



**GLOBAL
INITIATIVE**
AGAINST TRANSNATIONAL
ORGANIZED CRIME

ILLICIT FINANCIAL FLOWS IN KOSOVO

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FROM VISION TO ACTION: A DECADE OF ANALYSIS, DISRUPTION AND RESILIENCE

The Global Initiative Against Transnational Organized Crime was founded in 2013. Its vision was to mobilize a global strategic approach to tackling organized crime by strengthening political commitment to address the challenge, building the analytical evidence base on organized crime, disrupting criminal economies and developing networks of resilience in affected communities. Ten years on, the threat of organized crime is greater than ever before and it is critical that we continue to take action by building a coordinated global response to meet the challenge.

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Acronyms and abbreviations

AML	Anti-money laundering
CBK	Central Bank of Kosovo
CFT	Countering the financing of terrorism
CSO	Civil society organization
DNFBP	Designated non-financial business or profession
FATF	Financial Action Task Force
FIU	Financial intelligence unit
GI-TOC	Global Initiative Against Transnational Organized Crime
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit (German Agency for International Cooperation)
MONEYVAL	Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism
NPO	Non-profit organization
NRA	National risk assessment
SOCTA	Serious and organized crime threat assessment
STR	Suspicious transaction report
UNSC	UN Security Council



INTRODUCTION

In Kosovo, illicit financial flows (IFFs) – valued at around 7% of GDP¹ – are a serious concern. Such flows are increasingly also becoming a major global issue and governments face challenges in combating them.² They represent a significant barrier to sustainable development, constraining public revenues and hence investment in public services.³ Several factors combine to make the Western Balkans region vulnerable to IFFs: geographic location, socio-demographic profile, sizeable informal economies, high levels of corruption, poor oversight of political financing and restricted space for oversight by independent media and civil society.⁴

Two reports by the Global Initiative Against Transnational Organized Crime (GI-TOC) on IFFs in Albania, Kosovo and North Macedonia (2020) and on Bosnia and Herzegovina, Montenegro and Serbia (2022) have provided findings and recommendations that apply to the entire region.⁵ The 2020 report identified six key issues undermining Kosovo's vulnerability to IFFs: the country's unresolved international status, a consequent lack of membership of international organizations, significant proceeds from corruption and abuse of power, ineffective state authority in northern Kosovo, the pervasiveness of trade-based money laundering, and money laundering through the construction and real-estate sectors.⁶

Corruption is reported to drive and facilitate IFFs. Kosovo was ranked 83rd out of 180 countries in Transparency International's Corruption Perceptions Index 2023, with a score of 41 out of 100 (where 100 equates to the lowest possible level of corruption).⁷ Frequent forms of corruption reported in Kosovo between 2019 and 2022 include abuse of official position, bribery, conflict of interest and nepotism.⁸ Areas identified as being vulnerable to corruption encompass public sector procurement, healthcare, government subsidies, permits and licences, and public enterprises.⁹

Limited progress appears to have been made in addressing the threats generated by IFFs. While several cases linked to offshore transactions used to launder proceeds flowing out of the country were investigated by authorities,¹⁰ significant illicit proceeds – including from widespread tax evasion – are believed to remain within Kosovo.¹¹ Financial investigations are not systematically conducted in parallel with organized crime and corruption cases, and relevant databases remain incomplete.

Trade mis-invoicing is assumed to be common, as €8 million worth of customs duties were reportedly avoided between 2020 and 2022.¹² In addition, informality remains a challenge, with Kosovo's shadow economy estimated to account for 31% of GDP and the grey economy for 28% of GDP.¹³ Widespread informality in construction and the service sector, especially hotels, restaurants, trade and transportation, also facilitates the laundering of illicit proceeds in these sectors.¹⁴

IFFs remain under-researched and under-analyzed by civil society organizations (CSOs), the media and academia in Kosovo. This is partly due to a lack of understanding and knowledge of the topic, but is also due to the limited availability of comprehensive – or even the most basic – relevant resources and information.

National efforts to tackle money laundering and terrorist financing are coordinated at two key levels. The finance minister leads political coordination through a working group comprised of fellow ministers and the heads of agencies. This group is responsible for drafting, approving, implementing and monitoring a national strategy to combat money laundering, terrorist financing and the wider prevalence of an informal economy.¹⁵

The second channel, a secretariat concentrating largely on technical detail and implementation, is led by finance ministry officials with other relevant ministries and agencies feeding in additional technical expertise. The secretariat thus assists the government working group in shaping and implementing its broad national strategy.¹⁶

Kosovo applied in 2022 to become a member of the Council of Europe, which mandates a monitoring body, the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and Financing of Terrorism (MONEYVAL), to monitor member states' compliance.¹⁷ This body is in turn an associate member of the Financial Action Taskforce (FATF), the coordinating body that sets global standards in fighting money laundering and terrorist financing.

