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## LEGALIZATION OF CRIMINAL PROFIT IN THE COURSE OF AGRICULTURAL PRIVATIZATION A VIEW FROM THE REPUBLIC OF SERBIA<sup>1</sup>

<sup>1</sup>Aleksandar Čudan<sup>2</sup>, <sup>1</sup>Zvonimir Ivanović, <sup>2</sup>Gyöngyi Major

<sup>1</sup>*University of Criminal Investigation and Police Studies, Belgrade*

<sup>2</sup>*Institute for Strategic Research, Budapest*

**Abstract:** This scientific paper presents the knowledge and experiences related to the legalization of criminal profit with a view to agricultural ownership transformation in the Republic of Serbia. We define the concept, the standards aimed against money laundering and the real threats which create the possibility for this criminal offence in Serbia. The practical goal of the research is concerned with gaining further knowledge of the research topic, which would contribute to solving the current but also similar problems related to money laundering. In all countries transition privatization is a complex and painful process, and this refers to the agricultural sector particularly. This process is one of the fundamental factors of a market economy which must prevent legalization of contaminated money through legal flows. Parallel to this, organized crime expands the field of money laundering activities in the process of agricultural privatization. Starting from a previously defined problem the hypothesis this paper is based on is as follows: the risks of money laundering and new techniques for its integration are not possible to eliminate, but it is necessary to make efforts and undertake adequate measures to minimize them, particularly in the field of agriculture. The problem has become additionally complex due to the fact that at the beginning of 2016 the Privatization Agency ceased its operation according to the Law on Amendments to the Law on Privatization. The paper uses both general and specific scientific methods and procedures of logical conclusion, statistical, as well as positivist legal method. The manner of research includes the selection and application of scientific methods, the selec-

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<sup>2</sup> Corresponding author: aleksandar.cudan@kpu.edu.rs

tion of data and the scope of research. The specific technique used to collect data in this paper includes case studies.

**Keywords:** privatization, money laundering, agriculture, crime.

## INTRODUCTION

Agriculture is particularly important for the entire economy of the Republic of Serbia. Its significance has considerably increased following the collapse of industrial production and the first effects of bad privatization. Due to the said reasons the events surrounding agriculture are of crucial significance for the state-of-affairs of economy in Serbia. With the global economic crisis intensifying and the disturbances in the financial markets the economy of the Republic of Serbia also entered a turbulent stage of development at the beginning of the new millennium. The connection between economy, agriculture and the results of economic crime is complex and multiple. Contemporary civilization flows bring characteristic security challenges taking into consideration, that new threats are also developing on a daily basis, such as various forms of economic destruction which include money laundering.

Agriculture is no exception for the activities of criminal proceeds launderers. Unlike other branches of the economy, agriculture is the field where such activities are relatively easy to realize. In order to stop such activities, or at least reduce

them, many institutions have been organized for the fight against them in almost every country in transition<sup>3</sup> in the world.

The most efficient means to weaken the agricultural privatization model is through economic crime. The model of privatization through selling public capital is the most susceptible one to various forms of economic crime. Market globalization and money flows, on the one hand, and modern technologies and sophisticated payment manners on the other, open new possibilities and modify traditional manners of money laundering. When a money laundering cycle is completed it confirms the profitability of a criminal activity and it can restart or continue through the reinvestment of laundered assets into a new legal business (Popov, 2013: 33). The conclusions and analysis will be directed at proving as to what extent criminal proceeds legalization has compromised the process of agricultural privatization, as well as the level of damage this specific form of economic crime has impacted Serbian agriculture.<sup>4</sup>

National vulnerability, in addition to the capability of the state to defend itself

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3 Etymologically the root of the word transition is in Latin words *trans*, which means over and *eo*, *ire* – go from which we have a derived word transition. Based on the said in economic sense we can consider that transition means transition to market economy. In contemporary flows we know quite reliably that the basis of transition is the transition from non-market to a market system. The projected goal is to have more efficient economy and improve economic performance.

4 The manner in which the state and consequently the Privatization Agency of the Republic of Serbia approached this process may be best illustrated by the structure of new owners of privatized corporations. Among them are persons wanted by the police, “protected witnesses”, persons whom business activities have been examined by the Agency for the Fight against Organized Crime, people involved in drug trafficking, etc. The new owners in the largest number of cases showed no interest in improving the economy and considered the employees as ballast. The largest number of them can be classified as “controversial businessmen”.



against money laundering threats, is also affected by the vulnerability of certain economic sectors which can be abused for money laundering and the financing of terrorism. The evaluation of the

vulnerability of a sector should never be understood in absolute terms, in other words whether or not it is more or less vulnerable when compared with other sectors.

