



Kosovo National Money Laundering and Terrorist Financing Risk Assessment

SUMMARY OF THE NATIONAL RISK ASSESSMENT

December 2020

CONTENT

| | |
|--|-----------|
| <i>Executive Summary</i> | 4 |
| Threats | 4 |
| Vulnerability | 6 |
| <i>Introduction</i> | 8 |
| <i>Risk assessment methodology and definitions</i> | 9 |
| Kosovo National ML/TF Risk Assessment | 11 |
| Key terminology and concepts | 12 |
| Threats and vulnerabilities identification process | 13 |
| <i>Money laundering threat</i> | 14 |
| Fiscal evasion | 14 |
| Corruption and bribery | 16 |
| Drug trafficking | 17 |
| Opiates | 18 |
| Marijuana | 18 |
| Cocaine | 19 |
| Counterfeiting and piracy of products | 19 |
| Smuggling | 20 |
| Trafficking in human beings and smuggling of migrants | 21 |
| Trafficking in human beings | 21 |
| Smuggling of migrants | 22 |
| Prostitution | 23 |
| Fraud | 23 |
| Extortion and usury | 24 |
| Robbery or theft | 25 |
| Cybercrime | 25 |
| Environmental crimes | 27 |
| Illicit firearms trade | 28 |
| Forgery | 28 |
| Counterfeiting currency | 29 |
| Illicit trafficking in stolen and other goods | 30 |
| International proceeds of crime flows | 30 |
| Inflows | 30 |
| Outflows | 34 |
| <i>Terrorist financing threat</i> | 34 |

| | |
|---|-----------|
| <i>Vulnerabilities in reporting entities</i> | 35 |
| Banks | 35 |
| Money remitters and transfer agents | 37 |
| Foreign exchange dealers | 38 |
| Microfinance companies | 39 |
| Insurance Companies | 40 |
| Financial leasing | 41 |
| Pension funds | 42 |
| Real Estate and Construction | 42 |
| Notaries | 44 |
| Legal entities and arrangements | 45 |
| Games of chance | 46 |
| NGOs | 47 |
| High value dealers | 49 |
| Attorneys | 50 |
| Accountants and auditors | 51 |
| Online casinos | 52 |

LIST OF ACRONYMS

| | |
|---------|--|
| AML/CFT | Anti-Money Laundering and Combating Financing of Terrorism |
| ML | Money Laundering |
| TF | Terrorist Financing |
| BO | Beneficial Ownership |
| CDD | Customer Due Diligence |
| EDD | Enhanced Due Diligence |
| DNFBPs | Designated Non-Financial Businesses and Professions |
| FATF | Financial Action Task Force |
| FIU-K | Kosovo Financial Intelligence Unit |
| FIU | Foreign Financial Intelligence Unit |
| TF | Terrorist Financing |
| NRA | National Risk Assessment |
| PEPs | Politically Exposed Persons |
| SAEK | Support to Anti-Corruption Efforts in Kosovo |
| STR | Suspicious Transaction Report |
| UNCAC | United Nations Convention against Corruption |
| UNDP | United Nations Development Programme |

Executive Summary

This is the second Kosovo National Money Laundering and Terrorist Financing Risk Assessment (NRA). In conducting this assessment, the aim is to identify, understand and assess the money laundering and terrorist financing risks faced by Kosovo. NRA's terminology and methodology are based on the Administrative Instruction MF- No.04/2018 on the National Money Laundering and Terrorist Financing Risk Assessment, the guidance of the Financial Action Task Force (FATF), the international body for setting standards for safeguards against money laundering and terrorist financing. The basic concepts of the risk assessment are threats (predicate criminal offenses related to money laundering), vulnerabilities (opportunities that enable money laundering), consequences (impact of a vulnerability), and risk (synthesis of threat, vulnerability and consequence)

This assessment was conducted with the support of UNDP Kosovo, the Support to Anti-Corruption Efforts in Kosovo Project (SAEK)¹.

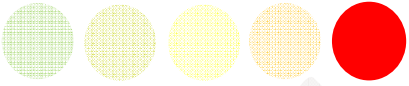




Threats

Money laundering is a necessary consequence of all profit-generating crimes, and while it is difficult to estimate exactly how much money is laundered in Kosovo, the figures are likely to be in the hundreds of millions of Euros each year.

Figure 1 highlights the amount of proceeds generated in Kosovo from each type of crime, showing that tax evasion and corruption generate the largest amount of proceeds. Fiscal evasion in Kosovo is strongly linked to the widespread informality in the economy, which makes it possible for profits to be reported in part or not at all. While some forms of corruption generate proceeds in Kosovo, procurement-related corruption is seen to generate the highest proceeds, and is often associated with Politically Exposed Persons (PEPs).

¹ The opinions expressed in this report do not necessarily represent those of the UNDP or its member states.

Figure 1 Level of threat of money laundering from predicate criminal offenses

| Predicate criminal offenses | Threat level |
|---|---|
| Tax evasion Corruption and bribery |  <p>Extremely high</p> |
| Drug trafficking Smuggling Counterfeiting and piracy of products Trafficking in human beings Prostitution |  <p>High</p> |
| Fraud Robbery and theft Extortion and usury Cybercrime |  <p>Moderate</p> |
| Illicit firearms trafficking Environmental crimes |  <p>Low</p> |
| Counterfeiting currency Illicit trafficking in stolen goods Forgery |  <p>Extremely low</p> |

Drug trafficking, smuggling, counterfeiting and piracy of goods, fraud, trafficking in human beings and prostitution, in addition to being in second level of proceeds generation in Kosovo, are also types of crime where most of the proceeds are thought to be taken out of Kosovo and will generally flow to the crime-related country.











Most types of crime cause the bulk of proceeds to take the initial form of cash and use relatively unsophisticated laundering methods, which is strongly facilitated by the great informality of Kosovo's economy which makes it difficult to distinguish whether funds have been legitimately acquired or not. It is thought that only fraud and high-level corruption cause the bulk of their proceeds to take the initial form of financial assets.

Kosovo has never been the target of major terrorist attacks, however, given, among other things, the fact that Kosovo has had fighters who have gone to Syria and Iraq, and a significant number of them have returned to Kosovo, Kosovo cannot ignore the threat of terrorist financing (TF). Given the local threat of terrorism, the most significant TF threat comes either from self-financing or smaller donations from voluntary/involuntary donors, while TF through NGOs, which includes funding sources outside Kosovo, also poses a substantial threat.

Vulnerability

The assessment shows that there are many channels that currently offer opportunities for money launderers and terrorist financing in Kosovo. Figure 2 shows the estimated rate of money laundering by different types of Kosovo reporting entities involved in money laundering and the amount of money that could potentially be used for terrorist financing (TF).

Figure 2 Level of vulnerability to money laundering and terrorist financing by reporting entities

| Type of reporting entity | Vulnerability to money laundering | Type of reporting entity | Vulnerability to terrorist financing |
|---|--|--|--|
| Banks Real Estate and Construction |  Extremely high | |  Extremely high |
| Notaries Games of chance Legal entities and arrangements Money remitters and transfer agents | High  | Banks NGOs Money remitters and transfer agents | High  |
| NGOs Currency exchange High value dealers | Moderate  | High value dealers Microfinance companies | Moderate  |
| Accountants and Auditors Insurance companies, Micro-finance Online casinos Attorneys Financial leasing | Low  | Auditors | Low  |
| Pension funds |  Extremely low | All other reporting entities | Extremely low  |

Despite the fact that the banking sector is considered to be the sector with the strongest ML/TF controls and that it has a solid understanding of their ML/TF risk, it is still considered vulnerable to ML/TF due to the nature, scale and complexity of the sector and its central role in Kosovo's financial services.

It is generally acknowledged that the real estate and construction sector is very attractive to many money launderers, and this is partly due to the widespread informality of the economy, which allows illicit cash payments to go undetected. It is also believed that real estate and construction companies are the predominant final means of funding high-level corruption.

Both NGOs and money remitters/transfer agents are considered to be highly vulnerable to TF. For money remitters, this is strongly related to the type of business, despite following the international industry standard for AML/CFT. While to date there is no direct evidence of misuse of the NGO sector for the purpose of terrorist financing, and the vast majority of NGOs are at low risk for TF, it is acknowledged that the current overview regarding the charity sector is not complete and there is little effective oversight of incoming/outgoing funding.

On the other hand, pension funds, insurance companies and financial leasing companies are among the reporting entities that are estimated to have the lowest level of vulnerability to ML/TF, so they are potential candidates for easier oversight attention or for implementation of simplified AML/CFT controls.

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Introduction

Money is the driving force behind a range of crimes, including drug trafficking, corruption, tax evasion, fraud, theft, trafficking in human beings, and smuggling. Even terrorists depend on financial support. These crimes cause direct financial losses to individuals, harm the community, and in some cases even cause loss of human life. Successful money laundering enables criminals to enjoy the profits and extend the cycle of crime by securing funds to reinvest in crime. Kosovo is committed to developing and maintaining AML/CFT policies to increase its ability to respond to the emerging ML/TF risks and to ensure effective combating of ML/TF.

The objective of the NRA is to better understand the money laundering and terrorist financing risks in Kosovo, to inform the efficient allocation of resources, and to mitigate those risks. While this assessment should not be used in isolation, the improved understanding it provides should assist government, law enforcement agencies, supervisors, and the private sector in targeting their resources in the highest risk areas, ensuring that Kosovo's approach to preventing financial crime is risk-based and proportionate.

This is the second NRA for Kosovo and is based on the experience and knowledge of the first NRA in 2013². The data collection and compilation process was supported by the UNDP's Support to Anti-Corruption Efforts in Kosovo Project (SAEK II), funded by the Swiss Agency for Development and Cooperation (SDC) in Kosovo and the Danish International Development Agency (DANIDA), and completed through SAEK III funded by SDC and the Swedish international Development Agency (SIDA). In addition, this NRA is also informed in part by three resubmitted sectoral risk assessments: Construction business; Games of chance sector; and the NGO sector.

The first chapter provides an overview of the methodology and definitions used to assess ML/TF risks in Kosovo; the second chapter presents the results of ML threats assessment; the third chapter considers TF threats; while the fourth chapter contains the results of the ML/TF vulnerability assessment of various reporting entities in Kosovo.

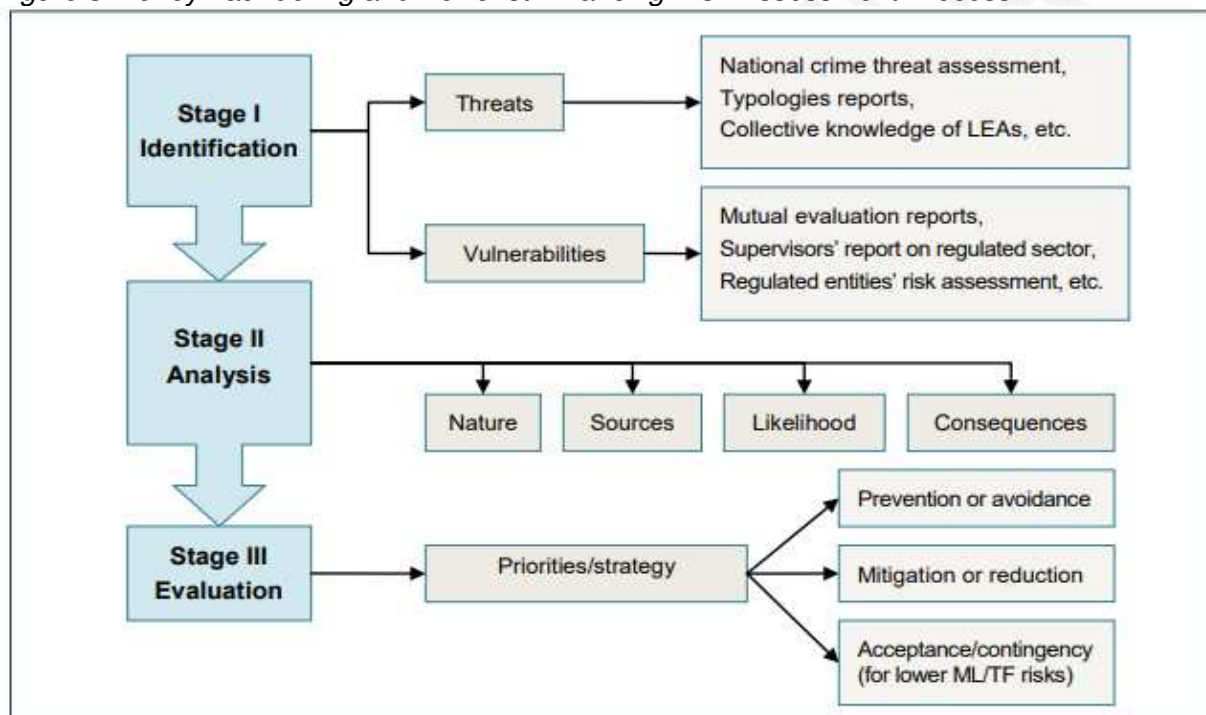
² http://fiu.rks-gov.net/wp-content/uploads/2018/02/NRA_Summary_ENG.pdf

Risk assessment methodology and definitions

Kosovo's money laundering and terrorist financing risk management mechanism is based on international standards. The Kosovo National Money Laundering and Terrorist Financing Risk Assessment 2019 uses the FATF Guidance on National Money Laundering and Terrorist Financing Risk Assessment, as well as the³ ISO 31000⁴ and 31010 standards⁵.

