

MONEY LAUNDERING TYPOLOGIES

KOSOVO



Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra

Swiss Cooperation Office Kosovo





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Money Laundering Typologies: Kosovo

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1. INTRODUCTION

This Report on Money Laundering Typologies is part of Kosovo's efforts to reduce corruption levels and strengthen the monitoring and oversight mechanisms of institutions in an efficient, transparent, and accountable and gender sensitive manner.

It is believed that Kosovo's anti-corruption institutions, in particular corruption suppression bodies such as prosecution services, law enforcement agencies and the Financial Intelligence Unit (FIU) would benefit from increased capacities to detect, investigate and prosecute corruption offenses.

Grand corruption schemes by necessity involve money laundering, be it through real estate purchases, fictitious consultancies or other services for firms, tax evasion, dubious loans and other illicit financial schemes. These types of criminal activities are often complicated financial schemes designed to obfuscate and throw off financial regulators and investigators. In order to

uncover illicit financial flows, regulators and law enforcement agents have to first understand how these schemes work, and all parts of the anti-money laundering system – from compliance officers in the private sector to investigators and finally judges – should understand how these types of criminals misuse the financial system to launder their proceeds from criminal activities.

In this regard, this report will provide support to the FIU in its fight against Money Laundering and Financing of Terrorism (ML/FT) and Corruption offense, as it will throw light on sectoral Money Laundering Risks pertaining on predicate crimes and current vulnerabilities amongst national reporting entities.

The intent of this report is to improve compliance measures and provide more information to investigators and oversight authorities regarding the cases of Money Laundering in Kosovo.

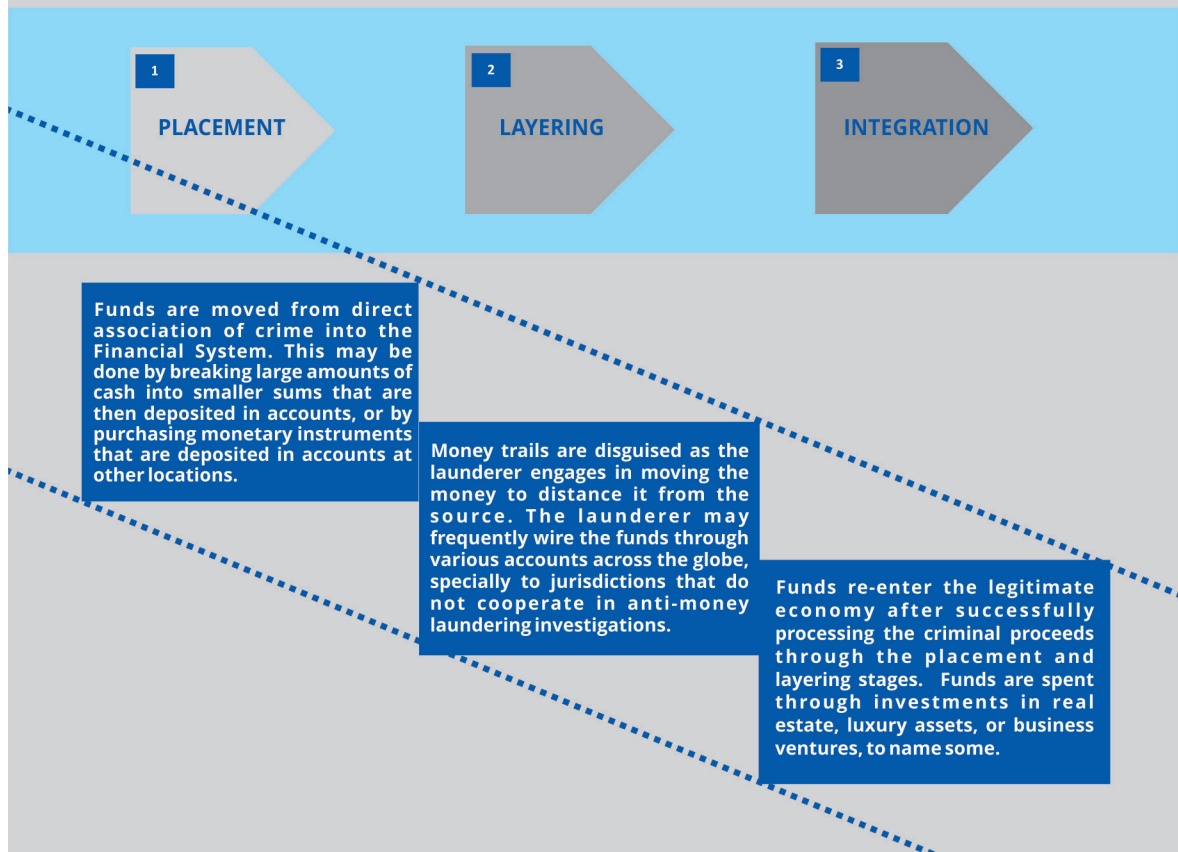
Money Laundering

Criminals cannot deposit the proceeds of crime in the bank without attracting the attention of the authorities. That would provide evidence of the crime that they commit. Still, for criminals to use the money, it must be inserted in the formal economy which implies a prior cleaning process.

FATF defines Money Laundering as ***“the processing of these criminal proceeds to disguise their illegal origin (...) enabling the criminal to enjoy these profits without jeopardizing their source”***.

Since money laundering is a consequence of almost all profit generation crimes, its nature is intrinsically international. Criminals may be more inclined in laundering funds in countries or sectors that suppose lower risks of detection due to weaker AML programmes. At the same time, since criminals want to ultimately use laundered illegal funds, criminals usually prefer to move funds through stable financial centres.

STAGES OF MONEY LAUNDERING



Risk Based Approach (RBA)

The RBA to AML/CFT means that countries, competent authorities and Reporting Entities are expected to identify, assess and understand the ML/TF risks to which they are exposed and take AML/CFT measures commensurate to those risks in order to mitigate them effectively and efficiently.

In order to achieve this, countries, competent authorities as well as reporting entities should analyze the ML/TF risks to which they are exposed and take appropriate measures to mitigate and manage these. A Risk Based Approach, at the same time, allows for the adoption of more flexible measures to lower risk threats with the objective to target criminal resources more effectively while applying preventive measures that are more commensurate to the nature of the risks.

The application of an RBA is therefore not optional, but a prerequisite to an effective implementation of FATF AML/CFT Recommendations. Governments, the private sector and civil societies should work together to achieve this.

Predicate Crimes

Recommendation 1 of FATF's 40 Recommendations on AML/CFT state that countries should apply the crime of money laundering to all serious offences, with a view to include the wide range of predicate crimes.

Money is the main driving factor for criminals in the drug trafficking, corruption, tax evasion, fraud, theft, human trafficking, and smuggling businesses. These crimes cause direct financial losses to individuals, harm the community, and in some cases, the loss of human life. Successful money laundering allows for criminals to enjoy profits and furthers the cycle of criminality by making funds available for reinvestment in crime.

Kosovo is dedicated to developing and maintaining AML/CFT policies to enhance its ability to respond to evolving risks and ensure the effective combating of ML/TF. Money laundering is a necessary consequence of all profit generating crimes, and while it is difficult to estimate with accuracy the amount of money that has been laundered in Kosovo, it is likely to amount to hundreds of millions of Euros per year.

The degree¹ of vulnerability to the different predicate crimes that Kosovo is exposed to was assessed in accordance to the crimes that money laundering and financing of terrorism activities were linked: the higher the amount of ML/FT activities linked to a specific predicate crime, the higher Kosovo's vulnerability to it²



Figure 1: Predicate Crimes - degree of vulnerability that Kosovo is exposed to.

Tax evasion as well as corruption and bribery are the predicate crimes to which Kosovo is exposed to the most. Tax evasion within the country is associated with the widespread informality of the economy and the high levels of cash intensity, which generates opportunities to avoid

paying income and VAT tax, one of the main sources of financing of the government. Corruption and bribery, on the other hand, is present in various forms across the jurisdiction, but activities linked to public procurement should be highlighted as those generating the highest amount of criminal proceeds.

Most crime types have the majority of their proceeds taking the initial form of cash and utilize relatively unsophisticated laundering methods. This is facilitated by the high levels of informality of the Kosovar economy, making it hard to distinguish whether funds are obtained legitimately or not. Fraud and corruption are the only predicate crimes believed to have most of their proceeds in the form of financial assets. Financial assets facilitate the traceability of money.

→ Threat Level - Extremely High

- Tax Evasion: Tax evasion in Kosovo is widespread, as shown by a 2014 World Bank Report concluding that the VAT gap was 34% (€ 180 million), whereas the Corporate Income tax gap was around 17% (€10 million), whilst the personal income tax gap amounted to 66% (€180 million). A 2017 Report on the informal econ-

omy similarly found that the tax gap was in excess of €300 million per year. Tax Evasion can be mainly linked to the informal economy (allegedly amounting to 30% of the overall economy), allowing for earnings to go unreported and therefore not taxed. Regarding personal income tax evasion, it is believed to be linked to the fact that Kosovo does not include the filing of individual tax returns.

Underreporting is a common phenomenon in Kosovo, enabled by the informality of the economy as the income reported to the tax authorities does not reflect the actual income. For instance, companies would oftentimes fail to provide accurate information of the revenue that they generate.

To a lower extent, there are also cases of more elaborate tax evasion schemes where companies generate false invoices in order to untruthfully reduce payable income.

Furthermore, most of the informal economy is cash-based, and a great percentage of this economy avoids paying tax. These illegal proceeds

may oftentimes enter the financial system as simple deposits. However, more elaborate tax scams may involve fraudulent invoices.

Although It is widely believed that most of the proceeds from tax evasion remain inside Kosovo, international partnerships have been fundamental in the investigation and prosecution of cross-border transactions involving tax evasion. Reinforcing cross-border cooperation remains as one of the top priorities for Kosovo.

- Smuggling: This crime, similar to other trafficking crimes, is facilitated by the porous border of Kosovo. The smuggling of goods from Serbia to Kosovo remains the focus of criminal groups and the products from Serbia are frequently present in the domestic market at competitive prices. Smuggled goods are mainly fuel, pharmaceutical drugs, dairy products, fruit, meat, cigarettes, coffee, alcoholic beverages, vegetables, agricultural tools, electronic devices and textiles.

Smuggling is especially frequent in the north of Kosovo, although

the region of Gjilan/Gnjilane does also observe a high smuggling rate. Smugglers use various transporting vehicles such as trucks, cars, tractors, vans and regular bus lines. Despite its decreasing trend, tobacco is one of the main products exposed to smuggling, with Montenegro and Albania being the main sources. Smuggling is cash intensive and the majority of the proceeds are considered to return to the country where the products are smuggled from.

- Corruption & Bribery: in 2019, Transparency International assigned to Kosovo a score of 36/100, positioning the country as 101/180 in the Corruption Perception Index. The lack of transparency in the public procurement process, along with political party financing remain the main concerns.

One of the most vulnerable economic sectors is the construction sector, as bribes are paid for receiving better treatment during the administrative process as well as for receiving construction authorizations. As a result, more than 100 million Euros are annually wasted on corruption and 20% of contracts

stipulated every year in Kosovo are abused by public officials.

Petty corruption is perceived in many states as corruption of small or mid-high public officials that takes place within the public administration. In Kosovo, it includes public institutions responsible to deliver public services in municipalities, the tax administration, health services, education, as well as municipal and cadastre services. It is generally believed that most of the money laundering crimes associated with these are likely to take the initial form of cash and criminals are believed to use simple laundering schemes.

Grand corruption commonly occurs at high-level positions such as the head of division or department within a certain ministry, permanent secretaries and other high-level positions with influence in the government or public agencies, or judges and prosecutors. Procurement offices, customs and the fiscal authority are the sectors most exposed to money laundering risks.

While the number of petty corruption cases vastly exceeds grand corruption, it is firmly believed that the proceeds linked to grand corruption make up most of the proceeds from corruption in Kosovo. Conflict of interest and nepotism may arguably be the biggest issue related to corruption in Kosovo.

While smaller scale corruption may be handled in cash, larger scale corruption linked to procurement generally involves registered companies and Politically Exposed Persons (PEPs). The use of front companies facilitates the circumvention of the strict scrutiny of banks. It is believed that most of the funds stay inside Kosovo, with real estate and construction companies being a prevalent end use of the funds.

Politically Exposed Persons

In 2018, UNDP Kosovo launched the first Report on Money Laundering Typologies of Politically Exposed Persons in Kosovo (Link), with the objective of providing guidance to Reporting Entities on how to engage with PEPs as clients, monitor risks and identify red flag indicators that may require filing of reports to the FIU.

→ Threat Level - High

- Drug Trafficking: another cash intensive crime, profits associated with the sale of illicit drugs in Kosovo mainly derive from opiates & cannabis, and to a lesser degree cocaine & amphetamine-type stimulants. Local drug use is not widespread, though it is perceived to have slightly increased during recent years as a result of the increase in the size of the local economy, as well as an average increase in the disposable income of the population. Kosovo is a transit country for drugs smuggled to other European markets.
- Goods Counterfeit and Piracy: Evidence suggests that there is little domestic production of counterfeit goods in Kosovo, but the import of counterfeit goods, especially apparel and to a lesser degree electron-

ics, is a concern. The prevalence of counterfeit and pirated products in Kosovo has grown significantly over the past decade, in terms of the amount and the variety of products available for sale, to a degree where markets and smaller retail shops are often seen openly trading counterfeit goods. China is the primary source of counterfeit products imported to Kosovo. IPR protections are improving slowly, limited by a persistent lack of awareness among the public and judicial system.

The government tracks and reports on seizures of counterfeit goods. In 2016, Customs confiscated counterfeit goods valued at over EUR 2.5 million. While the final sale at a retail level generally will take place in cash, the international wholesale trade almost exclusively will take place via the financial system.

- Human Trafficking: in 2018, the US State Department classified Kosovo as Tier 2, which means that the country does not fully meet the international standard in fighting human trafficking. Governmental and law enforcement agencies are actively dealing with this problem.

Human trafficking is mainly related to sexual exploitation. Most of the victims are women who come from Eastern Europe, especially Albania, Moldavia, Bulgaria, Russia and Ukraine. The average age of the victims is between 20 to 35 years old and mostly women are recruited in their hometown with a prospect of a better job and life in Europe. In the last years, the police statistics underlined an increase in cases, also driven by an increase of underaged trafficking.

Almost all the proceeds adopt the initial form of cash, with significant parts of the proceeds likely to return to the jurisdiction where the organized crime groups are based. Some proceeds are likely to enter the financial system in Kosovo to the degree that criminals may use local hotels and payments may be done electronically.

International migrant smuggling that transit via Kosovo has been strongly decreasing in recent years especially regarding people of Syrian and Afghan descent. The migrants illegally smuggled through the so-called "Balkan Routes" come from the southern borders with North Macedonia and they contin-

ue their journey to Europe through Serbia or through the Albanian harbour. However, very little of the proceeds were ever considered to be connected to Kosovo as the payments generally associated with this activity generally take place in other countries.

Migration of certain categories of Kosovan citizens towards the countries of Western Europe is a current phenomenon. The migrants are mainly people in difficult economic conditions, unemployed or employed mainly in the private sector, with low or average wages, on social assistance, some with unresolved issues of housing, unsatisfied with health, pension, security and education policies. However, few criminal proceeds are considered to be connected to the smuggling of migrants, given the relatively porous border of Kosovo.

- Prostitution: prostitution is illegal in Kosovo and operates with some overlap with human trafficking. The difference is that the latter involves the threat or use of force or other forms of coercion while prostitution does not contemplate any sort of coercion. In recent years there has

been an increase in the number of massage places that are believed to have links to prostitution.

Prostitution is known to generate substantial sums of money (approx. € 30-50 per client), almost exclusively in cash. Most girls working are not Kosovan but from countries such as Bulgaria, Romania and Moldova. Most of the money generated is ultimately transferred out of the country.

→ **Threat Level –Medium**

- Fraud: Fraud comes in many forms in Kosovo, however large-scale fraud with financial and investment products such as large-scale Ponzi-style fraud does not appear to be a significant threat. This is likely linked to the relatively low level of sophisticated investment products offered by the financial system in Kosovo. The cloning of credit cards is the most frequent type of fraud in Kosovo though not considered a widespread problem. Fraud related to email scams, such as Nigerian email scams, are also a risk in Kosovo.

There has been a recent increase in fraud cases from tourist agencies where fraudulent tickets and vacation packages are sold. Misuse of state benefit is also likely to occur in Kosovo. The fraud cases in Kosovo are generally linked to international organized crime, with payments mainly being financial assets, and relative to most other crime types in Kosovo, exhibit very high levels of sophistication and capability in terms of laundering fraud-related proceeds.

- Extortion & Usury: Several usury cases have been detected in Kosovo where individuals have obtained loans and demanded to pay back loans with increasing interest, and while information based on reported cases is not widely spread, it is believed that many cases go unreported as people who received money through usury are reluctant to report the crime.

Usury is generally linked to individuals that cannot access loans via the financial system or are in urgent need of money. Organized and structured criminal groups have been identified, but so far the ma-

majority of cases involve individuals and small criminal groups.

Extortion is not a common phenomenon in Kosovo and companies do not face significant threats. Extortion in Kosovo, besides mainly being associated with usury, is manifested through threats, blackmail, with most reported cases being mainly small or individual cases, where the criminal meets personally the victims to threaten or to collect the money. Rarely are threats made by phone. The payments for both extortion and usury cases are generally made in cash, with the vast majority likely to stay inside Kosovo.

- Robbery & Theft: Street crimes (theft, purse snatchings) is not seen as a common problem in Kosovo and does not emerge as a general concern in everyday life. People generally no longer hold large amounts of cash at home which has decreased the criminal proceeds from theft. There are cases of car theft, but it is decreasing, and stolen cars are usually used to market their parts. There are cases of private institutions such as mini markets and petrol stations being the target

of robbery, but generally not much in terms of value is stolen. There are however some signs of more frequent organized and violent robberies of financial institutions. Overall the proceeds from robbery and theft are considered to be in the lower millions of Euros.

