






BUSINESS ENTITIES EXPOSURE TO MONEY LAUNDERING AND TERRORISM FINANCING (ML/TF) RISKS

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Abstract:

The paper will first analyse in detail the structure of companies in the Republic of Serbia. Based on an eighteen-year data set, a comparative analysis of the number, involvement and ownership structure of different forms of companies will be conducted. Then, based on the collected convictions in the field of financial crime, the involvement of certain legal forms in specific cases will be analysed. Small companies often play a key role in money laundering, using fictitious transactions and false documentation to simulate business activities. These entities, frequently controlled by organized crime groups, serve to transfer and integrate illicit funds into the legal financial system. Finally, based on the materiality and exposure of different legal forms, certain conclusions will be made about the special features that make certain legal forms of companies more exposed to money laundering and terrorism financing risk (ML/TF risk), which is the objective of the paper.

Keywords:

money laundering, terrorism financing, business entity, limited liability company, entrepreneur.

1. INTRODUCTION

According to international law, standards and best practices, every country in the world is obliged to properly identify, assess and understand its money laundering and terrorist financing risks. The central element of this comprehensive system is the periodic National Risk Assessment (NRA) exercise, based on a diverse set of credible data sources and joint effort of the public and private sector. The Financial Action Task Force (FATF), the international body responsible for developing policies to combat money laundering and terrorist financing worldwide, has established a comprehensive framework outlined through 40 Recommendations and 11 Immediate Outcomes. The 40 Recommendations provide detailed guidance on the legal, regulatory, and operational measures that countries should implement to prevent and detect money laundering and terrorist financing. The 11 Immediate Outcomes focus on assessing the effectiveness of these measures in practice, emphasizing how well countries can identify, investigate, and prosecute illicit activities, and protect the integrity of the financial system. (IO) (Radovanović *et al.*, 2024).

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According to the FATF, each country should use its risk assessment as a guide to:

- 1) design and prioritize AML/CFT measures,
- 2) plan and conduct supervision activities and implement the Know Your Customer (KYC) procedures (Hopkins & Shelton, 2019).

Preventing companies from being exploited for criminal purposes is among the most critical tasks in combating money laundering and terrorist financing. This requires transparency of legal entities and arrangements, along with timely access to accurate and current information on their ownership and beneficiaries. Namely, criminals often resort to establishing companies or creating partnerships with legal companies, especially in activities such as wholesale and retail, investment in building construction, foreign trade or service activities such as catering (restaurants, hotels), and, increasingly, those in the field of renewable sources of electricity, recycling or agriculture (Radovanović *et al.*, 2023).

Abuse of legal entities for the purpose of tax evasion, money laundering and concealment of beneficial ownership is a phenomenon that has occupied the global scientific community for the last two decades (Ferwerda & Reuter, 2019). A group of authors, while investigating the modalities of concealing the origin of funds acquired through corruption, identified legal entities as a particularly vulnerable category that can be misused for these purposes. Their work was among the first to point out the necessity of conduct of the risk assessments for legal entities and legal arrangements (Van der Does de Willebois *et al.*, 2011). It took more than twenty years for the risk assessment for legal entities to become an internationally legally binding obligation for every country. Namely, FATF anticipated this innovation when adopting new amendments to its methodology for the fifth round of evaluation (FATF, 2025).

For the purpose of conducting legal entities risk assessments countries most often apply the World Bank's or the Council of Europe's methodology. In some cases, countries developed their own methodological approach. The risk analysis of legal entities and arrangements is a challenging and demanding task, which is why only 55% of countries managed to finalise it so far (FATF, 2023). Also, the number of scientific papers dedicated to this topic is insufficient. Existing analyses clearly indicate that banks and money changers are the most susceptible to terrorism financing, followed by accountants, providers of short-term accommodation and food services, lawyers, carriers and finally merchants (Radovanović *et al.*, 2023).

Serbia implements a comprehensive approach to identifying, assessing and understanding its risks. Data gathering methods in Serbia's NRA process include the use of government information systems and databases, data surveys and targeted questionnaires to reporting entities, case analysis and focus groups. The NRA is also informed by academic research, in particular as regards the figures for the shadow economy and dark figures of unidentified crime. In the Republic of Serbia, legal entities acquire legal entity status through their mandatory registration in the relevant register maintained by the Serbian Business Registers Agency (SBRA). The registration process is transparent and public, allowing fully transparent access (without the need to prove a justified interest) to information and documents on registered entities, their solvency, debts related to financial leasing and pledges over movable property and rights, all in one place. Arrangements are available for many years, including throughout all of the latest NRA rounds (2018, 2021 and 2024), where these issues were incorporated as significant sections of the final NRA report, as well as through typologies research projects and in specific expert teams and interagency forums.

