision will also simplify the monitoring and analysis of non-residents and reduce the possibilities for nonresidents to register several times with different documents in different or the same banks.

The Law on Companies provides for any change in the registered data of a company to be entered in the Commercial Register, including that related to changes in ownership (entering/withdrawal of a member of a company).

The Commercial Register and all data entered in it are publicly available through the website of the Central Register. The data related to shareholders of joint stock companies is available in the CSD, and their website has a public list of all shareholders holding more than 5% of the securities in the company.

The Central Register has no obligation to verify the legality and reliability of the data content upon registration of legal persons, or whether the entries in the register are accurate and comply with the laws. As noted in the Report of the Moneyval Committee, there is no authority that can verify the identity of the persons subject to registration in order to prevent registration of

a person with a false identity. However, according to LPMLTF, the financial and non-financial institutions, when establishing a business relationship with a client, are obliged to establish and verify the identity of the beneficial owner.

Legal entities, upon registration in the Central Register, are not obliged to provide information about their true owner, which represents a deficiency in the identification of the real owner of the legal entities upon their registration. This lack opens the possibility for improvement of the legislation and introduction of an obligation for legal entities to submit data of their rightful owner upon registration, and these data will be made publicly available for the purposes of identification and verification. This deficiency is noted in the Report of the Moneyval Committee.

Legal entities under the Law on Companies are obliged to prepare annual declaration and to submitting it to the Central Register no later than the end of February next year, for the year for which they prepare the annual declaration. The Central Register annually submits the processed data of the annual declarations of legal entities to the PRO electronically. It is then processed by the PRO and loaded into the appropriate applications which enables insight into the submitted annual declarations and a detailed overview of the property and the income of legal entities.

1.3.21. IDENTIFICATION INFRASTRUCTURE

This variable evaluates whether the procedure for identification and verification of a client and the financial transparency of entities obligated to take measures to prevent money laundering and terrorist financing allows them to verify the client's identity, using documents, data and information from reliable and independent sources. In this way, the use of false identification documents is prevented.

In the REPUBLIC OF MACEDONIA, according to the legislation, the document used for identification is the ID card or passport for natural persons, while legal entities are identified with a registration document issued by the Central Register.

In 2008, the REPUBLIC OF MACEDONIA introduced biometric ID documents that conform to the latest standards for their protection. The data of the identification document and the biometric features is stored in appropriate national database.

According to the LPMLTF, the subjects are obliged to carry out a procedure for client due diligence, which among other things includes identification of the client, principal and beneficial owner and verification of their identity. The law accurately predicts the documents and data for the identification of clients-natural persons and documents and data for the identification of clients-legal entities. The subjects may require other data, information, and documents from reliable and independent sources to confirm the identity of the client, principal, and rightful owner. The subjects should confirm the identity of the real owner by being assured who is the rightful owner. Upon verification of the client's identity, the principal and the rightful owner, the entities in the LPMLTF are instructed to use documents, data, and information from reliable and independent sources in order to be certain that they know the client and his activities. The law does not limit the subjects which documents, data, and information from reliable and independent sources can be used.

The subjects confirm the identity of the legal entities based on data from the registration certificate of the legal entity issued by the country of registration. If the registration certificate cannot ascertain all the necessary data (especially the data of the real owner), the subjects ascertain and confirm the missing data from the business records of the client (founding act, statute, etc.). However, the banks face some problems in identifying the rightful owner of legal entities that have complex ownership structure.

1.3.22. AVAILABILITY OF INDEPENDENT RELIABLE INFORMATION SOURCES

This variable assesses the availability of independent and reliable sources of data for the client and his financial activity.

The subjects, i.e. the banks, perform verification of customers with data obtained from access to publicly available data sources, such as the database of the Central Register, the Central Depository of Securities, access to commercial databases, and as well, by requesting data from the clients. The banks have access to the Central Register, the *Single Registry of Transaction Accounts (ERTS)*, the Credit Bureau, and the Credit Register. Banks do not have access to

databases of paid taxes and other taxes, social insurance data, etc. Central management of data, as well as unification of different databases through which searches by identification number can be performed would significantly raise the level of efficiency and speed of the procedure for identification and verification of the identity of clients.

The subjects have access to the page the PRO, where they can see also data on legal entities, as follows: name, legal form, business activity, TIN, identification number, bank account and bank, address, telephone and fax numbers.

The subjects do not have access to databases such as domestic databases of politically exposed persons, except the data for the assets of elected and appointed officials, publicly available on the website of the State Commission for Prevention of Corruption. Banks use independent and reliable sources of information about clients and their financial activities from international databases, data from their major shareholders or from the Internet, and where they are available in suitable formats. Banks use and access to open Central Registers (of several foreign countries), which are related to the legal entity and they can obtain data on the structure of the company, while rarely data for the rightful owners.

According to the LPMLTF, the FIA in order to perform their responsibilities can request data and documentation from state authorities, financial institutions or other legal entities or natural persons. This authority allows the FIA to receive information and documents from state authorities and the private sector. Also, FIA may exchange information with the competent authorities in order to conduct investigation with the surveillance authorities.

Although investigative authorities have direct electronic access and access by submitting requests to specific databases, the need has been indicated for increased access or implementation of direct access to multiple databases managed by the state institutions, Cadaster Agency, PRO, MoI, Customs Administration, Central Bank, as well as access to databases of the CSD, the Employment Agency, public company for water supply, electricity distribution and others. Access to these databases will enable faster and better investigation, as well as real mutual coordinated activities when conducting investigations and decrease of the possibility of overlapping of investigations.

Also, it is of importance to establish of a National Coordination Centre (NCC) in the MoI, which will allow better coordination between the institutions responsible for combating organised crime and corruption and exchange of information through liaison officers appointed by each institution.

1.3.23. INFORMAL ECONOMY

This variable assesses whether there is a significant informal (grey) economy in the country. The informal economy is a global phenomenon, present in all economies, to a lesser or larger extent, regardless of the country's level of socio-economic development, although more prevalent in countries in transition. The informal economy is part of the economy characterised by irregular and illegal operations. Informal (grey) economy means performing economic activities that are legal, but not registered and also not registered for tax purposes by individuals, informal groups, or organisations.

The policies and measures to encourage and stimulate is likely to have significant effects to the reducing the informal economy making it unattractive. This was confirmed in the REPUBLIC OF MACEDONIA's complex system of incentives to encourage economic growth, the implementation of the penal provisions of the legislation, reform of the tax system, and reforms of the social security system. Measures such as reduction of taxes, reduction of contributions that employers provide to employees, simplification of business regulations, contribute to the combat against the grey economy, but one problem that remains is the slow operation of the justice system and the need for a better and regular payment of VAT.

As reasons for the grey economy in Macedonia are considered taxes, unemployment, intensity of regulation, bureaucracy, social transfers paid by the state, etc. A large part of the grey economy in Macedonia goes to the sectors of trade, industry, agriculture, construction, and tourism.

The informal economy has declined in recent years, first of all due to the reform of the tax system through the introduction of the flat tax and the social security system by reducing the amount of the contributions, the introduction of gross salary, regulatory guillotine which reduced incentives for tax evasion, contributions and work in the grey zone. According to the State Statistics Office, in the period 2008-2012 the grey economy in Macedonia is around 20% of GDP.

According to the findings of the World Bank, in the period 1999-2007, the REPUBLIC OF MACEDONIA ranks 14th of 21 European countries in transition, with an average of 37.6% share of the grey economy in GDP.²³

According to the programme commitments of the Government, including overcoming the problem of the informal economy, since 2007, annual action plans were prepared for reducing the grey economy. Aiming at combating the grey economy, the Government since 2007 has annually adopted action plans to reduce the informal economy. The Ministry of Labor and Social Policy in cooperation and coordination with other institutions such as the State Labor Inspectorate, the Mol, the MF, the Agency for Employment, the PRO and the Customs Administration is preparing the Action Plan for reducing the grey economy.

The Action Plan to reduce the grey economy in Macedonia for 2014, foresaw specific activities to be undertaken which would contribute to the reducing the grey economy. The Action planned to introduce enhanced inspection in areas where the informal economy is rampant. Enhanced surveillance of persons carrying out trade, catering or tourism activities was foreseen.

In 2010, the PRO issued a booklet “How to protect ourselves and act against grey economy” and flyers “Stop the grey economy” intended to raise the public awareness about the impact of the grey economy which undermines and weakens the tax and the economic system, but also, how can all the citizens, businesses and institutions as stakeholders, act to reduce the grey economy in the REPUBLIC OF MACEDONIA.

The informal economy is particularly present in the industrial and service sectors where the transactions and payments in cash are a normal part of the activity, such as construction, catering, transport, retail trade, textile vehicle repairs, repairs of homes, manufacturing of furniture, painting services, beauty and hairdressing services, other craftworks, object rentals, translation services and educational services, hardware and software services and so on. Article 24 of LPMLTF prohibits performing cash payments, or payments, receipt of cash or currency exchange in the amount over 15,000 euros or more, unless done through a bank or savings bank. Despite this prohibition on performing cash payments, there is still possibility a large part of the payments to be made in cash (payments which are made under the prohibited limit or breach of statutory ban on cash payments, although it stipulates an appropriate fine) and they are not registered in the legal cash flows, thus the payment of tax obligations is avoided and provides an opportunity for the informal economy to grow bigger. Given the standard of life in the country, it is necessary to analyse the need to further reduce the threshold for a ban on cash payments (15,000 euros or more) and how it will affect the state’s economy.

²³ World Bank “Shadow Economies Report”

According to the information of the PRO, in order to reduce the grey economy, the PRO takes the following actions: collects information to identify unregistered taxpayers, checks these information, introduces separate records for unregistered taxpayers, calls upon unregistered taxpayers for voluntary registration, carries out visits to unregistered taxpayers, takes special measures for unregistered taxpayers who did not answer the call and did not register voluntarily, performs external control of unregistered taxpayers, performs registration of unregistered taxpayers who voluntarily applied for registration, carries out official registration of all unregistered taxpayers who voluntarily did not register for tax purposes, grants Tax Identification Number (TIN) and records them in separate records, indebts taxpayers with an appropriate tax and takes other actions.

In the recent years there is a reduction of the grey economy in the REPUBLIC OF MACEDONIA, but still other measures should be found given the fact that the country is by few percents above the European average, which ranges from 12 to 15% of GDP.

1.4 VULNERABILITY OF THE BANKING SECTOR

The overall vulnerability of the banking sector related to risk of money laundering and terrorist financing is estimated as average.

The legal solutions are implemented in practice by the commercial banks. They take measures and actions in terms of analysis of the client (client identification, principal and actual owner), establishing its business activities, financial condition, analysis of its activities and transactions, risk profiling of clients, data storage, reporting to competent national authorities, etc.

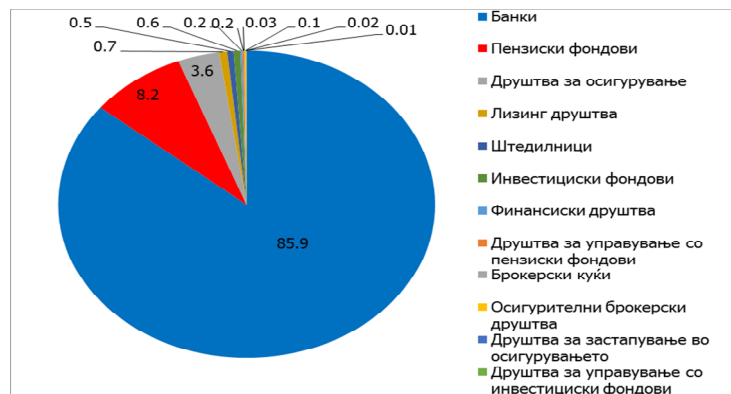
Banks in the REPUBLIC OF MACEDONIA perform classification of clients depending on the degree of exposure to the risk of money laundering and terrorist financing. In practice, there are clients with low, medium and high risk. The profiling of clients in terms of the degree of risk is performed according to the following criteria: risk of the country of origin, client risk, transaction risk, product risk or service risk. Besides these standard criteria, the following criteria are most frequent: appearance of client on list of banned, complexity of transactions, volume, size and type of business transactions, deviation from the economic profile of the client, public official, etc.

Depending on the client's risk level, the banks perform common, simplified or enhanced client due diligence. For the majority of the clients, the banks perform common analysis, because its range depends on the risk assessment of the client, the business relationship, the product or the transaction. Simplified or enhanced analysis is performed in the type of clients subject to such analysis in accordance with the provisions of the positive law regulation (Articles 15 and 16 of the LPMLTF).

BANKING SECTOR

The size of the banking sector in relation to the non-banking financial institutions and other subjects which take measures and actions pursuant to the LPMLTF, makes this sector attractive for those who seek to legalise proceeds from criminal origin. An additional argument in relation to this claim is the diversity of products and services that banks in the country offer at the market.

Graphic Displat no. 1: Structure of the financing sector by institutions



The banks continuously take measures and actions to prevent money laundering in the form of client due diligence, monitoring of its activities and transactions, and reporting to the authorities. However, large number of clients, and the large number of products and services make the banks vulnerable to the risk of money laundering and terrorism financing. The inherent risk is high and the control mechanisms that the banks apply aim to reduce the level of that risk and to minimise it within acceptable limits. In this regard, and in accordance with the requirements of the law, all banks have established specialised departments for the prevention of money laundering, which monitor daily the level of risk in their clients and take appropriate measures and activities.

The system to prevent money laundering and terrorist financing in the REPUBLIC OF MACEDONIA is well placed. In this context, the legislation has an important place and role because it is largely aligned with international norms and standards. That regulation is also applied by the commercial banks that monitor its clients on regular basis and take measures and actions aimed at preventing money laundering and terrorism financing.

Based on the assessment of the national and the sectoral risk of money laundering and terrorism financing, the promotion of the system for prevention of money laundering and terrorism financing aims at devoting more attention to the origin of the cash that enters the banking sector, more active monitoring of the activities of trusts and other forms of so-called “legal arrangements”, strengthening the role of the internal audit department and the department for compliance of operations with regulations, etc.

1.4.1 GENERAL INPUT VARIABLES

1.4.1.1 REGULATION IN THE FIELD OF PREVENTION OF MONEY LAUNDERING

This variable assesses the degree of harmonisation of legislation with international norms and standards in the field of prevention of laundering and terrorist financing. This evaluating takes into account relevant laws and regulations in this area, in the context of the FATF Recommendations, the Basel principles, EU directives, etc.

Overall rating of the level of effectiveness of laws and by-laws with regard to the implementation of preventive measures and oversight of the process of prevention of money laundering and terrorist financing: 0.93.

The assessment indicates a high level of efficiency in the application of laws and by-laws by commercial banks and adequate supervision by the competent authorities.

1.4.1.2 QUALITY OF THE SUPERVISION IN THE PART OF PREVENTION OF MONEY LAUNDERING AND TERRORISM FINANCING

This variable assesses the quality of supervision in terms of its technical, personnel and technical resources that are essential for adequate, timely, and quality implementation of control over the subjects, which according to the Law on prevention of money laundering and terrorism financing, are obliged to take measures and actions to prevent money laundering and terrorist financing.

Overall rating of the quality of supervision: 0.85.

The rating indicates a high level of quality of the controls performed at commercial banks, which significantly reduces the vulnerability of the banking sector of the risks associated with money laundering and terrorism financing.

The NBRM perform its supervisory function in the area of prevention of money laundering and terrorist financing according to the approach based on risk (risk - based approach). This means that the supervisors assess and analyse the risk of money laundering and terrorism financing to which the financial institutions are exposed, and then assesses whether the measures and actions taken by those institutions serve properly for the effective management of the abovementioned risk. The supervisors analyse the adequacy of internal regulations, perform client due diligence, client risk profiling, monitoring of clients and their transactions, submission of reports to the competent authorities, structure, functioning and independence of the Office for the Prevention of Money Laundering and Financing Terrorism, the adequacy of software solutions and system for reporting to the management of the financial institution, the role of internal audit, etc.

According to Article 91 of the LPMLTF, the FIA in cooperation with other supervisory authorities set out in Article 98 or independently, has the authority to supervise the implementation of the measures and activities of the LPMLTF.

1.4.1.3 PRESSURE ON THE MARKET FOR COMPLIANCE WITH THE STANDARDS FOR PREVENTION OF MONEY LAUNDERING AND TERRORISM FINANCING

This variable assesses the market pressures on persons with special rights and responsibilities in the bank to comply with the international standards for the prevention of money laundering and terrorist financing. Analysis is conducted of those pressures that do not belong to the

regulation and the supervision of the country, but the focus is on the pressure from trading partners, such as correspondent banks.

