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Qeveria - Vlada - Government
Ministria e Financave, Punës dhe Transfereve - Ministarstvo Finansija, Rada i
Trasfera - Ministry of Finance, Labour and Transfers

**ANNUAL REPORT 2021-2022 ON THE IMPLEMENTATION OF THE
NATIONAL STRATEGY OF THE REPUBLIC OF KOSOVO ON
FOR THE PREVENTION AND COMBATING OF INFORMAL
ECONOMY, MONEY LAUNDERING,
TERRORIST FINANCING AND FINANCIAL CRIMES
2019-2023**

MINISTRY OF FINANCE, LABOUR AND TRANSFERS

March 2023, Prishtina, Kosovo

List of abbreviations

KBRA – Kosovo Business Registration Agency

KAS – Kosovo Agency of Statistics

TAK – Tax Administration of Kosovo

EU – European Union

CBK – Central Bank of Kosovo

KC – Kosovo Customs

DPFTF – Department of Fiscal Policy and Financial Markets

DIFCMP – Department of International Financial Cooperation and Macroeconomic Policies

IMF – International Monetary Fund

FT – Terrorist Financing

MAP – Ministry of Public Administration

MoJ – Ministry of Justice

MoF – Former Ministry of Finance

MFLT – Ministry of Finance, Labour and Transfers

MIET – Ministry of Industry, Entrepreneurship and Trade

MLSW – Former Ministry of Labor and Social Welfare

SAA – Stabilization Association Agreement

FIU – Financial Intelligence Unit

KP – Kosovo Police

ML – Money Laundering

NDS – National Development Strategy

NSIE – National Strategy for the Prevention of Informal Economy

VAT – Value Added Tax

Table of Contents

| | |
|--|----|
| List of abbreviations | 2 |
| 1 Executive Summary | 5 |
| 1.2 Key challenges, risks and necessary corrective measures | 7 |
| 2 Progress in the implementation of National Strategy objectives | 8 |
| 2.1 Progress towards Strategic Objective I..... | 17 |
| 2.2 Progress towards Strategic Objective II | 31 |
| 3 Risks and future steps | 36 |
| 3.1 Problems and risks..... | 36 |
| 3.2 Future steps..... | 37 |
| Appendix 1 | 38 |
| Organogram of the supervisory and implementation mechanisms of the National Strategy | 38 |

List of charts

| | |
|---|----|
| Chart 1. Progress in the implementation of NSIE objectives for period 2021-2022 | 8 |
| Chart 2. Implementation of activities within Strategic Objective I | 18 |
| Chart 3. Implementation of activities within Strategic Objective II | 33 |
| Chart 4. Organogram of the supervisory and implementation mechanisms of the National Strategy..... | 39 |

List of tables

| | |
|--|----|
| Table 1. Implementation of 2019-2023 NSIE activities for period 2021- 2022..... | 9 |
| Table 2. Findings on tax evasion, penalties and interest for the period 2021-2022 (in EUR) | 22 |
| Table 3. Revenues of Kosovo Customs from the activities of combating the informal economy for the period 2021-2022 (in EUR) | 23 |
| Table 4. The number of transactions at POS terminals in the last three years..... | 23 |
| Table 5. Number of fiscalized businesses during period 2021-2022..... | 24 |
| Table 6. Number of visits to businesses for the equipment of fiscal cash register, number and value of fines for period 2021-2022..... | 24 |
| Table 7. Activities related to the criminal offenses of economic crimes, money laundering, organized crime and corruption within the State Prosecutor's Office for period 2021-2022 | 26 |
| Table 8. Customs investigative activities for criminal offenses against the economy..... | 27 |
| Table 9. Customs offences, value of the offending goods and fines imposed for period 2021-2022..... | 27 |
| Table 10. Treatment and investigation of tax evasion cases for period 2021-2022..... | 27 |
| Table 11. Number of controls and value of tax evasion in Euros for period 2021-2022 (EUR). | 28 |

Table 12. Overview of data related to visits and activities for period 2021-2022 according to Regional Directorates (EUR).....28

Table 13. Activities undertaken to prevent goods violating intellectual property rights.....36

Table 14. Statistics on the number of anti-smuggling unit patrols.....36

Table 15. Training of prosecutors for criminal offenses against the economy and money laundering.....37

1 Executive Summary

The National Strategy of the Republic of Kosovo for Preventing and Combating the Informal Economy, Money Laundering, Financing of Terrorism and Financial Crimes 2019-2023 (hereinafter National Strategy), aims to develop a sustainable system in Kosovo to combat the informal economy, terrorist financing and other financial crimes, to integrate into regional and international warfare to ensure social peace, welfare, dignity, equality and sustainable economic development in accordance with the policies of the Government of the Republic of Kosovo (hereinafter GRK).

The National Strategy contains two strategic objectives, seven specific objectives and 71 activities. The strategic objectives that are intended to be achieved through this Strategy are:

- Improving the quality of governance in the economy through the identification, analysis, treatment and monitoring of the fight against the informal economy, money laundering and terrorist financing,
- Increase of financial resources for public services as a result of additional tax revenues and confiscation of illegal property.

These two objectives are an expression of quantitative and qualitative improvement, which the Government considers fundamental to address the challenges and problems of the informal economy. They are also a realization of the commitments of the Government of the Republic of Kosovo in the dialogue with the European Union (EU) during 2018, compliance with the basic document National Development Strategy (NDS) and the Economic Reform Program 2019-2021 and other strategic documents of Kosovo.

This document presents the Annual Report on the Implementation of the National Strategy including period 2021-2022. The report is based on the Action Plan and reflects the fulfilment of activities within the strategic and specific objectives. However, this document does not contain the progress on the indicators, since the Strategy will have the five-year report of its implementation which will contain information related to their implementation. The report has been prepared in close cooperation with the responsible institutions in accordance with the Administrative Instruction (GRK) No. 07/2018 and follows the regular procedures and practices of the Ministry of Finance, Labour and Transfers (MFLT).

During the reporting period, it can be said what was intended has been partially achieved, where out of a total of seventy-one (71) activities, forty-four (44) or 62% of them were implemented, however, twenty-seven (27) or 38% of them have not been implemented yet.

Strategic Objective I contains four (4) specific objectives and a total of fifty-three (53) activities, thirty-two (32) or 60% of them were implemented, while twenty-one (21) or 40% of them were not implemented. Within this Objective, progress has been made in improving the quality of data to enable the development of policies that effectively contribute to the reduction of the informal economy. More specifically, the use of statistical survey data by KAS in the macro-fiscal forecasts of the MFLT has continued; progress was also noted in the compilation of data on informal economy in full harmony with international methodology and standards, where KAS for the first time has integrated data on informal economy into the GDP data,

and the Central Bank of Kosovo's supervision of the description of financial transactions performed by banks has increased in order to increase the usefulness of the information.

Further, during the reporting period, the promotion of communication activities with the public and the increase in the number of conferences, workshops, joint meetings with professional associations continued, in order to discuss the impact of the measures of the fight against informal economy, money laundering, financing of terrorism and financial crimes; the number of investigative activities for criminal offenses against the economy as defined by the Criminal Code of Kosovo (Chapter XXV) increased and the number of visits and controls carried out based on risk assessment in the fight against the informal economy and tax evasion also increased. Progress was also made in the quality improvement of institutional capacities and coordination for better implementation of approved policies by intensifying activities between TAK and the former Ministry of Labour and Social Welfare (former MLSW), increasing the number of coordinated actions (control/ inspection) of FIU and law enforcement authorities in high-risk businesses and ensuring functional cooperation from the Kosovo Tax and Customs Administration with foreign tax and customs administrations. Within this Objective, good performance was also achieved in reducing informal employment in the country, through the organization of information campaigns for the public and employers; analysis of the situation and assessment of good practices for reducing informal work; development of inspection manual/procedures of action; trainings for raising the capacities of inspectors and equipping inspectors with work equipment.

The activities in which there was a delay during the reporting period are the following: conducting the survey on agricultural land prices, the continuous publication of data in the field of public finance according to the open data format in the National Open Data Portal, development and presentation of new modules of fiscal programmes to improve fiscal forecasting for revenues in sectors and equipping inspectors with vehicles; the implementation of the electronic invoice in the new IT system in TAK.

As for Strategic Objective II, it is considered that it was fulfilled for the most part. This objective contains three (3) specific objectives and a total of eighteen (18) activities, twelve (12) or 67% of which were implemented, while six (6) or 33% were not implemented.

Considerable progress within this strategic objective was achieved in the quantitative improvement of institutional capacities and coordination for better implementation of the approved policies. Respectively, there were developments in the expansion of inspections in the construction and NGOs sector related to FT (Terrorism Financing) and ML (Money Laundering); joint groups were established between KC and TAK in order to control goods that are categorized with a high risk of tax evasion. Good performance was also achieved in the investigation and implementation of joint operations aimed at combating the smuggling of goods; the number of activities undertaken in the prevention of goods that violate Intellectual Property Rights (IPR) and the number of patrols by anti-smuggling units in order to fight smuggling increased; the application of post-import controls was also made based on risk management and other information. Further, during the reporting period, trainings were carried out for TAK in the field of risk management, for Kosovo Customs in the field of Law enforcement; dedicated professional trainings for

Prosecutors on the criminal offense of economic crime and money laundering; trainings for the institutions that monitor activities in the construction sector on ML/FT, related to the prevention of the informal economy and other financial crimes, especially in the construction and real estate sector (auditors and inspectors) and trainings to increase professional skills in the field of ML/FT for Prosecutors, Judges, Investigators and Financial Intelligence.

On the other hand, the activities in which there was a delay during the reporting period are: carrying out impact assessments of policy measures aimed at the informal economy, tax gap assessment according to international standards, lowering the threshold related to transactions made in cash between businesses, designing software for fiscal cash registers to provide information regarding the number of fiscal coupons issued, time and items in real time (online) and improving the capacities of fiscal forecasting for revenues across sectors through the installation of new modules alongside the model of fiscal programming.

1.2 Key challenges, risks and necessary corrective measures

The main challenge in the progress of the implementation of this strategy, during the reporting period, was mainly the undertaking of measures against the pandemic which affected the normal work flow of the implementing and reporting institutions of the National Strategy.

