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**Republika Kosova - Republic of Kosovo**  
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*Ministria e Financave, Punës dhe Transfereve - Ministarstvo Finansija, Rada i*  
*Trasfera - Ministry of Finance, Labour and Transfers*

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

**MINISTRY OF FINANCE, LABOR AND TRANSFERS**

November 2022, Pristina, Kosovo

## List of abbreviations

CBK – Central Bank of Kosovo

CEC – Central Election Commission

EU- European Union

FIU – Financial Intelligence Unit

DFPFM – Financial markets and Fiscal Policies Department

IFCMPD – International Financial Cooperation and Macroeconomic Policies Department

IMF – International Monetary Fund

KAS – Kosovo Agency of Statistics

KBRA - Kosovo Business Registration Agency

KC – Kosovo Customs

KP – Kosovo Police

MF – Former Ministry of Finance

MFLT – Ministry of Finance., Labor and Transfers

MIET – Ministry of Industry, Entrepreneurship and Trade

ML – Money Laundering

MLSW – Former Ministry of Labor and Social Welfare

MoJ – Ministry of Justice

MPA – Ministry of Public Administration

NDS – National Development Strategy

SAA – Stabilization Association Agreement

TAK – Tax Administration of Kosovo

TF – Terrorist Financing

VAT – Value Added Tax

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## General information

### Overall progress

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 targets 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 first semester report on the implementation of the National Strategy since its approval at the end of the second quarter of 2019, and includes the reporting period January-June 2022. The report is based on the Action Plan and reflects the fulfillment of activities within of strategic and specific Objectives. 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, Labor and Transfers (MFLT).

During the reporting period, in regard to Strategic Objective I, it can be highlighted that, what was intended, it has been partially achieved. This Objective contains four (4) specific Objectives and a total of fifty-three (53) activities, out of which twenty (20) or 38% of them have been implemented, twenty (20) or 38% are in the process of implementation, whereas thirteen (13) or 25% have not been implemented.

In the framework of Strategic Objective I, better performance was achieved in the field of assessment and use of data related to the informal economy by the relevant institutions, the increase in the number of businesses equipped with fiscal cash registers, the increase of coordinated actions for control and inspection in high-risk businesses, the initiation of financial investigation for cases where corruption and other criminal offenses are suspected, and the increase of investigative activities for criminal offenses against the economy.

Whereas, the activities in which there was a stagnation during the reporting period are: the realization of the survey for agricultural land prices, the continuous publication of data in the field of public finances

pursuant to the open data format in the National Open Data Portal, the reflection in the annual report of the implementation of the National Strategy of the income from the informal, gray and black economy, the realization of the payments of the employees by the employer through the banking system, the amendment of the Law on Tax Administration and Procedures, the development and presentation of the modules new of fiscal programs to improve fiscal projections for revenues in sectors, and equipping inspectors with working tools and vehicles.

In regard to Strategic Objective II, it can be concluded that it has been fulfilled in most of it. This Objective contains three (3) specific Objectives and a total of eighteen (18) activities, out of which eleven (11) or 61% have been implemented, two (2) or 11% are in process, whereas five (5) or 28% are not implemented.

Considerable progress within this Strategic Objective was marked in the establishment of joint groups between KC and TAK in order to control goods that are categorized as having a high risk of tax evasion. Also, good performance was recorded in the investigation and implementation of joint operations; aimed at combating the smuggling of goods, the increase in the number of anti-smuggling patrol units for combating smuggling, the increase of the activities undertaken in the prevention of goods that violate the Intellectual Property Right-IPR, the realization of trainings in TAK related to the field of risk management, and in KC in the field of law enforcement, trainings of Prosecutors for the criminal offense of economic crime and money laundering, trainings for institutions that monitor activities in the construction sector on ML/CFT related to the prevention of the informal economy and other financial crimes, as well as raising the professional skills of Prosecutors, Judges, Investigators and Financial Intelligence officers in the field of money laundering and terrorist financing.

Whereas, the activities in which there was a stagnation during the reporting period are: performing of impact assessments of policy measures targeting the informal economy, assessing the tax gap according to international standards, lowering the threshold related to transactions between businesses concluded in cash, designing software for fiscal cash registers to provide information regarding the number of fiscal coupons issued, time and items in real time (online), and the improvement of capacities of fiscal projections on revenues across sectors, by the installation of new modules alongside the fiscal programming model.

## Problems and risks

The pandemic situation in the country influenced the beginning of the implementation of the National Strategy to face unpredictable challenges. Considering the measures on fighting the pandemic, the work of implementing and reporting institutions of the National Strategy has also been affected. As a consequence, some of the activities planned during the pandemic period were not realized according to the plan.

Whereas, the stagnation in progress during the reporting period comes mainly as a result of the continuation of impediments from the pandemic in the realization of activities, the lack of staff, and the high staff turnover in key departments.

### Future actions

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

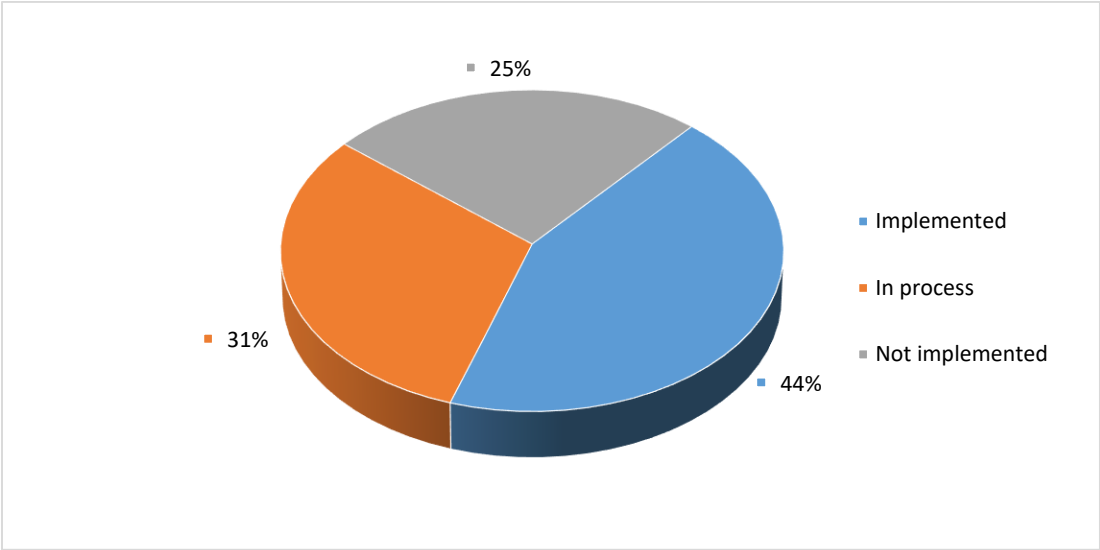
Regarding Strategic Objective I, in order to overcome the reported stagnations, it is suggested to reschedule the deadlines for the implementation of activities by the responsible institutions, prepare the legal infrastructure for the implementation of the National Strategy activities, documenting the work processes in departments with a large movements of employees, and increasing the capacities of the relevant staff for the implementation of the activities specified in the National Strategy.

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

### Detailed information on implementation of activities

Regarding the progress recorded in the implementation of the National Strategy during the period January-June 2022, it is worth noting that after the improvement of the pandemic situation, the institutions responsible for the implementation of the activities of the National Strategy 2019-2023 have worked more intensively in the implementation of the activities on combating the informal economy, money laundering, terrorist financing and financial crimes. As a result of this, as seen in Chart 1, in the first half of 2022, out of a total of 71 planned activities, thirty-one (31) or 44% of them have been implemented, twenty-two (22) or 31% are in the process of implementation, whereas eighteen (18) or 25% of them have not yet been implemented.