Overall rating of the pressure on the market: 0.83.

Banks in the REPUBLIC OF MACEDONIA mostly establish correspondent relations with first-class and reputable foreign banks that enjoy high reputation and apply international standards to prevent money laundering and terrorist financing. The application of these standards means full compliance with the FATF Recommendations for conducting simplified or enhanced due diligence when establishing correspondent banking relationships in accordance with the law.

1.4.1.4 DETERMINATION FOR GOOD CORPORATE GOVERNANCE

Good corporate governance is adequately prescribed in the relevant laws and bylaws, adequately implemented and respected by the banks.

Overall rating of the determination for good corporate governance: 0.80.

The banking sector largely practices good corporate governance, which can be concluded from the existence of: Code of Ethics in banks, code of corporate governance, clear and precisely defined lines of reporting and communication, special communication departments in banks responsible for transparent internal and external informing of the employees, the shareholders and the general public, surveys²⁴. The results received of opinion polls based on the opinions given by the employees are used to create action plans to improve the working environment and management practices.

1.4.1.5 PENALTIES

This variable assesses the adequacy of the penal system in case of violation of obligations in the field of prevention of money laundering and terrorist financing. Appropriately designed

²⁴ The surveys are conducted every two years, "Employee's Barometer" organised by the groups and the banks for the employees that survey the employees in terms of their opinion regarding their group, the institution in which they work, the corporate governance and the organisational structure, motivation, results, etc. Also, foreign companies are engaged to research customer satisfaction in the use of services and products of banks.

penalties should act as a preventive measure and to not allow the banks to be included in illegal activities such as money laundering and terrorism financing.

Overall rating of the penalties: 0.65.

According to the opinion of the banking sector, it is necessary to adapt and redesign the provisions on misdemeanour of the LPMLTF. Out of these reasons and in order to comply with the Law on Misdemeanours, an amendment has been made to the LPMLTF in 2015, especially in terms of harmonising the seriousness of the offence with the fine that may be imposed. Namely, according to the Law on Misdemeanours: the duration of the measure “prohibition of performing a specific activity” for a legal entity is harmonised, as well as the prohibition of performing duty or activity of a natural person and new provisions are introduced to assess the fines for legal entities and sole individual.

1.4.1.6 IMPLEMENTATION OF OBLIGATIONS FOR PREVENTION OF MONEY LAUNDERING AND TERRORISM FINANCING

This variable assesses whether the country institutes proceedings against a bank and members of its management or its employees in case of violation of obligations to prevent money laundering and terrorist financing.

Overall rating of the implementation of the obligations for prevention of money laundering and terrorism financing: 0.65.

Employees of banks have high awareness regarding their responsibilities in the area of prevention of money laundering and terrorist financing and are familiar with the sanctions provided for by the LPMLTF in case of non-implementation of those obligations. On the other hand, the competent authorities should strengthen the capacities for conducting comprehensive statistics, records for instituted proceedings and judgments regarding the prevention of money laundering and terrorist financing.

1.4.1.7 INTEGRITY OF BANKING EMPLOYEES

This variable assesses the integrity of bank employees. If the bank employees collaborate with criminals or are susceptible to corruption, this can lead to undermining of the process of prevention of money laundering and terrorist financing, and the banks become vulnerable to the risk of money laundering. When analysing this variable, factors taken into account are the effectiveness of the control of the employees, the number of disciplinary measures for impaired integrity, the number of criminal cases involving bank employees, the general level of integrity or operational environment in the country.

Overall rating of the integrity of banking employees: 0.73.

The integrity of the bank's employees in the REPUBLIC OF MACEDONIA is largely preserved by regulating: the criteria when hiring new staff which require appropriate documentation as evidence for non-involvement in criminal activities, existence of policies and procedures to undertake measures against corruption with employees, and low number of fraud executed by employees or with the involvement of employees. It requires additional controls and introduction of a post – service for protection against fraud and corruption.

1.4.1.8 EXPERTISE OF BANK EMPLOYEES

This variable assesses the degree of knowledge of the duties and responsibilities bank employees in the area of prevention of money laundering and terrorist financing. Factors taken into account are the type, the number and the content of the training, and also the type of employees who attend the training.

Overall rating of the expertise of bank employees: 0.75.

Bank employees have adequate training which is held on regular basis and they are informed of changes in the legislation and their responsibilities in the implementation of measures and actions to prevent money laundering and terrorist financing.

1.4.1.9 FUNCTION OF COMPLIANCE OF WORKING WITH REGULATIONS

The function of control of compliance of the bank's operations with the regulations is set as a continuous process and part of the of the bank's daily operations. The main purpose of the function control of compliance with regulations is to provide legal operation of the bank. This feature, according to the bank's size, type, scope and complexity of activities is organised by a separate office/department or a person appointed by the Board of Directors.

Overall rating of the degree of compliance of the operation with the regulations: 0.90.

The content of the bank's programme for prevention of money laundering and terrorist financing, as well as the structure and functioning of the office for compliance of operations with regulations and the internal audit department are largely harmonised with international norms and standards. Certain problem is how the manner of implementation of the internal acts, i.e. the procedures of the bank that are part of the programme for the prevention of money laundering and terrorist financing. The application of these procedures in practice is monitored by the competent supervisory authorities, and in case of detected irregularities, appropriate legal measures will be taken against the violators.

Rating whether the majority of banks have appointed an independent person responsible for preventing money laundering and terrorism financing, which is a person with special rights and responsibilities and has available sufficient resources: 1.00.

According to the LPMLTF, the bank is obliged to appoint an authorised person or to establish a separate organisational unit, and to ensure that the conditions defined by the LPMLTF (separation of the activities of the authorised person, i.e. the department, from other business activities of the subject that are not related to the activities for prevention of money laundering and terrorist financing and control of the compliance of operation with the regulations; independence of the authorised person and the department; right of direct access to electronic databases and timely access to all information required for the smooth implementation of the programme and the provisions of the LPMLTF and establishment of direct communication with the governing bodies of the subject, etc.).

1.4.1.10 THE BANKS' SYSTEMS FOR TRACKING, COLLECTION AND STORAGE OF DATA

This variable assesses whether the banks have adequate functioning information system in order to support the policies and procedures to prevent money laundering and terrorist financing.

Table 11 STRs submitted by banks

Year	Number of STRs submitted by banks	Overall number of submitted STRs
2010	122	165
2011	114	165
2012	145	229
2013	136	169
2014	111	153
2015	125	174
Total	753	1055

The subjects should get feedback on the status of submitted STRs - feedback - consisting of data of the number of STRs submitted by the subject and on how many of them the PRO took action and submitted them to the competent authorities according to the law. Therefore it is necessary:

- Semiannually, the FIA should submit to each bank information on the number of STRs provided by the particular entity, information for which STRs a procedure has been initiated and which of them have been placed on monitoring. At the end of the year, a summary information should be submitted with possible information for which STRs has been initiated a criminal proceeding and possibly, for which cases a litigation has been realised and its outcome.
- On the level of the Banking Association, the FIA should deliver until March each year for the previous year a summary report on the level of banks informing them of the total submitted reports for suspicious transactions of all banks, information of the percentage they have been further processed, how many are under monitoring, and for how many cases a litigation has been initiated/finalised.

Overall rating whether the banks have adequate systems for tracking, collection, and storage of data: 0.81.

The banking sector has adequate software solutions to monitor the transactions of clients and to profile clients. The software implemented in the banks allow: structuring and filtering of transactions according to established strategies for the prevention of money laundering and terrorism financing and use of appropriate indicators; established client control systems and client comparison with the official lists (EU, UN, etc.) and for the identification and monitoring of public officials, banks have adequate applications applied globally.

1.4.1.11 IDENTIFICATION INFRASTRUCTURE

This variable evaluates the ability of banks to carry out identification and verification of the identity of its client based on reliable, independent source documents, data or information.

Overall rating of the identification structure: 0.60.

In the REPUBLIC OF MACEDONIA according to the legislation, natural persons use an ID or a passport as identity document, while legal entities are identified with a registration certificate issued by the Central Register. According to the LPMLTF, subjects are obliged to carry out a procedure for client analysis, which among other things includes the identification of the client, principal and the beneficial owner and verification of their identity. The law accurately predicts which documents and data are used to identify domestic and foreign natural persons and legal entities.

1.4.1.12 AVAILABILITY OF INDEPENDENT SOURCES OF DATA

Overall rating of the availability of independent, reliable, and credible sources of information: 0.70.

It is considered that the independent sources of information are available, if there are sources of comprehensive and reliable historical, financial and other types of information for customers and if the subjects of measures to prevent money laundering and terrorist financing have easy access to such information sources.

As sources of information for clients, in the REPUBLIC OF MACEDONIA available are:

-data from the Central Register of the REPUBLIC OF MACEDONIA (registration of companies, sole traders, associations and foundations, representative offices of foreign associations and foundations). The publicly available data for these subjects are available and published on the website of the Central Register and anyone who is interested in this data has a simple and easy access at any time. This can help to provide data on actual current status of the subject (including its ownership or management structure), as well as information on the history of that subject.

- Single Registry of Transaction Accounts - ERTS (data related to holders of transaction accounts in MKD - residents and non-residents). Also available are data on the account number, full name of the organisation, name of account, location, address, identification number, tax identification number, code, municipality, town, date of opening the account, date of change in the payment operations, account type, activity code, country code, activity code and organisational form. The Bank has access to current data at the given moment, and also to the changes that have occurred in the past, if they were registered in the ERTS.

- data from the Credit Registry and the Macedonian credit bureau - for the purpose of credit analysis.

- AML Association - banks exchange between them data on the types of transactions or frauds that need more attention

Other sources of financial, i.e. historical data do not exist or are not publicly available (e.g., bills paid to public enterprises, etc.).

1.4.1.13 TRANSPARENCY OF BUSINESS ENTITIES AND TRUSTS

This variable evaluated whether criminals find it easy to conceal their ownership interests in corporations, trusts and similar legal entities registered in the country.

Overall rating of the transparency of the business entities and trusts: 0.60.

Regarding the registration of legal entities in the country and the transparency of its true owners, the system in the country has certain disadvantages. The banks are obliged to determine the true owner of any legal entity, and these same entities during registration in the

Central Register are not required to disclose its true owner. With this system structure, the banks are not always able to determine from reliable and credible sources who is behind a particular company, or whether some criminogenic structure stands behind a particular company.

Rating whether the legal entities that can be used to conceal the ownership interests in general don't exist in the legal system of the state and have minor commercial significance: 0.70.

Trusts cannot be established in the REPUBLIC OF MACEDONIA according to the provisions of the Law on Companies²⁵. The regulation provides strict rules and guidelines for banks regarding identification of clients, their risk classification and appropriate monitoring of their activities in terms of the risk level. Corporations have a higher risk and are monitored on regular basis. The Central Register of the REPUBLIC OF MACEDONIA provides ownership structure until first level. If there is a more complicated ownership structure, then the bank secures additional data in order to get to the true owner.

Assessment whether the state institutions and entities that undertake measures and actions to prevent money laundering and terrorism financing have access to detailed information on the structure, management, control, and ownership interests in corporations, trusts, and similar entities: 0.50.

Banks do not have full access to detailed information on the structure, management, control, and ownership interests in corporations and similar entities. The problem arises when determining the true owner in the case that the founder of a domestic legal entity is a foreign legal entity, fund, trust, or other forms of legal entities whose data is not publicly available to banks.

1.5 VULNERABILITY OF THE SECURITIES MARKET

1.5.1 INFORMATION ON PARTICIPANTS IN THE SECURITIES MARKET IN THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA

²⁵ Official Gazette of the FYROM Nos. 28/2004, 84/2005, 25/2007, 87/2008, 42/2010, 48/2010, 24/2011, 166/2012, 70/2013, 119/2013, 120/2013, 187/2013, 38/2014, 41/2014 & 138/2014

According to the LPMLTF, the subjects obliged to undertake measures and activities to prevent money laundering and terrorism financing that are under surveillance of the FIA and the SEC in the REPUBLIC OF MACEDONIA, are brokerage houses, banks licenced to operate in securities and companies managing open and closed investment funds. Companies managing private equity funds, according to currently existing legislation, are not subject obliged to undertake measures and activities to prevent money laundering and terrorism financing and not be controlled by the regulatory bodies, but will be included in the risk assessment in order to determine the risk of money laundering and financing terrorism through them.

During 2015 the market of securities involved 6 (six) brokerage companies with a total founding investment of 1,066,000 euros and 4 (four) authorised banks licenced to operate in securities with total founding investment of 2,000,000 euros.

During 2015, and 5 (five) company for management of investment funds participated in the market with a total founding deposit of 2,258,570 euros, which manage 13 (thirteen) open-end investment funds, as well as 3 (three) companies for management of private equity funds with a total founding investment of 809,553 euros which manage 9 (nine) private equity funds.

1.5.2 LEGAL REGULATION

All rights and obligations, as well as measures and activities for prevention of money laundering and terrorist of the participants in the securities market in the REPUBLIC OF MACEDONIA are regulated by the following laws:

- Law on Securities²⁶;
- Law on Investment Funds²⁷;
- LPMLTF.

The SEC as a regulatory authority on the securities market adopts regulations which regulate in detail the provisions laid down in the basic Laws.

²⁶Official Gazette of the FYROM. 95/2005, 25/07, 07/08, 57/10, 135/11, 13/13, 43/14, 15/15, 154/15 и 192/15

²⁷ Official Gazette of the FYROM Nos. 12/09, 67/10, 24/11, 188/13 & 145/15

1.5.3 SIZE AND EXTENT OF THE TURNOVER ON THE SECURITIES MARKET IN THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA

1.5.3.1 Brokerage companies and banks licenced to operate with securities

According to the currently existing regulations, all securities are maintained in the form of electronic records in the CDS and are registered. The law of the REPUBLIC OF MACEDONIA does not foresee bearer shares. All market participants on the securities market, as entities pursuant to LPMLTF, are obliged to perform analysis and identification of the beneficial owner, making the possibility of hiding the ownership of securities issued in the REPUBLIC OF MACEDONIA minimal.

Instruments which are traded on the Stock Exchange are shares and bonds. Secondary trading in securities is done through an authorised stock exchange or through the stock exchange electronic trading system (BEST), which is based on a system of levies, according to the model of continuous auction and use of the method of computer adjustment of prices of securities. The stock exchange is authorised by the SEC to trade in securities.

Trading securities is performed by brokerage houses and banks licenced to operate in securities, members of the stock exchange who have obtained a working permit by the SEC. At the end of 2015, the stock exchange had 10 members four (4) of which were banks licenced to operate in securities and 6 (six) brokerage houses.

Table 13 Number of members of the stock exchange

Numbers of members of the stock exchange at the beginning and the end of the year during the period 2010-2015		
Year	Numbers of members of the stock exchange at the beginning of the year	Numbers of members of the stock exchange at the end of the year

2010	25	20
2011	20	18
2012	18	15
2013	15	13
2014	13	10
2015	10	10

Source: SEC

The next table shows a review of the data for the achieved turnover on the stock exchange, significant in terms of vulnerability assessment of the sector for money laundering and terrorist financing:

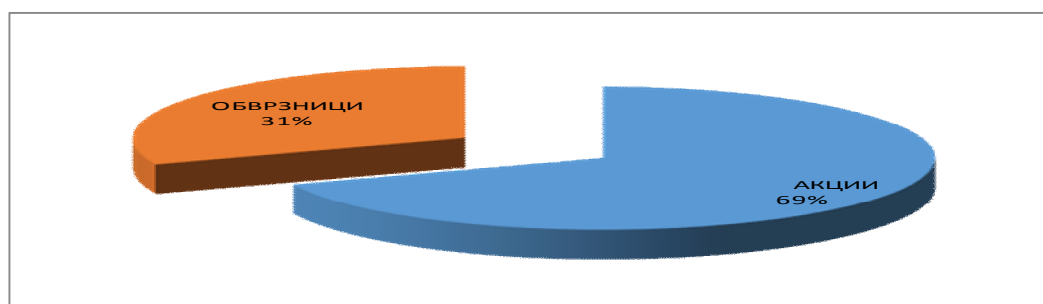
Table 14 Review of the turnover achieved on the stock exchange (at the average exchange rate of the NBRM MKD/EUR 61.4814)

TURNOVER (euros)	January – December 2014	January – December 2015	% modification of
Traditional trading	41,094,086.68	33,863,103.13	-17.6
Shares	32,292,175.88	23,365,016.87	-27.64
Bonds	8,801,910.81	10,498,086.27	19.27
Average daily turnover (euros)	165,036.50	138,783.21	-15.91
Average daily number of transactions	53	48	-9.43
Block transactions	25,503,777.40	8,921,757.64	-65.02
Public auctions	4,559,803.19	257,756.23	-94.35
Public offering of securities	70,414,546.38	230,543.87	-99.67

Total turnover	141,572,213.66	43,273.,160.89	-69.43
Total number of transactions	13,398	11,873	-11.38
MARKET CAPITALISATION OF QUOTED SHARES (euros)	1,655,120,231.27	1,613,105,296	-2.54
MARKET CAPITALISATION OF BONDS (euros)	92,389,700	79,251,000	-14.22
MBI 10	1,844.20	1,833.26	-0.59
OMB index	126.15	128.38	1.77
Number of listed companies	115	114	-0.87

Source: Stock Exchange

Graphic display 3 Structure of turnover in traditional trading in 2015



Source: Stock Exchange

Graphic display 4 Total turnover of the stock exchange during the period 2008-2015²⁸

²⁸ The turnover on the Macedonian Stock Exchange in 2011 has seen significant growth as a result of two large block transactions with shares in Pivara Skopje concluded in December 2011 totaling 79.1 million euros. The turnover on the Macedonian Stock Exchange in 2014 has seen significant growth as a result of the public offer of securities of the issuer ArcelorMittal (CRM), Skopje totaling 69.8 million euros.