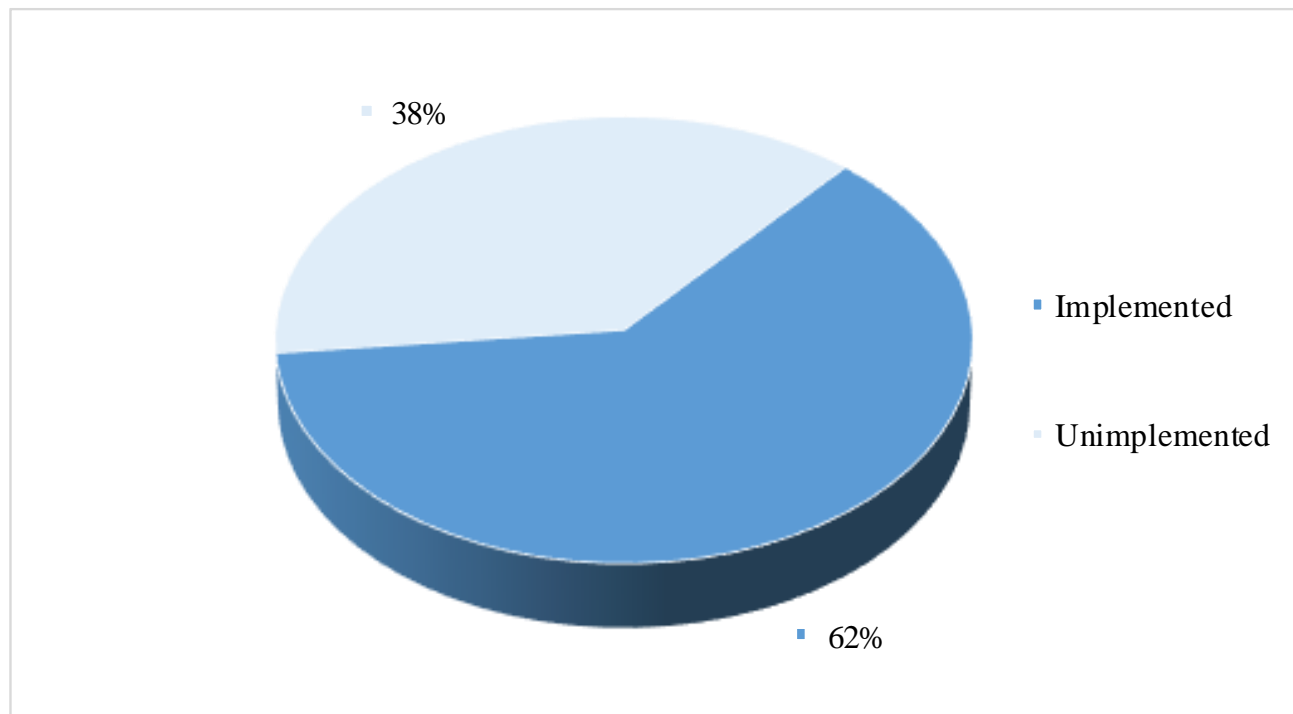
The main risks are the stagnation of progress as a result of the continuous obstacles from the pandemic in the implementation of activities, lack of staff and large staff turnover in key departments, as well as lack of coordination between the implementing institutions of the National Strategy. As a result, as necessary corrective measures, it is suggested that the responsible institutions increase inter-institutional cooperation, prioritizing the activities of the National Strategy and their implementation according to the defined deadlines. Respectively the institutions should reset the deadlines for the implementation of the activities, the legal infrastructure must be prepared for the implementation of the activities of the National Strategy, the documentation of work processes in departments with a large staff turnover, and the increase of the relevant staff capacities for the implementation of the activities specified in the National Strategy.

2 Progress in the implementation of National Strategy objectives

This section outlines the progress made towards the implementation of each objective of the National Strategy. As for the progress noted in the implementation of the National Strategy during the period 2021-2022, it is worth noting that after the improved situation with the pandemic, the institutions responsible for the implementation of the activities of NSIE 2019-2023 worked more intensively in the implementation of activities to combat informal economy, money laundering, terrorist financing and financial crimes.

As a result, as seen in Chart 1, during the reporting period, out of a total of 71 activities, forty-four (44) or 62% of them were implemented, while twenty-seven (27) or 38% of them have not been implemented yet.

Chart 1. Progress in the implementation of NSIE activities for period 2021-2022



Source: National Strategy of the Republic of Kosovo for the Prevention and Combating of Informal Economy, Money Laundering, Terrorist Financing and Financial Crimes 2019-2023

The following table reflects the status of the implementation of the National Strategy activities, and is followed by a brief description of the progress for each activity.

Table 1. Implementation of 2019-2023 NSEI activities for period 2021- 2022

| Activity | Deadline | Leading and supporting institution | Activity status 2021/2022 (implemented/unimplemented) |
|---|---------------------|------------------------------------|---|
| STRATEGIC OBJECTIVE I: Improve the quality of governance in the economy through identification, analysis, treatment and monitoring of combating of informal economy, money laundering and terrorist financing | | | |
| Specific objective 1: Quality improvement of data to enable the policy development to effectively contribute to the reduction of informal economy. | | | |
| 1.1.1 Advancement in terms of the utilization of data from statistics surveys carried out by KAS (Kosovo Agency of Statistics) in models of assessing informal economy in Kosovo, in macro-fiscal projections of the Ministry of Finance (MF) and politics measures addressed in sector strategies. | Q1 2020 and ongoing | MoF/DIFCMP | Implemented |
| 1.1.2 Ensuring the compliance of KAS data in relation to the informal economy in accordance with international methodologies and standards | Q4 2020 and ongoing | KAS | Implemented |
| 1.1.3 Conducting the survey on agricultural land prices by KAS. | Q4 2021 | KAS | Unimplemented |
| 1.1.4 Preparing a guideline over the Methodology of Assessing Impact of Tax Changes (Tax Expenditure), to be implemented before the approval of any proposed fiscal measure. | Q2 2019 | MoF/DPFTF | Implemented |
| 1.1.5 Specification in treasury of the payment components from the taxpayer: i) Fine, ii) Penalty iii) Interest iv) Tax evasion v) Type of tax | Q4 2019 and ongoing | MoF/Kosovo Treasury; TAK | Unimplemented |
| 1.1.6 Increasing supervision by CBK (Central Bank of Kosovo) on description of financial transactions by banks in order to increase the usefulness of information for quality analysis within respective bodies | Q4 2019 – Q4 2022 | CBK | Implemented |

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| 1.1.7 Establishment of an inter-banking payment system with the purpose of stimulating payment by card and other forms of payment thus reducing the use of cash as a means of payment to a significant extent | Q2 2020 – Q4 2022 | CBK; Government of the Republic of Kosovo | Unimplemented |
| 1.1.8 Providing bank loans based on financial statements submitted to TAK and certified by field experts for all businesses that are obliged to submit financial statements to this institution | Q4 2019 | CBK | Unimplemented |
| 1.1.9 Continuous publication of data in the field of public finances, according to the open data format, at the National Open Data Portal | Q2 2020 | MPA | Unimplemented |
| 1.1.10 Expanding the range of risk assessments by the FIU (Financial Intelligence Unit) by adding the Financial Sector's assessment | Q4 2019 | FIU | Implemented |
| Specific objective I.2 The qualitative growth of voluntary fulfilment by raising awareness, reporting and legal restriction measures | | | |
| 1.2.1 Increasing communication activities with the public (number, participants and budget) in order to increase citizens' awareness by responsible bodies for the implementation of this strategy | Ongoing | MoF/ TAK; KC; MLSW; KP | Implemented |
| 1.2.2 Increasing the number of conferences, workshops, joint meetings with professional associations to discuss the impact of measures against informal economy, money laundering, terrorist financing and financial crimes (membership of these associations, number of participants and conference documents) | Ongoing | MoF/ TAK; FIU; MLSW; KC; KP | Implemented |
| 1.2.3 Reflecting the income from the gray and black informal economy in the annual report on the implementation of the strategy published in the MoF website. | Q4 2019 and ongoing | MoF/ TAK; FIU; MLSW; KC; KP | Implemented |
| 1.2.4 Preparing and publishing of the Leaflet with information for the public about the expected effect on the prevention of the informal economy from the implementation of the measures foreseen under Article 64 of the SAA on Payment systems | Q4 2019 and ongoing | CBK | Implemented |
| 1.2.5 Carrying out a study on the process of assessing property price, registration of immovable properties in case of first time purchase or | Q1 2020 | Cadastre; MoF/ Property Tax | Unimplemented |

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| transfer so that the value of the registered asset reflects the current market value | | Department; Municipalities; CBK; MoJ | |
| 1.2.6 Operationalization a unified address system | Q2 2020 Study Depending on the deadlines set by the Study by the end of 2022 | Ministry of Environment and Spatial Planning; Kosovo Cadastral Agency; Municipalities. | Unimplemented |
| 1.2.7 Preparation of the concept document on the submission of annual tax return regarding personal income to TAK by natural nonbusiness natural persons | Q1 2021 | MoF/ TAK | Implemented |
| 1.2.8 Preparation of the concept document on the submission of the annual family personal income return to TAK by nonbusiness natural persons | Q1 2021 | MoF/TAK | Unimplemented |
| 1.2.9 All payments of employees by the employer to be made through the banking system | Q4 2019 | MLSW; MoF/TAK | Unimplemented |
| 1.2.10 Increasing the number of businesses equipped with fiscal cash registers | Ongoing | MoF/ TAK | Implemented |
| 1.2.11 Implementation of the electronic invoice in the new TAK IT system | Q2 2020 | MoF/ TAK | Unimplemented |
| 1.2.12 Amending/supplementing the Law on Financing Political Partier and issuance of legal and sub-legal acts on publication and transparency of information on information regarding finances of political parties | Q4 2019 | CEC/ OPM | Implemented |
| 1.2.13 Independent Audit of Political Party Finances and Publication of their results | Q4 2020 | National Audit Office (NAO) | Unimplemented |
| 1.2.14 Establishment of Unit on Recovery of Confiscated Assets | By the end of Q2 2020 AT until end of 2022 full functionalization of the Agency | AMSKA | Implemented |
| 1.2.15 Establishment of a confiscation fund in Kosovo | Q2 2020 | MoD | Unimplemented |

