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**SUMMARY OF THE NATIONAL RISK ASSESSMENT
ON MONEY LAUNDERING AND TERRORIST
FINANCING IN KOSOVO 2013**

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1. BACKGROUND

1.1. International requirements concerning assessment of AML and CFT risks

The Financial Action Task Force Recommendation 1¹ requires that countries should identify, assess and understand the money laundering and terrorist financing risks for the country, and should take action, including designating an authority or mechanisms to coordinate actions to assess risks, and apply resources aimed at ensuring the risks are mitigated efficiently. Based on the assessment, the country should apply a risk based approach to ensure that measures to prevent or mitigate money laundering and terrorist financing are commensurate with the risks identified.

The EU has underlined the necessity to establish the National Risk Assessment on Money Laundering and Terrorist Financing. It is part of the implementation of the visa-liberalization road map for Kosovo.

1.2. Government's commitment to assess and manage AML and CFT risks

The Government of Kosovo has decided to establish a National Risk Assessment on Money Laundering and Terrorist Financing in Kosovo 2013. The risk assessment process shall be an integral part of strategic management. This document is a summary of the National Risk Assessment on Money Laundering and Terrorist Financing in Kosovo 2013 which consist of the following classified² documents:

- National Risk Assessment on Money Laundering and Terrorist Financing in Kosovo 2013;
- Analysis and Evaluation Matrix for the Individual Risks;
- Action Plan for the Treatment Measures of the National Risk Assessment on Money Laundering and Terrorist Financing in Kosovo 2013.

The Ministry of Finance has issued an Administrative Instruction on National Money Laundering and Terrorist Financing Risk Assessment³. It defines in detail the process of the risk assessment on money laundering and terrorist financing. The Administrative Instruction is in compliance with the FATF Recommendation 1.

The Government of Kosovo has decided to use the results of the National Risk Assessment on Money Laundering and Terrorist Financing in Kosovo 2013 also for the prevention of informal economy and financial and economic crimes. This is due to the link between these two harmful phenomena which was identified during the risk assessment process.

¹International Standards on Combating Money Laundering and the Financing of Terrorism & Proliferation (The FATF Recommendations), FATF 2012.

² Decision of the Ministry of Finance on 18.12.2013 based on the Law No 03/L – 215 on Access to Public Documents, 2010.

³Administrative Instruction Mf - No. 04/ 2013 on National Money Laundering and Terrorist Financing Risk Assessment, Ministry of Finance, 2013.

2. METHODOLOGIES APPLIED FOR THE RISK ASSESSMENT

The Ministry of Finance has issued an Administrative Instruction⁴ which defines in detail the process for a risk assessment on money laundering and terrorist financing. The FIU-K shall draft the assessment. It is supported by a National Risk Assessment Working Group consisting of representatives of the relevant public and private sector institutions. Furthermore, the extensive consultation and communication with partners has included the most important public, private and third sector institutions and underlined the partnership between these stakeholders. The FIU-K with the support of the National Risk Assessment Working Group has carried out the risk assessment procedure in compliance with the FATF National Money Laundering and Terrorist Financing Risk Assessment Guidance⁵ and ISO 31000⁶ and 31010⁷ standards. The reliability and quality of collected information has been assessed using the 4x4 system of Europol⁸.

The National Risk Assessment Working Group⁹ consisted of representatives of the following institutions:

- Financial Intelligence Unit of Kosovo;
- Prosecutorial Council of Kosovo;
- Anti-Corruption Agency of Kosovo;
- Tax Administration of Kosovo;
- Kosovo Police;
- Kosovo Customs;
- Central Bank of Kosovo;
- Kosovo Intelligence Agency;
- Ministry of Finance of Kosovo;
- Kosovo Bankers Association;
- EU funded project “Support to Kosovo institutions in combating financial and economic crime”;
- EULEX;
- U.S. Treasury.