**Chart 1:** Progress on the implementation of National Strategy for period January-June 2022



Source: The 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

The following table reflects the status of the implementation of the National Strategy activities, and continues with a description of short progress for each activity.

**Table 1: Implementation of activities of National Strategy 2019-2023 during period January-June 2022**

Activity	Deadline	Source of funding	Supporting and leading institution	Output	Reference to documents	Progress in implementation
<b>STRATEGIC OBJECTIVE I: 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</b>						
<b>Specific Objective 1: Qualitatively improved data to enable policy development that effectively contributes to the reduction of informal economy.</b>						
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	Budget	MF/DPMBNF	The reference and KAS surveys data on the unobserved economy are part of the studies/publications of MF macro fiscal projections	Official publications of the Ministry of Finance; Publications of KAS	Implemented
1.1.2 Ensuring compliance of statistics of KAS regarding informal economy in compliance with international standards and methodologies.	Q4 2020 and ongoing	Budget	KAS	Updated reporting of statistical indicators/data	KAS Official Publications	Implemented
1.1.3 Conducting the survey on agricultural land prices by KAS.	Q4 2021	Budget	KAS	- Approved KAS Annual Work Plan, which contains this activity,	KAS and MF publications	Unimplemented

				-Allocated budget - Survey carried out and published as foreseen by KAS		
1.1.4 Preparing an instruction on the Methodology of Impact Assessment of tax changes (Tax Expenditures), which is to be implemented prior to the approval of any proposed fiscal measure.	Q2 2019		<b>MF/ DFPFM</b>	Internal guideline and the relevant instruction drafted and approved	DFPFM reporting	Implemented
1.1.5 Specification of the following components of payments by taxpayers in the treasury: i) Fine ii) Penalty iii) Interest iv) Tax evasion v) Type of Tax	Q4 2019 and ongoing	Budget	<b>MF/Kosovo treasury; TAK</b>	- Improved and structured MF data on revenues of Kosovo. -Reports on the impact of preventive and punitive informality measures with reference to treasury data.	- MF publications - TAK publications	Implemented
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		<b>CBK</b>	Instructions or updates to relevant official instructions by CBK	CBK publications and reports	Implemented
1.1.7 Establishment of an inter-banking payment system with the purpose of stimulating payment by card and other forms	Q2 2020 – Q4 2022		<b>CBK; Government of the</b>	Implementation of an inter-bank payment system that	Publication at CBK website	In porcess



of payment thus reducing the use of cash as a means of payment to a significant extent.			Republic of Kosovo	facilitates electronic transactions		
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 statements to this institution.	Q4 2019	Budget	<b>CBK</b>	Relevant Regulation, Guideline and Instruction on Financial Corporations amended.	CBK publications	In process
1.1.9 Continuous publication of public finance in accordance with the open data format, at the National Open Data Portal.	Q2 2020	Don.	<b>MPA</b>	- Five (5) data sets on the Budget of the Republic of Kosovo, published in the Portal; - Seven (7) data sets for the Public Debt, published in the Portal; - Five (5) data sets for Public Expenditures, published on the Portal;	Draft Law on Access to Public Documents; Open Data Charter in the Republic of Kosovo; Decision No. 07/87, dated: 13.05.2016, of the Government of the Republic of Kosovo; Decision No. 05/84, date: 15.01.2019, of the Government of the Republic of Kosovo.	Unimplemented
1.1.10 Extending the range of Risk Assessments carried out by the FIU (Financial Intelligence Unit) by adding the Financial Sector assessment.	Q4 2019	Don.	<b>FIU</b>	Document on Risk assessment in the specific financial sector;  ACTION PLAN for	FATF Recommendation No.1 National Strategy on Prevention and Combating of Informal	In process

				handling measures deriving from the financial sector risk assessment.	Economy PP/FT/Fin. Crimes-Strategy Action Plan.	
<b>Specific Objective I.2 Improving voluntary fulfilment by raising awareness, reporting and restrictive legal measure</b>						
1.2.1 Increasing activities of communication with the public (number, participants and budgets) in order to raise citizen's awareness by the bodies responsible for implementing this strategy.	Ongoing		<b>MF/</b> TAK; KC; MLSW; KP	Semi-annual report	Strategy Implementation Reports; MF website	In process
1.2.2 Increasing the number of conferences, workshops, joint meetings with professional associations to discuss the impact of measures against the informal economy, money laundering, terrorist financing and financial crimes (membership to these associations, number of participants and conference papers).	Ongoing	Budget	<b>MF/</b> TAK; FIU; MLSW; KC; KP	Semi-annual report	Strategy Implementation Reports; MF website	In process
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		<b>MF/</b> TAK; FIU; MLSW; KC; KP	Annual Reports after the publication of national accounts	Strategy Implementation Reports; MF website	Unimplemented
1.2.4 Preparing and publishing the leaflet containing information to the public regarding the expected impact on preventing informal economy of the measures foreseen according to Article 64 of the SAA on Payment systems.	Q4 2019 and ongoing	Budget	<b>CBK</b>	2 batches of 1000 leaflets/year	- Invoice Payments - Photo - Statement of income and outcome inventory of MF or other	Implemented

					institutions, Centre of Official Publications	
1.2.5 Carry out a study on the process of assessing property price, registration of immovable properties in case of first time purchase or transfer so that the value of the registered asset reflects the current market value	Q1 2020	Budget. Don.	Cadastre; <b>MF/Property Tax Department</b> ; Municipalities; CBK MoJ	Study Document or Draft of Legal/Sub Legal Act	Official Publications: Government of Kosovo Assembly of Kosovo	Unimplemented
1.2.6 Operationalization of the unified address system	Q2 2020 Study Depending on the deadlines envisaged in the Study by the end of 2022	Budget . Don.	Ministry of Environment and Spatial Planning; Kosovo Cadastral Agency; Municipalities .	Address unification project	Official Publications: Government of Kosovo and Ministry of Environment, Assembly of Kosovo	In process
1.2.7 Preparation of the concept document on the submission of annual tax return regarding personal income to TAK by natural non-business natural persons.	Q1 2021	Budget	<b>MF/TAK</b>	Approved concept document	OPM Website	Unimplemented
1.2.8 Preparation of the concept document on the submission of the annual family personal income return to TAK by non-business natural persons.	Q1 2021		<b>MF/TAK</b>	Approved concept document	OPM Website	Unimplemented
1.2.9 All payments of employees by the employer to be made through the banking system	Q4 2019	Budget	<b>MLSW; MF/TAK</b>	Law on Labor	MLSW Website	Unimplemented
1.2.10 Increasing the number of businesses equipped with fiscal cash registers.	Ongoing	Budget	<b>MF/TAK</b>	Increasing the number of businesses equipped with PEF	TAK MF Reports of Fiscal Equipment Distribution Operators	Implemented

1.2.11 Implementation of the electronic invoice in the new TAK IT system.	Q2 2020	Budget	<b>MF/TAK</b>	Implementation of the new IT system for the electronic invoice component.	TAK Website	In process
1.2.12 Amending/supplementing the Law on Financing Political Parties and issuance of legal and sub-legal acts on publication and transparency of information on information regarding finances of political parties	Q4 2019	Budget	<b>Central Election Commission /OPM</b>	Law approved by the Assembly of Kosovo	European Reform Agenda (ERA)	In process
1.2.13 Independent audit of finances of political parties and publication of their results	Q4 2020		<b>National Audit Office (NAO)</b>	Financial Reports certified by Auditors for Political Parties;  Financial Reports published for Political Parties	Country report 2018 (EC)	In process
1.2.14 Establishment of the Confiscated Asset Return Unit.	By the end of Q2 2020 TA, and by the end of 2022 the fully operationalization of the Agency	Don.	<b>AMSCA</b>	- Terms of Reference of the expertise drafted and planned - Budget for the expertise allocated and committed to the Contracting Authority - Contract		Implemented

