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**NATIONAL STRATEGY OF THE REPUBLIC OF
KOSOVO FOR THE PREVENTION OF AND
FIGHT AGAINST INFORMAL ECONOMY,
MONEY LAUNDERING, TERRORIST FINANCING
AND FINANCIAL CRIMES 2014-2018**

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LIST OF ABBREVIATIONS

FATF	Financial Action Task Force
GDP	Gross Domestic Products
IMF	International Monetary Fund
ISO	International Organization for Standardization
OECD	Organization for Economic Cooperation and Development

1. EXECUTIVE SUMMARY

Background analysis

The Program of the Government of the Republic of Kosovo 2011-2014 defines national level key priorities. Achieving these goals requires that the extent of informal economy should be reduced and the value of confiscated proceeds of crime should be increased.

The Government of the Republic of Kosovo has indicated the will to fight against informal economy, money laundering, financing of terrorism and financial crimes. This has been done by drafting and implementing a wide range of national legislation to comply with international standards and by establishing risk management mechanism including a strategy which constitutes a roadmap for the relevant public, private and third sector institutions.

A large-scale informal economy damages government's fiscal interests by causing declining revenues. Therefore, it will weaken national infrastructure and society's ability to provide public services. The impacts of informal economy are not confined to the public sector but also affect business activities. Informal economy distorts fair competition and lowers competitiveness between companies. Use of informal labour and systematic evasion of social security contributions weakens the protection of employees and their social benefits. An extensive informal economy also increases crime in society.

Informal economy on a global level¹ has been estimated to be equivalent to 33 % of global GDP. The average size of informal economy in the EU² was 18.5 % of GDP in 2012.

The latest macroeconomic calculations concerning the extent of informal economy in Kosovo are from 2007. An EU funded Project Team³ evaluated that the extent of informal economy in Kosovo during 2004 - 2006 was 26.67 – 34.75 % of the Kosovo GDP. In absolute values it varied between 605 000 000 EUR and 793 000 000 EUR annually. However, the same extent of informal economy would have meant in absolute value between 1 312 678 800 EUR and 1 691 241 600 EUR in 2012⁴. A survey involving companies was conducted in Kosovo in 2013 to assess the extent of informal economy. ⁵ The conclusion of this survey was 34.4 % of GDP.

The total amount of the revenues defined in the budget of the Government of the Republic of Kosovo has increased during 2008-2012 from 0,976 to 1,538 billion EUR. Custom revenues have represented 54.9 – 63.5 % of the total amount and tax revenues 17.9 – 22.7 %. Informal

¹Handbook on the Shadow Economy, Friedrich Schneider, 2011.

²European platform to enhance EU cooperation in the prevention and deterrence of undeclared work, European Commission Roadmap, 04/2013.

³Survey on the Extent and Prevention of the Illegal Economy and Money Laundering in Kosovo, EU project 05KOS01/03/03/001, 2007.

⁴Gross Domestic Product by activities 2006 - 2012, Kosovo Agency of Statistics, 2013.

⁵ A Business Perspective of Informality in Kosovo, Friedrich Ebert Stiftung and the Kosovo Foundation for Open Society and Riinvest Institute for Research and Development, 2013.

economy has an impact on revenues. This primarily concerns the funds collected by the Tax Administration. The Government of the Republic of Kosovo needs especially to broaden the tax base.

The extent of informal economy in Kosovo is estimated to be on the same level as in other countries in the Western Balkans. The latest assessments in the region cover time period of 2006 – 2012. The extent of informal economy in Kosovo's neighbouring countries is varying between 23 – 38.8 % of the GDP.

The EU funded Project Team⁶ evaluated in 2007 the extent of black economy in Kosovo 2004 – 2006. The minimum value, including proceeds of drug crimes, tax offences, smuggling and prostitution, was estimated to be between 301 – 386 million EUR annually. However, there are no recent calculations concerning the extent of black economy. Furthermore, there are no reliable statistics concerning the annual number and value of temporary sequestration decisions and confiscation judgments related to the proceeds of crime.

The National Money Laundering and Terrorist Financing Risk Assessment of Kosovo 2013 is approved and classified⁷ by the Government of the Republic of Kosovo. The results of the assessment showed that money laundering, terrorist financing and other economic and financial crimes are considered to be to the most part hidden crimes. This was the opinion of the public, private and third sector representatives. They estimated that corruption, tax offences, crimes related to procurement and the privatization process, smuggling and other financial crimes and drug crimes are the most common predicate offences for money laundering.

The statistical analysis carried out during the National Risk Assessment 2013 indicated that frauds, counterfeiting of currency, smuggling of goods and unlawful occupation of real estate are the most common financial crimes recognized during the criminal procedure⁸. On the other hand, it became obvious that the value of confiscated proceeds of crime has remained at a low level being only 29 926 EUR in 2012⁹.

Methodologies

The Government of the Republic of Kosovo has established a risk management mechanism on informal economy, money laundering, financing of terrorism and financial crimes. It is based on international standards^{10,11,12} and it consists of the following instruments:

⁶Survey on the Extent and Prevention of the Illegal Economy and Money Laundering in Kosovo, EU project 05KOS01/03/03/001, 2007.

⁷ Decision Nr. 06/161, the Government of the Republic of Kosovo, 18.12.2013.

⁸ Financial crimes recorded by the Kosovo Police, Kosovo Customs and Kosovo Judicial Council 2008-2012, National Risk Assessment Working Group and EU funded project EuropeAid/132399/C/SER/XK, 2013.

⁹ Statistics 2010-2012, Agency for Managing of Sequestered and Confiscated Assets, 2013

¹⁰Risk management – Principles and guidelines, International Standard ISO 31000, 2009.

¹¹Risk management – Risk assessment techniques, International Standard ISO 31010, 2009.

- National Money Laundering and Terrorist Financing Risk Assessment 2013;
- National Strategy of the Republic of Kosovo for the Prevention of and Fight Against Informal Economy, Money Laundering, Terrorist Financing And Financial Crimes 2014-2018;
- Action Plan of the National Strategy of the Republic of Kosovo for the Prevention of and Fight Against Informal Economy, Money Laundering, Terrorist Financing And Financial Crimes 2014-2018;
- Budgets and Performance Plans of the relevant public institutions 2014-2018;
- Platform ensuring partnership between the national public, private and third sector institutions as regards drafting, revising, adopting, implementing and monitoring the risk management instruments.

The risk management procedure in Kosovo is in compliance with the FATF National Money Laundering and Terrorist Financing Risk Assessment Guidance¹³ and ISO 31000¹⁴ and ISO 31010¹⁵ standards. It relies on extensive consultation and communication with the partners including the most important public, private and third sector institutions. The enhancement of partnership between these stakeholders is crucial and has been ensured.

The National Risk Assessment 2013 is a basis for the objectives and actions of the National Strategy and Action Plan 2014-2018. This will ensure consistent management of risks.

Analysis and evaluation

The National Risk Assessment 2013 generated a prioritized list consisting of altogether 35 identified risks. They were classified into threats and vulnerabilities. The highest risks related to the informal economy, money laundering, financing of terrorism and financial crimes consisted of the following events and consequences:

- Efficiency of the public sector's performance planning procedures;
- Efficiency of the detection and prevention mechanisms for corruption, other financial crimes and informal economy in Kosovo and their impact on international investment and economic growth;
- Efficiency of the implementation of the legal framework;
- Coverage of the secondary legislation and standard operating procedures;
- Efficiency of asset tracing and confiscation procedures;
- Efficiency of the enforcement of confiscation judgments, administrative sanctions and insolvency procedures;
- Capacity and skills of the judiciary;
- Transparency and accountability in the public administration;
- Nepotism;
- Extent of informal economy;
- Impacts of the cash-based economy;

¹²FATF Guidance National Money Laundering and Terrorist Financing Risk Assessment, 2013.

¹³Ibid.

¹⁴Risk management – Principles and guidelines, International Standard ISO 31000, 2009.

¹⁵Risk management – Risk assessment techniques, International Standard ISO 31010, 2009.