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| 1.2.16 Initiation of financial investigation from the beginning when there is suspected corruption, for which KP and State Prosecution concludes that there is potential for confiscation of property acquired through criminal offense in accordance with FATF recommendations. | Q4 2019 | KP; State Prosecution | Implemented |
| 1.2.17 Increasing investigative activities for criminal offenses against the economy as defined in the Criminal Code of Kosovo (Chapter XXV) | Ongoing starting from Q4 2019 | KP/State Prosecution; KC and TAK | Implemented |
| 1.2.18 Approval of the Concept Document on improvement of legislation in the area of Prevention of Money Laundering and combating the Terrorist Financing, in compliance with EU practices, PECK II recommendations, Country Report 2018 and SAA (Article 89) | Q4 2019 | MoF/FIU | Unimplemented |
| 1.2.19 Increasing the number of visits and audits carried out based on risk assessment in combating informal economy and tax evasion | Q3 2019 Ongoing until the end of 2022 | TAK | Implemented |
| 1.2.20 Amending and supplementing the Law on Tax Administration and Procedures | Q3 2019 | MoF/TAK | Unimplemented |
| Specific objective I.3: Qualitative improvement of Institutional capacities and coordination for a better implementation of adopted policies | | | |
| 1.3.1 Continuous updating of the business activity classification according to the international nomenclature (NACE rev.2) and exchange of this information between KBRA, TAK and KAS | Q2 2019 and ongoing | KBRA/ TAK; KAS | Implemented |
| 1.3.2 Intensification and coordination of activities between TAK and the Ministry of Labour and Social Welfare (MLSW) with the purpose of identifying and registering unregistered workers, based on data provided by the Kosovo Agency of Statistics in the publication of informal economy surveys | Q1 2020 Ongoing | MLSW; TAK | Implemented |
| 1.3.3 Establishing a memorandum of understanding between the Ministry of Justice and MoF/TAK to ensure the exchange of data from notaries for transactions on i) real estates ii) vehicle iii) rent, which should, as a minimum, provide information on the number of transactions, type (purchase, transfer, rent), address, value, subject (natural person, business or public) | Q1 2020 | MoJ; MoF/TAK | Unimplemented |

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| 1.3.4 Development and introduction of new fiscal programming modules in order to improve fiscal projections for sector revenues | Q1 2020 | MoF | Unimplemented |
| 1.3.5 Publication and update of the list of High Risk Countries (according to FATF publications), EU black list, OECD Gold Passports' list 2018 etc. | Ongoing | FIU | Implemented |
| 1.3.6 Review the Methodology of FIU Risk Assessment according to recommendations of assessments and technical assistance in this area | Q4 2019 | FIU | Implemented |
| 1.3.7 Intensification of coordinated action (control/inspection) of intelligence and law enforcement authorities at high risk businesses, part of list identified by FIU | Q2 2019 and ongoing | FIU; KP; TAK; KC | Implemented |
| 1.3.8 Increasing inspections and compliance monitoring activities in notary offices and real estate agencies, to assess compliance of reporting entities with the Law on PPP and FT | Q4 2019-2022 | FIU | Implemented |
| 1.3.9 Ensuring the functional cooperation of the Tax Administration of Kosovo and Kosovo Customs with foreign tax and customs administrations through the signing of MOUs, for the strengthening of international exchanges of information, especially related to the parent company or the line company | Q4 2019-2022 | MoF/TAK; KC | Implemented |
| 1.3.10 Increasing the quality of construction monitoring and criminal procedures to reduce illegal construction and the construction of buildings that do not meet the required specifications | Q2 2020-2022 | Ministry of Environment and Spatial Planning (MESP); MoF/Department of Tax Property; Municipalities | Implemented |
| 1.3.11 Training and capacity building in the Informal Economy and Government Accounts Division | Q4 2019 and ongoing | KAS | Implemented |
| 1.3.12 Training for "Forecast consolidation" of the Fiscal Policy Division for "Tax Expenditures and Impact Assessment" | Q4 2019- 2022 | MoF | Unimplemented |
| Specific Objective I.4: Reducing informal employment in Kosovo | | | |

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| 1.4.1 Conducting information campaigns for the broader public and employers | Q4 2019, 2020 and 2021 | MLSW; TAK, MTI; MoF; Social partners | Implemented |
| 1.4.2 Engaging stakeholders and the broader public in addressing informal employment | Q3 2019, 2020 and 2021 | MLSW, MoF, MTI, TAK, TRUST, KES | Implemented |
| 1.4.3 Analysis of the situation and assessment of good practices for reducing informal work | Q4 2019 | MLSW; Line ministries; Social partners | Implemented |
| 1.4.4 Conducting an analysis related to drafting a register of employees within MLSW | Q3 2020 | MLSW, TAK, KBRA, Trust | Implemented |
| 1.4.5 Develop guidelines for the assessment methodology of the degree of risk of cases/prioritize and establish the inspection plan and the training of the relevant staff in the use of the methodology | Q1 2020 | MLSW, TAK | Unimplemented |
| 1.4.6 Develop inspection action manual/procedures | Q4 2019 | MLSW, TAK | Implemented |
| 1.4.7 Build a monitoring system and a performance appraisal system for the work of inspectors | No additional cost. Cost included in the Sectoral Strategy Action Plan, Activity 3 under Specific Objective 2.2 | MLSW, TAK | Unimplemented |
| 1.4.8 Trainings for capacity building of inspectors | Q4 2019 | MLSW | Implemented |
| 1.4.9 Functionalize/establish an Information Management System | Q4 2019 | MLSW | Unimplemented |
| 1.4.10 Equip inspectors with working tools | Q4 2019 | MLSW | Implemented |
| 1.4.11 Equip inspectors with vehicles | Q4 2019, 2020 and 2021 | MLSW | Unimplemented |
| STRATEGIC OBJECTIVE II: Increase of financial resources for public services as a result of additional tax revenues and confiscation of illegal assets. | | | |

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| Specific objective II.1: Qualitative improvement of data to enable policy development to effectively contribute to the reduction of informal economy. | | | |
| 2.1.1 Conducting of assessments of impact of measures of published policies by Kosovo administration targeting the Informal Economy (Impact Assessments) | Q4 2019 - 2022 | MoF | Unimplemented |
| 2.1.2 Conducting of surveys or assessments in the field of informal economy according to international standards regarding the tax gap | Q4 2019 - 2022 | MoF; TAK; MLSW; KAS | Unimplemented |
| Specific Objective II.2: Quantitative increase in voluntary compliance through raising awareness, reporting and legal restriction measures. | | | |
| 2.2.1 Lowering the threshold for transactions between businesses that are made in cash (currently EUR 500) | Q1 2020 | MoF/TAK | Unimplemented |
| 2.2.2 Designing the Fiscal Cash register Software to provide information about: the number of issued fiscal coupons, time and items issued in real time (online) | Q2 2020 | TAK | Implemented |
| Specific Objective II.3: Quantitative improvement of institutional capacities and coordination for better implementation of adopted policies. | | | |
| 2.3.1 Review of standard forms for electronic and physical data exchange in order to shorten the time on flowing information in inter-institutional and international communication | Q4 2019 | MPA/MoJ; KP; TAK; KC; FIU | Unimplemented |
| 2.3.2 Publication of the Source/Use table by KAS | Q2 2020 | KAS | Unimplemented |
| 2.3.3 Capacity improvement of fiscal projections for sector revenues by installing new modules in addition to the fiscal programming model | Q4 2020 | MoF | Unimplemented |
| 2.3.4 Expansion of the inspections across the constructions sector and NGOs, related to TF (Terrorist Financing) and ML (Money Laundering), where inspections on certain entities posing a higher risk are based on financial, tax and criminal Intelligence, (Construction sector to be targeted) | Q4 2019- 2022 | FIU/ TAK, KP | Implemented |

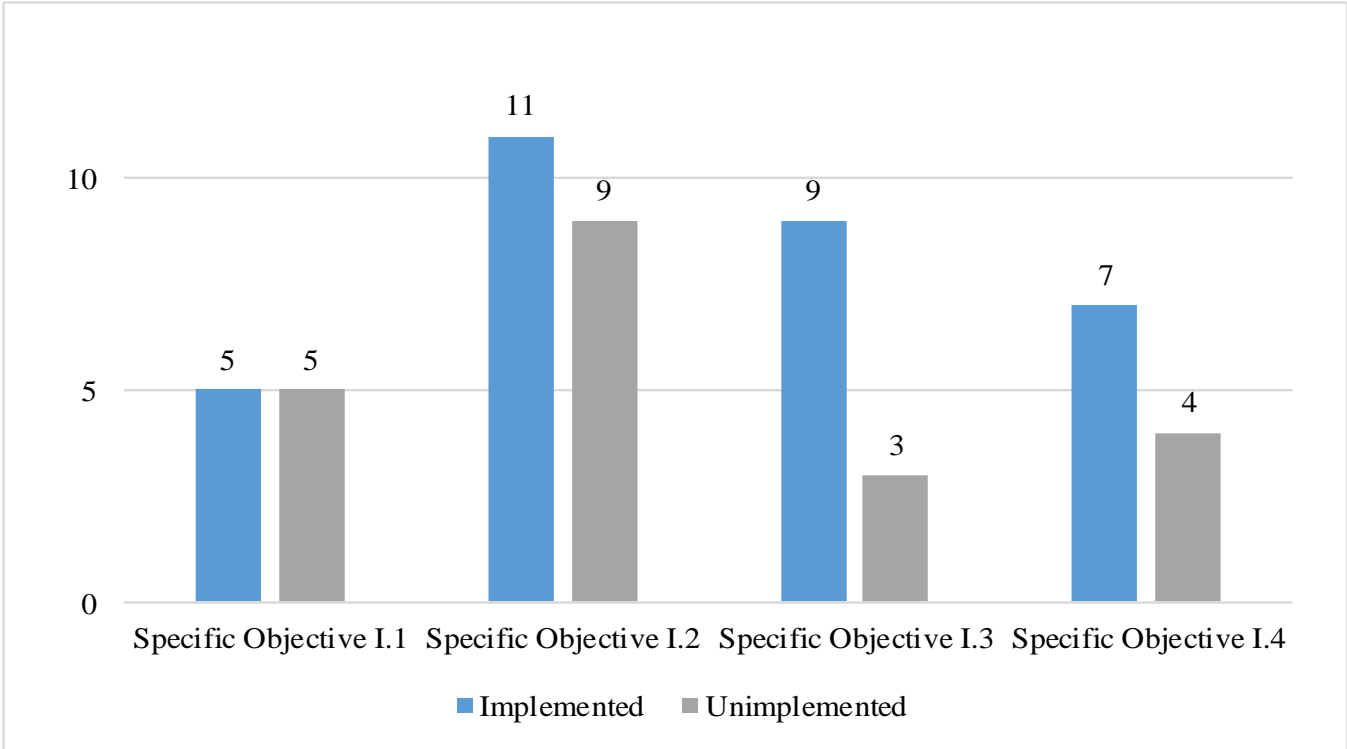
| | | | |
|--|----------------|--|-------------|
| 2.3.5 Establishing joint groups of KC and TAK aiming at controlling goods categorized with high risk of tax evasion | Q4 2019- 2022 | KC; TAK | Implemented |
| 2.3.6 Investigating and carrying out joint operations with the aim of combating smuggling of goods | Q4 2019- 2022 | KP; KC; Prosecution | Implemented |
| 2.3.7 Increasing activities undertaken in the prevention of goods infringing Intellectual Property Rights - IPR | Q4 2019- 2022 | KC | Implemented |
| 2.3.8 Increasing the number of patrol activities by anti-smuggling units in order to combat smuggling | Q4 2019- 2022 | KC | Implemented |
| 2.3.9 Applying post-import controls based on risk management and other information. | Q4 2019- 2022 | KC | Implemented |
| 2.3.10 Trainings for TAK on risk management | Q4 2019- 2022 | TAK | Implemented |
| 2.3.11 Training for Kosovo Customs in the field of rule of law. | Q4 2019- 2022 | KC | Implemented |
| 2.3.12 Dedicated professional Trainings for Prosecutors on criminal offenses of economic crime and money laundering | Q4 2019- 2022 | Prosecution | Implemented |
| 2.3.13 Organization of trainings for institutions that monitor activities in the construction sector on ML/FT, related to the prevention of the informal economy and other financial crimes, especially in the construction and real estate sector (auditors and inspectors) | Q4 2019- 2022 | FIU | Implemented |
| 2.3.14 Professional capacity development in the field of ML/TF for Prosecutors, Judges, Investigators and Financial Intelligence | Q4 2019 - 2022 | FIU/ KP; MoJ; Prosecution | Implemented |

2.1 Progress towards Strategic Objective I

This objective aims to improve the quality of governance in the economy by identifying, analysing, treating and monitoring the fight against the informal economy, money laundering and terrorist financing. Through the activities of this objective, it is intended to correct the problem of harm to the quality of economic governance due to the informal economy expressed as the presence of unfair competition, inequality, non-implementation of contracts, the presence of smuggled items and informal employment with few rights of the employees.