				Concluded		
1.2.15 Creation of confiscation fund in Kosovo.	Q2 2020		<b>MoJ</b>	Confiscation fund in Kosovo		In process
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	Budget	<b>KP; Prokuroria e Shtetit</b>	Number of financial investigation cases ML/TF;  Value of frozen, seized and confiscated property	FATF Rec. No. 30 National Strategy on prevention and combating of informal economy PP/FT/Financial Crimes Strategy Action Plan	Implemented
1.2.17 Increasing investigative activities for criminal offenses against the economy as defined in the Criminal Code of Kosovo (Chapter XXV)	Starting from Q4 2019 and on-going	Budget	<b>KP/State prosecution Office; KC and TAK</b>	Investigative activities targeting criminal offenses against the economy	Kosovo Prosecution	Implemented
1.2.18 Approval of the Concept Paper on the improvement of legislation in the Field of Prevention of Money Laundering and Combating Terrorist Financing in accordance with EU Practices, PECK II Recommendations, Country Report 2018 on Kosovo and the SAA (Article 89).	Q4 2019	Budget	<b>MF/FIU</b>	Concept Document approved by the Government	GWAP 2019	In process
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 and Ongoing until the end of 2022	Budget	<b>TAK</b>	- TAK working plans	TAK Website	Implemented

				- TAK published reports		
1.2.20 Amending and supplementing the Law on Tax Administration and Procedures.	Q3 2019	Budget	<b>MF/TAK</b>	Law approved by the Government	TAK Website	Unimplemented
<b>Specific Objective I.3: Qualitative improvement of institutional capacities and coordination for better implementation of adopted policies.</b>						
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	Budget	<b>KBRA/TAK; KAS</b>	Classification of the economic activity of businesses according to the international nomenclature (NACE Rev.2)		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	Budget	<b>MLSW; TAK</b>	- Inspections by the Labor Inspectorate - Voluntary and forced registration of employees from entities of economic activity - Data exchange formats between MLSW, TAK and KAS	MLSW;TAK Respectively, their websites with relevant information and statistics	In process
1.3.3 Reaching a Memorandum of Understanding between the Ministry of Justice	Q1 2020	Budget	<b>MoJ; MF/TAK</b>	The Memorandum		Unimplemented

and the MoF/TAK to ensure the exchange of data from notaries for transactions in: i) Real Estate ii) Vehicle iii) Rent, which as a inimum provides information on the number of transactions, type (purchase, transfer, rent), address, value, subject (natural persons, business or public).				Document approved and published on the official website of the MoJ and MF		
1.3.4 Develop and introduce new fiscal program modules to improve fiscal projections for sector revenue.	Q1 2020	Don.	<b>MF</b>	- Action plan for new modules approved by Q4 2019	MFAWP 2019, PFMRS 2019-2020	Unimplemented
1.3.5 Publishing and update of list of High Risk Countries (according to FATF publishing), Black List of EU, OECD List of Gold Passports 2018 etc	Ongoing	-	<b>FIU</b>	List of dangerous countries updated every semester and distributed to relevant authorities	FIU Annual Work Reports	Implemented
1.3.6 Review of risk assessment methodology FIU according to assessments ecommendations and technical assistance in field of activity.	Q4 2019	Budget	<b>NJIF</b>	- Consolidated list of recommendati ons by Q2 2019. - Updated methodology with agreed recommendati ons by Q4 2019	FIU Annual Work Reports	In process
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	Budget	<b>FIU; PK; TAK; KC</b>	Coordinated Controls and Inspections (20% increase		Implemented

				from year to year)		
1.3.8 Adding of activities of compliance oversight at Notarial Offices and immovable properties agencies, to asses reporting entities compliance with Law on PPP and FT.	Q4 2019-2022	Budget	<b>FIU</b>	Controls and Inspections (to specify the number compared to the current one )		In process
1.3.9 Ensuring of functional cooperation from Tax Administration and Kosovo Customs with relevant foreign Tax and Customs Administrations through the signing of MoU/s, for the strengthening of international information exchanges, especially with regard to parent company or line company.	Q4 2019-2022	Budget	<b>MF/TAK; KC</b>	Number of signed Agreements		In process
1.3.10 Increasing of quality of monitoring and criminal procedures on construction in order to reduce unlawful construction and construction of buildings that do not meet the required specifications.	Q2 2020-2022	Budget	<b>Ministry of Environment and Spatial Planning (MESP); MF/Property Tax Department; Municipalities</b>	- Action plan to implement the measure - Updated Control and monitoring methodology -Reporting on the measure and the results compared to the current one		In process
1.3.11 Training and capacity building in the Division of Informal Economy and Government Accounts.	Q4 2019 and ongoing	Don.	<b>KAS</b>	The number of trainings in order to		In process



				increase the staff capacities		
1.3.12 Training on “Forecast consolidation” for the Division of Fiscal Policies for “Tax Expenditures and Impact Assessment”.	Q4 2019- 2022	Don.	<b>MF</b>	Applied methodology commented and reviewed by IMF Number of trainings Approved methodology after recommendations and comments from donators.	MF annual work report	Unimplemented
<b>Specific Objective I. 4: Reducing informal employment in Kosovo</b>						
1.4.5 Preparing guidelines on the methodology for assessing the degree of riskiness of cases/prioritizing and setting up the inspection plan; and training relevant staff for using the methodology.	Q1 2020	Don:	<b>MLSW, TAK</b>	The finalized guide and the staff trained to implement the guide.	NDS 2016 - 2020: Pillar 1, Human capital - Reducing the level of informal employment.	Implemented
1.4.7 Building a monitoring system and a performance evaluation system for inspectors' work	There is no additional cost. The cost included in the Action Plan of the Sectoral Strategy, Activity 3 within the framework of	There is no additional cost, it is cost-effective in the 2018-2022 Sectoral Strategy	<b>MLSW, TAK</b>	Functional and finalized assessment and monitoring system. Trained staff	NDS 2016 - 2020: Pillar 1, Human capital - Reducing the level of informal employment.	In process

	Specific Objective 2.2	Action Plan, activity 6 within the Specific Objective				
1.4.8 Trainings for capacity building of inspectors.	Q4 2019	There is no additional cost, the activities listed in the Sectoral Strategy Action Plan 2018-2022. Activity 1; 5 within the Specific Objective	<b>MLSW</b>	80 trained labor inspectors	NDS 2016 - 2020: Pillar 1, Human capital - Reducing the level of informal employment.	In process
1.4.9 Functionalizing/Establishing an Information Management System.	Q4 2019	Don.	<b>MLSW</b>	System established and operational, 80 tablets purchased and	NDS 2016 - 2020: Pillar 1, Human capital - Reducing the level of informal employment.	In process

				trained labor inspectors .		
1.4.10 Providing inspectors with working tools.	Q4 2019	Budget	<b>MLSW</b>	40 labor inspectors are equipped with computers.	NDS 2016 - 2020: Pillar 1, Human capital - Reducing the level of informal employment.	Unimplemented
1.4.11 Providing the inspectors with vehicles.	Q4 2019, 2020 and 2021	Budget	<b>MLSW</b>	Labor inspectors are equipped with 6 vehicles.	NDS 2016 - 2020: Pillar 1, Human capital - Reducing the level of informal employment.	Unimplemented
<b>STRATEGIC OBJECTIVE II: Increase of financial sources for public services as result of extra tax revenues and from seizure of illicit assets.</b>						
<b>Specific Objective II.1: Quantitative data enhancement to enable policy development that effectively contributes to the reduction of informal economy.</b>						
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	Don.	<b>MF</b>	Impact assessments of the published planned measures as part of the publications of i) Draft Budget, and ii) the risk document for the Draft Budget iii) the Economic Reforms document.	MF Website	Unimplemented