- Kosovo's vulnerability to financial crimes;
- Kosovo's vulnerability to money laundering;
- Nature of the predicate offences for money laundering;
- Extent of hidden criminality as regards money laundering and other financial crimes;
- Functionality of the reporting mechanism on suspicious and cash transactions;
- Vulnerability of certain sectors to informal economy, money laundering and other financial and economic crimes.

The National Risk Assessment 2013 included treatment measures for the identified risks. They constitute strategic objectives of the National Strategy 2014-2018.

The National Risk Assessment 2013 also produced a list of actions which have to be carried out in order to implement the treatment measures of the identified risks. These activities are the basis for the Action Plan 2014-2018.

National Strategy 2014-2018 and its goals, objectives and actions

The goals, objectives and actions of the National Strategy and Action Plan 2014-2018 are based on the National Risk Assessment 2013. These policy documents constitute a risk management mechanism for the national level risks of informal economy, money laundering, financing of terrorism and financial crimes in Kosovo. The primary goal of the National Strategy and Action Plan 2014-2018 is to support in achieving the objectives of the Program of the Government of the Republic of Kosovo 2011-2014 which are:

1. Sustainable economic development;
2. Good governance and strengthening the Rule of Law;
3. Human capital development;
4. Social welfare.

Achieving these national level objectives requires efficient prevention of informal economy, money laundering, terrorist financing and financial crimes. The National Strategy and Action Plan 2014-2018 are also supporting Kosovo in fulfilling commitments in the stabilisation and association process of EU accession.¹⁶

The goals of the National Strategy 2014-2018 are to:

- Support in achieving the objectives of the Program of the Government of the Republic of Kosovo 2011-2014;
- Reduce the extent of informal economy by 5 % between 2014 and 2018. Consequently, the value of formal economy subjected to tax and customs procedures would increase by at least 52 000 000 EUR¹⁷ by 31.12.2018. This would raise the annual volume of collected revenues;

¹⁶ Kosovo 2013 Progress Report, European Commission, 2013.

¹⁷ Value is based on Kosovo GDP from 2012.

- Increase the total value of confiscated proceeds of crime. For 2014 the value of the confiscated proceeds of crime should be increased to 500 000 EUR. During 2015-2018 the value of confiscated proceeds of crime should be 1000 000 EUR annually.

The Government of the Republic of Kosovo has approved the following strategic objectives which are a national response to the identified risks of informal economy, money laundering, financing of terrorism and financial crimes:

1. Raising awareness on the impacts and on the prevention of informal economy and financial crimes;
2. Strengthening the prevention and fight against informal economy and financial crimes by enhancing transparency, accountability, good governance and societal partnership;
3. Promoting intelligence, investigation, prosecution, court and enforcement proceedings on money laundering, terrorist financing and other financial crimes;
4. Strengthening the capacity of the relevant institutions;
5. Developing and applying a proactive approach to the international cooperation on prevention of money laundering, terrorist financing and other financial crimes;
6. Developing national legislation to comply with international standards and ensuring its efficient implementation.

The Government of the Republic of Kosovo has established an Action Plan 2014-2018. It consists of altogether 51 individual activities (Annex 1) which have to be carried out in order to achieve the strategic objectives of the National Strategy 2014-2018.

2. INTRODUCTION

The Program of the Government of the Republic of Kosovo 2011-2014¹⁸ consists of four main pillars. They are as follows:

1. Sustainable economic development;
2. Good governance and strengthening the Rule of Law;
3. Human capital development;
4. Social welfare.

Achieving these goals requires efficient prevention of informal economy, money laundering, terrorist financing and financial crimes. Therefore, the Government of the Republic of Kosovo decided to establish a risk management mechanism to tackle these harmful phenomena. The details of this process are defined in an Administrative Instruction¹⁹ which fulfils the risk management requirements specified in the FATF Recommendation 1.²⁰ The process as such is carried out by following the ISO 31000 Standard.²¹ It was decided that the risk criteria shall reflect the values and objectives of the relevant national legislation and society as a whole. Therefore, the risk criteria were derived from the Law on the Prevention of Money Laundering and Terrorist Financing²² and the Program of the Government of the Republic of Kosovo 2011 – 2014²³ to ensure the identification of threats and vulnerabilities related to the informal economy, money laundering, terrorist financing and financial crimes.

The management of risks of informal economy, money laundering, financing of terrorism and financial crimes in Kosovo consists of risk assessment, strategy and action plan, budgets and performance plans of the public institutions and platform ensuring partnership between the public, private and third sector institutions. The established mechanism is in line with the previous policy documents concerning prevention of these harmful phenomena. The Government of the Republic of Kosovo decided also to merge the national level strategies on informal economy and financial crimes with those concerning money laundering and terrorist financing. The policy documents taken into account during the drafting of the National Strategy and Action Plan 2014-2018 are as follows:

- The Governmental Program and Action Plan for the Prevention of Informal Economy in Kosovo 2008 - 2009;
- Government Program and Action Plan to Fight the Informal Economy in Kosovo 2010 - 2012;

¹⁸The Program of the Government of the Republic of Kosovo 2011-2014, 2011.

¹⁹ Administrative Instruction MF - No. 04/ 2013 on National Money Laundering and Terrorist Financing Risk Assessment, Ministry of Finance, 2013.

²⁰ International Standards on Combating Money Laundering and the Financing of Terrorism & Proliferation (The FATF Recommendations), FATF 2012.

²¹ Risk management – Principles and guidelines, International Standard ISO 31000, 2009.

²² Law No. 03/L-196 and Law No. 04/L-178 on the Prevention of Money Laundering and Terrorist Financing, 2010 and 2013.

²³ The Program of the Government of the Republic of Kosovo 2011-2014, 2011.

- Strategy on Prevention of Money Laundering and Terrorist Financing 2012 - 2015.

In Kosovo, there are several national level strategies concerning crime prevention and even more of those which are interrelated to the tackling of informal economy. It is therefore essential to ensure firm coordination when drafting, revising, adopting, implementing and monitoring these policies. The Governmental Working Group established for the National Strategy and Action Plan 2014-2018 consists of representatives of the relevant ministries and institutions. Therefore, it has been given a responsibility to coordinate activities with other interrelated national level strategies.

3. METHODOLOGY AND DEFINITIONS

3.1. Methodology

3.1.1. General

The strategic planning on prevention of informal economy, money laundering, financing of terrorism and financial crimes in Kosovo is based on risk management. This ensures that the relevant national institutions are able to direct and control their activities with regard to the potential future risks.

The risk management mechanism relies on extensive consultation and communication with the partners including the most important public, private and third sector institutions. This has been done in order to enhance partnership between these stakeholders. The risk management procedure is in compliance with the FATF National Money Laundering and Terrorist Financing Risk Assessment Guidance²⁴ and ISO 31000²⁵ and 31010²⁶ standards.

The risk management mechanism on informal economy, money laundering, financing of terrorism and financial crimes in Kosovo is based on international standards^{27,28,29} and consists of the following instruments:

- National Risk Assessment 2013;
- National Strategy 2014-2018;
- Action Plan of the National Strategy 2014-2018;
- Budgets and Performance Plans of the relevant public institutions 2014-2018;
- Platform ensuring partnership between the national public, private and third sector institutions as regards drafting, revising, adopting, implementing and monitoring the risk management instruments.

The risk management mechanism supports decision making by taking into account the uncertainty and possibility of future events or circumstances and their effects. The objectives of the National Strategy 2014-2018 are treatment measures for the identified national level risks of informal economy, money laundering, financing of terrorism and financial crimes in Kosovo.

The Action Plan is a roadmap which has to be followed in order to achieve the objectives of the National Strategy 2014-2018. It includes concrete and measurable activities.

The implementation of the National Strategy 2014-2018 is integrated in the decision making concerning budgets and performance plans of the responsible ministries and public institutions.

²⁴FATF Guidance National Money Laundering and Terrorist Financing Risk Assessment, 2013.

²⁵Risk management – Principles and guidelines, International Standard ISO 31000, 2009.