## LEGAL FRAMEWORK AND CONCEPT OF PRIVATIZATION

The dilemmas related to reforms, transition and particularly privatization have been present in the Republic of Serbia for many years. The said process can be the cause of economic crime. Transformation of capital ownership, if it is not done in a legal and transparent manner, creates enormous and endless possibilities for economic crime within which money laundering takes a special place as the most complex form of economic destruction. As in other countries in transition privatization represented a crucial element of structural reforms and had many goals among which we would single out higher economic efficiency, more income for the central budget, the development of the domestic capital market, as well as many others. The integrity of the privatization process is particularly debatable in the countries in transition, as well as in the countries of Eastern Europe.

In these countries a large part of national wealth was privatized. Criminal behaviour in economic and financial zones becomes a pattern of behaviour which is difficult to change. This primarily includes activities such as money laundering. The effect of various forms of monetary destructions, both at the moment of sale and after suggests that more care must be taken in respecting transparent and reliable legal boundaries. The interest of the state in implementing the process of privatization is

to ensure that this procedure is done in accordance with the defined rules.

Formally, privatization in Serbia has been going on for more than thirty years, but the public's attitude towards privatization has considerably changed during this period. It ranged from a necessary evil, as privatization was seen until the late 1990s, through short-term euphoria to disappointment with the results achieved. At the beginning of the new millennium it is necessary to prove once again that private – privatized ownership is more efficient than social ownership. Recently the term 'privatization' in Serbia, as a rule, is accompanied by the adjective 'raiding', in other words this qualifier is implied (NALED, 2014: 8). From all the above aforementioned, the conclusion can be made that positive results of privatization, particularly those in the sphere of agriculture, have been extremely modest, and that the negative impacts have been fully evident. Its lack of success in the sphere of agriculture is measured in a few crucial aspects: economic, social, unemployment growth, social insecurity, low wages, even the quantity of inflow of financial assets contaminated in the criminal zone. Privatization as a transition stage for the countries in transition was and still is one of the biggest opportunities for economic crime, particularly money laundering in its most complex and most current form of manifestation. Practice



has confirmed that the states prove to be bad hosts in the periods of transition. The Serbian economy from the early to mid-1990s was stranded in blocked privatization and from 2000 onward in a form of lagging privatization, while in the last two years it has been in the process of re-examination and evaluation of the said process. Naturally, this issue also remains open for the future.

After the period of domination of social and public ownership, the process of privatization in our conditions was initiated in 1989 by adopting the Federal Law on Social Capital of the SFRY.<sup>5</sup> The said law opened the possibility to transform a socially-owned company into a private company by issuing and selling internal shares. Thanks to this liberal and stimulating concept, the big, initial wave of privatization was launched. After 1990 the Republic of Serbia started implementing the Republican Law<sup>6</sup> on Conditions and Procedures of Transformation of Social Ownership into other forms of ownership.<sup>7</sup>

The new wave of privatization was launched in 1997 when the Law on Ownership Transformation was adopted.<sup>8</sup> The Law set out several models of privatization. The essential concept was still insider privatization, the basic model was to sell shares to the employees, with or without a discount, with the right of prior purchase. Foreign investors were also given the right to purchase. After political and initiated social changes in 2000 the new Law on Privatization was adopted. The models set out in this Law, according to which privatization is still carried out in Serbia, include selling cap-

ital and the transfer of capital without remuneration. In order to speed up and finalize the procedure of privatization the legal framework for this process has often been amended in recent years, and in 2014 the Law on Privatization was adopted, which provided a new model, and December 31, 2015 was set as the final term to complete privatization, which has only just been completed.

Many concepts and models of privatization exist, which vary regarding the techniques of their implementation as well as their post-privatization structure of ownership and the manner of the functioning of the company. There are four clear models: selling, reprivatization (denationalization), transfer of shares to employees free of charge and stockholding of employees.

**Selling:** the widest accepted attitude is that selling, or market privatization is the most desirable form of ownership transformation of public property. However, it has been noted that this model can encounter considerable limitations, even abuses. Namely, we are talking about the lack of demand, and domestic resources are usually modest in comparison with foreign capital which is in a position to select among a multitude of offers. The process of selling, as a rule, is carried out very slowly. Analysts often highlight the concept of mass privatization which makes it possible for the transfer of public to private ownership to be quicker than other methods. The said concept of privatization has its weaknesses, which are created and initiated by strong influential factors such as political, tycoons and competition elites

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5 Official Gazette of the SFRY, No. 84/89 and 46/90.

6 In its conceptual features the Republican Law was similar to the Federal Law, but in some postulates it was more restrictive in character.