The FATF Guidance on National Money Laundering and Terrorist Financing Risk Assessment⁶ consists of risk identification, analysis and assessment. The process is described below.

Figure 3 Money Laundering and Terrorist Financing Risk Assessment Process



Source: FATF Guidance on National Money Laundering and Terrorist Financing Risk Assessment 2013

³FATF Guidance on National Money Laundering and Terrorist Financing Risk Assessment, 2013

⁴Risk Management - Principles and Guidelines, ISO 31000 International Standard, 2009.

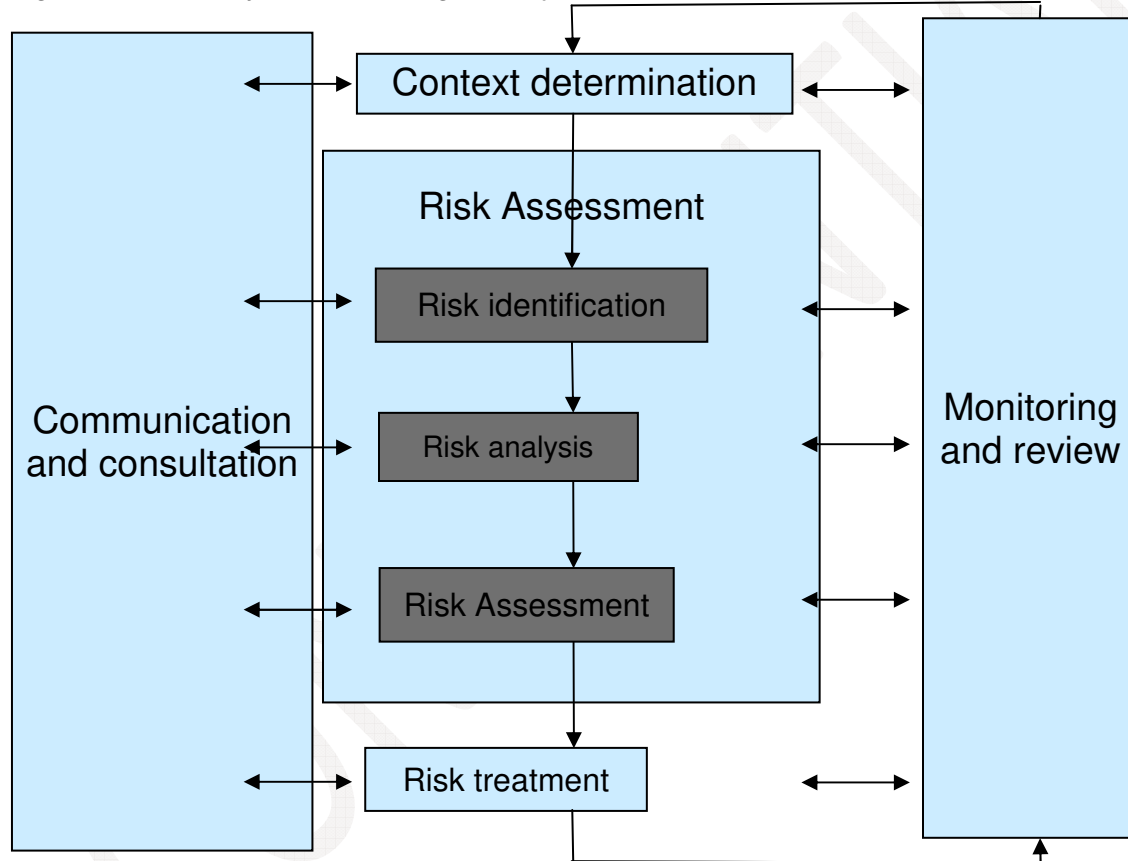
⁵Risk Management - Risk Assessment Techniques, ISO 31010 International Standard, 2009.

⁶FATF Guidance on National Money Laundering and Terrorist Financing Risk Assessment, 2013.

ISO 31000 and 31010 set out general risk assessment and risk management procedures. The Ministry of Finance has issued an Administrative Instruction⁷ which sets out in detail the money laundering and terrorist financing risk assessment process. The drafting process, working group meetings and data collection were supported by the United Nations Development Program's (UNDP) Support to Anti-Corruption Efforts in Kosovo Project (SAEK II), funded by the Swiss Agency for Development and Cooperation (SDC) in Kosovo and the Danish International Development Agency (DANIDA), and from 2020 by SDC and SIDA.

The Risk Management Mechanism at the national level and the Kosovo National Money Laundering and Terrorist Financing Risk Assessment use these international standards, which consist of the following stages:

Figure 4 Risk analysis and management process



Source: ISO 31000 and 31010 standards

⁷Administrative Instruction MF - No. 04/2018 on National Money Laundering and Terrorist Financing Risk Assessment, Ministry of Finance, 2018.

Kosovo National ML/TF Risk Assessment

The objectives of risk assessment are to assess the likelihood of future events or circumstances and their effects on the effective prevention and detection of money laundering and terrorist financing. Risk assessment will provide information to public, private and third sector institutions in their decision-making procedures regarding the prevention of money laundering, terrorist financing and financial crimes in Kosovo.

To this end, the FIU-K has established a National Risk Assessment Working Group, which communicates and consults with relevant partners with regards to information collection. The aim is to identify, analyze and assess risks. The working group consists of:

- Kosovo Financial Intelligence Unit;
- Kosovo Prosecutorial Council;
- Kosovo Anti-Corruption Agency;
- Tax Administration of Kosovo;
- Kosovo Police;
- Kosovo Customs;
- Kosovo Intelligence Agency;
- Ministry of Finance of Kosovo;
- Central Bank of Kosovo;
- Association of Kosovo Banks;
- Kosovo Chamber of Notaries;
- National Border Management Center;
- EU funded "Support to Kosovo institutions in combating financial and economic crimes" Project;
- UNDP Support to Anti-corruption Efforts in Kosovo (SAEK II) project

Objective resources used by the Risk Assessment Working Group during communication and consultation with relevant partners for information collection, consist of:

- Collection and analysis of statistics related to money laundering, terrorist financing, economic crimes and financial crimes;
- Collection and analysis of statistics related to AML/CFT efforts and exposure of relevant reporting entities.
- Collection and analysis of examples of cases related to money laundering, terrorist financing, economic crimes and financial crimes.

The following subjective sources of information will be used for communication and consultation with relevant partners:

- Risk Assessment Working Group Meetings;
- Interviews and meetings with representatives of relevant private and public institutions;
- Survey of Perception of Threats and Vulnerabilities Related to Money Laundering, Terrorist Financing and Financial Crimes;

Key terminology and concepts

Risk management should ensure that organizations are able to carry out coordinated activities to manage and control their risk-related functions. Therefore, it is important that threats and vulnerabilities are examined in terms of their consequences and the likelihood that the risk will materialize. The NRA terminology and methodology is based on the FATF guidance⁸, which provides a process for conducting a risk assessment at the national level. This approach uses the following key concepts:

Threats: These are the proceeds from the predicate criminal offenses in connection with money laundering and terrorist financing. Understanding the threat environment is essential to understanding the vulnerabilities that create money laundering opportunities.

Vulnerability: All those things that can be exploited by a threat or that can support or facilitate its activities. In the ML/TF context, vulnerability assessment means examining factors that present weaknesses in AML/CFT systems or controls within a jurisdiction. They may also include features of a particular sector, a financial product or a type of service that make them attractive for ML or TF purposes.

Consequence: This refers to the impact or harm that ML or TF can cause, and includes the effect of underlying criminal and terrorist activity on financial systems and institutions, as well as on the economy and society at large. For the purposes of this risk assessment, and in accordance with the NRA methodology, the impact component is considered consistently relevant and therefore will not be addressed in detail. Consequently, the proposed methodology focuses on the components of threats and vulnerabilities.

Risk: It is a function of threats, vulnerabilities and consequences, and is mitigated by certain factors and circumstances. A risk assessment involves making decisions about threats, vulnerabilities, mitigation and consequences.

⁸FATF Guidance on National Money Laundering and Terrorist Financing Risk Assessment, 2013
http://www.fatf-gafi.org/media/fatf/content/images/National_ML_TF_Risk_Assessment.pdf

Threats and vulnerabilities identification process

The NRA uses all available information to identify, as objectively as possible, the priority money laundering risks for Kosovo. The fact-finding and assessment process includes:

- Identification of the nature and volume of each relevant predicate criminal offense⁹ in Kosovo, to determine the source of illicit domestic proceeds.
- Identification of the nature and volume of the terrorist financing threats that Kosovo faces.
- Identification of vulnerabilities within the financial sector and the non-financial sector. These assessments have taken into account a number of relevant risk factors for the types of reporting entities within these sectors, including other vulnerabilities, such as:
 - Nature, scale and complexity of types of individual reporting entities;
 - Products, distribution channel services provided by types of individual reporting entities;
 - Consumers within the types of individual reporting entities;
 - And the effectiveness of AML/CFT controls within the types of individual reporting entities to reduce ML/TF vulnerabilities.

The ML threat is assessed as separate from the TF threat. Although there is an overlap, the nature of these criminal activities is different, which justifies separate assessments. In contrast, the ML/TF vulnerability assessment does not require such a breakdown, as ML/TF threats seek to exploit the same set of vulnerable features and characteristics of products and services provided by sectors, to launder proceeds of crime or to finance terrorism.

The level of threats and vulnerabilities will be assessed according to the following scale:

- Extremely low
- Low
- Moderate
- High
- Extremely high

⁹ Each of the relevant criminal offenses comes from the FATF list of defined categories of criminal offenses: <http://www.fatf-gafi.org/glossary/d-i/>

Money laundering threat

The experts assessed the ML threats from profit-oriented crimes, especially on the following issues:

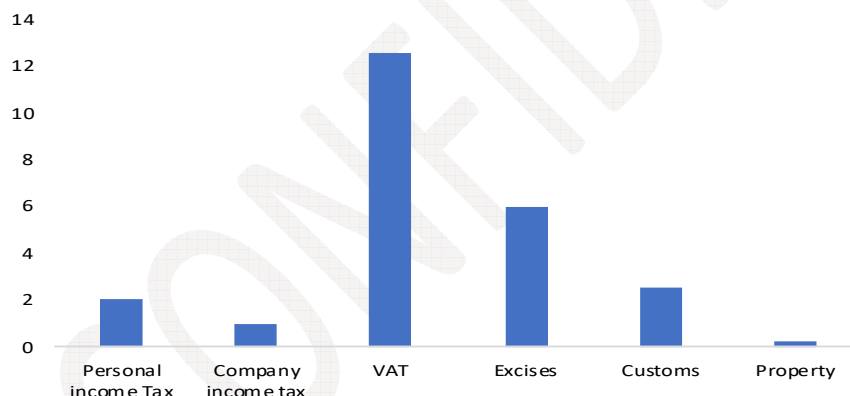
- Size of proceeds, using a five-point scale
- Nature of crime
- To what extent is the crime trend increasing or decreasing?
- To what extent do the initial proceeds come in cash, financial or physical assets?
- To what extent is crime related to organized crime or unorganized crime?
- To what extent the money is kept in Kosovo or sent to other countries

Tax evasion

Presents an **extremely high** threat of money laundering

Tax evasion is widespread, as shown by a 2014 World Bank study, which concluded that the VAT gap is 34% (180 million Euros), the corporate income tax gap is about 17% (10 million Euros) and personal income tax is 66% (180 million Euros)¹⁰. Similarly, a 2017 study on the informal economy found that the tax gap was greater than 300 million Euros per year¹¹.