The National Risk Assessment Working Group used objective sources in the communication and consultation with the relevant partners for the collection of information. These sources consisted of:

- Collection and analysis of the statistics related to money laundering, terrorist financing, economic crimes and financial crimes;
- Collection and analysis of the evaluation reports concerning the functionality of the relevant legal framework and other prevention mechanisms on money laundering, terrorist financing, financial crimes and informal economy;
- Evaluation of the national level strategies and action plans on prevention of money laundering, terrorist financing, financial crimes and informal economy.

⁴Ibid.

⁵FATF Guidance National Money Laundering and Terrorist Financing Risk Assessment, 2013.

⁶Risk management – Principles and guidelines, International Standard ISO 31000, 2009.

⁷Risk management – Risk assessment techniques, International Standard ISO 31010, 2009.

⁸Analytical guidelines, Europol, 2000.

⁹List of meetings and workshops organized by the National Risk Assessment Working Group, 2013.

The communication and consultation with the relevant partners included the following subjective sources of information:

- Meetings and workshops¹⁰ of the National Risk Assessment Working Group;
- Web-based questionnaire which received 409 replies from representatives of the relevant institutions from the public, private and third sectors¹¹;
- Interviews of and meetings with 53 experts representing relevant public, private and third sector institutions¹².

The FIU-K shall present the results of the risk assessment to the Ministry of Finance. The Ministry shall introduce the National Risk Assessment on Money Laundering and Terrorist Financing in Kosovo 2013 for the approval of the Government of Kosovo which shall use it for establishing national policies, strategies and other risk management instruments.

¹⁰List of interviews, meetings and workshops organized by the National Risk Assessment Working Group, the National Risk Assessment Working Group, 2013.

¹¹Report on the results of the web based questionnaire, the Project Team, Contract EuropeAid/132399/C/SER/XK, 2013.

¹²List of interviews, meetings and workshops organized by the National Risk Assessment Working Group, the National Risk Assessment Working Group, 2013.

3. OBJECTIVE, SCOPE AND CRITERIA

3.1. Objective and scope of the risk assessment

The Government of Kosovo has decided that the National Risk Assessment on Money Laundering and Terrorist Financing in Kosovo 2013 will be an integral part of the risk management process concerning informal economy and money laundering, terrorist financing and other financial and economic crimes. A process generating a National Strategy on Prevention of Money Laundering, Financing of Terrorism, Economic Crimes, Financial Crimes and Informal Economy has already been initiated. It is based on the risk assessment and will consist of the treatment measures for the identified risks.

The scope of the National Risk Assessment 2013 will cover national level risks as regards money laundering and terrorist financing. The risk assessment process will also address the national level risks in respect to informal economy and financial and economic crimes.

3.2. Risk criteria

The Government of Kosovo has defined criteria to be used to evaluate the significance of risks. It was decided that the risk criteria shall reflect the values and objectives of the relevant national legislation and society as a whole. Therefore, the risk criteria were derived from the objectives of the Law on the Prevention of Money Laundering and Terrorist Financing¹³ and the Program of the Government of the Republic of Kosovo 2011 – 2014¹⁴. Based on the above defined societal values and objectives, the risk criteria of the National Risk Assessment on Money Laundering and Terrorist Financing in Kosovo 2013 are as follows:

1. Efficient prevention and detection of money laundering and terrorist financing;
2. Sustainable economic development;
3. Good governance and strengthening the Rule of Law;
4. Human capital development;
5. Social welfare.

¹³ Law No. 03/L-196 and Law No. 04/L-178 on the Prevention of Money Laundering and Terrorist Financing, 2010 and 2013.

¹⁴The Program of the Government of the Republic of Kosovo 2011-2014, 2011.

4. IDENTIFIED RISKS AND THEIR MANAGEMENT

4.1. Identified, analysed and evaluated risks

The National Risk Assessment Working Group consulted and communicated with the relevant partners and analysed and evaluated¹⁵ the collected information. This risk assessment process generated a prioritized list consisting of altogether 35 identified risks which were classified into threats and vulnerabilities.