7 Official Gazette of the RS, No. 48/91, 75/91, 48/94 and 51/94.

8 Official Gazette of the RS, No. 32/97 and 10/01.



that aim to weaken it systematically. The most efficient means to weaken the privatization model is economic crime.

**Employee shareholding** as a principle means, the transfer of shares partially free of charge to the managers or employees of the companies which are being privatized. Therefore it represents a combination of selling and giving away shares free of charge, but the benefits of such transfers are limited to the people employed in a given company. The said model has serious faults. Such a concept creates possibilities to doubt the integrity of management intentions, as well as various abuses and manipulations by the managers. In this way a number of procedures and activities on implementation of the model are questionable, as well as the efficiency of the company after the procedure is completed. The

model with all its faults sets doubts into the regulation of the procedure as well as the number of elements resulting from such a procedure, even economic crime.

**Voucher privatization** as a concept and model has had impressive support from a great majority of experts and advisers in the process of privatization in all economies in transition. The idea is simple: the citizens are given special privatization money – vouchers, which they use to buy company shares. Vouchers can be given in either equal or unequal amounts, according to the age or years of service and some other characteristics. The procedure of mass voucher privatization is usually managed by independent subjects. In principle, not a single model is immune to economic crime.

**Table 1.** *Cumulative results of privatization in Serbia in the period from 2002 to 2014 (\* in EUR)*

	Number of companies	Number of employees	Selling Price*
Tenders	81	61.673	990.462.165
Tenders - agriculture	9	3.289	39.677.218
Auctions	1,517	126.707	860.977.870
Auctions - agriculture	115	11.182	130.114.253
<b>TOTAL</b>	<b>1,598</b>	<b>188.380</b>	<b>1.851.440.035</b>
<b>TOTAL-T+A AGRICULTURE</b>	<b>124</b>	<b>14.441</b>	<b>169.791.471</b>
Privatizations annulled			
Tenders	49	21.644	631.019.674
Tenders - agriculture	4	1.738	21.080.000
Auctions	639	47.380	529.604.251
Auctions - agriculture	40	2.377	111.281.376
<b>TOTAL</b>	<b>688</b>	<b>69.024</b>	<b>1.160.623.925</b>
<b>TOTAL-T+A AGRICULTURE</b>	<b>44</b>	<b>4.115</b>	<b>132.361.376</b>

Source: Ministry of Agriculture, Sector for privatization and bankruptcy

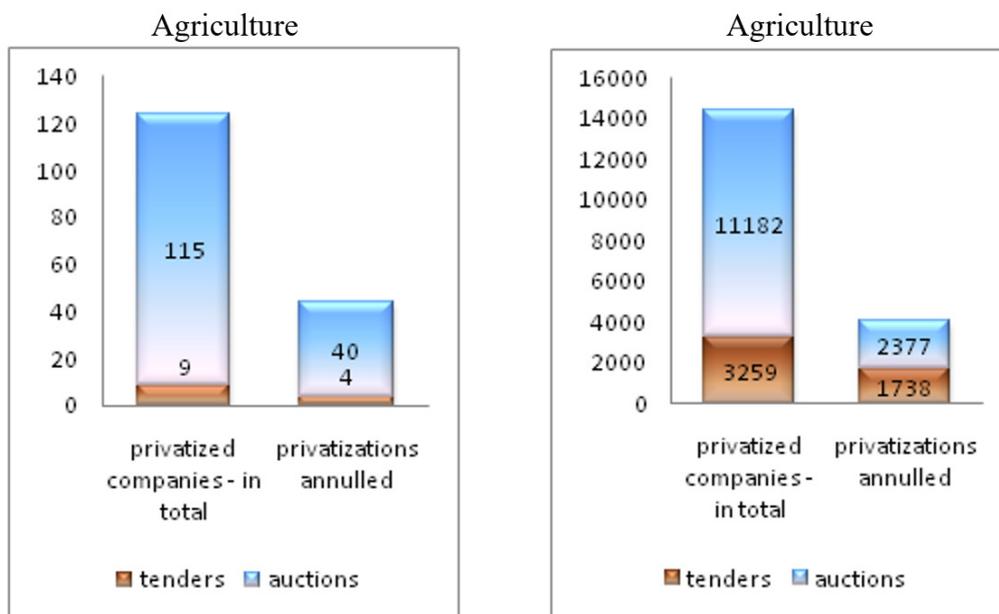


In the period from 2002 to 2014 the total of 1,598 companies were sold, 81 at tenders and 1,516 at auctions. The selling price of privatized companies was EUR 1,851,440. In the same period 688 privatization agreements were cancelled, which constitutes 43.05% of the total number of companies privatized at either tenders or auctions. Of the total number of privatization agreements cancelled, the most frequently stated reasons for the cancellation include: discontinuance of business and disrespect of social programme, not paying a due instalment of the purchase price, not carrying out the investment obligations, not delivering bank guarantees for investment obligation, disposition of property contrary to the agreement provisions, and in five companies the buyers unilaterally demanded agreement cancellation.