Figure 5 Kosovo's Tax Structure (GDP share)¹²



¹⁰ World Bank. 2014. Republic of Kosovo public sector revenues: Tax policies, tax evasion and tax gaps. <https://openknowledge.worldbank.org/handle/10986/22269>

¹¹ For more information on the informal economy, please see: <https://www.bseurope.com/about-us/our-group/assessment-extent-informal-economy-kosovo>

¹²IMF Kosovo AIV 2017, Government Finance Statistics and IMF staff calculations

Tax evasion in Kosovo is widespread and comes in several forms, however, the main forms of tax evasion can be related to the prevalence of informality in the economy (estimates suggest that informality is over 30% of the economy), allowing for business and trade revenues to remain unreported and therefore not taxed. Regarding tax evasion from personal income tax, to some extent this is an interrelated structural issue, as the Kosovo tax system does not entail the submission of individual tax returns.

Under-reporting is also a common phenomenon in Kosovo, which is similarly enabled by the informality of the economy, and the revenues reported to the tax authorities do not reflect actual revenues, e.g. this may be related to the income earned from renting real estate, or companies do not provide accurate information on the income they generate: this is often seen in construction, bars and restaurants, games of chance, in the professional services sectors (fees of lawyers, doctors and consultants).

There are also cases of more elaborate tax evasion, where companies produce fake invoices, to falsely reduce the amount of tax they have to pay. Although the size of this evasion is small compared to the aforementioned, it is still believed to be in the millions of Euros.

Since tax evasion typically involves ordinary individuals and companies using low-sophistication tax evasion techniques, it is believed that even the subsequent money laundering is not sophisticated. It is generally believed that given that most of the informal economy is cash-based, most of the income takes the initial form of cash, of which a significant portion can enter the financial system as simple deposits. However, it is likely that more elaborate tax fraud schemes involving fraudulent invoices within the financial system, will occur from the outset. It is widely believed that most of the revenue from tax evasion remains within Kosovo, and there are no signs that sending money to shell banks or tax havens is a significant problem.

Table 1 Number of reported cases and investigations into tax crimes

| Reported cases | | | | | | Investigations | | |
|----------------|---------|-------|---------|-------|---------|----------------|------|------|
| 2015 | | 2016 | | 2017 | | 2015 | 2016 | 2017 |
| Cases | Persons | Cases | Persons | Cases | Persons | | | |
| 54 | 93 | 16 | 70 | 27 | 60 | 25 | 8 | 13 |

Source: Prosecution Office

Table 2 Number of cases investigated by TAK

| | 2018 | 2019 |
|--|------|------|
| Opened cases | 30 | 37 |
| Initial suspicion reports/criminal reports | 25 | 48 |
| Final Investigation Report | 29 | 24 |

Corruption and bribery

Present an **extremely high threat** of money laundering

Kosovo, based on the Transparency Index of 2018, scored 37/100 and its position in the world ranking is 93/180. One of the main reasons examined by the Transparency Index and which describes the situation in Kosovo is the lack of transparency in the public procurement process.¹³

One study found that nine out of ten private companies had direct contacts with a public official. Direct meeting is the preferred way to pay a direct bribe, and mostly in cash. One of the most vulnerable economic sectors is the construction sector, in which bribes are paid to get better treatment during the administrative process or for an authorization.¹⁴ As a result, more than 100 million Euros are wasted each year on corruption, and 20% of all contract amounts entered into each year in Kosovo are misused by public officials.¹⁵

Petty corruption is perceived in many countries as corruption of junior or senior officials or officials within the public administration in which officials perform public services. In Kosovo, this includes public institutions responsible for providing public services in municipalities, tax administration, health services, education, municipal and cadastral services. It is generally believed that most of the ML associated with this is likely to take the initial form of cash, and it employs the simple laundering scheme enabled by the size of the informal sector.

Major corruption usually occurs in high-level positions, such as head of division or department within a given ministry, permanent secretaries and other high-level positions with influence in government or public agencies, or judges and prosecutors, but mainly affects procurement offices, customs, tax offices, or other officials within public institutions.

While the number of cases of petty corruption far exceeds that of large-scale corruption, it is strongly believed that proceeds related to major corruption make up the majority of corruption proceeds in Kosovo. Conflict of interest and nepotism are probably the biggest problems related to corruption in Kosovo, but they generally do not directly generate crime proceeds.

While smaller-scale corruption can be handled in cash, larger-scale procurement-related corruption generally employs registered companies (see more on legal entities and

¹³ The index, which ranks 180 countries and territories according to perceived levels of corruption in the public sector according to experts and businesspeople, uses a scale from 0 to 100, where 0 is very corrupt and 100 is very clean. For more information see:

www.transparency.org/news/feature/corruption_perceptions_index_2017

¹⁴ UNODC 2013, Business, Corruption and Crime in Kosovo https://www.unodc.org/documents/data-and-analysis/statistics/corruption/Kosovo_Business_corruption_report_EN.pdf

¹⁵ Reshat Maliqi, (2016) Corruption, Challenges for Kosovo Institutions http://journals.euser.org/files/articles/ejms_jan_apr_16_nr2/Reshat.pdf

arrangements vulnerabilities) of friends who then transfer the funds to other companies owned by other associates or relatives of politically exposed persons (PEPs).¹⁶ The use of cover companies facilitates the avoidance of strict scrutiny of banks. It is believed that most of the funds remain within Kosovo, while real estate and construction companies are the predominant means of using the funds.

Despite the fact that there have been some improvements in the transparency indicator in the last three years, it is generally considered that this does not reflect the size of corruption proceeds, as high-level corruption is considered stable or even increasing.

Table 3: Statistics of “Corruption” criminal offenses

| Statistics of “Corruption” criminal offenses | 2015 | 2016 | 2017 | 2018 | 2019 |
|--|------|------|------|------|------|
| Criminal reports with known perpetrators | 67 | 160 | 134 | 131 | 136 |
| Number of arrested persons | 154 | 48 | 30 | 26 | 70 |
| Number of persons involved in criminal reports | 340 | 320 | 253 | 237 | 341 |

Drug trafficking

Presents a **high** threat of money laundering

The profits associated with illicit drugs in Kosovo come mainly from opiates and cannabis, and to a lesser extent from cocaine and amphetamine-type stimulants. Drug use is not widespread, although it is seen to have increased slightly in recent years, and this is likely to be related to revenue growth¹⁷. Kosovo is a transit country for smuggled drugs to other European markets, but most drugs passing through Kosovo are not accompanied by money transfers to Kosovo.¹⁸ According to perceptions, most drug trafficking (> 90%) is carried out in cash and most profits are related to organized crime.¹⁹

¹⁶PEPs are a special category of current or former international officials, local or foreign, who hold or have held a prominent position and have discretionary powers or political influence. For more information on PEPs see <http://fiu.rks-gov.net/wp-content/uploads/2018/06/PEPs-Typologies-ALB-SRB-ANG.pdf>

¹⁷ NRA Expert Working Group Meeting 2018

¹⁸ US Department of State 2016 <https://www.state.gov/j/inl/rls/nrcrpt/2016/vol1/253280.htm>

¹⁹ NRA Expert Working Group Meeting 2018

Table 4 Confiscations by the Kosovo Police during the years 2015-2019^[1]

| | 2015 | 2016 | 2017 | 2018 | 2019 |
|------------------|---------------------|---------------------|----------------------|---------------------------------|---|
| <i>Marijuana</i> | 462 kg 721.09 gr | 1146 kg 949.4 gr | 1908 kg 175.25 gr | 979 kg ,794.63 gr | 824 kg 230.2 gr 25 kg 447.16 gr hashish |
| <i>Opiates</i> | 9 kg 585.85 kg | 84.55 gr | 391.3 gr | 119 kg 026.39 gr (heroin) | 7 kg 717.9 gr heroin |
| <i>Cocaine</i> | 54.5 kg | 168.33 gr | 711.65 gr | 1 kg 718.77 gr | 1 kg 581.68 gr |
| <i>Ecstasy</i> | 265 pills | 0 pills | 141.24 gr | 0,478.58 gr | 110 pills +131.73 gr |

Opiates

Significant amounts of opiates from Afghanistan pass through Turkey, from where they are smuggled into Western Europe through what is known as the Balkan route, and the opiate trade in Kosovo follows this pattern. Some organized crime groups from Kosovo work in cooperation with organized crime groups from the countries of the region, but mainly smaller groups have been identified in relation to the transport of opiates in Kosovo and from Kosovo to Western European countries. Most drugs passing through Kosovo are not traded locally, and it is perceived that there is very little revenue generated in Kosovo from drugs smuggled through Kosovo²⁰.

UNODC estimates that the illicit sale of opiates for final consumption derives a gross profit of US \$ 12 million, and by the nature of sales, almost all revenue should be generated in Kosovo.²¹

Marijuana

The largest quantities of marijuana enter Kosovo from Albania, while smaller quantities also come from Northern Macedonia, Serbia and Montenegro. Part of the quantity of marijuana is kept in Kosovo for domestic consumption, while the other part, which is considered several times larger in quantity, is transited to other countries, mainly to the markets of Western Europe. As with opiates, marijuana passing through Kosovo is not considered to generate much revenue in Kosovo.²²

[1] Information from the Kosovo Police

²⁰ Kosovo Police, 2016 Serious Crimes and Organized Crime Threat Assessment
http://www.kosovopolic.com/repository/docs/SERIOUS_AND_ORGANISED_CRIME_THREAT_ASSESSMENT_SOCTA_2014-2015.pdf

²¹ https://www.unodc.org/documents/data-and-analysis/Studies/IFF_report_2015_final_web.pdf

²² Kosovo Police, 2016 Serious Crimes and Organized Crime Threat Assessment

Marijuana is a much more widely used drug, however, given its much lower price compared to opiates, it is not clear which of them generates the most revenue. It is perceived that a significant portion of marijuana revenue is returned to the countries of origin.²³ UNODC estimates that one kilogram of marijuana sells for 600-900 Euros, while a dose of 5 grams sells for 20-25 Euros²⁴.

Cocaine

Although cocaine has been one of the most popular drugs in Kosovo for years, its presence in the domestic market is relatively low, and is not considered to generate proceeds close to those of cannabis and opiates. In general, cocaine seized in Kosovo is found in small quantities and mainly among individuals who use or sell it²⁵.

Counterfeiting and piracy of products

Presents a **high** threat of money laundering

Evidence suggests that there is little domestic production of counterfeit goods in Kosovo, but the import of counterfeit goods, especially clothing and to a lesser extent electronic goods, is worrying. The prevalence of counterfeit and pirated products in Kosovo has increased significantly over the past decade, in the quantity and range of products available for sale, and has reached a point where smaller markets and retail outlets are often seen openly trading counterfeit goods. China is the main source of counterfeit products imported into Kosovo²⁶. Intellectual property rights protection measures are slowly improving, but are limited by the continuing lack of awareness in the public and judicial system.²⁷

Authorities track and report confiscations of counterfeit goods. In 2016, Customs confiscated counterfeit goods worth over 2.5 million Euros. While the final sale, at the retail level, will generally be done in cash²⁸, international trade at the wholesale level, by the nature of trade, will take place almost exclusively through the financial system, with China as the main reserve country.