2.1.2 Conducting of surveys or assessments in field of informal economy according to international standards regarding the Tax Gap.	Q4 2019 - 2022	Budget Don.	<b>MF;</b> <b>TAK;</b> <b>MLSW;</b> <b>KAS</b>	- Plan of Published Studies -Report on Conducted Studies - Relevant statistics at the end of each year, placed on the official website of the Ministry of Finance.		Unimplemented
<b>Specific Objective II.2: Quantitative increase in voluntary compliance through raising awareness, reporting and legal restriction measures.</b>						
2.2.1 Lowering the threshold about transactions between businesses which are conducted in cash (currently 500 EUR).	Q1 2020		<b>MF/TAK</b>	The new Law on Tax Administration and procedures – approved		Unimplemented
2.2.2 Design of Software for fiscal cash boxes to provide information about: number of issued fiscal coupons, time and items, all these in real time (online).	Q2 2020	Budget	<b>TAK</b>	- Terms of Reference for the Q2 2019 Service - Contracting of the Service Company Q2 2019 - Software Development and Testing by Q4 2019 - Implementation and operation in		Unimplemented

				all fiscal cash registers by the end of Q2 2020.		
<b>Specific Objective II.3: Improvement of institutional infrastructure and action models to increase efficiency of implementing policy measures adopted in quantity terms.</b>						
2.3.1 Review of standard forms for exchange of data electronically and through physical media in order to shorten the flow of information in inter-institutional and international communication.	Q4 2019	Budget Don.	<b>MPA/MoJ;</b> KP; TAK; KC; FIU	Instruction on the Leading Institution, ready and reported to the Secretariat by Q2 2019	Ministry of Public Administration. Reviews of the Law on Administrative Procedure	Implemented
2.3.2 Publication of Sources table/use by KAS.	Q2 2020	Don.	<b>KAS</b>	- Publication of the table Sources/Usage by KAS.	KAS oficial website	In process
2.3.3 Improvement of capacities of fiscal projections on incomes within sectors through installing new modules in addition to fiscal programming model.	Q4 2020	Don.	<b>MF</b>	Installation of new modules alongside the fiscal programming model.		Unimplemented
2.3.4 Expansion of inspections to the sectors of construction, games of chance and NGOs on TF (Terrorist Financing) and ML (Money Laundering), where inspections at entities with a higher risk should be based on financial, tax and criminal intelligence (construction sector to be a target).	Q4 2019- 2022	Budget	<b>FIU/TAK,</b> KP	- The relevant guideline approved and implemented - Inspections plan - Reporting every year within the framework of		In process

				the implementation of the Strategy		
2.3.5 Creation of joint KC and TAK groups with the purpose of controlling goods categorized by high risk of tax evasion.	Q4 2019- 2022	Budget	<b>KC; TAK</b>	- Conducted controls - Controlled taxpayers		Implemented
2.3.6 Investigating and conducting joint operations with a purpose of combating smuggling of goods.	Q4 2019- 2022	Budget	KP; KC; Prosecution Office	- Number of joint investigations	KP work report	Implemented
2.3.7 Increase of activities undertaken to prevent goods infringing Intellectual Property Rights – IPR.	Q4 2019- 2022	Budget	<b>KC</b>	Increase in the number of activities compared to the previous year.	Kosovo Customs Strategy 2019-2023	Implemented
2.3.8 Increase of the number of patrols by antismuggling units aimed at combating smuggling.	Q4 2019- 2022	Budget	<b>KC</b>	Increase in the number of patrols compared to the previous year.	Kosovo Customs Strategy 2019-2023	Implemented
2.3.9 Application of post-import controls based on risk management and other information.	Q4 2019- 2022	Budget	<b>KC</b>	Increase in the number of activities compared to the previous year	Kosovo Customs Strategy 2019-2023	Implemented
2.3.10 Training on risk management for TAK	Q4 2019- 2022	Budget	<b>TAK</b>	Realized trainings		Implemented

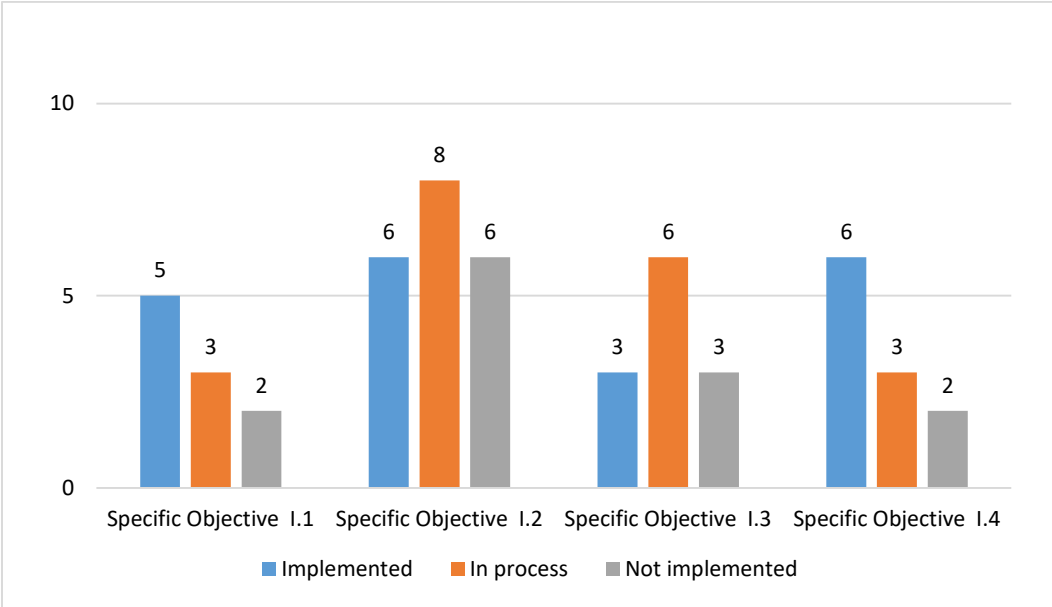
2.3.11 Training on law enforcement for Kosovo Customs	Q4 2019- 2022	Budget	<b>KC</b>	Realized trainings	Action Plan 2019	Implemented
2.3.12 Dedicated professional trainings for prosecutors on criminal offences of economic crime and money laundering.	Q4 2019- 2022	Budget	<b>Prosecution Office</b>	Realized trainings		Implemented
2.3.13 Organization of trainings for institutions monitoring the activities of the construction sector on ML/TF in relation to prevention of informal economy and other financial crimes, especially in the construction and real estate sectors (auditors and inspectors).	Q4 2019- 2022	Budget	<b>FIU</b>	Not less than 1 training per year with at least 30 participants. Training materials and presentations.		Implemented
2.3.14 Upgrade of professional skills in field of ML/TF for Prosecutors, Judges, Investigators, and Financial Intelligence.	Q4 2019 - 2022	Budget	<b>FIU/ KP; MoJ; Prosecution Office</b>	No less than 3 trainings per year with at least 30 participants. Training materials and presentations.		Implemented

### Strategic Objective I

This objective aims to improve the quality of governance in the economy by identifying, analyzing, 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 twenty (20) or 38% of them have been implemented, the other twenty (20) or 38% are in the process of implementation, whereas thirteen (13) or 25% of them have not been implemented.