²⁶Risk management – Risk assessment techniques, International Standard ISO 31010, 2009.

²⁷Risk management – Principles and guidelines, International Standard ISO 31000, 2009.

²⁸Risk management – Risk assessment techniques, International Standard ISO 31010, 2009.

²⁹FATF Guidance National Money Laundering and Terrorist Financing Risk Assessment, 2013.

It is also linked to the cooperation arrangements between the national public, private and third sector institutions.

3.1.2. Strategic planning and risk management process in Kosovo

The drafting, revision, adoption, implementation and monitoring of the National Strategy and Action Plan 2014-2018 are based on the following methodology applied by the Government of the Republic of Kosovo:

1. The National Risk Assessment is initiated by the Government of the Republic of Kosovo;
2. The risk criteria are defined. They shall reflect the values and objectives of the relevant national legislation and society as a whole. The risk criteria are derived from the Law on the Prevention of Money Laundering and Terrorist Financing³⁰ and the Program of the Government of the Republic of Kosovo 2011 – 2014³¹ to ensure the identification of threats and vulnerabilities related to money laundering, terrorist financing, financial and economic crimes and informal economy;
3. The public, private and third sector institutions, which should be involved in the development of the National Risk Assessment are identified;
4. Information concerning the current situation is collected from the following objective sources through communication and consultation with the public, private and third sector partners:
 - Collection and analysis of the statistics related to informal economy, money laundering, terrorist financing, economic crimes and financial crimes;
 - Collection and analysis of the evaluation reports concerning the functionality of the relevant legal framework and other prevention mechanisms on money laundering, terrorist financing, financial crimes and informal economy;
 - Evaluation of the national level strategies and action plans which relate to prevention of informal economy, money laundering, terrorist financing and financial crimes;
5. Information concerning the current situation is collected from the following subjective sources through communication and consultation with the public, private and third sector partners:
 - Meetings and workshops of the National Risk Assessment Working Group;
 - Meetings and workshops of the Governmental Working Group, Secretariat and Technical Working Group established for the drafting of the National Strategy and Action Plan 2014-2018;
 - Web-based questionnaires (409 replies) for the relevant public, private and third sector institutions³²;

³⁰ Law No. 03/L-196 and Law No. 04/L-178 on the Prevention of Money Laundering and Terrorist Financing, 2010 and 2013.

³¹ The Program of the Government of the Republic of Kosovo 2011-2014, 2011.

³² Report on the results of the web based questionnaire, the Project Team, Contract EuropeAid/132399/C/SER/XK.

- Interviews (53 experts) of and meetings with the representatives of the relevant public, private and third sector institutions³³;
- 6. Reliability of the information source and quality of the collected information is evaluated using the 4x4 system of Europol³⁴;
- 7. Threats and vulnerabilities are listed based on the information collected through communication and consultation with the relevant partners;
- 8. Risks are identified and classified based on the collected and evaluated information;
- 9. The consequences and likelihood of each single identified risk are analysed separately;
- 10. The identified risks are prioritized and their treatment measures are defined during the evaluation stage;
- 11. The National Risk Assessment 2013 shall be a basis for the objectives of the National Strategy 2014-2018. This will ensure management of risks. The treatment measures of the identified risks constitute strategic objectives;
- 12. The National Risk Assessment 2013 shall result in a list of actions which have to be carried out in order to implement the treatment measures of the identified risks. These activities shall be a basis for the Action Plan 2014-2018;
- 13. The Government of the Republic of Kosovo shall be responsible for the drafting, revision, adoption, implementation and monitoring of the National Strategy and Action Plan 2014-2018 based on the National Risk Assessment;
- 14. The Government of the Republic of Kosovo is supported by the Ministry of Finance, National Coordinator and relevant national public, private and third sector institutions in drafting, revision, adoption, implementation and monitoring of the National Strategy and Action Plan 2014-2018;
- 15. The Government of the Republic of Kosovo establishes the Governmental Working Group, Secretariat and Technical Working Group consisting of representatives from the public, private and third sector institutions to support in drafting, revision, adoption, implementation and monitoring of the National Strategy and Action Plan 2014-2018;
- 16. The roles of the contributors are defined in the National Strategy and Action Plan 2014-2018;
- 17. The implementation process of the National Strategy and Action Plan 2014-2018 is assessed using defined monitoring and review function;
- 18. The National Strategy and Action Plan 2014-2018 are revised should it be deemed necessary based on the monitoring function and/or risk assessment processes;
- 19. The Governmental Working Group shall ensure coordination with other national level and interrelated strategies as regards drafting, revision, adoption, implementation and monitoring of the National Strategy and Action Plan 2014-2018.

3.2. Definitions

Risk

A risk is the effect of uncertainty on objectives.³⁵

³³List of interviews, meetings and workshops organized by the Project Team, Contract EuropeAid/132399/C/SER/XK and National Risk Assessment Working Group, 2013.

³⁴Analytical guidelines, Europol, 2000.

³⁵Risk management – Principles and guidelines, International Standard ISO 31000, 2009.

Risk criteria

Risk criteria are the criteria against which the significance of a particular risk is assessed. Normally they are based on legislation, organizational objectives or other similar instruments.³⁶

Risk Assessment

A Risk Assessment is an overall process of identification, analysis and evaluation of risks.³⁷

Risk management

Risk management is coordinated activities to direct and control an organization with regard to risk.³⁸

Money laundering

Money laundering means³⁹ any conduct for the purpose of disguising the origin of money or other property obtained by an offence and includes:

1. The conversion or any transfer of money or other property derived from criminal activity;
2. The concealment or disguise of the true nature, origin, location, movement, disposition, ownership or rights with respect to money or other property derived from criminal activity.

Terrorist Financing

Terrorist Financing means⁴⁰ the provision or collection of funds, by any means, directly or indirectly, with the intention that they should be used or in the knowledge that they are to be used, in full or in part, in order to carry out any of the offences within the meaning of Article 138 of the Criminal Code of Kosovo and within the specific definitions provided in the FATF Recommendations.

Financial crimes

Financial crimes include economic and financial crimes defined by the National Risk Assessment Working Group.⁴¹

Informal economy

Informal economy consists of informal grey economy and informal black economy.

³⁶ Ibid.

³⁷ Ibid.

³⁸ Ibid.

³⁹ Article 2 of the Law No. 03/L-196 on the Prevention of Money Laundering and Terrorist Financing, 2010.

⁴⁰ Ibid.

⁴¹ List of economic and financial crimes defined by the National Money Laundering and Terrorist Financing Risk Assessment Working Group, 2013.

Informal grey economy

Informal grey economy consists of activities that are productive and legal but are deliberately concealed from the public authorities to avoid payment of taxes and/or social security contributions or complying with regulations. The income from the informal grey economy should be taxed. This definition is consistent with that of the OECD.⁴²

Informal black economy

Black economy consists of proceeds of crime. It includes those productive activities that generate goods and services prohibited by law or that are unlawful when carried out by unauthorized producers. This definition is consistent with that of the OECD.⁴³

⁴²Measuring the Non-Observed Economy – A Handbook', OECD, 2002.

⁴³Measuring the Non-Observed Economy – A Handbook', OECD, 2002.

4. BACKGROUND AND ANALYSIS

4.1. Governments commitment to fight against informal economy, money laundering, terrorism financing and financial crimes

The Government of the Republic of Kosovo has indicated the will to fight against informal economy, money laundering, terrorist financing and financial crimes. This has been done by drafting and implementing a wide range of national legislation to comply with international standards and by establishing strategies constituting roadmaps for the relevant public, private and third sector institutions.

The Program of the Government of the Republic of Kosovo 2011-2014 defines society's national level key priorities. Achieving these goals requires efficient prevention of informal economy, money laundering, terrorist financing and financial crimes. The national key priorities are as follows:

1. Sustainable economic development;
2. Good governance and strengthening the Rule of Law;
3. Human capital development;
4. Social welfare.

