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OBSERVATORY OF ILLICIT ECONOMIES IN SOUTH EASTERN EUROPE

RISK BULLETIN

SUMMARY HIGHLIGHTS

1. **Balkan countries score poorly on the 2021 Global Organized Crime Index.**
   The results of The Global Initiative Against Transnational Organized Crime's (GI-TOC) Global Organized Crime Index show that countries from the Western Balkans score higher than the global average in terms of criminality. Indeed, four of the Western Balkan Six (WB6) rank among the 10 highest-scoring countries in Europe on criminality. The region also reflects a global trend highlighted in the Index, that state-embedded actors are the most dominant type of criminal actor in the world. However, countries of the region generally also scored higher than the global average in terms of resilience to organized crime.

2. **Debunking the myth of the existence of a Balkan cartel.**
   Media outlets and law enforcement agencies, including Europol, have often attributed criminality in the region to a 'Balkan cartel'. However, although there are clear inter-ethnic patterns of cooperation among criminal groups in the region, there are no indications of these groups belonging to a cartel-style structure.

3. **Use of cryptocurrencies is gaining traction in the region.**
   Increased use of cryptocurrencies in the Western Balkans brings new opportunities, but also additional risks like money laundering. We look at how cryptocurrencies work, provide examples of cryptomining in the region and examine the challenges the region is starting to face, particularly in relation to cryptocurrencies as an element of illicit financial flows.

4. **Building bridges between civil society and the government in North Macedonia.**
   The Observatory of Illicit Economies in South Eastern Europe is currently carrying out a series of resilience dialogues in each of the six countries of the Western Balkans. This article looks at the meeting held in Skopje and highlights the challenges and opportunities of strengthening cooperation between civil society and the government in preventing and combatting corruption and organized crime.

5. **'Uncapturing' the state: Interview with Macedonian NGO Eurothink.**
   North Macedonia has an active civil society dealing with many issues, including those related to organized crime and corruption. We talk to Eurothink – Center for European Strategies, one of the leading non-governmental organizations in the country, about its objectives and activities and its focus on environmental crime.

GLOBAL INITIATIVE
AGAINST TRANSNATIONAL ORGANIZED CRIME

ABOUT THIS ISSUE

Welcome to the tenth issue of the Risk Bulletin produced by the GI-TOC's Observatory of Illicit Economies in South Eastern Europe. In this issue, we analyze the main findings related to the Balkans of the first-ever Global Organized Crime Index, produced by the GI-TOC. For a more detailed analysis, including profiles of all countries of the region, please visit ocindex.net.

In our research on illicit economies in south-eastern Europe, we have occasionally come across the expression 'Balkan cartel'. Although criminal groups from the Western Balkans have become more transnational and, in some cases, more powerful in recent years, our sense has been that they are not as united as the media sometimes implies. We therefore examined this term and the origins of the myth, and found that the situation is more complex than the vision of Balkan criminal groups as a giant octopus with a defined leadership controlling its tentacles.

There currently is a lot of hype about cryptocurrencies, with the price of Bitcoin reaching record highs of over €55 000 per unit, but there is also a growing debate around regulating cryptocurrencies. In our work on illicit financial flows and analyzing the seizure of assets, we have increasingly seen references to the use of cryptocurrencies by criminal groups in and from the Western Balkans. Thus far, the use of cryptocurrencies in the region is relatively limited. However, it is an issue that deserves attention, not least by financial investigators in the WB6.

Through funding from our financial partners, including Germany, Norway and the Netherlands, we are able to support civil society organizations in south-eastern Europe that are carrying out activities to strengthen resilience to organized crime. Part of this work includes a series of resilience dialogues in each of the six countries of the Western Balkans. The first meeting was held in Skopje on 22 and 23 September 2021, and five others will follow by early December.

Thematic reports will be issued on some of the main topics covered by the dialogues and projects carried out by civil society organizations (CSOs) in the region, namely on youth, gender and the social reuse of assets. In this Bulletin we report on the resilience dialogues we organized in Skopje, particularly on efforts to strengthen cooperation between civil society and the government.

While in Skopje, we interviewed two leaders of the NGO Eurothink – Center for European Strategies as part of our monthly focus on CSOs working to increase resilience to organized crime. Their work focuses in particular on strengthening implementation of chapter 24 of the EU acquis in North Macedonia, related to justice, freedom and security.

At the end of this issue, we feature an overview of recent publications related to organized crime and corruption in the Western Balkans and showcase new and forthcoming reports by the GI-TOC.

If you have a proposal for a story or would like to provide feedback, please contact Kristina.Amerhauser@globalinitiative.net.

1. Balkan countries score poorly on the 2021 Global Organized Crime Index.

On 28 September 2021, the GI-TOC issued the Global Organized Crime Index, the result of several years of research involving over 350 experts worldwide, covering all 193 member states of the United Nations. The Index is based on in-depth analyses of criminal markets and actors. According to its level of criminality, a country is assigned a score from one to 10, where one indicates a market or actor type is either non-existent or negligible in their impact and 10 signifies that no aspect of society goes unaffected by organized crime.

The Index also measures the resilience of a country to organized crime, namely the ability of state and non-state actors to withstand and disrupt organized criminal activities as a whole, rather than individual markets, through political, economic, legal and social measures. Here too, states are assigned a score that ranges from one to 10, but the scale is inverted in this case: a one signifies the lack of adequate resilience mechanisms and a 10 implies the presence of highly effective measures to counter organized crime and its impact.