Kosovo underwent a MONEYVAL assessment in 2018. That evaluation cited progress in meeting the FATF's immediate outcomes 1–8, 10 and 11,¹⁸ but noted that many challenges remained. Kosovo was rated as having achieved a moderate level of effectiveness in meeting six of the outcomes, but achieved only a low level of effectiveness for the other outcomes.¹⁹ Since Kosovo is not a member of the Council of Europe, there is no follow-up procedure between evaluations. However, a new MONEYVAL evaluation is expected to begin in early 2024. Recognizing the salience of FATF methodology, the key sections of this report analyze Kosovo's anti-money laundering (AML) and countering the financing of terrorism (CFT) policies and legislation within the framework of these immediate outcomes. The report also draws on the GI-TOC publications on IFFs cited earlier in this section. Other relevant publications include a national risk assessment (NRA), carried out by Kosovo in 2020, and a national AML/CFT strategy for the period 2019–2023.²⁰ In terms of primary research, interviews were conducted with key experts from public institutions, non-profit organizations (NPOs), the private sector and other stakeholders.

Key challenges

- IFFs are neither defined nor included in any legislative policy document ratified or even tabled in Kosovo.
- Kosovo's response to IFFs largely focuses on the formal financial system and particularly anti-money laundering efforts. Understanding of the role of trade and the grey economy in generating, holding and moving illicit value remains limited.
- Although tax evasion, corruption, bribery and certain criminal activities have been identified as the main factors feeding into the threat of IFFs, they have not been recognized as specific operational priorities by the government and its law enforcement agencies.
- While data is generally easily accessible either through publication of reports or requests for access to documents, there is a need to increase both the quantity and quality of data to cover all components and channels of IFFs.
- The 2016 Law on the Prevention of Money Laundering and Combating Terrorist Financing²¹ should be amended to align fully with EU acquis and international standards, specifically by enhancing customer due diligence, and addressing areas in which current law is partially compliant or non-compliant.
- A law on beneficial ownership is in the process of being drafted but has not yet been adopted, and a national database on beneficial ownership is yet to be created.
- Virtual asset service providers are not regulated in Kosovo.
- Kosovo's financial intelligence unit (FIU) receives no feedback on suspicious transaction reports (STRs) sent to law enforcement agencies, and it is not kept updated about the status of cases. A key deficiency of the FIU and law enforcement agencies is a lack of interoperability of relevant databases.
- There are very few standalone money laundering cases, since combating money laundering is not a priority for law enforcement, prosecution and the judiciary – a situation also reflected in the low number of investigated and prosecuted cases.
- The current legislative framework does not provide for confiscated assets being put to social use.

The role of civil society

CSOs in Kosovo are included in the process of policy development either directly as members of working groups and/or indirectly through the process of public consultation. For example, they are members of working groups for national and sectoral risk assessment, drafting of legislation, and joint discussions and meetings in the framework of public private partnerships. In the FATF's terrorist financing risk assessment guidance, Kosovo has been cited as a good example in taking inputs from CSOs.

In general, the involvement of civil society in Kosovo is positive, but their involvement is also sometimes constrained by their limited capacities and knowledge of IFFs, stemming from the fact that the field remains under-researched. Preventing, exposing and combating IFFs requires CSOs and media to be both active and competent in this field. Adequately resourced, CSOs can play a vital role in:

- raising awareness about the negative impacts of IFFs on Kosovo's development, governance and social welfare;
- monitoring implementation of key national policies and legislation;
- lobbying for adoption of the law on beneficial ownership and the establishment of a national database;
- advocating additional measures to prevent criminals or their associates from exploiting financial and non-financial markets as beneficial owners;
- increasing the transparency and accountability of public institutions by advocating publication of data and statistics; and
- advocating for stronger responses to tax evasion.

NATIONAL RESPONSE

Understanding the risk

IFFs are not defined in Kosovo's legislative and policy documents, contributing to a lack of broad understanding of the concept among various stakeholders, including in the public sector. However, Kosovo's 2020 NRA, undertaken by the country's FIU, has red-flagged significant threats posed by tax evasion, corruption and bribery, and several illicit markets (see Figure 1 below).²²

There are a number of assessment reports prepared by Kosovan institutions centring on money laundering and terrorist financing:

- NRA on money laundering and terrorism financing (2020)²³
- NRA on money laundering and terrorism financing (2013)²⁴
- Sector-specific risk assessment of money laundering and terrorism financing in construction (2014)
- Sector-specific risk assessment of money laundering and terrorism financing in the gambling sector (2018)
- Sector-specific risk assessment of money laundering and terrorism financing in construction (2018)
- Sector-specific risk assessment of money laundering and terrorism financing in the NGO sector (2018)
- Serious and organized crime threat assessment (SOCTA) (2014)²⁵
- SOCTA (2022)²⁶

Kosovo's finance ministry has adopted Administrative Instruction MF-No.04/2018 on the National money laundering and terrorist financing risk assessment,²⁷ and in March 2022 launched a sectoral risk assessment of the banking sector.