When we talk about the agricultural sector, a total number of 44 privatiza-

tion agreements were cancelled, which constitutes 35.48% of the total number of privatized agricultural companies. Considering all the above, it can be said that privatization of agriculture in Serbia was not successful, which is illustrated in Figure 1.

In the companies in which agriculture privatization agreements were cancelled there were 28.49% of all employee, and the buyers paid for these companies for a total amount of EUR 132.361.376. The new owners of agricultural companies, who invest the money of suspicious origin, in the majority of cases do not express any interest in further production, while considering the employees as a balance which in the final stage of money laundering in this sector creates a new potential source of unemployment, which is clearly shown in Table 1 and in Figure 1.



**Figure 1:** Number of companies (privatizations annulled) and Number of employees (privatizations annulled)



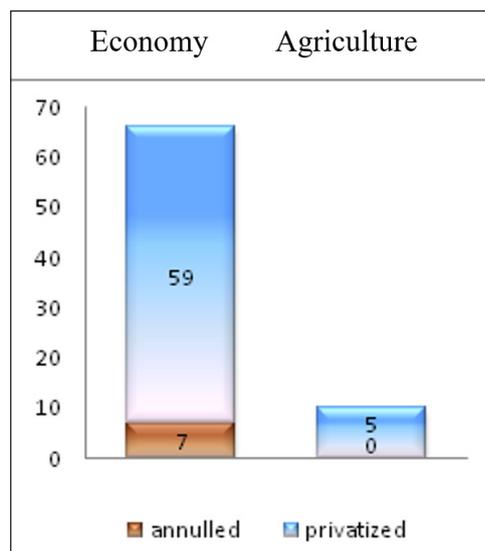
**Table 2.** Privatization according to the new Law on Privatization 2014-2018 (\* in USD)<sup>9</sup>

	Number of companies	Number of employees	Selling price*
Total number of privatized companies (PK+PI) Sales of capital (PK), Sales of property (PI).	59	12.922	214.705.631
Total (PK+PI) – privatization agreement annulled	7	52	283.290
Total number of privatized companies (PK+PI) – branch: agriculture, forestry and fishing industry	5	1.888	122.340.359
Total (PK+PI) – privatization agreement annulled – branch: agriculture, forestry and fishing industry	0	0	0

Source: Ministry of Economy, Sector for privatization and bankruptcy.

In the course of privatization according to the new Law on Privatization in the period from 2014 to 2018 a total number of 59 companies were sold through either the sale of capital or property, out of which only five companies were in the agricultural sector. That the process of privatization in this period has entered a much calmer stage

is confirmed by the fact that only seven companies cancelled the privatization agreements, which constitutes 11.86% or 52 employees. If we look at the agricultural sector in the same period, out of five privatized agricultural companies not a single agreement on privatization was cancelled (Figure 3).



**Figure 2.** Number of privatizations and cancelled privatizations 2014-2018

<sup>9</sup> Official Gazette of the RS, No. 83/14, 46/15, 112/15 and 2016 – authentic interpretation.



## RISK ASSESSMENT OF MONEY LAUNDERING THREAT TO THE PRIVATIZATION PROCESS

The prognosis of how much a sector is jeopardized by money laundering and financing terrorism is of great significance, so that this can be combated efficiently, which is of special significance for the selection and application of the corresponding fighting methods. This risk includes a potential problem or a potential opportunity. In both cases they appear in all spheres, and this is why it is necessary to analyse and find the right methods of risk management.<sup>10</sup> In the relevant literature we come across a great number of definitions of risk.

At the beginning of the new millennium money laundering was very much a widespread phenomenon. The scope is expressed as the value of global gross product ranging from 2 to 5 percent, or from EUR 615 to EUR 1,540 billion every year (Europol Review 2013, 2015: 33). Due to the said reasons the analysis of risk from money laundering and financing terrorism in addition to an assessment of threats and vulnerability also includes an assessment of its impact on the system, including one of the most vulnerable areas such as agricultural sector privatization. It is necessary to have in mind that criminal structures as a rule do not take account of only the profitability of their investments. On the contrary, they are inclined to invest their criminal income into activities which do not have to return on profit, considering that the goal of investment is to hide the provenance of their money.

Without any doubt, agricultural privatization has been a problem in the previous decades, primarily because of the risk it presents in terms of the final stage,

which is integration of dirty money. It is very difficult to discover its criminal and illegal origin when after a series of transactions through various world financial and off-shore centres it is brought in as much needed capital into agricultural companies and agrarian societies which are already in chronic difficulties.