→ **Threat Level –Low**

- Environmental Crimes: Constructions without any criteria, outdated technologies, lack of wastewater treatment, poor management of industrial and household dumps, and wild exploitation of natural resources pose major environmental problems in the country. Air pollution in urban areas and especially in industrial areas are estimated to be high. The high level of poverty and the informal economy are exercising additional pressure on land, namely threatening the capacity of the “economic and environmental” land. While these environmental issues are indeed serious, they do not directly generate profits that are laundered. Illegal logging comes in many forms in Kosovo including logging from public forests without permission, logging in protected areas,

false declaration of the volume of harvested wood and illegal logging from private forests: Smuggling and illegal accounting practices, extend the list further. Illegal logging has also a transnational dimension and the lack of capacity to protect forests in Kosovo means that publicly and privately-owned forests particularly at the border/boundary are vulnerable and a prime target of wood thieves.

However, there has been a strong decrease in systematic illegal logging as most of the trees have already been cut and the crime no longer has significant ties to organized crime in Kosovo. Most of what remains are individuals that due to poor economic situations illegally cut wood, mainly for their own supply or to be resold to buy basic needs. Hence it is not currently considered a significant source for proceeds of crime.

Given the nature of the crime, the proceeds will take the form of physical assets (i.e. wood) and to the degree it is resold it will generally transform into cash. In recent history there have been cases of illegal mining e.g. near riverbeds and ille-

gal dumping of waste, however this is not currently seen as a significant threat and is unlikely to currently generate noteworthy proceeds.

- Illicit Arms Trade: The illicit arms trade in Kosovo is not considered a major crime compared to the smuggling of people or other goods. There has not been a demand for new small arms and ammunition given the number of weapons and ammunition available from the recent armed conflict. The criminal market for buying illegal guns is considered to be small. In addition to the relatively low demand, the average price is also considered low.

A recent trend is gas guns, that are illegal in Kosovo but can be bought legally in some of the neighbouring countries and are then smuggled into Kosovo. This is only associated with money laundering to the degree that these are resold in Kosovo. The police units of the Regional Police Directorate in Prishtinë/Priština seized around 239 weapons and 2,584 different types of ammunition and caliber in the first six months of 2018.

→ **Threat Level - Extremely Low**

- Forgery: Forgery in Kosovo is mainly a crime accessory to smuggling of migrants, with fake visa and passports needed to cross the border especially if the destination is the Schengen Area European countries. A considerable amount of technical expertise is needed to convincingly forge European passports - something that cannot be done without a proper logistical organization.

It is considered that the vast majority of fake European passports in Kosovo are produced and sold outside Kosovo, its price ranging from \$1,000 to \$4,000.

- Currency Counterfeit: Despite the fact that in 2017 Kosovo customs seized over 2 million Euros of fake currency at the border with Albania (Vermica), counterfeiting currency is not a general problem and usually consists of opportunistic individuals producing low-quality products that do not generate much (if any) profit.
- Stolen Goods Illicit Trafficking: This criminal activity is not significant in Kosovo, but it would generally relate to two types of goods: 1) stolen cars and 2) ancient artifacts. The theft of cars in Kosovo is low and decreasing. The ones that are stolen are generally disassembled and then re-sold as parts at the national level. The monetary value of ancient artifacts in Kosovo is generally considered very low, and there is no evidence of the existence of a criminal market for this.

Reporting Entities

It is of paramount importance to understand the different methods used by these criminals to place, layer and integrate the “dirty” money in the formal economy. Reporting entities and the vulnerabilities that they face are crucial in tackling money laundering risks as these institutions are the vehicles through which the criminal proceeds are concealed and injected into the system.

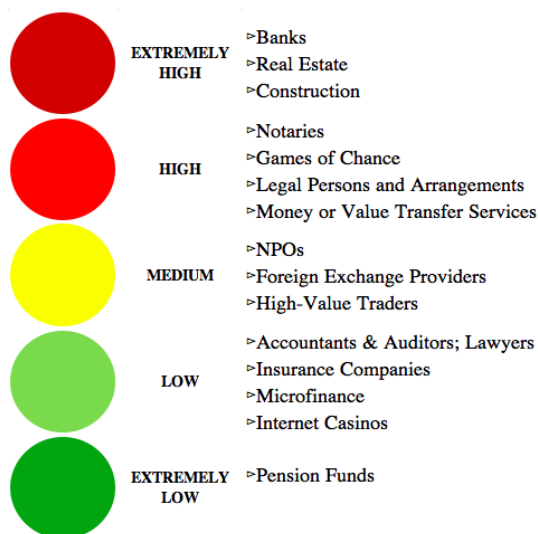


Figure 2: Reporting Entities - degree of vulnerability that Kosovo is exposed to.

Similar to predicate crimes, the vulnerability of Reporting Entities in Kosovo to money laundering risks was assessed according to the number of STRs received by them: the higher the amount of ML/FT STRs, the

higher the vulnerability of the economic sector.

Despite the strong ML/FT controls and high understanding of risks within the banking sector, this sector is considered the most vulnerable in Kosovo due to its nature, scale and complexity. Moreover, it is acknowledged that the Real Estate and Construction sector is highly attractive to money laundering activities, in part as a result of the high-value nature of transactions within the sector, and also as a result of its cash intensity, allows for criminals to conceal their link to criminal funds.

Corruption & Bribery is one of the main predicate crimes linked to this sector, which should result in the allocation of resources on identifying and implementing measures for the correct treatment of PEPs.

The socio-economic effects of criminal financial flows on the legal economy and society are enormous. They cover the following elements: distortions in resource allocation from high-yielding investments to investments that run a low risk of detection, distortion of prices, notably in the real estate sector, unfair competition, risks of supplanting licit activities, negative impact on direct foreign investment, corruption, risks of real sector volatility, and strengthening of skewed income.

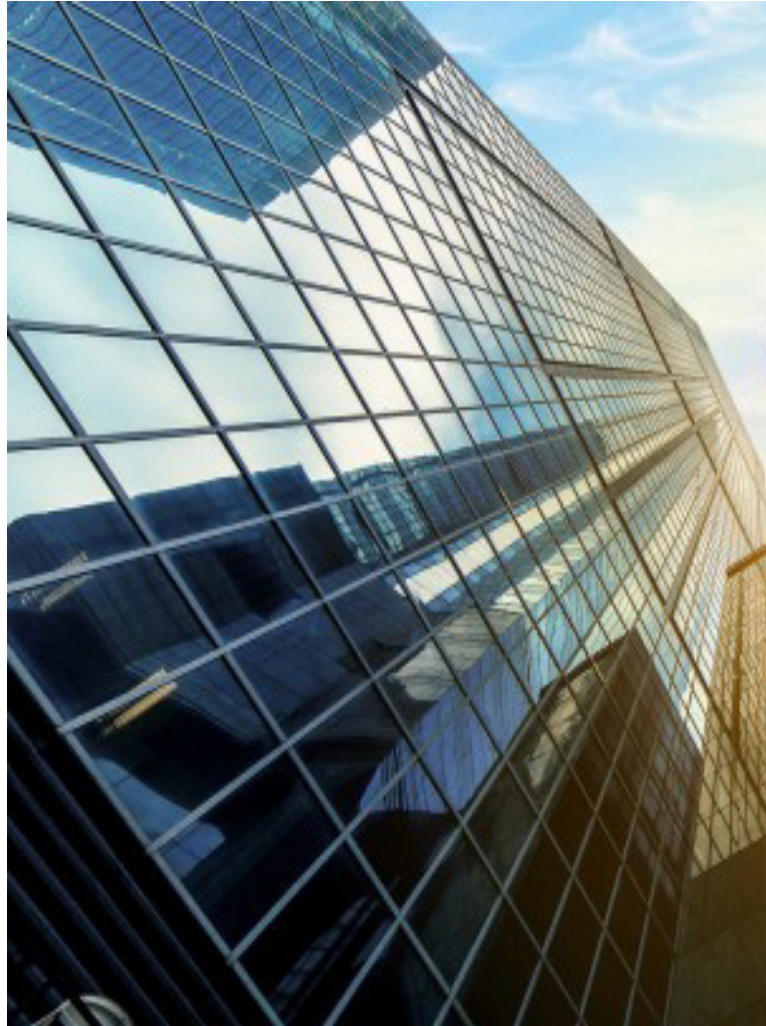
2. SECTORIAL TYPOLOGIES

The following section will illustrate Money Laundering risks within the different economic sectors of Kosovo. To that end, real cases will be illustrated, together with an analysis of the risks that they represent as well as emerging trends.

All cases illustrated are believed to portray the highest money laundering risks within each of Kosovo's economic sectors as these are the most recurrent transactions reported by reporting entities.

Financial System

Financial Institutions across the world face important challenges when fighting against financial crime. Their international character is one of the main challenges: due to the interconnectivity of persons across the world, transactions have international footprint. This means that regardless of national efforts towards protecting the integrity of local financial systems, if all financial institutions across the world do not abide to effective and efficient measures on AML/CFT, the world's financial system will be at risk.





Banking

According to the Financial Action Task Force, Banking includes but is not limited to:

- Retail Banking: offer of products and services directly to personal and business customers (including legal arrangements), such as current accounts, loans and saving products;
- Corporate and Investment Banking: provision of corporate finance and corporate banking products and investment services to corporations, government and institutions;
- Investment Services (or Wealth Management): provision of products or services to manage customers' wealth (also known as Private Banking);
- Correspondent Banking Services: offer of banking services by one bank (the "correspondent bank") to another bank (the "responent bank").

Almost all adults in Kosovo use a bank for financial services, essential for the operation of all types of businesses within the formal economy. There are ten commercial banks operating in Kosovo, represent-

ing 67.5% of total assets in the financial sector, eight of which are foreign-owned and comprise about 88.9% of total banking system assets. Two domestic banks account for the remaining 11.1%.

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

AML Red Flags

Cash intensive transactions and high value transactions are one of the most frequent AML red flags within the banking industry, more specifically at the Retail Banking level.

Secrecy, on the other hand, is another AML flag, specially within corporate banking. FATF Recommendation 9 stresses that countries should ensure that financial institution secrecy laws do not inhibit the implementation of FATF recommendations. Besides, the identification of beneficial ownership as well as the concealment of funds through the

use of complex legal structures may also suppose a higher money laundering risk, together with the transaction of complex products and PEPs. The often cross-border nature of these transactions also possesses additional risks.

Last, but not least, correspondent banking services is a high risk activity characteristic of the banking sector as it may involve high-value transactions and limited information about the remitter and sources of funds, especially when executing transactions with banks located in a jurisdiction that does not comply with AML international recommendations.

The nature, scale and complexity of Kosovo's Retail Banks make them vulnerable to all stages of the ML process due to their central function within the financial system.

Considering that the banking sector handles the vast majority of all international transfers that go through the financial sector, it is naturally exposed to international ML/FT both entering and leaving Kosovo.

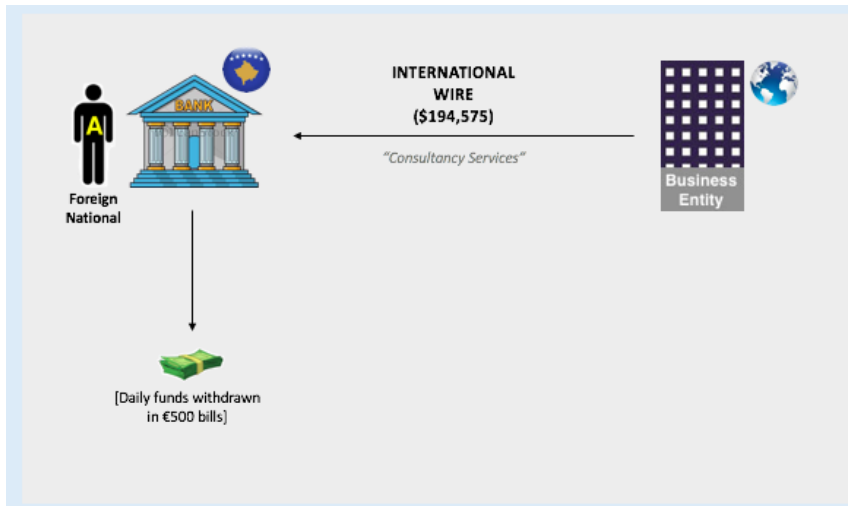
Overall the banking sector has strong AML/CFT and compared to other European countries, Kosovan banks chose a risk-averse approach. For example, national banks generally do not serve non-residents.

CDD and record keeping is applied effectively across all customers, with implementation of enhanced CDD where required, while having implemented strong and effective procedures for monitoring customer transactions to detect money laundering activities.

Banks filed 785 STRs in 2019, a reasonable number considering the size of the banking sector. Additionally, the Kosovo Financial Intelligence Unit deems that the quality of the STRs is good.

The following typologies illustrates some of Kosovan's money laundering risks within the Banking sector:

Typology I



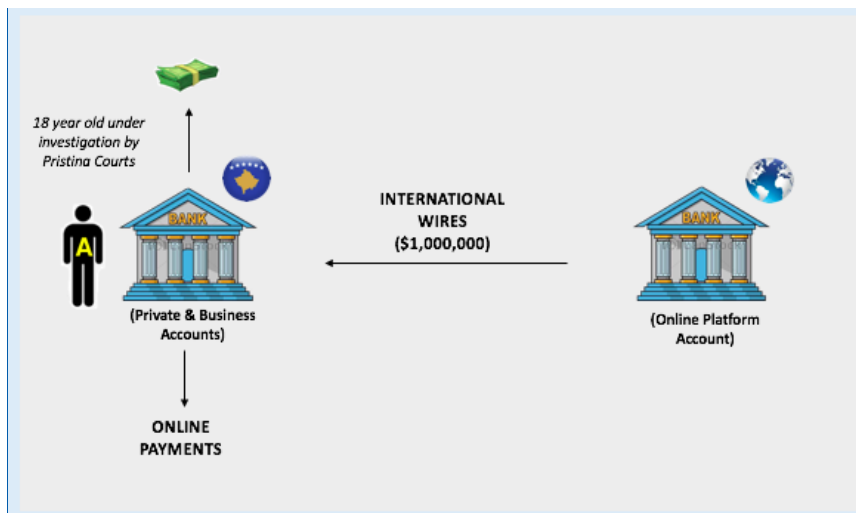
A foreign national based in Kosovo used local bank accounts to launder illicit funds. These funds were transferred by a foreign business entity with the objective of not paying tax to the respective tax authority.

After illicit funds were wired, foreign national A made multiple cash withdrawals below the reporting threshold whilst following a specific pattern (daily cash withdrawal in €500 bills).

HIGH RISK INDICATORS

- Smurfing – multiple and consecutive cash withdraws in €500 bills. Had these transactions been merged into a single one, it would have been reported to local authorities. It is through smurfing that criminals typically integrate laundered funds into the economy.
- Cross border operations – cross border transactions increase the difficulty in tracing funds. It usually requires international cooperation when investigations are undertaken, and it offers to criminals additional layering of criminal funds.
- Rationale of transaction – subject A did not have any history of providing consultancy services, nor did it seem that the value of the funds transferred were proportional to the services that subject A claimed to deliver.

Typology II



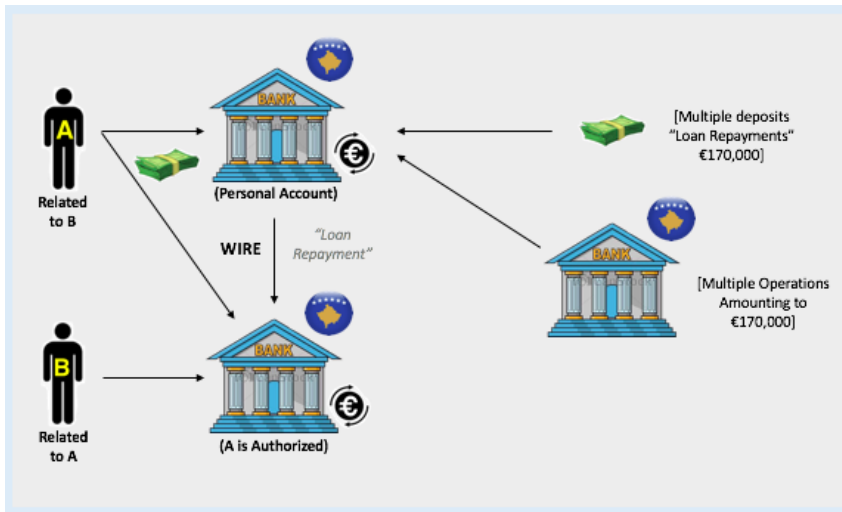
Subject A allegedly sells videos through an overseas Online Platform. Turnover from the online platform is transferred to Kosovo bank accounts, both Private and Business Accounts. Only the funds transferred to the Business Account are declared to TAK, whereas \$600,000 of revenues were transferred to Kosovo with the objective of evading tax payment. Laundered funds were withdrawn and used for on-line payments.

Subject A was, at the same time, under investigation by the Prishtinë/Priština Court.

HIGH RISK INDICATORS

- Cross border operations – since cash cannot normally be traced back to individuals, criminals usually operate in cash and are likely to place funds in the financial system in the form of cash.
- Customer under criminal investigation – reporting entities should know and feel comfortable with the customers that they onboard and do business with. Periodic reviews should be undertaken for reporting entities to feel comfortable with its customers for as long as the business relationship lasts.
- Private Accounts – due to the lower level of transparency of these products, these accounts decrease the traceability of funds.

Typology III



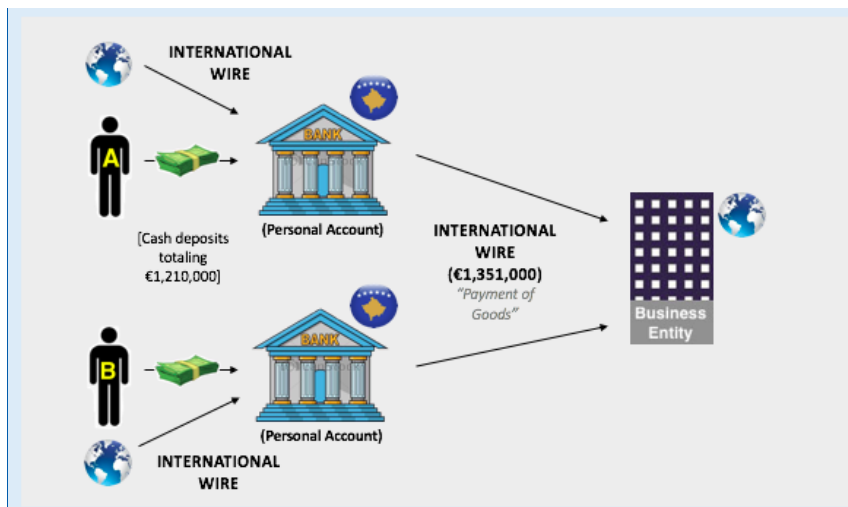
Subject A and B performed high value cash deposits amounting to €1,210,000. These funds deposited into Kosovo accounts were later transferred to a foreign business entity located in the same jurisdiction from where international transfers originated. Funds deposited into Personal Accounts in Kosovo were a result of un-reported business activities in the foreign country.