The findings of the latest 2024 risk assessment exercise concerning legal entities and arrangements are similar to the findings of the 2021 NRA, although the information basis for the conclusions has been significantly expanded and the findings themselves have been made more precise.

The latest 2024 risk assessment exercise concerning legal entities and arrangements (conducted as a part of NRA for 2021-2023 period) covers in detail the following topics:

1. analysis of the legal and institutional framework: risk assessment includes a detailed analysis of applied measures and remaining vulnerabilities in the system regulating legal entities and arrangements;
2. the materiality analysis of the structure of the various SBRA status registers and beneficial ownership (BO) records: the risk assessment provides a very detailed analysis of the population of legal entities in Serbia or associated with Serbia by organizational type, activity, size, geography and foreign participation/association, company formation and de-registration trends, as well as risks presented by the various categories and profiles of entities;
3. origin and structure of BO ownership: the assessment provides a deep analysis of beneficial ownership segments in the registered population of legal entities, various trends and associated ML/TF risks;
4. involvement of business entities in ML cases: an extensive range of ML cases was analysed in order to identify key trends and characteristics of legal entities' involvement in ML, with a particular focus on complex, third party and professional ML schemes;



5. analysis of supervisory, FIU and Tax Administration data: a broad set of data from these authorities was analysed in order to gain a comprehensive understanding of key trends, threats and vulnerabilities, including those concerning foreign entities with a sufficient link to Serbia;
6. analysis of data from obliged entities: this data served as a key factor in identifying risk groups and profiles in the population of legal entities, as well as legal arrangements;
7. data on legal arrangements: this data was sourced from both state authorities, as well as obliged entities in order to determine the extent of presence of legal arrangements, their profile and trends.
8. cross-border data: this included international exchange of information by FIU, MLA, tax authorities, as well as other data points on international exposure of Serbia to ML through the abuse of legal entities.

The main type of legal entities under Serbian Law are Limited Liability Companies (LLCs), joint-stock companies (private or public) and partnerships (limited or general) - see art. 8 of the Companies act. Branches and representative offices of foreign legal companies are an extension of a foreign legal entity and do not lead to the creation of a separate legal entity when registered in Serbia.

Companies, partnerships, business associations, cooperatives and EIGs conduct private commercial activities. Socially-owned enterprises (enterprises owned by communities of people, e.g. workers) may undertake private commercial activities; these are, however, phased out and no new socially-owned enterprises may be set up.

In the Republic of Serbia, the most common form of organizing a business activity is a single entrepreneurship (sole proprietor). An entrepreneur is a entity incorporated within the SBRA Register, without separate legal entity, unlimitedly liable with entity's property for performance obligations. Despite unlimited liability, this way of organizing is attractive because of low administrative costs, the possibility of suspension of tax liabilities and lower fees, and prescribed penalties for any potential violations. An LLC as an organizational entity is also considered attractive because of management flexibility and reduced liability – only up to the invested amount, except in case of liquidating a company from the register through a forced liquidation procedure. The most prominent types of legal entities in terms of materiality and risk are by far LLCs, followed by JSCs, partnership, cooperatives and associations. This analysis will focus on analysing vulnerabilities in relation to these types of legal entities.

2. DATA AND METHOD

Time spans on a number of companies by type for the period of 2007–2024 have been taken from the Orbis database. The financials are shown in the EUR currency. For analysing the numbers of different types of companies over an eighteen-year period, the Mann-Kendall trend test is applied. The proposed framework of the analysis of corporate-level financial performance is fully aligned with the empirically verified methodological framework (Radovanović *et al.*, 2024) and best practices (Mihailović *et al.*, 2023). In addition to identifying statistically significant monotonic trends in the observed time spans, the applied methodology enables the detection of structural changes and long-term dynamics in enterprise demographics. The use of standardized data sources, such as Orbis, ensures the reliability and comparability of the financial indicators across countries and sectors. Furthermore, the Mann-Kendall test, being non-parametric, is particularly suitable for assessing the presence of trends in datasets that do not necessarily follow a normal distribution, which is often the case with economic and financial data. This methodological rigor enhances the robustness of the findings and their applicability in policy and strategic decision-making.



3. RESULTS AND DISCUSSION

In the past eighteen years, the sector has seen an increase in the number of legal entities. The growth in the number of companies was accompanied by an even greater growth in revenue, as can be seen in table 1.