*Chart 2: Implementation of activities within Strategic Objective I*



*Source: The 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*

The **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 have been implemented, three (3) or 30% are in the process of implementation, whereas two (2) or 20% of them have not been implemented.

During the compilation of macro-fiscal projections, the Ministry of Finance, Labor and Transfers constantly uses the data of statistical surveys published by KAS. The tax gap assessment conducted with



the technical assistance of the World Bank is based on the Household Budget Survey of KAS for the period 2015-2017, as well as the drafting of quarterly bulletins and other documents published on the MFLT website prepared by the Economic Policies and International Financial Cooperation Department, utilizes the data published by 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, including the implementation of the Eurostat and OECD methodology for the following components: assessment of the informal economy according to fiscal controls of TAK; assessment of the informal economy according to the Labor Input Method (LIM); assessment of drug trafficking; assessment of the informal economy for type N6 – misreporting of the number of self-employed, etc. Whereas, due to the pandemic and the lack of staff, no concrete activity has been carried out related to the realization of the Agricultural land price survey by KAS.

MFPT ka përgatitur me sukses udhëzuesin mbi Metodologjinë e Vlerësimit të impaktit të ndryshimeve tatimore (Tax Expenditure) dhe ka kërkuar asistencë teknike për zbatimin e tij para miratimit të çdo mase fiskale të propozuar. Poashtu, MFPT ka krijuar kodet në planin kontabël në të cilin identifikohen llojet e të hyrave të cekura në aktivitetet, përkatësisht për gjoba, ndëshkim, interes, shmangie tatimore dhe lloj tatimi.

The Central Bank of Kosovo continued with the implementation of the supervisory function in financial institutions in terms of compliance with the prevention of money laundering and terrorist financing by carrying out a total of seven examinations (two full examinations in banking institutions, and four examinations in microfinance and non-banking institutions: two focused and two complete). Whereas, insurers are covered with a complete examination.

Furthermore, the CBK increased the supervision of the description of financial transactions by banks, in order to increase the benefit of information for qualitative analysis in the relevant bodies pursuant to the instruction on the use of form on the origin of funds and the determination of the holder of beneficial ownership.

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.

The Financial Intelligence Unit during the year 2022 has prioritized the assessments of the following sectors: Risk assessment of money laundering through banking products offered in Kosovo and NGO/s. The Money Laundering Risk Assessment through banking products offered in Kosovo was initiated in Q2 2022, and will be developed during this period: May 2022-December 2022/March 2023. Sectoral Specific Risk Assessment for the Prevention of Money Laundering and Terrorist Financing for NGO/s will take place 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.

During the reporting period, a total of twenty (20) activities were foreseen, six (6) or 30% of which have been implemented, eight (8) or 40% are in the process of implementation, whereas six (6) or 30% of them have not been implemented.

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, MFLT has not yet published six-monthly reports on the implementation of the National Strategy 2019-2023. However, Kosovo Customs has increased the number of publications (over 350) through official channels and social networks. The smartphone application has been published which enables citizens and invites them to be an active part of the prevention and reporting of corruption, smuggling and other irregularities. Five (5) awareness-raising activities were held in the field of Intellectual Property, as well as there was a presence in television shows related to public awareness and to promote the fight against piracy and counterfeit products.

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 the informal economy, money laundering, terrorist financing and financial crimes, the responsible institutions have continued with the implementation of the activity. Kosovo Customs has held thirty-three (33) meetings with various businesses, the Association of Shipping/Freight Forwarders, the Chamber of Commerce of Kosovo, the German Chamber of Commerce, these meetings in support of businesses in the voluntary declaration, legal and efficient implementation of customs obligations.

FIU-K has participated in seven (7) Egmont Group meetings: "Egmont 2022 Working and Regional Group Meetings"; On the 19<sup>th</sup> of January, the workshop of the CRAAFT Project (invitation to the workshop - GLOBSEC) was held with the six countries of the Western Balkans with a focus on the assessment of the threat of terrorism and the financing of terrorism, the international cooperation of IFNs; On the 27<sup>th</sup> of January 2022, a meeting was held with the National Crime Agency of the United Kingdom; On the 16<sup>th</sup> of February 2022, meeting with the interns of the French judiciary - Report on corruption; On 3 March 2022, the meeting of the countries of the Western Balkans organized by Transparency International-Macedonia with the theme "The fight against illegal financial flows "How they respect the rules against money laundering and data protection". On the 17<sup>th</sup> of March 2022, the workshop with representatives of the NGO Association on the topic "NGO and the dangers of PPP/LFT", organized by the Project against economic crime (PECK III); On the 9<sup>th</sup> of June, 2022, a meeting with representatives of the Association of Lawyers and Mediators on the topic "Inter-institutional coordination in mediation".

There has been a stumble related to the reflection of income from the gray and black informal economy in the annual report of the implementation of the National Strategy however, the general customs revenues for the period January-June 2022 have increased by EUR 77.6 million or expressed as a percentage of 12.9% more more than in the same period of the previous year. From the total general customs revenues, Kosovo Customs has recorded approximately EUR 10.9 million of revenues from the activities of combating the informal economy, including: revenues from revaluation of goods EUR 9,995,500.00, revenues from offenses and penalties EUR 677,644.23, revenues from non-declaration of monetary assets EUR 117,122.57 and revenues from the sale of confiscated goods EUR 99,691.58.

Regarding the preparation and publication 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, the Central Bank of Kosovo has implemented the publication of informative materials on the systems and payment instruments. Also, CBK is in the process of amending the Law on the Payment System in order to transpose the directive of the European Union for Payment Services, known as PSD2, and the directive of the European Union for electronic money institutions, known as EMD. With the amendment of the Payment System Law and the implementation of the requirements of these two directives, it is expected that competition in payment services will increase by enabling the entry into the market of new services offered by non-bank financial institutions authorized for payment services in order to create opportunities for increasing interoperability between payment service providers (banks and non-banks) through the possibility of legally obligated open banking. In this case, it would affect the increase in the efficiency of electronic payment services, which could affect the decrease in the use of cash payments.

Progress has been lacking in the study of the property price assessment process, the registration of real estate in case of first purchase or transfer so that the value of the registered asset reflects the current market value.

Meanwhile, the address unification project is in process. During the reporting period, the Terms of Reference were drawn up for the engagement of 55 consultants in order to assist the Municipalities in updating the data for the Address System in the ARIS application. Four (4) consultants have been engaged in the Association of Municipalities of Kosovo to assist the Addresses Unit for the management of activities for the address system. The technical specifications for placing street signs and building numbers for the remaining municipalities have also been prepared. With the initiative of the Prime Minister's Office and 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, working groups have been formed for the drafting of concept documents, which aim to submit the annual personal and family declaration to TAK also by non-business natural persons, but due to the pandemic, the work in this direction has not yet been completed.

The challenge of fighting the informal economy remains the payment of employees through the bank. In this direction, undeclared work continues to be the key factor in not fully realizing this goal.

On the other hand, the Tax Administration of Kosovo has continued to equip businesses with fiscal cash registers, where the number of businesses that have fiscal cash registers is constantly increasing. During the reporting period, 690 visits were made to untaxed businesses, where fines in the amount of EUR 30,125 were imposed. 1,213 visits were made to businesses that do not issue fiscal coupons, in which case 712 mandatory fines were imposed in the amount of EUR 295,875. Regarding fiscalization, during the reporting period, 2,020 businesses were fiscalized, while 2,661 fiscal devices were installed.

Also, TAK is in the process of implementing the electronic invoice. During this period, the development and testing of the software system was completed. Six (6) models of Fiscal Electronic Devices have been certified. The installation of new Fiscal Electronic Equipment at the Taxpayer started in December 2021 and so far 3,032 PEF have been installed at 2,551 businesses.