In the framework of this objective, a total of fifty-three (53) activities split into four (4) Specific Objectives have been planned, out of which thirty-two (32) or 60% of them were implemented, while twenty-one (21) or 40% of them were not implemented.

Chart 2. Implementation of activities within Strategic Objective I for the period 2021-2022



Source: National Strategy of the Republic of Kosovo for the Prevention and Combating of the Informal Economy, Money Laundering, Financing of Terrorism and Financial Crimes 2019-2023

Specific objective 1.1 aimed to improve data quality in order to enable development of policies that effectively contributes to lowering the informal economy.

This objective contains a total of ten (10) activities, five (5) or 50% of which were implemented, while five (5) or 50% of them were not.

During the compilation of macro-fiscal projections, the Ministry of Finance, Labour and Transfers (MFLT) constantly uses the data of statistical surveys published by the Kosovo Agency of Statistics (KAS), such as: informality data integrated into GDP, data for the drafting of quarterly economic bulletins and other documents published on the MFLT website prepared by the Department of Economic Policies and International Financial Cooperation. Further, the tax gap assessment conducted with the technical assistance of the World Bank is based on the Household Budget Survey of KAS.

The Kosovo Agency of Statistics recorded a progress regarding the data compilation on the informal economy in full harmony with international methodology and standards, whereby, data on informal economy were integrated for the first time into GDP data for the following economic activities: 49-Road transport, 55-Accommodation and 56-Food and beverage service activities, as the result of the project financed by the World Bank. Eurostat and OECD methodology was also implemented for the following components: assessment of informal economy based on TAK's fiscal controls; assessment of informal economy based on Labour Input Method (LIM); assessment of drug trafficking and assessment of informal economy for type N6 – Producers deliberately misreporting for self-employed persons and type N1 – Producers Deliberately Not Registering for self-employed persons. Whereas, due to the lack of staff and the impact of the pandemic, the Agricultural Land Price Survey was not carried out by KAS.

In March 2022, MFLT successfully developed the guidelines on the Assessment Methodology of the impact of tax changes and has now requested technical assistance for its implementation prior to the adoption of any proposed fiscal measures.

Regarding the specification in the Treasury of the components of payments by taxpayers (fine, penalty, interest, tax evasion and type of tax), MFLT has created the codes in the chart of accounts in which the types of income are identified, namely for fines, penalty, interest, tax evasion and type of tax. However, in the Treasury, such a division of revenues is not applied in practice.

The Central Bank of Kosovo (CBK) in 2021 has approved the Guide for the use of the origin of funds form and the determination of the holder of beneficial ownership, through which CBK has increased the supervision of the description of financial transactions by banks, in order to increase the usefulness of information for qualitative analysis in the relevant bodies.

In regard to the establishment of an interbank payment system with the aim of stimulating card payments and other forms of payment by reducing the use of cash as means of payment, a feasibility study has been initiated and is being carried out by the World Bank in order to identify possible solutions for the establishment of a system of fast payments.

Whereas regarding the granting of bank loans based on the financial statements submitted to TAK and certified by field experts for all businesses that are obliged to submit statements to this institution, CBK updated the Regulation on the Loan Register approved by the Board in September 2019, where the

collection of alternative data including TAK data is allowed. In order to be finalized as a project, developments are required in the Credit Registry system, which are planned to be realized during year 2023.

Whereas no progress has been reported in the publication of public finance data on the National Open Data Portal, however, the Agency of Information Society (AIS) has made all the necessary preparations to start publishing data in E-Kosova.

In relation to the sector specific risk assessment, during 2021 the Financial Intelligence Unit (FIU) prioritized assessment of the following sectors: Regional sectoral risk assessment in Legal Entities and Arrangements in Kosovo; Sector Specific Risk Assessment for Terrorist Financing for NGOs in the countries of the Western Balkans and Turkey, developed within the framework of the Council of Europe. Whereas in 2022, FIU prioritized the assessments of the following sectors: Risk assessment of money laundering through banking products offered in Kosovo, which was initiated in September 2022 and will be developed during the period September 2022 - June 2023; Sector Specific Risk Assessment for the Prevention of Money Laundering and Terrorist Financing for NGOs in RKS, which was initiated in Q4 2022 and will be developed during the period December 2022 - August 2023; Regional risk assessment of legal entities and arrangements in the Western Balkan countries was initiated in Q4 2022 and will be developed during the period December 2022-August 2023.

Specific Objective 1.2 aims to increase the quality of voluntary compliance through raising awareness, reporting and legal restriction measures.

This objective includes twenty (20) activities, eleven (11) or 55% of which were implemented, while nine (9) or 45% of them were not.

Regarding the increase in public communication activities to increase the level of citizens' awareness by the responsible bodies for the implementation of the National Strategy, in 2022 MFLT published the Semi-Annual Report January-June 2022 on the Implementation of the National Strategy 2019-2023.

Regarding this activity, in order for taxpayers to become familiar with the procedures required by the tax legislation, innovations and other changes, during the reporting period, the Tax Administration of Kosovo (TAK) developed notices for taxpayers through the media, TAK website, social networks and email addresses of taxpayers; press releases; interviews for print and electronic media; flyers and has continuously reviewed the requests submitted by taxpayers in the legal deadline. During 2021, TAK published and sent to taxpayers the following notices:

- Notice to taxpayers - Intensive activities - Compliance in the Construction Sector; Notice from TAK - Publication of the Brochure "Tax Compliance"; Notice to Taxpayers - Benefit from the Economic Recovery Package; Notice to taxpayers - Pay the debt!; Notice to Taxpayers - The employee's certificate is downloaded through the EDI System; Notice to Taxpayers - Non-formal employment, the focus of TAK!; Notice on the website - INACTIVE TAXPAYERS; Notice to Taxpayers - Register Goods in Stock!; Notice to employees - Verify if you are registered by the employer for Taxpayers; Tax obligations on income generated from cryptocurrencies;
- One press release and three (3) seminars.

Whereas during 2022, TAK published and sent to taxpayers the following notices:

- 32 Notices to Taxpayers: TAK issues Public Explanatory Decision No. 01/2022 on legal inheritance procedures of Individual Business after the death of the owner; Notice to foreign Providers of electronically supplied services; Notice to Taxpayers - TAK hosts online seminar on 02.03.2022; Notice to Taxpayers – Submission of the report on controlled transactions for 2021; Notice to taxpayers - Register workers and withhold tax; Notice to taxpayers - TAK verifies goods without origin; Notice to taxpayers - Register your economic activities and declare your employees!; Notice to Taxpayers - Declare Financial Statements through the electronic EDI System!; Notice to Taxpayers - Electronic Declaration of Purchase Book and Sale Book; Notice to taxpayers - TAK in implementation of the Project “Compliance in the accommodation and food service sector”; Notice to taxpayers - TAK in implementation of the Project “Deficiency in stocks and goods without origin”; Notice to taxpayers - TAK in implementation of the Project “Non-declarants”; Notice to taxpayers - Publication of the “Taxpayer's Card” Brochure; Notice to taxpayers - online seminar - Tax refunds; Notice to taxpayers - TAK with a new electronic service – DI Form!
- Seven (7) seminars hosted.

Kosovo Customs (KC) during 2021 made 363 appearances in the media and held nine (9) press conferences to raise public awareness and promote the fight against informal economy. Meanwhile, during 2022, KC made 98 media appearances, held three (3) press conferences to raise public awareness and promote the fight against informal economy, and developed 15 awareness-raising activities in the field of Intellectual Property. It also published a smartphone application that allows and invites citizens to be an active part of preventing and reporting corruption, smuggling and other irregularities.

Regarding the increase in the number of conferences, workshops and joint meetings with professional associations to discuss the impact of the measures of the fight against informal economy, money laundering, terrorist financing and financial crimes, the responsible institutions have carried out the following activities: During 2021, the Tax Administration of Kosovo held a total of 209 meetings with taxpayers, provided 397 services to taxpayers from the Central Office and 190,858 services from the Regional Offices. Whereas during 2022, TAK held a total of 413 meetings with taxpayers, provided 797 services to taxpayers from the Central Office and 233,325 services from the Regional Offices. TAK has also held meetings with stakeholders, such as: Chambers of Commerce in Kosovo; Society of Certified Accountants and Auditors of Kosovo (SCAAK), AAB Institute of Certified Accountants and Auditors, Institute for Accounting, Auditing and Finance (IAAF), Retail Network, Ministry of Industry, Entrepreneurship and Trade, Kosovo Customs, Treasury, etc.

Kosovo Customs held 21 meetings during 2021 with various businesses and associations in support of businesses in voluntary declaration, legal and efficient implementation of obligations. Whereas in 2022, KC held 66 meetings with various businesses and with the Shipping Association, with the Chamber of Commerce of Kosovo, the German Chamber of Commerce. The General Director of KC also participated in 9 different seminars as a panellist.

The Financial Intelligence Unit during 2022 participated in over 40 activities of conferences, workshops, joint local and international meetings. Compared to the previous year, in 2022 there was an increase in such activities by 54%. Meetings were held with the Association of Banks of Kosovo, the Chamber of

Notaries, Civil Society and NGOs. Five (5) Public-Private partnership workshops and seminars were held, in which the Banks Association, Chamber of Notaries, Chamber of Advocates, Association of Accountants and Auditors, AMIK, Insurance Association, etc. were invited.