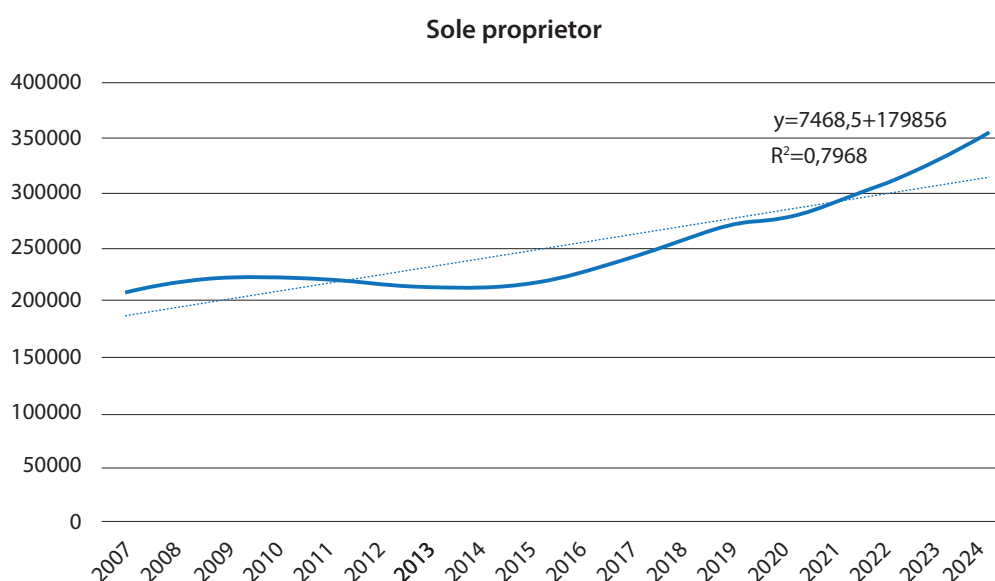
Table 1. Number of legal entities in Serbia/by type

Year	Limited partnership	Limited liability company	Joint-stock company	Cooperative	Sole proprietor	General partnership
2007	774	84185	3147	2802	208605	4867
2008	696	93111	3118	2944	216780	4383
2009	637	100525	2970	2956	222676	4002
2010	516	103384	2724	2680	222495	3287
2011	419	100945	2471	2425	220458	2607
2012	363	102985	2263	2373	218127	2343
2013	351	109576	2150	2439	212716	2247
2014	336	115401	2037	2460	215367	2125
2015	323	121349	1913	2456	216585	2155
2016	314	127521	1815	2479	228556	2079
2017	296	133543	1726	2600	242094	1960
2018	279	138424	1660	2695	257629	1833
2019	195	121122	1454	2918	271210	1161
2020	184	122395	1337	3017	278984	1096
2021	163	125085	1185	3159	290445	980
2022	148	128058	978	3173	308058	894
2023	135	129259	978	3175	330567	817
2024	128	130066	898	3158	353177	755

Source: Orbis database (2025)

In the observed period, entrepreneurs (sole proprietors) experienced substantial growth, notably after 2020, with an increase from 278,984 in 2020 to 353,177 in 2024. The average annual growth rate for sole proprietors in the observation period was 3.19% (NRA, 2024).

Figure 1. Number of sole proprietors by year



Source: Authors' calculation



The total number of companies increased from 133,417 in 2021 to 137,253 in 2023. Limited liability companies remain by far the most dominant organizational form, accounting for around 95% of all registered entities. In contrast, the number of partnerships and joint-stock companies declined over the same period (NRA, 2024). Compound and Average Annual Growth Rate by type of legal entities can be seen in table 2.