Regarding the supplement/amendment of the Law on the Financing of Political Parties, the Central Election Commission has provided comments regarding the draft Law in question and the activity is in process.

Whereas, regarding the independent audit of the finances of political parties, during the reporting period, the Assembly, namely the Commission for the Supervision of Public Finances, was responsible for this activity. The activity is in progress and the final result can be achieved in the second half of 2022 by the CEC, since this responsibility has been transferred to the CEC.

Regarding the Unit for the Recovery of Confiscated Assets, within the Kosovo Police, specifically within the structure of the Directorate for the Investigation of Economic Crimes and Corruption, there is the Office for Recovery of Property (assets). This office was established in 2018 and deals with the handling of international cases/requests through ILECU, the requirements of the international organization Carin as well as international legal assistance through Prosecution Authorizations for the identification of assets. During the reporting period, a total of six (6) requests from different states and two (2) Authorizations from the competent Prosecutor's Offices were handled.

Meanwhile, regarding the creation of the confiscation fund, during the reporting period, the Ministry of Justice has continued working with the drafting and finalization of the Concept Document for the creation of the confiscation fund. This Concept Document was approved by the Government of the Republic of Kosovo on 23<sup>rd</sup> of June 2022. According to the Option recommended in this Concept Document, the Law on the Administration of Seized and Confiscated Assets (AAPSK) and 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. During the reporting period, investigations were conducted for twenty-one (21) cases. The Kosovo Police has recently given a great importance to parallel financial investigations in the cases it investigates. During this period, parallel financial investigations were conducted in three (3) cases. Meanwhile, the State Prosecutor's Office has continued with its activities, where during the reporting period there are a total of twenty-three (23) cases of confiscation with a value of EUR 417,239.49.

Regarding seizure, there are 176 reported cases and the value of freezing and seizure is a total of EUR 9,737,777.04.

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 - Based on the Criminal Code of the Republic of Kosovo, the Criminal Offenses related to Economic Crimes are: Chapter XXV criminal offenses against the economy with thirty-four (34) criminal offenses, Chapter XXVI criminal offenses against property with five (5) offenses criminal offences, Chapter XXXI criminal offenses against the administration of justice and public administration with two (2) criminal offences, Chapter XXXIII Official corruption and Criminal offenses against official duties with fourteen (14) criminal offences, i.e. a total of fifty-five (55) criminal offences.

State Prosecutor's Office - Criminal offenses of Economic Crimes - During the reporting period, the prosecutions office received and registered a total of 177 criminal cases with 262 persons involved in criminal offenses of Economic Crimes and undertook 141 actions/decisions for the cases of persons involved in criminal offenses of group of economic crimes. The Criminal Offense of Money Laundering - The Special Prosecutor's Office has received five (5) criminal cases involving nine (9) persons for the criminal offense of Money Laundering and has undertaken seven (7) actions/decisions within the framework of handling the cases for the persons involved in the criminal offense of Money Laundering. Drug crime - Prosecutions offices have received 607 criminal reports with 756 people involved in drug crimes and have undertaken 334 actions/decisions in the framework of handling cases for people involved in drug crimes. Criminal offense Organized Crime - The Special Prosecutor's Office has accepted five (5) criminal cases with sixty-five (65) persons involved in the criminal offense of Organized Crime and has taken eighty-eight (85) actions/decisions in the framework of dealing with cases for persons involved in the criminal offense of organized crime. Criminal offense of Corruption - The entities submitting criminal charges have submitted 226 criminal cases to the prosecutor's office with 355 persons involved in criminal offenses of Corruption and have taken 113 actions/decisions within the framework of handling cases for persons involved in criminal cases for the criminal offense of Corruption.

Kosovo Customs - In the field of customs investigation, thirty-eight (38) new cases have been initiated for investigation and twenty-five (25) criminal reports have been submitted, with a total of thirty-seven (37) persons reported to the responsible prosecutors, where sufficient evidence have been provided that we are dealing with evasion of customs duties in the amount of EUR 1.25 million, and goods in the amount of EUR 829 thousand have been seized.

The Tax Administration of Kosovo - TAK has continued with the treatment and investigation of cases related to tax evasion in order to develop the activities of businesses and individuals whose activities include: restaurants, entertainment activities - variety shows, hair salons and services others that are related to these activities, activities that will be undertaken after the beginning of the summer season. The activities of TAK during the reporting period are as follows: twenty-three (23) activities for tax avoidance; ten (10) cases opened under the suspicion of tax evasion; ten (10) initial suspicion reports (criminal complaint), eleven (11) final investigative reports, forty-nine (49) informational reports for the Prosecution, 126 interviews (statements) with suspects and witnesses, 115 information for law

enforcement institutions. Also, during this period, tax evasion without penalties and interest was in the amount of EUR 2,354,388.39, while additional tax (without penalties and interest) of EUR 1,661,550.15, credit deduction of EUR 27,876.02 and loss reduction of EUR 38,150.00.

Regarding the Concept document for the improvement of legislation in the field of 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) has had delays, however, the Concept Document is being drafted. In March 2022, the meeting of the Working Group was held where the last draft of the Concept Document was developed as well as the presentation of the recommendations of the Council of Europe expert regarding new developments in the field of AML/CFT and the alignment of the Concept Document with EU Directives's. In June 2022, the document was finalized and reviewed by the international PECK III expert. After the translation into the official languages, it will be sent to the working group for finalization and then released for public consultation.

On the other hand, TAK has continued with increasing the number of visits and controls based on risk assessments, where it has carried out 18,866 visits in all regions. As a result of the visits, 4,998 mandatory fines were issued in the amount of EUR 1,569,710.00, additional tax in the amount of EUR 5.7 million, reduction of VAT credits in the amount of EUR 3.8 million and loss reduction of EUR 5.4 million. As for the checks for this period, 894 checks were carried out, with the following results: about EUR 17.7 million in additional tax (including basic tax, interest and penalty), EUR 7.7 million in deducted credit and over EUR 19.2 million in deducted losses. The number of performed risk-based controls for the period January-June 2022 is 60% higher compared to the same period last year, while the number of performed risk-based visits is 29% higher compared to the period the same as last year.

Whereas, all amendments have been made to the Law on Tax Administration and Procedures, but the same has not yet been approved by the Assembly.

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

During the reporting period, a total of twelve (12) activities were planned, three (3) or 25% of which were implemented, six (6) or 50% are in the process of implementation while, the other three (3) or 25% are 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 ARBK, TAK and KAS has also continued.

Regarding the intensification and coordination of activities between TAK and the former Ministry of Internal Affairs and Communications in order to identify and register unregistered workers, during the reporting period the Labor Inspectorate held a meeting with TAK in order to establish relations between the two institutions, including the appointment of two (2) responsible persons as contact points, the coordination of joint activities on the ground about the informal employment project, the exchange of experiences and information about high-risk cases and the harmonization of data about level of informal employment.

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.

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. The pandemic was the main obstacle to the non-implementation of the activity, along with the large staff turnover during 2021 in the Macroeconomics Division. And since 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, during the reporting period there was no implementation of the activity.

On the other hand, on the 23<sup>rd</sup> of May, 2022, the list of high-risk countries was updated (according to FATF publications).

During the reporting period, the Methodology "Tools for Assessing the Risk of Money Laundering and Financing of Terrorism of Legal Entities for Kosovo" was also drawn up and approved by FIU. In addition, the methodology for Assessing the Risk of Money Laundering Money in the Banking Sector and banking products, as well as 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 has been drafted.

