
Funded
by the European Union
and the Council of Europe



EUROPEAN UNION



COUNCIL OF EUROPE
CONSEIL DE L'EUROPE

Implemented
by the Council of Europe

Project against Economic Crime in Kosovo* (PECK)

Inception Report

ECU/PECK-1/2012

* This designation is without prejudice to positions on status, and is in line with UNSCR 1244 and the ICJ Opinion on the Kosovo Declaration of Independence

Project title	Project Against Economic Crime in Kosovo (PECK)
Reference numbers	CRIS No. 2011/282-152 and CoE No. JP/ 2590
Project duration	30 months
Implementation	Directorate General of Human Rights and Legal Affairs, Council of Europe
Project budget	EURO 1.200,00
Reporting Period	1 February 2012 – 15 August 2012
Date of report	12 September 2012

<p>For further information please contact:</p> <p>Economic crime Unit (ECU) Action against Crime Department Directorate of Information Society and Action against Crime Council of Europe, F- 67075 Strasbourg igor.nebyvaev@coe.int ; + 33 3 88 90 21 55 99</p>	<p>This report has been prepared by the PECK project team. The views expressed herein can in no way be taken to reflect the official opinion of the European Union and/or of the Council of Europe.</p>
<p>Project Team in Pristina Council of Europe Office in Pristina Bedri Pejani street No. 3 10000 Pristina, Kosovo</p> <p>Edmond Dunga PECK Project Advisor Phone: +381 38 243 749 ext. 106 Fax: +381 38 243 752 Email: Edmond.dunga@coe.int</p> <p>Luljeta Plakolli Local Project Officer Phone: +381 38 243 749 ext.105 Fax: +381 38 243 752 Email: luljeta.plakolli@coe.int</p>	<p>Two local coordinating institutions:</p> <p>Kosovo Anti-Corruption Agency (KAA) Nazim Gafurri street, no.31 10000 Pristina, Kosovo Contact Point: Blerim Kelmendi Phone: +381 38 518 907 Email: blerim.kelmendi@rks-gov.net</p> <p>Financial Intelligence Unit (FIU) Eduard Lir Street, No.1 10000 Pristina, Kosovo Contact Point: Labinot Preniqi Phone: +381 38 247 102 Email: labinot.preniqi@fic-kos.org</p>

Table of Contents

1	BACKGROUND INFORMATION	5
1.1	BENEFICIARY AREA AND INSTITUTION(S)	5
1.2	CONTRACTING AUTHORITY.....	5
1.3	IMPLEMENTING ORGANISATION	5
2	THE PROJECT	5
2.1	OVERALL OBJECTIVE	5
2.2	PROJECT PURPOSE	6
2.3	EXPECTED RESULTS (ERS)	6
3	SITUATION IN KOSOVO	7
3.1	SITUATION IN THE SECTOR	7
3.2	REGULATORY/SECTOR POLICY	8
3.3	RELATED TECHNICAL ASSISTANCE BY INTERNATIONAL DONORS	11
3.4	CURRENT NEEDS	11
4	SUMMARY OF PROJECT OUTPUTS/PURPOSES.....	13
4.1	ACTIVITIES	13
4.2	INPUTS.....	15
4.3	DELIVERABLES	15
5	INCEPTION ACTIVITIES	16
5.1	SUMMARY OF ACTIONS	16
5.1	SET-UP OF THE PROJECT TEAM/RECRUITMENT.....	16
5.2	PROJECT OFFICE/PREMISES	16
5.3	START-UP ACTIVITIES - PHASE I (14-16 FEBRUARY 2012)	17
5.4	START-UP ACTIVITIES – PHASE II (28-29 MARCH 2012)	17
5.5	LAUNCHING OF THE PROJECT - PHASE III (25-26 APRIL 2012).....	18
5.6	EXPLANATORY MEETINGS ON THE ASSESSMENT QUESTIONNAIRES (10-12 JULY 2012).....	18
5.7	BILATERAL MEETINGS WITH KOSOVO INSTITUTIONS.....	19
6	VISIBILITY/MEDIA COVERAGE	20
6.1	PECK-KOSOVO WEBSITE	20
6.2	THE EU’S VISIBILITY	20
6.3	DISCLAIMER.....	20
6.4	PUBLICATIONS	20
7	BUDGET AND CONTRIBUTIONS.....	20
8	NEXT STEPS AND CONCLUSIONS	21
8.1	NEXT STEPS.....	21
8.2	LONGER-TERM PROJECT IMPACT	21
8.3	STEERING COMMITTEE AND PROJECT COORDINATORS	21
8.4	POTENTIAL RISKS.....	21
8.5	CONCLUSIONS	22
9	LIST OF ANNEXES	23

1 BACKGROUND INFORMATION

This Project against Economic Crime in Kosovo (PECK) started on 1 February 2012. This inception report presents activities and situation of the project's environment during this phase as a stage of preparations for the initiation of project activity implementation. The inception phase formally ended on 30 April 2012.