It is exactly these investments such as placement into the privatization of agricultural companies that are targeted by criminally contaminated money, since in this way it is quickly and easily merged into legal flows and does not give rise to much suspicion (Vujić, 2018: 49). The problem in Serbia gets additionally more complex by the fact that there is not a statistical model which would show a number of privatizations annulled in the agrarian sector due to the grounded suspicions that the criminal offence of money laundering was committed.

Risk assessment is a concept with various contents and this is why it requires, in addition to legislative foundation, numerous criteria which should be applied in practice as efficiently as possible (Cindori, 2013: 1). Starting from the aspect of the possibility to launder money in the course of agriculture privatization, the risk according to some definitions is the possibility of loss or injury, in other words the possibility to realize undesired consequences of an event or process, in this case from those involved in criminal activities in the field of economic crimes (Čudan, Nikoloska, 2018: 64).

Risk assessment is determining the quantitative and qualitative values of risk which refer to a concrete situation,

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<sup>10</sup> Linguistic term 'risk' originates from a Latin word *rishio* and originally it denoted danger to the shipmen from rocks and cliffs.



in this case privatizations and threats arising from the criminal zone. Quantitative risk assessment requires two risk components (R); size of potential loss (L); probability (p): that the loss will occur. Risk assessment consists of objective risk assessment in which assumptions and uncertainties are clearly presented and considered. Possible mistakes in measurement of these two concepts are huge. Mathematically presented they are as follows:

$$R_i = L_i p_i$$
$$R_{\text{total}} = \sum L_i p_i$$

The comprehension, identification and analysis of risk from money laundering represent an important part of the application and development of systems

to prevent money laundering and financing terrorism in a state. The assessment of vulnerability would cover: the comprehensiveness of the legal framework, availability of sanctions, system organization, recognizing suspicious activities, monitoring and recognizing suspicious transactions, the availability of information on clients and availability of independent information sources. Based on the collected qualitative and quantitative information, the capability of a state to defend itself from a threat is regarded as basic. As to how the national vulnerability is influenced by the vulnerability of certain processes such as the privatization of agricultural companies which can be abused for money laundering, it is now too late to talk about taking into account the fact that this process is practically completed Republic of Serbia.<sup>11</sup>

#### TYOLOGY OF MONEY LAUNDERING IN AGRICULTURE PRIVATIZATION PROCESS

Taking into account that the manifestation of money laundering and the financing terrorism are changing, a longer period of observation has enabled conclusions to be made on the changes of typology per economic sectors as well. The legalization of criminal profit is not only the consequence of previously committed crimes, but it also creates a favourable basis for future criminal activities and directly negatively reflects on agriculture and the economic system, and depending on the scope it can jeopardize direct development and financial stability, as well as the process

of privatization in Serbia. Money laundering leads to the easier and faster penetration of crime and corruption into the agricultural sector. Considering that the largest number of predicative criminal offences refer to the field of economic crime, it is necessary to analyse the share of the said offences within the structure of total criminal offences in the territory of the Republic of Serbia, as well as the share of money laundering within the structure of criminal offences in the field of economic crime, which is illustrated in Table 4.

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<sup>11</sup> Comprehensive National risk assessment from money laundering has been made according to the methodology of the World Bank through four thematically classified sections which are included in eight modules of the World Bank. The total number of 154 representatives participated in making the risk assessment of money laundering and financing terrorism, out of which 12 representatives of the state sector and 30 representatives of the private sector (tax-payers, associations, chambers, and others).



**Table 3.** *Share of criminal offences in the field of economic crime and money laundering within the structure of total number of criminal offences in the territory of the Republic of Serbia per territory*

Year	Total number of criminal offences	Total number of criminal offences in the field of economic crime	Money laundering Criminal Code of the Republic of Serbia, Art. 245
2006.	99060	10470	19
2007.	104118	10587	37
2008.	106015	10477	47
2009.	102369	10560	35
2010.	101090	10445	96
2011.	101309	9677	184
2012.	97015	8768	123
2013.	113600	7421	25
2014.	102715	7836	27
2015.	98545	8170	5
2016.	93724	7633	12
2017.	91595	8221	37
2018.	85658	6199	82

Source: Ministry of Interior of the Republic of Serbia

The national framework in the field of the fight against money laundering was improved considerably upon the adoption of the new Law on Prevention of Money Laundering and Financing Terrorism, its implementation started at the beginning of 2018.<sup>12</sup> In these conditions predicative crimes which are classified as high-degree threats of money laundering include:

- Criminal offences in the field of corruption;
- Illegal manufacturing and trade of narcotics;
- Tax-related criminal offences.