Assessing the level of criminality in conjunction with resilience levels, rather than focusing solely on the pervasiveness of illicit economies and criminal actors, provides for an analysis of vulnerability through a multi-dimensional lens. For example, a country like North Macedonia may have a relatively high criminality score

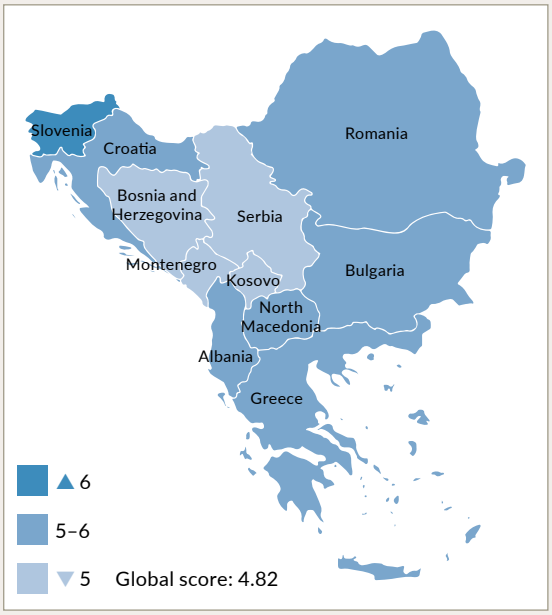
(5.31 compared to the global average of 4.88), but this is partly offset by a relatively high resilience score (5.21 compared to the global average of 4.82).

Serbia, Montenegro and Bosnia and Herzegovina respectively rank second (behind Russia), fourth and fifth, in the criminality ranking for all of Europe. Montenegro's problems are compounded by a relatively low resilience score of 4.46, while Bosnia and Herzegovina has one of the lowest resilience scores in all of Europe (3.92), and ranks just 138th in the world in terms of resilience to organized crime.

The picture is slighter better for the countries of south-eastern Europe that are members of the European Union. Slovenia, Croatia and Romania scored relatively high levels of resilience, while most EU countries from the region have relatively low levels of criminality. Bulgaria is an exception, with a criminality score of 5.43 that ranks it 10th in Europe.

Since Kosovo is not a full member of the United Nations, it was not officially included as part of the Index rankings. However, the country underwent the same amount of scrutiny and was assessed during the various verification rounds that underpin the tool. Kosovo* is thus assigned a criminality score of 5.19 (the lowest of the WB6) and a relatively low resilience score of 4.42 (the second-lowest, behind Bosnia and Herzegovina).

Country	Criminality	Rank (Europe)	Rank (Global)
Serbia	6.21	2 (44)	33 (193)
Montenegro	6.00	4 (44)	45 (193)
Bosnia and Herzegovina	5.89	5 (44)	49 (193)
Albania	5.63	9 (44)	61 (193)
Bulgaria	5.43	10 (44)	70 (193)
North Macedonia	5.31	11 (44)	74 (193)
Kosovo*	5.19	–	78 (193)
Croatia	5.06	13 (44)	85 (193)
Greece	4.93	14 (44)	92 (193)
Romania	4.59	22 (44)	115 (193)
Slovenia	4.29	29 (44)	132 (193)



Country	Resilience	Rank (Europe)	Rank (Global)
Slovenia	6.08	25 (44)	36 (193)
Croatia	5.58	26 (44)	51 (193)
Romania	5.58	26 (44)	51 (193)
Bulgaria	5.29	30 (44)	71 (193)
Greece	5.25	31 (44)	72 (193)
North Macedonia	5.21	32 (44)	76 (193)
Albania	5.04	36 (44)	87 (193)
Serbia	4.92	37 (44)	93 (193)
Montenegro	4.46	38 (44)	112 (193)
Kosovo*	4.42	–	114 (193)
Bosnia and Herzegovina	3.92	42 (44)	138 (193)

FIGURE 1 Criminality and resilience scores of Balkan countries in the 2021 Global Organized Crime Index.

NOTE: *References to Kosovo in the Index are made without prejudice to positions on status, and are in line with UNSCR 1244/1999 and the advisory opinion of the International Court of Justice on Kosovo's declaration of independence.

SOURCE: Global Organized Crime Index, GI-TOC, https://ocindex.net

Although Kosovo has established alternative channels of international cooperation, the fact that the country is not officially recognized serves to limit the available anti-organized crime cooperation mechanisms.

The Index also enables users to identify regional characteristics and trends. For example, in the Balkans, high criminality scores are evident for human smuggling and heroin trafficking, both scoring a mean average of 6.25 for the WB6, well above the continental mean of 4.73 and 4.41, respectively, while cannabis (5.91) and cocaine (5.66) trafficking scores are higher than the European mean by 0.81 and 0.84, respectively.

One of the most troubling findings of the Index is that state-embedded actors are the most dominant criminal actor type in the world. The degree to which criminality permeates state institutions varies from low-level corruption to full state capture, but across the spectrum this involvement has implications for the capacity of countries to respond to organized crime.

While this risk is relatively low in western Europe, the average score of state-embedded actors in central and eastern Europe reaches 6.76 (with peaks of 8 in Bosnia and Herzegovina and Serbia). This is alarming, since one of the strongest correlations emerging from the Index was found to be between the presence of state-embedded criminal actors and poor resilience, which suggests that those actors may be undermining the capacity and resilience of the state to prevent illicit flows.

While the Index provides the first-ever global measurement of organized crime, it is not designed to only be a comparative research tool. It strives to provide metrics-based information that can allow policymakers, practitioners and other stakeholders to be better informed while developing strategies to counter organized crime in their countries and/or regions. It is anticipated that the Index will be updated every two years.

To access the full report and individual country profiles, visit ocindex.net.

2. Debunking the myth of the existence of a Balkan cartel.

A criminal cartel is a sophisticated alliance of multiple criminal organizations and cells cooperating for a long time under the leadership of several bosses and the kingpin, and having extensive connections with other organized criminals at the national, regional and international levels. The media and law enforcement agencies, including Europol, sometimes refer to the existence of a 'Balkan cartel'. Is that a myth, or is there such a criminal association? And why does it matter? [1]

Cartels' primary source of income is drug trafficking.[2] They produce, transport and distribute illicit drugs with the assistance of criminal organizations that are either members of or closely cooperate with the cartel. They also launder money from drug trafficking.