In January 2023, under the Deutsche Gesellschaft für Internationale Zusammenarbeit (German Agency for International Cooperation, GIZ)'s global programme for combating IFFs, an AML risk assessment was initiated at a regional level for legal entities and arrangements in all Western Balkan countries.²⁸

A terrorist financing risk assessment of the NPO sector was initiated in 2022. A working group established by the FIU consisted of a wide range of participants from the FIU itself, the Central Bank of Kosovo (CBK), the national police force, the special prosecution, the finance ministry, a national department that registers NPOs, civil society, religious communities and other entities.²⁹

The NRA noted that Kosovo is vulnerable to financial crimes, notably corruption. Moreover, the following assessments were carried out:

- Assessment of risks of corruption in the judicial system
- Assessment of risks of corruption in the prosecutor's system
- Assessment of risks of corruption in public procurement

Alongside the overarching 2019–2023 AML/CFT strategy, the authorities have adopted related strategies, notably:

- National strategy against organized crime³⁰
- National strategy against narcotics³¹
- National strategy against terrorism³²
- National strategy for integrated border management³³
- National strategy against trafficking of human beings³⁴
- National strategy for intelligence led policing and community policing

The NRA underlined that fiscal evasion in Kosovo is tied to widespread informality, allowing profits to go unreported. It also noted that illicit proceeds typically mirror the routes of legal remittances and trade, primarily flowing through the banking sector: money transfer agents and simple cash smuggling are the primary methods used to handle most illicit funds entering Kosovo.³⁵ While trade-based money laundering is mentioned in money laundering typologies published in 2013³⁶ and 2020,³⁷ it is not referenced in the overarching 2019–2023 strategy.³⁸ Figure 1 shows the level of money laundering threats from predicate criminal offences.



PREDICATE CRIMINAL OFFENCES	THREAT LEVEL
Tax evasion Corruption and bribery	Extremely high
Drug trafficking Smuggling Piracy of products Trafficking in human beings Prostitution	High
Fraud Robbery and theft Extortion and usury Cybercrime	Moderate
Illicit firearms trafficking Environmental crimes	Low
Counterfeiting currency Illicit trafficking in stolen goods Forgery	Extremely low

FIGURE 1 Level of threat of money laundering from predicate criminal offences, as indicated in the 2020 national risk assessment.

Source: Kosovo's financial intelligence unit

The 2020 NRA noted that there are many channels for money laundering and terrorist financing in Kosovo. Figure 2 (below) shows the level of vulnerability to money laundering and terrorist financing generated 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 ³⁹ Legal entities and arrangements Money remitters and transfer agents	High 	Banks NGOs Money remitters and transfer agents	High 
NGOs Forex agents High-value dealers	Moderate 	High-value dealers Microfinance companies	Moderate 
Accountants and auditors Insurance companies, microfinance Online casinos Attorneys Financial leasing	Low 	Auditors	Low 
Pension funds	Extremely low 	All other reporting entities	Extremely low 

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

Source: Kosovo's financial intelligence unit, national risk assessment 2020

The FIU has developed the following money laundering typologies:

- Money laundering typologies in Kosovo⁴⁰
- Politically exposed persons money laundering typologies in Kosovo⁴¹
- Typologies of money laundering and terrorist financing in Kosovo⁴²

In 2019, Kosovo published a risk assessment for the Chamber of Notaries and a risk assessment for the Chamber of Advocates.⁴³

In 2022, the FIU embarked on the following, both of which are yet to be completed:⁴⁴

- Kosovo banking sector money laundering risk assessment
- NPO sectoral terrorist financing risk assessment

International cooperation

The legal framework for legal assistance on criminal matters is largely in place and is overseen by the justice ministry with the involvement of the prosecution and judiciary. The FIU has been a member of the Egmont Group of Financial Intelligence Units since 2017,⁴⁵ and is actively engaged in international cooperation and the exchange of information. It has signed memorandums of understanding with FIUs in 23 other countries.⁴⁶

INTERNATIONAL COOPERATION INVOLVING KOSOVO'S FINANCIAL INTELLIGENCE UNIT (FIU)	2018	2019	2020	2021	2022
Foreign requests received by the FIU	32	26	32	43	37
Foreign requests refused by the FIU	0	0	0	0	0
Spontaneous receipt of information by the FIU	12	19	28	21	12
Average number of days to respond to requests from foreign FIUs	19	14	58		
Refusal grounds applied	0	0	0	0	0
Requests sent by the FIU	62	74	42	55	63
Spontaneous sharing of information sent by the FIU	13	15	13	18	10
TOTAL (outgoing requests and information)	75	89	55	73	73

FIGURE 3 Financial intelligence unit international information exchange.