In order to consider objectively the degree of the problems occurring due to one of the most complex forms of economic crime, Table 4 presents a number of criminal charges filed, the number of persons covered and the number of final

verdicts reached in the cases referring to the criminal offence of money laundering. It is obvious that in a few recent years there has been an increase of the criminal offence of money laundering, which particularly refers to the number of persons covered, and at the end of 2018 it was 90. On the other hand, the epilogue of the criminal charges filed resulted in only seven final verdicts in 2018, which is much more when compared with the years which ended with just one final verdict. The responsibility for such a state-of-affairs is in the fact that these are complex criminal offences which require a long period of time to prove. In the Republic of Serbia there are not scientific studies or unique statistical data related to the criminal charges filed and final verdicts reached for money laundering connected with agrarian privatization process.

<sup>12</sup> Law on prevention of money laundering and financing terrorism was adopted on December 14, 2017, and its implementation started on April 01, 2018.



**Table 4.** *Epilogue of criminal charges filed for money laundering according to Art. 245 of the Criminal Code of the Republic of Serbia*

Year	Criminal charges filed	Persons covered	Final verdicts
2010.	18	109	1
2011.	22	190	2
2012.	12	113	2
2013.	20	44	2
2014.	11	39	1
2015.	5	22	0
2016.	12	27	1
2017.	37	86	11
2018.	82	90	7

Source: Prosecutor's Office of the Republic of Serbia, Ministry of Interior Republic of Serbia

1. Transformation and privatization of agriculture is a kind of anti-corruption reform and a new potential source of corruption activity at the same time. Although privatization is desirable in a wide spectrum of cases, creators of such policy must create such an environment which will provide for the decrease of criminal influence. Abuses which might arise in the course of the privatization of agricultural companies can be motivated by corruptive activities. The strengthening private sector at the expense of a weaker position of state-owned companies raises the level of economic crime and introduces new rules into business activities, which are not typical for modern market business. A company is a subject of trade as any other commodity and when the purchase of such a commodity is sought it is necessary to determine its price. Determining the value of a company, according to the experiences both nationally and internationally, is a huge problem, particularly within a transitional environment, since many parameters that influence the realistic assessment may be omitted. On the other hand, the accounting value is usually too high or too low, so that essentially it does not represent the true state-of-affairs,

since technology and assets can be old, as well as other parameters, offering an unrealistic picture. Value assessment can cause economic crime (Novaković, Vukasović, 2014: 176). And all these elements are precisely those that create realistic possibility for corruption and corruptive activities.

The most drastic example of the taking over of arable land into the possession of an agricultural estate by those involved in criminal activities is the example of the Social Company, Mokrin from Mokrin. The General Director of Mokrin committed the criminal offence of abuse of office because in late 2004, using his official authority, he acquired illegal proceeds amounting to RSD 517,399,907.50 for the Agricultural Producers' Cooperative, Ekovit RD, which was founded just a few months earlier, with the sole aim of acquiring the arable land unlawfully. Subsequently the Department for Residential and Public Utilities Affairs, Urban Planning and Economy issued the decision to return the agricultural land to Ekovit RD, the indicted parties intentionally failed to file the complaint within 15 days upon the receipt of this Decision and failed to notify the management, by which time



the said Decision became final and legally binding, and based on which the Land Registry Service transferred the 1,099 hectares of land together with buildings without one dinar paid to the detriment of Mokrin.<sup>13</sup> These actions resulted in agricultural land of 1,099 hectares and 91 various buildings being taken from Mokrin before being auctioned by the Agency for Privatization.

2. The criminal offence of unlawful production and circulation of narcotics still represents a serious threat for money laundering, both because of the number of reported and prosecuted individuals and the high amount of proceeds acquired after committing this crime. This is why trade in narcotics represents one of the most frequent sources of “contaminated” money. Large quantities of illicit drugs which are offered to the narcotics market enable drug traffickers to acquire considerable proceeds and then to integrate these proceeds into legal flows in various manners, the agricultural sector being an ideal environment for such proceeds.<sup>14</sup> Of 38 prosecuted individuals for this crime, as many as 32 individuals (which makes over 84%) are organizers and members of organized criminal groups who acquired money by committing predicate criminal offences outside the territory of the Republic of Serbia, but they are also prosecuted for predicate crimes in the Republic of Serbia.

In October 2009 the wider public heard of a 43-year-old citizen of Serbia, D. Š., the Balkan cocaine king and one of the largest drug traffickers in Europe. In

the operation dubbed Balkan Warrior, the Uruguay police and the Serbian Security Information Agency (BIA), upon the insistence of American agencies, seized more than 2 tons of the drug on board a yacht in Uruguay. After that several members of the so-called Š. group were arrested.