Table 5: Number of reported cases

| 2015 | | 2016 | | 2017 | |
|-------|---------|-------|---------|-------|---------|
| Cases | Persons | Cases | Persons | Cases | Persons |
| 9 | 27 | 4 | 7 | 8 | 23 |

²³ NRA Expert Working Group Meeting 2018

²⁴ UNODC data, 2018 <https://www.unodc.org/unodc/en/data-and-analysis/statistics/drug-trafficking.html>

²⁵ Kosovo Police, 2016 Serious Crimes and Organized Crime Threat Assessment

²⁶ NRA Expert Working Group Meeting 2018

²⁷ Kosovo Police, 2016, Serious Crimes and Organized Crime Threat Assessment

²⁸ Any small retail store can accept debit/credit card payments

Smuggling

Presents a **high** threat of money laundering

This crime, like all illicit trafficking, is facilitated by Kosovo's porous border with surrounding countries. Smuggling of goods from Serbia to Kosovo remains in the spotlight of criminal groups, and Serbian products are very present in the domestic market, at competitive prices. Smuggled goods are mainly fuel products, pharmaceuticals, dairy products, fruit, meat products, cigarettes, coffee, alcoholic beverages, vegetables, agricultural implements, electronics, textiles²⁹.

The main smuggling between Kosovo and Serbia takes place in the northern part of Kosovo, but it is also a problem in the Gjilan region. Smugglers use various transport vehicles like trucks, cars, tractors, vans and regular bus lines.³⁰

Tobacco is considered an important product of smuggling in Kosovo, with the source countries being mainly Montenegro and Albania. Tobacco smuggling is considered to have declined³¹.

Most smuggling-related transactions are made in cash, and it is considered that most of the money is returned to the country of origin of the products.

Table 6: Number of cases investigated by Customs

| 2015 | 2016 | 2017 | 2018 | 2019 |
|------|------|------|------|------|
| 57 | 65 | 61 | 60 | 128 |

²⁹ Kosovo Police 2016, Serious Crimes and Organized Crime Threat Assessment

³⁰ Kosovo Police 2016, Serious Crimes and Organized Crime Threat Assessment

³¹ NRA Expert Working Group Meeting 2018

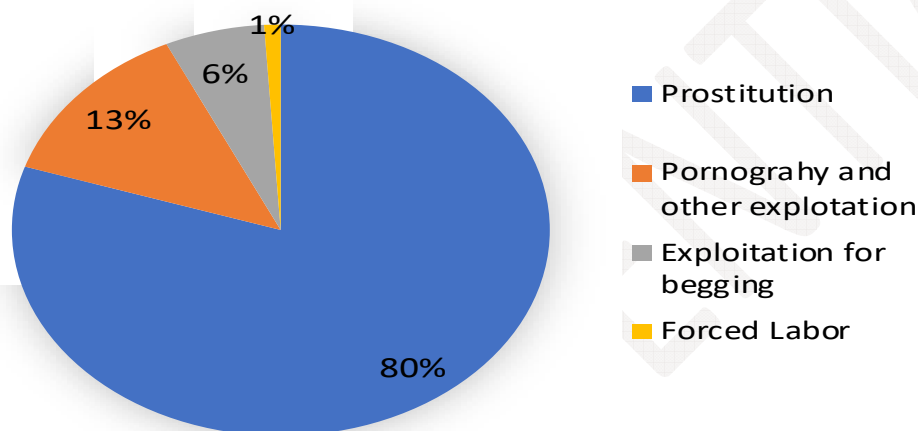
Trafficking in human beings and smuggling of migrants

Presents a **high** threat of money laundering

Trafficking in human beings

The US State Department, in its 2018 report on trafficking in human beings, classifies Kosovo as Level 2, which means that the country does not fully meet the international standard in combating this crime, but the government and law enforcement agencies are actively dealing with the problem.³²

Figure 6 Form of exploitation of victims of trafficking 2012-2015



Trafficking in human beings is mainly related to sexual exploitation, with 80% of victims and an even higher share of income from trafficking in human beings coming from sexual exploitation. Most of the victims of this trade are women coming from Eastern Europe, especially Albania, Moldova, Bulgaria, Russia and Ukraine. The average age of the victims is between 20 and 35 years; they are mostly women recruited in their homeland in the hope of a better job and life in Europe. In recent years, police statistics highlight an increase in investigated cases of trafficking in human beings, as well as an increase in children victims of crime³³.

It is considered that trafficking in human beings for sexual exploitation has much stronger links with organized crime for prostitution described below, especially with international organized crime, given that most girls are recruited abroad. Almost all proceeds take the initial form of cash, with significant portions of the proceeds being returned to the country of origin of the

³² <https://www.state.gov/reports/2018-trafficking-in-persons-report>

³³ Kosovo Police 2016, Serious Crimes and Organized Crime Threat Assessment

organized crime group. To the extent that massage parlors and hotels related to sexual exploitation are linked to financial systems, it is likely that some proceeds will enter the financial system in Kosovo.

Table 7: Number of criminal reports and suspected persons

| Criminal reports submitted to the Prosecutor’s Office by type of offense | 2018 | 2019 |
|--|-------------|-------------|
| Trafficking in human beings | 12 | 21 |
| Number of persons against whom criminal charges have been filed - by criminal offense | 2018 | 2019 |
| Trafficking in human beings | 22 | 37 |

Smuggling of migrants

International smuggling of migrants passing through Kosovo has been declining sharply in recent years, especially in relation to people of Syrian and Afghan origin. Immigrants smuggled illegally through the so-called “Balkan Route” come from the southern borders with Northern Macedonia and continue their journey to Europe, through Serbia or through the ports of Albania. However, very little of the proceeds are considered to be related to Kosovo, as payments generally related to smuggling of migrants are made in other countries.

The migration of certain categories of Kosovo citizens to Western European countries is a current phenomenon. Migrants are mainly people in difficult economic conditions, unemployed or employed mainly in the private sector, with low or average wages, with social assistance, some with unresolved housing issues, dissatisfied with healthcare, pensions, security, education policies etc. However, it is considered that crime proceeds related to this offense are not high, given Kosovo’s relatively porous border (see also the section on forgery in relation to forged passports).

Table 8: Number of reported cases and persons suspected of migrant smuggling

| Reported cases | | | | | No. of suspects | | | | |
|----------------|------|------|------|------|-----------------|------|------|------|------|
| 2015 | 2016 | 2017 | 2018 | 2019 | 2015 | 2016 | 2017 | 2018 | 2019 |
| 17 | 3 | 10 | 8 | 5 | 13 | 8 | 16 | 5 | 9 |

Prostitution

Presents a **high** threat of money laundering

Prostitution is illegal in Kosovo³⁴ and operates with some overlap with trafficking in human beings (see more information above), with the difference that trafficking in human beings involves means of threat or use of force or other forms of coercion, whereas here, prostitution refers to voluntary engagements. In recent years there has been an increase in the number of massage parlors likely to be linked to prostitution,³⁵ and while there are some intelligence deficiencies regarding the extent and full scale of prostitution in Kosovo, it is assumed that prostitution is on the rise.

Prostitution is known to generate significant amounts of money (around 30-50 Euros per client), almost exclusively in cash. Most of the sex workers are not Kosovars, but from countries like Bulgaria, Romania, Moldova, so it is expected that most of the money generated will eventually be transferred abroad.

Fraud

Presents a **moderate** threat of money laundering

Fraud occurs in many forms in Kosovo, however large-scale fraud with financial and investment products, such as large pyramid schemes, does not seem to be a significant threat in Kosovo to date. This is likely to be related to some extent to the relatively low level of sophisticated investment products offered by the financial system in Kosovo.

Credit card cloning is the most common type of fraud in Kosovo, although it is not considered a widespread problem, while it is perceived that the proceeds from this type of fraud leave Kosovo through electronic transfers. Fraud related to email scams, such as Nigerian email scams, as in many countries, are a factor in Kosovo as well. There has been a recent increase in cases of fraud by travel agencies, where fraudulent holiday tickets and packages have been sold. In Kosovo, misuse of state benefits is also likely to occur, where people fraudulently receive benefits they are not entitled to.

Fraud cases in Kosovo are generally related to international organized crime, with payments being made mainly through financial assets, and compared to most other types of crime in Kosovo, show very high levels of sophistication and skills for money laundering of proceeds related to fraud.

³⁴ Criminal Code of Kosovo

³⁵ Some hotels are also suspected of having strong links to prostitution

Table 9: Number of reported cases, investigations and convicted persons

| Reported cases | | | | | | Investigations | | | Convicted persons | | |
|----------------|---------|-------|---------|-------|---------|----------------|------|------|-------------------|------|------|
| 2015 | | 2016 | | 2017 | | 2015 | 2016 | 2017 | 2015 | 2016 | 2017 |
| Cases | Persons | Cases | Persons | Cases | Persons | | | | | | |
| 412 | 860 | 438 | 849 | 402 | 668 | 17 | 20 | 18 | 80 | 140 | 88 |

Source: PCF

Table 10: Statistics of “Fraud” criminal offenses

| Statistics of “Fraud” criminal offenses | 2015 | 2016 | 2017 | 2018 | 2019 |
|--|------|------|------|------|------|
| Criminal reports with known perpetrators | 14 | 19 | 15 | 24 | 23 |
| Number of arrested persons | 1 | 15 | 13 | 2 | 19 |
| Number of persons involved in criminal reports | 18 | 33 | 32 | 35 | 64 |

Extortion and usury

Present a **moderate** threat of money laundering

In Kosovo, several cases of usury have been discovered, where individuals have borrowed and been asked to repay these loans with incremental interests, and while information based on reported cases is not widespread, it is believed that many cases are not reported, as persons who receive money through usury are reluctant to report the crime.

Usury is generally associated with individuals who cannot obtain credit through the financial system³⁶ or are in urgent need of money. Loan sharks give money to different people, taking advantage of their poor economic situation and their misjudgment of their material condition.³⁷ There are no signs of organized and structured criminal groups identified so far, but only individuals and small criminal groups.

³⁶ This is despite the fact that Kosovo has a good level of financial inclusion

<http://datatopics.worldbank.org/financialinclusion/country/kosovo>

³⁷ <http://www.kosovopolice.com/en/informations/kosovo-police-continues-with-police-activities-with-the-aim-of-combating-and-prevention-various-criminal-activities-including-prevention-of-usuries-and-extortion>

Extortion is not a common phenomenon in Kosovo, and companies do not face major extortion threats. In Kosovo, in addition to being mainly related to usury, extortion is manifested through threats, blackmail³⁸, and most of the reported cases are mostly small or individual cases, where the criminal meets the victims in person to threaten them or take the money. Threats are rarely made over the phone.³⁹

Payments in both extortion and usury cases are usually made in cash, and the vast majority of them are likely to remain within Kosovo.

Table 11 Number of usury cases from 2015 to 2019

| | 2015 | 2016 | 2017 | 2018 | 2019 |
|-------|------|------|------|------|------|
| Usury | 25 | 13 | 28 | 19 | 20 |

Robbery or theft

Presents a **moderate** threat of money laundering

Street crimes (theft, mugging) are not seen as a common problem in Kosovo and do not appear as a general concern in everyday life. In general, people no longer keep large amounts of money at home, which has reduced the proceeds from burglaries in people's homes. There are cases of car theft, but they are declining, and stolen cars are commonly used for parts.

There are cases of private institutions, such as markets or gas stations that are targeted for burglaries, but in general the stolen values are not large. There are however some signs of more frequent and violent robberies of financial institutions. Robbery and theft proceeds are generally considered to be in the lower values of millions of Euros.

Cybercrime

Presents a **moderate** threat of money laundering

The rapid development of information technology has also influenced the introduction of new criminal offenses, so-called cybercrime, which have gained momentum in recent years.

Interference with banking computer systems by conducting illicit transactions for personal gain, interference with personal data and official websites, which often, in addition to violating basic

³⁸ Kosovo Police 2016, Serious Crimes and Organized Crime Threat Assessment

³⁹https://www.unodc.org/documents/data-and-analysis/statistics/corruption/Kosovo_Business_corruption_report_EN.pdf

human rights, can also pose a threat to security institutions. Interference in the systems of security institutions can then reveal secret information that poses a threat to national security.

The significant increase in the number of Internet users in recent years in Kosovo has brought with it an increased risk of cybercrime and attacks.

According to available data, the main targets of cyber-attacks in Kosovo to date have been user accounts, the banking system, and websites.