1.1 Beneficiary area and institution(s)

Beneficiary : Kosovo

Main Beneficiary Institution[s]: Kosovo Anti-Corruption Agency (KAA), Financial Intelligence Unit (FIU), Office for Good Governance Human Rights, Equal Opportunities and Gender Issues (OGG) at the office of Prime Minister.

Project Beneficiaries include (but are not limited to) the following key agencies with a role in anti-corruption/anti-money laundering and combating the financing of terrorism in Kosovo:

- Special Prosecutors Office of Kosovo (SPRK)
- Kosovo Judicial Council (KJC)
- Kosovo Prosecutorial Council (KPC)
- Kosovo Police (KP)
- Kosovo Police Inspectorate (KPI)
- Ministry of Justice (MoJ)
- Ministry of Internal Affairs (MIA)
- Ministry of Finance (MF)
- Ministry of Public Administration (MBA)
- Central Bank of Kosovo (CBK)
- Kosovo Intelligence Agency (KIA)
- Agency for Managing Seized and Confiscated Assets (AMSCA)
- Kosovo Customs (KC)
- Office of Auditor General (OAG)
- Procurement Review Body (PRB)
- Public Procurement Regulatory Commission (PPRC)
- Central Procurement Agency (CPA)
- Kosovo Assembly (KA)
- Central Electoral Commission (CEC)
- Kosovo Ombudsperson (KO)
- Kosovo Business Registration Agency (KBRA)

1.2 Contracting authority

European Union Office in Kosovo.

1.3 Implementing organisation

The Council of Europe is responsible for the implementation of the project and the use of the project funds under the European Community agreement with the European Union Office in Kosovo. Within the General Secretariat of the Council of Europe in Strasbourg, Directorate General of Human Rights and Legal Affairs, the Directorate of Information Society and Action against Crime, and more specifically the Action against Crime Department, Economic Crime Unit will be the responsible structure for the overall management and supervision of the project. A Project Team based in Pristina supported by the Economic Crime Unit in the Headquarters of Council of Europe will be responsible for day to day implementation of the project.

2 THE PROJECT

2.1 Overall Objective

PECK's overall objective is to contribute to democracy and the rule of law through prevention of corruption, money laundering and financing of terrorism in Kosovo.

2.2 Project Purpose

To strengthen institutional capacities to counter corruption, money laundering and the financing of terrorism in Kosovo in accordance with European standards through thorough assessments and recommendations for improving and streamlining economic crime reform.

2.3 Expected Results (ERs)

The following are the expected results of this project. Their achievement, will lead to the achievement of the project purpose and contribute to the overall objective:

With regard to anti-corruption component:

- ER 1.1 Assessment reports are available on the level of compliance of applicable regulations and practices with European standards (based on the experience and criteria used by GRECO and other relevant bodies of the Council of Europe);
- ER 1.2 Kosovo institutions are capable to support and apply peer assessments on anti-corruption measures based on European monitoring methodology;
- ER 1.3 Recommendations are available on regulatory, institutional, and policy related areas;
- ER 1.4 Assessment and progress reports (including compliance matrix) are published and disseminated in English, Albanian and Serbian.

With regard to anti-money laundering and countering of terrorism financing component :

- ER 2.1 Assessment reports are available on the level of compliance of applicable regulations and practices with European standards (based on the experience and criteria used by MONEYVAL and other relevant international bodies);
- ER 2.2 Kosovo institutions are capable to support and apply peer assessments on anti-money laundering and countering of terrorism financing measures based on the European methodology of other international assessment mechanisms;
- ER 2.3 Recommendations are available on regulatory, institutional, and policy related areas;
- ER 2.4 Assessment and progress reports (including compliance matrix) are published and disseminated in English, Albanian and Serbian.

3 SITUATION IN KOSOVO

3.1 Situation in the sector

Corruption remains a serious challenge for Kosovo. A survey by the Kosovo Democratic Institute, serving as a basis for Transparency International's 2010 Global Corruption Barometer¹, provided that 73% of the respondents in Kosovo believe that since 2007, the level of corruption has increased, while only 8% think that corruption has decreased; 61% of respondents think that anti-corruption measures have not had any effect, while only 8% think that corruption has decreased; 16% of users have been paying a bribe to receive a service from at least one of nine different service providers in the past 12 months.

Transparency International's 2011 Corruption Perception Index rates Kosovo at 2.9 (with 10 representing the lowest level of corruption), the lowest rating in the Balkans.²

According to the World Bank's Worldwide Governance Indicators, Kosovo's control of corruption has shown little improvement since 2003, and remains low at more or less 30% (100% representing full control of corruption), with no clear tendency since 2005.³

Freedom House's Nations in Transit ratings show also no relevant improvement since the first assessments in 2004⁴

The "Assessment Kosovo (under UNSCR 1244/99) 2010"⁵, by the OECD's and EU's "Support for Improvement in Governance and Management" (SIGMA) lists "the high level of corruption perceived across all sectors" among the main factors leading "to the conclusion that significant efforts are still needed in order to ensure the rule of law in Kosovo." The Report points out that "weaknesses include overlapping and poor co-operation between the various institutions (KAA [Kosovo Anti-Corruption Agency], Public Prosecutor's Office, Office of Good Governance, Anti-Corruption Council, Police) and a weak enforcement capacity." The 2011 assessment report highlights the absence of clear and visible results in fighting corruption which raises concerns about the capacity for absorbing legislation, the real commitment in implementing it and the capacity of institutions and staff.