The list of legal entities which D. Š. used to carry out his business transactions in the Republic of Serbia is almost impossible to complete, considering that each of his ten close associates formed his own network. In this way some forty companies are directly brought into connection with the indicted, although this list is not final considering that the same legal entities participated in the purchase of companies in the economic market or at the auctions of the Privatization Agency.<sup>15</sup> The central companies through which the financial transactions for Serbia were carried out are registered in the USA and they include: *Delaver – Mateniko LLC*, *Durabilly LLC* and *Financial angels LLC*, and they appear as founders in more than 30 companies in Serbia.

At the top of the pyramid of companies bought through privatization or through the capital market were agricultural companies and huge agricultural estates, which had the right of renting huge arable lands in the territory of Vojvodina, where the majority of his criminal proceeds were invested. This is how the list included the company, Mitrosrem, one of the big agricultural companies in Vojvodina with 4,000 hectares of arable land. In addition to crop farming,

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13 The director of the newly established Agricultural Producers' Cooperative “Ekovit RD” specified the legal basis and submitted the request for reclaiming property based on Articles 95 and 96 of the Law on Cooperatives, noting as a legal basis for reclaiming that “it continues to carry out business activities in the area in which it used to carry out business activities earlier”.

14 For this criminal offence in the period from 2013 to 2017 the investigation was initiated against 5,313 persons, 6,215 persons were charged and 5,397 persons were convicted.

15 Recently a list has been published of a wider circle of 58 associates and cousins of Š. who are from Serbia or do business in Serbia; as the majority of them had at least one company registered, even this part of the business was linked to drug group activities.



production and the processing of corn, wheat and turnip and animal farming there were also several cattle and poultry farms, slaughter houses as well as irrigation systems.

The agricultural corporation, Mladi borac from Senta, which owns 1,600 hectares of land in Vojvodina according to the indictment, was leased from the state by a third person - a lawyer in 2009 on behalf of D. Š., and today it is managed by the Privatization Agency. In a similar manner the criminal money is connected to the agricultural estates: Erdevik and Stanišić, Banat seme from Zrenjanin, Agroseme Panonija, a sugar mill from Sremska Mitrovica and others.<sup>16</sup>

In the case of the purchase of companies, real estate and land by lawyers, law firms or persons without criminal background the true owners of proceeds remained hidden, particularly when the capital was coming from off-shore destinations.<sup>17</sup> Also, there were individuals who were given an opportunity to legalize proceeds acquired based on cooperation with previous authorities or in an unlawful manner. The lack of system-based solutions created possibilities for corruption.<sup>18</sup> When considering the above-mentioned criminal offences from the aspect of assessing the risk for money laundering the Corruption Perceptions Index of Transparency International is particularly respected, which was published in 2018 and in which Serbia was placed 87<sup>th</sup>.

3. What can be singled out as a characteristic of the Republic of Serbia in

comparison with the countries of Western Europe is the investment of “dirty” money into the privatization of former socially-owned agricultural companies, which very often represents just a starting point of money laundering. After such a company is transferred into the ownership or under the control of criminals, illegal money is laundered through their business activities, usually through loans of new owners/founders or other forms of loans in order to maintain the illusion of business activities within the registered activity. Finally, the money is usually laundered, either through selling the companies to these legal entities or by receiving loans where either the company assets or profit reduced for the cost covered by dirty money, is used as collateral. At the beginning of the new millennium a manifesting form of money laundering has been noted, which is carried out by a large number of legal entities, among whom the majority were founded solely for this purpose. In these cases documents with untrue contents are drawn up, which serve as a basis for monetary transactions (Uprava za sprečavanje pranja novca, 2018: 25). The intention to buy company shares is often inspired by the desire and motive of potential investors to gain the shares or a control package in as the easiest manner possible.

The procedure of the privatization of the agricultural processing company, Dijamant from Zrenjanin has been in the spotlight of several investigations, particularly the criminal role of the

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<sup>16</sup> The ruling of the first instance court published by the Ministry of Justice and the spokesperson of the Special Court council on December 10, 2018.

<sup>17</sup> In the revised 2012 Recommendations (16 recommendations) of the Financial Action Task Force on Money Laundering (FATF) new requirements were introduced to increase transparency of transborder electronic money transfers, which obligates financial institutions to include information on real ownership for all transborder electronic money transfers.