Cybercrime consists of criminal offenses committed in networks, through electronic networks of communication and information. This is an borderless problem, which can be classified into three broad definitions: Specific Internet crimes, such as attacks on information systems or phishing, e.g., fake banking sites to obtain passwords that allow access to victims' bank accounts. Cyber fraud and counterfeiting: identity theft, spam, cloning of bank and other cards, malicious encryption. Illegal online content, including child sexual abuse materials, incitement to racial hatred, incitement to terrorist acts and the idealization of violence, terrorism, racism and xenophobia⁴⁰.

The cases handled by Law Enforcement Agencies in Kosovo are:

- Child abuse via the Internet (online child pornography);
- Unauthorized access to computer system (DDoS attacks, password theft, attacks on government websites, various public institutions, business companies, etc.);
- Threats and blackmail via e-mail (including to important public figures and institutions);
- Fake news (via fake e-mail);

According to the Kosovo Police, cases of cyber-attacks are related to access to computer systems, misuse of cards and pornography through the Internet⁴¹.

Table 12: Statistics of cybercrime cases for the 2015-2019 period:

| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|------------------|------|------|------|------|------|------|------|
| Cases | 18 | 24 | 34 | 40 | 42 | 43 | 46 |
| Arrested persons | 11 | 7 | 11 | 4 | 26 | 13 | 20 |
| Criminal reports | 5 | 9 | 8 | 14 | 24 | 24 | 16 |
| Assistance | 55 | 80 | 118 | 152 | 199 | 210 | 262 |

⁴⁰ Cybercrime Cases/Trends - SOCTA Report

⁴¹ <https://www.gazetaexpress.com/lajme-krimet-kibernetike-ne-rritje-ne-kosove-policia-tregon-sa-persona-ka-arrestuar-588890/>

Environmental crimes

Present a **low** threat of money laundering

Constructions without any criteria, outdated technologies, lack of wastewater treatment, poor management of industrial and domestic landfills, and indiscriminate exploitation of natural resources, present major environmental problems in the country⁴². Air pollution in urban areas and especially in industrial areas is estimated to be high. High levels of poverty and the informal economy are putting additional pressure on the land, meaning they are threatening the “economic and environmental” capacity of the land⁴³. While these environmental issues are really serious, they do not directly generate proceeds that are laundered.

Illegal logging is carried out in many forms in Kosovo, including illegal logging from public forests, logging in protected areas, false declaration of the volume of logged timber and illegal logging from private forests: Smuggling and illegal accounting practices expand the list even further⁴⁴. Illegal logging also has a transnational dimension, and the lack of capacity to protect forests in Kosovo means that public and private forests, particularly at the border/border line, are vulnerable and a major target of timber thieves⁴⁵.

However, there has been a strong decline in more systematic illegal logging, as most trees have already been cut down, and this crime no longer has a significant link to organized crime in Kosovo. Most of those who remain are individuals who illegally cut timber due to poor economic situations, mainly for their supply or resale for the purpose of purchasing for basic needs. Therefore, it is not currently considered an important source of crime proceeds. Given the nature of the crime, the proceeds will take the form of physical assets (i.e., wood) and as long as it is sold, it will generally be converted into cash.

In recent history there have been cases of illegal mining and illegal dumping of waste, e.g., in riverbeds, however this is not currently seen as a significant threat and is unlikely to actually generate valuable proceeds.

⁴² Strategy_for_Environment_Protection_2013-2022; https://mmph.rks-gov.net/repository/docs/Strategy_for_Environment_Protection_2013-2022_English_language_62392.pdf

⁴³ Ibid.

⁴⁴ EULEX News, 2012

⁴⁵ Safer World Report (2011), Boundary Demarcation in the Western Balkans, 2011

Illicit firearms trade

Presents a **low** threat of money laundering

Illicit firearms trade in Kosovo is not considered a major crime compared to the smuggling of human beings or other goods. There has been no demand for small arms and new ammunition, given the number of weapons and ammunition available from the recent armed conflict. The criminal market for the purchase of illicit firearms is considered to be small. In addition to the relatively low demand, the average price is also considered to be low (less than a few hundred Euros per firearm).

The latest trend is gas weapons, which are illegal in Kosovo, but can be legally purchased in some of the neighboring countries, and then smuggled into Kosovo, however this is related to money laundering only to the extent that they are resold in Kosovo.

The police units of the Regional Police Directorate in Prishtina have seized about 239 weapons and 2584 different types of ammunition during the first six months of 2018.⁴⁶

Table 13: Number of reported cases and seized weapons (including ammunition)

| Reported cases | | | | | Seized items | | | | |
|----------------|------|------|------|------|---------------|----------------|---------------------------|-----------------|------------------|
| 2015 | 2016 | 2017 | 2018 | 2019 | 2015 | 2016 | 2017 | 2018 | 2019 |
| 2 | 4 | 3 | 12 | 9 | 12 weapons | 10 weapons | 3 weapons + hand grenades | 48 weapons | 176 weapons |
| | | | | | 42 cartridges | 263 cartridges | 9 cartridges | 5432 cartridges | 10350 cartridges |
| | | | | | | 12.4 kg TNT | | | |

Forgery

Presents an **extremely low** threat of money laundering

Counterfeiting in Kosovo is mainly a crime related to smuggling of migrants, with forged visas and passports needed to cross the border, especially in European Schengen countries. It is generally considered an organized crime, as it requires a considerable amount of technical expertise to convincingly forge European passports - something that cannot be done without proper logistical organization.

⁴⁶ Kosovo Police Report (2017)
http://www.kosovopolice.com/repository/docs/RAPORTI_ANGLISHT_2017.pdf

The price of an EU passport was between 1000-4000 US dollars,⁴⁷ but may have declined due to increased illegal immigration to Europe⁴⁸. Although in 2015, during a police operation a specialized workshop was discovered for the forgery of European passports in Kosovo,⁴⁹ it is generally considered that the vast majority of fake European passports in Kosovo are produced and sold outside Kosovo, therefore the profits associated with this crime in Kosovo are low.

Table 14: Statistics of “Forgery” criminal offenses

| Statistics of “Forgery” criminal offenses | 2015 | 2016 | 2017 | 2018 | 2019 |
|--|------|------|------|------|------|
| Criminal reports with known perpetrators | 71 | 64 | 88 | 70 | 152 |
| Number of arrested persons | 8 | 10 | 38 | 22 | 33 |
| Number of persons involved in criminal reports | 90 | 87 | 129 | 111 | 371 |

Counterfeiting currency

Presents an **extremely low** threat of money laundering

Despite the fact that in 2017 Kosovo Customs confiscated over 2 million counterfeit Euros at the border crossing in Vermica (border point with Albania), counterfeit currency is not a general problem and is usually carried out by opportunistic individuals who produce low quality products that do not generate much profit (if any).

Table 15: Counterfeit Euros that have been confiscated

| | € 500 | € 200 | € 100 | € 50 | € 20 | € 10 | € 5 |
|------|-------|-------|-------|------|------|------|-----|
| 2015 | 4 | 23 | 65 | 273 | 122 | 53 | 17 |
| 2016 | 9 | 17 | 95 | 429 | 184 | 67 | 23 |
| 2017 | 8 | 5 | 716 | 526 | 207 | 53 | 42 |
| 2018 | 16 | 199 | 556 | 495 | 79 | 79 | 9 |

⁴⁷ <https://www.vocativ.com/news/241487/fake-passport-prices-black-market/index.html>

⁴⁸ <https://www.express.co.uk/news/world/750525/Fake-passport-cost-slashed-Migrant-UK-Europe-Document-renting>

⁴⁹ <https://ca.reuters.com/article/topNews/idCAKBN0TT29M20151210>

Illicit trafficking in stolen and other goods

Presents an **extremely low** threat of money laundering

This is not a crime that generates significant proceeds in Kosovo; there are two types of goods that can generate significant proceeds: 1) stolen cars and 2) sale of old artifacts. Car theft in Kosovo is low and declining. Stolen cars are generally distributed and then resold for parts within Kosovo. The monetary value of old artifacts in Kosovo is generally considered very low and there is no evidence of the existence of a criminal market for them⁵⁰.

Table 16: Number of reported cases and convicted persons

| Reported cases | | | | | | Number of convicted persons | | |
|----------------|---------|-------|---------|-------|---------|-----------------------------|------|------|
| 2015 | | 2016 | | 2017 | | 2015 | 2016 | 2017 |
| Cases | Persons | Cases | Persons | Cases | Persons | | | |
| 13 | 19 | 14 | 25 | 4 | 6 | 3 | 1 | - |

International proceeds of crime flows

Inflows

Kosovo, from an international perspective, is not a large financial center and is generally not considered to be particularly exposed to illicit proceeds from people who have no direct connection to Kosovo. Based on international cooperation between FIUs, Kosovo authorities have frozen and seized about 1 million Euros. The typology is as follows: *Upon receipt of an STR by a reporting entity, the FIU-K has analyzed and identified that the content of the report also includes foreign nationals from a European Union country. Open-source data indicate the involvement of persons involved in illicit activities in the country of origin. The FIU-K immediately submitted a request to the foreign counterpart unit and based on their response and the analysis performed, the FIU-K issued an order to freeze the transaction in a considerable amount of about 1 million Euros. On this occasion, the FIU-K sent a spontaneous report to the EU country and filed a report with the Special Prosecution Office on the freezing of funds.*

Meanwhile, the international movement of funds was identified with more than 15 other countries around the world, to which the FIU-K has sent a request, and from most of these countries has received responses that suspicious transactions reports have also been received

⁵⁰ NRA Expert Working Group Meeting 2018

in those countries.

In addition, after a short period, the FIU-K and the competent authorities have received a request from the EU country for international legal assistance in this area and sequestration measures.

The court decided to confiscate the seized assets and two people were sentenced to prison for the crime of “money laundering”.

Remittances are an important source of income for at least 43 percent of Kosovo’s population, representing about 15 percent of the GDP (or almost 1 billion Euros) in 2017. Most remittances come from the Kosovo diaspora in European countries, especially in Germany and Switzerland⁵¹. While the vast majority of remittances derive from legitimate activities, the extent to which the diaspora can generate proceeds of potential crime in their host country is potentially likely to be reflected in the inflow of remittances into Kosovo.

In addition, Kosovo is an open economy, where most trade takes place with its neighbors, and just like legitimate business, crime proceeds from neighboring countries are likely to pass to Kosovo.

Illicit proceeds transfers in Kosovo are likely to follow the pattern of remittances and trade, with the vast majority going through the banking sector. Money transfer agents and simple cash smuggling are considered to cover most of the illicit proceeds coming to Kosovo.