4.2. National strategies on prevention of informal economy and money laundering, terrorism financing and financial crimes 2008-2013

The first Governmental Program and Action Plan for the Prevention of Informal Economy in Kosovo were established for the time period 2008-2009. They consisted of activities which were deemed necessary when preventing informal economy, money laundering, terrorist financing and financial crimes. These policy documents were revised and amended for 2010-2012. The latest Action Plan 2010-2012 consisted of altogether 15 activities. The responsible institutions managed to implement altogether 70 % of these planned activities.

The Government of the Republic of Kosovo established a separate Strategy on Prevention of Money Laundering and Terrorist Financing for the time period 2012-2015. This policy document doesn't have specific Action Plan.

It was concluded based on the National Risk Assessment 2013 that informal economy, money laundering, terrorist financing and financial crimes are inseparably linked to each other. Therefore, the Government of the Republic of Kosovo decided to merge the Governmental Program for the Prevention of Informal Economy in Kosovo and the Strategy on Prevention of Money Laundering and Terrorist Financing into a joint national strategy for the time period 2014-2018.

The Government of the Republic of Kosovo has established also a wide range of other national level crime prevention and other interrelated strategies. They consist of goals which are linked to the informal economy, money laundering, terrorist financing and financial crimes. The

coordination of the national level strategies will be carried out as part of the risk management processes of the Government of the Republic of Kosovo. Policies which should be noticed during the drafting and implementation of the National Strategy 2014 – 2018 include at least the following:

- Private Sector Development Strategy 2013 – 2017;
- National Strategy on Crime Prevention 2013-2017;
- National Strategy against Corruption 2012-2017;
- National Strategy against the Organized Crime 2012-2017;
- National Strategy against Drugs 2012-2017;
- National Strategy against Terrorism 2012-2017;
- National Strategy for the Protection of Intellectual Property 2010-2014;
- National Strategy against Counterfeiting 2012-2017;
- National Strategy against Human Trafficking 2011-2014;
- National Strategy for Migration 2012-2017;
- National Strategy for Integrated Border Management 2012-2017.

4.3. National Money Laundering and Terrorist Financing Risk Assessment of Kosovo 2013

4.3.1. Objective and process

The Government of the Republic of Kosovo adopted an Administrative Instruction on National Money Laundering and Terrorist Financing Risk Assessment⁴⁴. It defines in detail the process of risk assessment on money laundering and terrorist financing. The Administrative Instruction is in compliance with the FATF Recommendation 1⁴⁵. The defined process is a basis for the national level risk management and strategic planning as regards money laundering and terrorist financing.

The Government of the Republic of Kosovo decided to use the results of the National Risk Assessment 2013 also for the prevention of informal economy and financial and economic crimes. This was due to the fact that during the risk assessment process these harmful phenomena were found be linked with each other.

The Government of the Republic of Kosovo defined criteria to be used to evaluate the significance of risks by following the ISO 31000 Standards.⁴⁶ It was decided that the risk criteria shall reflect the values and objectives of the relevant national legislation and society as a whole. Therefore, the criteria were derived from the Law on the Prevention of Money Laundering and

⁴⁴Administrative Instruction Mf - No. 04/ 2013 on National Money Laundering and Terrorist Financing Risk Assessment, Ministry of Finance, 2013.

⁴⁵International Standard on Combating Money Laundering and the Financing of Terrorism & Proliferation (The FATF Recommendations), FATF 2012.

⁴⁶Risk management – Principles and guidelines, International Standard ISO 31000, 2009.

Terrorist Financing⁴⁷ and the Program of the Government of the Republic of Kosovo 2011 – 2014⁴⁸ to ensure the identification of threats and vulnerabilities related to money laundering, terrorist financing, financial and economic crimes and informal economy. The defined risk criteria of the National Risk Assessment 2013 were as follows:

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

4.3.2. Identified national level risks in general

The National Risk Assessment 2013 generated a prioritized list consisting of altogether 35 identified risks which were classified into threats and vulnerabilities related to the informal economy, money laundering, terrorist financing and financial crimes. The highest risks consisted of the following events and consequences:

1. Efficiency of the public sector's performance planning procedures;
2. Efficiency of the prevention and detection mechanisms of corruption, other financial crimes and informal economy in Kosovo and their impacts on the international investments and economic growth;
3. Efficiency of the legal framework's implementation;
4. Coverage of the secondary legislation and standard operating procedures;
5. Efficiency of the asset recovery and confiscation procedures;
6. Efficiency of the enforcement of confiscation judgments, administrative sanctions and insolvency procedures;
7. Capacity and skills of the judiciary;
8. Transparency and accountability in the public administration;
9. Nepotism;
10. Extent of informal economy;
11. Impacts of the cash-based economy;
12. Kosovo's vulnerability to financial crimes;
13. Kosovo's vulnerability to money laundering;
14. Nature of the predicate offences for money laundering;
15. Extent of hidden criminality as regards money laundering and other financial crimes;
16. Functionality of the reporting mechanism on suspicious and cash transactions;
17. Vulnerability of certain sectors to informal economy and money and other financial and economic crimes.

4.3.3. Risks related to informal economy

The National Risk Assessment 2013 is based on extensive communication and consultation with the relevant national stakeholders. This process showed that it is generally considered that

⁴⁷ Law No. 03/L-196 and Law No. 04/L-178 on the Prevention of Money Laundering and Terrorist Financing, 2010 and 2013.

⁴⁸ The Program of the Government of the Republic of Kosovo 2011-2014, 2011.

Kosovo is vulnerable to informal economy. There are several factors that increase this risk. The communication and consultation with the stakeholders underlined especially the following events and consequences:

1. Economy in Kosovo is mainly cash-based⁴⁹;
2. Kosovo's economy has a very low export base and it is concentrated mostly in services and agriculture carried out by micro enterprises (1-9 employees) which are representing approximately 98.4 %⁵⁰ of all businesses;
3. High unemployment rate (30.9 %)⁵¹;
4. Smuggling of legal goods;
5. Sectors most vulnerable to informal economy need support for establishing, implementation and controlling of their internal compliance procedures.

4.3.4. Risks related to money laundering, terrorist financing and financial crimes

Kosovo is vulnerable to financial crimes. This conclusion is based on the communication and consultation with the relevant national stakeholders during the risk assessment process. The contributors considered that corruption, smuggling of legal goods, crimes related to procurement, tax offences and crimes related to privatization process are the most common financial crimes in Kosovo.

However, the results of the National Risk Assessment 2013 showed that money laundering, terrorist financing and other economic and financial crimes are considered to be to the most part hidden crimes. This was the opinion of the public, private and third sector representatives. They estimated that corruption, tax offences, crimes related to procurement and privatization process, smuggling and other financial crimes and drug crimes are the most common predicate offences for money laundering.

4.4. Statistical information concerning informal economy, money laundering, terrorist financing and financial crimes in Kosovo

4.4.1. Extent of informal economy

The European Union, IMF and the World Bank are, among other international organizations, supporting studies in different countries and regions on measuring the extent of the informal economy. The purpose is to promote the progressive reduction of this phenomenon. Informal economy on a global⁵² level has been estimated to be equivalent to 33 % of global GDP and the average size in the EU⁵³ was 18.5% in 2012.

⁴⁹A Country Economic Memorandum of Kosovo, World Bank, 2010.

⁵⁰Private Sector Development Strategy 2013 – 2017, Kosovo Ministry of Trade and Industry, 2013.

⁵¹Kosovo Labour Force Survey 2012, Statistical Institute of Kosovo, 2013.

⁵²Handbook on the Shadow Economy, Friedrich Schneider, 2011.

⁵³European platform to enhance EU cooperation in the prevention and deterrence of undeclared work, European Commission Roadmap, 04/2013.

The latest macroeconomic calculations concerning the extent of informal economy in Kosovo are from 2007. An EU funded Project Team⁵⁴ evaluated that the extent of informal economy in Kosovo during 2004 - 2006 was 26.67 – 34.75 % of the Kosovo GDP. In absolute values it varied between 605 000 000 EUR and 793 000 000 EUR annually. However, the same extent of informal economy would have meant in absolute value between 1 312 678 800 EUR and 1 691 241 600 EUR in 2012⁵⁵. A survey involving companies was conducted in Kosovo in 2013 to assess the extent of informal economy.⁵⁶ The conclusion of this survey was 34.4 % of GDP.