Criminals aimed to evade tax and launder the money in Kosovo, while integrating these funds into the financial system once the money was transferred out of Kosovo.

HIGH RISK INDICATORS

- Cash intensive operations – since cash cannot normally be traced back to individuals, criminals usually operate in cash. Therefore, high value cash operations may be linked to illicit activities and should be subject to analysis.
- Cross border operations – cross border transactions increase the difficulty in tracing funds. It usually requires for international cooperation when investigations are undertaken, and it offers to criminals additional layering of criminal funds.
- Rationale of transaction – it is reported that the international wire is a payment for goods. These goods were never reported to be provided by the business entity. No goods or services were received for the payment of €1,351,000, making it evident that subjects A and B were only interested in transferring the money out of Kosovo.

Typology IV



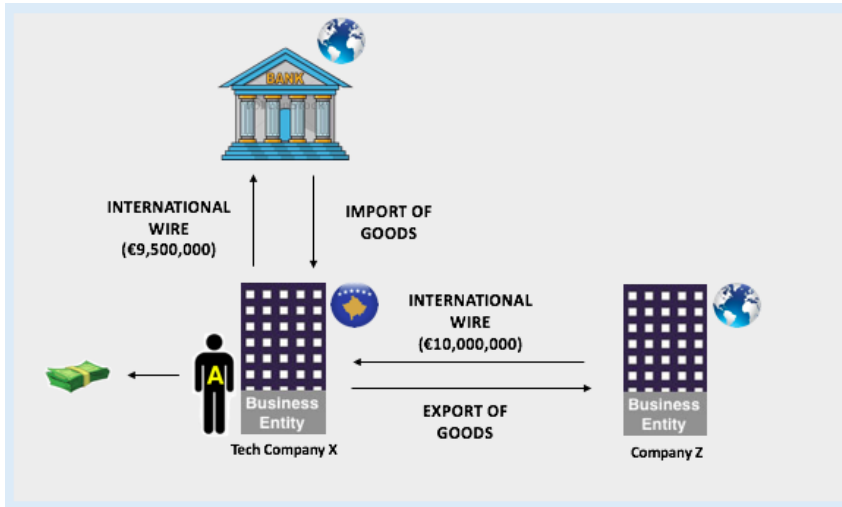
Multiple high value cash deposits are made to subject A's Personal Account. Once the criminal cash enters the banking system, subject A proceeds to layer the funds: on the one hand, it conducts several operations within its own account (i.e. term deposits, movement of cash and incoming transactions amongst different personal accounts).

On the other hand, A uses subject B's accounts to provide further layering, thus complicating the traceability of funds. There is no logical rationale of the wire from A to B as the "Loan Repayments" being claimed by subject A were not preceded by a Loan issuance by subject B.

HIGH RISK INDICATORS

- Cash intensive operations – since cash cannot normally be traced back to individuals, criminals usually operate in cash and are likely to place funds in the financial system in the form of cash.
- Operations that have no economic/financial logic – once the criminal money is placed in the financial system, criminals are interested in layering it in order to make it less traceable. This is achieved by conducting multiple operations and moving the funds as much as possible, even if fees are high and the operations appear to have no logic.
- Loans – these products may suppose a higher money laundering risks as criminals usually connect illegal funds to either a loan issuance or payment.

Typology V



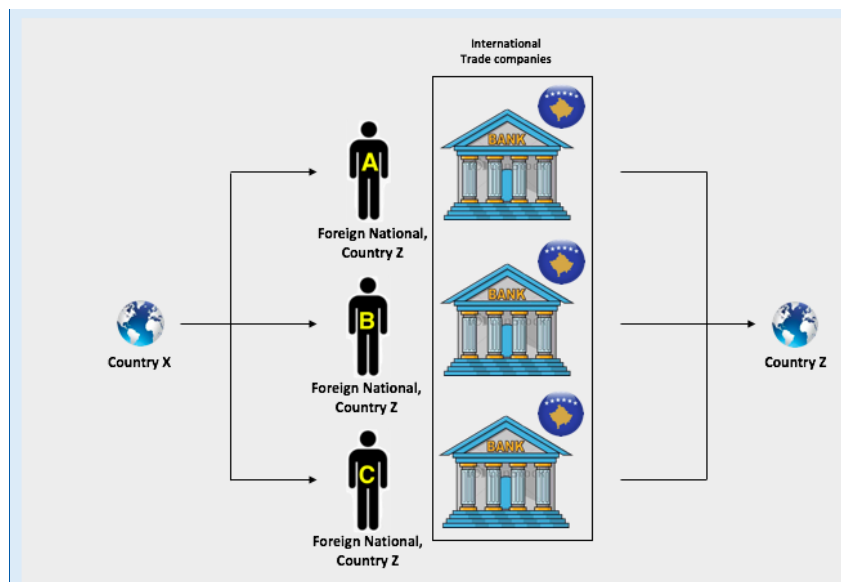
Company X has no sales points in Kosovo. It imports goods that are stored or re-exported to Company Z on the same day of import. Company Z has no retail stores and was recently incorporated. There appears to be no legitimate international trade transactions as no goods are actually involved in these operations. Criminals use bank accounts in Kosovo to move funds across borders.

Subject A charges a fee as an intermediary.

HIGH RISK INDICATORS

- Rationale of transaction – it is reported that international wires are payments for import/export of goods, but no goods were exchanged. Illegal funds were originated in country X, placed and layered in Kosovo, to be finally integrated back into the financial system of country X after being “cleaned”.
- Cross border operations – cross border transactions increase the difficulty in tracing funds. It usually requires for international cooperation when investigations are undertaken, and it offers to criminals additional layering of criminal funds.

Typology VI



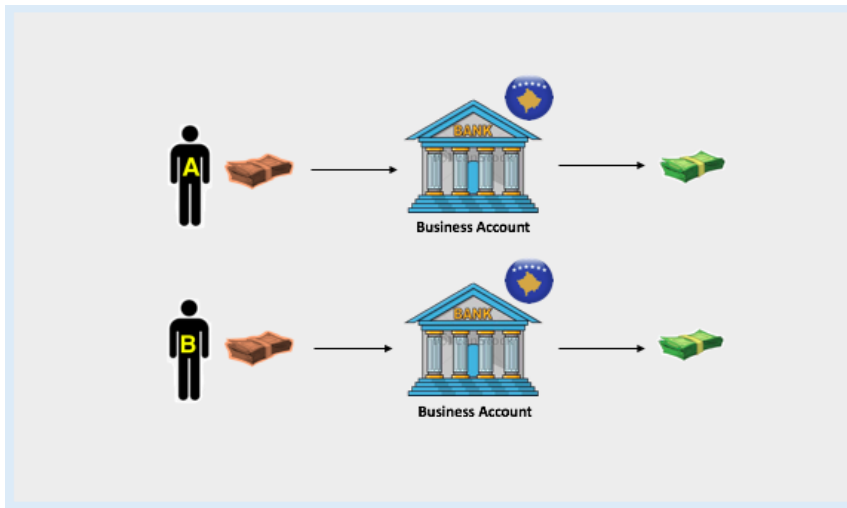
Foreign Nationals A, B and C are international trade business owners in Kosovo and use local bank accounts to receive and send funds abroad. Turnover in Business Accounts do not match Import-Export declarations.

Foreign nationals allegedly attempted to launder in Kosovo illicit funds from crimes committed in country X, with the objective of integrating these funds in country Z.

HIGH RISK INDICATORS

- Miss-match of prices – transactions involving international trade do not match amounts reported to local authorities. Prices are increased with the objective of making it seem that the illegal funds are a result of legal operations, such as trade.
- Cross border operations – cross border transactions increase the difficulty in tracing funds. It usually requires for international cooperation when investigations are undertaken, and it offers to criminals additional layering of criminal funds.

Typology VII



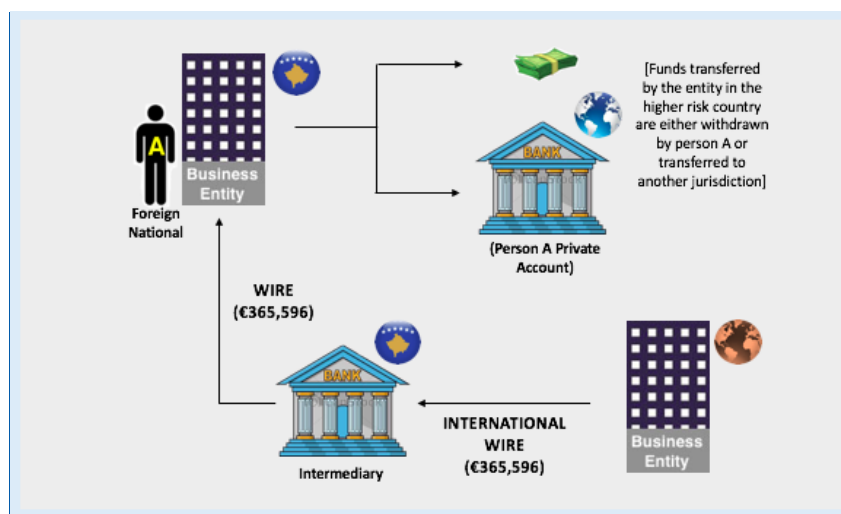
Subject A and B deposited multiple€50 banknotes which are printed differently, a strategy implemented by banking institutions to identify stolen money. These individuals, with no apparent connection amongst themselves, make the deposit in recently opened Business Accounts to give these funds a licit façade (turnover resulting from business activities).

These illicit funds were afterwards withdrawn.

HIGH RISK INDICATORS

- Cash intensive operations – since cash cannot normally be traced back to individuals, criminals usually operate in cash. Therefore, high value cash operations may be linked to illicit activities and should be subject to analysis.
- Marked bank notes – financial institutions may be able to identify bank notes connected to criminals. These marks are usually not apparent to the naked eye but have been proven to be effective in deterring the placement of illegal funds in the financial system.

Typology VIII



The account of subject A is not credited by the business activity of its recently incorporated entity, but by international transfers from an entity located in a higher risk jurisdiction through an Intermediary located in Kosovo. In this case, the intermediary is holding a correspondent banking relationship with the Bank of A's Business Entity.

These funds are then deposited in a foreign Private Bank Account under the name of Subject A or withdrawn.

HIGH RISK INDICATORS

- Intermediation – intermediaries are usually used to provide additional layering to operations conducted by criminals. Additionally, it further distances criminals from the funds being transacted, which ultimately renders more difficult the traceability of funds.
- Higher risk jurisdictions – cross border transaction may represent a high-risk indicator as it complicates the traceability of funds. If the jurisdictions involved are higher-risk, meaning that they are deemed by FATF to be countries that cannot handle effectively the risks of money laundering and terrorism financing, then this would suppose an additional risk. Institutions should be very vigilant of counterparties located in these jurisdictions.
- Private Accounts – due to the lower level of transparency of these products, these accounts decrease the traceability of funds.

Correspondent banking services

FATF defines Correspondent Banking as the provision of banking services by one bank ("The Correspondent Bank") to another bank ("The Respondent Bank"). Respondent banks may be provided with a wide range of products and services by the Correspondent Bank, although this term does not apply to one-off transactions as it is related to on-going transactions amongst institutions.

International Standards do not require institutions to conduct KYC on their customer's customers (KYCC). Nonetheless, institutions should set procedures in place to detect and respond to changes in the respondent institution's risk profile. Where concerns are detected, the correspondent institution should follow up with the respondent institution by making a request for information (RFI) on any particular transaction(s). Upon receipt of information, the correspondent institution should assess whether the respondent institution remains within the risk appetite. No KYCC is expected to be conducted on behalf of the correspondent institution.

Due to the high ML Risk that Corresponding Banking Services represent, Kosovo banking institutions must have in place effective KYC procedures to detect those institutions to which Kosovar banks provide correspondent banking services. The CDD and frequency of revision should be adjusted to the risk of the customer.

The Kosovo financial system is built upon 10 banks. Banks represent a very high risk of Money Laundering, and Correspondent Banking Services is an activity that represents a high risk within the banking system. FATF issued a Guidance on Correspondent Banking Services in October 2016 (Link). Additionally, the Wolfsberg Group, an association of thirteen global banks that aims to tackle financial crime risks, has published materials to support the implementation of Correspondent Banking Due Diligence, including an AML questionnaire (Link). Kosovo Banks may consider these materials while adopting and revising AML procedures.

CDD - Identification and Verification

FATF Recommendation 10 urges reporting entities to actively engage with customers in order to fully understand the nature of the business for which the customer is requiring the product and services of these institutions, the Beneficial Ownership, while being able to identify and verify customer identities. To this end, one of the challenges is the adaptation of reporting entities' processes and procedures to serve an increasingly digitalized society.

According to FATF, digital payments are growing at an estimated 12.7% annually, and are forecasted to reach to 726 billion annual transactions by 2020. Therefore, digital identity (ID) technologies are evolving rapidly, which gives rise to digital ID systems. Their understanding has become essential in applying a risk-based approach, while utilizing reliable, independent digital ID systems. To this end, governments should develop clear guidelines or regulations allowing regulated entities to properly conduct a CDD on a risk-based approach.

Regulated entities, on the other side, should:

- Take an informed risk-based approach to rely on digital ID systems for CDD, including the understanding of the system's assurance level, particularly for identity proofing and authentication, and ensuring that the assurance levels are appropriate for the ML/TF risk associates with the customer, product and jurisdiction;
- Understand the basic components of the digital ID systems, particularly the identity proofing and identification;
- Consider digital ID systems for simplified Due Diligence for lower risk customers, while adopting a tiered approach to leverage digital systems to other assurance levels to support financial inclusion;
- Review policies to re-assess the need to classifying non-face-to-face customer identification as a high-risk activity;
- Where relevant, utilize anti-fraud and cyber-security processes to support digital identity proofing and authentication;
- Regulated entities should ensure that they have access to or have a process for enabling authorities to

obtain the underlying identity information and evidence or digital information needed for identification and verification of individuals.

For more information on Digital Identity, FATF has published a public consultation on this matter ([Link](#)), upon which the previous comments were drafted. It should be noted that the Guidance is still being worked on and therefore the content may be changed.

Complex Products and Services

New Payment Methods and Virtual currencies should also be contemplated in this abstract. Virtual assets have created an ecosystem prone to increasing anonymity, whilst platforms and exchangers became increasingly decentralized, enabling a reduced transparency and increased obfuscation of financial flows, as well as the emergence of other virtual asset business models such as coin offerings, that represent ML/TF risks, including fraud and market manipulation risks.

Moreover, new illicit financing typologies continue to emerge, including the increasing use of virtual-to-virtual layering schemes. FATF published a Guidance on Virtual Assets and Virtual Asset Service Providers ([Link](#)).

Recommendations & Next Steps

Even though Kosovo is not part of the Eurozone, it has adopted the Euro as its currency. This has increased financial stability within the territory and has allowed the jurisdiction to remain attractive for foreign and local investors. Additionally, the Euro stability has shielded Kosovo against depreciation risks, which has enabled growth and an increase in the average household income.

Banks are expected to continue its support to the development of the local economy through credit expansion. This will increase the amount of loans in the economy, which will allow criminals to more easily camouflage fictitious loans. According to Emerging Europe, a journalism agency, loans outstanding at the end of 2018 amounted to 2.7 billion Euros compared to 1.4 billion in 2010, representing a 93% increase. At the same time, deposits grew by 73% during the same period, totaling 3.36 billion euros in 2018.

Criminals borrowing their own criminal money is expected to remain as one of the most popular “fabricated” loans. In this regard, it is important to enhance efforts in understanding these products and conducting an effective Client Due

Diligence with the objective of identifying transactions that hold no rationale.

The cash intensive nature of the Kosovo economy will remain an obstacle in the near future for the full provision of funding products by banks. So long as employees continue to be paid in cash, these will not be able to access lending facilities from banks. The development of Micro-finance and digital payment facilities, as well as a more frequent use of credit cards will increase the size of the formal economy, which will ultimately expand retail banking.

Kosovo will also experience a stronger development and expansion of digital payments, which will have a big impact on the banking system. Banking entities will incorporate these products and they will have to adapt their current policies and procedures in order to service a population increasingly in need of digital services, while being compliant to money laundering requirements. A no face-to-face identification and verification of the identity of customers will likely remain one of the biggest challenges.

Microfinance

Microfinance, often referred to “banking the unbanked” or financial inclusion, is an activity that involves financial activities that aim to enable more individuals and businesses, especially low-income, rural, unserved and underserved groups, to access and use formal financial services.

In addition to commercial banks, Microfinance Institutions (MFIs) represent another important factor in the lending market in Kosovo. The value of total MFI assets amounted to Euro 192.4 million in 2017. The main beneficiaries of MFI loans are households (64 % of the loan value) and small enterprises (36 % of the loan value). The average size of the loans is approximately € 2,000.

AML Red Flags

Promoting the migration of population from informal to formal financial services is central on AML agendas. An underground economy could be a conduit for illicit transactions. Nonetheless, microfinance is vulnerable to ML risks, namely the lack of reliable identity documentation and data verification for potential customers which in turn limits the institutions’ ability to conduct the required levels of due diligence.

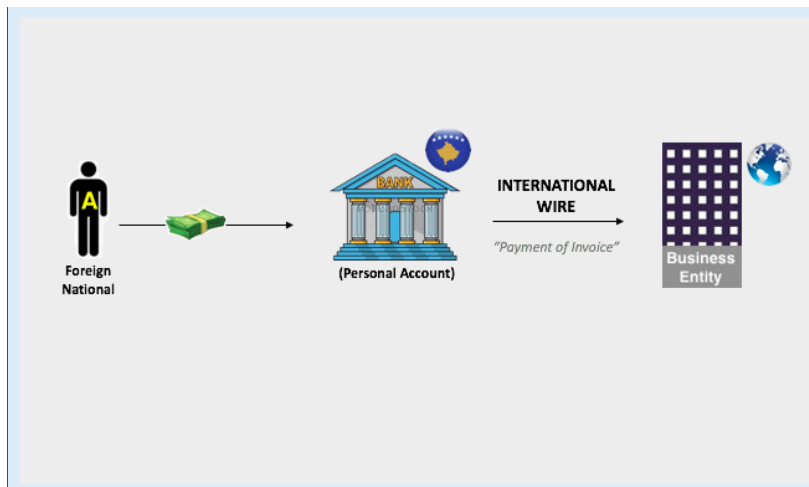
This lack of documentation is usually evident across people living in rural areas or employed in the informal sector (often-times individuals paid in cash and/or undocumented migrants).