Table 17: Requests coming from foreign FIUs for FIU-K

| Requests of foreign FIUs sent to FIU-K | 2016 | 2017 | 2018 |
|--|------|------|------|
| Albania | 2 | 4 | 7 |
| Austria | - | - | 1 |
| Bulgaria | 1 | - | - |
| Belgium | - | 1 | 3 |
| Croatia | - | 1 | - |
| Denmark | - | 1 | 1 |
| Ecuador | - | 1 | - |
| Finland | 1 | - | - |
| Germany | - | 1 | 3 |
| Italy | - | - | 1 |

⁵¹ For more information see:

<http://www.worldbank.org/en/topic/migrationremittancesdiasporaissues/brief/migration-remittances-data>

| | | | |
|------------------------|-----------|-----------|-----------|
| Philippines | - | 2 | - |
| Jordan | - | 1 | - |
| Hungary | - | 2 | - |
| Montenegro | 3 | 1 | 1 |
| The Netherlands | 1 | 4 | 1 |
| North Macedonia | 3 | 2 | 2 |
| Norway | 3 | - | 2 |
| Poland | - | 2 | - |
| Slovenia | - | 1 | - |
| Paraguay | - | - | 1 |
| Switzerland | 2 | 5 | 1 |
| Other FIUs | - | 4 | 7 |
| Total | 16 | 33 | 31 |

CONFIDENTIAL

Table 18: Incoming requests for mutual legal assistance and received extradition requests

| | 2014 | | 2015 | | 2016 | | 2017 | | 2018 | |
|---|------|-------------|------|-------------|------|-------------|------|-------------|------|-------------|
| | MLA | Extradition | MLA | Extradition | MLA | Extradition | MLA | Extradition | MLA | Extradition |
| Money laundering | 1 | | 5 | | 1 | | 4 | | | |
| Participation in an organized criminal group and illicit activities | 6 | 1 | 1 | 1 | 5 | | 1 | | 4 | 4 |
| Trafficking in human beings and smuggling of migrants | 8 | 1 | 9 | | 9 | 1 | 9 | | 7 | 1 |
| Sexual exploitation | 3 | | 3 | | 8 | | 5 | | 2 | 1 |
| Illicit narcotic drugs trafficking | 17 | 7 | 8 | 4 | 6 | 2 | 3 | 7 | 14 | 4 |
| Illicit firearms trafficking | 2 | | | | | | | | 2 | 2 |
| Illicit trafficking in stolen and other goods Trafficking in motor vehicles | 8 | | | | | | | | 5 | |
| Corruption and bribery | 3 | | 1 | | 2 | | 1 | | 8 | |
| Cheating | | | | | | | | | | |
| Counterfeiting currency | | | | | | | | | | |
| Counterfeiting and piracy of products | 42 | | 36 | 1 | 23 | 2 | 37 | 4 | 37 | 6 |
| Environmental crimes | | | | | | | | | | |
| Murder, grievous bodily injury | 21 | 5 | 13 | 2 | 10 | 2 | 9 | 4 | 16 | 5 |
| Robbery or theft | 25 | 2 | 16 | 1 | 15 | 6 | 20 | 10 | 20 | 10 |
| Smuggling | | | | | | | | | | |
| Tax crimes | | | | | | | | | | |
| Extortion | | | | | | | | | | |
| Forgery | | | | | | | | | | |
| Terrorist financing | | | | | | | | | | |
| Terrorism | 5 | | 4 | 2 | 6 | | 2 | 3 | 6 | 7 |
| Total | 133 | 16 | 96 | 11 | 85 | 13 | 91 | 28 | 121 | 41 |

Outflows

As described in the threats section, most types of crime that have significant proceeds coming out of Kosovo send money to neighboring countries, and only proceeds derived from counterfeit goods and fraud seem to be an exception to this model. While especially small-scale money laundering in neighboring countries is likely to be done through cash smuggling, larger-scale money laundering and proceeds going to more distant countries are more likely to go through the financial system. For more information on outflows, see the information in the threats section above for each type of crime.

Terrorist financing threat

There is a clear overlap between money laundering and terrorist financing - both criminals and terrorists can use similar methods to raise, store and transfer funds. However, terrorist financing can vary from money laundering in two aspects. First, the funds involved in terrorist financing do not necessarily have to be illicit; which means that they may not be the proceeds of illegal activities. Second, in money laundering it often happens that fundraising can be an end in itself, for example, the purpose of money laundering is to ostensibly “legitimize” assets. In the case of terrorist financing, the purpose is to support acts of terrorism, and therefore the funds should, for the most part, be transferred in some way to persons involved in illegal acts.

Kosovo has never been the target of major terrorist attacks, however, given, among other things, the fact that Kosovo has had fighters who have gone to Syria and Iraq, and a significant number of them have returned to Kosovo, Kosovo cannot ignore the threat of terrorist financing (TF). Given the local threat of terrorism, the most significant TF threat comes either from self-financing or smaller donations from voluntary/involuntary donors, while TF through NGOs, which includes funding sources outside Kosovo, also poses a substantial threat.

Vulnerabilities in reporting entities

The experts assessed the overall vulnerabilities of the various reporting entities in Kosovo using a 5-point scale, based on the review of both inherent/internal vulnerabilities and ML/TF controls (the TF level will be reported only for reporting entities where relevant), in particular for the following:

- 1) Inherent/internal vulnerabilities;
 - Sector size
 - Customer base, especially to the extent that it includes high-risk customers
 - Products offered, especially to the extent that they include high-risk products
- 2) ML/TF controls, including, but not limited to;
 - CDD⁵²
 - Keeping of records/registers
 - Monitoring of transactions and accounts
 - Reporting of STRs
 - Understanding their own AML/CFT risk

Banks

Present an **extremely high** vulnerability to money laundering and a **high** vulnerability to terrorist financing

Almost all adults in Kosovo use a bank for financial services, and they are essential for the functioning of all types of business within the formal economy. There are ten commercial banks operating in Kosovo, representing 67.5 percent of the total assets in the financial sector, eight of which are foreign-owned and account for about 88.9 percent of the total assets of the banking system. Two domestic banks make up the remaining 11.1 percent.

Kosovo's banking system is well regulated, profitable and liquid. The Central Bank of Kosovo (CBK) is an independent public agency with the authority to license, supervise and regulate financial institutions and insurance companies in Kosovo. The CBK has adopted banking rules and regulations in accordance with the Basel Agreements and EU directives.

⁵² CDD is the process through which a business verifies the identity of its customers and assesses the potential ML/TF risks to the business relationship.

Inherent/internal vulnerabilities

The nature, scale and complexity of Kosovo's retail services banks make them vulnerable at all stages of the ML process and vulnerable to TF due to their central function within the financial system. While the likelihood of a specific customer or transaction being used for ML or TF is very low, the volume of both poses a major challenge for banks in terms of monitoring and identifying suspicious activities.

Retail service banks offer a wide range of products and services with features that increase the ML/TF risk. Such features include:

- high-intensity cash nature of some products;
- online transaction capabilities;
- electronic payments in foreign jurisdictions;
- access to banking services by third parties

The wide spread of the retail bank customer base leaves the sector vulnerable to ML or TF. The customer base includes customers that may be sought by criminals to facilitate the laundering of illicit funds. These include:

- Politically Exposed Persons;
- High net value individuals;
- Cash-intensive businesses, e.g., construction companies, restaurants, bars, retail stores, games of chance;
- Legal entities and arrangements;
- Charities and non-profit organizations;
- Lawyers, accountants and other professionals;
- Complex corporate structures.

It is known that a Serbian bank operates in northern Kosovo without permission from the CBK, however it is unclear to what extent it operates under the control and supervision of the Serbian authorities, nor is there any information about its size, customer base, products and services offered.

Considering that the banking sector deals with the vast majority of all international transfers passing through the financial sector, it is naturally exposed to international ML/TF, both incoming and outgoing from Kosovo.

ML/TF controls

In general, the banking sector has very strong ML/TF controls, and compared to many other European countries uses a very risk-adverse approach, for example, generally does not serve non-residents. Other features worth mentioning include:

- The banking sector is well aware of its ML/TF risk, including conducting the banks own ML/TF risk assessment.
- CDD and record keeping is effectively implemented for all customers, with excellent implementation of the enhanced CDD
- Banks have submitted 559 STRs in 2018, which is considered to be an acceptable level considering the size of the banking sector, and the overall quality of STRs is good.

- It is considered that banks have implemented very strong and effective procedures for monitoring customer transaction activity to detect ML/TF activity
- Compliance officers are generally well-trained, including frequent attendance at international training courses

Table 20: Number of STRs received from banks

| 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|------|------|------|------|------|------|
| 234 | 350 | 438 | 683 | 559 | 785 |

General vulnerability

Although the banking sector is considered to be the sector with the strongest ML/TF controls, it is still considered highly vulnerable to ML due to the nature, scale and complexity of the sector and its central role in Kosovo's financial services.

Money remitters and transfer agents

Present **moderate** to **high** vulnerability to money laundering and a **high** vulnerability to terrorist financing

Remittances are an important source of income for at least 43 percent of Kosovo's population, representing about 15 percent of the GDP (or almost 1 billion Euros) in 2017. Most remittances come from the Kosovo diaspora in European countries, especially in Germany and Switzerland⁵³. The Central Bank reports that remittances are mainly used for personal consumption, not for investment purposes.⁵⁴

Services provided by remittance firms serve as an alternative system of value transfers instead of services provided by traditional banks and, in addition, those services often have a wider geographical reach and penetration than similar services provided by banks. Their share in total international transfers is still small, as the vast majority of international transactions are carried out through commercial banks due to costs.

Currently, there are 5 Monetary Services Businesses in Kosovo. Money remittance firms are particularly attractive, as they make it very easy for customers; e.g., users do not need to open

⁵³ For more information see:

<http://www.worldbank.org/en/topic/migrationremittancesdiasporaissues/brief/migration-remittances-data>

⁵⁴ <https://www.state.gov/e/eb/rls/othr/ics/2017/eur/269916.htm>

an account and the transfer is done within minutes. In addition, they often have a better global reach compared to banks.

Inherent/internal vulnerabilities

Remittance services operate by receiving money at an agent location, which is then electronically wired to the recipient's location, where it is withdrawn as cash by the recipient.

The nature of high-volume, cash-based transactions, which are usually of little value by nature, is a significant vulnerability for money remitters. Services are provided to customers on a purely transactional basis, so generally no business relationship is formed with the customer, which increases the chances of not noticing suspicious transactions.

ML/TF controls

All money remitters operating in Kosovo are major international companies (Western Union is by far the largest in Kosovo) that implement their AML/CFT policy globally.

Record keeping obligations require issuers and sellers of money orders to verify and record customer identification for all cash payment orders; however, this does not include the enhanced CDD for high-risk customers such as PEPs.

Money remitters have effective AML/CFT programs and help prevent money laundering by submitting timely STRs that signal structuring and other suspicious activities. While the sector deposited approximately 15% of all STRs in the period 2014-2017, the vast majority of them were submitted by the 2 largest remittance companies. This industry is large and with many smaller branches nationwide, which makes maintaining adequate oversight to ensure compliance an ongoing challenge.

Table 21: Number of STRs from Money Transfer Agencies

| 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|------|------|------|------|------|------|
| 58 | 39 | 34 | 34 | 33 | 137 |

General vulnerability

Despite adhering to international AML/CFT industry standards, the sector also combines cash-intensive businesses enabling international payments and a high frequency of such transactions outside of business relationships, making them attractive to money launderers and terrorist financiers.

Foreign exchange dealers

Present a **moderate** vulnerability to money laundering

There are currently 41 foreign exchange bureaus in Kosovo, mainly dealing with small transactions related to personal expenses, e.g., tourists or persons traveling abroad.

Inherent/internal vulnerabilities

Forex can be an instrument to easily and physically transfer large amounts of criminal proceeds. In a foreign currency exchange transaction, money derived from crimes can be converted into various foreign currencies, however it is not considered that dirty money is put into legal circulation through forex operations. In addition, criminal proceeds can be more easily shifted across borders by swapping small denominations with large denominations in different currencies.

ML/TF controls

Foreign exchange dealers agents do not have very good traditional AML/CFT controls, however an important limitation for ML/TF is that none of the forex agents in Kosovo can transfer funds to other reporting entities, such as banks.

Table 22: Number of STRs by Foreign exchange dealers

| 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|------|------|------|------|------|------|
| 1 | - | - | - | - | - |

General vulnerability

The overall vulnerability of foreign exchange dealers in Kosovo is moderate, given the cash intensity of business and the lack of basic understanding of AML.

Microfinance companies

Present a **low** vulnerability to money laundering
and a **moderate** vulnerability to terrorist financing

In addition to commercial banks, Microfinance Institutions (MFIs) represent another important factor in the lending market in Kosovo. The total value of MFI assets reached 192.4 million Euros in 2017.⁵⁵ The main beneficiaries of MFI loans are households (64 percent of loan/credit value) and small enterprises (36 percent of loan/credit value). The average size of loans/credits is approximately 2,000 Euros.⁵⁶

Inherent/internal vulnerabilities

Microfinance institutions are mainly involved in microcredit operations in rural areas, where there is a significant level of informal economy, but do not appear to have specific types of high-risk ML customers, such as PEPs or high value individuals.

⁵⁵ CBK, Annual Report 2017

https://bqk-kos.org/repository/docs/2017/CBK-17-08-2017_eng_AR_2016.pdf

⁵⁶ <http://amik.org/en/Microfinance-Sector-in-Kosovo/Current-Sector-Information>

Microfinance companies offer only a very specific product, and given the size of their loans they do not seem to be able to launder larger amounts for individuals.

ML/TF controls

In general, microfinance companies seem to have the most basic knowledge about AML/CFT, which is partly illustrated by their submission of STRs.