Historic examples include the Medellín cartel under Pablo Escobar or the break-away Cali cartel, both in Colombia. Contemporary examples include the Sinaloa cartel, the Gulf cartel or the Juárez cartel in Mexico that maintain drug distribution through cells in cities across the United States that either report directly to leaders in Mexico or indirectly through intermediaries. They are composed of various compartmentalized cells assigned to specific functions and therefore provide a complete chain of drug businesses – production, transportation, distribution and money laundering.[3]

The Balkan cartel would then be an alliance of criminal organizations from Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Greece, Kosovo, Montenegro, North Macedonia, Romania and Serbia (or at least some of these countries) with a solid hierarchical structure and a prominent criminal enterprise leader, able to produce, transport and distribute drugs as well as launder money. Indications are that such a united cartel does not exist. If it did, it would be a powerful force in the criminal world.

Available evidence gives a more nuanced picture. On the one hand, criminals from the former Yugoslavia still act in a kind of 'Yugosphere' of criminality. They usually display the attributes of criminal networks involved in illicit trafficking of commodities, but do not have territorial control or any of the other defining features of mafia-style groups. These networks are usually transnational and cooperate across borders and ethnic divides. Indeed, criminals in the Balkans often seem to cooperate more effectively across borders than law enforcement agencies.

There are also mafia-style organizations in the Balkans. There are four defining, although not exclusive, features of a mafia-style group: a known name, a defined (usually hierarchical) leadership, territorial control and identifiable membership. Such groups (often based around a clan) can be found in parts of Albania or local hotspots of organized

crime in parts of the region. They are usually concentrated in a particular city or region and, although they may have accomplices abroad, they lack the transnational reach of criminal networks or cartels.

On the other hand, while one could argue that a few criminal networks from the region have some characteristics of cartels, there is no homogeneous, unified Balkan cartel under one centralized command and control structure. Indeed, there are violent rivalries between some groups and organizations, even from the same country, like the Kavač and Škaljari clans from Montenegro or rival clans in Albania. Criminals from the Balkans are also effective at working with counterparts from outside the region, for example linking up with cocaine suppliers in Latin America or distributors in western Europe. In short, most organized criminal groups in or from the Balkans operate more like criminal networks or, in localized situations, like mafia-style groups, rather than cartels.

Besides assessing the veracity of the myth, why is it important to determine the existence of a Balkan cartel? Based on the experience of Latin America and Mexico, the existence of such a cartel could pose a serious security risk to countries of the region, including threatening state sovereignty and a monopoly on the use of force, causing high rates of lethal violence and subverting or even replacing certain state functions, such as providing security, creating a stable economy and controlling some key border crossing points.[4] It could also have a serious impact on security within the countries where the cartel operates, for example in Latin America and western Europe, as well as the balance of power (or market rivalries) within illicit economies.

ORIGINS OF THE MYTH

If there is no Balkan cartel *per se*, where does the myth come from and why does it persist? In the 1980s, young men from what was then Yugoslavia were active in the underworld of some western European countries. Some worked in red light districts as bouncers or human traffickers, while others made their money from protection rackets, extortion and drug dealing or as hitmen.[5] They were known, for example, in the Netherlands as *Yugomafia* or in Sweden as *Juggemaffian*.

Criminal groups from the Balkans became more organized and more violent during and after the wars in Yugoslavia, not least because of their experience in combat and access to weapons. Others enjoyed a degree of protection from the criminal economies developed to evade sanctions. Although they were developing a fear factor, they were still relatively small-time operators in the European crime scene, active mostly in trafficking heroin, weapons and people.

The myth of the Balkan cartel grew with the notoriety of the criminal group led by Darko Šarić, a Serbian citizen of Montenegrin origin known as 'the cocaine king'.[6] Šarić first attracted the interest of authorities in 2000 when the Serbian police received information from colleagues abroad about suspicion of money laundering.[7] In 2007, Italian police began investigating Šarić and other Serbian and Montenegrin criminal clans that were taking over the cocaine market from the Calabrian mafia 'Ndrangheta.[8] In October 2009, more than two tonnes of cocaine were seized on a luxury yacht near Montevideo, Uruguay, in operation Balkan Warrior. Two people were arrested, a Uruguayan and a Croat.[9] Balkan Warrior was described as an operation that prevented the creation of a Balkan cartel.[10]

To some extent, the use of the expression 'Balkan cartel' is sensationalist reporting, based on limited knowledge of both organized crime and the region. The term 'cartel' is used as shorthand for criminal groups, while 'the Balkans' is portrayed as a monolith of criminal actors from eastern Europe. Put together, the expression implies a highly organized pan-regional criminal group. While such a cartel does not seem to exist, there are enough actors around who either seek to perpetuate the myth or whose operations indicate a degree of transnational cooperation.

For example, in 2015, US authorities classified Naser Kelmendi as a major drug lord and a leader of a criminal family in the Balkans, with a network of associates across the region (especially in Kosovo, Bosnia and Herzegovina, Montenegro and Serbia) and western Europe. Kelmendi's criminal organization was accused of drug trafficking and money laundering, and was even sanctioned by the White House under the US Kingpin Act in 2012.[11] In 2018, he was found guilty of running a narcotics operation, but was later released while he awaits retrial.[12]

On the other side of the world, in 2015, Balkan criminals were marked as the biggest threat to security in Australia. The leading players were known as the King Cross gangsters and they controlled drug trafficking to Australian ports.[13] The media dubbed the alleged leader, Vaso Ulić,[14] as the new Pablo Escobar. Ulić admitted in 2019 in Montenegro that he organized a clan for international drug trafficking.[15]

Ulić was not the only one given that title. The exploits of Klement Balili from Albania have also been portrayed as a Balkan cartel, and – adding to the myth – Balili has also been referred to as the 'Balkans' Escobar'.[16] In May 2016, Greek police arrested 15 members of a criminal network that smuggled cannabis from Albania to Greece and Europe, financed and run by Balili, who was then director of transport in Saranda, Albania. He was eventually fired and a warrant was issued for his arrest. He was on the run until January 2019, when he surrendered to the police,[17] just like Šarić.[18]

Another example of a Balkan kingpin is Edin Gačanin, leader of the Tito and Dino cartel. His group is known to be a big player in the smuggling of cocaine from South America to the Netherlands.[19] Serbian security services believe that the Tito and Dino cartel took over the cocaine business from Group America in 2016 after the arrest of one of their high-ranking members, Zoran Jakšić.[20]

The fact that there are several big players in or from the region indicates that there are a number of groups, but not a unified cartel. In Spain alone, there are estimated to be 100 organized criminal groups from the Balkans.[21]

And yet, even Europol uses the expression 'Balkan cartel', which it describes as a network of organized crime. Several operations have been carried out as part of a broader European strategy against the so-called Balkan cartel.[22] Cocaine trafficking from Colombia, Ecuador and Panama to Europe and Asia is the leading business for Balkan criminals, but they are also involved in arms trafficking. Members of the Balkan cartel, according to these operations, are mainly criminals from Serbia, Croatia, Montenegro, Slovenia and Bosnia and Herzegovina.