The highest risks were related to the following events and consequences:

- Efficiency of the public sector's performance planning procedures;
- Efficiency of the detection and prevention mechanisms for corruption, other financial crimes and informal economy in Kosovo and their impact on international investment and economic growth;
- Efficiency of the implementation of the legal framework;
- Coverage of the secondary legislation and standard operating procedures;
- Efficiency of asset tracing and confiscation procedures;
- Efficiency of the enforcement of confiscation judgments, administrative sanctions and insolvency procedures;
- Capacity and skills of the judiciary;
- Transparency and accountability in the public administration;
- Nepotism;
- Extent of informal economy;
- Impacts of the cash-based economy;
- Kosovo's vulnerability to financial crimes;
- Kosovo's vulnerability to money laundering;
- Nature of the predicate offences for money laundering;
- Extent of hidden criminality as regards money laundering and other financial crimes;
- Functionality of the reporting mechanism on suspicious and cash transactions;
- Vulnerability of certain sectors for informal economy, money laundering and other financial and economic crimes.

4.2. Treatment and management of identified risks

The National Risk Assessment Working Group defined treatment measures for the identified risks. They are as follows:

1. Raising awareness on the impacts and on the prevention of informal economy and financial crimes;
2. Strengthening the prevention of informal economy and financial crimes through transparency, accountability, good governance and societal partnership;
3. Promoting intelligence, investigation, prosecution, court and enforcement proceedings on money laundering, terrorist financing and other financial crimes;
4. Strengthening the capacity of the relevant institutions;

¹⁵ Analysis and Evaluation Matrix for Individual Risks, Annex 1 of the National Risk Assessment on Money Laundering and Financing of Terrorism in Kosovo 2013, National Risk Assessment Working Group, 2013.

5. Developing and applying a proactive approach to international cooperation on prevention of money laundering, terrorist financing and other financial crimes;
6. Developing national legislation to comply with international standards and ensuring its efficient implementation.

The National Risk Assessment Working Group established an Action Plan¹⁶ for the implementation of the treatment measures. It consists of altogether 57 individual activities.

The National Risk Assessment on Money Laundering and Terrorist Financing in Kosovo 2013 will be a basis for the National Strategy and Action Plan on Prevention of Money Laundering, Terrorist Financing, Financial and Economic Crimes and Informal Economy 2014-2018. These policy documents constitute a risk management instruments concerning these harmful phenomena in Kosovo. The National Strategy and Action Plan consist of monitoring and review mechanisms to ensure efficient implementation of the treatment measures focusing on the risks identified in the National Risk Assessment 2013. This function is maintained by the Government of Kosovo.

4.3. Publicity and dissemination of the risk assessment

The results of the National Risk Assessment on Money Laundering and Terrorist Financing in Kosovo 2013 are published and disseminated to the public, private and third sector institutions to be used for decision making as regards prevention of money laundering, terrorist financing, informal economy and financial and economic crimes. The Ministry of Finance has decided on 18.12.2013 to classify the National Risk Assessment on Money Laundering and Terrorist Financing in Kosovo 2013 with its Annexes 1-2. The decision is made based on the Law on Access to Public Documents¹⁷. The Government of Kosovo has decided to publish this Summary of the National Risk Assessment on Money Laundering and Terrorist Financing in Kosovo 2013 and to disseminate the results of the risk assessment to the public, private and third sector institutions to be used for decision making.

The Government of Kosovo is currently drafting the National Strategy and Action Plan on Prevention of Money Laundering, Financing of Terrorism, Economic Crimes, Financial Crimes and Informal Economy 2014-2018. It will be based on the results of the National Risk Assessment on Money Laundering and Terrorist Financing in Kosovo 2013. The National Strategy and its Action Plan include measures which are deemed necessary to treat and manage risks which are related to informal economy, money laundering, terrorist financing and financial and economic crime. The Government of Kosovo will publish the National Strategy and Action Plan on Prevention of Money Laundering, Financing of Terrorism, Economic Crimes, Financial Crimes and Informal Economy 2014-2018.

¹⁶ Action Plan for the Treatment Measures of the National Risk Assessment on Money Laundering and Terrorist Financing in Kosovo 2013, Annex 2 of the National Risk Assessment on Money Laundering and Financing of Terrorism in Kosovo 2013, National Risk Assessment Working Group, 2013.

¹⁷ Law No 03/L – 215 on Access to Public Documents, 2010.