<sup>18</sup> Pejanović, R., 2013: “Suspicious privatizations, subsidies and agricultural policy based on corruption have left and still leave far-reaching negative consequences on the development of agriculture and agricultural economy. This leads to slowing down of total economic growth in the Republic of Serbia.”



management of this agricultural giant. Particular attention was drawn by the facts related to the taking over of Dijamant shares by a company from Belgrade, Društvo Sadra d.o.o. Beograd, whose owner was the wife of the former director, S. K. The wife of the said director, Lj. K., who was never employed by this factory, founded a company, Društvo Sadra d.o.o. Beograd,<sup>19</sup> after which she used the money of suspicious origin to buy 81,872 shares of the largest oil refinery in the Balkans, the value of which at that moment exceeded EUR 10 million. The official founder of the Belgrade company is *Adison Intertrejd Inc. Trident Trust Company Limited* from the Virgin Islands. This company was founded in March 2005, immediately before taking over of the majority share package of the oil refinery by a controversial Croatian businessman I. T.,<sup>20</sup> who by the decision of the Croatian County Court has been in pre-trial detention since the end of

2018, because there is reasonable suspicion that he committed several crimes in the field of economic crime.<sup>21</sup>

4. In case of purchase of companies, real estate and land by lawyers, law firms or persons who do not have criminal background, the true owners of capital remained hidden, especially when the capital was coming from off-shore destinations. Also, it was made possible to some individuals to legalize monetary assets acquired based on cooperation with the previous authorities or in illegal manner. The reason for such a manner of investment in the field of agriculture is initiated by the need that in case of any prosecution the investors would present the assets coming from a legitimate business. Also, due to great demand and high price of agricultural land, the money laundering actors in a later stage can re-sell the agricultural societies and thus present that the laundered money still has origin.

## CONCLUSION

This scientific paper has been written with the idea of presenting the professional public with contemporary economic events related to ownership transformation and privatization and to make it easier to understand some of the negative aspects that accompany them. Although privatization by the political elite at the beginning of the new millennium has been cited as a key factor of the economic recovery of the country and the

promotion of future economic growth and development, a large portion of economic professionals think that the results of privatization are below the expected level, primarily in the field of agriculture which has not reached a satisfying level of production and competitiveness.

This is an attempt to offer an as wide as possible insight into some important negative elements of agricultural compa-

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<sup>19</sup>In the end of May S. K. was convicted to one year imprisonment or three years suspended sentence, while the second accused Dj. K., the former director of Dijamant bank was sentenced to eight months in prison or three years suspended sentence. According to the explanation of this first-instance verdict, the abuse of the two convicted persons refers to commission business activities between Dijamant bank and Centro bank by which Dijamant bank suffered a loss of RSD 1.2 million.

<sup>20</sup>The owner of the Croatian company, Agrokor gained a majority share in Dijamant by taking over 26.96% of investment fund shares, as well as a 24.90% of ownership of Društvo Sadra d.o.o. Beograd, which was owned by Lj. K.

<sup>21</sup> Official statement of the Ministry of Justice of the Republic of Croatia in December 2018.



ny privatization during the past decades. Since the transition is in action in a large number of countries, it is difficult to give a uniformed final assessment of the influence of criminogenic factors and the participation of contaminated money originating from various forms of economic destructions. The privatization procedure in the agricultural sector has been additionally complicated by the fact that the account of the Privatization Agency was blocked on several occasions, and after it stopped working in February 2016 there remained a legacy of 1,111 court cases initiated by dissatisfied customers. Also, since its foundation the Agency changed seven directors.<sup>22</sup> Each of six laws according to which privatization in Serbia was carried out were amended at least once, and the Law on Privatization of June 2001 was amended as many as six times; the Ordinance on Tender was amended eight times, and the Ordinance on the Public Auction for four times.

Privatization in all economies is a complex and painful process, particularly in agriculture System-based and structural reforms of the agricultural sector in Serbia started in 2000. Those involved in criminal activities recognized the process of ownership transformation in agriculture as extraordinary and the complex channel

to integrate dirty money in a skilful manner. This means that in the Republic of Serbia this problem and its consequences are more and more often the topic of theoretical criminologists and practically they are dealt with by the criminal police. After reaching an adequate number of final and binding court verdicts, it would be possible to consider more adequately the typology of money laundering in the field of agriculture privatization.

Once the dirty money enters the economic issue it destroys it, since the goal is not the production but its infiltration into legal flows. Therefore, the policy of suppressing organized crime must be focused on undertaking particular social measures (building institutions, adopting regulations and taking control), on seizing proceeds acquired by criminal activities and on repressive actions against criminal offenders, economic crimes and violations. This is particularly important in agriculture, since food production, food safety and other aspects determine the multiple significance agriculture has in the Republic of Serbia.

The conclusion is that the problem of money laundering in the agricultural sector must be approached as a complex phenomenon in order to avoid its negative effects.

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<sup>22</sup> Privatization Agency of the Republic of Serbia was founded in 2011.



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