Source: Kosovo's financial intelligence unit

COUNTRY	AGENCY	YEAR
Albania	General Directorate for the Prevention of Money Laundering	2009
North Macedonia	Money Laundering Prevention Directorate	2009
Montenegro	Administration for the Prevention of Money Laundering	2009
San Marino	Financial Intelligence Agency	2009
Slovenia	Office for Money Laundering Prevention	2009
Croatia	Anti-Money Laundering Office	2010
Turkey	Financial Crimes Investigation Board	2012
Czech Republic	Financial Analytical Office	2012
Finland	Financial Intelligence Unit	2013
Poland	General Inspector of Financial Information	2014
Albania (renewal)	General Directorate for the Prevention of Money Laundering	2014
Hungary	Hungarian Financial Intelligence Unit	2015
North Macedonia (renewal)	Financial Intelligence Office	2015
Ghana	Financial Intelligence Centre	2015
Lithuania	Financial Crime Investigation Service	2016
Jordan	Anti-Money Laundering and Counter Terrorist Financing Unit	2018
Senegal	National Financial Intelligence Processing Unit	2018
Montenegro	Financial Intelligence Unit	2019
Taiwan	Anti-Money Laundering Division	2020
Saudi Arabia	Saudi Financial Investigation Unit	2022
Japan	Japan Financial Intelligence Centre	2022
Malta	Financial Intelligence Analysis Unit	2023
Guatemala	Special Verification Intendancy	2023
Luxembourg	Financial Intelligence Unit	2023
Democratic Republic of Congo	N/A	2023

FIGURE 4 Agreements signed by Kosovo's financial intelligence unit with counterparts between 2009 and 2023, organized by country and year.

Source: Kosovo's financial intelligence unit

The International Law Enforcement Coordination Unit in Kosovo is the only point of contact authorized and responsible for the exchange of information, coordination and international police cooperation. Kosovo's police service is not a member of INTERPOL or the Southeast European Law Enforcement Center, but it signed a cooperation agreement with Europol in 2020 and started to exchange information directly with the latter in 2022. Cooperation with the EU's judiciary body EUROJUST is limited due to the political status of Kosovo. In 2017, the country's customs authority joined the World Customs Organization, which in 2018 published a global study of IFFs centring on trade mis-invoicing.⁴⁷ That study also advocated strengthening the mandates of customs authorities, along with enhancing the use of technology and collaboration in addressing IFFs.

Although information is regularly exchanged to identify assets controlled by persons of legal interest, the absence of a beneficial ownership database hinders the efficiency of such efforts.⁴⁸ The Law on Legal Cooperation in Criminal Matters was amended in 2022 to enable faster procedures for extraditions, and a draft law that seeks to establish a register of beneficial owners emerged in 2023, with both expected to enhance international cooperation.

However, mutual legal assistance for money laundering investigations and prosecutions needs greater prioritization. A significant weakness of the FIU is its lack of direct access to relevant public databases and database interoperability, which hamper national and international cooperation.⁴⁹ Data regarding frozen and confiscated assets abroad in cases where Kosovan authorities have investigated Kosovan citizens is lacking.

Kosovo benefits from the GIZ project 'Combating illicit financial flows'; however, other projects focus mainly on anti-money laundering and anti-corruption, as opposed to IFFs, including those below:

- Council of Europe/EU project against economic crime in Kosovo
- Support to anti-corruption efforts in Kosovo by the UN Development Programme
- Regional roadmap on anti-corruption and illicit financial flows (UN Office on Drugs and Crime)
- The EU's home affairs programme in Kosovo

Supervision

According to the country's 2016 AML/CFT law,⁵⁰ the FIU, CBK and other sectoral supervisors⁵¹ monitor compliance by financial institutions, and designated non-financial businesses and professions (DNFBPs). The CBK exercises its mandate for prudential supervision, as well as AML/CFT responsibilities.

Meanwhile, the FIU holds ultimate responsibility for supervising AML compliance by DNFBPs. However, Article 34 does specify that the FIU can share responsibility with the supervisory agencies of relevant sectors through specific written individual arrangements. While the FIU has initiated discussions with supervisory institutions with a view to establishing memorandums of understanding, none have yet been signed. Supervisory authorities and risk-based supervisory frameworks implemented for designated non-financial businesses are as follows:

- For notaries and lawyers, the AML/CFT supervisory authority is the FIU; the justice ministry is the supervisory authority for prudential regulation.
- For accountants and auditors, the AML/CFT supervisory authority is the FIU; the Kosovo Council for Financial Reporting is the supervisory authority for prudential regulation.
- For dealers in precious metals and stones, the supervisory authority is the FIU.
- For real-estate agents, the supervisory authority is the FIU.
- For NGOs, the supervisory authority is the FIU.

The CBK mandates licensing and registration of banks and other financial institutions, a role that includes ensuring that criminals and their associates do not become holders (or beneficial owners) of a significant or controlling

interest in such institutions, whether through shareholdings or senior executive positions. The CBK has licensed/registered the following institutions:⁵²

- 12 banks, of which nine are subsidiaries and branches of foreign banks, and three are banks with domestic capital;
- 10 microfinance institutions;
- 82 non-bank financial institutions, which include foreign exchange offices and money transfer services;
- Two pension funds;
- 15 insurance companies (three life insurance companies and 12 non-life insurance companies); and
- 21 insurance brokers (companies and individuals).

2018		2019		2020		2021		2022	
Full examination	Focused examination	Full examination	Focused examination	Full examination	Focused examination	Full examination	Focused examination	Full examination	Focused examination
3	10	4	3	1	5	4	4	7	6

FIGURE 5 Annual examinations by the Central Bank of Kosovo of banks and insurance, microfinance and non-bank financial institutions.

