

WARSAW SCHOOL OF ECONOMICS
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**Countering Money Laundering and Terrorism Financing
in the Balkan area: Credit Institution Risk Perspective**

Field: economic studies, discipline: finance

Doctoral dissertation prepared under the supervision of

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Summary

The main goal of the dissertation is to establish a model allowing a credit institution to adjust its AML/CFT risk management system to the challenges posed by engagement in the Balkan countries.

According to the main thesis of the dissertation, from the AML/CFT point of view, the most important challenge for a credit institution engaging in the Balkan area is the risk arising from the lack of adjustment of the local AML/CFT system to the actual risk identified in this respect.

The first chapter sketches the historical background of the process of shaping the statehood of the Balkan countries and examines the ability of the states to exercise their main functions. It also presents the data concerning the economic power of the individual states, the degree of their integration with the EU, assets of credit institutions operating in the region, trade balance of the individual states with their main trade partners and foreign direct investments in the specific jurisdictions.

The second chapter introduces the notion of “model AML/CFT standard”, a positive point of reference for the local systems. Institutions establishing the standards on the global level (FATF), on the regional level (EU) and on the local level were presented as well as their role in the law codification, starting from global recommendations, through EU Directives until their transposition to local legal systems. The most important stipulations of the consecutive EU AML Directives were outlined with a special focus on the legal acts still in force and their status of transposition in the Balkan countries.

The chapter continues with an account of the progress of local AML/CFT systems evaluation by FATF and its European counterpart, MONEYVAL and closes by introducing the notion of a “model AML/CFT internal system”, which encompasses the procedures, policies, mechanisms and workflows derived from the model AML/CFT standard.

The third chapter is devoted to systemic risk, i.e. to the risk posed by incompatibilities of a local AML/CFT system with the model AML/CFT system.

The fourth chapter discusses the “predicate events risk” i.e. the degree of occurrence of particular categories of predicate crimes in the Balkan countries. The analysis is based on reports from local government institutions, information provided by the UN and Interpol and synthetic indices. The dissertation takes also a close look at the activities political and religious extremist groups as a terrorism risk factor. This section concludes with the matrix of the

predicate events risk. The chapter continues with introducing the notion of “tolerated risk” defined as an intersection of predicate events risk and systemic risk. Depending on the degree of both risks, a residual risk scale and matrix were developed for specific jurisdictions. The fourth chapter concludes with an overview of regulatory risk in the Balkan jurisdictions.

In the fifth chapter the residual risk matrix was extended to include areas where there is no systemic risk (controlled risk area) or predicate events risk (lack of control area). Thus a full map of the risk areas was developed as well as an accompanying risk scale and matrix.

The chapter continues with recommendations on how to deal with particular risk areas:

- Monitoring the relevant elements of the local legal system (controlled risk area)
- Monitoring the predicate events risk (lack of control area)
- Reinforcement of individual levels of the internal AML/CFT system (tolerated risk area)

Examples of specific protective actions for the most typical events in each risk area were proposed.

The sixth chapter includes a set of general recommendations for all the Balkan states and a set of specific recommendations for two of the jurisdictions. The former identify the elements of the internal AML system that require reinforcement, the latter indicate actions to be taken by the credit institution in order to strengthen the relevant elements of the internal system.