It should be noted that financially excluded individuals operate almost entirely in cash. Therefore, transactions will be difficult to trace and providing documentation on Source of Wealth and Source of Funds may become a challenge. The government, together with the reporting entities, should work to identify those operations linked to tax evasion (thus using the Microfinance sector to launder money), from those operations or customers that are trying to join the banked community in Kosovo.

Microfinance companies generally seem to have less robust AML/CFT knowledge, in part exemplified by the filing STRs. Moreover, since these are lending companies, they have strong self-incentives to identify the customer and keep good records. Microfinance companies typically have a good knowledge of their customer base built up over longer periods of time which would make it easier for them to detect suspicious behavior.

The following typology illustrates some of Kosovo’s money laundering risks within the Microfinance sector:

Typology IX



Foreign National A opened a Business Account in Kosovo and started making cash deposits followed by immediate international outgoing transfers (described as “payment of invoices”) to a foreign company. Thanks to international cooperation it was proved that subject A is not registered in its country of origin, meaning that the account was opened with fake documentation.

HIGH RISK INDICATORS

- Cash intensive operations – since cash cannot normally be traced back to individuals, criminals usually operate in cash. Therefore, high value cash operations may be linked to illicit activities and should be subject to analysis.
- Identification & verification of customers – individuals presenting forged or third-party’s documentation represent a high risk as they do not want to disclose their true identity. Reporting entities should have in place different mechanisms to identify and verify the identity of customers.
- Cross border operations – cross border transactions increase the difficulty in tracing funds. It usually requires international cooperation when investigations are undertaken, and it offers to criminals additional layering of criminal funds.

Cash transactions and transportation

Despite the increasing prevalence of non-cash payment methods in developed economies, cash remains an important means of settlement across the world, being also utilized in the criminal economy. The use of physical cash distances the criminal proceeds from the predicate offence that generated them, breaking audit trails. Thus, criminals would normally prefer to be compensated in cash, justifying the need for increased awareness on cash intensive customers, both within financial institutions and DNFBPs.

Kosovo's national currency is the Euro, which increases national institution's risks of becoming a vehicle to laundering criminal money. The currencies most frequently used by criminals are the most tradable, stable and widely used ones, being the US dollar, the British Pound and the Swiss Franc as other examples.

Criminals frequently need to use a significant portion of the cash that they have acquired to pay for the illicit goods they have sold, to purchase further consignments, or to pay the various expenses incurred in transporting the merchandise to where it is required. The more successful the crim-

inals are and the more of the commodity they sell, the more cash they will generate. This can cause criminals significant problems in using, storing and disposing of their proceeds. Yet despite these problems, cash is perceived to confer some significant benefits on them.

The possession or movement of large amounts of cash with no explanation of their origin or purpose became increasingly difficult for criminals and criminal groups as a result of the international efforts of incorporating FATF Recommendations 10, 11 and 20 (Link) concerning Customer Due Diligence and the reporting of Suspicious Transactions (STRs). Accordingly, criminals seek to avoid such issues by retaining the cash they have generated, and if it is required elsewhere, simply physically moving cash across international borders. Additionally, in territories where the regular financial system is disrupted due to conflict, all types of persons will seek to move their assets to other jurisdictions.

In many cases, even when the proceeds of a crime are initially generated in electronic form (such as the theft of funds from a bank account), criminals choose to withdraw the funds from a financial institution account in cash, transport it to another

country, and pay it into another account in order to break an audit trail. To this end, FATF published a guidance on Physical Transportation of Cash (Link).

Recommendation & Next Steps

According to Emerging Europe, around 52% of Kosovo adults currently have a bank account, sitting more than 20 point below neighboring Serbia and North Macedonia. Kosovo's interest in a higher economic and financial integration to the rest of the region and Europe will have to be accompanied by a higher financial inclusion.

Efforts on curbing the number of unbanked individuals in Kosovo may eventually impact the market size of Microfinance industries. This will be increasingly pushed by the younger population interested in mobile and e-banking.

In the meantime, Microfinance companies and government entities will have to increase their efforts in providing financing solutions to segments of the population that may not possess all required documentation to operate. The challenge will be to adapt mechanisms and policies to include as many people as possible, without increasing Kosovo's exposure to money laundering risks.

Life-Insurance

Life-Insurance products are contracts primarily designed to financially protect the customer/policyholder and its related third parties (insured, beneficiaries and beneficial owners of the contract) against the risk of an uncertain future event (i.e. death or critical illness). Most of these products are designated for the long-term and some will only pay out on the occurrence of a verifiable event. However, some of these products have saving or investment features, which may include the options for full and/or partial withdrawals or surrenders at any time.

There are currently 15 licensed insurance companies (including 3 companies providing life insurance) within the insurance sector, representing about 3 % of total financial system assets. In 2017, the asset size of the sector reached € 176.8 million. Non-life insurance has the highest share in the total sector assets (roughly 87.8%).

AML Red Flags

Risks associated to this product are lower than those associated to other financial products such as loans and payment services, or sectors, such as banking and precious stones and metal dealers. Life-insurance products are not flexible enough to be the first vehicle of choice for money launderers. However, there is a risk that the funds used to purchase life insurance have a criminal background.

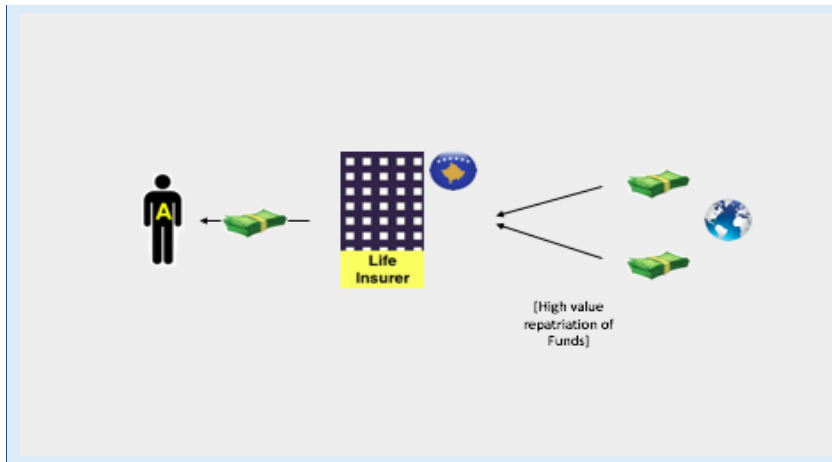
Some life insurance companies may be involved in the provision of wealth management services and/or investment products, which traditionally suppose a high money laundering risk.

Additionally, the following product characteristics may increase the money laundering risks of life insurance services: shorter maturity, highly liquid products that charge no fee for early withdrawal, non-face to face products and products that allow for high/unlimited value premium payments, overpayments, or large volumes of lower value premium payments.

Similar to other sectors, Life Insurance may also face the risk associate to cash intensive operations. Due to the high levels of cash within the society, companies may accept it as a medium of payment.

The following typology illustrates some of Kosovan's money laundering risks within the Life Insurance sector:

Typology X

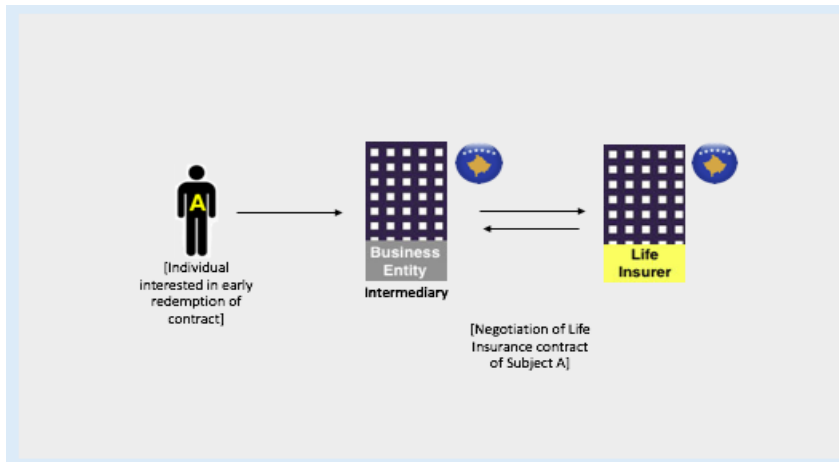


A Life Insurance entity in Kosovo fails to report suspicious transactions linked to high amounts of incoming funds involving the repatriation of funds potentially linked to tax breaches.

HIGH RISK INDICATORS

- Unclear Source of Funds – reporting entities should do their best in knowing the customer and understanding its source of funds.
- Cross border operations – cross border transactions increase the difficulty in tracing funds. It usually requires for international cooperation when investigations are undertaken, and it offers to criminals additional layering of criminal funds.

Typology XI



A life insurance contract for €50,000 for 30 years, negotiated by the Intermediary entity with the Life Insurance company. Subject A asked if it is possible to take over the contract or to cancel it.

The standard life insurance contract contained a clause that allowed for redemption after 4 years. Subject A requested derogation from this clause to allow the redemption period to begin after 2 years.

HIGH RISK INDICATORS

- Early redemption – it enables criminally derived funds to be paid to an insurance company, either directly or through an intermediary. Once the policy is redeemed the person concerned has funds from an insurance company that can be placed into the mainstream financial system.

Recommendation & Next Steps

The Life Insurance market is small compared to others in the financial sector, however it is also at its early state and is likely to grow in the coming years.

With an aging population, many countries are seeking to encourage savings schemes, including life insurance and pension products. It is a feature of such schemes that cash payments are frequently accepted as payment of premium or contributions. This may be particularly the case in jurisdictions like Kosovo, where cash is still the primary medium for making small or regular payments.

As the economy becomes increasingly more digitalized, its exposure to cash may decrease. In the meantime, with an increase in Life Insurance operations, intermediaries may also proliferate.

Because intermediaries may also market other financial products such as investment products and mortgages and have a face-to-face contact with clients, they might become in charge of performing CDD.

It may be worth pointing out that during asset repatriation, voluntary tax compliance programs or tax amnesty incentives usually are in place. These programs may increase sectoral money laundering risks.

Reporting entities and government bodies should therefore pay particular attention to elements of tax-related fraud while considering and applying enforcement actions or sanctions.

Pension Funds

Pension Funds provide retirement benefits to employees where contributions are paid for by either employees, employers or both. At the same time, Fund Managers invest this pool of money.

There are two pension funds in operation, the Kosovo Pension Saving Fund (KPSF) with an exclusive mandate to administer compulsory pension contributions; and Slovenian - Kosovan Pension Fund (SKPF) that only administer voluntary pension funds.

The sector is the second largest in the financial sector with 27.9 % of total financial assets, of these over 99.5 % are administered by KPSF.

However, whenever pension funds offer wealth-management/investment products, money laundering risks may increase.

The main vulnerabilities of pension funds relate to the size and characteristic of Kosovo's population, which is likely to include PEPs and other high-risk clients. However, 99.5 percent of the contributions are related to compulsory contributions.

No money laundering typologies relating pension funds were escalated by reporting entities. Both the government and reporting entities remain vigilant on the risks and vulnerabilities of this sectors, whilst incorporating recommendation and best practices.

AML Red Flags

The vulnerabilities of pensions are similar to those of life insurance. These funds do not normally suppose a high AML risk since all transactions are necessarily done through the banking sector and funds may only be retrieved once the counterparty reaches pension age.

Recommendation & Next Steps

The sector is not attractive to criminals interested in laundering their illegal proceeds.

Nonetheless, the following indicators have been observed in other jurisdictions and should be contemplated by national authorities:

- Large cash deposits in Pension schemes by members of the scheme;
- Deposits of securities or other assets that hold no logic to the customer profile and Source of Funds/Wealth;
- Transfer of assets from an unrelated third party into a capitalization scheme;
- Unrelated third parties paying cash contributions on behalf of members of the pension scheme;
- Unemployed person paying contributions into a pension scheme.

Money or Value Transfer Services

Money or Value Transfer Services (MVTs) involve the acceptance of cash, cheques, other monetary instruments or stores of value and the payment of a corresponding sum in cash or other form to the beneficiary by means of a communication, message, transfer or through a clearing network. Amongst others, these services may also be named "*hawala*", "*hundi*" and "*fei-chen*".

Some of the main characteristics of these services are:

- Lower cost and quicker option to send money (as opposed to domestic or international wire transfers that may take several days to process);
- Frequently present in regions with limited to no-banking services coverage;
- MVTs may fall within the structure of a banking institutions, or they may not. Within the latter, the size and complexity of the providers vary they could involve post offices, micro-finance institutions, mobile network operators, exchange houses, payment institutions, escrow account services, bill payment and digital payment services.

Similar to Microfinance entities, MVTs play a role within the financial inclusion agenda of Kosovo. In that regard, remittances are an important financial service for people in many developing countries and are a powerful enabler of financial inclusion. These are an important source of income for at least 43% of Kosovo's population, representing approximately 15% of GDP (or nearly €1 billion) in 2017. The majority of remittances come from Kosovo Diaspora in European countries, particularly Germany and Switzerland. The Central Bank reports that remittances are mainly used for personal consumption, not for investment purposes.

There are currently 5 Monetary Service Businesses in Kosovo. Money remittance firms are especially attractive as they are usually more accessible than other financial entities. For instance, users may be exempt of opening an account and the transfer are usually executed within minutes.

AML Red Flags

Within the market of non-banking MVTs providers, the size and complexity of the providers vary significantly, and various business models are adopted. Providers can include international MVTs providers,

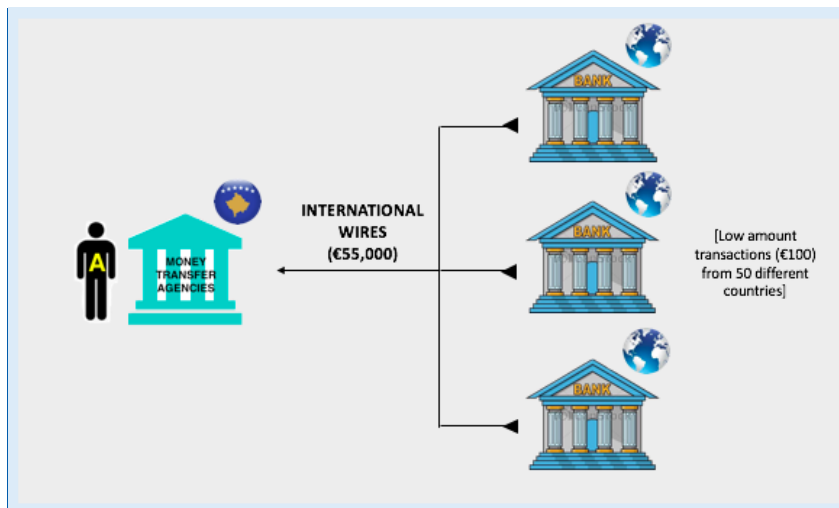
post offices, micro-finance institutions, mobile network operators, exchange houses, payment institutions, escrow account services, bill payment and IT and digital payment services and money transfer operators. Providers of MVTs services typically specialize along retail, commercial and wholesale lines.

Similar to other sectors in the Kosovan economy, MVTs are exposed to cash intensive transactions. This is especially true for these entities as they are normally the first choice for international remittances. Given the large amount of cash operations, criminals might find it easier to operate within this sector without being reported. Having this objective in mind, criminals usually structure cash operations in similar amounts below the reporting threshold.

International remittances also make reference to the cross-border nature of these products, which increase money laundering risks as tracing money becomes more complicated. Those remittances that have an international nature supposes a higher money laundering risk.

The following typologies illustrates some of Kosovan's money laundering risks within the Value Transfer Services sector:

Typology XII



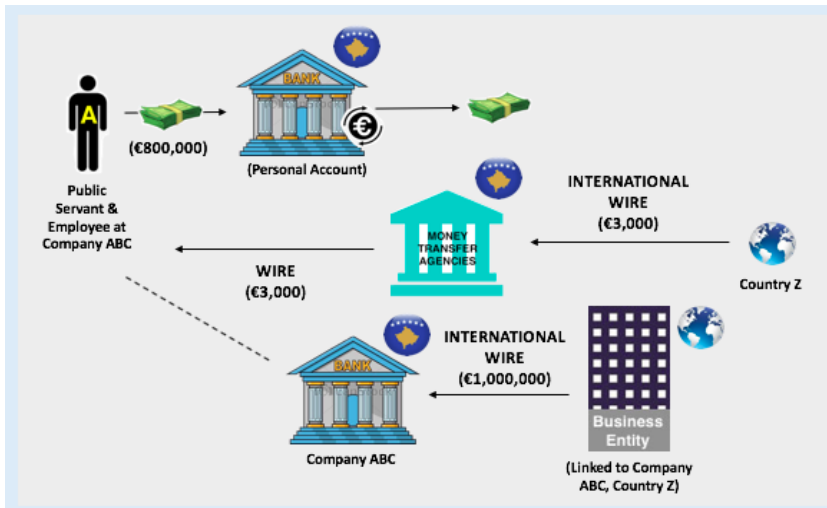
Subject A received a high volume of low value transactions (on average €100 each) from 50 different countries. These transactions amounted to €55,000. Subject A did not have a bank account in Kosovo as it conducted all its operations through Money Transfer Services institutions.

Subject A is reported to have numerous criminal records and is involved in more than 15 cases with the Kosovo Police, including suspected rape, fraud, robbery, unlawful possession of a firearm, disturbance of order and tranquility, and finally suspected of aiding and abetting prostitution.

HIGH RISK INDICATORS

- Cross border operations – cross border transactions increase the difficulty in tracing funds. It usually requires for international cooperation when investigations are undertaken, and it offers to criminals additional layering of criminal funds.
- Unclear Source of Funds – reporting entities should do their best in knowing the customer and understanding its source of funds.
- Customer under criminal investigation – reporting entities should know and feel comfortable with the customers that they onboard and do business with.