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), the FIU together with the CBK has inspected one (1) Exchange Premise and has carried out six (6) inspections in financial and exchange institutions. The Kosovo Police has carried out twenty-six (26) Controls/Inspections coordinated with the FIU and other law enforcement bodies in high-risk businesses. Likewise, the Kosovo Customs has continuously reported to the FIU regarding the declarations and non-declarations of monetary assets at Border Crossing Points. Moreover, during the reporting period, five (5) requests related to suspicious transactions were sent, while one (1) request was received from FIU, to which a response was returned.

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, FIU has drafted up and approved the Annual Compliance Supervision Plan for 2022. Based on compliance risk analysis, inspections will be oriented towards the banking sector-financial institutions and businesses and Non-Financial Designated Professions (BPCJF) in order to assess compliance with the legislation in force. One (1) bank was checked and six (6) inspections were carried out in financial-exchange institutions. FIU-K has issued thirty (30) Monitoring and Freezing Orders for reporting entities (Banks, Financial Institutions, Notaries, etc.), in which about 1,746 persons and entities have been involved or identified. These Monitoring/Freeze Orders have been issued in order to implement Government Decisions on the imposition of international financial sanctions related to ISIL (Da'esh) and Al Qaeda, the Wanger Group, persons and entities from the Russian Federation and Belarus in connection with the situation in Ukraine, as well as the OFAC list.

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 signed the Protocol for the recognition of sealing locks between the Customs of the Republic of Albania and the Customs of the Republic of Albania. 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.

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, the Ministry of Environment, Spatial Planning and Infrastructure Inspectorate, the Construction and Planning sector, during the reporting period, has carried out forty-eight (48) inspections of economic entities, natural persons as well as the municipal inspectorate. For the detected violations, nine (9) criminal charges have been filed with the basic prosecutor's office, as well as criminal initiations in the courts. In addition, three (3) criminal charges have been filed against the Municipalities, based on the suspicions and based on the detected violations, while six (6) others have been filed against natural persons for exceeding construction permits in the construction of weekend homes in Prevalle.

On the other hand, the Property Tax Department within the MFLT, mainly due to the lack of staff, has not yet started any concrete activities related to increasing the quality of monitoring and criminal procedures of construction to reduce illegal construction and construction of buildings that do not meet the required specifications.

During the reporting period, KAS has continued with raising the capacities of the staff in the Division of Informal Economy and Government Accounts. Meanwhile, the "Forecast consolidation" training of the Fiscal Policy Division for "Tax Expenditures and Impact Assessment" was not held due to the pandemic.

**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.

During the reporting period, a total of eleven (11) activities were planned, six (6) or 55% of which were implemented, three (3) or 27% are in the process of implementation, while two (2) or 18% of them are not implemented.

Regarding the preparation of the guide for the methodology of assessing 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 Labor Inspectorate has prepared checklists and held training for four (4) workers of the Labor Inspectorate regarding risk assessment, for non-implementation of legal provisions. In the framework of this, visits were made to Albania, Montenegro and Bosnia and Herzegovina, and the PI visited representatives of the Inspectorate from Albania and North Macedonia. During the period January-July 2022, a total of 1,718 inspections were carried out.

Regarding the construction of a monitoring system and system for evaluating the work performance of inspectors, the Labor Inspectorate has started cooperation with the International Labor



Organization (ILO) for the conceptualization and development of an electronic platform for inspections, information management and CRM (Customer Relation Management - Management of relations with the customer).

As for equipping inspectors with work tools and cars during the reporting period, the activity has not been implemented.

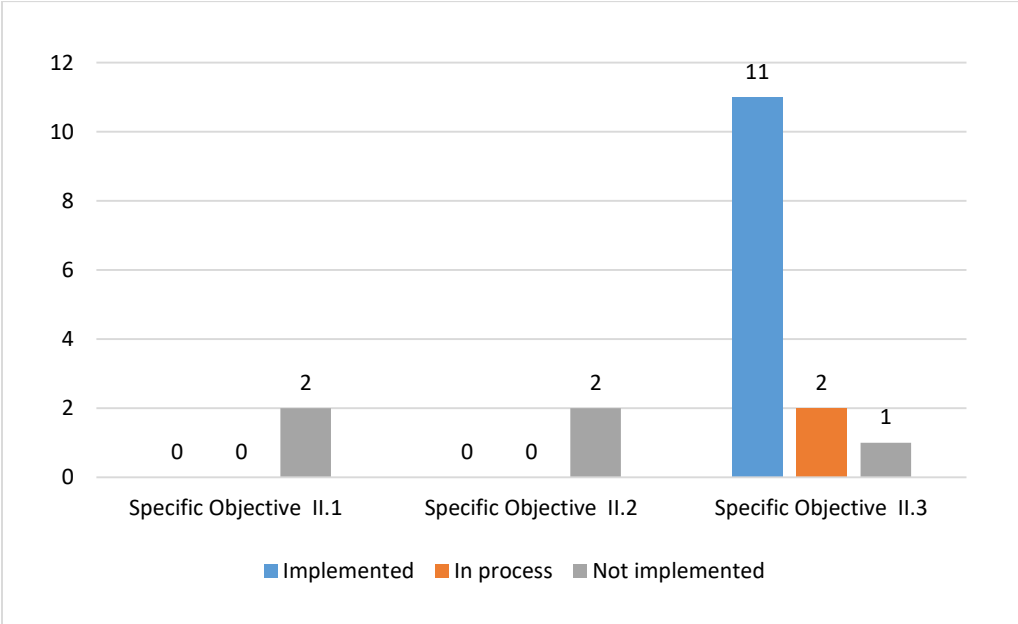
**Strategic Objective II**

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.

Within this objective, a total of eighteen (18) activities have been planned, of which eleven (11) or 61% of them have been implemented, two (2) or 11% are in the process of implementation, while five (5) or 28% of them have not been implemented.

The activities within this objective are divided into three specific objectives.

*Chart 3: Implementation of activities within Strategic Objective II*



*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 during the reporting period.

Due to the pandemic but also the lack of staff and its high turnover, MFLT has not implemented the activity related to carrying out impact assessments of the policy measures published by the Kosovo administration with the aim of the informal economy.

MFLT is still in the process of conducting studies or evaluations in the field of the informal economy according to international standards regarding the tax gap. In cooperation with the World Bank, MFLT has prepared preliminary estimates of the tax gap in Kosovo based on the Household Budget Survey of KAS for the period 2015-2017 for the assessment of VAT and TAP. However, the evaluation results have not been finalized yet.

With **Specific Objective 2.2**, the quantitative increase of voluntary compliance is aimed at raising awareness, reporting and legal measures of restriction. This specific objective contains a total of two (2) activities which were not realized during the reporting period.

Regarding the reduction of the threshold related to transactions between businesses which are made in cash (currently 500 EUR), the MFLT is working on the drafting of the new Law on Tax Administration and Procedures, therefore the activity has had delays in implementation.

Also, the activity related 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) has not been implemented.

**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, two (2) or 14% are in the process of implementation, while one (1) or 7% of them has not been 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, TAK has negotiated twenty (20) International Agreements for the Elimination of Double Taxation (METD) in accordance with local and international legislation, where eighteen (18) of them are applicable. MFLT with Decision no. 72/2021, dated 04.11.2021, has appointed TAK as the competent authority for the exchange of information on agreements (METD) that are in force. In addition, TAK has exchanged eight (8) outgoing letters and one (1) incoming letter for the exchange of information with the countries with which Kosovo has METD. In January 2022, two (2) Agreements for the Elimination of Double Taxation (METD) began to be implemented - with the Netherlands and Latvia. Meanwhile, Kosovo Customs has continued its work with the development of electronic systems for information exchange with MINT. The Market Inspectorate within MINT has been given direct access to the Asycuda customs system for the purpose of marking shipments for quality controls. The express mail module has also been developed, through which operators are enabled to declare the goods before arrival in order to shorten the customs clearance time. On the other hand, the fiu and the Department for Property Tax within the MFLT during the reporting period discussed the modalities and the establishment of cooperation, where, among other

things, they agreed to allow the direct access of the FIU-K to the database DPT. During the reporting period, about 15,000 pieces of information were exchanged electronically.