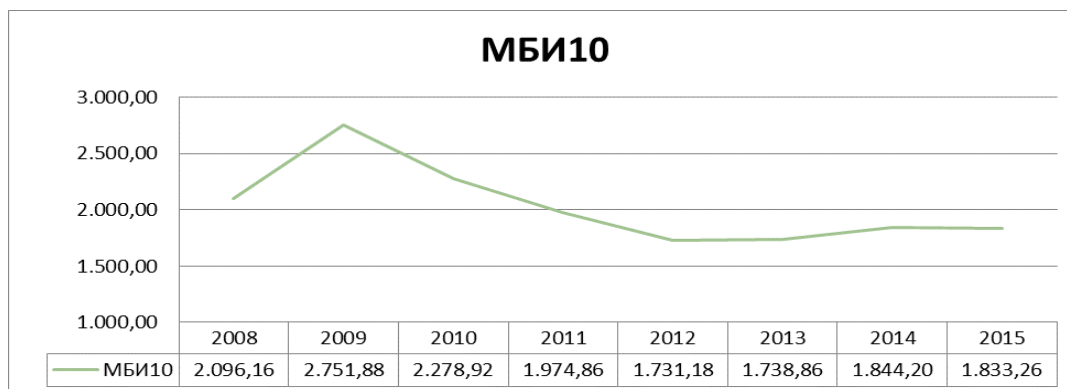
Source: Stock Exchange

Graphic display 5 Total number of transactions completed on the stock exchange in the period 2008-2015



Source: Stock Exchange

Graphic display 6 Movement of MBI 10 index during the period 2008-2015



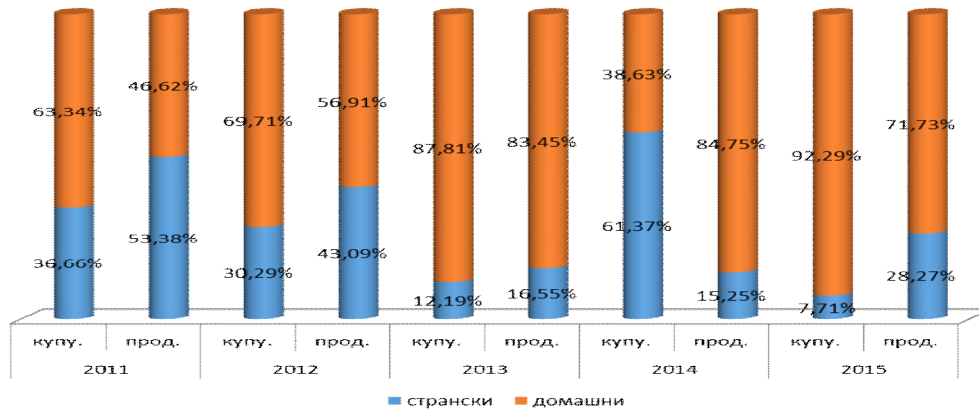
Source: Stock Exchange

Table 15 Comparison of the total turnover (expressed in millions euros) realised at the Macedonian Stock Exchange with the stock exchanges in the region and the European Union*

Year	Macedonian Stock Exchange	Stock Exchange in Zagreb	Stock Exchange in Ljubljana	Bulgarian Stock Exchange	Austrian Stock Exchange	German Stock Exchange
2010	95	883	361	281	36,815	1,236,940
2011	222	776	394	248	30,152	1,252,383
2012	62	480	303	275	18,077	987,032
2013	53	478	300	657	19,425	1,003,945
2014	141	541	608	299	23,902	1,113,605
2015	43	489	334	156	29,204	1,409,829
Total	616	3,647	2,300	1,916	157,575	7,003,734

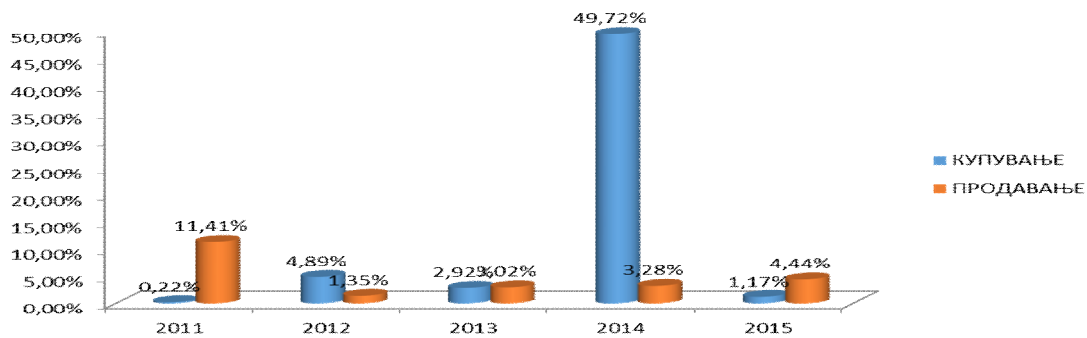
Source: Stock Exchange

Graphic display 7 Structure of shares of domestic and foreign natural persons and legal entities trading in securities



Source: CDS

Graphic display 8 Structure of shares of investors from off-shore countries in trading securities²⁹



Source: CDS

²⁹ The great retreat in 2014 was due to a transaction in which a legal entity based in an off shore country bought shares worth a total of 69.8 million euros

The market capitalisation of the listed shares on 31.12.2015 reached about 1.61 billion euros and decreased by 2.54% compared to 2014, while the market capitalisation of bonds amounted to 79.25 million, representing a decline of 14.2% compared to 2014, due to decotisation of denationalisation bonds of the third issue.

The turnover in 2015 on all grounds is by 69.4% lower than the turnover in 2014. This is due to the fact that in 2014, a significant transaction was made that affected the increase of total turnover, as well as due to the reduced turnover through block transactions in 2015 by 65% compared to 2014. The turnover from traditional trading decreased by 17.6%, which caused decrease in share turnover 27.6%, while the bonds turnover was increased by 19.3%. The average daily turnover was decreased by 16%, while the average value per transaction in 2015 amounted to 3.644 euros. Also, there is a decrease of 11.4% in the number of transactions, i.e. 13,398 transactions concluded in 2014 and 11,873 transactions in 2015. The value of the stock index MBI-10 in 2015 registered a slight decline of 0.59% compared to 2014.

The analysis of data in graphic display 6 and 7 shows a continuous decline in foreign legal entities and natural persons who invest in securities (from 36.66% in 2011 to 7.71% in 2015), indicating reduced attractiveness and interest in buying securities of foreign investors. The large deviations of data on the shares of foreign legal entities and natural persons in the purchase of securities in 2014 compared to those for 2013 and 2015 appear due to a single transaction of a foreign entity based in an off shore country (recapitalisation of a company in the metal industry), so in both displays a major increase can be seen in the representation of foreign legal entities (graphic display 6 for 2014) and in the foreign legal entities from off shore countries (graphic display 7 for 2014) when buying securities, compared to other years. This transaction accounted for 49.5% of the total turnover on the stock exchange in 2014 and if this transaction is exempted, a downward trend for investment in the Macedonian securities by foreign investors continues to exist for 2014, and especially for 2015.

As a result of the small market and the continued decline of all values of trading, there is a continuous decline in market participants, foremost brokerage companies, whose number at the beginning of 2010 was 25, while at the end of 2015 that number is 10.

As an important fact in assessing the vulnerability of the sector of securities from money laundering, it should be pointed out that the payment of funds traded on the stock exchange is made on accounts opened in commercial banks, and these funds are then transferred to designated broker's accounts opened in the Central Bank. This means that participants in the trading of securities remit their funds to their own accounts opened in the commercial banks, transfer them to the designated account of the broker and after that the broker uses them strictly according to previous orders of the client, which makes the brokerage houses plain executors of the client's orders without full insight into the origin and movement of funds.

On the other hand, it should be noted that there is no time limit on how long the client can keep the funds on the broker's account, and also, the possibility these funds to be remitted to accounts of third parties, different from those who transferred the funds to the broker's account.

1.5.3.2 Companies for the management of investments funds

A new Law on Investment Funds was adopted in 2009, which describes in detail all the rights, obligations and conditions for the establishment and operation of companies and investment funds which significantly increased control and transparency of these companies.

During 2015, in the REPUBLIC OF MACEDONIA there was a total of 5 (five) operating companies for management of investment funds that manage 13 (thirteen) open-end investment funds. The number of companies managing investment funds and the number of funds in 2015 remained unchanged compared to 2014. Although the Law on Investment Funds provides it, not a single closed-end investment fund has been established in the REPUBLIC OF MACEDONIA.

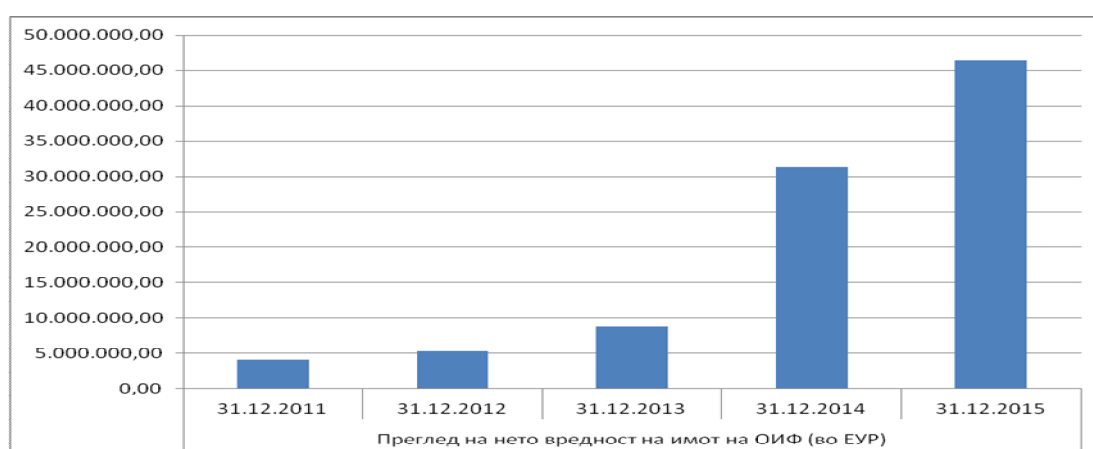
In terms of the ownership of the companies for the management of investment funds, most of the companies are owned by foreign financial institutions and they account for approximately 62% of the shares in the companies, while the share of domestic financial institutions is 24% of the total ownership structure. Thus, 86% of the ownership of companies that manage investment funds accounts to financial institutions from the country and abroad. All other persons have 14% of the overall ownership of companies that manage investment funds. The fact that 86% of the ownership structure of the companies that manage investment funds is comprised of domestic and foreign financial institutions is significant in terms of reducing the vulnerability of the money laundering sector, given that the financial institutions have strict "fit and proper" criteria and, according to the legal regulations in the country of establishment, they are obliged to undertake measures and activities to prevent money laundering and terrorist financing.

1.5.3.3 Open-end investment funds

During 2015 the total number of open-end investment funds operating in the REPUBLIC OF MACEDONIA was thirteen (13) funds.

The total net value of the funds property on 31/12/2015 amounted to 46,545,201.40 euros, which compared to 2014, represents an increase of 48.63%. This increase was mostly due to the growing attractiveness of monetary funds (4 in total) that actually collected the majority of the investors' funds.

Graphic display 9 Overview of the net value of investment funds by years (at the average exchange rate of the NBRM MKD/EUR 61.4814)



Source: Stock Exchange

The total inflow of assets in all funds during 2015 amounted to 125,409,261.38 euros. Compared to 2014, the amount of inflows in 2015 has been increased by two (2) times the amount of inflows that were paid in 2014. According to the display below, the highest percentage of inflows are from domestic non-financial institutions and accounting for 38.67%, the inflows from domestic financial entities amounted to 31.9% of the total inflows to the funds, while the share of domestic natural persons amounted to 11,67% of the inflows. The shares of foreign legal and natural persons in the structure of inflows is insignificant or accounted for 0.05% of the total inflows of funds.

Graphic display 10 Structure of persons remitting payments in investment funds in 2015 (at the average exchange rate of the NBRM MKD/EUR 61,4814)



Source: SEC's Annual Report for 2015

The large increase in inflows is nearly completely neutralised by the large outflow of funds of funds, which in 2015 amounted to 111,678,050.40 euros.

The highest percentage of funds withdrawn from investment funds is by domestic non-financial entities, which accounts for 34.47% of the total number of withdrawn funds, while domestic banks participate with 33.91% of the total number of funds withdrawn from investment funds. The domestic financial entities account for 20.18%, while domestic individuals account for 11.12% of the overall withdrawn funds from open investment funds.

Graphic display 11 Structure of persons withdrawing funds from investment funds in 2015 (at the average exchange rate of the NBRM MKD/EUR 61.4814)



Source: SEC's Annual Report for 2014

1.5.3.4 Private equity funds and companies that manage them

According to the SEC's register for 2015, there were nine (9) active private equity funds managed by three (3) companies.

According to the currently existing legislation, the companies for the management of private equity funds are established as limited liability companies or joint stock companies and their establishment and operation do not require permission from the SEC. The only responsibility of the company for the management of private equity funds is to submit to the SEC a summary of the prospectus of the private fund, after which the fund is registered in the SEC's register of private funds. The company for management of private equity funds has an obligation to prepare annual financial statements for each investment fund separately and to submit them only to the investors of the private fund, but not to the SEC. The private fund represents a special property without capacity of a legal entity, established to raising funds through private offer to sell shares in the fund, whose assets are invested in accordance with the investment goals set out in the prospectus of the private fund. The private fund is established for specific time that cannot be shorter than eight (8) years, while the size of the fund should be at least 500,000 euros in MKD, the maximum number of investors in the private fund is limited to 20 and the fund can be indebted without restrictions. The accounts of the Fund are not maintained nor controlled by the custodian bank, data on the owners of shares, the payments and disbursements are confidential and may be disclosed by a court order at the request of the SEC.

According to currently existing legislation, the companies for the management of private equity funds and the funds they manage, are exempt from the regulatory bodies' control and there is no relevant data on their size and the assets they own (the data available to the SEC are from the time of the establishment of the funds and they haven't been updated), thus leading to increased vulnerability of this segment of the market to money laundering and terrorist financing.

1.5.4 SUPERVISION OF THE WORK OF SUBJECTS THAT WORK WITH SECURITIES

According to the regulations, the SEC and FIA carry out the oversight of the work of entities in terms of preventing money laundering and terrorism financing.

During 2015, the SEC has carried out a total of 10 (ten) controls, five (5) out of which over authorised participants and banks licenced to operate in securities and 5 (five) over company for managing open-end investment funds. No irregularities were found, while the FIA during 2015 did not conduct audits of the market entities with securities. During 2015, the SEC carried out one (1) control of the Stock Exchange and one (1) control of the CSD.

When carrying out supervision over the subjects, the SEC controls whether the subjects have prepared and delivered a programme for preventing money laundering and terrorism financing, whether the subjects keeps a register of transactions and related transactions larger than 15,000 euros, whether the subjects have submitted reports of suspicious transactions and have duly notified of this the SEC, whether the subjects perform internal control over the implementation of measures and activities for prevention of money laundering and terrorist financing and whether they keep adequate documentation, etc. If during the inspection the SEC finds suspicions of money laundering, it notifies the FIA for further processing.