Typology XIII



Company ABC, with cooperation of a foreign Business Entity, has allegedly laundered money resulting from unfair trade in Country Z.

The Business Entity is also located in Country Z. Illicit funds were allegedly introduced to the Kosovo financial system through the banking system as well as through a Money Transfer Services institution. After the money is placed in the financial system, it is layered through subject's A Personal Account through different operations such as term deposits and investments. Finally, the illicit money is integrated in the financial system through cash withdrawals.

HIGH RISK INDICATORS

- Unfair prices – the foreign business entity entered into fraudulent activities by charging its customer with above market prices.
- Cross border operations – cross border transactions increase the difficulty in tracing funds. It usually requires international cooperation when investigations are undertaken, and it offers to criminals additional layering of criminal funds.
- Operations that have no economic/financial logic – once the criminal money is placed in the financial system, criminals are interested in layering it in order to make it less traceable. This is achieved by conducting multiple operations and moving the funds as much as possible, even if fees are high and the operations appear to have no logic.

Cross-Border Transactions

Cross-border operations may represent additional money laundering risks due to two reasons. On the one hand, its international nature adds an additional layer to the operation, while tracing funds may become more difficult. On the other hand, if the jurisdictions involved in the cross-border transaction are deemed by FATF to be of “higher-risk” or “monitored”*, institutions holding the relationship with the client would be increasing its exposure to money laundering and terrorist financing risks.

Global safeguards to combat money laundering and terrorist financing (AML/CFT) are only as strong as the jurisdiction with the weakest measures. Criminals can circumvent weak AML/CFT controls to successfully launder money or to move assets to finance terrorism through the financial system.

FATF Recommendation 19 urges financial institutions to apply enhanced due diligence measures to business relationships and transactions involving higher-risk countries. The type of enhanced due diligence should be effective and proportionate to the risks.

*“Higher-risk” or “monitored” jurisdictions are countries that FATF has identified with strategic deficiencies in their frameworks to combat money laundering and terrorist and proliferation financing. To check the list of jurisdictions for which a FATF call for Action applies and Other Monitored Jurisdictions, click on the links.

Recommendations & Next Steps

All money remitters operating in Kosovo are larger international companies (Western Union is by far the largest in Kosovo) that apply global AML/CFT policies.

Money transmitters have effective AML/CFT programmes and help to deter money laundering by filing timely STRs that flag structuring and other suspicious activity. While the sector had filed approximately 15% of all STRs for the period 2014-17, the vast majority of these were submitted by the 2 largest Remittances companies.

Recordkeeping obligations require issuers and sellers of money orders to verify and record customer identification for all money orders for cash, however this does not include enhanced CDD for high-risk customers like PEPs. Therefore, illegal proceeds deriving from corrupt behavior by Kosovo government officials might be easily funneled through these institutions. Reporting entities and government bodies should evaluate putting in place PEPs procedures.

National institutions should work jointly to address cross border activity and digital-only business models, coupled with updated training for civil servants as well as the private and third sector.

Foreign Exchange Providers

Foreign Exchange Traders (or currency exchange offices) are businesses where people can exchange one currency for another.

There are currently 41 foreign exchange bureaux in Kosovo, mostly dealing with minor transactions related to personal expenses e.g. tourists or people travelling abroad.

AML Red Flags

Given the variety of products and range of distribution channels that these businesses usually offer, the high transfer speed and the fact that these businesses are usually cash intensive, Foreign Exchange Providers are considered high risk.

Besides, these businesses do often require less stringent customer identification rules and the contact with the customers is usually brief.

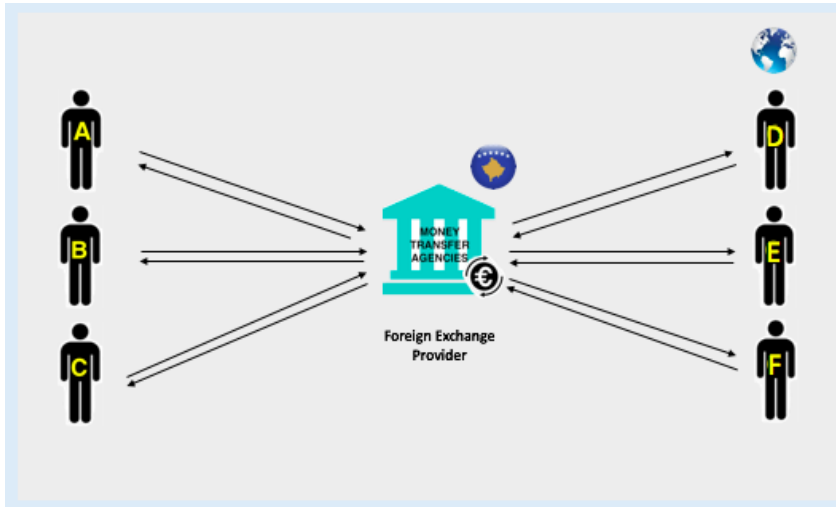
Similar to Money Service Providers, structuring or “smurfing” is frequently reported and appears to remain one of the most usual money laundering methods in many countries. These transactions may be carried out either in a single day or over a period of days, through the same or several agents.

Particularly, the risks linked to this sector do not only involve the misuse of currency exchange to launder money but also the owning of such businesses by criminal groups and corrupt employees cooperating with criminals.

A license is required in most countries to operate these types of businesses, and these licenses are usually extended by the Central Bank.

The following typology illustrates some of Kosovo’s money laundering risks within the Foreign Exchange Providers sector:

Typology XIV



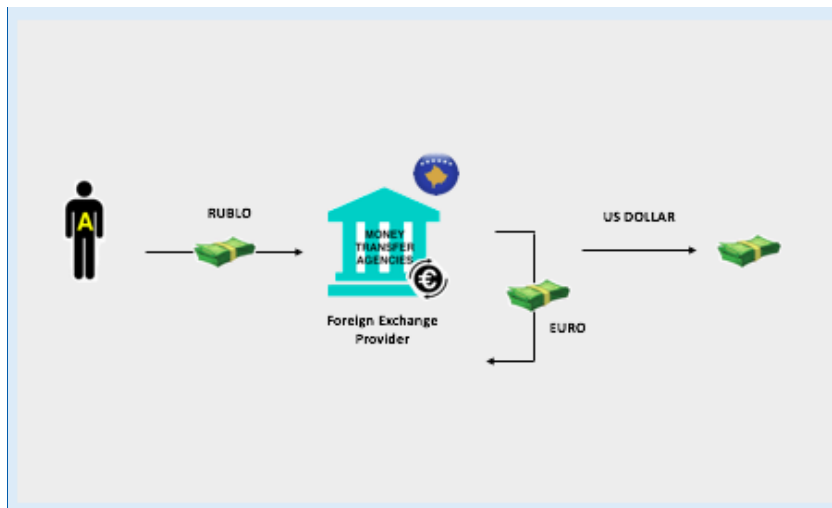
Subjects A, B, C sent/received a large number of remittances to/from different persons and destinations (often in a number of foreign countries) during a short period of time. The total sum of received and sent remittances was almost equal, and the persons declared they knew the persons who were the beneficiaries of the transfers ordered by them. Transfers were made in several currencies.

The investigation detected that many of the foreign persons involved in the scheme had a criminal background.

HIGH RISK INDICATORS

- Foreign exchange operations – these operations contribute to the layering of funds.
- Cross border operations – cross border transactions increase the difficulty in tracing funds. It usually requires international cooperation when investigations are undertaken, and it offers to criminals additional layering of criminal funds.

Typology XV



Subject A holds rubles resulting from illicit operations in Russia. These funds are then deposited in a Foreign Exchange provider in Kosovo and are exchanged to Euros.

Later, these funds are exchanged to US dollars. Conducting multiple currency exchanges makes no economic sense due to the fees being charged, but subject A was interested in layering the funds and making difficult the traceability.

HIGH RISK INDICATORS

- Operations that have no economic/financial logic – once the criminal money is placed in the financial system, criminals are interested in layering it in order to make it less traceable. This is achieved by conducting multiple operations and moving the funds as much as possible, even if fees are high and the operations appear to have no logic.
- Cash intensive operations – since cash cannot normally be traced back to individuals, criminals usually operate in cash. Therefore, high value cash operations may be linked to illicit activities and should be subject to analysis.

Recommendation & Next Steps

Foreign exchange dealers do not have very good traditional AML/CFT controls however a significant limitation for ML/FT is that none of the foreign exchange dealers in Kosovo can transfer funds to other reporting entities such as banks.

Nonetheless, the sector is experiencing an increased scrutiny worldwide, which might and should increase accountability within the local sector. Reporting entities and the government should increase controls and adapt their policies and procedures to international standards and best practices with the objective of increasing the number of SARs as well as their quality.





Designated Non-Financial Businesses and Professions (DNFBP)

The following sub-section will delve into the specific AML risks of Legal and Non-Legal Professionals within the DNFBP category. These entities are classified by FATF as such since they possess money laundering and terrorist financing risks, but they cannot be classified as financial institutions.

Lawyers

The nature and range of services that lawyers provide is wide. These professionals are qualified to advise people about the law and represent them in court.

Lawyers in Kosovo are organized through the Kosovo Chamber of Advocates (KCA). The activity of the chamber and its organization is governed by the Law on Bar No.04/L-193, Statute of KCA and Code of Ethics for Lawyers, there are currently over 800 practicing lawyers in Kosovo, however most of these are civil or criminal lawyers with only limited lawyers involved in economic transactions.

Lawyers may be sought to assist in the structure and design of transactions intended to conceal the nature and origin of funds. Criminal organizations may operate in different scales. The biggest ones have a lot of assets to launder and this task may be difficult to accomplish without the help of lawyers and accountants. Consequently, most of the typologies introduced in this document may at some point suppose the advice/intermediation of these professionals, knowing or knowingly.

Corruption risks in the Kosovo Bar Association

In 2019, UNDP Kosovo launched the first Corruption Risk Assessment of the Chamber of Advocates (Link). It assesses the capacity of the lawyers system in Kosovo to promote and sustain integrity and to combat and prevent corruption, and identifies factors within that system that may lead to or increase the threat to this capacity, and provides recommendations for risk mitigation measures.

A Note on Legal Activities

Legal activities inherently carry money laundering risks. If clients seek to misuse these services, law abiding professionals may be vulnerable, typically through the following methods:

- Misuse of client accounts;
- Purchase of real property;
- Creation of trusts and companies;
- Management of trusts and companies;
- Managing client affairs and making introductions;
- Undertaking certain litigations; and
- Setting up and managing charities

One of the unique features of the legal professional sector is the ethical obligation that they are bound to:

Independence (provision of independent, unbiased advice and representation);

Honesty, Integrity and Fairness (maintain these standards towards clients and whomever they come into contact);

Conflict of Interest (avoid assuming a position in which a client's interest conflict with those of the lawyer, another lawyer in the same firm, or another client, unless otherwise permitted);

Confidentiality (maintain and be afforded protection of confidentiality regarding the affairs of present or former clients. However, a legal professional cannot invoke confidentiality in circumstances where this professional acts as an accomplice to a crime);

Clients' Interests (treat these interests as paramount, subject to there being no conflict with the duties to the court and the interests of justice, refraining from engaging in, or assisting clients with a conduct intended to mislead or adversely affect the interests of justice).

Authorities and reporting entities must work together to better understand and identify criminal interests and avoid doing business with them. This would ultimately decrease criminal penetration across Kosovo's financial and non-financial system altogether.

AML Red Flags

Attorneys may be involved in criminal activities through a wide variety of activities as the services that they provide range from the draft of employment contracts through the constitutions of companies and the representation of clients.

Criminals may attempt to confuse or disguise the links between the proceeds of a crime and the perpetrator through the creation of corporate vehicles or other legal arrangements (i.e. trusts). Criminals may use property transfers to serve as either the cover for transfers of illegal funds (layering) or else the final investment of these proceeds after the criminal proceeds are laundered (integration). Criminals may use these professionals to carry out various financial operations on their behalf (i.e. cash deposits, foreign exchange operations, purchase and sale of stock).

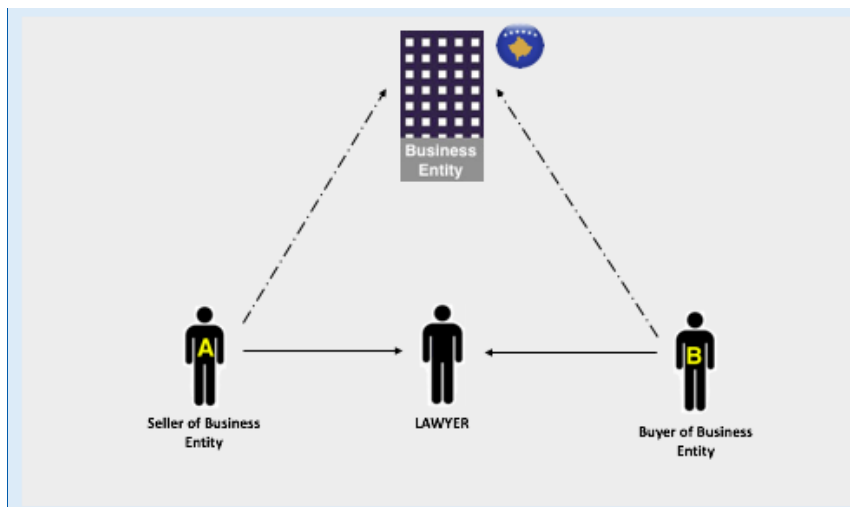
Difficulty in obtaining necessary documentation to identify a customer is one of the main AML red flags.

Criminals are interested in disguising their identity and/or position the illegal proceeds as further away as possible from themselves. Lawyers become handy in this task as they oftentimes become

the middlemen. In this way, knowing your customer should not only be limited in properly identifying counterparties, but also in understanding their Source of Wealth and Source of Funds. Fictitious documentations accounting for these are also believed to be one of the most frequent red flags. Criminals may also show interest in constituting overly complex legal entities in countries with lax governmental oversight. Lawyers should interpret these interests as red flags so long as there is no rationale in the legal configuration of these entities other than the hiding of beneficial ownership of assets.

The following typologies illustrates some of Kosovan's money laundering risks within the Lawyers sector:

Typology XVI



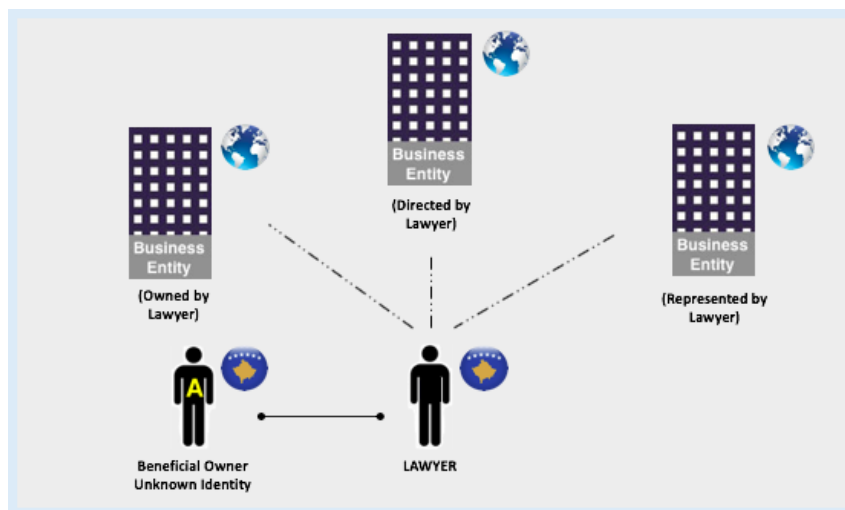
Subject A, interested in selling a business entity in Kosovo, and subject B, interested in buying it, proceed with the transaction through a law firm.

According to Subject's B Source of Funds, annual revenues from its business activity holds no logic to the amount that it possesses for the down payment of the Business Entity. The funds for the down payment are of dubious providence.

HIGH RISK INDICATORS

- Unclear Source of Funds – reporting entities should do their best in knowing the customer and understanding its source of funds.

Typology XVII



The lawyer acts as an intermediary between the three different foreign business entities and subject A is the beneficial owner. The lawyer is owner, director, and represents these companies on paper, when in fact it is subject A who carries these operations. This person does not want local entities to know about these relationships.

These foreign entities were found not to pay the correspondent tax to local authorities and since subject A was not directly linked to these entities, finding the ultimate beneficiary was complicated.

HIGH RISK INDICATORS

- Unclear beneficial ownership – natural person(s) who ultimately own(s) or controls a customer and/or the natural person on whose behalf a transaction is being conducted may not want to disclose their relationship with specific entities. This is usually the case when criminals want to obscure their ownership and control of illicitly obtained assets.
- Cross border operations – cross border transactions increase the difficulty of tracing funds. It usually requires international cooperation when investigations are undertaken, and it offers to criminals additional layering of criminal funds.

Recommendation & Next Steps

The provision of legal counsel is protected by solicitor-client privilege, which can make the business relationship more opaque to competent authorities. This will remain true. However, compared to most other European countries, there are no trusts or securities markets which could suppose a potential vehicle for lawyers, nor are there signs of any lawyers in Kosovo that specialize in setting up off-shore accounts.

While lawyers display some signs of understanding of money laundering risks within the sector, the sector is at its early stage in terms of full awareness of financial crime risk. In 2018 the sector filed STRs for the first time, and Kosovo remains committed in enhancing the awareness within professionals of the sector.

Attorneys will remain a valuable instrument for criminal groups as they will continue being of instrument when hiding the true identity of owners of capital, be it through the intermediation of purchase of real estate, or through the operation of various financial transactions on behalf of third parties. As scrutiny on this sector increases, nonetheless, this trend is expected to decrease.

Authorities should allocate efforts in strengthening the ethical and professional environment of Lawyers and attorneys, and the allocation and retention of licenses should be contingent on the application of these principles. The sector should become fully aware of financial crime risks and the way in which their activities could become instrumental to criminal groups, and the impact that it ultimately supposes to the international financial system as a whole.

Accountants & Auditors

Professional accountants in public practice may provide a wide range of services, which include audit and assurance services; book-keeping and the preparation of annual and periodic accounts and tax compliance work; trust and company services.