The myth is strengthened every time a multinational criminal group is taken down. For example, 48 people recently arrested in Slovenia were allegedly part of a cell of a Montenegrin criminal group. According to the criminal charges filed by the police, 20 of them were citizens of Slovenia, 11 from Serbia, nine from Bosnia and Herzegovina, five from Croatia, two from Montenegro and one from North Macedonia. Such examples demonstrate that there are multi-ethnic networks or syndicates from the Balkans or cells associated with a violent clan, but are not proof of a Balkan cartel.

TENTACLES WITHOUT A HEAD

Undoubtedly, criminal organizations from the Western Balkans cooperate. Some smuggle large quantities of cocaine from South America to Europe, North America, Africa and Asia. Another group is the Pink Panthers' network of jewel thieves. The composition of some of these groups is multi-ethnic, consisting of people from the former Yugoslavia. Cooperation is facilitated by understanding of each other's languages as well as cultural similarities. The same logic applies to cooperation among Albanian-speaking groups. Some groups from the Western Balkans also cooperate with criminal organizations from the rest of south-eastern Europe like Bulgaria, Croatia, Greece, Romania and Slovenia.

References to the 'Balkan cartel' in media articles and law enforcement statements.

That said, these Balkan groups also cooperate with groups from outside the region, for example in western Europe and Latin America. Indeed, some Balkan criminals seem to be key members of groups that resemble cartels, like the multinational Kompanio Bello network that was busted in September 2020.[23] This largely Albanian-speaking group had been organizing major shipments of cocaine from Latin America to western Europe.[24] In October 2021, when the head of the powerful Colombian Clan del Golfo cartel was arrested, it was reported that his group had links with a number of other criminal networks, including from the Balkans.[25] Therefore, similar ethnicity or language does not seem to be a prerequisite for cooperation but it is not a guarantor of cooperation either; as noted, there is sometimes violent competition between groups from the region and even the same country.

As InSight Crime has observed, 'in today's ever more fluid underworld, none of these groups have the capacity to run cocaine routes from production to retail single-handedly. Instead, they constantly form and dissolve networks and alliances with different actors from all across the globe.'[26] In short, while there is clearly inter-ethnic cooperation among criminal groups from the Balkans, and the tentacles of these groups extend around the world, the arms are neither connected to a common body nor are they coordinated by a mastermind.

3. Use of cryptocurrencies is gaining traction in the region.

There is much hype and debate about the potential of digital cryptocurrency, with the price of Bitcoin reaching record highs of over €55 000 per unit. El Salvador has even adopted Bitcoin as an official currency, the first country to do so. In the Western Balkans, although the level of cryptocurrency use is relatively low, it is slowly increasing in the region. This brings new opportunities but it can also create new risks, since cryptocurrencies are used by criminals to move and launder money. This article looks at how cryptocurrencies work and the risk that they pose to the region, particularly in relation to illicit financial flows.

OPEN FINANCIAL SYSTEM OR PONZI SCHEME?

Cryptocurrencies are web-based, peer-to-peer payment systems that rely on cryptography. They function as 'a digital unit of exchange that is not backed by a government-issued legal tender.'[27] They are computer files tendered as a form of payment for real goods and services. Cryptocurrencies work using blockchain, a digital ledger of transactions that is duplicated and distributed across the entire network of system users. Each block in the chain contains a number of transactions, and every time a new transaction occurs, a record of that transaction is added to every participant's ledger.

Proponents regard virtual currencies as the wave of the future for payment systems. They praise the speed and simplicity of making transactions, freedom from intermediaries like banks and the transparency of blockchain, which can reduce the chance of fraud and tampering.[28]

Critics argue that cryptocurrencies are based on speculation more than real value. As one analyst in North Macedonia put it: 'Cryptocurrencies are imaginary money … There is no world economy behind them.' He warned that the value of cryptocurrencies is not subject to regulation by monetary authorities and that they are vulnerable to financial speculation.[29] Some have even called them a gimmick and a Ponzi scheme.[30]

Another widespread and often-heard criticism is that anonymity and weak regulation enable criminals to use cryptocurrencies to move and store illicit funds and tax evaders to avoid detection, out of the reach of law enforcement and regulators.

Critics also point to the negative environmental impact of cryptocurrencies.[31] Not only is cryptomining energy intensive, but also mining equipment and computer chips used for Bitcoin mining usually have a short lifespan. Furthermore, Bitcoin transactions require a great deal of energy and generate electronic waste.[32]

A Bitcoin ATM next to a regular ATM at a petrol station. *Photo: Chris Delmas/AFP via Getty Images*

LIMITED USE AND LOW REGULATION IN THE WESTERN BALKANS

The roll-out of cryptocurrencies in the Western Balkans has been relatively slow compared to other parts of Europe. A heatmap produced by Coinmap, a website that displays venues around the world that accept cryptocurrency payments, shows that there are few cryptocurrency exchanges or ATMs in the Western Balkans, except in big cities and along the Montenegrin coast.[33]

As with cash, cryptocurrencies can be accessed from ATMs. As the price and popularity of cryptocurrencies surge, the number of cryptocurrency ATMs is soaring. There are now almost 29 000 such machines worldwide.[34] But very few of them are in the Western Balkans. According to one source, there are five cryptocurrency ATMs installed in Serbia (one in Nis and two each in Belgrade and Novi Sad), four in Kosovo (all in Pristina) and six in Bosnia and Herzegovina (three each in Banja Luka and Prijedor). Officially, there are none in North Macedonia, Albania or Montenegro.[35] Although it looks similar to a regular ATM, a Bitcoin ATM is not connected to a bank account, but rather to a cryptocurrency exchange. Customers are able to access their digital wallet to buy and sell virtual assets.