Based on the above, it can be concluded that the SEC, when exercising supervision over subjects, pays more attention to the legitimate operation of the subjects according to the Law on Securities and/or the Law on Investment Funds, while the supervision for prevention of money laundering and financing terrorism is not sufficiently focused on determining the risk and the vulnerability from money laundering and terrorist financing.

During 2015, the brokering companies, banks licenced to work with securities and the companies for managing equity funds have not submitted STRs to the FIA. During 2015, the FIA acted in one case involving a private investment fund and in one case involving securities, while during 2015, in terms of the sector of securities, the MoI did not file criminal charges for money laundering or other related crimes.

1.5.5 VULNERABILITY ASSESSMENT OF THE MARKET OF SECURITIES

Taking into account the underdeveloped market, its shallowness, the small number of instruments traded, the liquidity problems of the majority of securities (lack of their demand), the existence of strict legislation which complies with international treaties and conventions, the existence of appropriate regulatory bodies, the vulnerability of market of securities from money laundering and terrorist financing is a medium low, i.e. estimated to be at 0.25³⁰ which means

³⁰ The measurement is performed on a scale with values from 0.0 to 1, where 0.0 is the lowest and 1 is the highest vulnerability.

that the vulnerability to money laundering and terrorist financing in this sector is present, but to a smaller size.

Increased vulnerability to money laundering occurs in the area of investment funds, where there appears to be a trend of increased attractiveness and payments, especially in private investment funds that are not included in the list of subjects supervised by the FIA and the SEC from aspect of prevention of money laundering and terrorist financing. In the analysis of the vulnerability of market securities the following have been taken into account:

1. In 2015 compared to previous years, all values in the market of securities have been in a steady decline, which indicates reduced attractiveness or reduced interest for trading with securities, thus making the vulnerability to money laundering in this section low.

2. The number of non-residents which during 2015 traded on the exchange market and the number of non-residents who invested in investment funds is relatively small compared to the number of domestic entities. Also, with regard to non-residents, the number of people established or with an address in off shore destinations is very small, so the indicator for vulnerability to money laundering and terrorist financing is significantly reduced.

3. The number of instruments traded is small and all trades are realised on the stock exchange with mediation of brokerage houses. There is no possibility for direct cash payments to designated account used for trading, i.e. the payments are made on a account for trading that the person has in a commercial bank, so the bank is obliged to carry out an analysis of the client and the means by which the client trades.

4. According to the regulations, a shareholder with qualified participation in a brokerage house, stock exchange od depository, cannot be a natural person and/or legal entity controlled by a person who:

- was imposed a misdemeanour sanction – prohibition to perform a profession, activity or duty;
- against whom a bankruptcy proceeding has been instigated;
- has been delivered smaller sentences, unrelated to the sector of securities;
- does not have good reputation;

which reduces the possibility persons with dubious origin or criminal background to involve in subjects that perform mediation in the realisation of trading securities. Also, the SEC approves the appointment of directors of brokerage houses and all brokers are licenced with licences issued and approved by the SEC.

5. The overall trading on the stock exchange is monitored and controlled by the SEC, which also carries out regular supervision over market participants in terms of their legal operating according to the Law on Securities and the Law on Investment Funds.

6. There is an increased trend of investing in investment funds, primarily in cash funds but, in relation to their operation and investment, all information are transparent and accessible to the regulatory bodies - the SEC and Fed.

The analysis of the market of securities identifies certain problems and factors of increased vulnerability to money laundering: insufficient focus of the monitoring to control the measures and activities for prevention of money laundering and terrorist financing, lack of complete insight of brokerage houses and banks in the overall movement of the funds traded, transactions transferred from countries where there are laws with strict bank secrecy, exclusion of private investment funds from subjects responsible for the implementation of measures and activities for the prevention of money laundering and terrorist financing, etc.

The above mentioned data suggest that although there is a decline of all values in the trading in securities, there is danger and exposure of the sector to the risk of money laundering, especially in the sector of investment funds and based on this we can conclude that the vulnerability of the overall sector is medium low.

1.6. VULNERABILITY OF THE INSURANCE SECTOR

1.6.1 THE INSURANCE MARKET IN THE REPUBLIC OF MACEDONIA

As of 30.09.2016, 15 insurance companies (11 non-life insurance and 4 life insurance) operated on the insurance market in the country. The number of insurance brokerage companies compared to 2015 was increased by 3 new companies, raising the total number of insurance brokerage companies to 33. The number of insurance agencies was increased with 1 new company, raising the total number of insurance agencies to 14, and the number of banks that

perform activities of insurance agents remained unchanged, or 3 banks performed activities of insurance agents.

In 2016 the sector realised gross written premium (hereinafter GWP) of a total of 4.48 billion, an increase of 4.04% compared to the GWP achieved in 2015 (2015: 4.31 billion).

Regarding non-life insurance, the realised GWP amounted to 3.93 billion MKD (2015: 3.85 billion), or, it amounts to 87.64% of the total GWP in the insurance sector, which represents an increase of 2.12% compared 2015. The GWP realised in the life insurance sector amounts to 554.31 million (2015: 461.66 million), an increase of 20.07%. Life insurance accounted for 12.36% of the total GWP in the insurance section.

In 2015, a positive trend is present in both segments of insurance and the GWP achieved in the section of non-life insurance amounts to 7.18 billion, being the 86.70% of the total GWP in the insurance sector, and represents an increase of 6.47%. In the life insurance sector which represents the 13.30% of the total GWP in the insurance sector, the achieved GWP amounted to 1.10 billion, an increase of 23.94%.

During 2015, the insurance companies paid 3.18 billion for the amount of damages. In the structure of paid gross claims, the largest part is represented by damages for liability of vehicle insurance with 48.46%, followed by paid claims for property insurance with a share of 19.99%, claims for CASCO insurance with 11.75%, claims for accident insurance with 11.35% and 8.45% for claims paid to other insurance classes.

Ownership structure

Insurance companies are owned by foreign legal entities from the financial sector (92.17%), which are partially or completely present in 14 out of 15 insurance companies in the market. 11 insurance companies are part of insurance groups based in EU member states, while one insurance company is fully owned by domestic investors

Degree of development

Basic indicators which measure the degree of development of the insurance market is the density and extent of penetration³¹. The data for the level of penetration of insurance in 2015

³¹The degree of density is calculated as the ratio of gross written premium and the number of inhabitants in the country, while the degree of penetration is a ratio of gross written premium and gross domestic product.

shows that the total GWP in the country accounts for 1.8% of GDP (2014: 1.45%), while the density is 4,001 MKD per capita, and achieved growth of 8.3% compared to the previous year.

The analysis per insurance group shows that higher concentration is present in life insurance due to the small number of companies in this domain. The Herfindahl index in life insurance companies measured according to GWP is 3,650.92 (2014: 3,740.38), and 3,376.42 (2014: 3,237.96) measured according to the assets of the companies.

Structure of shares

In 2015, the most significant share in the total GWP has the insurance of motor vehicles with 52.96%, the automobile liability insurance (AL) accounts for 44.59%, and the voluntary motor insurance (CASCO) for 8.37%. Next is the property insurance (fire, natural disasters, theft and other risks) with 19.82% and insurance from accidents with a share of 7.23%. Also, life insurance plays a significant role with a share of 11.64%.

During 2015, the insurance companies concluded 1,199,860 agreements, which represents an increase of 5.70%. Out of the total number of contracts, 1,191,177 or 99.28% are insurance policies within the non-life insurance section, which represents an increase of 5.76%, while 8,683 are insurance policies of life, representing a decrease of 1.53%.

Mediation in insurance

The role of mediation in sales has a growing influence in the insurance sector. During 2015, 47.2% of the net GWP is realised through direct sales by insurance companies, while 52.76% were realised through various channels of mediation.

The mediation in insurance represents drafting and signing insurance contracts on behalf of one or more insurance companies for insurance products that are not mutually competitive. The mediation on the insurance market in the REPUBLIC OF MACEDONIA is realised through insurance agents - individuals and insurance agencies, which in 2015, realised 24.80% of the GWP.

The mediation in insurance by individuals is carried based on licences issued by ISA which they have received after passing the exam for performing mediation in insurance. The mediation in insurance by individuals accounted for 15.52% of the total GWP.

Also, the banks can perform mediation in insurance by obtaining a licence to perform activities of insurance mediation from the National Bank of Macedonia, based on the prior consent of the ISA. In 2015, three banks performed mediation in insurance.

Insurance brokerage activities involve mediation in the agreement of insurance and reinsurance coverage, as well as in realising compensation claims due to insured damaging event from the insurance and reinsurance companies, on behalf of clients. In 2015, the companies for insurance brokerage activities realised 24.53% of the GWP through this channel of distribution.

Basic indicator of the market of life insurance

NO.	Insurance company	Gross Premium (GWP)	Written Dynamics		Share of total GWP	
			2015	2014	2015	2014
1	CROACIA LIFE	484,428	384,706	25.92%	44.00%	43.31%
2	GRAVE	435,289	371,554	17.15%	39.54%	41.83%
3	WINNER LIFE	122,107	83,209	46.75%	11.09%	9.37%
4	UNICA LIFE	59,167	46,741	26.58%	5.37%	5.26%
5	MACEDONIA ³²	0	2,119	-100.00%	0.00%	0.24%
	TOTAL LIFE	1,100,991	888,329	23.94%	100.00%	100.00%

Types of products:

Life insurance (group or individual)

- Mixed insurance in case of death and survival,
- Children's savings insurance,
- Insurance in case of death (risk insurance).

Additional life insurance

- Insurance against effects of accidents,
- Health insurance

1.6.2 REGULATIVE AND REGULATORY BODIES

1.6.2.1. Financial Intelligence Office

Legal Framework

The LPMLTF regulates the measures and actions taken by entities in order to timely detect, discover and prevent money laundering and financing terrorism.

Article 2 paragraph 5 of the LPMLTF defines the "financial institutions" as entities that have committed to undertake measures and actions to prevent money laundering and terrorist financing. Paragraph 5 item 6 lists the companies, insurance brokerage companies, insurance

³² In 2015, the Insurance and Reinsurance Company MACEDONIA did not perform any activities on life insurance, the existing portfolio was transferred to the Insurance company WINNER life.

agencies, insurance brokers and insurance agents who perform activities in life insurance or perform mediation of insurance in contracting life insurance according to the Insurance Law Supervision, as entities that undertake measures and actions to prevent money laundering and terrorism financing within the insurance market.

According to Article 32 of the LPMLTF, the insurance companies have the obligation to submit to the FIA the data collected from signed insurance policies worth 15,000 euros or more, in MKD at the average exchange rate of the NBRM, on the day of conclusion of the insurance policy, at the end the day in electronic form.

The supervision of the implementation of measures and actions determined by the LPMLTF, and main institution that conducts imposes violations is the FIA. The ISA, within its legal powers, conducts supervision over insurance companies.

For all entities that consistently and legally avoid to apply measures and actions to prevent money laundering and financing terrorism, the measures foreseen are revoking of the working licence and misdemeanour provisions.

1.6.2.2. Agency for the supervision of insurance

ISA is an autonomous and independent regulatory body on the insurance market, performing public authority established by the Insurance Law Supervision and the Law on compulsory traffic insurance in traffic. ISA aims to contribute to legal and efficient functioning of the insurance market in the country for its continuous development, protection of the rights and interests of policyholders and promotion of financial stability.

Legal framework

The Insurance Law Supervision and the Law on compulsory traffic insurance are the main legal framework that regulates the conditions and the manner of carrying out activities in insurance and reinsurance, in mediation of insurance and how to conduct supervision over the operations of insurance companies, insurance brokerage companies and insurance agencies. Additional legal framework is the Law on Obligations in the part referring to insurance contracts and the Law on Companies.

The Insurance Law Supervision incorporates the principles and standards for insurance of the International Association of Insurance Supervisors (IAIS) and the insurance directives of the EU.

The Law regulates the establishment and operation of insurance companies, risk management, the role of the certified actuaries, bookkeeping and reporting, internal and external audit, representation and mediation in insurance, supervision of insurance companies, and procedure for adopting solutions by ISA, operation of insurance and reinsurance pools, cooperation with supervisory bodies in EU bodies, as well as the punitive provisions.

1.6.3 Summary

Based on the conducted analysis of data in order to identify, measure and manage the risk of money laundering and terrorism financing in the life insurance segment, the working group distinguishes the following findings and characteristics of the sector:

- Cashless payment of premium;
- Low share in premium with one-off payment in the total premium for life insurance;
- Continuous growth of the life insurance sector;
- Non-reporting of business relationships (transactions) with risk clients;
- Sales of classic type of products for life insurance;
- The contracts for life insurance are concluded with residents;
- In most cases the invested funds are unavailable for the client the first 2-3 years;
- Some companies have suspicious transaction recognition software, but still require additional progress in this area;
- Need of plans for continuous monitoring;
- Need for highlighting the role of employees in the company (training of those who are in constant contact with clients, the responsible person should review the training needs and prepare an annual programme);
- Need for highlighting the role of internal auditor in the insurance company (the role of internal audit is particularly important for the process of laundering money).

Based on the findings and characteristics of the sector, while also taking into account the modest market share of life insurance in the total portfolio at industry level, the volume of transactions with insurers (residents), the share of the single premium, the market is characterised with medium risk of money laundering and terrorist financing.

1.6.4 Challenges

The rapid development of the market of life insurance and the growth potential is likely to contribute to the development of new products in this segment, primarily products with investment character that will bring great profits and will be an incentive to attract and launder money, and for companies it will be a challenge to combat money laundering.

Sale of contracts through improper or poorly organised network of agents.

Changes in the ownership structure that will cause a change of the business policies based on sale of questionable things related to insurance products.

Improvement of internal policies, procedures and regulations in assessing the risk of money laundering and terrorist financing.

Continuous control and raising awareness in the sector for the assessment of the risk of money laundering and terrorist financing.

Strengthening the cooperation between the competent institutions.

1.7 VULNERABILITY OF OTHER FINANCIAL INSTITUTIONS

For the purposes of this analysis, the sector of other financial institutions includes: authorised exchange offices, of fast money transfer providers and subagents, providers of financial leasing, financial companies, savings banks, and companies managing voluntary pension funds.

The analysis of the exposure of the sector to the risk of money laundering and terrorist financing, and the established systems for risk management and reduction of its vulnerability, point to aggregate average risk of money laundering and terrorist financing.

The main shortcoming that emerged from the analysis of these institutions refers to the insufficient amount of human resources allocated to supervisory authorities for the monitoring and control of this risk. Supervision of other financial institutions for the ZSPFT performed: FIU, the Central Bank and MAPAS. The FIA has 3 inspectors, the NBRM 6 supervisors and the MAPAS has 2 inspectors. The Inspectors and supervisors are also responsible for the supervision of other entities of the LPMLTF, not only for the other financial institutions that are the subject of this report. Additionally, the analysis determined the need for greater volume of training in order to improve the understanding of risk, also with the supervisory bodies and the entities of the LPMLTF.

Table 19 – Exposure of the sector to the risk of money laundering and terrorism financing

Subjects	Vulnerability level	Amount
Authorised exchange offices	low-medium	0.65
Fast money transfer providers	medium	0.54

Providers of financial leasing	low-medium	0.30
Financial companies	low-medium	0.37
Savings banks	low-medium	0.39
Companies managing voluntary pension funds	low-medium	0.25

The sector of other financial institutions in the overall financial system has intangible share in terms of size and volume of transactions that are carried out, with exception of the currency exchange offices and of fast money transfer providers who have a significant share of almost 80% of the exchange transactions and money transfers.

The analysis of the sector of other financial institutions is conducted according to the data from 31.12.2015, which covers the activity of the institutions over the last 6 years.

The institutions are licenced according to special laws, thus preserving the “fit and proper” criteria issued for a working licence in the country. The legislation, the list of indicators for identifying suspicious transactions and terrorist financing and the other instructions and guidelines for identifying potential risks of money laundering issued by the FIA, are a good basis for risk management. The supervisory authorities and the FIA conduct regular on-site and off-site supervision of the institutions’ operations and the established systems for risk management of money laundering and terrorist financing.

1.7.1 AUTHORISED EXCHANGE OFFICES

The risk level in the sector of authorised exchange offices is assessed as medium-high. The rating is due to the amount of the turnover through the authorised exchange offices, the cash transactions and the insufficient knowledge to properly identify suspicious activity and to report to the FIU.