The extent of informal economy in Kosovo is estimated to be at the same level as in other countries in the Western Balkans. The latest assessments in the region cover the time period 2006 – 2012. The results are specified in the Table 1 below.

Table 1 Informal economy in Kosovo compared with other Western Balkans countries in % of GDP

Evaluator	Albania	Bosnia & Herzegovina	Macedonia	Kosovo	Montenegro	Serbia
Informal economy in Western Balkans 2006-2012	37.7 ⁵⁷	35.4 ⁵⁸	38.8 ⁵⁹	26.7-34.4 ⁶⁰	23 ⁶¹	30 ⁶²

Source: Assessment reports are specified in the footnotes below

4.4.2. Impacts of informal economy

The total amount of the revenues defined in the budget of the Government of the Republic of Kosovo has increased during 2008-2012 from 0,976 to 1,538 billion EUR. The custom revenues have represented 54.9 – 63.5 % of the total amount and tax revenues 17.9 – 22.7 %. The revenue types and their weight in the budget are defined in the table below.

⁵⁴Survey on the Extent and Prevention of the Illegal Economy and Money Laundering in Kosovo, EU project 05KOS01/03/03/001, 2007.

⁵⁵Gross Domestic Product by activities 2006 - 2012, Kosovo Agency of Statistics, 2013.

⁵⁶ A Business Perspective of Informality in Kosovo, Friedrich Ebert Stiftung and the Kosovo Foundation for Open Society and Riinvest Institute for Research and Development, 2013.

⁵⁷New Estimates for the Shadow Economies all over the World, Schneider-Buehn-Montenegro, 2010.

⁵⁸Ibid.

⁵⁹Ibid.

⁶⁰Survey on the Extent and Prevention of the Illegal Economy and Money Laundering in Kosovo, EU project 05KOS01/03/03/001, 2007.

⁶¹Tackling undeclared work in Montenegro, European Foundation for the Improvement of Living and Working Conditions, 2013.

⁶²The Shadow Economy in Serbia (2010), Foundation for the Advancement of Economics, 2013.

Table 2 Revenue types and their weights in the budget of the Government of Kosovo 2008-2012

Type of revenue	2008	2009	2010	2011	2012
Tax revenues	0,222	0,206	0,221	0,261	0,284
Custom revenues	0,605	0,635	0,701	0,828	0,845
Other revenues	0,149	0,304	0,257	0,214	0,408
Revenues in total	0,976	1,145	1,179	1,303	1,538

Source: Ministry of Finance of the Republic of Kosovo

The informal economy is having an impact on the revenues. This is primarily concerning the funds collected by the Tax Administration. The Government of the Republic of Kosovo needs to broaden the tax base and increase the level of tax revenues.

4.4.3. Extent of money laundering, financing of terrorism and financial crimes

As part of the drafting of the National Risk Assessment 2013, the National Risk Assessment Working Group with the support of the EU funded Project Team⁶³ established a list consisting of crimes which are considered to constitute money laundering, terrorist financing and other economic and financial crimes in Kosovo. The objective was to prepare a statistical analysis for the risk assessment based on the information collected from the relevant authorities. The experts requested information concerning:

- The number and type of financial crimes detected by the authorities per calendar year;
- The number and type of financial crimes included in the indictments per calendar year;
- The number and type of financial crimes included in the convictions per calendar year;
- The number and value of temporary sequestration measures used for the investigation of financial crimes per calendar year;
- The number and value of confiscation convictions based on the financial crimes per calendar year.

The National Risk Assessment Working Group and the EU funded Project Team⁶⁴ got statistics⁶⁵ from the Kosovo Police⁶⁶, Kosovo Customs⁶⁷ and Judicial Council of Kosovo⁶⁸. The results of the assessment covering years 2008 – 2012 were as follows:

⁶³ EU funded project, EuropeAid/132399/C/SER/XK, 2013.

⁶⁴ Ibid.

⁶⁵ The National Risk Assessment Working Group and the EU funded Project Team requested statistics from the Kosovo Police, Kosovo Customs, Tax Administration, Kosovo Prosecutorial Council, Kosovo Prosecutorial Council.

⁶⁶ Financial crimes recorded by the Kosovo Police 2008-2012, EU funded project EuropeAid/132399/C/SER/XK, 2013.

⁶⁷ Financial crimes recorded by the Kosovo Customs 2008-2012, EU funded project EuropeAid/132399/C/SER/XK, 2013.

⁶⁸ Financial crimes recorded by the Judicial Council of Kosovo 2008-2012, EU funded project EuropeAid/132399/C/SER/XK, 2013.

Table 3: Financial crimes recorded by the Kosovo Police, Kosovo Customs and Kosovo Judicial Council 2008-2012

Initiated investigations of the financial crimes	2008	2009	2010	2011	2012	Total
Police	3 043	2 123	2 774	2 914	2 135	12 989
Customs	90	57	64	69	49	329
Total	3 133	2 180	2 838	2 983	2 184	13 318
Convictions of the financial crimes	2008	2009	2010	2011	2012	Total
Basic Courts ⁶⁹	1 391	1 541	1 298	1 318	1 339	6 887

Source: Kosovo Police, Kosovo Customs and Kosovo Judicial Council, 2013

The statistical analysis carried out during the National Risk Assessment 2013 indicated that frauds, counterfeiting of currency, smuggling of goods and unlawful occupation of real estate are the most common financial crimes recognized during the criminal procedure⁷⁰.

4.4.4. Impacts of money laundering, financing of terrorism and financial crimes

The EU funded Project Team⁷¹ evaluated in 2007 the extent of black economy in Kosovo between 2004 and 2006. The minimum value, including proceeds of drug crimes, tax offences, smuggling and prostitution, was estimated to be between 301 – 386 million EUR annually. However, there are no recent calculations concerning the extent of black economy. Furthermore, there are no reliable statistics concerning the annual number and value of temporary sequestration decisions and confiscation judgments related to the proceeds of crime.

The Agency for Managing of Sequestered and Confiscated Assets was established on 2010. It maintains statistics concerning the total number and value of temporary sequestration decisions and confiscation judgments on an annual basis. The Agency for Managing of Sequestered and Confiscated Assets does not have specified information concerning financial crimes. The statistics of the agency are as follows:

⁶⁹ Basic Courts from 2013 onwards and Municipal Courts 2008-2012.

⁷⁰ Financial crimes recorded by the Kosovo Police, Kosovo Customs and Kosovo Judicial Council 2008-2012, National Risk Assessment Working Group and EU funded project EuropeAid/132399/C/SER/XK, 2013.

⁷¹ Survey on the Extent and Prevention of the Illegal Economy and Money Laundering in Kosovo, EU project 05KOS01/03/03/001, 2007.

Table 4: Value of sequestrated and confiscated funds managed by Agency for Managing of Sequestrated and Confiscated Assets 2008-2012

Legal measures concerning proceeds of crime	2008	2009	2010	2011	2012	Total
Temporary sequestration	N/A	N/A	0€	28 528€	28 2918€	311 446€
Confiscation	N/A	N/A	1 720€	27 390€	29 926€	59 036€

Source: Agency for Managing of Sequestrated and Confiscated Assets, 2013

The available information proves that the total value of the sequestrated and confiscated proceeds of crime has been low being only 29 926 EUR in 2012.⁷²

4.5. Conclusions on the extent and impacts of informal economy, money laundering, terrorist financing and financial crimes in Kosovo

4.5.1. Informal economy

The extent of informal economy in Kosovo is estimated to be 26.67% – 34.75% of the GDP. During the period 2008 - 2012, the estimated value would have been as defined in Table 5 below.