People are also increasingly paying for goods and services using cryptocurrencies, for example in coffee bars, restaurants, hotels and hospitals where this option is available. It is even possible to rent a yacht in Montenegro using cryptocurrencies.[36] A business that receives more than €10 000 in cash from a customer must file a currency transaction report. But the same rules do not apply to cryptocurrency. A used-car business that receives €20 000 in Bitcoin from a customer does not have to file a currency trans-action report; that income may also go untaxed if it is unreported on the business owner's tax return. This is not a hypothetical situation: three luxury apartments in Budva, Montenegro, sold for 420 bitcoins (US$3.2 million), while a local investment association is promoting the use of digital currencies in hotels and resorts in this popular tourist destination.[37]

The introduction of this technology has been faster than the adoption of legislation to regulate it. Some countries in the region, like Bosnia and Herzegovina and Kosovo, have not adopted laws on cryptocurrency trading or regulation of cryptocurrency ATMs. And yet the machines are not illegal. This creates a grey area that is being exploited.

Serbia and Albania, on the other hand, are among the first countries in the world to create a clear framework and legal security for investors and users of digital assets.[38] Other countries in the region have created working groups tasked with drafting legal frameworks.[39]

ONLINE, OFF THE BOOKS

Although cryptocurrency and cryptomining are legal, digital money is a new domain for money laundering by corrupt officials, businesspeople or criminal groups. Since much of the illicit activity in the Western Balkans is transnational, criminal groups need ways to move the money generated by the trafficking of drugs, weapons and people.

Furthermore, many criminal groups from the Western Balkans operate outside the region; cryptocurrency therefore enables them to move money quickly and anonymously across borders, including back into the Western Balkans. Where regulation is weak, cryptocurrencies are a good way to bring illegal proceeds into the financial system since they are a highly moveable asset.

As with cash-based money laundering, there are three main stages to laundering money using a cryptocurrency:

- Placement: Illicit funds are brought into the financial system, for example through cryptocurrency exchanges or ATMs.
- Layering: In this stage, criminals obscure the illegal source of funds, for example converting one cryptocurrency into another or taking part in an initial coin offering.
- Integration: Illegal money is then put back into the licit economy as 'clean', for example by cashing out cryptocurrency through ATMs or over-the-counter brokers who get a high commission.

In countries with weak regulation or enforcement of know-your-customer rules, ATMs themselves can be a portal for laundering money. For example, they can allow people to purchase Bitcoin via credit or debit cards or in some cases by depositing cash or trading cryptocurrency for cash. For a fee, unscrupulous owners may allow drug traffickers or other criminal groups to deposit large amounts of cash into the virtual currency machines and hide the origin of the funds.

Cryptocurrency exchanges enable clients to convert hard currency into crypto-assets and vice versa. This creates liquidity in cryptocurrency markets. It also means that such exchanges are key gateways for crypto-asset-related money laundering. Criminals deliberately seek out exchanges where there is low risk to move their money between fiat and crypto-assets, or from one crypto-asset to another. In a space that is thus far under-regulated, criminals look for unlicensed and non-compliant exchanges that do not enforce know-your-customer or customer due diligence rules. Criminals also take advantage of decentralized exchange services (like the Ethereum network) to lend or borrow money, bypass compliance controls and take advantage of the fact that such systems lack a central administrator with active oversight of user accounts, records, identities or activities. Online gambling sites that accept payments in cryptocurrency enable criminals to purchase chips with crypto-assets and cash them out after a few transactions.

Furthermore, peer-to-peer cryptocurrency networks enable criminals to move money, for example to jurisdictions where there are less stringent anti-money laundering regulations. Such networks also help criminals to access exchanges or brokers that can convert crypto-assets into fiat money. The technology also raises obstacles – both technical and legal – on seizing and recovering cryptocurrency assets. This is an area that lawyers and law enforcement practitioners are grappling with.

Cryptocurrency platforms are also being used to commit fraud.[40] In an April 2021 fraud case, Turkish officials appealed to Albanian colleagues to help track down a fugitive trader who is alleged to have fled to Tirana with US$2 billion in digital assets belonging to 700 000 people.[41] In addition to such inside jobs, there is the danger of crime against a decentralized finance protocol (cryptocurrency platforms) by outsiders through hacks or ransomware attacks.

DIGITAL DIGGERS: CRYPTOMINING IN THE WESTERN BALKANS

Although cryptocurrencies are slowing becoming more popular and more common in the Western Balkans, some parts of the region, like northern Kosovo and a few municipalities in North Macedonia, are active centres of cryptomining, that is, gaining cryptocurrencies by solving cryptographic equations through the use of computers, which requires huge amounts of equipment and electricity.

Taking advantage of their unclear legal status since Kosovo's declaration of independence in 2008, Serbs in northern Kosovo – in the municipalities of Leposavic, Mitrovica, Zubin Potok and Zvecan – have not paid an electricity bill in more than two decades. Attics, basements, garages and even whole houses – often charging high rent – have been converted for cryptomining. In the process, around €12 million worth of energy is being consumed for

A wire denoted by a piece of polythene tied around it is used to make an illegal connection. *Photo: Tony karumba/AFP via Getty Images*

free every year. It has been reported that cryptocurrency production in this small area, with an estimated population of fewer than 50 000 people, consumes 32 terawatt-hours of electricity per year, almost as much as all of Denmark.[42]

Cryptomining is also becoming common in North Macedonia, for example in Skopje, Tetovo and Aracinovo. Electric companies are noticing much higher than normal energy consumption in some parts of these cities.