The larger international accounting firms operating in Kosovo generally apply their AML/CFT policies globally, while smaller companies exhibit more gaps in their knowledge AML/CFT risk posed by clients and their obligations in the AML/CFT system.

The lack of STR reporting may be a sign of little ML associated with the sector but is more likely also a sign of AML/CFT controls and understanding lacking in the sector.

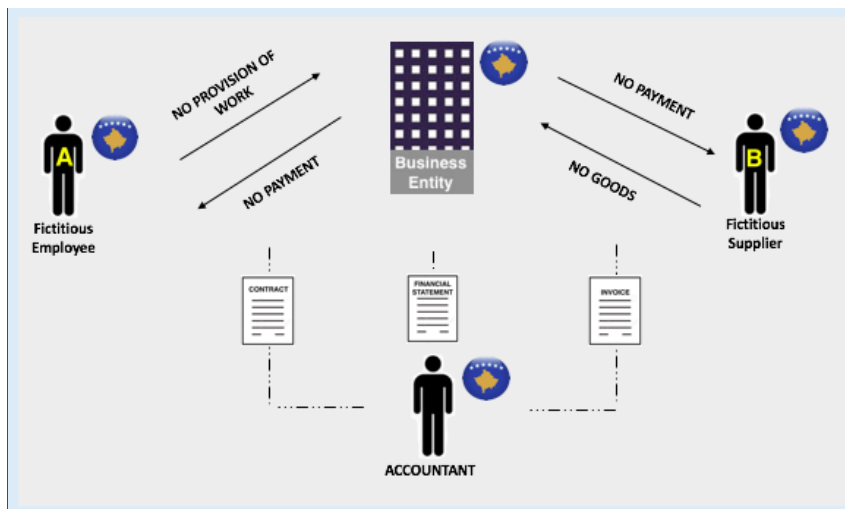
AML Red Flags

Some of the services provided by these professionals are more susceptible to money laundering risks.

When it comes to accountants and auditors, criminals may be interested in receiving advice on how to minimize tax liabilities or place assets out of reach in order to avoid future fiscal obligations.

Criminals may be also interested in getting deceitful financial statements confirmed, thereby disguising the actual financial performance of business entities. The following typologies illustrates some of Kosovan's money laundering risks within the Accountants and Auditors sector:

Typology XVIII

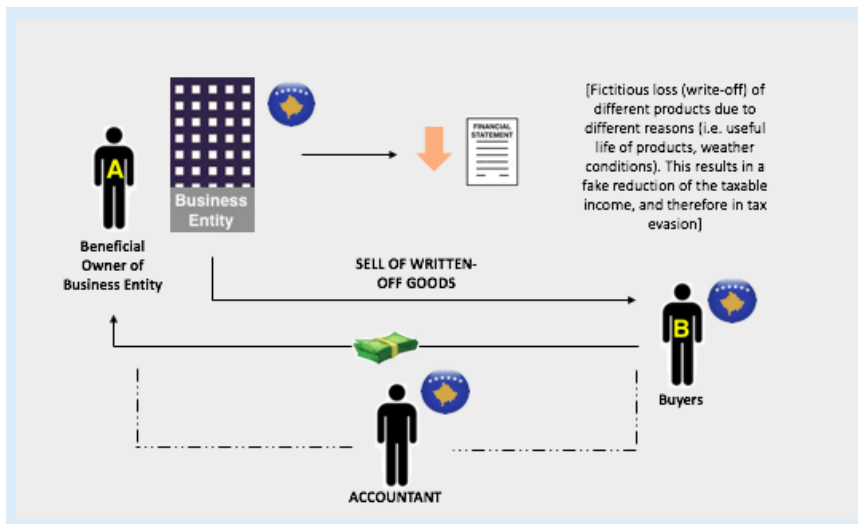


Fictitious liabilities were created with the oversight of an accountant. The Business Entity engaged a fake supplier and a fake employee who agreed to become parties to a scheme whereby the Business Entity would compute fake expenses on the Income Statement (i.e. expense for payment of salary/cost of goods sold). This fake increase in expenses reduced the taxable income and thereby served as an instrument to evade tax payment.

HIGH RISK INDICATORS

- Miss-match between assets and liabilities – false liabilities are created in order to decrease taxable income. A decrease in taxable income decreases tax obligations of the business entity. The government perceives less income whilst the business entity does not see an increase in its liabilities and expenditures.

Typology XIX



The Business Entity, under the guidance and supervision of an accountant, has wrongfully written-off assets from its balance sheet, increasing expenses and therefore decreasing taxable income.

In addition to the tax evasion, the beneficial owner received payments for these products that were written-off. No tax was paid for the sale of these products.

HIGH RISK INDICATORS

- Fictitious write-offs – written-off products suppose an additional expense, which decreases taxable income and therefore the tax obligation that the business entity has with the government. Fictitious write-offs not only lead to tax evasion, but it may also lead to the unlawful selling of these written-off products, which result in the generation of illegal funds as this operation is a result of tax evasion, and no tax may be later on paid on the sale of these products.
- Cash intensive operations – since cash cannot normally be traced back to individuals, criminals usually operate in cash. Therefore, high value cash operations may be linked to illicit activities and should be subject to analysis.

Recommendation & Next Steps

The development of Kosovo's economy at its full potential is currently also capped by the lack of transparency of business owners. Kosovo would greatly benefit from a more transparent and accurate registry of beneficial ownership.

Accountants may continue being used by criminal groups to launder money through the creation of fake contracts and/or the auditing of deceitful financial statements. Therefore, this sector will continue being attractive for individuals interested in laundering money.

Similar to lawyers and attorneys, efforts should be allocated to strengthening the ethical and professional environment as well as the allocation and retention of licenses should be contingent on the application of these principles.

The sector should become fully aware of financial crime risks and the way in which their activities could become instrumental to criminal groups, and the impact that it ultimately supposes to the international financial system as a whole.

Legal Persons & Arrangements

Corporate vehicles (also referred to as Legal Persons and Arrangements) conduct a wide variety of commercial activities. Legal Persons and Arrangements is here identified as a separate sector due to its international relevance and the money laundering risks and vulnerabilities that it has inherently. Nonetheless, it should be noted that these arrangements are frequently carried out by lawyers and accountants and can therefore be also considered within these sectors too.

"Legal Persons" are entities, other than natural persons, that can establish a permanent customer relationship with a financial institution or otherwise own property. This can include companies, bodies corporate, foundations, partnerships or associations and other relevant similar entities that have legal personality. This can include non-profit organizations that can take a variety of forms such as foundations, associations or cooperative societies. The different types of legal persons vary according to the jurisdictions.

"Legal Arrangements", on the other hand, makes reference to trusts or other similar arrangements.

The following types of legal persons can be established in Kosovo as per applicable legislation; Individual Business³, General partnership⁴, Limited partnership⁵, Limited liability company⁶, Joint stock company⁷ and Personal Business Enterprise⁸. The AML/CFT supervision framework is consolidated mainly under the CBK and FIU. For financial institutions the CBK is the main licensing and supervisory authority both for AML/CFT and non-AML/CFT purposes. At the same time the FIU is also designated as the AML/CFT supervisor for FIs.

AML Red Flags

Under certain conditions, corporate vehicles could be misused for illicit purposes since these are an attractive way to disguise and convert the proceeds of crime before introducing them into the financial system.

The use of complex corporate structures (i.e. shell companies and bearer shares) is particularly vulnerable to money laundering activity. In this regard, lack of transparency on beneficial ownership is a clear risk that jurisdictions face across the board. Countries face significant challenges when implementing measures to ensure the timely availability of accurate beneficial owner information, particularly when it involves legal personas and legal arrangements across multiple jurisdictions.

The lack of adequate, accurate and timely beneficial ownership⁹ information from corporate vehicles can facilitate money laundering by disguising:

- *Legal and Beneficial ownership*: identification of natural persons who may be responsible for the underlying activity of concern. In particular, beneficial ownership information

can be obscured through the following arrangements:

- *Shell Companies*: established with various forms of ownership structure and are especially risky in cases where foreign ownership is spread across jurisdictions;
- *Complex Ownership and Control Structures*: usually involve many layers of shares registered in the name of other legal persons;
- *Bearer Shares and Bearer Share Warrants*;
- *Unrestricted Use of Legal Persons as Directors*;
- *Formal Nominee Shareholders and Directors*: where the identity of the nominator is undisclosed;
- *Informal Nominee Shareholders and Directors*: such as close associates and family;
- *Trusts and Other Legal Arrangements*: enable a separation of legal ownership and beneficial ownership of assets;
- *Use of Intermediaries in Forming Legal Persons*: including professional intermediaries.
- *Purpose of Account/Property* held by the corporate vehicle.
- *Source of Funds*.

Given the size of the informal economy

and many of the crime types in Kosovo mainly generate proceeds in the form of cash, cash incentive businesses are prone to be misused for ML. Besides the construction and game of chance sectors, other business within the retail and service sectors, e.g. bars and restaurants, are vulnerable to functioning as businesses that combine illicit proceeds with earnings from legitimate operations, obscuring the source, ownership, and control of the illegal funds.

When a company is used as a front to deposit, move, or use illicit proceeds it can be difficult for the bank holding the account to know that the company's banking activity includes money laundering.

Inaccurate information about beneficial ownership of companies is widely recognized as a significant vulnerability for money laundering. The use of shell companies or offshore countries are also considered to be used for laundering proceeds, given that Kosovo's police have investigated several cases related to transactions on offshore countries.

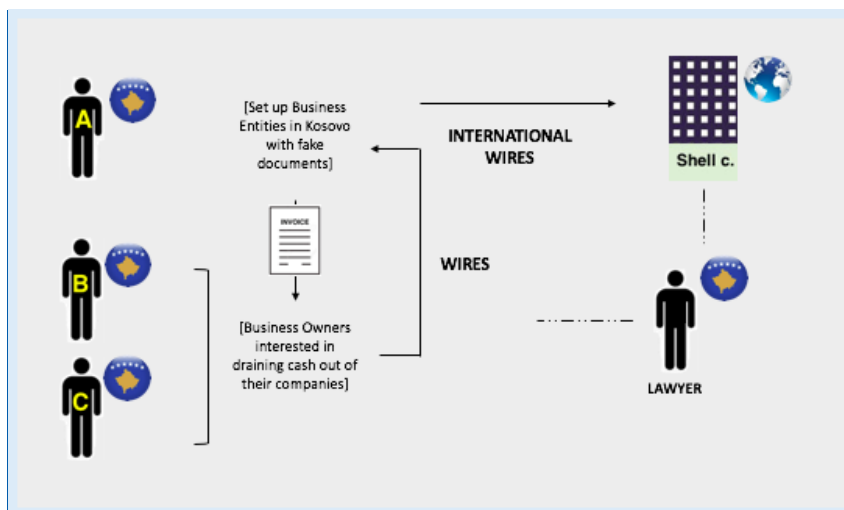
Moreover, inaccurate beneficial ownership information has allowed companies in Kosovo to divert public funds resulting from corrupt behavior linked to procure-

ment activities, whilst circumventing PEPs scrutiny from banks. The use of front companies without full beneficial ownership transparency is believed to be a popular strategy to launder illegal funds.

Information exchange and international cooperation is crucial. The numerous national and international registries held by authorities involved in the registration of legal personas and tax authorities should be accessible to law enforcement authorities.

The following typologies illustrates some of Kosovo's money laundering risks linked to Legal Persons and Arrangements:

Typology XX



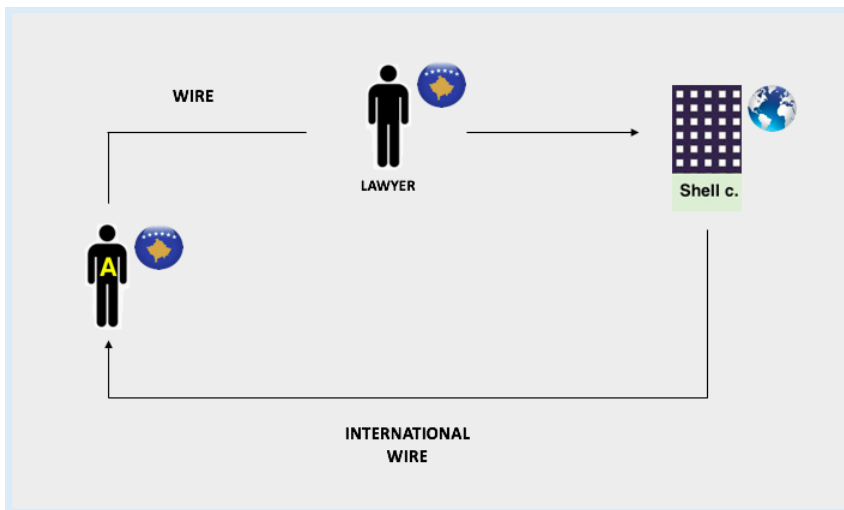
Subject A is a Kosovo national who set up business entities in Kosovo with fake documentation. Through these accounts, subject A funneled money, from its own and from other individuals, towards a foreign shell company located in a jurisdiction with lax disclosure requirements to government entities.

A fake invoice was issued by subject A in order to justify payments from subjects B and C. The only service provided by subject A was the unlawful extradition of funds for which no tax was paid to the TAK. The shell company was structured by a lawyer.

HIGH RISK INDICATORS

- Complex legal entities – Unclear beneficial ownership. Natural person(s) who ultimately own(s) or controls a customer and/or the natural person on whose behalf a transaction is being conducted may not want to disclose their relationship with specific entities. This is usually the case when criminals want to obscure their ownership and control of illicitly obtained assets.
- Cross border operations – cross border transactions increase the difficulty in tracing funds. It usually requires for international cooperation when investigations are undertaken, and it offers to criminals additional layering of criminal funds.

Typology XXI



Subject A is a Kosovo national who, with the help of a local lawyer, wired funds to a shell company located in another jurisdiction. The funds were locally transferred to the lawyer's account under "legal fees", when in fact these were criminal funds being transferred abroad with the objective of laundering them.

The company was found not to have a physical presence, employees, or business activity. The company exclusively facilitated transit transactions without generating income. Laundered funds were later on imported back to subject A's bank account.

HIGH RISK INDICATORS

- Complex legal entities – Unclear beneficial ownership. Natural person(s) who ultimately own(s) or controls a customer and/or the natural person on whose behalf a transaction is being conducted may not want to disclose their relationship with specific entities. This is usually the case when criminals want to obscure their ownership and control of illicitly obtained assets.
- Cross border operations – cross border transactions increase the difficulty in tracing funds. It usually requires for international cooperation when investigations are undertaken, and it offers to criminals additional layering of criminal funds.

CDD – Beneficial Ownership

Beneficial owner refers to the natural person(s) who ultimately owns or controls a customer and/or the natural person on whose behalf a transaction is being conducted. It also includes those persons who exercise ultimate effective control over a legal person or arrangement.

Corporate vehicles—such as companies, trusts, foundations, partnerships, and other types of legal persons and arrangements—conduct a wide variety of commercial and entrepreneurial activities. However, despite the essential and legitimate role that corporate vehicles play in the global economy, under certain conditions, they have been misused for illicit purposes, including money laundering (ML), bribery and corruption, insider dealings, tax fraud, terrorist financing (TF), and other illegal activities. This is because, for criminals trying to circumvent anti-money laundering (AML) and counter-terrorist financing (CFT) measures, corporate vehicles are an attractive way to disguise and convert the proceeds of crime before introducing them into the financial system. The misuse of corporate vehicles could be significantly reduced if information regarding both the legal owner and the beneficial owner, the source of the corporate vehicle's assets, and its activities were readily available to the authorities.

FATF has published a Guidance on Transparency and Beneficial Ownership to assist jurisdictions and reporting entities on this subject ([Link](#)).

Reporting Entities should allocate additional resources in identifying the BO of the following vehicles, which can obscure ownership information:

- Shell Companies (incorporated companies that have no significant operations or related assets);
- Complex ownership and control structures involving many layers of shares registered in the name of other legal persons;
- Bearer shares and bearer share warrants;
- Unrestricted use of Legal Persons and Directors;
- (In)formal nominee shareholders and directors;
- Trusts and other legal arrangements which enable a separation of legal ownership and beneficial ownership of assets;
- The use of intermediaries in forming legal persons, including professional intermediaries.

Jurisdictions have acknowledged various challenges in identifying the Beneficial

Ownership of Legal Persons. FATF has published a Paper on Best Practices on this issue (Link), a supplement to the Concealment of Beneficial Ownership Guidance (Link).

Recommendation & Next Steps

The Law on Business Organizations provides for the process of the creation of a legal person and for the submission of basic ownership information to the Kosovo Registry of Business Organizations and Trade Names. The Business Registry is a central register that maintains the records of all registered companies, however due to resource constraints there is little examination or updating of the information. More efforts should be allocated in strengthening local capabilities on this matter.

Shells are usually set up using forged identity cards and in non-existent names and addresses. In the majority of cases, they are engaged in trading in excise goods (alcoholic beverages, cigarettes, oil, coffee, etc.). Professionals should receive more training on identifying fake documentation and conducting an effective identification and verification of customers.

Specifically, efforts should be strengthened in identifying the Beneficial Ownership of assets. This is a challenge not only for Kosovo but for the international community as a whole.

Notaries

Similar to Legal Persons and Arrangements, Notaries are considered as a separate sector but provide a type of legal service. They are of considerable risk given the size and relevance of the real estate and construction sector in Kosovo.

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

These professionals tend to have an important role within the DNFBP sector as they are involved in most of the transactions related to company formation and transfers of real estate.

AML Red Flags

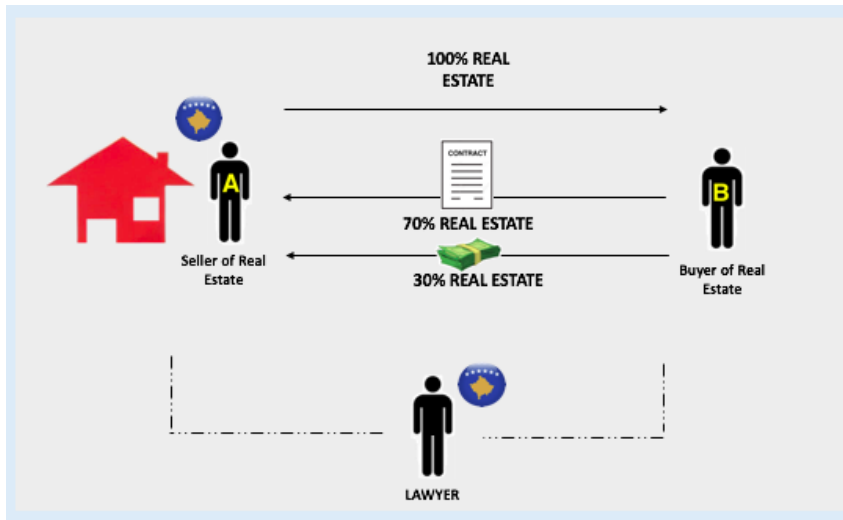
Notaries are not directly involved in the laundering of proceeds but act as an enabler to the launderers. The generic case is the acquisition of an undervalued property, with the price being acknowledged via the notary. Illicit proceeds will then be used to pay “under the table” for the remainder. The property can later be sold at its full price. Notaries are always involved in these transactions, but they are not always aware of the criminal implications.