Source: Central Bank of Kosovo

Kosovo is partially compliant with regard to taking measures to prevent criminals or their associates from being professionally accredited, or holding (or being the beneficial owner of) a significant or controlling interest, or holding a management function in a DNFBP.⁵³

Virtual asset service providers are unregulated in Kosovo, although an initiative to address this regulatory gap is currently being considered by the national assembly.

Inspections carried out by the FIU for compliance control have increased substantially in the five years since the 2018 MONEYVAL assessment, as shown in Figure 6.

ONSITE AND REMOTE COMPLIANCE INSPECTIONS 2018-2022						
Reporting subject	2018	2019	2020	2021	2022	Total
Banks	-	3	1	2	-	6
Microfinance institutions	3	1	-	1	-	5
Insurance and life insurance companies	1	3	-	-	-	4
Currency exchange offices	-	-	-	2	7	9
Exchange bureaus	-	1	1	-	-	2
Casinos and games of chance	4	-	-	-	-	4
CSOs	-	-	-	-	-	0
Auditors and accountants	-	-	19	2	-	21
Notaries	6	17	-	24	20	67
Real-estate agencies	-	-	-	-	-	0
Auto salons	-	-	10	-	-	10
Total compliance inspections	14	25	31	31	27	128

FIGURE 6 Number of financial intelligence unit inspections for compliance control of reporting entities, 2018-2022.

Source: Kosovo's financial intelligence unit



Prevention

According to the 2016 AMF/CFT law, entities bound by AML and CFT obligations are as follows:

- Banks
- Financial institutions:
 - Microfinance institutions
 - Financial leasing companies
 - Currency exchange companies
 - Electronic money companies
 - Insurance companies, life insurance companies and intermediaries of life insurance companies
- Casinos, including internet casinos and licensed games of chance
- Real-estate agents and real-estate brokers
- Natural or legal persons trading in goods when receiving payment in cash in an amount of €10 000 or more
- Lawyers and notaries
- Accountants, auditors and tax advisers
- Trust and company service providers
- NGOs
- Sellers of precious metals and precious stone traders

According to the FIU, alongside the substantial increase in inspections, supervisory authorities have, in the last three years, also made progress in the following areas:⁵⁴

- Increasing training of (and meetings with) companies in the financial and non-financial sectors to educate on perpetrators' misuse of financial and non-financial systems in Kosovo, including by increasing awareness of the risks posed by specific types of entities.
- Providing further training for reporting entities on the exercise of beneficial ownership through indirect ownership of company shares and through direct or indirect effective control over a client without any shares.
- Increasing the involvement of reporting entities in NRAs and sectoral risk assessments.
- Providing more typologies for money laundering and terrorist financing and indicators to feed into sending suspicious transaction reports.



YEAR	2017	2018	2019	2020	2021
Financial institutions					
Banks	683	559	785	710	661
Microfinance institutions	5	10	17	13	27
Insurance sector	-	2	5	1	1
Currency exchange bureaux	-	-	-	-	-
Money transfer companies	34	33	137	149	182
Designated non-financial businesses and professions					
Notaries	-	37	76	17	34
Lawyers	-	2	1	1	1
Other	-	-	1	3	-
Other reporting subjects					
Customs	-	1	-	1	-
Sectoral supervisors	4	-	1	-	2
Other	2	-	1	2	5
Total	728	644	1 024	897	913

FIGURE 7 Suspicious transaction reports submitted to the financial intelligence unit.

Source: Kosovo's financial intelligence unit

Private sector

The business registration agency makes information about legally registered entities publicly available, including their unique identification number, number of employees, address, type of business, authorized persons and owners.⁵⁵

The 2020 NRA examines the vulnerabilities of key legal persons and entities and how such persons and entities can be attractive to criminals seeking to launder money (including through trade-based money laundering) and finance terrorism. This is referenced also in Kosovo's SOCTA, which recognizes both the use of shell companies and offshore companies in money laundering activity in the country.⁵⁶

Although banking is considered to be the sector with by far the strongest anti-money laundering controls and best understanding of IFF risks, banks are still considered highly vulnerable to IFFs.⁵⁷ A significant lack of understanding among authorities regarding the risks associated with legal entities and arrangements was underscored six years ago, in the 2018 MONEYVAL assessment.⁵⁸ Additionally, they lack awareness of how legal arrangements such as trusts and foundations can be established in one country and then operate within the jurisdiction of another country.⁵⁹ In addition, while the understanding of risks related to cash payments is well understood, there seems little awareness about the risk of trade-based money laundering.⁶⁰ And while most of their customers are domestic rather than international, companies within the financial sector and DNFBPs are not sufficiently aware of the fact that ownership can be hidden through complex structures and nominee arrangements.⁶¹

Kosovo undertook a legal persons and legal arrangements risk assessment in 2021, while the last risk assessment scrutinizing the non-profit sector took place in 2018. Also in 2021, the FIU issued administrative instructions to reporting subjects on beneficial owners.⁶² In 2022–2023, Western Balkan FIUs, supported by the GIZ, began a regional assessment of the cross-border risk of money laundering and terrorist financing in connection with legal persons.⁶³