Cryptomining is legal and it can be lucrative: profits are usually two to three times the cost of the investment in rent, mining rigs and electricity.[43] What is illegal is making an illicit connection to the electricity network in order to steal the power needed to mine cryptocurrencies. This has been reported in the above-mentioned cities in North Macedonia. The problem has also been reported elsewhere. In August 2021, electricity theft was reported at the former Kruna water-bottling factory close to Banja Luka in Bosnia and Herzegovina; 360 computers involved in cryptomining were discovered on the site and charges were filed for unauthorized electricity consumption.[44]

One of the side effects of cryptomining is power outages caused by overloading the electricity distribution network. According to a representative of a local power company, 'one household, if it installs computers for mining cryptocurrencies … can consume energy for 20 or 30 households, which disrupts the power supply to all neighbouring users at that power point'.[45] In the first half of 2021, 120 charges were filed for theft of electricity in North Macedonia; in 2020, 250 charges were made for the unauthorized use of electricity.[46]

In conclusion, e-commerce is clearly the wave of the future. Although the use of cryptocurrencies in the Western Balkans is currently limited and the extent to which they are already used to launder money and avoid taxes remains difficult to measure, it is clear that cryptocurrencies are attracting a lot of attention. The challenge for countries in the region is to put in place a robust regulatory framework and ensure that law enforcement and regulators have the tools and capacity to follow cryptocurrencies, reduce the risk of money laundering and to equip financial intelligence experts with the know-how to prevent cryptocurrencies from being exploited for organized crime and corruption.

A Bitcoin mining rig for sale online in North Macedonia.
Photo: Pazar3

View of Skopje, North Macedonia. *Photo: Zefart | Dreamstime*

4. Building bridges between civil society and the government in North Macedonia.

On 22 and 23 September 2021, the GI-TOC's Observatory of Illicit Economies in South Eastern Europe invited civil society representatives to a series of consultations in Skopje. The meetings provided an opportunity to strengthen resilience and networks among CSOs dealing with organized crime and corruption in North Macedonia, to try and build bridges between civil society and the government on these topics and to showcase the GI-TOC's work in the Macedonian capital. The meeting was the first in a series of 'resilience dialogues' that will take place in all six Western Balkan capitals between September and December 2021.

These resilience dialogues follow a similar process that was launched in 2020, which brought together a diverse group of civil society actors from across the region to exchange experience and expertise and strengthen networks against organized crime and corruption. The series of community events provided insight into the wide array of civil society actors and initiatives present across the region. The results of the process were published in a March 2021 report entitled 'Stronger together: Bolstering resilience among civil society in the Western Balkans.'

The meeting in Skopje kicked off the second year of the dialogues and involved civil society actors in North Macedonia, particularly those who are recipients of grants from the GI-TOC's Resilience Fund, as well as CSOs that are part of the GI-TOC's regional Network of Experts. In this small circle, participants shared views on the challenges faced by CSOs in dealing with organized crime and identified needs for building capacity and strengthening networks. As one participant said: 'We cannot fight this problem on our own.'

Among the challenges identified were the corrosive effect of corruption (for example on politics and in the health care sector), the instrumentalization of anti-corruption campaigns for political agendas, captured governance (including at the local level), lack of access to official information and weak prosecution. There was also disappointment that the change of government in 2017 had not brought significant improvement, even with the involvement of former members of civil society in the executive branch.

Moving forward, it was noted that there should be greater support for research on organized crime, increased support for CSOs outside the capital, a stronger focus on education (particularly to counteract a 'culture of corruption'), more focus on issues of concern to youth and more research on the positive and negative effects of digitalization, as well as greater cooperation among CSOs, the media and academia on exposing and addressing environmental crime. Furthermore, participants discussed how to highlight the harms of organized crime and corruption, and how to develop narratives of change and promote positive role models to inspire people.

A recurrent problem, in North Macedonia and throughout the region, is a lack of meaningful dialogue or engagement between CSOs and the government. CSOs are often considered by the government as a nuisance factor, or even anti-governmental. The other extreme is that certain NGOs are co-opted by the government, receive funding and promote government positions, which de facto make them government-organized NGOs.

To address this issue, the GI-TOC, together with the Skopje-based think tank Eurothink – Center for European Strategies, co-organized a meeting between CSOs and government officials on 'building bridges between civil society and the government' to discuss existing mechanisms of civil society and government cooperation as well as possible areas of improvement. Participants from civil society and the government, which included representatives from the Ministry of Internal Affairs, Parliament, the National Committee for Violent Extremism and the State Commission for the Prevention of Corruption, agreed that when it comes to preventing and fighting organized crime and corruption, civil society and government should be on the same side.

The session also provided an opportunity for an open exchange of views and ideas on how to improve cooperation, particularly on the issue of migration. Some civil society participants called for a greater role for NGOs in evaluating the government's performance in dealing with corruption and organized crime, for example in the context of EU accession. It was also noted that CSOs should be consulted more widely in the drafting of relevant legislation and national strategies and be given greater opportunities to interact with government officials in consultative bodies.

Ways were also discussed about how to maintain sustainability of projects and continuity of engagement between CSOs and the government, for example through the creation of a state secretariat for the NGO sector. Several participants expressed the view that it is important to engage more actively with the private sector and religious leaders in strengthening integrity and fighting corruption.

During its visit, the GI-TOC team met with the Minister of Internal Affairs, Oliver Spasovski. The meeting provided an opportunity to describe the GI-TOC's work and efforts to improve cooperation between civil society and the government in fighting organized crime and corruption, as well as the importance of promoting more effective regional cooperation to fight transnational organized crime.

The consultations showed that bridges between the government and civil society cannot be built overnight. But the foundation can be laid through dialogue.

5. 'Uncapturing' the state: Interview with Macedonian NGO Eurothink.

In the latest in our regular series that profiles the work of civil society organizations in the Western Balkans that are working to strengthen resilience to organized crime, we talk to Dimitar Nikolovski and Aleksandar Stojanovski of Eurothink – Center for European Strategies in Skopje, North Macedonia.

Dimitar Nikolovski and Aleksandar Stojanovski of Eurothink – Center for European Strategies, Skopje.

What is Eurothink's background and mandate?