Table 5: Estimated value of informal economy in Kosovo during 2008-2012

Value from GDP	2008	2009	2010	2011	2012
Minimum	1 052 066 500€	1 070 079 400€	1 145 735 400€	1 275 224 600€	1 312 678 800€
Maximum	1 355 471 500€	1 378 679 100€	1 476 153 500€	1 642 986 000€	1 691 241 600€

Source: Gross Domestic Product by activities 2006 – 2012, Kosovo Agency of Statistics, 2013

A large-scale informal economy damages government's fiscal interests by causing declining revenues. Therefore, it will weaken the national infrastructure and society's ability to provide public services.

The impacts of the informal economy are not confined to the public sector but also affect business activities. Informal economy distorts fair competition and lowers competitiveness between companies. Production costs of companies trying to avoid informal activities are higher because of the inadequate collection of taxes. Use of informal labour and systematic evasion of social security contributions becomes a necessity that weakens the protection of employees and lowers their social benefits. This of course will distort general attitudes in society and lead to a

⁷² Statistics 2010-2012, Agency for Managing of Sequestrated and Confiscated Assets, 2013

significant propensity for tax avoidance. Informality will also weaken the reliability of the financing system. Under-declaration of profit hampers trust between companies and banks, leading to an inefficient credit market. This in turn discourages investment by foreign companies.

In Kosovo, it is important to broaden the tax base. Measures which are needed to reduce the harmful side effects of the cash-based economy should be identified. It is obviously one of the key challenges in prevention of informal economy, money laundering, financing of terrorism and financial crimes. On the other hand, Kosovo's economy has a very low export base and it is concentrated mostly in services and agriculture carried out by micro-enterprises (1-9 employees). These entrepreneurs are vulnerable to informal economy and they should be supported to reduce this harmful phenomenon. This would have a positive impact on the high unemployment rate which at the moment increases informal economy in Kosovo.

The National Risk Assessment 2013 defines risks which are related to informal economy and its Action Plan consists of necessary treatment measures. These policy documents are the basis for the National Strategy and Action Plan 2014-2018.

4.5.2. Money laundering, terrorist financing and financial crimes

The national institutions considered that financial crimes are to the most part hidden crimes⁷³. The findings based on the National Risk Assessment 2013 and the analysis of the available statistical information concerning financial crimes during 2008 – 2012 indicates that:

- The annual number of financial crimes detected by the police and customs is decreasing;
- The most common financial crimes detected by the police and customs are frauds, counterfeiting of currency and smuggling of goods;
- The annual number of convictions for financial crimes has remained approximately at the same level;
- The most common financial crimes of which the basic courts are giving convictions are fraud, unlawful occupation of real estate and counterfeiting of money;
- The annual number of financial crimes defined in the convictions is 51.7 % of the financial crimes detected by the Kosovo Police and Kosovo Customs;
- There is no information about the number and value of temporary sequestration measures used for the investigation of financial crimes;
- There is no information about the number and value of confiscation judgments which are based on financial crimes;
- The total value of confiscated proceeds of crime in general is at a low level being only 29926 EUR in 2012;
- The statistical information related to the criminal procedure on financial crimes is not accurate.

⁷³National Money Laundering and Terrorist Financing Risk Assessment of Kosovo 2013, Government of Kosovo, 2013.

As regards the criminal procedure concerning financial crimes in Kosovo, it is obvious that joint intelligence functions should be developed to enhance the quality of the information and detection of crimes. This concerns especially serious offences. The criminal procedure should be based on intelligence led investigations and targeting procedures to ensure prioritization and effective multi-agency cooperation. On the other hand, the asset tracing and confiscation procedures should be organized more effectively. The value of recovered proceeds of crime should be increased.

The National Risk Assessment 2013 defines risks which are related to money laundering, terrorist financing and financial crimes and its Action Plan consist of necessary treatment measures. These policy documents are the basis for the National Strategy and Action Plan 2014-2018.

5. GOALS AND OBJECTIVES OF THE NATIONAL STRATEGY 2014-2018

5.1. General

The goals, objectives and actions of the National Strategy and Action Plan 2014-2018 are based on the National Risk Assessment 2013. These policy documents constitute a risk management mechanism for the national level risks of informal economy, money laundering, financing of terrorism and financial crimes in Kosovo. The primary goal of the National Strategy and Action Plan 2014-2018 is to support in achieving the objectives of the Program of the Government of the Republic of Kosovo 2011-2014 which are:

1. Sustainable economic development;
2. Good governance and strengthening the Rule of Law;
3. Human capital development;
4. Social welfare.

Achieving these national level objectives requires efficient prevention of informal economy, money laundering, terrorist financing and financial crimes. The National Strategy and Action Plan 2014-2018 are also supporting Kosovo in fulfilling commitments in the stabilisation and association process of EU accession.⁷⁴

5.2. Goals of the National Strategy 2014-2018

The Strategy Document identifies, assesses and recommends a set of policies and actions to achieve a particular national level priority or goal.⁷⁵ Therefore, the goals of the National Strategy 2014-2018 are to:

- Support in achieving the objectives of the Program of the Government of the Republic of Kosovo 2011-2014;
- Reduce the extent of informal economy by 5 % between 2014 and 2018. Consequently, the value of formal economy subjected to tax and customs procedures would increase by at least 52 000 000 EUR⁷⁶ by 31.12.2018. This would raise the annual volume of collected revenues;
- Increase the total value of confiscated proceeds of crime. For 2014 the value of the confiscated proceeds of crime should be increased to 500 000 EUR. During 2015-2018 the value of confiscated proceeds of crime should be 1000 000 EUR annually.

⁷⁴ Kosovo 2013 Progress Report, European Commission, 2013.

⁷⁵ Administrative Instruction No. 02/2012 on the Procedures, Criteria and Methodology for the Preparation and Approval of Strategy Documents and Plans for their Implementation, the Government of the Republic of Kosovo, 2013.

⁷⁶ Value is based on Kosovo GDP from 2012.

5.3. Objectives of the National Strategy 2014-2018

The Government of the Republic of Kosovo has approved the strategic objectives of the National Strategy 2014-2018. They are implemented through the Action Plan. The strategic objectives are as follows:

1. Raising awareness on the impacts and on the prevention of informal economy and financial crimes;
2. Strengthening the prevention and fight against informal economy and financial crimes by enhancing transparency, accountability, good governance and societal partnership;
3. Promoting intelligence, investigation, prosecution, court and enforcement proceedings on money laundering, terrorist financing and other financial crimes;
4. Strengthening the capacity of the relevant institutions;
5. Developing and applying a proactive approach to the international cooperation on prevention of money laundering, terrorist financing and other financial crimes;
6. Developing national legislation to comply with international standards and ensuring its efficient implementation.

5.4. Detailed Description of the Objectives of the National Strategy 2014-2018

5.4.1. Raising awareness on the impacts and on the prevention of informal economy and financial crimes

The responsibility for raising awareness on the nature, extent and impacts of informal economy, money laundering, financing of terrorism and financial crimes rests with the Government and relevant authorities. The current situation in Kosovo is emphasizing the need for comprehensive and correct information about these harmful phenomena. This is a necessity from the country's internal and international perspective. The public, private and third sector representatives underline that awareness is one of the most important preventive tools.

5.4.2. Strengthening the prevention and fight against informal economy and financial crimes by enhancing transparency, accountability, good governance and societal partnership

Government is primarily responsible for the prevention of informal economy, money laundering, financing of terrorism and financial crimes. It is also a duty of other authorities at national, regional and local level. The transparency and accountability of the public sector must be ensured.

The most vulnerable sectors for informal economy, money laundering, financing of terrorism and financial crimes must be supported. Their internal processes must be enhanced to comply with the principle of good governance.

The quality of the national prevention mechanisms on informal economy, money laundering, financing of terrorism and financial crimes is dependent on the efficiency of cooperation between the public, private and third sectors. They all have to have the knowledge about their legal obligations and skills to identify and ability to prevent these phenomena.

5.4.3. Promoting intelligence, investigation, prosecution, court and enforcement proceedings on money laundering, terrorist financing and financial crimes

In Kosovo, there are many authorities responsible for the detection and investigation of money laundering, financing of terrorism and financial crimes. Thus it is important for the due process of law and quality of the criminal process as a whole that the cooperation, exchange of information and coordination of activities is organized systematically between law enforcement, judiciary and other relevant authorities. Their strategic and operational procedures must be in order as well.