Regarding the reporting of income from the grey and black informal economy in the annual report on the implementation of the National Strategy, in the 2022 Semi-annual Report on the implementation of the National Strategy published the data on income from informal economy for the relevant institutions. The Tax Administration of Kosovo, namely the Tax Investigations and Intelligence Unit, has undertaken several activities related to the informal economy in cooperation with FIU and KC. The following table reflects the findings on tax evasion, penalties and interest for the period 2021-2022.

Table 2. Findings on tax evasions, penalties and interests for period 2021-2022 (in EUR)

| | 2021 | 2022 |
|---------------------------------|--------------|--------------|
| Tax investigation unit | | |
| Number of activities | 68 | 101 |
| Tax evasion (no penalties) | 2,223,894.00 | 3,542,603.00 |
| Intelligence Division | | |
| Number of activities | 184 | 131 |
| Additional taxes (no penalties) | 4,833,038.07 | 3,601,880.15 |
| Credit deduction | 270,158.45 | 130,189.61 |
| Loss deduction | 280,545.62 | 104,654.11 |

Source: Tax Administration of Kosovo

Based on the feedback from the Intelligence Reports to the Regional Directorates of TAK, these reports have resulted in: additional tax (without penalties and interest) in the amount of EUR 3,601,880.15, credit deduction in the amount of EUR 130,189.61 and loss deduction in the amount of EUR 104,654.11.

General customs revenues for 2022 increased by EUR 156.9 million or expressed in percentage 11.45% more than in the previous year. The revised projection of the Government was exceeded by about 3% or about EUR 50 million above the revised projection. About EUR 22.8 million of revenues from the activities of combating the informal economy were recorded, such as: revenues from revaluation of goods, revenues from offenses and penalties, revenues from non-declaration of monetary assets and revenues from the sale of confiscated goods.

Table 3. Kosovo Customs revenues from the activities of combating informal economy for period 2021-2022 (in EUR)

| | 2021 | 2022 |
|---|---------------|---------------|
| Revenues from revaluation of goods | 21,005,105.30 | 20,519,239.81 |
| Revenues from offenses and penalties | 1,387,443.47 | 2,058,368.12 |
| Revenues from non-declaration of monetary funds | 29,546.93 | 138,615.88 |
| Revenues from the sale of confiscated goods | 184,346.61 | 173,805.17 |

| | | |
|--------------|----------------------|----------------------|
| Total | 22,606,442.31 | 22,890,028.98 |
|--------------|----------------------|----------------------|

Source: Kosovo Customs

Regarding the preparing and publication of the leaflet with information for the public about the expected effect on the prevention of informal economy from the implementation of the measures defined by Article 64 of SAA on Payment systems, the Central Bank of Kosovo continuously publishes statistical and informative materials on payment systems and instruments, such as encouraging the use of bank cards. Below is the total number of transactions carried out at POS terminals of the reporting banks within the country and the percentage of annual growth of these transactions over the last three years. During 2021, about 10.6 million card transactions were recorded at POS terminals or 2.3% more compared to the volume of transactions of the previous year. A higher increase in the use of cards was observed during 2020 as a result of the pandemic with the aim of reducing the possibility of the spread of the COVID-19 during the process of making payments, which is seen to have continued in 2021. Further, the amendment of the regulation on electronic payment instruments, which eliminated customer fees when making payments at the bank's POS terminal, turns out to have had an impact on the increase in card payments.

Table 4. Number of transactions at POS terminals in the last three years

| | 2019 | 2020 | 2021 |
|---|-----------|------------|------------|
| Total number of transactions at POS terminals | 6,662,772 | 10,354,292 | 10,593,763 |
| Annual growth percentage | 14.4 % | 55.4% | 2.3% |

Source: Central Bank of Kosovo

During the reporting period, no study was conducted regarding the property price assessment process, real estate registration in the event of first time purchase or transfer so that the value of the registered asset reflects the current market value. However, MFLT publishes annual reports of the mass assessment of real estate for property tax purposes for each Municipality.

The address unification project is in progress. During the reporting period, out of 55 consultants needed to help the Municipalities in updating the data for the Address System in the ARIS application, twenty-one (21) of them were recruited, while the procurement procedure for the recruitment of thirty-four (34) other consultants is underway. Four (4) consultants were recruited in the Kosovo Cadastral Agency to assist the Address Unit in managing the activities for the address system. The technical specifications for placing street signs and building numbers for the remaining municipalities have also been prepared. At the initiative of the Prime Minister's Office and with the support of GIZ, a pilot project is being implemented to link addresses with the Civil Registry in the municipalities of Istog and South Mitrovica. The results of this pilot project will serve to link addresses with the Civil Registry in all other municipalities.

Within the framework of the legal infrastructure, the tax on personal income in TAK, including from non-business individuals, has so far been made within the annual declaration for personal income. From January 1, 2023, natural persons will declare Personal Income Tax for Individuals through a special form DI (Individual Declaration). Whereas, the preparation of the concept document related to the

submission of the annual family declaration of personal income tax to TAK, including from non-business natural persons, has not yet been implemented.

The challenge in combating informal economy remains the execution of employee salaries through bank transfers. In this direction, undeclared work continues to be the key factor in not fully realizing this goal. The Law on Administration of Tax Procedures will include the provision which obliges that the salaries of the employees from the employer's side be made through the banking system. This law is expected to be released for public consultations soon and then proceed further.

On the other hand, the Tax Administration of Kosovo has continued to equip businesses with fiscal cash registers, the number of which is increasing. The following table presents the number of fiscalized businesses during the reporting period.

Table 5. Number of fiscalized businesses during period 2021-2022

| | 2021 | 2022 |
|-------------------------|-------|-------|
| Number of businesses | 3,009 | 3,826 |
| Number of installed EFE | 4,387 | 5,487 |

Source: Tax Administration of Kosovo

With regards to visit about not issuing fiscal coupons, the following table presents the number of visit for equipment with fiscal cash register, number and value of fines for period 2021-2022.

Table 6. Number of visits to businesses about equipment with fiscal cash register, number and value of fines for period 2021-2022

| | 2021 | 2022 |
|--|-----------|---------|
| Number of visits for equipment with fiscal cash register | 3,200 | 1,340 |
| Number of fines | 1,223 | 444 |
| Value of fines (EUR) | 187,850 | 71,625 |
| Number of visits about not issuing fiscal coupons | 4,954 | 2,628 |
| Number of fines | 6,826 | 3,022 |
| Value of fines (EUR) | 1,438,550 | 710,500 |

Source: Tax Administration of Kosovo

Regarding the implementation of the electronic invoice in the new IT system, despite the maximum commitment of TAK to implement it, such a thing has not been achieved, since the Economic Operator has failed to implement the E-Invoice.

In relation to the supplement/amendment of the Law on Financing of Political Parties, the Law entered into force on 20.09.2022. This Law defines additional responsibilities for the Office for Registration, Certification and Financial Control of Political Entities (ORCFCE), where the selection of licensed auditors for auditing the annual reports of political parties will be initiated and supervised by ORCFCE.

On the other hand, as regards the independent audit of political parties' finances, the annual financial reports of political parties for 2021 have been published, but are not audited. Whereas, the audited reports for 2022 are expected to be published by the Central Election Commission in June 2023.

Within the Kosovo Police, specifically within the structure of the Directorate for the Investigation of Economic Crimes and Corruption, there is an office for Asset Recovery. This office operates since 2018. Until now, this office has worked with international cases/requests through ILECU, the requests of the international organization Carin, as well as international legal aid through Prosecution Authorizations for the identification of assets. During 2021, the Unit for the return of confiscated assets handled 41 requests, among which 15 were authorizations from the Prosecutor's Office, 10 cases through ILECU and 16 cases through the Carin network. Whereas during 2022, a total of sixteen (16) requests from different countries and 12 Authorizations from the competent Prosecutor's Offices were handled.

Moreover, regarding the establishment of the confiscation fund, a working group was established by the Ministry of Justice during the reporting period for the drafting of this policy, through the Concept Document for the establishment of the confiscation fund. This Concept Document was approved by the Government of the Republic of Kosovo on June 23, 2022. According to the Option recommended in this Concept Document, the Law on Administration of Seized and Confiscated Property (LASCO) as well as the Annual Budget Law will be amended/supplemented.

Throughout the reporting period, the Kosovo Police and the State Prosecutor's Office have conducted investigations in the field of financial crimes which have resulted in the filing of indictments as well as the confiscation of assets acquired through criminal offenses in accordance with FATF recommendations. The Kosovo Police conducts financial investigations in all cases where illegal profit of property is suspected. Within the Kosovo Police, there are two Sectors that conduct Financial Investigations and for 2021, investigations were conducted for 71 cases, while in 2022, investigations were conducted for 60 cases. The Kosovo Police has recently attached great importance to parallel financial investigations in the cases it investigates. During 2022, parallel financial investigations were conducted for 4 cases. Meanwhile, the State Prosecutor's Office has continued with its activities, with the value of freezing/seizure for 2021 is up to EUR 14,238,163.89 and the final confiscation EUR 772,819.42. While for 2022 the freezing/seizure reaches the value of EUR 20,728,965.42 and the final confiscation EUR 669,765.14.

Regarding the increase of investigative activities for criminal offenses against the economy as defined in the Criminal Code of Kosovo, the responsible institutions have successfully implemented their activities as follows:

Kosovo Police – For 2021, based on the Criminal Code of the Republic of Kosovo, the Criminal Offenses related to Economic Crimes are: Chapter XXV criminal offenses against economy with 82 criminal offenses; Chapter XXVI criminal offenses against property with 23 criminal offences; Chapter XXXI criminal offenses against the administration of justice and public administration with 56 criminal offences; Chapter XXXIII Official corruption and Offenses against official duty with 178 criminal offenses or a total of 339 criminal offenses. As for 2022, the Criminal Offenses related to Economic Crimes are: Chapter XXV criminal offenses against the economy with 61 criminal offenses; Chapter XXVI criminal offenses against property with 31 criminal offences; Chapter XXXI criminal offenses against the administration of

justice and public administration with 56 criminal offences; Chapter XXXIII Official corruption and Offenses against official duty with 172 criminal offenses, or a total of 320 criminal offenses.

State Prosecutor's Office has developed the activities presented in the table below during the reporting period.

Table 7. Activities related to criminal offenses of economic crimes, money laundering, organized crime and corruption within the State Prosecutor's Office for period 2021-2022

| | 2021 | 2022 |
|--|-------|-------|
| Criminal offenses of economic crimes | | |
| Number of criminal cases | 467 | 398 |
| Number of persons | 644 | 593 |
| Number of actions/decisions taken | 426 | 304 |
| Criminal offenses of money laundering | | |
| Number of criminal cases | 9 | 14 |
| Number of persons | 19 | 24 |
| Number of actions/decisions taken | 27 | 20 |
| Criminal offenses of organized crime | | |
| Number of criminal cases | 19 | 14 |
| Number of persons | 148 | 116 |
| Number of actions/decisions taken | 176 | 66 |
| Criminal offenses of corruption | | |
| Number of criminal cases | 485 | 560 |
| Number of persons | 1,046 | 1,140 |
| Number of actions/decisions taken | 707 | 89 |

Source: *State Prosecutor's Office*

Kosovo Customs - During 2022, in the field of customs investigation, 91 new cases were initiated for investigation and 69 criminal reports were submitted to the responsible prosecutors, where sufficient evidence was provided that we are dealing with evasion of customs duties in the amount of EUR 2.87 million, and goods in the amount of EUR 1.86 million were seized. The value of goods seized from criminal offenses has increased by 36% compared to 2021, while the number of arrested persons has increased by 23%.