Given the nature of being a lending company, they have strong reasons to identify the customer and keep good records. Microfinance companies usually have a good knowledge of their customer base built over longer periods of time, which makes it easier to detect suspicious behavior.

Table 23: Number of STRs received from Micro-finance Institutions

| 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|------|------|------|------|------|------|
| - | 2 | 6 | 5 | 10 | 15 |

General vulnerability

Despite the fact that the Microfinance sector is associated with high volumes of cash transactions (which usually increase the ML/TF risk), it is considered to have low vulnerability to ML, as the amounts of cash are relatively low, the products offered are not particularly interesting for ML purposes, and the customer base is considered low risk.

Insurance Companies

Present a **low** vulnerability to money laundering,

There are currently 15 licensed insurance companies (including 3 life insurance companies) within the insurance sector, representing about 3.0 percent of the total financial system assets; in 2017 the size of the sector's assets reached 176.8 million Euros. Non-life insurance has the largest share in the total assets of the sector (about 87.8 percent), while life insurance constitutes the remainder of the listed assets.

Life insurance products can be categorized as: Protection, Pensions, Savings and Investments. Protection is paid only after death, disability or serious illness and does not gain a surrender value. Pension funds are unavailable for a considerable duration and are paid only in retirement. Savings and investment type products offer policies that can be used as collateral for loans, or investments can simply be withdrawn. Only the latter is considered a relevant vulnerability to ML.

Inherent/internal vulnerabilities

Life insurance companies are involved in providing asset management, which is traditionally considered at high risk for ML. It is suspected that there is an interaction with PEPs and other high-risk customers.

The life insurance, savings and investment market is very small compared to others in the financial sector, but it is also a newly established sector that is likely to grow in the coming years.

ML/TF controls

Life insurance in some countries is seen as a vulnerability to ML, especially because high cash payments are allowed for waivers⁵⁷, but a central feature in life insurance companies in Kosovo is that all transactions from their customers must be transferred from customers' bank accounts, which significantly reduces the attractiveness of life insurance as an active tool for ML. In addition, life insurance companies have ongoing and direct relationships with their customers, which makes them more likely to detect suspicious transactions.

It can be seen that life insurance providers perform good CDD, record keeping and conduct good customer monitoring. Life insurance providers are being actively monitored for AML/CFT purposes, including on-site inspections.

General vulnerability

Apart from being a small sector with good traditional AML/CFT controls, it does not allow cash payments, but only transactions through banks, which greatly reduces the possibility of life insurance vulnerability.

Financial leasing

Presents a **low** vulnerability to money laundering

Financial leasing is in the early stages of development in Kosovo and mainly serves to provide local micro, small and medium enterprises with access to an alternative form of financing. The main activity is to provide financial leasing for vehicles, equipment or machinery, as well as real estate.

Inherent/internal vulnerabilities

Financial leasing offers a very narrow list of products that do not look particularly attractive to ML/TF. A financial leasing contract indicates a commercial agreement where the recipient (customer) selects an asset, and the lessor will purchase the asset, and the transferee uses that asset in exchange for a series of installments paid to the lessor.

ML/TF controls

Financial leasing companies have good traditional AML/CFT controls, such as CDD and record keeping, and have their own AML/CFT compliance officers. In addition, leasing companies have

⁵⁷ <http://www.fatf-gafi.org/media/fatf/documents/recommendations/pdfs/RBA-Life-Insurance.pdf>

an ongoing relationship with their customers, which makes them more likely to detect suspicious transactions, however, as the sector is in the development stages, they may not have a complete picture of the ML risks they face.

General vulnerability

The very limited size of the sector that does not offer products that are particularly attractive to ML/TF, and combined with good AML/CFT controls, present a low vulnerability in financial leasing.

Pension funds

Present an **extremely low** vulnerability to money laundering

There are two pension funds, namely the Kosovo Pension Savings Fund (KPST) with an exclusive mandate to administer mandatory pension contributions and the Slovenian-Kosovo Pension Fund (SKPF) which administers only voluntary pension funds. The sector is the second largest sector in the financial sector, with 27.9 percent of total financial assets, of which over 99.5 percent are administered by the KPST.

Inherent/internal vulnerabilities

The main vulnerabilities of pension funds relate to the size and coverage of Kosovo's population, which is likely to include PEPs and other high-risk customers. However, 99.5 percent of the contributions relate to the mandatory contribution.

ML/TF controls

The sector is very unattractive for ML/TF because of the type of product it offers, and even all the assets related to voluntary contributions have to be go through the banking sector, and it is possible to regain the assets only when the customers reach retirement of age.

General vulnerability

Despite the size of the sector, the overall vulnerability to ML is extremely low, because the product offered by the sector is not conducive to money laundering.

Real Estate and Construction

Present an **extremely high** vulnerability to money laundering

The construction sector serves as one of the main pillars of Kosovo's economy, and despite the challenges it has continued to expand during the economic crisis in Europe. With a share of

9.5%, the construction sector was the fourth largest employer in Kosovo in 2014, employing about 39,000 people.⁵⁸ FDIs in Kosovo during 2011-2016 were mainly concentrated in real estate with 56.3%, and construction with 12.7%.⁵⁹

In dealing with this sector, it is important to acknowledge that this sector contains ML threats and vulnerabilities. The threat is related to the informality currently prevalent in the construction sector, where tax evasion from undeclared/undervalued payments is rampant (for more information see the section on tax evasion). In addition, it is not uncommon to find cases of fraud in this sector in which counterfeit invoices are used in the construction business to raise costs. The remainder of this section will deal only with the extent to which the sector is used for money laundering and not with the extent to which it generates crime proceeds.

Inherent/internal vulnerabilities

The sector offers products and services that are vulnerable to money laundering, including land development, construction of new buildings and their subsequent sale. The sector is exposed to high-risk customers, including PEPs, foreign investors and individuals in vulnerable professions and businesses.

A typical case of money laundering in construction often involves the investment of a large amount of money by an individual who appears as a customer and another subsequent sale, which conceals the illicit origin of the money invested in the initial construction work.

The vulnerability of the sector is mainly caused by the fact that payments for construction and labor materials are often made in cash. Cash is widely used to finance the construction business, without any proper explanation for their origin.

Real estate is also considered a vulnerable sector to money laundering, but when restrictions on cash purchases are considered (see ML controls), this generally means that it will involve notaries, who willfully or inadvertently underestimate the property.⁶⁰ Police have recorded recent cases in which persons buy homes using in part cash from criminal activities.

ML/TF controls

Any transaction for the sale/purchase of property over 10,000 Euros in value must be settled through a bank transfer, otherwise it will not be registered in the cadastre, therefore banks have a potential preventive role in monitoring real estate transactions. This also greatly reduces the possibility of using illicit cash proceeds to buy real estate.

⁵⁸ [http://helvetas-ks.org/eye/file/repository/Market Assessment for the Construction Sector ENG.pdf](http://helvetas-ks.org/eye/file/repository/Market%20Assessment%20for%20the%20Construction%20Sector%20ENG.pdf)

⁵⁹ <https://assets.kpmg.com/content/dam/kpmg/bg/pdf/Investment-in-Kosovo-2017.pdf>

⁶⁰ The general case is that a property is undervalued, bought in part by bank transfer (notarized price) and the illicit proceeds will be used to pay “under the table” for the remainder, and then the property can be sold at full price.

General vulnerability

It is generally accepted that this sector is highly attractive to many high-risk customers, including PEPs, and this has been reinforced by the widespread prevalence of informality.

Notaries

Present a **high** vulnerability to money laundering,

Notaries in Kosovo are organized through the Kosovo Chamber of Notaries (KCN). The Minister of Justice determines the total number of notaries and the relative coverage for each municipality. There are about 80 notaries in Kosovo. Notaries can be involved in all transactions related to the sale of movable and immovable property, including real estate, and as such have an additional role in the prevention regime for real estate transactions.

Inherent/internal vulnerabilities

Notaries are not directly involved in the laundering of proceeds, but act as enablers for the launderer. The general case is a property purchased at an underestimated price, and the price is accepted through the notary. Illicit proceeds will then be used to pay “under the table” for the remainder. The property can later be sold at full price. This can happen with the consent of the notary or without his/her knowledge (the vast majority of cases are suspected to be without the notary’s knowledge).

ML/TF controls

While some notaries have indicated that they are aware of their role and risk within the Kosovo AML (including the submission of STRs), this does not seem to extend to the entire sector. In addition, large changes in real estate prices and rising values (especially in larger cities) make it more difficult for notaries to detect suspicious activity.

Table 24: Number of STRs received from notaries

| 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|------|------|------|------|------|------|
| - | - | 2 | - | 37 | 68 |

General vulnerabilities

Given the high vulnerability in relation to real estate (see section above), in most cases this would involve the intentional or unintentional approval of the notary and it would be natural for notaries to be classified as highly vulnerable.

Legal entities and arrangements

Present a **high** vulnerability to money laundering,

The following types of legal entities may be established in Kosovo according to the legislation in force; Individual Business⁶¹, General partnership,⁶² Limited partnership⁶³, Limited Liability Company,⁶⁴ Joint stock company,⁶⁵ or Personal Business.⁶⁶

The AML/CFT oversight framework is consolidated, mainly under the CBK and the FIU. For financial institutions, the CBK is the main licensing and supervisory authority, both for AML/CFT purposes and for non-AML/CFT purposes. At the same time, the FIU is defined as the AML/CFT watchdog for FIs:

Inherent/internal vulnerabilities

Given the size of the informal economy and the fact that many of the types of crime in Kosovo mainly generate cash proceeds, cash-intensive businesses use are prone to be misused for ML. In addition to the already separately covered construction and games of chance sectors, other businesses within the retail and services sector, e.g., bars and restaurants, are vulnerable to operating as businesses that combine illicit proceeds with legal operations revenues, obscuring the source, ownership and control of illicit funds. When a company is used as a cover to deposit, move or use illicit proceeds, it can be difficult for the bank holding the account to know that the company's banking activity involves money laundering.

Inaccurate information regarding the beneficial ownership of companies is widely recognized as a significant vulnerability to ML.⁶⁷ The use of shell companies or offshore countries is also considered to be used to launder significant proceeds flowing from Kosovo, as the Kosovo Police has investigated several cases related to offshore transactions. However, it is considered an obvious vulnerability that incorrect beneficiary ownership information allows companies in Kosovo to divert corruption-related public funds from procurement and bypass the review of PEPs by banks.

Using cover companies with inaccurate beneficial ownership is believed to be a common ML method that allows companies registered by friends to transfer proceeds to other companies owned by other PEP associates or relatives.

61 An entity that can only be formed and owned by a natural person.

62 An entity that can only be formed and owned by a natural person.

63 A partnership formed by at least one general partner and at least one limited partner.

64 A legal entity formed and owned by one or more natural or legal persons, excluding NGOs.

65 A legal entity owned by its shareholders, but is legally separate and distinct from its shareholders.

66 There is no legal personality

67 For more information see <http://www.fatf-gafi.org/media/fatf/documents/reports/FATF-Egmont-Concealment-beneficial-ownership.pdf>

Controls

The Law on Business Organizations provides for the process of establishing a legal entity and submitting basic ownership information to the Register of Business Organizations and Trade Names of Kosovo. The Business Register is a central register that holds the records of all registered companies, however due to resource constraints there is little examination or updating of the information provided.

General vulnerabilities

As in most countries, cash-intensive businesses are vulnerable to being used as cover businesses for ML, as the size of the informal economy exacerbates the problem. In addition, issues of inaccurate beneficial ownership information are seen as a significant vulnerability to ML, especially from corruption in procurement.

Games of chance

Present a **high** vulnerability to money laundering,

Until May 2019, games of chance were legal in Kosovo and the Tax Administration was the regulatory authority that oversaw the entire sector. But by law⁶⁸, all games of chance has been banned and closed throughout the territory of the Republic of Kosovo.

There were no casinos registered in Kosovo, however until 2019 there were 41 games of chance establishments, including slot machines (main activity), bingo, raffle, sports betting and a public lottery. The sector was overseen by the Tax Administration (for taxes) and the FIU (for AML/CFT purposes).