1.7.1.1. Analysis of the sector in terms of size, volume of transactions, and risk indicators

The sector of authorised exchange offices, as on 31.12.2015, counts 211 legal entities licenced for exchange operations issued by the NBRM and 15 commercial banks. During 2015, a total turnover from exchange operations was completed in terms of sold assets amounting to approximately 1.478 million euros, and in terms of purchased assets amounting to 377 million euros. Data for the period of 6 years is given in the following table.

Table 20 – Analysis of the authorised exchange offices

Year	Number of legal entities	Sold assets³³	Purchased assets³⁴
2010	217	1,296	324
2011	210	1,389	313
2012	208	1,481	273
2013	210	1,412	300
2014	213	1,426	327
2015	211	1,478	377

Source: Database of the NBRM

The authorised exchange offices are obliged to report to the NBRM the amount of total turnover in ten days period. Despite the large number of authorised exchange offices, around 70% of the total turnover is realised through ten subjects. This sector is based on cash operations and private clients. The exchange offices keep a register of customers who perform exchange operations larger than 500 euros and both domestic and foreign persons are registered in that register.

³³ The amount is represented in millions euros

³⁴ The amount is in represented milions euros

Authorised exchange offices have not submitted STRs to the FIA in the past six years. Given that the authorised exchange offices are not allowed to execute cash transactions, i.e. sale of assets over 15,000 euros, these subjects do not submit reports on cash transactions to FIA.

1.7.1.2. Measures for risk control

Authorised exchange offices operate in accordance with a working permit issued by the NBRM. The requirements that must be met by legal persons to obtain a working permit are defined in detail, so in that respect, the “fit and proper” criteria are fully met. “Fit and proper” criteria differ from those which apply to the banks. A resident legal entity must meet the requirements for obtaining a licence to perform exchange operations³⁵.

The NBRM or the FIA monitor the operation of the exchange offices in relation to the LPMLTF.

According to the law, the authorised exchange offices are obliged to keep a register of customers who committed transaction larger than 500 euros and in that case, it is mandatory to identify the client. The NBRM controls the observance of the LPMLTF by authorised exchange offices in terms of programme update, identification of clients who carry out transactions over 500 euros and keeping chronologically numbered register.

In 2013, the NBRM conducted a total of 129 controls. During 2013, the FIA conducted monitoring of eight authorised exchange offices. The established violations of law are related to

³⁵According to the Decision on currency exchange operations (Off. Gazette, Nos. 127/12, 129/12, 42/14), the resident legal entity shall meet the following conditions

- to be registered for the activity “66.12 Mediation activities in operations with securities and commodity contracts” in the Register of companies or other register at a competent authority;
- to have a this disposal adequate premises for the execution of exchange activities;
- a legal entity that wants to conduct exchange operations on its own name, but on behalf of a bank, should have a signed agreement with the bank. With this agreement both sides regulate the mutual rights and obligations at least in relation to the amount of comission, the necessary instructions and forms, purchase and sale, list of exchange rates according to which he perform operations, control, mutual notification and reporting intended for the NBRM, charges, number of exchange posts through which the legal entity will operate; have frame for safe storage of cash that will be used exclusively for performing exchange; to have a cash register for safe storage of the cash that he will use exclusively for his operations; the premises of the exchange office should have adequate means for protection and safety of cash, property and employees; the premises of the exchange office should installed telephone and fax machine; against the responsible person of the legal entity and the authorised persons no legal sanction should be imposed or a ban on performing profession, activity or duty, or an effective judgment for a crime related to finance; the authorised persons should have completed at least secondary education; a bankruptcy or liquidation procedure should not be initiated against the authorised person.

the outdated programme for prevention money laundering, absence of a register of customers who commit transactions over 500 and lack of client identification³⁶.

In 2014, the NBRM conducted a total of 126 inspections. During 2014, the FIA conducted monitoring of over 6 authorised exchange offices. No violations were established during these controls. During 2015, the FIA conducted monitoring of 5 authorised exchange offices and did not establish any violations. In 2015, the NBRM conducted inspection of 94 exchange offices.

1.7.2 FAST MONEY TRANSFER PROVIDERS

The level of risk in this sector is medium. The assessment is due to the large volume of transactions that are performed through the service provider - legal entities, operating with cash and the need for additional training of the subjects for the proper identification of suspicious transactions and proper management of the risk of money laundering and terrorism financing.

1.7.2.1. Analysis of the sector in terms of size, volume of transactions and risk indicators

Department of fast money transfer as on 31.12.2015, counts 9 providers of fast money transfer offering services of two global systems for the electronic transfer of money. From the total number of fast money transfer providers, 6 providers of fast money transfer are banks, while the remaining 3 providers are legal entities with working licence issued by the NBRM. The providers of fast money transfer have concluded contracts for the service with 129 subagents.

The service of fast money transfer in the REPUBLIC OF MACEDONIA is performed in two currencies: euros and American dollars. Under the Law on Providing Fast Money Transfer, the daily limit per natural person for payment of funds is limited to 5,000 euros, while the monthly amount paid per natural person is limited to 2.500 euros. During 2015, the total amount of

³⁶ During 2010, the National Bank of the Republic of Macedonia carried out 244 inspections, in 2011 there were 196 inspections, and 128 inspections were conducted in 2012. Ten settlement procedures were carried out in 2010. In 2010, the Directorate carried out 14 supervision actions of exchange offices. Violations were found in four, including reasons such as failure to provide programs to the Directorate for anti-money laundering and prevention of financing of terrorism; in performing the exchange job, the identity of clients was not defined before any transaction involving an amount higher than EUR 500.00 in the denar countervalue and when identifying the client, a photocopy of their ID document was not retained. The Directorate conducted education aimed at elimination of irregularities established during the supervision of those exchange offices.

outflow was 154 million euros, against the total amount of inflow of 18 million euros. The data for the period 2010-2015 are presented in the following table.

Table 21 – Analysis of the fast money transfer providers

Year	Number of agents	Outflow	Inflow ³⁷
2010	7	101	11
2011	7	109	12
2012	7	118	13
2013	7	124	15
2014	8	136	16
2015	9	154	18

Source: Database of the NBRM

Around 80% of the total inflow originates from EU countries and the United States, where the Macedonian diaspora is mainly located, or where most Macedonian citizens who have gone to work abroad are located. More than 80% of the total outflow was executed through two providers of fast money transfer - legal entities.

This sector based on cash operations and private clients. The providers - legal entities do not have in their disposal international systems for identification of public officials. In the REPUBLIC OF MACEDONIA there isn't a single registry of public officials. One of the providers of fast money transfer internally keeps a register of these types of customers.

Taking into account the limits on remittances or disbursements of funds, the providers of fast money transfer don't have individual and connected cash transactions in the amount of 15,000

³⁷The amount of remittances or disbursements of funds is presented in millions euros

euros or more, so they can report to the FIA only suspicious transactions. The number of submitted STRs is presented in the following table.

Table 22 – Number of submitted STRs

Year	Number of submitted report on suspicious transactions
2010	2
2011	3
2012	1
2013	5
2014	3
2015	22

Source: FIA

1.7.2.2. Measures for risk control

The NBRM issues licences for fast money transfer to entities that meet exactly defined criteria, which have deposited an amount of at least 20,000 euros in a separate account and which have concluded a contract with authorised global system for electronic money transfer. The NBRM and the FIA conduct supervision of providers and subagents in terms of LPMLTF. The NBRM conducts regular annual off-site control over the overall operation of entities in carrying out assessment and management of risk of money laundering and terrorist financing. In addition, according to the reports that the entities are obliged to submit, the NBRM also performs off-site monitoring and control of the entities of the daily, monthly limits on remittances or disbursements of funds, and also connecting any suspicious transactions of a particular individual.

During 2015, the NBRM conducted 42 audits of providers of fast money transfer and subagents. In 2014 49 controls were performed and the implemented controls showed that there are no incompliances and no measures were imposed according to the LPMLTF. In the period 2010-2013, the NBRM conducted four controls, also without imposing measures. The FIA failed to conduct supervision over the operations of the entities in 2010, 2011 and 2013, as opposed to 2012 when they performed 4 controls, in 2014 5 controls and in 2015 3 controls. No measures were imposed, no irregularities were established and no violations were detected during these controls.

1.7.3 PROVIDERS OF FINANCIAL LEASING

The level of risk in this sector is assessed as medium-low. The assessment of the level of vulnerability is increasing primarily due to insufficient volume of immediate controls on providers of financial leasing.

1.7.3.1. Analysis of the sector in terms of size, volume of transactions, and risk indicators

The financial leasing sector has a small, almost insignificant share in the total financial system, due to the small volume of activities and number of providers licenced to operate. As on 31.12.2014, the market is represented by 8 active providers and legal entities of financial leasing with a total balance sum of 70,422,764 euros which represents about 1% of total assets of the financial system or 0.84% of the GDP. Any company can perform operational leasing.

The financial leasing sector during 2014 has a decreased number of leasing providers to one, as well as reduced amount of work which was identified by increasing of the number, but decreasing of newly concluded leasing agreements, both with administrative and with natural persons. Namely, during 2014 a total of 1,104 leasing contracts were concluded, with a total of 18.8 million euros, compared to 2013 when 1,103 contracts were concluded with a total value of 19.3 million euros.

Table 23 – Analysis of the financial leasing providers

Year	Number of leasing providers	Number of concluded contracts	Value ³⁸
2010	11	1,550	30.3
2011	11	1,474	27
2012	11	1,253	23.1
2013	9	1,103	19.3
2014	8	1,104	18.8

Source: Ministry of Finance

Leasing providers operate exclusively on the territory of the REPUBLIC OF MACEDONIA, so there are no payments in cash. The 70% of client base of the providers of leasing is consisted of legal entities, which do not pose a high risk to the financial sector.

1.7.3.2. Measures for risk control

Appropriate legislation, additional guidance and instructions that enable appropriate risk management for the prevention of money laundering and terrorist financing have been established. The Law on Leasing contains “fit and proper” criteria, according to which entry in the market is possible for entities that meet the highest standards for the establishment and operation of financial leasing.

During the last 6 years only one STR was submitted to the Financial Intelligence Administration. The report was submitted in 2012.

The Ministry of Finance is responsible for the control, supervision and monitoring of the financial leasing providers according to the Law on Leasing. Given the large number of entities over which the Ministry of Finance conducts controls, and the minor of importance of this sector

³⁸The amounts are presented in millions euros.

whose downward trend continued in the period 2010-2015, the Ministry of Finance has performed on-site supervision over the financial leasing providers.

1.7.4 FINANCIAL COMPANIES

The risk level in this sector has been assessed as medium-low. The assessment is due to the share of this sector in the overall financial sector, the average amount of concluded contracts and the type of activities.

1.7.4.1. Analysis of the sector in terms of size, volume of transactions, and risk indicators

The REPUBLIC OF MACEDONIA according to the Law on Financial Companies registered seven legal entities licenced to perform the following activities: approving credits, issuing and administering credit cards, factoring and issuing guarantees. As of 31.12.2014, the total assets of the sector amounted to 12.9 million euros which are just 0.15% of the GDP. The financial companies so far signed contracts in 2,354 totalling 11.3 million euros. The concluded agreements refer to issued credit cards (1,277 contracts), approved loans (804 contracts) and contracts for factoring (273 contracts).

The larger part 82% of the client base of the companies is consisted of individuals, i.e. 2.354 contracts. 1.931 contracts have been concluded with natural persons, versus 423 agreements with legal entities. In the period 2011-2015, the financial companies have not submitted STRs to the FIA. The data for the period 2011-2015 are presented in the following table.

Table 24 – Analysis of financial companies

Year	Number of financial companies	Number of contracts concluded with natural persons	Number of contracts concluded with legal entities	Amount of the concluded contracts³⁹
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³⁹The amounts are presented in millions of euros.

2011	2	1,351	8.2	2
2012	2	734	15	2
2013	6	3,380	22.5	6
2014	7	2,354	423	11.3

Source: Ministry of Finance

1.7.4.2. Measures for risk control

The Ministry of Finance is responsible for the control, supervision, and monitoring of the operations of the financial companies according to the Law on Financial Companies. So far, no on-site supervision of the operations of the institutions in this sector has been conducted.

1.7.5 SAVINGS BANKS

The level of risk in this sector is assessed as medium-low. The assessment is due to the immaterial participation of savings banks in the overall financial system on one hand, and on the other hand the appropriately set controls mechanisms and supervision.

1.7.5.1 Analysis of the sector in terms of size, volume of transactions and risk indicators

In 2013 and 2014 the number of savings banks was reduced by 4 and at the end of 2015 there are 4 savings banks. The reduction of the number of savings banks is due to changes in the legislation that allows savings banks to transform into financial companies or banks without performing liquidation procedure. The savings banks as depositing institutions have a limited scope of activities reduced to collecting deposits in MKD, issuing loans mainly to natural persons and to a certain extent to legal entities.

The savings banks participate immaterially in all segments of the operation of the overall segment of deposit institutions, where the dominant role belongs to the banks. Namely, savings banks accounted for 0.8% of the total assets, 0.4% of the total household deposits and 1.0% of the total loans to non-financial entities. The operation of the savings banks is confined within the REPUBLIC OF MACEDONIA and financed mainly with its own funds. Natural persons - residents are dominant users of the services of these institutions.

1.7.5.2. Measures for risk control

The NBRM and the FIA are responsible for the supervision of the operation of the savings banks and the implementation of measures to manage the risk of money laundering and terrorism financing. All standards of banking operations apply to the savings banks apply, hence the criteria for obtaining a working licence according to “fit and proper” criteria are fully met.

The NBRM conducts regular on-site and off-site controls over the operation and covers the risk of money laundering. During 2014, there have been 4 field controls for assessing this risk, and in 2015 3 controls. The implemented controls did not establish incompliance issues and did not impose measures under LPMLTF. In the period 2010-2013, a total of 28 inspections was conducted by the BRM. No field controls over savings banks have been performed during the period 2010-2015 by the FIA. In the past six years no STRs have been submitted to the FIA.

1.7.6 COMPANIES FOR MANAGEMENT OF VOLUNTARY PENSION FUNDS

The level of risk in this sector is assessed as medium-low. This assessment is due to the participation of this sector in the financial system, the nature of activities performed and the average amount paid by members.

1.7.6.1. Analysis of the sector in terms of size, volume of transactions and risk indicators

During 2009, the MAPAS issued working licences to two companies for the activity management of voluntary pension funds and approvals to manage voluntary pension funds. The companies are ownership of a commercial bank in the REPUBLIC OF MACEDONIA and a commercial bank and insurance company from the Republic of Slovenia.

The total net assets of the two funds as on 31.12.2015 amounted to 11.9 million euros, which represents about 1% of the total assets of the financial system. The voluntary pension funds are consisted of 21.777 persons, 1,344 of which are new members who have joined the voluntary funds during 2015. The largest part of the members are members of occupational pension schemes. During 2015, the funds paid to contributions amounted to 3.52 million and the disbursed funds amounted to 137 thousand euros.

Below is a table displaying data on the voluntary pension funds for the last 6 years.

Table 25– Analysis of companies for the management of voluntary pension funds

Year	Number of members	Number of new members	Net Assets	% OF GDP	Annual contributions (in euros)	Funds paid (in euros)
2010	6,908	5,297	0.71	0.01	0.63	0.002
2011	12,198	5,290	1.8	0.025	1.11	0.004
2012	16,755	4,557	3.1	0.04	1.30	0.099
2013	18,525	1,770	5.2	0.065	1.84	0.073
2014	20,433	1,908	8.3	0.1	2.66	0.086
2015	21,777	1,344	11.9		3.52	0.137

Source: MAPAS

There are no cash operations in this sector, because all remittances or disbursements are performed through bank accounts in a bank. The average monthly remittance of funds amounts to 10.8 euros. According to the law, these funds work with only residents and the remittances from non-residents will be allowed upon access of the REPUBLIC OF MACEDONIA to the EU.

1.7.6.2. Measures for risk control

The supervision of the implementation of measures and actions to prevent money laundering and terrorism financing is performed by the MAPAS and the FIA. According to law, the dominant shareholders and owners of a company for the management of voluntary pension funds are regulated financial institutions. Therefore, the “fit and proper” criteria of these companies are fully met. Every year since 2006, the MAPAS carries out regular annual on-site and off-site supervision of companies. The method for managing the risk of money laundering and terrorist financing is assessed through the regular controls. So far, targeted controls of the company for management of voluntary pension funds to assess this risk have not been carried out, but within the on-site examinations, the compliance of companies with the regulation for money laundering is assessed along with the other risks that the MAPAS controls. The companies for management perform identification of suspicious transactions in accordance with the law and guidelines issued by the FIA. During 2015, the FIA has not been delivered STRs, unlike 2012 and 2011 when one STR was delivered annually.