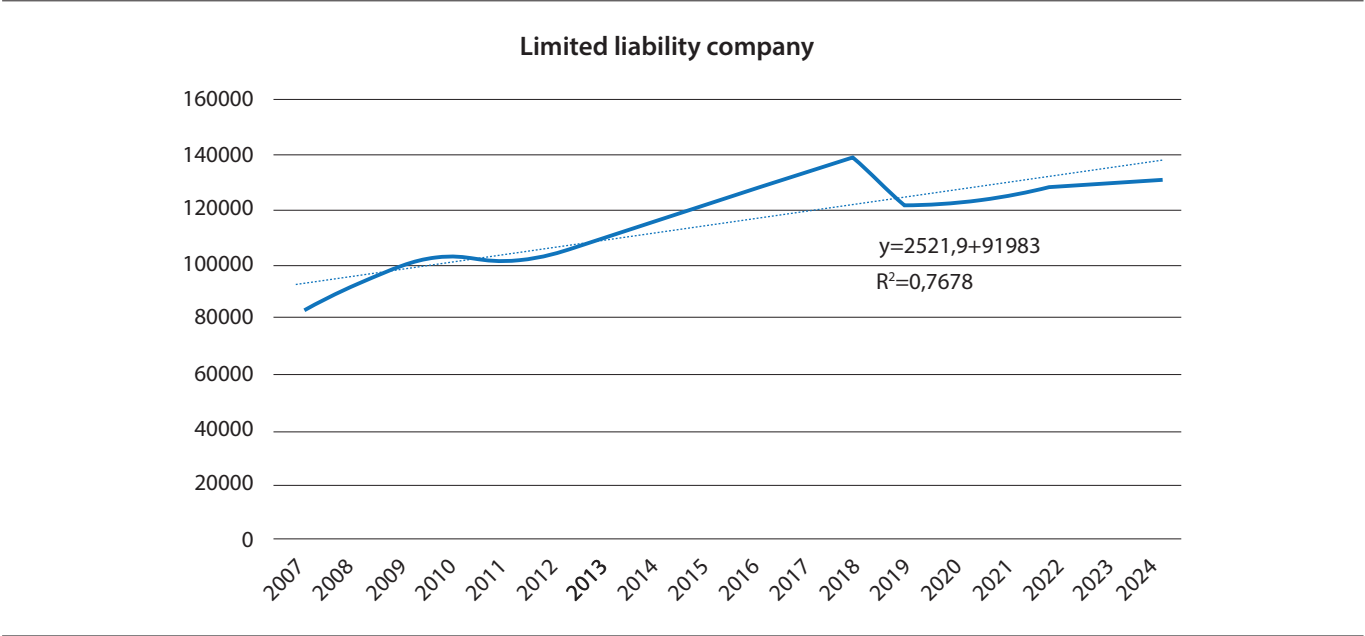
Table 2. Compound and Average Annual Growth Rate by type of legal entities

Type	Start (2007)	End (2024)	Number of years	CAGR (%)	APS (%)
Limited partnership	774	128	17	-10.04	-9.75
LLC	84,185	130,066	17	2.59	2.71
Joint-stock company	3,147	898	17	-7.11	-7.02
Cooperative	2,802	3,158	17	0.71	0.81
Sole proprietor	208,605	353,177	17	3.15	3.19
General partnership	4,867	755	17	-10.38	-9.94

Source: Authors’ calculation

According to SBRA, LLC is the typical business structure reaching as many as 130,066 in 2024. Based on the ownership structure, a single-member LLCs account accounts for about 80% of the total number, while only 20% are multi-member LLCs (NRA, 2024). This indicates that the Serbian business sector is predominantly composed of individually-owned companies, reflecting a strong orientation toward entrepreneurial activity and small-scale business operations, while collective or partnership-based ownership structures are far less common.

Figure 2. Number of LLC by year



Source: Authors’ calculation

To evaluate whether a pattern exists in the number of companies over time, we test the following statistical hypotheses:

H₀ (null hypothesis): There is no tendency in the number of companies.

H_a (alternative hypothesis): There is a statistically significant tendency in the number of companies.



Table 3. The Mann-Kendall test results

	Trend	p-value	Kendall Tau
Limited partnership	Downward	0	-1
Limited liability company	Upward	0	0.765
Joint-stock company	Downward	0	-0.993
Cooperative	Upward	0.008	0.464
Sole proprietor	Upward	0	0.725

Source: Authors' calculation

As the calculated p-value is lower than the chosen significance level ($\alpha = 0.05$), we reject the null and accept the alternative hypothesis, which means the changes in the time spans follow a clear trend and cannot be attributed to chance alone.

The results also show a strong upward trend for LLCs, cooperative and sole proprietors, while a strong downward trend is evident for limited partnerships and joint-stock companies.

Based on the outcomes of the NRA, LLCs and entrepreneurs are business entities with a high level of exposure to money laundering risk, while associations and cooperatives showed a medium level of risk, and other forms of legal entities displayed a low level of risk exposure.

The last NRA analysis highlights that business entities—particularly small limited liability companies—are instrumental in concealing criminal funds. Fictitious transactions involving fake invoices and documents, with fictitious business activities, are the most common patterns. Such entities are frequently controlled by organized criminal groups and serve as vehicles for moving and integrating illicit funds into the legitimate financial system. Identified typology involves LLCs registered for trade activities, typically classified as micro or small companies. These firms are often not subject to audit requirements, operate with no employees, and, in cases where financial statements are filed, they generally report operations without losses. In contrast, joint-stock companies are rarely misused, given their more complex regulatory framework and oversight mechanisms. Associations and sole proprietors, however, show a certain degree of exposure, although to a lesser extent than LLCs (NRA, 2024).