Table 8. Investigative customs activities for criminal offenses against economy for period 2021-2022

| | 2021 | 2022 | Difference |
|--------------------------------|--------------|--------------|------------|
| New cases under investigation | 96 | 91 | -5.20% |
| Criminal reports | 84 | 69 | -18.82% |
| Value of proved evasions (EUR) | 2,714,962.41 | 2,873,093.20 | 5.82% |
| Value of seized goods (EUR) | 1,376,181.59 | 1,868,951.67 | 35.80% |
| Number of interviewed persons | 136 | 201 | 47.79% |
| Number of arrested persons | 13 | 16 | 23.07% |

Source: Kosovo Customs

Further during 2022, KC has initiated 1,795 customs offenses for evasion of customs duties and smuggling of goods, with a value of goods of EUR 6.2 million, as well as imposed fines in the amount of EUR 1.8 million.

Table 9. Customs violations, value of offending goods and imposed fines for period 2021-2022

| | 2021 | 2022 | Difference |
|--------------------------------|--------------|--------------|------------|
| Number of offenses | 1,774 | 1,795 | 1.18% |
| Value of offending goods (EUR) | 4,107,699.30 | 6,258,497.58 | 52.36% |
| Value of imposed fines (EUR) | 1,366,161.77 | 1,852,666.00 | 35.61% |

Source: Kosovo Customs

The Tax Administration of Kosovo has continued with the treatment and investigation of cases related to tax evasion as shown in the table below.

Table 10. Treatment and investigation of tax evasion for period 2021-2022

| | 2021 | 2022 |
|---|--------------|--------------|
| Activity and verification of accurate statements | 68 | 101 |
| Interviews | 144 | 148 |
| Consultations with prosecutors | 150 | 73 |
| Open cases | 58 | 25 |
| Criminal reports (reports of initial suspicion) | 35 | 16 |
| Raids | 3 | 1 |
| Final investigation reports | 27 | 14 |
| Information of third parties | 263 | 255 |
| Results from tax evasion without penalties and interest (EUR) | 2,223,894.00 | 3,542,603.20 |

Source: Tax Administration of Kosovo

Regarding the Concept document on the improvement of legislation on Prevention of Money Laundering and Combating the Financing of Terrorism in accordance with EU practices, the recommendations of PECK II, the 2018 Country Report for Kosovo and SAA (Article 89), in 2022 the following documents were approved:

- Law No. 08/L-146 on Implementation of Targeted International Financial Sanctions
- Concept Document on the Register of Beneficiary Ownership.

While during 2022 the substantive part of the Concept Document for legislation on the prevention of money laundering and combating the financing of terrorism (ML/FT) was finalized. The concept document has not yet been approved.

On the other hand, TAK has continued to increase the number of visits and controls based on risk assessments, where in 2021 it carried out a total of 1,449 controls based on risk, while in 2022 a total of 1,933 controls were completed, 1,278 of which are risk based controls.

Table 11. Number of controls and value of tax evasion (euro) for period 2021-2022

| | 2021 | 2022 |
|--------------------|---------------|---------------|
| Number of controls | 1,449 | 1,933 |
| Basic tax | 39,426,628.16 | 32,621,989.06 |
| Penalty | 11,178,052.97 | 11,982,828.72 |
| Interest | 7,511,709.54 | 4,786,567.39 |
| Total tax | 58,116,390.67 | 49,391,385.17 |

Source: Tax Administration of Kosovo

During the tax period 2021-2022, a series of visits and activities were conducted, which are presented below:

Table 12. Overview of data related to visits and activities for period 2021-2022 by Regional Directorates (EUR)

| | 2021 | 2022 |
|--------------------------------------|-------------|----------------|
| No. of visits and activities | 40,415 | 36,855 |
| No. of registered employees | 3,758 | 4,130 |
| No. of fines on goods without origin | 326 | 470 |
| Value of goods without origin | 510,389 | 1,346,742.22 |
| Penalty of 25% | 125,341 | 324,932.45 |
| Lack of stocks | 25,508,214 | 414,503,190.08 |
| No. of mandatory fines | 13,723 | 12,053 |
| Value of mandatory fines | 2,812,000 | 3,648,200.00 |
| Additional turnover | 135,058,173 | 199,877,722.58 |
| Additional tax | 9,209,990 | 11,737,620.62 |
| Credit deduction | 5,653,317 | 6,976,163.64 |
| Loss deduction | 6,210,984 | 7,203,658.32 |

Source: Tax Administration of Kosovo

The Law on Tax Administration and Procedures, developed by the working group established by MFLT, is in the final stages and is expected to be out for public consultations soon.

Specific Objective 1.3 aims the qualitative improvement of the institutional capacities and coordination for better implementation of the approved policies.

This objective includes twelve (12) activities, nine (9) or 75% of which were implemented, while three (3) or 25% were not implemented.

During the reporting period, businesses in the country have continued with the updating and classification of activities according to the international nomenclature (NACE rev.2) and the exchange of this information between KBRA, TAK and KAS has also continued.

Regarding the intensification and coordination of activities between TAK and the former MLSW, in order to identify and register unregistered workers, during the reporting period TAK conducted several activities and developed a special project for informal employment, which was shared with all taxpayers, stakeholders, different associations, etc. Further, based on the risk analysis, there were activities and controls to combat informal employment. The project was designed and started to be implemented from 2021. Based on the activities proposed by the risk analysis for 2021, 3,817 employees were identified as undeclared by employers, 405 visits were conducted, while for 2022, 4,130 employees were identified undeclared, five (5) controls and 584 visits were carried out.

Whereas, the memorandum of understanding between the Ministry of Justice and MFLT/TAK has not yet been reached to ensure the exchange of data by notaries for transactions in real estate, cars and rent, which as a minimum should provide information on the number of transactions, the type, address, value and subject. TAK is currently provided with access to this data upon request. The draft law on Tax Administration for TAK includes a special legal provision which obliges notaries to submit to TAK the information for all sales and purchase contracts from legal entities, natural business persons and natural non-business persons. The draft law is in the stage of preliminary discussion.

During the reporting period, it was not possible to develop and introduce new modules of fiscal programs to improve fiscal forecasts for incomes across sectors. For the introduction of the new models it is necessary for the new staff to first become fully familiar with the existing model as well as with the IMF's Income Forecasting online course and then continue with the preparatory steps of developing the new frameworks forecasting the specific income items for the sector. As a result, due to the large turnover of staff during 2021 and 2022 within the Division of Macroeconomics within the MFLT, the activity was not implemented.

On the other hand, FIU-K continuously updated and published the list of high risk countries on the official website of FIU.

During 2021, FIU-K designed and developed two risk assessment methodologies:

- Methodology "Tools for Assessing the Risk of Money Laundering and Financing of Terrorism of Legal Entities for Kosovo".

- The methodology of the Council of Europe in cooperation with the Western Balkan States and Turkey for the Specific Risk Assessment for the financing of terrorism through the NGO sector.

Whereas during 2022, FIU-K designed and developed three risk assessment methodologies with the support of international projects:

- Methodology for the Assessment of Money Laundering in the Banking Sector and banking products

- Methodology for the risk assessment of sectoral financing of terrorism of non-profit organizations (NGOs)

- The tool for assessing the cross-border risk of money laundering and terrorist financing of legal entities for the Balkan countries.

Regarding the increase in the coordinated actions (control/inspection) of the FIU and law enforcement bodies in high-risk businesses (part of the list identified by the FIU), in 2021, 31 compliance inspections were carried out in different sectors, while 27 compliance inspections were carried out in 2022. Together with other institutions, such as CBK coordinated and joint inspections were carried out in exchange institutions.

At the request of FIU, the Kosovo Police carried out 31 coordinated controls/inspections during 2021 with FIU and other law enforcement authorities in high risk businesses, while 27 were carried out during 2022. During 2021, the Kosovo Customs submitted 34 requests to FIU related to suspicious transactions, and received 10 requests answers from FIU. During 2022, KC submitted 9 requests to FIU related to suspicious transactions, and received 3 requests with answers from FIU, and 10 notes/information on non-declaration of monetary funds were submitted.

Regarding the increase in inspections and compliance supervision activities in notary offices and real estate agencies, in order to assess the compliance of reporting entities with the Law on PPP and FT, in 2021 FIU carried out 24 inspections in the Notary sector, and 20 inspections in 2022.

Regarding the functional cooperation from TAK and KC with foreign tax and customs administrations through the signing of MOUs, for strengthening international information sharing, especially related to the parent company or those of the line, Kosovo Customs has opened offices of goods clearance in the sea ports of Durres and Porto Romano. The Protocol for the recognition of sealing locks between the Customs of the Republic of Albania and the Customs of the Republic of Albania was signed, and the implementing Protocol for the operation of risk profiles was signed in the implementation of the procedures for the transit of goods through the territory of the Republic of Albania to the territory of Kosovo and vice versa. Meanwhile, TAK currently has two agreements with two countries: Albania and Estonia. Although there are currently 21 agreements for the elimination of double taxation (METD), which specify through special articles the exchange of data with these countries.

In order to increase the quality of the monitoring and criminal procedures of constructions to reduce illegal construction and the construction of buildings that do not meet the required specifications, MESPI Inspectorate, the Construction and Planning sector, during the reporting period, has carried out fifty-three (53) inspections of economic entities, natural entities and the municipal inspectorate. Two criminal reports were filed with the basic prosecution offices for the identified violations.

During the reporting period, KAS has continued with increasing the capacities of the staff in the Division of Informal Economy and Government Accounts. However, due to the lack of technical assistance, the training on "Forecast consolidation" of the Fiscal Policy Division was not held.

Specific Objective 1.4 aims to reduce informal employment in Kosovo. The activities foreseen within this objective are of an awareness nature for the public and the improvement of working conditions for the implementing bodies.

This objective includes a total of eleven (11) activities, seven (7) or 64% of which were implemented, while four (4) or 36% were not implemented.