1.8 VULNERABILITY OF NON-FINANCIAL BUSINESSES AND PROFESSIONS

Subject of the analysis and assessment of vulnerability from money laundering are two categories of DNFBP:

- Category of DNFBP which according to the LPMLTF are defined as entities and have the obligation to apply the measures and actions to prevent money laundering and terrorist financing, including: real estate agencies, organisers of games of chance (casino), internet casinos, public notaries, lawyers, accounting companies, audit and legal entities taking movables and real estate in pledge

Table 26 Category of DNFBP which are entities according to the LPMLTF (as of 31.12.2015)

Type of entity	Total number of entities	Total number of employees	Total revenue in euros
Real estate agencies	240	195	2,782,665.00
Organisers of games of chance (casino)	6	1,487	53,528,232.00
Internet casinos ⁴⁰	1	15	403,520.00
Public notaries	172	704	17,754,790.00
Lawyers	2,388	2,101	36,524,918.00
Accounting companies	1,930	3,984	33,714,642.00
Auditing companies	38	269	6,645,762.00
Legal entities taking movables and real estate in pledge	19	54	2,217,858
TOTAL	4,794	8,809	153,572,387.00

and

- Category of DNFBP which according to the LPMLTF are not defined as entities, but have been covered by this analysis and assessment as exposed to a certain risk of money laundering, such as associations and foundations (domestic and foreign) and entities whose activity is the purchase of vehicles.

Table 27 Category of DNFBP which are not entities according to the LPMLTF (as at 31.12.2015)

Type of entity	Total number of entities	Total number of employees	Total revenue in euros
Citizens associations and foundations ⁴¹	10,364	1,994	119,084,828.00

⁴⁰ According to the LPMLTF which came into force on 10.09.2014, the internet casinos become entities that should apply the measures for the prevention of money laundering and terrorism financing.

Legal entities in charge of sale and purchase of vehicles	147	920	165,734,469.00
TOTAL	10,511	2,914	284,819,297.00

According to the data collected for the period 01.01.2010 - 31.12.2015, the indicators, the information and the analysis provided it was established that vulnerability to money laundering and financing of terrorism in the sector of DNFBP is medium-low, amounting to 0.38.

Table 28 Level of vulnerability in the sector of DNFBP

Ord. No.	Type of entity	Vulnerability level	Rating
1	Real estate agencies	Medium-low	0.35
2	Organisers of games of chance (casino) and internet casinos	Medium	0.40
3	Public notaries	Medium-low	0.26
4	Lawyers	Medium	0.44
5	Accounting companies	Medium	0.44
6	Auditing companies	Low	0.10
7	Legal entities taking movables and real estate in pledge	Medium-low	0.30
8	Citizens associations and foundations	Medium	0.40
9	Legal entities in charge of sale and purchase of vehicles	Medium	0.40
Level of vulnerability in the sector of DNFBP		Medium-low	0.38

⁴¹ According to the LPMLTF which came into force on 10.09.2014, the citizens associations and foundations and legal entities in charge of sale and purchase of vehicles become entities that should apply the measures for the prevention of money laundering and terrorism financing.

The conducted analysis shows that the DNFBP sector is vulnerable to money laundering. The key shortcomings of the DNFBP refer to:

- Nonexistence of legislation for the establishment, licencing and operation of real estate agencies;
- Besides the public notaries, the number of submitted STRs by the other DNFBP is small;
- The quality of the submitted STRs is insufficient;
- Lack of awareness and knowledge of the identification and verification of the actual owners and public officials;
- The Institute of Chartered Accountants is not established even though its establishing is provided in the Law on accounting matters; and
- The resources allocated for supervision and the number of conducted supervisions are inadequate for the committee for oversight of lawyers. The Lawyer supervision committee does no conduct on-site supervision over lawyers.

1.8.1 CATEGORY OF DNFBP WHICH ARE ENTITIES ACCORDING TO THE LPMLTF

1.8.1.1. REAL ESTATE AGENCIES

The vulnerability to money laundering and terrorist financing for the real estate agencies in accordance with the data, indicators, information and the analysis is 0.35⁴².

Introduction

The Economic Chamber of Macedonia formed a Group of real estate agencies, whose members are a large number of the real estate agencies. The work of the group is public and takes place at meetings of the Board of the group and the meetings of the group. One of the topics that are most discussed is the need to adoption of a legal framework that will govern the real estate activities and operations.

Real estate agents predominantly mediate in the sale of residential objects and locations for construction of residential buildings and to a lesser extent for buildings with business purpose or locations for construction of commercial buildings.

⁴²The vulnerability is presented on a scale in interval from 0.0 to 1.0. The lowest value of vulnerability is 0.00, and the highest value is 1.00

The operations and activities in this area are not regulated by a special law, i.e. the real estate agencies apply the general provisions related to the companies.

Analysis of the sector in terms of size, volume of transactions, and risk indicators

In terms of real estate agencies and the current condition of the real estate market, the following can be concluded conclusions, which present the situation in the market in a realistic manner:

According to the Central Register of the REPUBLIC OF MACEDONIA for 2015, the purchasing activity (turnover) in real estate registered a total of 240 legal entities⁴³ - real estate agencies with 195 employees. The total revenue in 2015 amounted to 2,782,665.00 euros.

The largest percent of deals that took place in real estate agencies were conducted with means that the buyers provided through bank loans. According to the information provided by the group of real estate agencies within the Economic Chamber of Macedonia, for 90% of the sales that take place through the real estate agencies, the funds have provided in this manner. According to the available data, we can conclude with certainty that the percentage of cash used in this sector is very low and insignificant.

In the period 2010 to 2015, the real estate agencies submitted one STR to the FIA in 2010. Also, the FIA hasn't opened cases involving real estate agencies.

The FIU and the PRO perform the oversight of real estate agencies and their capacity is adequate for the control of the application of measures and activities for prevention of money laundering and terrorist financing.

Violations and findings from supervision conducted by the FIA and the PRO for the period 01.01.2010 to 31.12.2015:

Table 29 Supervisions conducted by the FIA and the PRO in the real estate agencies

Type of subject	Year	Total number of supervisions	Violations established for:		Alignment	Proceedings for violations before a competent court	Education	Total of fines paid in EUR
			Legal entity	Accountable person				
Real estate agencies	2010	16	8	8	0	1	5	5,200
	2011	0	0	0	0	0	0	0
	2012	6	3	3	0	0	3	0

⁴³ According to the data delivered by the Central register of the FYROM, as at 31.12.2015, from the total of 240 real estate agencies, 114 real estate agencies are actively operating.

	2013	6	2	2	0	0	2	0
	2014	16	0	0	0	0	0	0
	2015	41	2	2	0	0	2	0
Total		85	15	15	0	1	12	5,200

The analysis of this sector showed lack of legislation related with the establishment, licencing and operation of real estate agencies. The adoption of the legislation would eliminate the unfair competition in this sector, caused by individuals who are not registered, but operate in the turnover of the real estate and mediate in the lease of real estate, which will introduce order in this sector related to the establishment, jurisdiction, and licencing, thus making the benefits for all participants and the state undoubtedly great.

1.8.1.2. ORGANISERS OF GAMES OF CHANCE (CASINO)

According to the data, the indicators, the information and the conducted analysis, the vulnerability of money laundering and terrorism financing with casinos amounts to 0.40⁴⁴.

Introduction

On the territory of the REPUBLIC OF MACEDONIA five trading companies have obtained licences for organisation of games of chance in casinos, while the number of casinos is six. The licence to organise games of chance is issued for a period of six years. In order to obtain a casino licence, the entity should pay a remuneration amounting to 600,000 euros in MKD. The casino licence refers only to a business premises. The casino licence issued by the Government is issued based on an application submitted to the MoF within 30 working days of the date of submission of the application to the MoF. The application can be submitted by a company, which on the day of submission of the application has paid basic capital which cannot be less than 2,500,000 euros.

Analysis of the sector in terms of size, volume of transactions, and risk indicators

According to the data provided by the Central Register of the REPUBLIC OF MACEDONIA as of 31.12.2015 there are 6 actively operating casinos with 1,487 employees. The total revenue in 2015 amounted to 53,528,232.00 euros.

Transactions in casinos are mainly in cash and a small part through credit cards. The conducted supervision of registrations and completed visits of customers by state in all casinos for the period 2010 to 31.12.2015, show that the largest number of registered customers are from Greece (81% of total registrations) and they have realised the highest number of visits (94% of the total number of visits).

⁴⁴The vulnerability is presented on a scale in interval from 0.0 to 1.0. The lowest value of vulnerability is 0.00, and the highest value is 1.00

Casinos have submitted to the FIA 14 STRs for the period 01.01.2010 – 31.12.2015. Also, the FIA has opened 3 case involving casinos.

Table 30 STRs submitted to the FIA by casinos

Year	STRs submitted to the FIA by casinos	Number of opened cases in the FIA involving casinos
2010	4	1
2011	1	0
2012	1	0
2013	3	1
2014	2	0
2015	3	1
TOTAL	14	3

The number of STRs submitted to the FIA by the casinos is proportional to the size of the sector. In relation to the quality of the STRs submitted to the FIA by the casinos, it is considered insufficient.

The supervision over the organisers of games of chance (casino) is conducted by the FIA and the PRO and their capacity is adequate for controlling the application of measures and activities for prevention of money laundering and terrorist financing.

Violations and findings from supervision conducted by the FIA and the PRO for the period 01.01.2010 until 31.12.2015:

Table 31 Supervisions conducted by the FIA and the PRO in casinos

Type of entity	Year	Total number of supervisions	Violations established for:		Alignment	Proceedings for violations before a competent court	Education	Total of fines paid in EUR
			Legal entity	Accountable person				
Casinos	2010	3	2	2	0	0	2	0
	2011	0	0	0	0	0	0	0
	2012	0	0	0	0	0	0	0

	2013	1	1	1	1	0	0	4,550
	2014	6	1	1	0	0	1	0
	2015	0	0	0	0	0	0	0
TOTAL		10	4	4	1	0	3	4,550

Casinos issue a certificate of income only in exceptional cases, upon request of the customer and after they have performed a check of the entire course of the client's game, i.e. check of the total realised profit. By linking the system NIS of the PRO, all the slot machines are connected on-line and the real situation of the game in the casino can be monitored in real time can.

1.8.1.3. INTERNET CASINOS⁴⁵

According to the data, the indicators, the information and the conducted analysis, the vulnerability of money laundering and terrorism financing in casinos amounts 0.40⁴⁶.

INTRODUCTION

Internet games of chance are general and special games of chance and other games of chance in which the participant can participate through the global internet network (GIN). Electronic and internet games of chance are organised by a company established by the state, individually or with other organisers, and irrespective of the form of association, this company should have at least 51% share in the capital and in the voting rights of the company. The basic capital of the company may not be less than 2,500,000 euros in MKD according to the average exchange rate of the NBRM on the day of payment. Internet games of chance are organised based on licence issued by the Government upon application submitted to the MoF within 30 working days from the submission of the application to the MoF. The licences are issued for a 4 year period. The company which submits the application for a licence for organising internet games of chance must be registered in the REPUBLIC OF MACEDONIA, it must have a basic capital of at least 40,000 euros in MKD according to the average exchange rate of the NBRM on the day of payment and it must meet the special requirements defined by the law for the type of licence for online gaming for which the application has been submitted. Regarding the organisation of games of chance via the Internet (online casino), the State Lottery of Macedonia has a monopoly in the organisation of general and special games of chance via the internet and organisation of games of chance via the Internet (online casino) starting from 01.01.2015 .

Analysis of the sector in terms of size, volume of transactions and risk indicators

⁴⁵According to the LPMLTF which came into force on 10.09.2014, the internet casinos become entities that should apply the measures for the prevention of money laundering and terrorism financing.

⁴⁶The vulnerability is presented on a scale in interval from 0.0 to 1.0. The lowest value of vulnerability is 0.00, and the highest value is 1.00

According to the Central Register of the REPUBLIC OF MACEDONIA, as of 31.12.2015 one organiser of general and special games of chance via the Internet has been registered, and according to their records, a total revenue of 403,520.00 euros has been registered with 15 employees in this area. The authorities competent for supervising the implementation of measures and actions to prevent money laundering and terrorism financing by online casinos are the FIA and the PRO. In 2015, no supervisions were performed by the FIA and the PRO.

1.8.1.4. PUBLIC NOTARIES

According to the data, the indicators, the information, and the conducted analysis, the vulnerability of money laundering and terrorism financing with public notaries amounts to 0.26.

Introduction

Public notaries of the territory of the REPUBLIC OF MACEDONIA are organised in a Public Notary Chamber. The headquarters of the Chamber is in Skopje. A public notary is appointed by decision of the Minister of Justice based on a competition published by the Ministry. Upon appointment by the Minister, the public notary shall be registered in the Central Register of the REPUBLIC OF MACEDONIA as a provider of service.

Analysis of the sector in terms of size, volume of transactions and risk indicators

According to the Central Register of the REPUBLIC OF MACEDONIA, as of 31.12.2015, the REPUBLIC OF MACEDONIA has registered 172 public notaries with 704 employees. The total revenue in 2015 amounted to 17,754,790.00 euros.

With consistent application of the laws, regulations, procedures, carrying out regular supervision over public notaries, increasing the degree of effective implementation of legal provisions, submission of reports to the FIA, regular training and efforts to fully and comprehensively implement the legal responsibilities, the percentage of customers where there with an increased risk of money laundering is low.

Table 32 Reports submitted to the FIA by public notaries for completed notarial acts

Year	Submitted reports for completed notarial acts for obtaining property with value of 15,000 euros or higher
2010	4,117
2011	11,962
2012	13,364
2013	14,063
2014	14,699

2015	17,455
TOTAL	75,660

In the period 01.01.2010 - 31.12.2015, public notaries have submitted 170 STRs to the FIA. Also, the FIA has opened two cases involving notaries.

Table 33 STRs submitted to the FIA by public notaries

Year	Submitted STRs	Number of opened cases in the FIA involving public notaries
2010	11	0
2011	26	0
2012	77	1
2013	8	0
2014	29	1
2015	19	0
TOTAL	170	2

The number of STRs submitted to the FIA by public notaries is proportional to the size of the sector. In respect to the quality of the submitted STRs by the public notaries, it is considered insufficient. During the preparation of the STRs, the analysis and monitoring of business relations and operations for an extended period hasn't been covered, so the submitted reports are substandard.

Supervision over notaries is performed by the FIU and the Committee for supervision of public notaries in the Notary Chamber of the REPUBLIC OF MACEDONIA and their capacity is adequate for controlling the application of measures and activities for prevention of money laundering and terrorist financing.

Violations and findings from supervision conducted by the FIA and the Committee for supervision of public notaries in the Notary Chamber of the REPUBLIC OF MACEDONIA for the period 01.01.2010 to 31.12.2015:

Table 34 Supervisions by the FIA and the Committee for supervision of public notaries

Type of entity	Year	Total number of supervisions	Violations established for:		Alignment	Proceedings for violations before a competent court	Education	Total fines in EUR
			Legal entity	Accountable person				
Public notaries	2010	53	1	1	0	0	1	0
	2011	24	7	7	0	0	7	0
	2012	64	3	3	0	0	3	0
	2013	53	7	7	0	0	7	0
	2014	57	11	11	0	0	11	0
	2015	49	0	0	0	0	0	0
Total		300	29	29	0	0	29	0

1.8.1.5. LAWYERS

According to the data, the indicators, the information and the conducted analysis, the vulnerability of money laundering and terrorism financing with lawyers amounts to 0.44.

Introduction

The profession of lawyers is an autonomous and independent public service that provides legal help. Lawyers have public authority according to the Law on Advocacy and when performing the lawyer's activity, they are guided solely by the interests of the party whose interests he protects by legal means in the best way possible. The profession of lawyers is performed by lawyers who have passed the oath and have been registered in the Registry of the Bar Association of the REPUBLIC OF MACEDONIA. Lawyers perform their activities as lawyers and individuals or lawyers affiliated in a law firm. Lawyers from other countries may provide legal assistance and carry out legal activities on the territory of the REPUBLIC OF MACEDONIA under conditions of reciprocity. The conditions, manner and procedure under which lawyers from other countries can provide legal assistance and perform their activities are regulated by the Statute of the Bar Association of the REPUBLIC OF MACEDONIA. A lawyer cannot perform a public function or profession and other public service.