Since there is no beneficial ownership database, banks and other financial institutions in Kosovo hold beneficial ownership information on the basis of limited FIU and central bank guidance, in cases where such information differs from basic ownership.⁶⁴ The lack of accurate information about beneficial ownership helps companies in Kosovo to divert public funds stemming from corruption in public procurement and to circumvent scrutiny from banks centring on politically exposed persons.⁶⁵ The use of front companies that disguise beneficial ownership is believed to be a common money laundering method in Kosovo that allows companies registered to friends to funnel proceeds to other companies owned by other associates or relatives of politically exposed persons.⁶⁶

The private sector and civil society have been part of almost all measures that seek to prevent IFFs.

Financial intelligence

Alongside the CBK, FIU and Kosovo police, a wide variety of financial intelligence and other relevant information is collected and used by the following competent authorities to prevent and combat IFFs in Kosovo:

- Ministries of finance, labour and transfers
- Tax administration
- Internal affairs ministry
- Kosovo customs
- Special prosecution
- Judicial Council
- Prosecutorial Council
- Kosovo Intelligence Agency
- National Coordinator for Combating Economic Crime

The FIU is an agency within the finance ministry. However, Article 4 of the country's AML/CFT law makes clear that it is an independent national institution responsible for requesting, receiving, analyzing and disseminating to other competent authorities intelligence on potential money laundering and terrorist financing. The FIU employs 18 staff, but six more are needed according to the approved structure. There are five liaison officers working alongside the FIU (one each from the police, customs and tax administration, and two from the Kosovo Intelligence Agency). All staff undergo security clearance by the intelligence agency.⁶⁷

The FIU uses secure systems such as 'goAML', an electronic system for data management, and the national case management database. It has access to other databases, including the civil registry, customs and the registry of businesses, but it does not have access to the tax administration database, the national register of bank accounts held by the CBK and the border management system. There is also an absence of interoperability between relevant databases.⁶⁸

Statistics are generally accessible through annual reports published on the websites of relevant institutions. The FIU provides more comprehensive statistics. However, in general, there is still very limited publicly available data on IFFs, especially in relation to trade-based money laundering.

Cooperation with other institutions is generally strong, but there is a need to further improve coordination, as well as to encourage more feedback from law enforcement agencies. For example, the FIU receives no feedback on STRs sent to the national police, and they are not informed about the status of cases. Suspected cases are categorized from one to five, with five being the most serious. Level four and five cases are sent by the FIU to the special prosecution, levels two and three go to the police and level one cases stay within the FIU or are sent to the tax administration.⁶⁹

Partnering with the private sector is a priority for the FIU, and cooperation with the private sector has improved in recent years. In 2019, the FIU adopted a new standard operating procedure in which STRs are conducted based on risks.⁷⁰ Liaison between the FIU and other institutions has increased substantially over the last five years, as shown in Figure 8.

INSTITUTION FILING REQUEST	2018	2019	2020	2021	2022
Kosovo police	68	92	92	82	145
Kosovo Intelligence Agency	44	52	49	38	73
European Union Rule of Law Mission in Kosovo	7	0	0	0	0
Special prosecution	1	1	6	12	9
State prosecution	1	5	3	7	4
Tax administration	10	1	1	1	2
Customs	14	6	13	33	13
International Law Enforcement Coordination Unit/Kosovo police	2	6	5	12	14
Central Bank of Kosovo	0	4	10	10	6
Other	9	6	6	5	8
Total	156	173	185	200	274

FIGURE 8 Number of requests received by the financial intelligence unit from law enforcement agencies and other institutions in Kosovo for the years 2018–2022.

Source: Kosovo's financial intelligence unit

YEAR	2018	2019	2020	2021	2022
Requests	18	20	21	28	48

FIGURE 9 Organized crime-related requests to the financial intelligence unit from the Integrated Financial Investigation Sector of the Kosovo police.

Source: Kosovo's financial intelligence unit

Investigations

The institutional set-up and legislative framework is in place for investigation of money laundering, both for standalone cases and those linked with a predicate offence. Moreover, the Law on Extended Powers for Confiscation of Assets Acquired by Criminal Offence can be used when the criminal procedure code is insufficient; it allows the confiscation of assets that are not related to the criminal offence for which the person was found guilty.⁷¹ The special prosecution has exclusive competence to lead money laundering and terrorist financing investigations, although much of the casework is handled by police units.

The special prosecution has four specialized departments: corruption and financial crime, terrorism, organized crime, and war crimes. The relevant police directorates for these areas operate within the police's Investigations Department.⁷² However, there are clear limitations in terms of capacity. For example, the police's Directorate for Economic Crimes and Corruption has only three investigators working on money laundering investigations.

This directorate receives information from the FIU and can initiate money laundering investigations. If during the investigation of money laundering a predicate offence is identified, then the relevant information is forwarded to the relevant specialized directorate. The criminal code enables both customs and the tax authorities to investigate smuggling and tax evasion as a predicate money laundering offence.