Eurothink was founded in 2002 as the Macedonian Center for European Training. The initial focus was on training on topics related to European accession for people in public administration, civil society and the media. In 2007, the name was changed to Eurothink – Center for European Strategies. This was a reflection of a shift in focus from training to more of a think tank-oriented CSO dedicated to generating and sharing evidence-based policy research and activities.

When and why did Eurothink's work pivot from focusing on the EU to looking more at organized crime and corruption?

The EU is still very much the main focus of our work, but in 2016 we widened our scope to address some of the main issues confronting our country – like violent extremism, migration, corruption, organized crime and environmental issues. With the dramatic events around the fall of the government of Nikola Gruevski, we thought that more focus was needed on issues related to chapter 24 of the EU acquis on justice, freedom and security. Quite a few

NGOs were focusing on corruption, but almost none on organized crime issues related to chapter 24 processes.

How would you evaluate the progress of North Macedonia, particularly in relation to chapter 24?

The current government is certainly doing a better job than the previous one: it is worth recalling that the European Commission once described North Macedonia as a 'captured state' under the Gruevski regime. Indeed, progress was good enough to be invited to open accession negotiations with the EU, before this was blocked by Bulgaria. But there is room for improvement, for example in relation to reducing politicization of the police (including through a vetting process), improving financial investigations and the seizure and recovery of assets, enhancing border management and putting more effective asylum-seeking procedures in place.

How can civil society organizations like Eurothink help in the implementation of chapter 24?

We can play a watchdog function, monitoring implementation. We have created a network of interested NGOs in North Macedonia called Network 24 that does exactly that. But civil society can help in other ways too – and we do – through making analyses and recommendations, surveying public opinion on relevant topics, providing information about the needs, interests and views of citizens, raising awareness and providing professional support. We have also published specific guidelines for the involvement of CSOs in chapter 24.[47]

You publish a regular Eurometer, which measures public attitudes towards the EU. What is your assessment of current public opinion in North Macedonia towards EU accession, taking into account the weak signal from the recent EU–Western Balkans summit in Brdo and Bulgaria's continued blockage of North Macedonia's EU ambitions?

We have been publishing the Eurometer since 2014. Since we ask the same questions every time, it is interesting to track how opinions have evolved.[48] Since 2014, support for the EU within the population has been high (around 70%), but lately we have noticed that it is falling. People are starting to lose hope and look for alternatives to EU accession. Luckily, authoritarian options are still not that popular.

In the past, North Macedonia was described as a 'captured state'. How would you assess the democratic oversight of the security and intelligence services?

The wiretapping scandal that broke in 2015 really shook this country. Apparently, the private conversations of over 20 000 people were illegally intercepted under the direction of senior government ministers and the intelligence agency. This demonstrated traits of some of the most undemocratic regimes. The challenge now is to 'uncapture' the state. Important reforms have been made to strengthen parliamentary and civilian oversight of the security sector, to make the intelligence apparatus more accountable and transparent. But progress is still needed, particularly regarding the judiciary and the prosecution, which remain the weakest links in the fight against organized crime and corruption in this country. This is an issue that should be in the focus of the EU, and all those trying to heal the scars caused by organized crime and corruption in North Macedonia.

Eurothink has focused on environmental crime in North Macedonia. This topic has received relatively little attention in the region. Why did you decide to focus on illegal logging, and what did you discover in your research?

In the past few years, environmental issues have moved up the political agenda in many countries, but not in North Macedonia. This is perhaps because of all the other issues that have been going on with political scandals, bilateral relations and EU accession. We wanted to focus on the impact of environmental issues since we felt that this area was being neglected. The more we looked into the situation, the more we realized that bad policies and management of natural resources were resulting in air pollution and health problems.

There are a number of factors that are contributing to the environmental problems in this country, for example related to waste management, energy policy, urban planning and traffic management. The result is that Skopje has some of the highest levels of pollution in Europe, even without much heavy industry. One thing we discovered is that many more people heat their homes with wood than what is officially reported. And some types of trees cut in North Macedonia are being sold as exotic hardwood. Both of these types of wood are being illegally logged in Macedonia's forests. Our research exposed that half of all

the firewood needed to heat homes in North Macedonia is illegally sourced. According to our estimates, this is an illicit market worth €60 million a year. If this trend continues, there will be serious consequences for our country in just 10 to 15 years.

After your report was released, was there any follow-up from the government?

Perhaps it was coincidence, but soon after our report came out, the forest police got new uniforms, better equipment and an increase in salaries.[49] In addition, an inter-ministerial body was created to address illegal logging. Nevertheless, the devastating forest fires that ravaged North Macedonia this summer suggest that there may be people deliberately setting fires in order to receive permits to clear the burnt trees. Such cases and the continuation of illegal logging show that more needs to be done to prevent and counter the destruction of our forests.

Have you looked at other types of environmental crime?

There are indications that waste is being illegally imported into North Macedonia.[50] This is a big business. There is a problem with lack of regulation at landfill sites, as well as a risk of mineral exploitation. And there are signs that the transformation to a green economy is being exploited by powerful lobbying groups with potential ties to political, business and criminal elites.

How do you engage with the government to effect change?

It may seem funny, but wherever possible we try to have a memorandum of understanding with our government counterparts. This can open doors when we have problems at the local level. We also try to be persistent – to keep our issues on the agenda, even if they are not among the current political priorities. More generally, we try to have good personal contacts with our counterparts and build trust. Sometimes, working with the government is like a dance, you need different moves for different occasions, and it also depends on your partner. We try to take a constructive approach; after all, on the issues that we cover, government and civil society ought to be on the same side.

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SEE-Obs is a platform that connects and empowers civil society actors in Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia and Serbia. It aims to enable civil society to identify, analyze and map criminal trends, and their impact on illicit flows, governance, development, inter-ethnic relations, security and the rule of law. SEE-Obs supports civil society in their monitoring of national dynamics and wider regional and international organized-crime trends. SEE-Obs was launched as an outcome of the 2018 Western Balkans Summit in London, a part of the Berlin Process.