5.4.4. Strengthening the capacity of the relevant institutions

It should be ensured that the relevant institutions have appropriate human, technical and other resources. Most importantly, the personnel have to have potential and skills needed for the maintenance of an efficient prevention regime. The capacities of the relevant institutions have to be enhanced to comply with their mandates, responsibilities and increasing demand of services.

Establishment of a functional prevention regime for informal economy, money laundering, financing of terrorism and financial crimes requires that the public sector promotes cooperation with and participation of the individuals, civil society, non-governmental organizations, community-based organizations and relevant private entities. Their involvement in the decision-making processes is essential when developing strategies, policies, standards and procedures designed to safeguard the society as a whole. Public sector should ensure that the private and third sector representatives have knowledge about their legal obligations, skills to identify and capacity to prevent informal economy, money laundering, financing of terrorism and financial crimes. They should also have the possibility to report about these phenomena to the authorities as well as access to relevant information concerning available prevention mechanisms.

5.4.5. Developing and applying a proactive approach to the international cooperation on prevention of money laundering, terrorist financing and financial crimes

The prevention of money laundering, financing of terrorism and financial crimes requires efficient international cooperation. It is therefore important for Kosovo that it complies with the relevant international standards and participates intensively in the work of the strategic level international organizations. The investigation of money laundering, financing of terrorism and financial crimes and asset recovery require efficient international cooperation at operational level. The national authorities responsible for the criminal procedure need clear and swift mechanisms for mutual legal assistance and international exchange of information.

5.4.6. Developing national legislation to comply with international standards and ensuring its efficient implementation

The prevention of money laundering, financing of terrorism and financial crimes requires that the national legal framework in Kosovo complies with the relevant international standards. The legislation has to be amended and revised to ensure due process of law and compliance with the requirements based on the operational environment and international standards. The credibility of the prevention regime requires that existing legal framework is clear and it is implemented in an efficient manner. The representatives of the public, private and third sector must have the ability to apply legislation and understand the intention of the legislature.

6. ALTERNATIVES CONSIDERED

The Government of the Republic of Kosovo has decided to manage the risks of informal economy, money laundering, terrorist financing and financial crimes in Kosovo. A risk assessment process was carried out by applying international ISO 31000⁷⁷ and 31010⁷⁸ standards and FATF Guidance⁷⁹.

The National Risk Assessment 2013 was approved by the Government of the Republic of Kosovo in December 2013. It identifies the emerging risks and defines their treatment measures.

The objectives and actions of the National Strategy and Action Plan 2014-2018 are based on the National Money Laundering and Terrorist Financing Risk Assessment 2013. These policy documents constitute a risk management mechanism as regards these harmful phenomena in Kosovo.

The risk management process proved that informal economy, money laundering, terrorist financing and financial crimes are linked with each other in Kosovo. There are a number of cross-cutting issues as regards combating these harmful phenomena. Therefore, the Government of Kosovo decided to merge the Governmental Program for the Prevention of Informal Economy in Kosovo and the Strategy on Prevention of Money Laundering and Terrorist Financing. A joint national strategy was established.

The national level strategic planning process on prevention of informal economy and crimes must support the Government in achieving its key priorities. On the other hand, it must be consistent with the previous and existing mechanisms the objectives of which are to prevent harmful phenomena. Therefore, the National Strategy and Action Plan 2014-2018 are in line with the goals of the Program of the Government of the Republic of Kosovo 2011-2014, current national level crime prevention strategies and previous Governmental Programs on Prevention of Informal Economy in Kosovo 2008-2009 and 2010-2012.

The benefit of the whole society requires that the administration has an ability to defend the fiscal interests of the state, secure employees' legal rights and ensure fair competition in business life. On the other hand measures needed to tackle the informal economy and financial crimes are linked to the spheres of several ministries and authorities. In addition, their implementation requires transparent partnership between public, private and third sectors. Enforcement activities should therefore be coordinated to guarantee effective and financially justifiable implementation. A national level strategy is an optimal instrument for this purpose. However, it should be ensured that strategic objectives are included in the Budgets and Performance Plans of the obligated public institutions. Otherwise, the implementation process will not be a natural part of their official duties.

⁷⁷Risk management – Risk assessment techniques, International Standard ISO 31010, 2009.

⁷⁸Risk management – Principles and guidelines, International Standard ISO 31000, 2009.

⁷⁹FATF Guidance on National Money Laundering and Terrorist Financing Risk Assessment, FATF, 2013

The interagency cooperation and coordination and public, private and third sector partnership are essential as regards the establishment, implementation and monitoring of all national level strategies. It is part of the risk management mechanism. The Governmental Working Group consists of representatives of all relevant ministries and institutions. It is therefore a specific task of this organ to ensure that measures related to the National Strategy and Action Plan 2014-2018 are coordinated with other national level strategies.

7. RECOMMENDED ACTIONS

The implementation of the National Strategy 2014-2018 is based on the Action Plan. It is a roadmap which has to be followed in order to achieve the strategic objectives. The Action Plan includes concrete activities and its structure consists of the following components:

- “Strategic objective” specifies the target, the implementation of which the listed actions are supporting;
- “Action” defines the activity which has to be implemented to achieve the strategic objective;
- “Key Performance Indicator” defines the indicators that are used for measuring the success of the implementation process of the action in question;
- “Responsible institution” defines the public institution which has the primary responsibility for the implementation of the action in question and is also obligated to report about the results of the implementation process;
- “Supporting institutions” identifies public, private and third sector institutions which should support the responsible institution during the implementation of the action in question. Their role and responsibilities should be specified in the plan concerning the implementation procedure;
- “Timeline for the implementation” defines the schedule for the implementation process of the action in question;
- “Financial costs and source of financing” defines whether the implementation process of the action in question requires additional funding and/or a separate budget. The source of possible funding should be specified;
- “Comments” describes the details of the action and milestones related to the implementation process.

The Action Plan for the implementation of the National Strategy 2014-2018 consists of altogether 51 individual activities. It is attached (Annex 1) to this strategy.

8. DRAFTING, REVISION, ADOPTION, IMPLEMENTATION AND MONITORING MECHANISMS OF THE NATIONAL STRATEGY

8.1. General

The management of national level risks related to the informal economy, money laundering, terrorist financing and financial crimes is based on the National Risk Assessment 2013 and National Strategy 2014 - 2018. The drafting, revision, adoption, implementation and monitoring of these policy documents are continuous functions. These processes are transparent and they are based on a regular reporting of the obligated institutions and approval of the Government of the Republic of Kosovo.

8.2. Contributors and their roles

8.2.1. Government of the Republic of Kosovo

The Government of the Republic of Kosovo decides about the national level risk management concerning informal economy, money laundering, terrorist financing and financial crimes. It has approved the National Risk Assessment 2013 based on the proposal of the Ministry of Finance. The Government of the Republic of Kosovo approves also the National Strategy and Action Plan 2014 – 2018 based on the proposal of the Governmental Working Group.

8.2.2. Ministry of Finance

The Ministry of Finance has been responsible for drafting the National Risk Assessment 2013. It has presented the proposal for the approval of the Government of the Republic of Kosovo.

The Ministry of Finance carries the main responsibility for coordination of the activities related to the drafting, revision, adoption, implementation and monitoring of the National Strategy and Action Plan 2014 – 2018. This task is interrelated to its other legal responsibilities. The Ministry of Finance chairs the Governmental Working Group, Secretariat and Technical Working Group which are established for the National Strategy and Action Plan 2014 – 2018. The Ministry of Finance shall also provide these organs with facilities and other types of technical support needed for their work.

8.2.3. Governmental Working Group

The Governmental Working Group is responsible for drafting, revision, adoption, implementation and monitoring the National Strategy and Action Plan 2014 – 2018. It will present the proposals for the approval of the Government of the Republic of Kosovo.