However, the European Commission has noted in several reports the ineffectiveness of Kosovan authorities in combating money laundering, citing disproportionate weaknesses in law enforcement and the judiciary.⁷³ Financial investigations are not conducted systematically and in parallel to investigation of organized crime and corruption cases, despite formal provisions to this effect.⁷⁴

	2019	2020	2021
Opened cases	4	1	6
Criminal charges with known persons	4	1	4
Number of arrested persons	1	0	13
Number of persons criminally charged	9	3	14

FIGURE 10 Investigations of money laundering by the Kosovo police.

Source: Kosovo police

At the start of 2021, the special prosecution was overseeing 34 criminal cases against 84 persons transferred from previous years while across the course of that year it received nine new criminal cases against 19 persons. Three of those new cases were sent by customs, two by the FIU, two by the police and two were initiated under the special prosecution's own remit.⁷⁵

Notably, a case initiated by the FIU in relation to OneCoin/CUMA, which involved a global multibillion-dollar cryptocurrency fraud, gave rise to a successful standalone money laundering prosecution, leading to the confiscation in Kosovo of €1 million.⁷⁶ The case was even showcased by Egmont as among the best cases for the period 2014 to 2020. Another successful conviction involved a trade-based money laundering scheme, which was initiated on the basis of a discrepancy between outgoing cash flows and imported products from China.⁷⁷

Confiscation

The legislative framework for confiscation of assets is regulated by the criminal code (standard confiscation) and the Law on Extended Powers of Confiscation (extended confiscation). The first enables standard confiscation of assets and material benefits acquired directly through the criminal offence for which a person has been found guilty. Extended confiscation allows confiscation of assets that are not related to the criminal offence for which a person was found guilty. Despite the legislation and institutional framework being in place, authorities have achieved little in terms of permanent confiscation, especially in utilizing extended confiscation.

Data from 2014–2021 reveals a huge discrepancy of €185.98 million between the value of assets seized with those finally confiscated; only 3.3% of seized assets were ultimately confiscated.⁷⁸ At the EU level, the proportion is around 50%.⁷⁹ Moreover, during the period 2017–2021, there were only 28 confiscations out of 1 695 cases.⁸⁰ The administration of seized and confiscated assets is conducted by a special agency.⁸¹



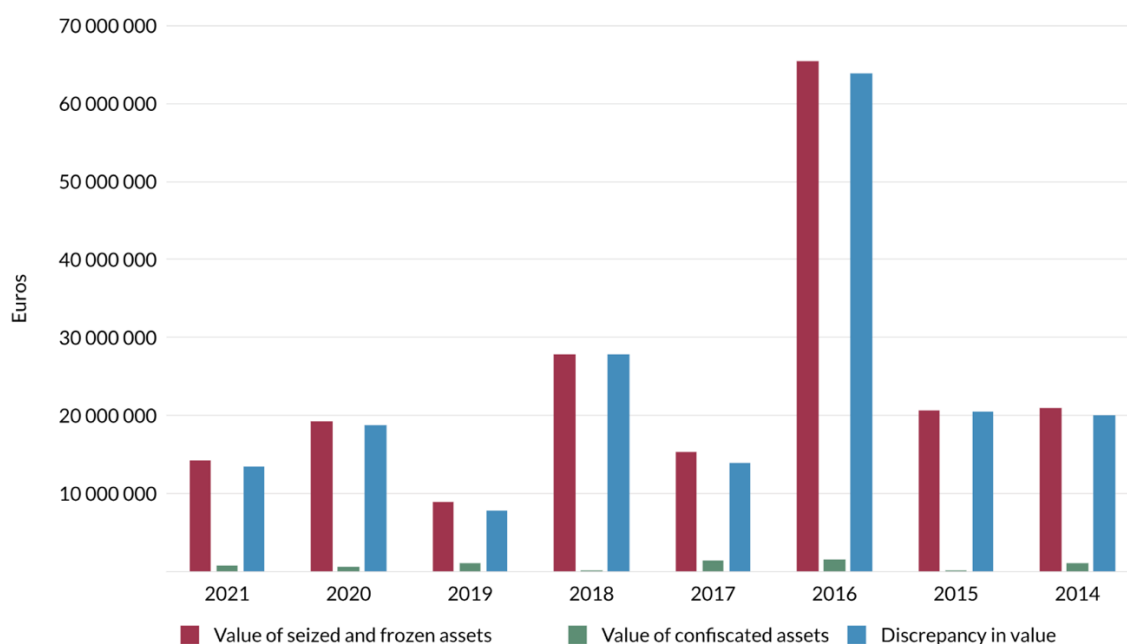


FIGURE 11 Discrepancy between the value of seized and frozen assets vis-à-vis final confiscations.