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PUBLICATIONS AT A GLANCE

Here we provide an overview of recent publications on organized crime in the region covering a wide range of topics and include new and forthcoming GI-TOC publications.

Nadia El-Shaarawi and Maple Razsa, Movements upon movements: Refugee and activist struggles to open the Balkan route to Europe, *History and Anthropology*, 30, 1, 91–112.	In 2015–2016, 1.2 million refugees sought safety in Europe via the Balkan route. This paper explains how this unprecedented movement of people took place from an ethnographic perspective.
Andi Hoxhaj and Fabian Zhilla, The impact of COVID-19 measures on the rule of law in the Western Balkans and the increase of authoritarianism, *European Journal of Comparative Law and Governance*, 8, 4, 271–303.	This article offers a comparative analysis of COVID-19 legal measures and models of governance adopted in the Western Balkans (Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia and Serbia). It also explores their impact on the rule of law and the ability of parliaments and civil society to scrutinize government decisions.
Marko Kmezić and Dejan Atanasijević, How organized is organized crime and drug trafficking in Serbia, *Kriminalističke teme – Časopis za kriminalistiku, kriminologiju i sigurnosne studij*, 19, 6, 1–14.	The production and trafficking of drugs in Serbia is the dominant and most profitable form of organized crime. This study examines the political, economic and social relations of people involved in drug trafficking in Serbia.
Sandro Knezović, Vlatko Cvrtila and Zrinka Vučinović, Croatia's police and security community building in the Western Balkans, *Eastern Journal of European Studies*, 8, 2, 167–184.	The article examines the potential existence of a security community within the Western Balkan region by exploring the contribution of the police as a professional group in Croatia to the process of building a security community.
Sandra Kobajica, Criminological characteristics of crime against the environment in Bosnia and Herzegovina, PhD dissertation, University of Sarajevo, Faculty of Criminal Justice, Criminology and Security Studies, 2021.	This paper investigates the root causes and manifestations of environmental crime in Bosnia and Herzegovina from a theoretical and an empirical point of view. It takes a modern criminological perspective focused on environmental or 'green' criminology.
Danilo Mandic, Trafficking and Syrian refugee smuggling: Evidence from the Balkan route, *Social Inclusion*, 5, 2, 28–38.	This article investigates how Syrian refugees interact with smugglers, shedding light on how human smuggling and human trafficking interrelate along the Balkan route.
Davor Mikulić and Goran Buturac, In what measure is public finance sustainability threatened by illicit tobacco trade: The case of Western Balkan countries, *Sustainability*, 12, 1, 401.	This paper estimates the volume of the illicit tobacco trade, identifying and quantifying the key factors behind it, its effect on public finance sustainability and its impacts on the intensity of the overall tobacco trade.
Valery Perry and Ivan Stefanovski, *Sell out, tune out, get out, or freak out? Understanding corruption, state capture, radicalization, pacification, resilience, and emigration in Bosnia and Herzegovina and North Macedonia*, Eurothink – Center for European Strategies, 2021.	This research initiative explores whether the ideas presented in Sarah Chayes' book *Thieves of State: Why Corruption Threatens Global Security* help in understanding the current social, political and economic dynamics of Bosnia and Herzegovina and North Macedonia.
Iztok Prezelj and Nina Otorepec Vogrinčič, Criminal and networked state capture in the Western Balkans: the case of the Zemun clan, *Southeast European and Black Sea Studies*, 20, 4, 547–570.	In this paper, the authors argue that the Western Balkans occasionally face the problem of networked state capture based on a corrupt nexus among organized crime, business, politics, security services and the judiciary.
Branislav Radeljić and Vladimir Đorđević, Clientelism and the Abuse of Power in the Western Balkans, *Journal of Balkan and Near Eastern Studies*, 22, 5, 597–612.	Focusing on Serbia and Kosovo, this paper argues that criminal networks and the ruling political and economic elites have become inseparable, which has a direct influence on the two countries' EU integration processes.
Ina Rama, Overview of the characteristics of the Albanian organized crime: Development trends over the years, *Mediterranean Journal of Social Sciences*, 12, 4, 112.	The paper describes some features of the Albanian organized crime scene, its historical context and evolution of the way its groups are organized and the types and fields of activity in which they are involved.

Vedran Recher, Tobacco smuggling in the Western Balkan region: Exploring habits, attitudes, and predictors of illegal tobacco demand, *The Institute of Economics*, 1, 1–24.	This paper investigates tobacco smuggling in the Western Balkans, a region notorious for being the main smuggling route for Western European countries. Data is used to explore smoking habits, attitudes about the illicit market and predictors of illicit market demand.
Věra Stojarová, Media in the Western Balkans: Who controls the past controls the future, *Southeast European and Black Sea Studies*, 20, 1, 161–181.	The article assesses the role of the media in relation to democratization and EU accession in the Western Balkans, as well as the long-term development of media freedom in light of economic and political pressure.

NEW AND FORTHCOMING GI-TOC PUBLICATIONS

EXPLOITED IN PLAIN SIGHT:

An assessment of commercial sexual exploitation of children and child protection responses in the Western Balkans

This report assesses children's vulnerability to commercial sexual exploitation of children (CSEC) across the WB6, focusing specifically on online sexual exploitation of children and sexual exploitation of children in travel and tourism. It also provides an overview of what law enforcement authorities, private companies and civil society organizations are doing – and what they are not doing – to respond to, combat and prevent the various manifestations of CSEC.

ILLICIT FINANCIAL FLOWS IN BOSNIA AND HERZEGOVINA, MONTENEGRO AND SERBIA

Key drivers and current trends

ROBIN CARTWRIGHT AND KRISTINA AMERHAUSER

This report completes our study of illicit financial flows (IFFs) in the Western Balkans. Our focus this time is Bosnia and Herzegovina, Montenegro and Serbia. IFFs are the mechanisms by which money earned illegally is transferred into and out of economies to criminal beneficiaries worldwide. Each year, large sums of money are transferred out of developing and transitioning economies. These are funds that could have been used for public and private goods: public services, investment or jobs. The whole of society suffers as a result of their loss.

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