Analysis of the sector in terms of size, volume of transactions and control measures

According to the Central Register of the REPUBLIC OF MACEDONIA as of 31.12.2015, the REPUBLIC OF MACEDONIA has registered 2,388 lawyers (59 of which are law firms) with 2,101 employees. The total revenue in 2015 amounted to 36,524,918.00 euros.

In the period 01.01.2010 – 31.12.2015 lawyers have submitted 12 STRs to the FIA. Also, the FIA has opened 7 cases involving lawyers.

Table 35 Report submitted to the FIA for suspicion of money laundering by lawyers

Year	Submitted STRs	Number of opened cases in the FIA involving lawyers
2010	2	0
2011	2	1
2012	1	0
2013	4	2
2014	1	2
2015	2	2
TOTAL	12	7

The number of STRs submitted to the FIA by lawyer is not proportional to the number of licenced lawyers and the realised annual revenues from their activity. In respect to the quality of the STRs submitted to the FIA by lawyers, their quality is considered insufficient.

The supervision of lawyers is performed the FIA and the Supervision committee of lawyers at the Bar Association of the REPUBLIC OF MACEDONIA. From the total of 39 conducted supervisions, the Committee conducted 10 supervisions over lawyers, which represents a small number of inspections compared to the total number of lawyers. Violations, findings from surveillance conducted by the FIA and the Committee for supervision of lawyers at the Bar Association of the REPUBLIC OF MACEDONIA for the period from 01.01.2010 to 31.12.2015:

Table 36 Supervisions conducted by the FIA and the Committee for supervision of lawyers

Type of entity	Year	Total number	Violations established for:	Alignment	Proceedings for	Education	Total fines in
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		of supervis ions	Legal entity	Account able person		violations before a competent court		EUR
Lawyers	2010	0	0	0	0	0	0	0
	2011	5	5	5	0	0	5	0
	2012	6	6	6	0	0	6	0
	2013	10	8	8	0	0	8	0
	2014	5	0	0	0	0	0	0
	2015	13	1	1	0	0	1	0
Total		39	20	20	0	0	20	0

The analysis of this sector shows shortage of adequate resources designated for supervision with the Committee for the supervision of lawyers and limited number of conducted supervisions in relation to the total number of lawyers.

1.8.1.6. ACCOUNTANTS

According to the data, the indicators, the information and the conducted analysis, the vulnerability of money laundering and terrorism financing with accountants amounts to 0.44.

Introduction

Accounting company is a trading company registered according to the Law on Companies to perform accounting work, licenced to operate by the Institute of Accountants and Chartered Accountants of the REPUBLIC OF MACEDONIA and registered in the Register of Companies for the activity accounting matters. An accountant is a natural person that has been issued an accounting certificate by the Institute of Chartered Accountants and Chartered Accountants of the REPUBLIC OF MACEDONIA and registered in the Register of Accountants.

Accountants and chartered accountants on the territory of the REPUBLIC OF MACEDONIA are organised in the Institute of Accountants and Chartered Accountants of the REPUBLIC OF MACEDONIA. The Institute is a legal entity. The Institute forms subsidiaries on territorial principle for one or more units of the local government. The subsidiaries do not have the capacity of a legal entity. The issues related to the Institute's activities are performed by the professional service of the Institute.

Analysis of the sector in terms of size, volume of transactions and control measures

According to the data of the Central Register of the REPUBLIC OF MACEDONIA as of 31.12.2015, a total of 1.930 accounting companies have been registered with 3.984 employees. The total revenue in 2015 amounted to 33,714,642.00 euros. In respect to the payments for their services and the fulfillment of their obligations, the accountants carry out their activities through bank accounts in authorised banks. On the other hand, the companies must appoint a person responsible for the work with cash.

In the period 01.01.2010 – 31.12.2015 the accountants have submitted to the FIA 2 STRs. Also, the FIA has opened 2 cases involving accountants.

Table 37 STRs submitted to the FIA by accountants

Year	Submitted STRs	Number of opened cases in the FIA involving accountants
2010	1	0
2011	0	1
2012	0	0
2013	0	1
2014	1	0
2015	0	0
TOTAL	2	2

The number of STRs submitted to the FIA by accountants is not proportional to the number of registered accountants and the total realised revenue from their activities. In respect to the quality of the submitted STRs by accountants to the FIA, their quality is considered insufficient.

The FIA and the PRO perform the supervision of accountants and their capacity satisfies partially the monitoring of the implementation of measures and actions to prevent money laundering and terrorist financing. Violations and findings from supervisions conducted by the FIA and the PRO for the period 01.01.2010 to 31.12.2015:

Table 38 Supervisions conducted by the FIA and the PRO over accountants

Type of entity	Year	Total number	Violations established for:	Alignment	Proceedings for violations	Educational	Total fines of in EUR
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		of supe rvisi ons	Legal entity	Acco untab le perso n		before competent court	a	
Accountants	2010	0	0	0	0	0	0	0
	2011	13	11	11	0	0	11	0
	2012	17	9	9	0	0	9	0
	2013	15	4	4	0	0	4	0
	2014	44	0	0	0	0	0	0
	2015	156	4	4	0	0	4	0
Total		245	28	28	0	0	28	0

The analysis of this sector shows deficiency in the unconstitutionality of the Institute of Chartered Accountants although its establishment is foreseen according to the Law on Accountancy.

1.8.1.7. AUDITING COMPANIES

According to the data, the indicators, the information and the conducted analysis, the vulnerability of money laundering and terrorism financing amounts to 0.10.

Introduction

An audit is an independent examination of the financial statements, consolidated statements, and financial information in order to express an opinion on their truthfulness and impartiality and their compliance with the accepted financial reporting framework. An auditing company is a company registered and auditing in accordance with the Audit Law and the Law on Companies. An auditor is an individual who holds a certificate of auditor. Auditors follow audit procedures in accordance with International Standards on auditing when performing an audit.

In order to promote and supervise the performing of audits, the Government of the REPUBLIC OF MACEDONIA upon proposal of the Minister of Finance established a Council for advancement and oversight of auditing (hereinafter Council) as an autonomous and independent regulatory body with public powers stipulated in the Audit Law. The Council became a legal entity by registering in the register of other legal entities kept in the Central Register of the REPUBLIC OF MACEDONIA. The headquarters of the Council is in Skopje. In order to promote high professional standards and to improve the quality of audit services, certified auditors associate in the Institute of Certified Auditors of the REPUBLIC OF MACEDONIA as professional chamber association.

Analysis of the sector in terms of size, volume of transactions, and control measures

According to the Central register of the REPUBLIC OF MACEDONIA as of 31.12.2015, there are 38 actively working auditing companies with 269 employees. The total revenue in 2015 amounted to 6,645,762.00 euros. Audit companies get paid for their services and cover their obligations through bank accounts in authorised banks.

In the period 2010 - 2015, audit companies have submitted to the FIA one STR in 2014. Also, the FIA does not have open case involving audit companies. The number of submitted STRs by audit companies is not proportional to the size of the sector.

The FIA and the PRO carry out the supervision of audit companies and their capacity is adequate for controlling the application of measures and activities for prevention of money laundering and terrorist financing.

Table 39 Supervisions carried out by FIA and PRO over audit companies

Type of entity	Year	Total number of supervisions	Violations established for:		Alignment	Proceedings for violations before a competent court	Education	Total fines in EUR
			Legal entity	Accountable person				
Audit companies	2010	0	0	0	0	0	0	0
	2011	7	3	3	0	0	3	0
	2012	0	0	0	0	0	0	0
	2013	0	0	0	0	0	0	0
	2014	9	0	0	0	0	0	0
	2015	1	0	0	0	0	0	0

Total	17	3	3	0	0	3	0
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1.8.1.8. LEGAL ENTITIES TAKING MOVABLES AND REAL ESTATE IN PLEDGE

According to the data, indicators, information and conducted analysis for the vulnerability of money laundering and terrorism financing in legal entities taking movables and real estate in pledge amounts to 0.30.

Introduction

In the REPUBLIC OF MACEDONIA there are legal entities which receive in pledge movable items and real estate, but do not belong to the category of financial activities and institutions. The number of officials and employees in the non-financial business is small, and the total income realised in 2015 is insignificant. The pledge secures pecuniary and other receivables, whose value can be expressed in monetary terms, which the creditor has against his debtor from certain obligatory relationship. Item of a pledge may be a movable item, security, certain ownership claim or other right, while item of a mortgage a certain property, i.e. an item equal to property. The right to mortgage is acquired by signing a mortgage contract and registering the mortgage in the Central register in a manner and under conditions prescribed by the law. The Pledge register is a type of basic register within the Central register, without the capacity of a legal entity, in which the non-possessory pledge, securities, claims other rights over moveable property must be entered.

Analysis of the sector in terms of size, volume of transactions, and control measures

According to the data of the Central register of the REPUBLIC OF MACEDONIA as of 31.12.2015, there are 19 legal entities that receive pledges in movables and real estate with 54 employees actively working. The total revenue in 2015 amounted to 2,217,858.00 euros. The transactions of these legal entities are carried out in cash up to 15,000 euros in MKD, while any other of transactions above that amount are carried out through the banking system.

In the period 2010 - 2015 the legal entities receiving pledges in movables and real estate have not submitted STRs to the FIA. Also, the FIA has not opened cases involving the legal entities receiving pledges in movables and real estate

Authorities competent for supervising the implementation of measures and actions to prevent money laundering and terrorist financing by legal persons receiving pledged movables and real estate are the FIA and the PRO.

1.8.2 CATEGORY OF DNFBP WHICH ARE NOT SUBJECT TO THE LPMLTF

1.8.2.1. CITIZENS' ASSOCIATIONS AND FOUNDATIONS⁴⁷

According to the data, indicators, information and conducted analysis for the vulnerability of money laundering and terrorism financing in citizens' associations and foundations amounts to 0.40.

Introduction

In the REPUBLIC OF MACEDONIA only citizens who are nationals of Macedonia and foreigners, legal entities, and minor citizens can establish associations and foundations in order to ensure a more liberal and free association in accordance with European policies and practices. Organisation is any association, foundation, union and any organisational form of a foreign organisation, as well as other forms of association, registered according to the provisions of the Law on associations and foundations. Foundation is a legal entity established for the purpose of acquiring and managing property and assets in accordance with the Law on Citizens' Associations and Foundations. A foundation is established with a pool a property amounting to at least 10,000 euros in denars according to the average exchange rate of the NBRM, expressed in money, securities or other assets on the date of filing the act for registration in the register. Associations and foundations must be registered in the appropriate register of the Central register. According to Article 13 of the Law on Associations and Foundations it is prohibited for associations and foundations to perform activities of a political party, including the direct or indirect financing of a political party and influencing elections either through participation, advocacy or funding campaign for a political party. Organisations can receive funds from the state budget, the budgets of the municipalities, the municipalities of Skopje and the City of Skopje. Citizens' associations and foundations are required to compile and submit financial statements to the Central Register of the REPUBLIC OF MACEDONIA only if the total annual revenues exceed 2,500 euros in MKD.

According to Article 17 paragraph 2 of the LPMLTF all obligated entities must pay special attention to business relationships and transactions with citizens' associations and foundations, to perform enhanced analysis and monitoring of all transactions and to keep copies of the analysis.

Analysis of the sector in terms of size, volume of transactions, and control measures

According to the Central register of the REPUBLIC OF MACEDONIA as of 31.12.2015 there are 10,364 registered associations and foundations (out of which 186 foundations, 24 organisational forms of foreign organisations, and 10,154 associations) with 1,994 employees. Of the total of 10,364 registered associations and foundations, 2,069 civic associations and foundations are actively working. The total revenues in 2015 amounted to 119,084,828.00 euros.

The transactions of associations and foundations are mostly cashless with negligible percent of cash transactions compliant with the legally permitted limit.

⁴⁷ With the LPMLTF which entered into force on 10.09.2014, the associations and foundations cease to be subjects that have to implement measures to prevent money laundering and terrorist financing.

The citizens' associations and foundations have submitted 2 STRs to the FIA for the period 01.01.2010 – 31.12.2015. 49 cases were opened during this period, involving citizens' associations and foundations. After the conducted analysis, in 90% of the opened the result were notifications referring to the criminal act money laundering, so they were transferred to other authorised bodies.

Table 40 Submitted STRs to FIA from citizens' associations and foundations

Year	Submitted STRs	Number of opened cases in the FIA involving citizens' associations and foundations
2010	0	18
2011	0	6
2012	1	4
2013	1	8
2014	0	5
2015	0	8
TOTAL	2	49

The number of STRs submitted to the FIA by citizens' associations and foundations are not proportional to the number of citizens' associations and foundations and the annual revenues from their operation. The quality of the submitted STRs from citizens' associations and foundations is insufficient.

The FIA and PRO carry out supervision over the citizens' associations and foundations and their capacity satisfies partially the monitoring of the implementation of measures and actions for prevention of money laundering the terrorism financing. Violation and findings of supervision conducted from the FIA and the PRO for the period 01.01.2010 to 31.12.2015:

Table 41 Supervision conducted by the FIA and the PRO over citizens' associations and foundations

Type of entity	Year	Total number of supervisions	Violations established for:		Alignment	Proceedings for violations before a competent court	Education	Total fines in EUR
			Legal entity	Accountable person				

				n				
Citizens' associations and foundations	2010	27	22	22	0	0	22	0
	2011	7	6	6	0	0	6	0
	2012	8	8	8	0	0	8	0
	2013	6	5	5	0	0	5	0
	2014	0	0	0	0	0	0	0
	2015	-	-	-	-	-	-	-
Total		48	41	41	0	0	41	0

1.8.2.2. LEGAL PERSON WHOSE BUSINESS ACTIVITY IS BYING AND SELLING VEHICLES⁴⁸

According to the data, indicators, information and conducted analysis of the vulnerability from money laundering and terrorism financing with the legal entities whose business activity is buying and selling vehicles amount to 0.40.

Analysis of the sector in terms of size, volume of transactions, indicators, and control measures

Legal persons whose business activity is buying and selling vehicles are registered according to the provisions of the Law on Companies. According to the data of the Central register of the REPUBLIC OF MACEDONIA, as of 31.12.2015 145 legal persons have been registered whose business activity is buying and selling vehicles with 920 employees. Total revenues in 2015 amounted to 165,734,469.00 euros. With the LPMLTF legal persons whose business activity is buying and selling vehicles cease to be entities have to apply the measure for preventing money laundering the terrorism financing. According to Article 32 paragraph 4 of the LPMLTF legal persons whose business activity is buying and selling vehicles the submit the data collected from concluded contracts for buying or selling new vehicles with value of 15,000 euros or more in MKD at the average exchange rate of the NBRM by the end of the day the contract was concluded to the FIA in electronic format.

Table 42 Reports submitted to the FIA from legal persons whose business activity is buying and selling new vehicles with value of 15,000 euros or more.

⁴⁸ With the LPMLTF which entered into force on 10.09.2014, they cease to be subjects that have to implement measures to prevent money laundering and terrorist financing.

Year	Reports submitted for contracts concluded for buying of selling new vehicles with value of 15,000 euros or more
2010	732
2011	2,463
2012	1,760
2013	1,624
2014	2,045
2015	3,765
TOTAL	12,389

According to the available data and information of the FIA, the transactions of legal persons whose business activity is buying and selling vehicles are mainly cashless through the banking system, while the percentage of using cash in this sector is very low and neglectful.

During the period 01.01.2010 – 31.12.2015 the legal persons whose business activity is buying and selling vehicles submitted to the FIA 3 STRs. Also, during the abovementioned period, the FIA hasn't opened cases for the prevention of money laundering involving these entities. The number of STRs submitted to the FIA by legal persons whose business activity is buying and selling vehicles is not proportional to the number of registered legal persons whose business activity is buying and selling vehicles and the annual income from their business activity. The quality of the STRs submitted to the FIA by the legal persons whose business activity is buying and selling vehicles is insufficient.