Source: GI-TOC, based on reports received by state prosecution

The current legislative framework does not provide for social reuse of confiscated assets. A major legislative initiative was launched in 2021 for the establishment of a state bureau for verification and confiscation of unjustified wealth. This draft law, which would permit non-conviction-based confiscation, is currently being reviewed by Kosovo’s constitutional court.⁸²

Article 33 of the 2016 AML/CFT law enshrines the obligation to declare the movement of monetary instruments into and out of Kosovo, according to which every person entering or leaving the country (or sending or receiving by post, cargo shipment or commercial courier) monetary instruments of a value of €10 000 or more or equivalent value in foreign currency must declare in writing the amount and the source. The law mandates customs at the country’s borders to seize monetary instruments that are suspected to be the proceeds of crime.

NON-DECLARATION OF MONETARY ASSETS AT BORDERS			
Years	Number of non-declarations	Value of non-declaration of assets	Fine imposed (25%)
2019	3	£91 080	€18 000
		€33 200	(£91 080 confiscated in total)
		CHF790	€7 681
2020	1	€65 450	€16 362.50
2021	6	CHF100 977.12	€26 677.56
		€70 509.82	€17 627.46
		€16 510	€4 140
Total	10	£107 590	£91 080 confiscated in total
		CHF101 767.12	€90 488.52
		€169 159.82	

FIGURE 12 Non-declaration of monetary assets at borders.

Source: Kosovo’s financial intelligence unit

Non-profit organizations in the prevention of IFFs

Targeted financial sanctions are regulated in Kosovo by legislation that entered into force in January 2023.⁸³ This law further seeks to comply with UN Security Council (UNSC) resolutions and EU legislation, and the decisions of international organizations that the Republic of Kosovo is a member of. Moreover, the law is in compliance with Council Regulation (EC) No. 2580/2001 of 27 December 2001 on specific restrictive measures directed against certain persons and entities with a view to combating terrorism.⁸⁴ In October 2022, Kosovo's foreign ministry established an inter-agency working group to coordinate the implementation of targeted international financial sanctions.⁸⁵

In order to ensure proper implementation of such sanctions without delay, it is incumbent on signatory states to take action in the shortest period of time, ideally within a few hours after designation by the UNSC or relevant committees and especially for the purposes of UNSC Resolution 1373 (2001).⁸⁶ The law on the implementation of targeted international financial sanctions obliges the FIU to publish the consolidated list of sanctions adopted by the UNSC. This list is published on the FIU's website, along with sanctions adopted by the EU and also national sanctions.⁸⁷

NPOs in Kosovo are defined by Law No.06/L-043 (freedom of association in non-governmental organizations; NGOs), according to which there are three forms of organization: association, foundation and institute.⁸⁸ As reporting entities, NPOs have several legal obligations under the 2016 AML/CFT law. Among others, Article 29 confers specific obligations for NPOs, notably: due diligence measures, the channelling of all income and expenditure through banks and financial institutions, record keeping on receipts and payments made in cash, and reporting all suspicious acts or transactions within 24 hours of discovery.

In the FATF's terrorist financing risk assessment guidance, published a year after the MONEYVAL assessment, Kosovo is cited as a good example in taking inputs from NPOs during the country's relevant risk assessment, as authorities managed to interview 150 organizations from different sectors, including the Kosovo Islamic Society, a strong contributor to the risk assessment working group.⁸⁹

The NRA as well as the sectoral risk assessment of the NPO sector assigns a medium vulnerability to money laundering and a high vulnerability to terrorist financing. So far, there have been no cases of directors of NPOs being involved in terrorism or terrorism financing. However, during 2014–2015, 15 NPOs were suspended on suspicion that they acted contrary to Kosovan law, in some cases by inciting religious and sectarian hatred.⁹⁰

RECOMMENDATIONS FOR POLICYMAKERS

- Encourage a broader understanding of IFFs and associated risks. In particular, risks associated with trade and the informal economy need to be better understood and managed.
- Strengthen the legal framework in order to align it with EU and international standards. This should include revision of the AML/CFT law; adoption of a law on beneficial ownership and a corresponding database; regulation of virtual asset service providers; and allowing the confiscation of virtual assets and social reuse of confiscated assets.

- Identified threats, risks and vulnerabilities from the formal financial system, trade and the grey economy should be used to construct strategic, implementable objectives. To achieve this, it is crucial to allocate adequate resources, both financial and human, to effectively combat IFFs; conduct investigations into standalone money laundering cases; improve the process around confiscation of cash at borders; strengthen public–private partnerships; and enforce regulations.
- Initiate collaborative efforts between government, civil society and media to develop campaigns to raise public awareness of the negative impact of IFFs on the economy, development and social welfare, and emphasize the importance of addressing IFFs and the need for policy reforms.
- Law enforcement agencies should actively review and respond to STRs sent by the FIU and initiate proactive and systematic financial investigations both as part of broader organized crime and corruption cases and as standalone money laundering cases.
- The government and donors should provide financial and other support to CSOs and the media in their efforts to research and uncover IFFs.
- Enhance measures to prevent criminals and their associates from entering the financial and non-financial markets as holders or beneficial owners; implement risk-based supervision by competent authorities; and provide comprehensive training to the private sector, emphasizing a sound understanding of money laundering and terrorist financing risks.



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