The following typologies illustrates some of Kosovar’s money laundering risks linked to Notaries:

Corruption risks in the Kosovo Chamber of Notaries

In 2019, UNDP Kosovo launched the first Corruption Risk Assessment of the Chamber of Notaries (Link). It assesses the capacity of the notaries in Kosovo to promote and sustain integrity and to combat and prevent corruption, and identifies factors within that system that may lead to or increase the threat to this capacity, and provides recommendations for risk mitigation measures.

Typology XXII



The notary intermediated in the sale of a real estate property in Kosovo. The contract states that the property is priced at a value substantially below market price. Tax was paid on this price (70% real estate price).

Subject A and B, with the help of the notary, agree on an off-the-record additional cash payment accounting for the additional 30% of the market value price of the property. No tax is paid on this cash transaction.

HIGH RISK INDICATORS

- Real estate price miss-priced – real estate official transaction price is substantially lower/higher than market price. If substantially lower, the parties to the transaction might be interested in decreasing tax payments; if substantially higher, the parties might be interested in simulating higher expenditures in search of a tax relief.

Recommendation & Next Steps

It is evident that this sector has been allocating efforts in increasing awareness of money laundering risks. Proof of that is the fact that STRs raised by reporting entities increased from 0 in 2014 to 30 in 2018 and 68 in 2019.

Efforts have yet to proliferate across the whole sector. Price miss-match of real estate and properties, one of the main AML red flags within this sector, will most likely remain a threat in the near future. The high volatility of Kosovo's real estate prices and constant appreciation of these (especially in larger cities) facilitates the speculation with price miss-match.

Notaries must become more aware of fair market prices of assets. The development of a centralized database might be a measure worth exploring with the objective of keeping a record of real estate market price.

High-Value Traders

High value traders are defined as dealers that commercialize a) precious metals and stones (PMS); and b) cars, with focus on expensive/luxury. There are several hundreds of PMS dealers located across Kosovo and they range from large to very small dealers that are highly accessible to domestic clients.

Dealers in precious metals and stones could be individuals or legal entities. They should be certified by the Legal Metrology Institute of Kosovo seal – currently the Metrology Agency within the MTI.

High value traders trading in goods that match or exceed cash payments of €10,000 or more in a single transaction or in a series of linked transactions or apparently linked transactions must apply CDD measures to such transactions, retain adequate records of transactions and DPMS are specifically listed as a reporting entity that should report suspicious transactions, if detected.

This sector supposes high money laundering risks as its trade is global by nature. This suggests that tracing the parties to the transactions is challenging, creating additional difficulties for law enforce-

ment agencies interested in conducting investigations.

Additionally, given the high value of these assets, criminal organizations might use them as a currency. Precious metals may be a better currency to this end since they can offer complete anonymity to their holders, whereas cars require a higher scrutiny.

Trade of precious metals may suppose an even higher challenge for governmental agencies as these are typically exchanged for cash.

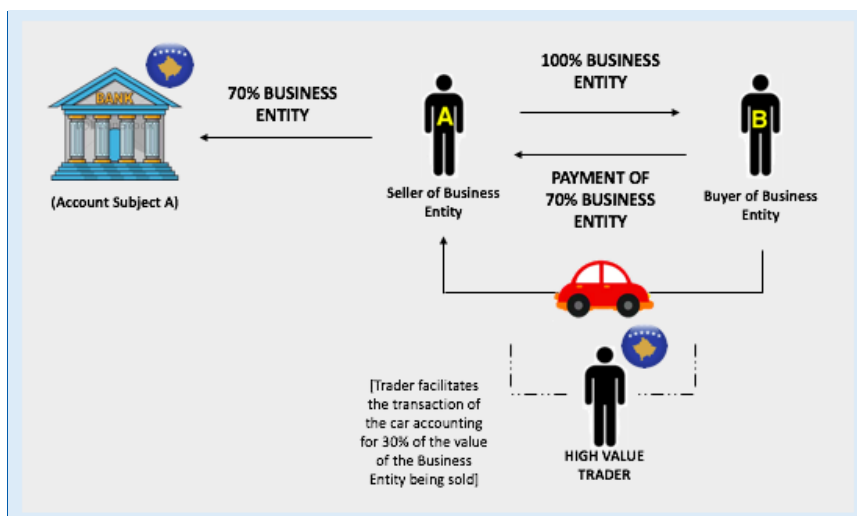
AML Red Flags

Similar to the notary sector, the biggest red flag is a price miss-match. Criminals may be interested in laundering illegal proceeds through the trade of these assets as their value is high and they offer high levels of anonymity. The higher the value that criminals assign to these assets, the faster they will be able to launder the criminal money.

Alternatively, people may be interested in reporting a portion of the payment to local authorities with the objective of evading tax. In this case, criminals will not be using this sector to place illegal proceeds, but they will be creating illegal proceeds through tax evasion which will afterwards have to be laundered.

The following typologies illustrates some of Kosovan's money laundering risks within the High-Value Traders sector:

Typology XXIII



Subject A, interested in selling a business entity in Kosovo, and subject B, interested in buying it, proceed with the transaction through a law firm. According to Subject's B Source of Funds, annual revenues from its business activity holds no logic to the amount that it possesses for the down payment of the Business Entity.

The funds for the down payment are of dubious providence.

HIGH RISK INDICATORS

- Business entity miss-priced –business entity official transaction price is substantially lower/higher than the market price. If substantially lower, the parties to the transaction might be interested in decreasing tax payments; if substantially higher, the parties might be interested in simulating higher expenditures in search of a tax relief.

Recommendation & Next Steps

Not all professionals within this sector are aware of or respect AML/CFT obligations. Increasing awareness and scrutiny on the operations conducted by these professionals is important. As more regulations are introduced into the financial system, criminal operations across non-financial systems are expected to increase.

Given the high value, high levels of anonymity and historically low regulatory levels of this sectors, it is expected for the trade of these products to increase. Professionals should concentrate their efforts in getting to know their clients, their identity, the Sources of Wealth and Funds as well as the rationale of the operations that they are involved with.

Real Estate & Construction

The real estate sector (property in the form of land or buildings) involves a wide range of activities that can be classified in three different groups according to the OECD, according to the stage of the business:

- Terrain Development;
- Building Process;
- Finished Construction.

AML Red Flags

Real estate has been described as one of the oldest known ways to launder money as it is a stable investment, it is functional and is also deemed as a provider of respectability, legitimacy and normality. In addition, real estate transactions can involve large sums and are subject to more limited ML scrutiny as opposed to transactions linked to the financial sector. Purchasing real property is one way of integrating black money into the legal economy.

The distinction between each stage mentioned above cannot ignore the link of cases detected across the different stages and a good understand of transmission mechanisms of money laundering in the real estate is essential to assist in the identification of suspicious cases and represents a key factor when designing strategies to tackle the problems detected in the sector. Concealed ownership and use of foreign nationals are two examples that portray the need to understand the transmission mechanisms within the sector: concealed ownership is usually present during the terrain development and the building process; whereas ML through the use of foreign nationals has been a strategy employed by domestic

construction companies in Ireland, where foreign nationals were illegally employed, laundering illegal proceeds as a result of undeclared payments and tax fraud. It was also evident that some employers used foreign nationals to misdirect funds to conceal profits.

Money laundering through real estate transactions integrates black funds into the legal economy while providing a safe investment. Various techniques are used:

- Opaque Financing Schemes;
- Overvalues/Undervalues prices;
- Non-Transparent Companies and Trusts or Third Parties.

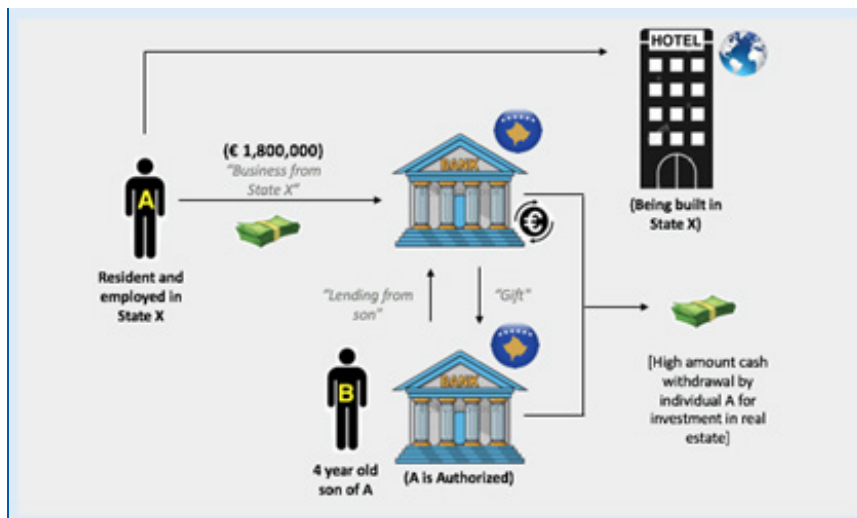
Money laundering through the real estate has a tangible impact in the economy. Distortion of prices may lead to their increase, which reduces housing affordability, something that has been apparent both in developing and developed economies. Besides, upward and downward house price fluctuations and a shortage of affordable housing and offices can foster opportunities for foreign investment. As for the correlation between foreign investment in real estate and money laundering, there is no tangible data, but indicators are found in high prices including payment in excess of value.

It should be noted that the construction sector serves as one of the main pillars of Kosovo's economy and despite challenges it has continued to expand even during the economic crisis in Europe. With a share of 9.5%, the construction sector was the 4th biggest employer in Kosovo in 2014, employing around 39,000 people. FDI in Kosovo during 2011-2016 was predominantly concentrated in real estate with 56.3% and construction with 12.7%. When dealing with this sector, it is important to acknowledge that it constitutes a ML threat due to the high levels of informality within the sector where tax evasion from undeclared/undervalued payment is rampant.

A typical case of money laundering in construction often involves the investment of a large amount of money by an individual appearing as a client and a further sale afterwards, which conceals the illegal origin of the money invested in the initial construction works.

The following typologies illustrates some of Kosovar's money laundering risks within the Real Estate & Construction sector:

Typology XXIV



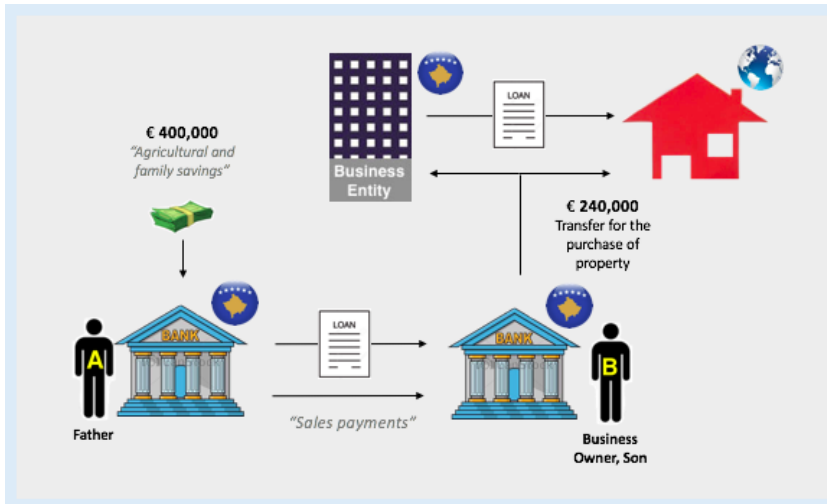
The cash introduced in the Kosovo financial system was obtained in State X. Kosovan banking system was used to launder the money through the placement and layering of funds. Funds were afterwards used to invest in real estate in State X. There was no cross-border declaration of cash.

Foreign National A insisted in investing in real estate in cash (as opposed to through the banking system). It claims to be interested in avoiding transaction fees, but this is not consistent with previous behaviour.

HIGH RISK INDICATORS

- Real estate cash transaction – subjects attempting to pay for real estate in cash should raise a red flag. Real estate transactions are required to be done through the banking system to increase the transparency within the real estate and construction sector.
- Cash intensive operations – since cash cannot normally be traced back to individuals, criminals usually operate in cash. Therefore, high value cash operations may be linked to illicit activities and should be subject to analysis.
- Cross border operations – cross border transactions increase the difficulty in tracing funds. It usually requires for international cooperation when investigations are undertaken, and it offers to criminals additional layering of criminal funds.
- Loans – these products may suppose a higher money laundering risks as criminals usually connect illegal funds to either a loan issuance or payment.

Typology XXV



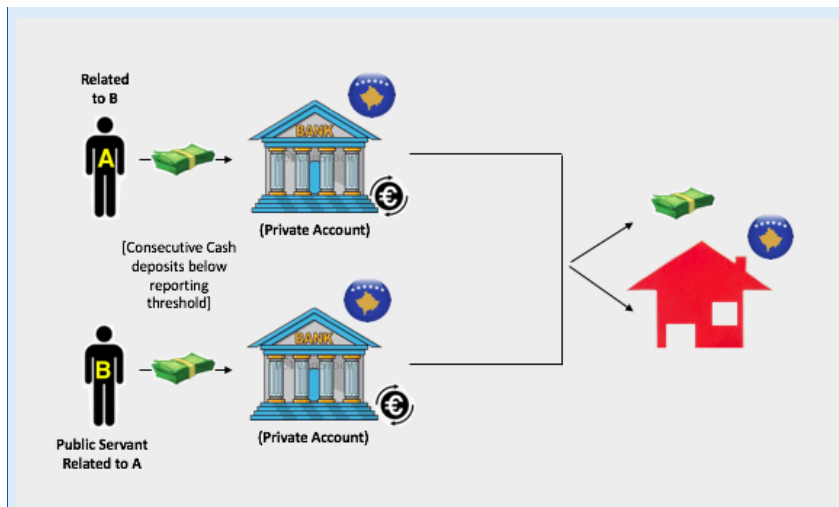
Subject A received in its Kosovo bank account a high value deposit amounting to €400,000 under the description "agricultural and family savings". These funds are then transferred to its son, a business owner, who ultimately transfers these funds abroad for the purchase of real estate. Subject B uses its Business Entity layer the illegal funds.

Loans products were systematically used as a vehicle to banking operations. These loans were not followed by loan repayments.

HIGH RISK INDICATORS

- Cross border operations – cross border transactions increase the difficulty in tracing funds. It usually requires international cooperation when investigations are undertaken, and it offers to criminals additional layering of criminal funds.
- Loans – these products may suppose a higher money laundering risks as criminals usually connect illegal funds to either a loan issuance or payment.
- Cash intensive operations – since cash cannot normally be traced back to individuals, criminals usually operate in cash. Therefore, high value cash operations may be linked to illicit activities and should be subject to analysis.

Typology XXVI



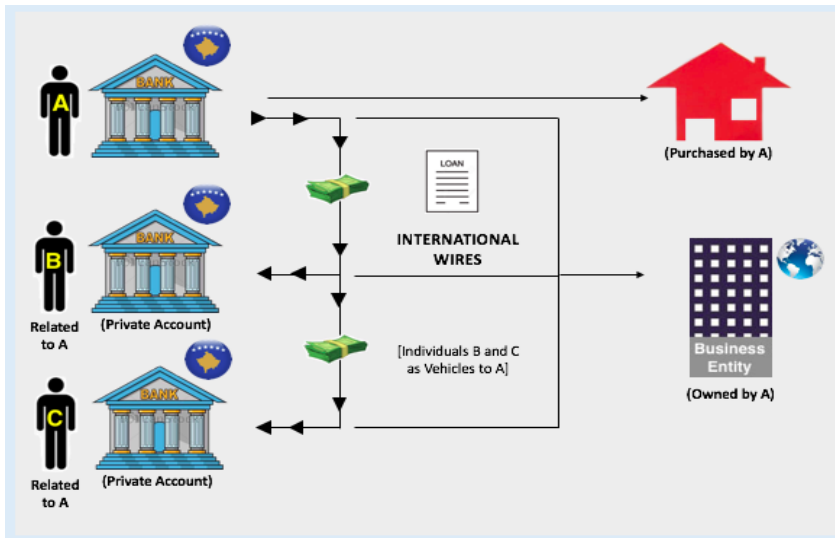
Subjects A and B make consecutive cash deposits below the reporting threshold. After the placement of illicit funds in the Kosovo banking system, the subjects proceed to layering them through term deposits, investments and movement of funds amongst accounts.

These funds are later withdrawn or used for the purchase of real estate in Kosovo. Accounts used for the placement and layering of funds are private, which decreases the transparency of operations.

HIGH RISK INDICATORS

- Smurfing – multiple and consecutive cash withdraws in €500 bills. Had these transactions been merged into a single one, it would have been reported to local authorities. It is through smurfing that criminals typically integrate laundered funds into the economy.
- Cash intensive operations – since cash cannot normally be traced back to individuals, criminals usually operate in cash. Therefore, high value cash operations may be linked to illicit activities and should be subject to analysis.
- Operations that have no economic/financial logic – once the criminal money is placed in the financial system, criminals are interested in layering it in order to make it less traceable. This is achieved by conducting multiple operations and moving the funds as much as possible, even if fees are high and the operations appear to have no logic.