These patterns indicate that money laundering in Serbia is predominantly based on less complex schemes, which make use of micro business entities. Such entities typically have minimum compliance requirements, are less subject to monitoring, and operate with flexible accounting practices, making it easier to carry out fictitious transactions. Moreover, they are usually under-capitalized, meaning that if they are shut down or liquidated by the authorities, the broader money laundering operation sustains only minor disruption.

An important exception to the prevailing typologies is a current trend which anticipates accountants, who design and manage money laundering operations by orchestrating multiple schemes of legal entity abuse, as confirmed in several investigated cases.

The analysis of money laundering in organized crime distinguishes between two categories of companies:

- 1) Companies that are operational, but are exploited to channel illicit funds, often by using business structures under the control of organized criminal groups to withdraw cash from accounts and reduce tax obligations, and
- 2) Companies that exist only on paper, legally established but without any genuine economic activity. These entities act as professional laundromats, issuing false invoices for non-existent goods or services.

The latter group facilitates chains of fictitious transactions within organized networks, allowing criminal proceeds to be funnelled through accounts and ultimately made available to criminal actors while avoiding detection. Such companies are often registered by socially vulnerable individuals, who agree to become nominal founders in exchange for a small fee (NRA, 2024).

Sophisticated schemes include complex cross-border networks of interconnected entities, frequently involving foreign legal entities, used to transfer funds abroad and further obscure their illicit origin.

These trends indicate an increasing modernisation of money laundering in Serbia, signalling the need for enhanced regulatory oversight, stronger due diligence by financial institutions, and more sophisticated detection tools to identify and disrupt such complex schemes.



The real estate sector is increasingly being recognized as a target for money laundering, with legal entities often used to facilitate transactions and integrate illicit funds into the legitimate real estate market. Money obtained through criminal activities is most often used to purchase property, and more recently for the construction of residential and commercial buildings. Layering and integration is performed through companies. The money is deposited as loan from a founder or through fictitious contracts for investment in real estate during construction, intended for both renting and sale.

The data indicate that many companies involved in ML activities are also associated with tax evasion, which frequently serves as the preparatory phase for laundering activities. The analysis identified repeat offenders— individuals who manage multiple companies, involved in ML and tax-related crimes.

Hundreds of business entities were classified as either “phantoms” or “professional launderers”. Phantom companies typically mask business activities, evade tax filings, and fail to maintain proper documentation or disclose information publicly. In contrast, professional money laundering fronts simulate business turnover using false or non-existent transactions, enabling both money laundering and tax evasion. These entities generate fake documentation, often assisting legitimate businesses in evading taxes, particularly value-added tax (VAT).

4. CONCLUSION

From the aspect of money laundering-related threats, the engagement and connection of economic entities with ML is of essential importance. It has always been important for criminals to ensure the illusion of legality for their illegally acquired funds, but also that these funds are always readily available to them and at their disposal, with the option of quick and easy transfer whenever needed. Sophisticated money laundering techniques and mechanisms are being used more and more often, which ensure hidden ownership and control of illegal earnings, the so-called “hiding in plain sight”. Considering the way money laundering activities are organized and implemented, it was observed that most of these companies are structured as LLCs and entrepreneurs, which by size are classified as micro and small business companies.

The behavioural pattern characterizing the involvement of limited liability companies (LLCs) in money laundering can be summarised as follows: for the purpose of laundering illicit funds, entire business structures are established and controlled by a few individuals, often members of organized criminal groups (OCGs). Using fictitious documents, these groups channel criminal proceeds into the financial system, moving them through multiple related transactions while leveraging the banking system to conceal the trail and the true origin of the funds. Frequently, offshore-registered entities are incorporated into these transaction chains to further obscure ownership and control.

The primary objective of such entities—predominantly registered as LLCs—is to perform a specific economic activity within a defined period. Once its transactions are complete and the illicit funds withdrawn from its accounts, the entity disappears from the business registry, typically through bankruptcy or liquidation, thus effectively “extinguishing” its presence on the corporate landscape. Entrepreneurs are another extremely vulnerable category of business entities. What makes this legal business structure a target of money launderers is the simple form of establishment and registration, the low amount of startup capital, more flexible requirements in the application of bookkeeping and accounting regulations, the possibility to withdraw net profit without much paperwork, as well as lower tax rates on profit or income from self-employment.

Regarding cases linked to organized crime, the latest risk assessment findings indicate that entrepreneurs facilitated the withdrawal of funds from the accounts of legitimately operating companies, thus creating opportunities to reduce reported business income and evade or minimize tax liabilities.



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