The supervision of legal persons whose business activity is the buying and purchase of vehicles is conducted by the FIA and their capacity to meet the supervision of the implementation of measures and actions to prevent money laundering and terrorist financing is satisfactory. Violations, findings from supervision conducted by the FIA for the period 01.01.2010 to 31.12.2015:

Table 43 Supervisions conducted by the FIA over legal persons whose business activity is buying and selling vehicles

Type of entity	Year	Total number of supervisions	Violations established for:		Alignment	Proceedings for violations before a competent court	Education	Total fines in EUR
			Legal entity	Accountable person				

				n				
Legal persons whose business activity is buying and selling vehicles	2010	0	0	0	0	0	0	0
	2011	0	0	0	0	0	0	0
	2012	1	1	1	0	0	1	0
	2013	2	2	2	0	0	2	0
	2014	0	0	0	0	0	0	0
	2015	-	-	-	-	-	-	-
Total		3	3	3	0	0	3	0

PART 2 – RISK FROM THE FINANCING OF TERRORISM

According to the Report on Terrorism for 2015 of the Bureau of counterterrorism and countering violent extremism of the US Government⁴⁹ globally, terrorist threats are evolving rapidly, decentralised and diffuse. The Islamic State in Iraq and the Levant (ISIL) remains the greatest threat globally, as by maintaining significant forces in Iraq and Syria, and a large number of foreign fighters. During 2015, fighters of ISIL or under the responsibility of ISIL realised a series of external attacks in France, Belgium, Lebanon and Turkey. Demonstrating the ability to carry out deadly attacks outside Iraq and Syria, ISIL aims to damage the security and stability, undermine economic security, reduce confidence in governments, and to encourage further discord on religious grounds. In order to maintain and finance its activities, ISIL obtains its funding by extortion and collection of “taxes” from the local population which they control, as well as from a large number of other sources, such as illicit trade of oil, kidnapping for ransom, robberies, antiques thefts, illicit antiquities trade, and foreign donations and trafficking.

The REPUBLIC OF MACEDONIA as part of the coalition to counter terrorism, takes a series of measures and activities aimed at the prevention and repression of terrorism and it's financing. In

⁴⁹ The report was published on 02.07.2016

order to conduct preventive policy in the fight against terrorist financing, the REPUBLIC OF MACEDONIA has established a legal framework through the following documents:

1. CC of the REPUBLIC OF MACEDONIA which criminalises the acts of terrorism including the criminal act according to Article 394-c "Terrorism financing".
2. LPMLTF which defines the measures and activities for prevention of money laundering and terrorism financing which the responsible entities should take and the manner of cooperation with the investigative authorities
3. Strategy to prevent money laundering and terrorism financing as a medium document which defines the goals that must be met in order to strengthen and promote the existing system to prevent money laundering and terrorist financing.
4. Strategy to fight terrorism and its action plan providing the measures and activities that the relevant institutions, in this case the FIA, needs to take in order to increase efficiency and strengthen the fight against terrorism financing.
5. Law on international restrictive measures which notes the FIA as institution responsible for the implementation of the financial restrictive measures against entities established by the Security Council of the UN and the European Union.

During 2013 experts from Moneyval Committee conducted the 4th round of evaluation system for prevention of money laundering and terrorist financing in the REPUBLIC OF MACEDONIA in order to determine compliance with standards and requirements defined in the revised Recommendations of the FATF and EU regulations. Based on the report of the completed evaluation, recommendations were given to improve the system. The recommendations include the following:

1. Amendment of the CC of the REPUBLIC OF MACEDONIA:

- Amendment of the criminal act 394-b Financing terrorism. The criminal act "Financing terrorism" in Article 394-c paragraph (1) refers to a large number of crimes within the scope of the agreements listed in the Annex of the Convention on Financing of Terrorism. Here, the evaluators of the Moneyval Committee determined that certain crimes are not covered, in whole or in part;
- The provisions on financing of individual terrorist cannot be implemented due to lack of definition of "individual terrorist";

- Financing of persons leaving the country in order to participate in foreign armies, paramilitaries and organisations outside the territory of the REPUBLIC OF MACEDONIA.

2. Freezing of assets used to finance terrorism:

- Lack of clear, detailed and adequate procedural rules to freeze terrorist assets of designated persons and entities in accordance with the Resolutions of the Security Council 1267/1988 and 1373;
- No available legislation to freeze according to procedures initiated by third parties and assets controlled by designated persons;
- No designated authority for the Resolution 1373;
- No procedures for requests for removal from the list and unfreezing funds of persons and entities removed from the lists, and persons or entities inadvertently affected by the freezing mechanism;
- No available procedure for judicial review of freezing actions.

As a result of the established observations and recommendations in the report by the Moneyval Committee, during 2013 the competent institutions have started taking measures and actions in order to remove them, which resulted in amendments to the CC in part of contractual criminal acts defined by the Convention for the suppression of financing terrorism and the crime terrorism financing in December 2015 and preparation of a new draft law on restrictive measures in cooperation with the Council of Europe.

In order to improve the system of prevention and repression of terrorism, strengthen anti-terrorism and counter-terrorism measures and activities, in March 2016 the Government of the REPUBLIC OF MACEDONIA adopted the National Strategy of the REPUBLIC OF MACEDONIA for combating terrorism. With the implementation of the activities foreseen under this strategy it is expected:

- more effective detection, documentation and investigation of criminal acts related to terrorist activities;
- coordinated activities and exchange of information on inter-institutional level;
- increased and effective international cooperation in preventing and combating terrorism;

- developing the level of awareness of the importance of fighting terrorism and the role of public authorities and other institutions involved in this fight;
- achieving a higher level of personnel and technical equipment of institutions; and
- approximation to international standards and harmonisation of national legislation.

SYSTEM FOR PREVENTION OF TERRORISM FINANCING

The adoption of legislation on prevention of money laundering and terrorism financing in the REPUBLIC OF MACEDONIA established a system to prevent the financing of terrorism, not as special, but as a common system to prevent money laundering and financing terrorism in which each participant has a role according to strictly defined rules.

The system for the prevention of money laundering and terrorism financing in the REPUBLIC OF MACEDONIA is divided into three pillars:

The obliged entities have committed to undertake measures and actions for detecting and preventing money laundering and terrorism financing as follows:

- Client analysis;
- Monitoring of suspicious transactions;
- Collection, storage and delivery of transaction and client; and
- Introduction and implementation of internal programmes.

The FIA as a centralised authority in the system for prevention of money laundering and terrorism financing is obliged to collect, process, analyse, store and deliver data obtained from subjects who are obliged to undertake measures and activities for detection of money laundering and terrorist financing to the investigative authorities for their further processing. The FIA is an administrative body and is not able to perform operational checks of the data analysed in the field activities.

Cooperation for the prevention of terrorism financing

The tectonic shifts that happened on the international stage and the increase in risk and the threat of terrorism and its financing, gave a clear message to all countries that public awareness on threats posed by this evil should be high and that they should have a special approach.

The FIA following the events on the international scene evaluated the need for increasing public awareness in the financial sector. Namely, the FIA is competent to assist in the professional development of authorised persons and employees in the departments for prevention of money laundering and terrorism financing in the entities from Article 3 of the LPMLTF. In accordance with this authority, the Department continuously conducted training on prevention of financing of terrorism during 2013, 2014, and 2015 as follows:

In 2013:

- Training on the prevention of terrorist financing for banks and savings banks in Mavrovo-REPUBLIC OF MACEDONIA;
- Training on preventing terrorist financing for the banking sector which was held in the Economic Chamber of Macedonia in Skopje-REPUBLIC OF MACEDONIA;
- Training on the implementation of the obligations of the Law on international restrictive measures for the banking sector held in the Economic Chamber of Macedonia in Skopje-REPUBLIC OF MACEDONIA;

In 2014:

- Training on the subject "Implementation of the obligations of the Law on international restrictive measures" for the banking sector, organised by the Financial Intelligence Unit and the Economic Chamber of the REPUBLIC OF MACEDONIA;
- Training on the subject "Enterprise security and protection against cyber-crime in the banking sector", designed for the Departments for the prevention of ML/FT in banks and savings banks, organised by the Economic Chamber of Macedonia and the Financial Intelligence Unit in cooperation with the Ministry of Interior, Military Academy Faculty of Security, Law Faculty and the Directorate for personal data protection;

In 2015:

- Training for audit firms and certified auditors on "Identifying the rightful owner and transparency of legal entities" and "Assessment of the risk of money laundering and financing of terrorism" and

-Training for representatives of banks and savings banks on “Prevention of money laundering and terrorist financing – new trends and typologies, organised by the Academy for Banking and Information Technology.

These activities contributed to increasing the public awareness and education of bank employees for detecting suspicious transactions that may be related to terrorist financing, which resulted in submission of STRs for financing of terrorism as follows:

Table 44 STRs submitted for financing of terrorism by year by authorised entities

	2013	2014	2015	Total
Number of STRs submitted to the FIA	24	16	20	60

The analysed data which provided grounds for suspicion of committing the crime of terrorism financing are then submitted by the FIA to the Administration for Security and Counterintelligence (UBK) for their further examination. Namely, during 2013 the FIA submitted 2 reports, during 2014 eight reports and during 2015 the FIA submitted six reports.

Also, in terms of inter-institutional cooperation, the FIA acted upon the requests submitted by the Administration for Security and Counterintelligence for Financial Analysis of entities, for which, according to operational knowledge, there are grounds to suspect they are involved in terrorist financing. This collaboration represents a continuation of the joint fight against financing of terrorism.

Based on the data from the MoI, the Public Prosecution and the Criminal Court, in 2013, 2014 and 2015 no criminal charges, indictments and verdicts for financing terrorism were brought. However, in the same period series of activities were undertaken by the competent institutions to detect and sanction cases of terrorism. Namely, during 2013, 2014, 2015, and 2016 the following were submitted:

- 2 charges for terrorism and terrorist organisation against 37 persons, the proceeding is under way, and
- 2 criminal charges for participation in a foreign army, paramilitary and militia formations against 43 persons, based on which in one case a charge was brought against 11 persons, a first

instance adjudgement against 11 persons, and after the submitted second instance charge, the proceeding of the competent prosecution is under way.

Cooperation for implementation of financial measures against persons designated by the Security Council of the UN or the EU

According to the Law on International Restrictive Measures the procedure for the implementation of restrictive measures includes several state institutions and agencies that take appropriate measures and activities aimed at implementation of the measures adopted by the Government.

In this context, the financial restrictive measures were promptly implemented in the following manner:

- In 2013 the FIA submitted to financial institutions 10 notifications for enforced Decisions for implementation of international restrictive financial measures taken by the Government.
- In 2014 the FIA submitted to financial institutions 8 notifications for enforcing Decisions for implementation of international restrictive financial measures taken by the Government and
- In 2015 the FIA submitted to financial institutions 18 notifications for enforcing Decisions for implementation of international restrictive financial measures taken by the Government.

Typologies of financing terrorism

Based on the analysed data from the STRs which are submitted to the FIA in which it is noted grounds for suspicions of terrorist financing, the following typologies of financing terrorism in 2015 were established:

- Legal entities based in other countries, open non-resident accounts in banks in the REPUBLIC OF MACEDONIA, where foreign nationals (non-residents) are also authorised persons of the accounts. The non-resident accounts of legal entities are used

to deliver inflows and outflows of cash on the basis of “Contracts concluded for purchase of weapons” or “Mediation in trading weapons.”

- A non-resident legal entity, registered in an off shore country, opens a bank account in the REPUBLIC OF MACEDONIA with authorised natural persons who are mostly originating from Balkan countries. In a short period after the opening of the account, transactions are made from/to legal entities which deal in production and sale of weapons and military equipment.
- Several individuals, some of them owners and managers of legal entities and non-governmental organisations, recruited individuals to participate in foreign armies, i.e. terrorist organisations. The natural persons and legal entities were collecting money legally and illegally, while using the fast transfer of money service, welfare, wages, donations, and so on.

Examples of good practice:

“Illegal settlement”

After an investigation of several months, the Public Prosecution for Organised Crime and Corruption in November 2015 filed charges against 29 persons for the events from 9 and 10 May 2015 in the settlement “Wild settlement” in Kumanovo. The respondents are being charged for criminal acts “Terrorist organisation” from Article 394-a and “Terrorism” from Article 394-b of the Criminal Code. On 9 February 2016 in the Court of First Instance Skopje 1 the trial “Wild settlement” began against 29 persons. In order to discover the complete network of contributors and helpers of the criminal-terrorist group, the Mol on 15.10.2015 in coordination and by order of the competent Public Prosecutor conducted the operative action “Thunderbolt”. During the investigation the relation of the suspects with the events was documented, namely, the suspects mainly had a logistic role, i.e. during the two criminal events in “Wild settlement” and “Goshince” they were helping the group in carrying out and covering up. Except helping the criminal-terrorist group from “Wild settlement”, one of the suspects, during the police action, attempted to mobilise young persons to carry out attacks in Skopje with that group, in order to defocus the police and to decrease their power in their attempts to overcome the armed group in Kumanovo. As a result, criminal charges were filed and the accusation was assessed as positive against 8 persons suspected of committing the criminal acts “Terrorist organisation” from Article 394-a and “Terrorism” from Article 394-b with Article 24 “Helping” of the Criminal Code of the REPUBLIC OF MACEDONIA. For the cost of the proceeding, faster and more efficient trial, on 04.05.2016 the Court issued a decision which merges the proceedings and starts a single

proceeding from the beginning. The trial is underway.

“Cell”

01.02.2016 the Public Prosecutor’s Office for Organised Crime and Corruption filed a bill of indictment against 11 people suspected of “participation in a foreign army, police, paramilitary or militia formations” from Article 322-a of the Criminal Code. The indictment was prepared based on a criminal complaint against 36 people, 11 of whom were detained and twenty five are still inaccessible to the law enforcement authorities. For some of them it is presumed that they are still on the battlefields in Syria. When assessing the indictment 6 of the charged made a plea deal and were convicted based on draft settlement. The other 5 were adjudged based on a guilty plea. The convicted for the crimes were sentenced with imprisonment of 2 years for 2 people, 3 years and 1 month to 1 person, 4 years to 1 person, 4 years and 6 months of 1 person, 5 years of 4 persons, 5 years and 6 months of one person, 7 years for one person. The person sentences with 5 years and 6 months is also convicted of acts from the paragraph 2 of Article 322-a which include activities of providing financial funds, funds or material instruments funds intended for the execution of the basic crime specified in this Article . In the case “Cell” the Mol filed to the Public Prosecutor’s Office criminal charges for organised crime and corruption against 7 persons based on the existence of grounds for suspicion that they committed a crime involvement in “terrorist organisation”, i.e. a member or a person who assists in any way according to Article 394-a paragraph 2 of the Criminal Code. Against 4 persons a proposal for imposing detention for a period of 30 days was submitted. 3 persons are not available to the law enforcement authorities.

RISK AND VULNERABILITY ANALYSIS

Recently, in the REPUBLIC OF MACEDONIA there happened a series of events aimed to jeopardise state security with emergence of criminal and terrorist groups, and also the appearance of increased Islamic fundamentalism and radicalism has been recorded, mostly among the population of Islamic faith in order to recruit people to participate in foreign armies and paramilitary forces of other states or to join the military action in Syria.

Criminal events were registered related to the criminal acts of terrorism, targeting with attacks on state institutions by firing firearms and planting explosives and devices, as well as organising and preparing individuals for participation in paramilitary formations outside of the territory, through providing and collecting financial and material resources, recruiting and inciting people to join the militias through social networks or other types of communication.

Based on the above data, it is safe to conclude that the risk of terrorism financing is on a medium level.

The biggest threats to the REPUBLIC OF MACEDONIA are criminal terrorist organisations operating in the countries in the region, citizens of countries in the region participating in enemy armies in Syria and Iraq, and the radical Islam which is gaining impetus in this area. The REPUBLIC OF MACEDONIA will face security asymmetric threats such as terrorism and other forms of radical extremist activity. The activity of the criminal terrorist group eliminated on 05.10.2015 in Kumanovo is the best indicator of that. The Group continues to have its criminal logistics in Kosovo and Macedonia. The use of the Internet for recruitment of members of radical extremist groups involved in military conflicts in Iraq and Syria. Namely, if an increase happened of supporters of Islamic radicalism, increase of returnees from war areas in the Middle East who were members of the "IS", increase of the number of recruited citizens of the country that will join the "IS" and increase of the number of migrants with radical ideology on the territory of the REPUBLIC OF MACEDONIA, use of the migrant route through the REPUBLIC OF MACEDONIA for transit of persons belonging to a radical extremist group might change the security threats in country.

The awareness among entities, especially in banks as the most used institutions, has been increased, as the number of submitted STRs illustratively shows that there are grounds for suspicion of financing terrorism. However, this fact should not be an indication of the risk, if we take into account the number of submitted reports from past years in terms that bank employees are now trained to act preventively and the awareness of danger is highly increased.