Typology XXVII



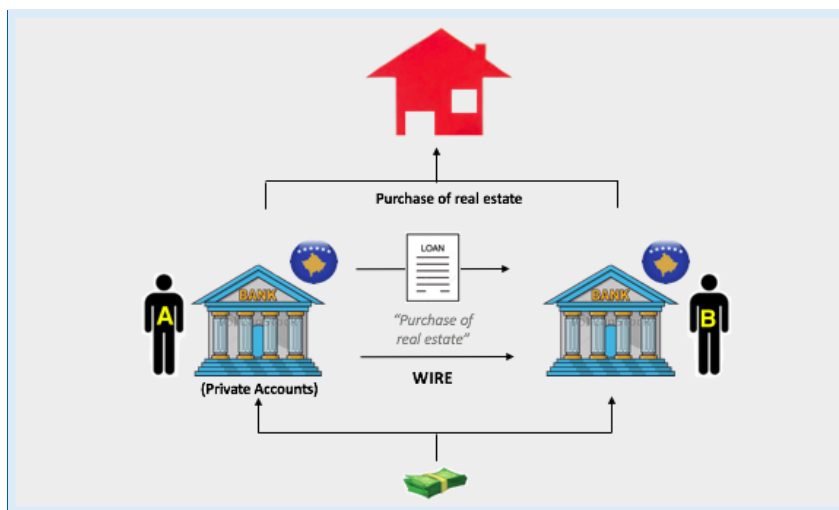
Subject A launders cash resulting from tax evasion through the layering of funds amongst accounts of subjects B and C (related to A). Funds are transferred within Kosovo and abroad under the concept of loans, but these loans are never re-paid.

After the layering, these funds are integrated into the economy through the purchase of real estate and through its re-investment in the foreign Business Entity owned by individual A.

HIGH RISK INDICATORS

- Cross border operations – cross border transactions increase the difficulty in tracing funds. It usually requires international cooperation when investigations are undertaken, and it offers to criminals additional layering of criminal funds.
- Loans – these products may suppose a higher money laundering risks as criminals usually connect illegal funds to either a loan issuance or payment.
- Cash intensive operations – since cash cannot normally be traced back to individuals, criminals usually operate in cash. Therefore, high value cash operations may be linked to illicit activities and should be subject to analysis.

Typology XXVIII



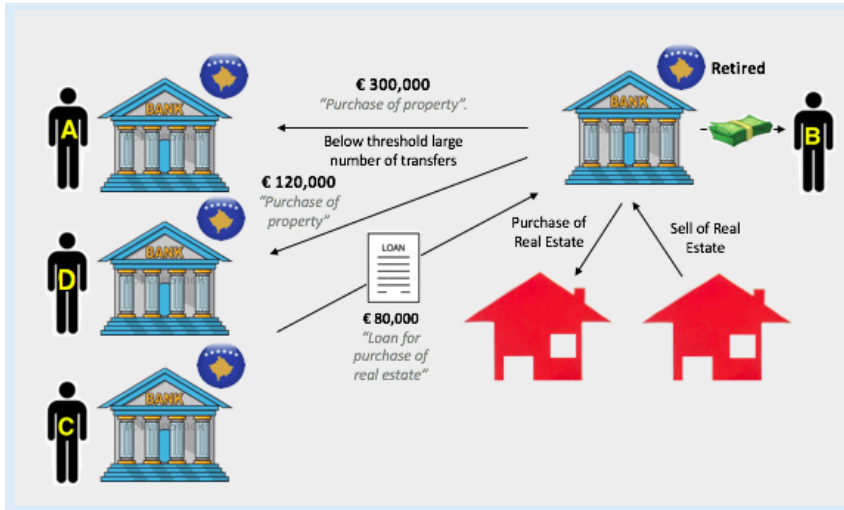
Cash is deposited in accounts of subject A and B. These deposits amount to €1,000,000.

Cash deposited in subject A's 5 private accounts is not declared to the local tax authority (TAK). Funds are moved amongst accounts from subject A and B and later used for the purchase of real estate.

HIGH RISK INDICATORS

- Loans – these products may suppose a higher money laundering risks as criminals usually connect illegal funds to either a loan issuance or payment.
- Cash intensive operations – since cash cannot normally be traced back to individuals, criminals usually operate in cash. Therefore, high value cash operations may be linked to illicit activities and should be subject to analysis.
- Private Accounts – due to the lower level of transparency of these products, these accounts decrease the traceability of funds.

Typology XXIX



Real estate transactions and retirement income does not justify the operations of individual B. Additionally, loans are not followed by loan re-payments. Non-declared cash is moved amongst different accounts and ultimately used for the purchase of real estate.

HIGH RISK INDICATORS

- Loans – these products may suppose a higher money laundering risks as criminals usually connect illegal funds to either a loan issuance or payment.
- Unclear Source of Funds – reporting entities should do their best in knowing the customer and understanding its source of funds.

PEPs & Higher-Risk Customers

Following a risk-based approach, regulated institutions are required to take assign different risk categories to its customers in order to carry customer due diligence and ongoing monitoring in a manner proportionate to the risks that these represent.

Institutions should conduct enhanced due diligence (EDD) and enhanced ongoing monitoring in higher-risk situations, which include but should not be limited to:

- Customers linked to higher-risk countries or business sectors;
- Customers with unnecessarily opaque or complicated beneficial ownership structures;
- Customers linked to transactions that are unusual, lack an obvious economic or lawful purpose, are complex or large or might lend themselves to anonymity.

Politically Exposed Persons are individuals whose prominent position in public life may expose them and their immediate family to corruption. Due to the money laundering risk that PEPs represent, these should also be subject to EDD. In 2018, Kosovo launched the first Report on Money Laundering Typologies or PEP (Link).

Recommendation & Next Steps

Any transaction for the sale/purchase of property over €10,000 in value has to be settled through a bank transfer as otherwise it would not be registered in the cadastre, hence the banks have a potential preventative role in the monitoring of real estate transactions. This acts as a deterrent for the misuse of this sector, although it remains attractive for criminal organizations, especially for the integration stage of laundered proceeds.

Construction activities are expected to increase during the following years as truism within the region increases and current infrastructure has proven to be insufficient (i.e. Hotels). Increased demands for better connectivity and public transportation may also increase construction activities. Particularly, road infrastructure is considered an important public asset in Kosovo, contributing to the economic and social development of the country. Demand has been growing for better quality of urban housing, offices, government buildings and schools, which will lead to more construction of roads, highways and other infrastructure projects.

Additionally, the development of the railway network will remain central on the development of Kosovo's economy.

All these projects will require for higher scrutiny as corruption within this sector is high. The KDI claims that in 2016, out of 9.1 million euros spent for maintenance of national and regional roads, a total of 1.9 million euros were lost to corruption.

Efforts should be allocated for the improvement of procurement procedures, which the National Audit Office has deemed are usually delayed. The European Bank for Reconstruction and Development has suggested that Kosovo set up a central unit dealing with the implementation of projects in order to accelerate this process.

Regarding real estate activities, higher efforts should be allocated in identifying and conducting the correspondent CDD dispositions to PEPs.

Casinos and Games of Chance

The legal gaming/gambling sector may include a wide variety of activities, including casino and card room gaming, lotteries, online gaming, race and sports wagering and charitable gaming, such as raffles, bingo and other low technology games.

During the past decade, the casino market has experienced an exponential growth due to the enormous revenue streams generated for providers and for government through taxation and licensing fees. Nonetheless, various countries increasingly recognize the social harms associated to these activities and therefore have moved to restrict gambling growth in an effort to curb rising social costs.

In March 2019, the government of Kosovo issued a decision to suspend the activity of all games of chance. Regardless, this report will include the analysis of this sector as the objective is not only to provide a typology to better face current and future money laundering threats in Kosovo, but also to assess the threats that the jurisdiction has been exposed to.

There used to be 41 Games of Chance in Kosovo (including slot machines, bingos, tombola, sport betting units and 1 public lottery) but no registered casinos.

AML Red Flags

Overall, there is a significant global physical casino activity that is cash intensive and vulnerable to criminal exploitation. Some of the characteristics of the sector that facilitate the exposure to money laundering risks are:

- Cash intensive nature, often operating 24hrs per day, with high volumes of large cash transactions taking place very quickly;
- Offer of different financial services, i.e. accounts, remittance, foreign exchange, cash issuance;
- Poor regulation in some jurisdictions;
- Location in regions characterized by poor governance, political instability or bordering regions with significant crime;

Complex movement of funds;

High turnover of staff, which can lead to weakness in staff AML training.

More specifically, this sector has historically observed the following money laundering activities:

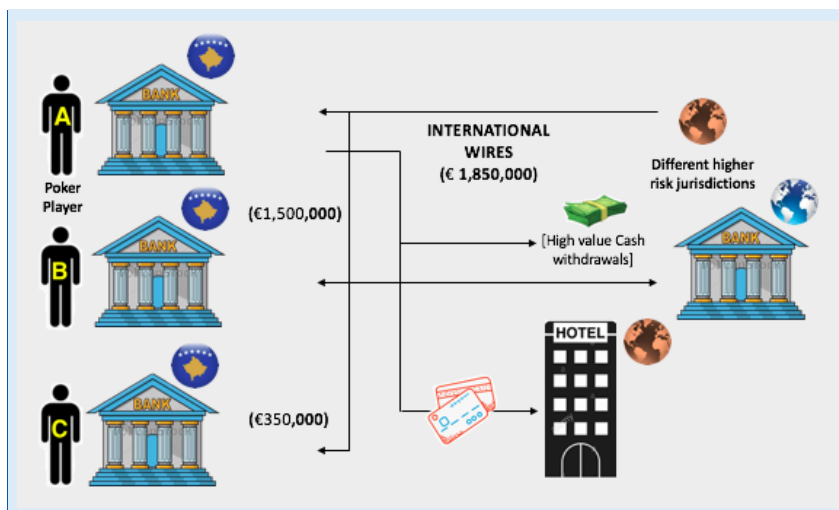
- *Chips for casino cheque, bank draft or money transfer*: criminals typically buy chips with cash or through their casino account and repayment is then requested by a cheque, draft or transfer drawn on the casino's account. This method can be made opaquer by using a chain of casinos where the chips are converted to credit and transferred to another jurisdiction in which the casino chain has an establishment;
- *Overpriced "clean" chips*: criminals may purchase chips with clean background, often referred to as "value tampering";
- *Casino cheques payable to cash*: in some jurisdictions, casinos allow winning cheques to be made payable to "cash", which may originate from VIP rooms, which may provide alternative remittance services between player's home jurisdictions and the casino VIP rooms;
- *Winning and cash into casino cheques*: although few jurisdictions allow this, criminals seek to add cash to casino winnings and then exchange the combined cash and winnings for a single cheque;
- *Chips as currency in illegal transactions*: money launderers may retain casino chips to be used as currency

to purchase drugs or other illegal goods. The recipient of the chips will later cash them at the casino. These activities may be conducted cross-border and most jurisdictions do not list casino chips as money value instruments and therefore do not require Customs declaration;

- *Large number of "Casino Gift Certificates" purchase:* money launderers may purchase a high value of numerous low value casino gift certificates which can be redeemed by 3rd parties. These certificates are then sold or given to other persons;
- *Casino Reward Cards:* illicit funds may be also used to purchase casino reward cards from legitimate customers paying them a premium above the value of the reward.

The following typologies illustrates of the money laundering risks that Kosovo was exposed to within the Casino and Games of Chance sector:

Typology XXX



Funds are originated from different higher-risk jurisdictions and transferred to Kosovo bank accounts. Subject A, a poker player, conducts high value cash withdrawals and credit card payments in hotels and casinos located in higher-risk jurisdictions. There is no apparent relationship amongst the individuals.

HIGH RISK INDICATORS

- Games of chance – casinos and game of chance are considered as a high-risk activity as operations are usually conducted in cash and requested information to counterparties on sources of fund is deemed as insufficient in order to tackle financial crime risk. Criminals may inject illegal cash in this sector, extracting “clean” money out of it afterwards.
- Cash intensive operations – since cash cannot normally be traced back to individuals, criminals usually operate in cash and are likely to place funds in the financial system in the form of cash.
- Higher risk jurisdictions – cross border transaction may represent a high-risk indicator as it complicates the traceability of funds. If the jurisdictions involved are higher-risk, meaning that are deemed by FATF to be countries that cannot handle effectively the risks of money laundering and terrorism financing, then this would suppose an additional risk. Institutions should be very vigilant of counterparties located in these jurisdictions.

Recommendations & Next Steps

Casinos and Games of Chance are not legal in Kosovo and are not expected to become legal in the near future. Nonetheless, government and reporting entities should remain vigilant of the operations of their customers as this activity remains of high risk and customers may still be able to operate within this sector from Kosovo, as the typology exemplified.

Entities should feel comfortable with clients operating these products as these products have been historically used to launder illegal proceeds.

Non-Profit Organizations (NPOs)

An NPO is a legal person or arrangement that primarily aims to raise money or allocate funds in projects such as charities, religion, culture, and education, social and fraternal purposes.

Kosovo has a large and varied NGO sector with almost 10,000 registered NGO that serves many important roles for the society in Kosovo. NGOs are usually funded by donations, but some avoid formal funding altogether and are run primarily by volunteers. The Department for Registration and Liaison with NGOs (DRLNGO) within the Ministry for Public Administration is the authority competent to implement the Law on NGOs.

AML Red Flags

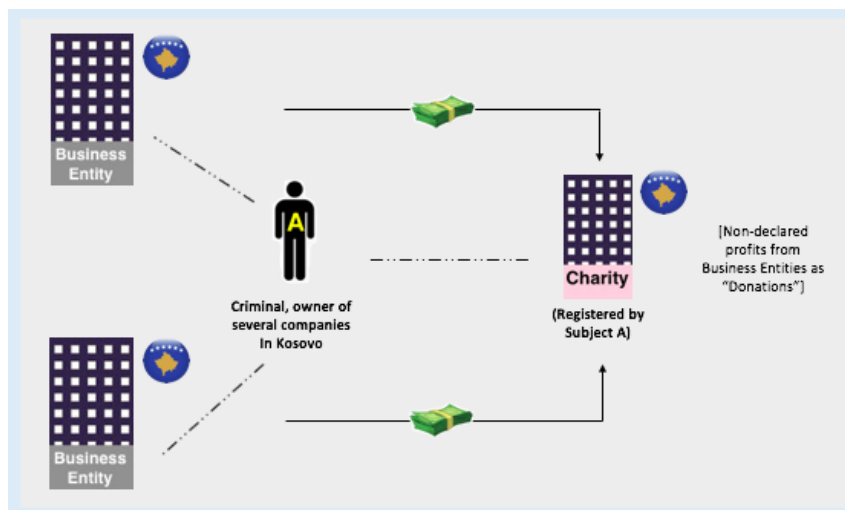
Most of the NGOs in Kosovo to some degree receive public funding and there have been cases where politicians have exploited the vulnerabilities of financial oversight in the NGOs to use them to divert the public funding to personal gains, similarly NGOs can function as a vehicle for kickbacks.

Therefore, due to the high exposure of the sector to governmental entities and public officials, PEPs counterparties should raise a red flag and trigger a more exhaustive CDD.

Moreover, the government should remain vigilant on the objectives disclosed by those individuals interested in registering NGOs in Kosovo. Due to the lower levels of scrutiny of these organizations, criminals may use them to launder illegal proceeds.

It should be noted that in addition to money laundering, the collection of charitable funds by NGOs raises concern in relation to terrorist financing. Such funds may be collected for the stated reason of supporting humanitarian relief in conflict zones, while funds are actually destined to terrorist organizations.

Typology XXXI



Subject A, who operated different criminal businesses in Kosovo, funded a charity with the objective of providing support to a specific community. The charity was registered with the national regulator and declared different donations. These funds were proceeds from subject's A business activity, income which was not fully declared to the national tax authority.

Through the charity, subject A laundered funds resulting from tax evasion. These funds were not destined for charity.

HIGH RISK INDICATORS

- Non-Profit Organizations – criminals may use these institutions to launder money as they usually operate in cash and scrutiny on funds has historically been less exhaustive in comparison to other sectors. Moreover, these institutions are subject to different tax regimes, which may offer criminals an opportunity to evade tax.
- Cash intensive operations – since cash cannot normally be traced back to individuals, criminals usually operate in cash and are likely to place funds in the financial system in the form of cash.

Recommendation & Next Steps

The FIU-K and other relevant organizations cooperate with the Government NGO Department to carry out due diligence enquiries with regard to foreign persons interested in registering NGOs and/or working within such organizations.

However, the FIU has no access to commercial KYC/CDD databases to check persons linked to foreign NGOs. There is a lack of detailed KYC/CDD at on boarding for new NGOs, and a lack of capacity within the NGO Registration Department.

The government should become fully aware of the size, the scale, and the volumes operated within this sector. NPOs will remain attracting high levels of trust and will still be constituted in a more regulatory-friendly environment, which supposes a low entry barrier. Funds amongst these organizations will still be transacted with no need to deliver anything in exchange and members of said organizations will be subject to little or no accountability.

Risks will continue being particularly higher when funds are originated at or destined to higher-risks jurisdictions. The

lack of efficient mechanisms for verifying the source of funds coming into NPO/NGOs from foreign countries is a particular problem in Kosovo.

Moreover, although registration procedures may appear satisfactory, there is no checking or updating of the information related to the NGOs, in order to try and avoid scrutiny some newly established NGO/NPOs are being deliberately deceptive as to the purpose or category of the organization. The evidence from the inaccurate records on the status of registered NPO/NGOs shows that the NGO department does not have enough staff to be able to properly carry out their mandate. This makes it difficult for the relevant players to take a meaningful risk-based approach to the NGO sector where many, especially for FT, could be clarified as low risk with accurate information available.

Notes:

- 1 This document will interpret “vulnerability” as: things that can be exploited by a threat or that may support or facilitate its activity. Within the ML/FT context, assessing vulnerabilities means examining factors representing weaknesses in the AML/CFT systems or controls within a jurisdiction. They may also include the features of a particular sector, a financial product or type of service that make them attractive for ML and/or TF purposes
- 2 For more information, refer to Kosovo’s National Risk Assessment
- 3 An entity that can be formed and owned by only one natural person.
- 4 An entity that can be formed and owned by only one natural person.
- 5 A partnership formed by at least one general partner and one limited partner.
- 6 A legal person formed and owned by one or more natural or legal persons, excluding NPOs.
- 7 A legal person owned by its shareholders but is legally separate and distinct from its shareholders.
- 8 Does not have legal personality.
- 9 Beneficial Ownership refers to the natural person(s) who ultimately owns or controls a customer and/or the natural person on whose behalf a transaction is being conducted. It also includes those persons who exercise ultimate effective control over a legal person or arrangement. [Glossary to the FATF Recommendations].