Regarding the organization of informative campaigns for the public and employers, MFLT in cooperation with the Labour Inspectorate, TAK, MAFRD and other partners during 2021 developed the concept of the first information campaign with a focus on raising the awareness of workers and companies about the benefits of declared work. The campaign "Earn. Declare. Benefit" is based on the idea of an EU-wide social media campaign led by the European Commission and implemented in EU Member States in 2020. The campaign was launched in June 2021 through the organization of a Conference where the

concept of the campaign and the presentation of the Report on the analysis of the state of the sector and good practices were presented. Meanwhile, during 2022, MFLT designed the concept of the next information campaign for labour rights. The implementing institutions were the Labour Inspectorate and TAK. Other implementing partners were ILO, UN WOMEN and NGOs that promote and advocate for labour rights, with a focus on undeclared work. The campaign was launched in December 2022, and continues to be implemented in 2023. The slogan of the campaign is "Decent work for a decent life". Within the activities, formalization of jobs takes increased attention in this campaign. In December, a one-week campaign was also organized together with TAK for the formalization of jobs and social dialogue. The campaign was organized in cooperation with the NGO "IKS", in 5 regions with groups of women and young workers and employers in the production sector.

As for the engagement of stakeholders and the general public in addressing informal employment, treatment of undeclared work and the involvement of interest groups has continued throughout 2021 and 2022. The key institutions in the fight against undeclared work (TAK and LI) have increased the level of cooperation in addressing undeclared work. The involvement of civil society has been emphasized in the promotion of undeclared work. Through the promotion of labour rights and the expansion of interest in strengthening social dialogue at the country level, MFLT has managed to include NGOs as implementing partners in the promotion of undeclared work together with two international organizations (ILO and UN WOMEN).

The situational analysis report and the evaluation of the best feasible practices of Kosovo in the reduction of undeclared employment (six sub-reports/analyses) was drawn up and published in 2021. This report also includes an analysis regarding the creation of the register of employees in Kosovo.

Regarding the preparation of the guide for the assessment methodology for the degree of risk of cases/prioritization and the establishment of the inspection plan and the training of the relevant staff in the use of the methodology, the activity was not developed as it is related to the development of the information system of the Labour Inspectorate.

Currently, the information system is being built within LI in cooperation with donors. Meanwhile, TAK, namely the Department of Risk Analysis, has methods of assessing the degree of risk for each case and prioritizes and sets the plan for treatment on an annual basis.

Regarding the development of the manual/action procedures for inspection, the Manual on Inspection Procedures has been drafted and submitted to the Labour Inspectorate.

The construction of a monitoring system and performance appraisal system of inspectors is in the process of implementation. With the support of donors, the process of drafting the new IP Development Plan has started. In the framework of this plan, all the steps for the reform of LI are defined.

Whereas, related to the capacity development trainings for inspectors, this activity is a continuous part of the system within the institution. During 2021, adequate training was developed to address undeclared work. Two trainings were organized with the 5 regional IP coordinators and other IP officials where the new manual for inspection procedures was presented. There were also trainings in other specific fields. Moreover, during 2022, training was developed for the field of inspection in handling cases of employment of persons with disabilities. In the framework of the trainings, the IP has prepared the Plan

for the Development of Trainings and raising the capacities of labour inspectors. This plan is now placed within the IP Development Plan which is expected to be approved soon.

Regarding the functionalization/construction of the Information Management System, during 2022 LI has continued cooperation with the ILO (International Labour Organization) for the conceptualization and development of the electronic platform for inspections, information management and CRM (Customer Relation Management). The activity is supported by SIDA and is expected to continue and be completed during 2023.

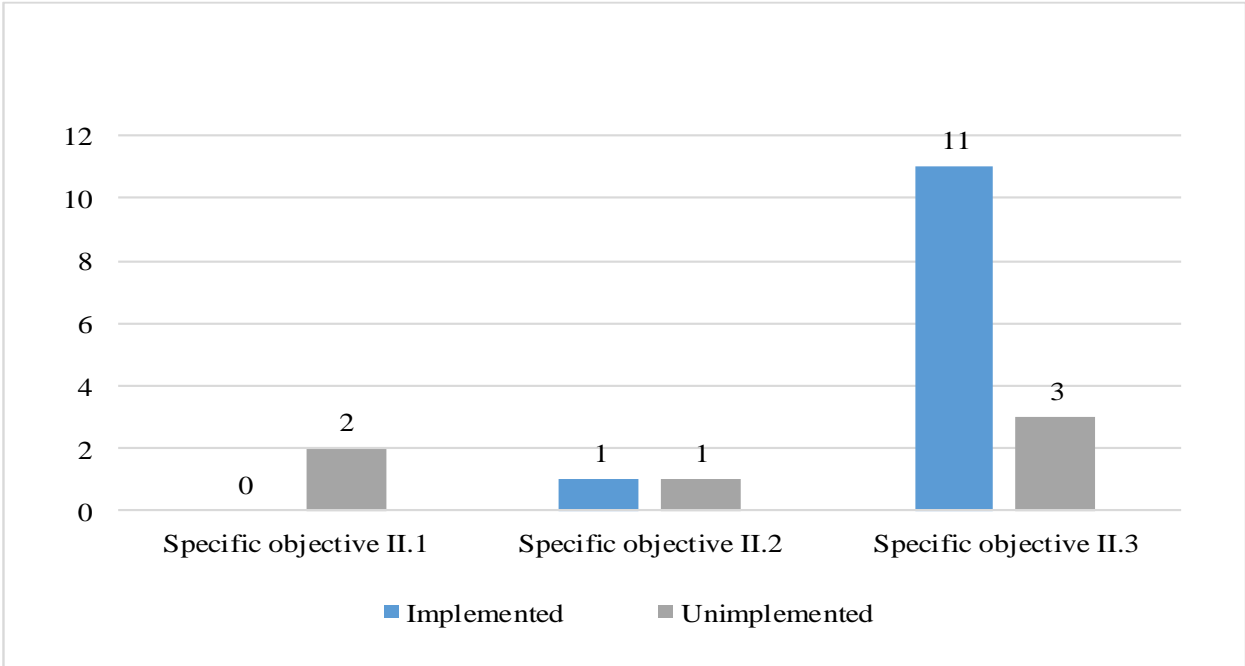
MFLT has continued equipping inspectors with work tools, and during 2022, 20 computers were purchased for the staff of the Labour Inspectorate. Meanwhile, there have been no developments regarding the equipment of the Labour Inspectorate with vehicles.

2.2 Progress towards Strategic Objective II

This objective aims to increase financial resources for public services as a result of additional tax revenues and confiscation of illegal assets. The direct result of the informal economy is the reduction of tax revenues in the budget of Kosovo and the existence of illegal private assets. Both of these consequences affect the amount of resources used for public services and also increase the level of inequality and injustices that have a negative impact on the stability and internal harmony of the Kosovar society.

Strategic objective II includes a total of eighteen (18) activities, twelve (12) or 67% of which were implemented, while six (6) or 33% were not implemented.

Chart 3. Implementation of activities under Strategic Objective II for period 2021-2022



Source: National Strategy of the Republic of Kosovo for the Prevention and Combating of the Informal Economy, Money Laundering, Financing of Terrorism and Financial Crimes 2019-2023

Specific objective 2.1 aims to improve quantitative data to enable the development of policies that effectively contribute to the reduction of the informal economy.

This specific objective contains a total of two (2) activities which were not implemented.

Regarding the impact assessments of the policy measures published by the Kosovo administration targeting informal economy (Impact Assessments), due to the pandemic but also the lack of staff and its large turnover, MFLT has not implemented the activity.

With regards to studies or assessments in the field of informal economy according to international standards regarding the tax gap, in cooperation with the World Bank, MFLT has developed the preliminary tax gap assessment in Kosovo based on the Household Budget Survey of KAS for the period 2015-2017 for the assessment of VAT and TAP. The working group includes TAK and KAS. The data has not not been published yet.

Specific objective 2.2 targets the quantitative increase of voluntary compliance at raising awareness, reporting and legal measures of restriction.

This specific objective contains two (2) activities, one (1) of which was implemented and the other was not.

Regarding the reduction of the threshold related to transactions between businesses which are made in cash (currently EUR 500), the draft law on Administration of Tax Procedures includes a provision that reduces the threshold for transactions between businesses which are made in cash from EUR 500 to EUR 100.

With regards to the design of software for fiscal cash registers to provide information regarding the number of issued fiscal coupons, time and items in real time (online), the Consortium (Interadria & Accent) responsible for the implementation of the Fiscal Electronic Equipment Management System in coordination with TAK, is improving and adjusting the problems found during the use of the system. 7 models of Fiscal Electronic Equipment have been certified (4 Fiscal Cash Registers, 2 Fiscal Printers and 1 Fiscal System for Derivatives) and the total number of new PEF installed during 2022 has reached 4,686 pieces.

Specific objective 2.3 aims at the quantitative improvement of institutional capacities and coordination for better implementation of the approved policies. This specific objective has a total of fourteen (14) activities, of which eleven (11) or 79% have been implemented, while three (3) or 21% were not implemented.

Regarding the revision of standard forms for the exchange of electronic and physical data in order to shorten the time of information flow in inter-institutional and international communication, almost all important institutional systems have been integrated into the Inter-Operability Platform (IP-GG), which enable the safe exchange of information, thus enabling the provision of best services to citizens, businesses, NGOs as well as the state administration itself at central and local level. There are around 20 systems in this Platform (Systems providing data through GG), which provide different information for over 60 other

systems (Systems consuming data through GG). As for the exchange of data at the international level, the country is in negotiations with the regional countries since none of the countries have developed this platform as required. MPA is waiting for the meeting which is expected to be held in Estonia, which will decide on the implementation of the system, namely the exchange of data at the international level.

On the other hand, KAS is in the process of compiling the Supply/Use Table for the years 2014-2016. Additionally, with the EU/SIDA project these tables are being compiled for 2019 as well. This data will be published in Q4 2023.

Regarding the improvement of the capacities of fiscal forecasts for revenues across sectors through the installation of new modules in addition to the fiscal programming model the activity was not implemented due to the high staff turnover (especially during 2021 and 2022) in the Division of Macroeconomics, which deals with forecasts macroeconomic.

Regarding the expansion of inspections in the construction sector and NGOs related to FT (Financing of Terrorism) and ML (Money Laundering), where inspections on certain entities that present a higher risk, are based on financial, tax and criminal intelligence (Targeting the construction sector) during 2021, FIU did not carry out any inspections in the construction and NGOs sectors related to FT/ML, however, during 2022, 20 inspections were carried out in the Notary sector. Meanwhile, TAK has started the project related to the expansion of inspections in the high-risk construction sector since 2019. For 2021, in the construction sector, based on risk analysis, 179 inspections with additional tax in the amount of EUR 10,881,459 have been completed, and 379 visits have been conducted. However, 205 inspections and 110 visits have been completed based on risk analysis for 2022 in the construction sector.