It should also be noted that there has been evidence that games of chance have been a source of proceeds from crime, particularly tax evasion, e.g., through the manipulation of the register of machine numbers, however the following text deals only with the aspect of vulnerability.

Inherent/internal vulnerabilities

As with other cash-intensive businesses in Kosovo, there was a risk that games of chance company owners would have used their businesses as cover businesses, with a significant portion of the revenue suspected of have been proceeds of crime while being presented as proceeds from customers. The Business Register at the KBRA was not up-to-date and could not be used as a reliable source indicating owners or responsible persons in the games of chance business.

⁶⁸ No. 06/L-155 on banning games of chance: <https://gzk.rks-gov.net/ActDetail.aspx?ActID=2813>

Customers were able to engage in games of chance relatively anonymously, although they have been monitored and some activities have required face-to-face interaction with staff. Despite this monitoring, there was no identification of the customer or verification of the source of funds.

ML/TF controls

The games of chance sector does not appear to have implemented any specific AML measures, such as CDD, record keeping, etc.

Apparently none of the games of chance offered their customers the opportunity to transfer funds electronically, which would allow the funds to be sent to the financial sector, and customer payments were made in the form of cash. In addition, only sports betting and lotteries offer customers invoices to verify winnings. This seems to somewhat limit the vulnerability of the sector.

General vulnerability

Given the cash-intensive nature of the business, and that the sector has been highly unregulated for ML purposes, these have been the underlying reasons that have made the sector highly vulnerable.

NGOs

Present a **moderate** vulnerability to money laundering
and a **high** vulnerability to terrorist financing

Kosovo has a wide and diverse sector of NGOs, with almost 10,800 registered NGOs fulfilling many important roles for the society in Kosovo. NGOs are usually funded by donations, but some completely avoid formal funding and are run mainly by volunteers. The Department for NGOs (DNGO) within the Ministry of Public Administration is the competent authority for the implementation of the Law on Freedom of Association in NGOs.

Inherent/internal vulnerabilities

There have been no cases of NGOs in Kosovo directly linked to terrorism or terrorist financing. However, during the years 2014 to 2019, in special cases the activity of about 23 religious NGOs was suspended on suspicion of acting in violation of Kosovo legislation, and they were also involved in inciting religious and sectarian hatred.⁶⁹ However, the current legal framework does not allow for the permanent suspension of the activities of an individual NGO based solely on intelligence. Suspensions must be renewed on a regular basis and it is often not possible (for reasons of national security) to provide evidence in court to justify continued suspension. This results in the reopening of NGOs that had previously had their activities suspended on suspicion of links to Terrorist Financing and/or Radicalization.

⁶⁹ Kosovo Police 2016, Serious Crimes and Organized Crime Threat Assessment

Two specific weaknesses in the NGO sector in Kosovo should be noted: 1) non-verification of funds, and 2) possible inaccurate registration information.

Once an NGO is established and registered, there is little due diligence regarding financial inflows and outflows. Due to the general lack of resources and the fact that the NGO Department of the Ministry of Public Administration is responsible for registering NGOs but has no mandate to oversee thousands of registered NGOs, it is not possible for all organizations to be adequately monitored. If the source of funds coming from domestic or foreign donors cannot be verified, then this is an obvious vulnerability; and the TF vulnerability increases further in proportion to the extent to which funds come from countries with documented links to radicalization and terrorist financing. The lack of efficient mechanisms for verifying the source of funds coming to NPOs/NGOs from foreign countries is a particular problem with the source of funding for religious NGOs.

Many NGOs in Kosovo receive public funding. There may have been cases where politicians have exploited the vulnerabilities of NGO financial oversight to divert public funding for personal gains, and similarly NGOs can function as a tool for bribery.

Although the registration procedures may seem satisfactory, there is no control or updating of information about NGOs, after registration NGOs are obliged to notify the Department within 30 days of any changes made in the case of registration, but there are some that do not file requests for changes of data. To avoid scrutiny, some newly formed NPOs/NGOs are deliberately cheating on the purpose or category of the organization, otherwise the Department immediately updates the data which are made available in real time to the public at the NGO Public Registry⁷⁰. Evidence from inaccurate data on the status of registered NGOs shows that the NGO department does not have sufficient staff to be able to properly fulfill its mandate.

This makes it difficult for the respective actors⁷¹ to undertake a meaningful risk-based approach in the NGO sector, where many organizations can be classified as low risk if accurate information is available, particularly on TF.

In addition to the internal ML/TF risk, the collection of charitable funds by NGOs also raises concerns about terrorist financing sent out of Kosovo. Such funds may be raised for the stated reasons for supporting humanitarian aid in conflict areas. While there is no evidence to suggest that such funds are being misused, it can be difficult to determine the credibility of these groups.

ML/TF controls

The FIU-K and other relevant organizations cooperate with the Government Department for NGOs to conduct due diligence investigations regarding foreign persons seeking to establish NGOs, or working within these organizations. However, the FIU does not have access to the KYC/CDD commercial database to control persons affiliated with foreign NGOs. Lack of detailed

⁷⁰ see DNGO/MPA website

⁷¹ Like banks when acquiring an NGO as a new customer

KYC/CDD when registering new NGOs. Lack of capacity within the NGO registration department. The department has the capacity to carry out tasks only within the competencies it currently has. They are required to verify the persons applying to establish an NPO/NGO and to conduct due diligence on the work of each NPO/NGO⁷².

General vulnerability

The overall ML/TF risk in the non-profit sector is estimated to be moderate for ML/high and high for TF. This is due to the fact that there is no direct evidence to date of the abuse of this sector for the purpose of financing of terrorism. It is acknowledged that the current overview of the charity sector is incomplete and there is no effective oversight of incoming/outgoing funding.

High value dealers

Present a **moderate** vulnerability to money laundering and a **moderate** vulnerability to terrorist financing

This category mainly consists of two types of entities: 1) Dealers in precious metals and stones (DPMS) and 2) car dealers.

- 1) There are several hundred DPMSs located throughout Kosovo ranging from large dealers to very small ones that are quite accessible to local customers. Dealers in precious metals and stones are individuals or legal entities. They must be certified by the Kosovo Institute of Legal Metrology - currently the Metrology Agency within the MTI.
- 2) Car dealers, especially expensive/luxury cars.

Inherent/internal vulnerabilities

High value dealers are located throughout Kosovo, are very accessible to customers and conduct a large volume of business in these high-value goods that are vulnerable to money laundering, especially as they are an attractive placement of crime proceeds; both DPMSs and car dealers offer an easy way to convert a relatively large amount of cash into durable goods. Moreover, large dealers have single transactional relationships with their customers, so it is possible for customers to conduct cash transactions with a high degree of anonymity, where suspicious transactions may be difficult to detect.

In addition, DPMSs may be vulnerable to TF or persons purchasing from DPMSs to send/provide funds to terrorist financing while avoiding the risk of cash smuggling, or stolen items (both in Kosovo and abroad) that can be sold in DPMS stores to get money and finance terrorism.

⁷² Sector-Specific Assessment for Money Laundering and Terrorist Financing in the Non-Governmental Organizations/Non-Profit Organizations (NGO/NPO) Sector in Kosovo 2018

ML/TF controls

Like any person who trades in goods and accepts cash payments of 10,000 Euros or more in a single transaction or in a series of related transactions or obviously related transactions, when this threshold is reached, high value dealers must implement CDD measures for such transactions, keep adequate records of transactions, and DPMSs are specifically identified as reporting entities that must report suspicious transactions if detected. However, it is clear that not all DPMSs are aware of this or respect their AML/CFT obligation.

Overall risk

The overall ML/TF risk within the DPMSs sector is judged to be moderate, mainly driven by the nature of the intensive use of cash by DPMS businesses, the nature of the products offered, and their inherent value.

Attorneys

Present a **low** vulnerability to money laundering

Lawyers in Kosovo are organized through the Kosovo Bar Association (KBA). The activity of the Association and its organization are regulated by the Law on the Bar no. 04/L-193, KBA Statute and Code of Ethics for Attorneys; there are currently over 800 practicing attorneys in Kosovo, however most of them are civil or criminal lawyers, and only a few attorneys are involved in economic transactions.

Inherent/internal vulnerabilities

Attorneys may be asked to assist in structuring and designing transactions that aim to conceal the nature and origin of the funds. Relevant services for which lawyers are important in ML in Kosovo mainly relate to:

Handling customer money;

- Management of customer assets and financial accounts;
- Assistance in buying or selling land or business entities

Attorneys' customers, both corporations and individuals, come from all areas of business and inevitably include high-risk customers, such as:

- High net value dealers;
- Politically Exposed Persons; and
- Other known high-risk customers for money laundering purposes, e.g., cash-intensive businesses, construction or real estate transactions, etc.

ML/TF controls

Providing legal advice is protected by the privilege between the lawyer and the customer, which may make this business relationship more impenetrable to the competent authorities. However, compared to most other European countries, there is no market for trusts or securities, which

can be a potential tool for attorneys, and there are no signs that any attorney in Kosovo is specialized in creating offshore accounts.

As attorneys show some signs of understanding their ML risk ML, e.g., this year they submitted STRs for the first time, it is not clear that this applies to the whole sector.

General vulnerability

While awareness and compliance with AML/CFT obligations has improved for the legal services sector, the nature of the services provided by some legal professionals, customers, and the low level of STR reporting tend to reduce the vulnerability to money laundering.

Accountants and auditors

Present a **low** vulnerability to money laundering
and a **low** vulnerability to terrorist financing

The accounting sector includes large international firms, small local businesses, as well as independent professionals. Activities performed by this sector include bookkeeping and accounting, tax consulting and auditing. Larger firms also accompany capital transactions.

Inherent/internal vulnerabilities

Similarly to the legal services sector, the specialized nature of the knowledge and services provided by accounting service providers makes them vulnerable to being sought and exploited by those seeking to launder the proceeds of crime or evade taxes. It is recognized in international risk-based guidance that accounting service providers may be required to assist in structuring and designing transactions that are intended to conceal the nature and origin of funds.

Accounting customers, both corporations and individuals, come from all areas of business and inevitably include high-risk customers, such as:

- High net value dealers;
- Politically Exposed Persons; and
- Other known high-risk customers for money laundering purposes, e.g., cash-intensive businesses, construction or real estate transactions, etc.

The vulnerability to TF is related to the obligation for NGOs to submit an audit report to the MPA/NGO Registration Department, therefore the role of the auditor is important in the monitoring activities of the NGO.

ML/TF controls

The largest international accounting firms operating in Kosovo generally implement their AML/CFT policies globally, while smaller companies exhibit more limitations in their knowledge of ML/TF risks presented by customers, and for their obligations in the AML/CFT system.

Lack of reporting STRs may be a sign that there is little ML related to the sector, but it is more likely to be a sign of lack of control and understanding of AML/CFT in this sector.

General vulnerability

While there are intelligence gaps regarding the full extent of proceeds laundered as a result of the involvement of the accounting services sector, it is not believed that the sector is being actively used for ML on a larger scale, however the sector's controls and understanding of AML/CFT is likely to have significant shortcomings.

Online casinos

Present a **low** vulnerability to money laundering

There is no legal framework governing online games of chance, i.e., there are no licenses or regulations, so players can play on any website they wish. The Kosovo Lottery until 2019 has offered online lottery games (not including sports betting).

Inherent/internal vulnerabilities

This sector is not regulated and operates without oversight for ML and other issues. The abundant availability of online games of chance and betting, combined with easy access through websites, whether on computers or mobile devices, means that it is extremely easy for individuals to access this market without supervision. Virtual currencies are generally considered at high risk for ML, and some of the online casinos are likely to accept them, but so far, no cases of ML through virtual currency have been detected in Kosovo.

ML/TF controls

An important feature of online games of chance is that payments must be made through electronic transfers, so direct cash payments are impossible, but must first enter the financial system, therefore, in general assets must bypass the banking sector controls. All transactions are done online through face-to-face interactions and users must register to use the site, as well as provide a payment method (e.g., credit or debit card), and although this reduces the anonymity of account holder, yet this again makes it difficult to determine who is in control of the account.

General vulnerability

Although the sector is unsupervised and unregulated, the fact that funds must first enter the financial sector generally seems to make it unfavorable to other simpler laundering methods.