Regarding the activity of publishing the Provider/User Table, KAS has continued with the compilation of data for the Provider/User Table, where within the framework of the IPA2019 Project, the data for the period 2014-2016 are being compiled, while within the framework of the SIDA Project of the data for the year 2019. The publication of the National Accounts data according to the provider-user tables (SUT) will be done in Q4 2023.

On the other hand, the improvement of the capacities of fiscal forecasts for revenues across sectors through the installation of new modules alongside the fiscal programming model has not been implemented. The main obstacle of this activity was the situation with the pandemic, which also affected this six-month period of the reporting period. Likewise, the Division of Macroeconomics, which deals with macroeconomic and fiscal forecasts, had a large turnover of staff during 2021.

FIU has planned to implement in the second period of 2022 the activity related to the expansion of inspections in the construction sector and NGOs related to the financing of terrorism and money laundering, where inspections are carried out on certain entities that present a higher risk are based on financial, tax and criminal intelligence, with an objective mainly in the construction sector.

During the reporting period, the joint KC-TAK group was operationalized for the treatment of goods with a high risk of tax evasion. The data on the subjects identified with risk were exchanged between the two institutions and measures were taken to verify and investigate the cases. Moreover, during this period, KC has received thirty-three (33) requests for information from TAK to which answers have been given, as well as sent seven (7) requests for treatment of various cases related to business activity of persons and companies suspected of tax evasion and four (4) joint controls were conducted.

Progress has also been achieved in combating the smuggling of goods. According to the Kosovo Customs, the Anti-Smuggling Units have implemented fifty-one (51) joint operational plans with the Kosovo Police and KFOR. The anti-smuggling units in cooperation with the Kosovo Police inside the country, namely in Zveçan, have discovered an illegal laboratory in the amount of 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. Also, during customs checks on various cargoes of goods, customs officials in cooperation with the Kosovo Police in two cases have discovered 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. In addition, in the field of inter-institutional cooperation, the Kosovo Police, the Department of Investigations in coordination with the Border Police has exchanged 169 pieces of information and has carried out three (3) joint investigations, five (5) joint operations and a total of eight (8) joint operational meetings. One of the successful cooperation operations with Kosovo Customs at the Border Point in Han i Elezit resulted in the confiscation of about 83.5 kg of substance. Then, following the cooperation with TAK, three (3) meetings were held with the prosecutor's offices in Mitrovica, Gjakovë and Prizren, and three (3) meetings were held with the PSC. Meanwhile, the Border Police, which mainly deals with the smuggling of goods, has presented that it has initiated seventy-six (76) cases for the

criminal offense of smuggling goods, has carried out sixteen (16) operational plans and has organized seven (7) joint operations with Other MIK institutions (joint with other Agencies).

As for the activities undertaken for the prevention of goods that violate intellectual property rights, during the reporting period, KC has initiated 300 cases for verification of goods that are suspected of violating intellectual property rights, or 107% more cases initiated than in the period the same as the previous year. 476,937 articles/goods that are suspected of violating intellectual property rights have been held for verification. Counterfeit goods worth EUR 2 million were also confiscated and 83,042 items worth EUR 1.3 million were destroyed.

Regarding the increase in the number of patrols of anti-smuggling units in order to fight smuggling, the KC Anti-Smuggling Units have carried out 799 patrols, 1,678 road stops, 3,632 controls at Border Crossing Points, eighty-one (81) operational plans as well as fifty-one (51) joint operational plans with the Kosovo Police and KFOR, in which case they raised 140 customs offenses for evasion of customs duties and smuggling of goods worth about EUR 670 000. KC in general has raised 848 customs offenses for evasion of customs duties and smuggling of goods, with a value of goods of EUR 2.7 million, which is an increase in the value of goods of 18% compared to the same period of the previous year, and has imposed fines in the amount of EUR 509 000.

Regarding the application of post-import controls based on risk management and other information, during the reporting period, KC conducted sixty-five (65) regular and unannounced post-import controls. Sixty-five (65) rulings were issued for the collection of additional customs duties in the amount of EUR 3.08 million. In the post-clearance inspection phase, 17,397 customs declarations were inspected and goods worth an additional EUR 282,000 were reassessed. Frauds in the field of derivatives have also been prevented, namely frauds with tax exemptions for derivatives for production purposes as well as frauds with exemptions in the name of diplomatic missions, where the fiscal effect in prevention is estimated to be over EUR 4.5 million.

Regarding the trainings for TAK in the field of risk management, in order to combat the informal economy and risk management, TAK has held a total of three (3) trainings inside and outside the country and eighty-two (82) participants participated in these trainings. While regarding the trainings of KC in the field of law enforcement, thirty-one (31) trainings were held organized by KC 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) and UNDP (United Nations Development Programme), where ninety-one (91) officers from the Law Enforcement Directorate were trained. Three (3) trainings related to economic crime and corruption were also held, two (2) organized by the European Union and one (1) by the Council of Europe - Project Against Economic Crime PECK III. As for the dedicated professional training of Prosecutors for the criminal offense of economic crime and money laundering, during the reporting period the Prosecutor's Office continued with the training of Prosecutors in this field, where a total of nineteen (19) prosecutors were trained.

Similarly, during the reporting period, the FIU also conducted 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). In March 2022, FIU through the EU/Council of Europe joint project against Economic Crime in Kosovo (PECK III) organized a two-day training for representatives of Kosovo NGOs on the risks of money laundering and terrorist financing (PP/FT). FIU with the support of the Council of Europe organized two training sessions for the identification of the final beneficial owners with the Kosovo authorities. Training activities were held for twenty-nine (29) "Compliance and Know Your Customer" officials representing nine (9) banks in Kosovo, as well as for twenty (20) law enforcement officials representing KP, KD, TAK, the Agency Against Corruption and the Prosecution. On April 21-22 of this year, the training was held on the topic "Transparency of beneficial ownership as an effective mechanism to combat the misuse of legal entities for illegal purposes" Project against economic crime in Kosovo (PECK III). During the month of June 2022, training was held for designated non-financial businesses and professions (BPCJF) on requirements and obligations against money laundering and combating the financing of terrorism. In this regard, over seventy (70) lawyers, notaries, accountants, auditors and car rental agents participated in the Anti-Money Laundering and Anti-Terrorism Financing Training for Designated Non-Financial Businesses and Professions.

Also, within the framework of raising professional skills in the field of money laundering and terrorist financing for Prosecutors, Judges, Investigators and Financial Intelligence, FIU officials during the reporting period have participated in fourteen (14) local and international trainings. Likewise, the KP has conducted a number of trainings, where the participants have in many cases been Prosecutors, Judges and Investigators from the Financial Intelligence. Among the trainings at the country level, sixty-nine (69) trainings were carried out where 279 police officers participated, also eighteen (18) workshops, seminars and round tables were organized at the country level. However, as far as trainings are concerned at the international level, nineteen (19) trainings were carried out where a total of thirty-six (36) police officers were trained and a total of eight (8) workshops were organized with sixteen (16) police officers.

The preparation of the six-month report January-June 2022 of the implementation of the activities of National Strategy 2019-2023 is the result of inter-institutional work and cooperation, therefore we thank all the institutions of the Republic of Kosovo for their contribution.

## 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, reviewing, approving, implementing and supervising the National Strategy is presented in the chart below.

**Chart 4:** Organogram of the supervisory and implementation mechanisms of the National Strategy