During the reporting period between, the joint group between KC-TAK was operationalized for the treatment of goods with a high risk of tax evasion. Areas of common interest have been defined and the action plan for joint teams to combat the informal economy for 2023 has been drawn up. In particular, working groups have been established which are coordinating activities for dealing with high-risk sectors, like mobile phone shops, imports from China and Turkey, importers of gold and gold jewellery, technology imports from China, car imports and raw material exemptions.

Progress has also been achieved in combating the smuggling of goods. According to Kosovo Customs, during 2021, the Anti-Smuggling Unit implemented 76 joint operational plans with other law enforcement agencies in order to combat the smuggling of goods, while during 2022, this unit implemented 92 operational plans or 21% more than in the previous year. In cooperation with the Kosovo Police, the Anti-Smuggling Units within the country, namely in Zveçan, discovered an illegal laboratory which contained about 10,000 narcotic plants worth about EUR 6 million, while the value of the seized laboratory is estimated to be about EUR 1.5 million. Additionally, during customs checks on various cargoes of goods, customs officers in cooperation with the Kosovo Police in two cases detected 83.6 kilograms of heroin as well as 70 kilograms of narcotics of the captagon type, which were then handed over to the Kosovo Police for further investigations.

During 2021, the Kosovo Police, namely the Department of Investigations in coordination with the Border Police, exchanged 377 pieces of information and carried out eight (8) joint investigations, eleven (11) joint operations, and held a total of fourteen (14) joint operational meetings. The Border Police, which mainly deals with the smuggling of goods, reported that it has initiated 171 cases for the criminal offense

of smuggling goods, implemented thirty-five (35) operational plans, and organized twenty (20) joint operations with other institutions. Whereas in 2022, in the field of inter-institutional cooperation in coordination with the Border Police, 395 pieces of information were exchanged and eighteen (18) joint investigations were carried out, thirty-five (35) joint operations and a total of sixty-three (63) joint operational meetings. Whereas the Border Police, which mainly deals with the smuggling of goods, reported that it has initiated 140 cases for the criminal offense of smuggling goods, carried out twenty (20) operational plans, and organized eleven (11) joint operations with other institutions.

As for the activities undertaken for the prevention of goods that violate intellectual property rights, during 2022, KC initiated 612 cases for verification of goods that are suspected of violating intellectual property rights, or 72% more than in 2021. A total of 968,980 articles/goods suspected of infringing intellectual property rights were collected for verification. Counterfeit goods worth EUR 8.7 million were confiscated, and 212,253 items worth EUR 7.2 million were destroyed.

Table 13. Activities undertaken to prevent goods that violate intellectual property rights for period 2021-2022

| | 2021 | 2022 | Difference |
|----------------------------------|--------------|--------------|------------|
| Verified cases | 355 | 612 | 72.39% |
| Verified articles | 623,271 | 968,980 | 55.46% |
| Value of confiscated goods (EUR) | 5,299,041.00 | 8,757,724.00 | 65.26% |
| Number of destroyed articles | 80,931 | 212,253 | 162.26% |
| Value of destroyed goods (EUR) | 3,351,423.00 | 7,271,912.00 | 116.97% |

Source: Kosovo Customs

Regarding the increased number of patrols of anti-smuggling units in order to fight smuggling, KC anti-smuggling units during 2022 carried out 1,571 patrols, 3,017 road stops, 7,433 checks at Border Crossing Points, 167 operational plans as well as 92 joint operational plans with other law enforcement agencies, where they filed 282 customs offenses for evasion of customs duties and smuggling of goods worth about 1.8 million EUR.

Table 14. Data on the number of patrols of anti-smuggling units for period 2021-2022

| | 2021 | 2022 | Difference |
|---------------------------------------|-----------|-----------|------------|
| Patrols | 1,511 | 1,571 | +4.00 % |
| Road stops | 3,919 | 3,017 | -23.01 % |
| Checks at BCP | 5,604 | 7,433 | + 32.63 % |
| Operational plans with other agencies | 76 | 92 | + 21.05 % |
| Detected offenses | 298 | 282 | -5.36 % |
| Value of detected goods (EUR) | 1,240,356 | 1,840,816 | + 48.41 % |

Source: Kosovo Customs

Regarding the application of post-import controls based on risk management and other information, in 2022 KC conducted 156 regular and unannounced post-import controls. A total of 100 decisions were issued for the collection of additional customs duties in the amount of EUR 4.7 million or 39.7% more than the previous year. In the post-clearance inspection phase, 39,461 customs declarations were inspected and goods worth an additional EUR 375 thousand were reassessed. KC managed to prevent frauds in the field of derivatives, namely frauds with tax exemptions for derivatives for production purposes as well as frauds with exemptions in the name of diplomatic missions, with the fiscal effect of prevention being over EUR 5.6 million.

On the other hand, regarding training on risk management, in 2021 TAK was supported by the IMF experts for risk parameters in the Department of Large Taxpayers (DLT), for which there should be other criteria from the general ones. During 2022, TAK held the following trainings: "Managing Compliance Risks after the Covid-19 Pandemic"; "Strengthening Tax Auditors Capability - Basic Skills"; "Tax Fraud in Digital Environment" and Calculation of the tax gap.

Similarly, in the field of law enforcement, in 2021, in cooperation with international partners, 23 trainings organized by Kosovo Customs were held, where 92 customs officers were trained. Whereas, during 2022, 36 trainings were held in cooperation with international partners such as: EXBS (Export Control and Related Border Security Program), CEPOL (European Union Agency for Law Enforcement Training), WCO (World Customs Organization), UNDP (United Nations Development Program) where 166 customs officers were trained.

Regarding trainings for criminal offenses against the economy and money laundering during the reporting period, a total of 64 prosecutors were trained as shown in the following table.

Table 15. Training of prosecutors on criminal offenses against economy and money laundering for period 2021-2022

| Host | Training topic | No. of participants | |
|--------------------|---|---------------------|------|
| | | 2021 | 2022 |
| Academy of Justice | Specialized Training Program Money Laundering and Financial Investigation – Session I | 11 | 20 |
| Academy of Justice | Specialized Training Program Money Laundering and Financial Investigation – Session II | 5 | 5 |
| Academy of Justice | Specialized Training Program Money Laundering and Financial Investigation – Session III | 17 | 6 |

During the reporting period, FIU also organized trainings for institutions that monitor activities in the construction sector on ML/FT, related to the prevention of informal economy and other financial crimes, especially in the construction and real estate sector (auditors and inspectors). During 2021, seven (7) training activities were held with the reporting entities, as follows: Seminar entitled "Treatment of Politically Exposed Persons as clients, identification of clients and suspicious activities, and Typologies of Money Laundering"; Workshop on the topic " National Risk Assessment for the Prevention of Money Laundering and Combating the Financing of Terrorism, Typology and Risks for ML/FT related to Covid-

19"; Webinar "Money Laundering Schemes with Virtual Currencies; Online conference entitled " National Risk Assessment of Money Laundering and Financing of Terrorism in Kosovo"; Webinar "presentation of Terrorism Financing Typologies"; Forum "Prevention of Money Laundering in the Economy" and their impact; Training/workshop with the banking sector and law enforcement agencies.

Meanwhile, during 2022, FIU-K developed training activities with the financial sectors and the free professions. The most important ones were: Strengthening the Public-Private Partnership in preventing and fighting ML/LFT; Workshop with the NGO sector; Training on BPCJFs (Notaries, Accountants, Auditors, Lawyers, etc.); Workshop with the financial sector and BPCJs on beneficial ownership; Training with Notaries; Workshop on risk-based surveillance; Periodic meeting with the Banks Association; Workshop on legislation in the field of ML/LFT; Training with the NGO sector; Workshop on legislation in the field of ML/LFT.

Regarding the development of professional skills in the field of PP/FT for Prosecutors, Judges, Investigators and Financial Intelligence, in 2021, 26 trainings, workshops and seminars were attended by the officials of FIU-K, while, during 2022, FIU-K participated in over 40 professional training activities in the field of ML/LFT. FIU-K officials are certified by ACAMS. In addition, KP carried out a number of trainings which in many cases were attended by Prosecutors, Judges, Financial Intelligence Investigators, etc. The trainings are categorized into Trainings at the country level and Trainings at the international level. During 2021, the following were held in the country: 19 trainings with 42 participants, 9 workshops with 38 participants, 2 work meetings with 4 participants, 1 seminar with 14 participants and 2 webinars with 7 participants. Courses held abroad include 6 trainings with 13 participants, 1 workshop with 1 participant and 3 working meetings with 3 participants. Whereas in 2022, 70 activities were carried out in the country, of which: 58 trainings, 8 workshops, 1 seminar, 1 lecture and 1 activity with practical exercises. 10 activities were carried out in the field of financial investigations/ML/LF, 5 activities were carried out in the field of corruption investigation, 8 activities were carried out in the field of economy and 47 activities in the field of other investigations. Meanwhile, 31 activities were carried out abroad with 9 participants: 8 technical and operational meetings, 19 trainings, 2 workshops, 1 study visit and 1 seminar. In the field of financial investigations/ML/LF, 8 activities were carried out, in the field of corruption investigation, 6 activities were carried out; in the field of economy, 2 activities were carried out, and 15 activities were carried out on other topics in the field of investigations.

3 Risks and future steps

3.1 Problems and risks

The pandemic situation in the country caused the beginning of the implementation of the National Strategy to face unpredictable challenges. With the undertaking of measures to fight the pandemic, the work of the implementing and reporting institutions of the National Strategy was also affected. As a result, some of the activities planned during the pandemic period were not carried out according to plan. Whereas, the stagnation in progress during the reporting period comes mainly as a result of the continuation of obstacles from the pandemic in the development of activities, lack of staff and the large staff turnover in key departments.

3.2 Future steps

After overcoming the situation with the pandemic, it is suggested that the responsible institutions increase inter-institutional cooperation, prioritizing the activities of the National Strategy and their implementation according to the established deadlines.

Regarding Strategic objective 1, in order to overcome the reported delays, it is suggested to reschedule the deadlines for the implementation of activities by the responsible institutions, prepare the legal infrastructure for the implementation of the activities of the National Strategy, document the work processes in departments with a large turnover of workers and increase the capacities of the relevant staff for the implementation of the activities specified in the National Strategy.

Similarly to Strategic Objective II, it is suggested to reschedule the implementation deadlines of activities affected by the pandemic and document work processes in departments with high staff turnover.

Appendix 1

Organogram of the supervisory and implementation mechanisms of the National Strategy

The National Strategy identifies the obliged institutions and their responsibilities regarding the drafting, review, approval, implementation and supervision of the Strategy and Action Plan. The mechanism for drafting, revising, approving, implementing and supervising the National Strategy is illustrated in the chart below.

Chart 4. Organogram of the supervisory and implementation mechanisms of the National Strategy