The Governmental Working Group is chaired by the Minister of Finance. The other members are:

- Minister of Justice;

- Minister of Internal Affairs;
- Minister of Trade and Industry;
- Minister of Labour and Social Welfare;
- Director of Kosovo Police;
- Director of Kosovo Customs;
- Director of Kosovo Tax Administration;
- Chief State Prosecutor;
- Governor of Kosovo Central Bank;
- President of Kosovo Supreme Court;
- Director of Kosovo Anti-Corruption Agency;
- Director of Kosovo Financial Intelligence Unit.

The Governmental Working Group shall ensure the participation of the relevant private and third sector institutions in the implementation and monitoring of the National Strategy and Action Plan 2014 – 2018. This shall be done by inviting their representatives to the meetings of the Governmental Working Group should it be deemed necessary from the viewpoint of the matter in question.

The Governmental Working Group reports about the findings related to the implementation and monitoring of the National Strategy and Action Plan 2014 – 2018 to the Government of the Republic of Kosovo at least two (2) times within a calendar year and immediately if emerging strategic or operational needs require.

It is essential to ensure that national level strategies and other risk management mechanisms are organized in a coordinated manner. This is to avoid overlapping activities and to assure efficient allocation of resources. The Governmental Working Group consists of representatives of all relevant ministries and institutions as regards the prevention of informal economy, money laundering, terrorist financing and financial crimes. Therefore, it is responsible for the coordination and cooperation as regards the drafting and implementation of other national level strategies and similar risk management instruments.

The Governmental Working Group shall hold at least two (2) meetings within a calendar year. It is assisted by the Secretariat. The Governmental Working Group may also engage in its work outside experts, when it is deemed necessary.

8.2.4. Secretariat

The Secretariat is responsible for assisting the Governmental Working Group. It shall prepare written findings and proposals concerning drafting, revision, adoption, implementation and monitoring of the National Strategy and Action Plan 2014 – 2018. The Secretariat shall introduce its material for the Governmental Working Group which will decide about further actions.

The Secretariat is chaired by a representative from the Ministry of Finance. The other members are representatives from:

- Ministry for European Integration;
- Kosovo Police;
- Kosovo Customs;
- Kosovo Tax Administration;
- Kosovo Financial Intelligence Unit;
- Kosovo Prime Minister's Office;
- National Coordinator.

The Secretariat shall hold at least four (4) meetings within a calendar year. It may engage in its work outside experts, when it is deemed necessary.

8.2.5. Technical Working Group

The Technical Working Group supports the Secretariat in drafting, revising and monitoring the National Strategy and Action Plan 2014 – 2018. Its responsibility is to provide the process with expert opinions. Furthermore, members of the Technical Working Group shall act as focal points of the institutions which they represent. They shall provide the Secretariat with information which is needed for the monitoring of the implementation of the National Strategy and Action Plan 2014 – 2018. The meetings of the Technical Working Group and related material will be organized by the Secretariat which shall introduce the conclusions for the Governmental Working Group.

The Technical Working Group is chaired by a representative from the Ministry of Finance. The other members are representatives from:

- Ministry of Justice;
- Ministry of Internal Affairs;
- Ministry of Trade and Industry;
- Ministry of Labour and Social Welfare;
- Kosovo Police;
- Kosovo Customs;
- Kosovo Tax Administration;
- Kosovo Prosecutorial Council;
- Kosovo Central Bank;
- Kosovo Supreme Court;
- Kosovo Anti-Corruption Agency;
- Kosovo Financial Intelligence Unit;
- Members of the Secretariat.

The Technical Working Group shall hold meetings when it is deemed necessary by the Governmental Working Group and/or the Secretariat.

8.2.6. National Coordinator for Economic Crimes Enforcement

The National Coordinator for Economic Crimes Enforcement shall provide administrative and functional support to the drafting, revision, adoption, implementation and monitoring the National

Strategy 2014 – 2018. He is a member of the Secretariat. The responsibilities of the National Coordinator as regards the implementation of the National Strategy 2014 – 2018 are specified in the Action Plan 2014 – 2018.

8.2.7. Obligated public, private and third sector institutions

The implementation of the National Strategy 2014 – 2018 is based on a partnership between the public, private and third sector institutions. Their responsibilities are specified in the Action Plan.

8.3. Drafting, revision and adoption of the national strategy and action plan

The responsibilities for drafting, revision and adoption of the National Strategy and Action Plan 2014-2018 are as follows:

1. The ministries and institutions that are members of the Governmental Working Group have to assess their strategic and operational environment with respect to the prevention of informal economy, money laundering, terrorist financing and financial crimes. They have to take into account the activities of the public, private and third sector counterparts that are under their supervision or operating within their sphere of authority and are relevant in this context;
2. The ministries and institutions which are represented in the Governmental Working Group should report through their representatives in the Technical Working Group about their findings related to the prevention of informal economy, money laundering, terrorist financing and financial crimes to the Secretariat at least four (4) times within a calendar year and immediately if emerging strategic or operational needs require;
3. The Secretariat shall analyse the information which is provided by the member organizations of the Governmental Working Group. The results shall be taken into account when drafting or revising the National Strategy and Action Plan 2014-2018. The Secretariat shall prepare written proposals;
4. The Secretariat will introduce the written proposals for the Governmental Working Group to be taken into account when drafting, revising or adapting the National Strategy and Action Plan 2014-2018;
5. The Governmental Working Group with the support of the Secretariat shall be responsible for the drafting of proposals concerning drafting, revising or adapting the National Strategy and Action Plan 2014-2018;
6. The Governmental Working Group shall introduce the proposals related to the drafting, revising or adapting the National Strategy and Action Plan 2014-2018 to the Government of the Republic of Kosovo at least two (2) times within a calendar year and immediately if emerging strategic or operational needs require; and
7. The Government of the Republic of Kosovo shall decide about adoption of the National Strategy and Action Plan 2014-2018 based on the proposals of the Governmental Working Group.

8.4. Implementation and monitoring of the national strategy and action plan

The responsibilities related to the implementation and monitoring of the National Strategy and Action Plan 2014-2018 are as follows:

1. The obligated public institutions which shall be responsible for the implementation of the National Strategy 2014-2018 are defined in the Action Plan;
2. The supervisory authorities shall be obligated institutions as regards the implementation of the activities of the private or third sector institutions which are under their supervision;
3. The Government of the Republic of Kosovo, ministries and relevant public institutions shall ensure that the responsibility to implement the National Strategy and Action Plan 2014-2018 is an integral part of the official duties of the obligated public institutions. Therefore, the objectives of the Strategy and the actions of the Action Plan shall be integrated in their Budgets and Performance Plans;
4. The obligated institutions shall report four (4) times within a calendar year through their representatives in the Technical Working Group about the results of the Action Plan's implementation to the Secretariat. They shall attach the monitoring template in Annex 2 to their reports. The Secretariat shall decide the exact schedule for the reports;
5. The Secretariat shall draft four (4) times within a calendar year a report about the results of the implementation and monitoring process. It shall attach the monitoring template in Annex 2 to its draft report;
6. The Secretariat shall report at least two (2) times within a calendar year about the results of the implementation and monitoring process to the Governmental Working Group. It shall attach the monitoring template in Annex 2 to its draft report;
7. The Governmental Working Group shall report at least two (2) times within a calendar year the results of the implementation and monitoring process to the Government of the Republic of Kosovo using the report drafted by the Secretariat. The monitoring template in Annex 2 shall be attached to the report;
8. The Government of the Republic of Kosovo shall decide about the implementation measures of the National Strategy and Action Plan 2014-2018 based on the reporting of the Governmental Working Group. The decisions of the Government of the Republic of Kosovo concerning the implementation and possible corrective measures shall be recorded in a governmental decision and in the monitoring template in Annex 2;
9. The decisions of the Government of the Republic of Kosovo concerning the implementation and possible corrective measures shall be notified to the obligated institutions by the Secretariat by sending them the decision with the monitoring template in Annex 2; and
10. The Government of the Republic of Kosovo shall have an overall responsibility for the implementation and monitoring of the National Strategy and Action Plan 2014-2018.