A 30 June 2011 report by the Kosovo Democratic Institute "The EU Requirements on Anti-Corruption: Measuring Progress in Kosovo"⁶ lists various areas where action is needed, such as freedom of information, monitoring and verification of declaration of assets, establishment and implementation of codes of conduct, eliminating political interference, fair recruitment procedures, and whistle blower protection.

Various public opinion and expert surveys, conducted by Transparency International, including the Global Corruption Barometer, highlight that political parties in the Western Balkans are perceived to be one of the institutions most likely to be affected by corruption.⁷ The Transparency International's report on political party financing notes that in Kosovo political parties are not required to have a single bank account to receive and spend funds and legislation does not prohibit cash deposits.⁸ The existing legislation fails to clearly define timeframes and the mechanisms of publication of parties' financial reports, which is an obstacle for the implementation of disclosure provisions.⁹

In terms of asset recovery, the European Union Rule of Law Mission in Kosovo (EULEX) reported that 15 cases of corruption have been sentenced by their mission so far, some of them high level cases, yet no property that had been obtained illegally in any of these cases was confiscated¹⁰. This is probably due to "limited and weak capacities, legally and institutionally, to confiscate illegally obtained property", as has been assessed in May 2011 by the Kosovo Democratic Institute for Policy Research and Development.¹¹

¹ www.transparency.org

² <http://cpi.transparency.org/cpi2011/results/>

³ World Bank, <http://info.worldbank.org/governance/wgi/>

⁴ In the ratings based on a scale of 1-7, with 1 representing the highest level of progress, Kosovo was ranked on a scale 6 from 2004-2007 and on a scale 5.75 from 2008-2012 <http://www.freedomhouse.org>

⁵ www.sigmaweb.org/dataoecd.28/41/46401972.pdf, at p.3

⁶ www.kdi-kosova.org/publications.rn_kbekk.pdf

⁷ Transparency International, "Shining a light on Political Party Financing: Albania, Croatia, Kosovo, FYR Macedonia and Serbia 2011", p.2

⁸ Transparency International, note 8, p. 6

⁹ *Ibid.* p. 15

¹⁰ Kosovo Institute for Policy Research and Development (KIPRED), Policy Paper 2011/05, "Strengthening of Rule of Law in Kosovo II: Confiscation of Illegally Obtained Property", Pristina, April 2011, p.5

¹¹ KIPRED, note 11, at p.23

With respect to anti-money laundering and countering of terrorism financing, there is no publicly available statistical data in Kosovo regarding the size and extent of the threat. No annual reports are produced by competent authorities and no data are published for a wider public.¹² At the same time, the quantity and quality of data from law enforcement and judicial authorities has been regarded, in the past, as not sufficient to evaluate the number and characteristics of money laundering crimes investigated, prosecuted and processed in the courts.¹³

However, the extent of money laundering is related to the extent of the black economy (drug dealing, prostitution, smuggling of illegal goods, counterfeiting and piracy and other criminal activities, excluding, in this context, tax evasion, as part of the grey economy). In 2007, the extent of the black economy during the period of 2004-2006 has been estimated to run up to annually more than € 300 million in Kosovo. According to a recent report by Europol on “EU Organized Crime Threat Assessment 2011”, Kosovo is still a region of highly active criminal organizations, especially in the area of drugs and weapons trafficking.¹⁴ The income from these criminal sources is subject to money laundering activities.

Therefore, it does not come as a surprise that more than 420,000 cash transactions (above € 10,000) have been annually reported to the FIC/FIU each year, a number which is extremely high compared to the size of Kosovo’s population and economy. At the same time, the FIU also reports that it has received several suspicious transactions with regards to financing of terrorism.

Recent assessments of the measures against money laundering/terrorism financing in Kosovo have repeatedly pointed out the need for a broad range of legislative and organizational reforms to bring Kosovo in line with European and international standards.¹⁵

Meetings with the counterpart institutions that took place during the start up activities confirmed once more that Kosovo needs strong support in increasing its legislative and institutional capacities to fight corruption and money laundering and counter the financing of terrorism. This is expected to be achieved through the assessment of the existing measures and subsequently provision of short-term, mid-term and long-term recommendations for Kosovo authorities on how to improve existing capacities and ensure effective implementation of legislation in practice.

3.2 Regulatory/Sector policy

Anti-corruption

In recent months important legislation and amendments have been passed in Kosovo, that introduced several necessary provisions, and could therefore be a useful tool for the fight against Economic Crime, including:

- the Criminal Code (law No. 04/L-082 of 20 April 2012);
- the law “On Police” (law No. 04/L-076 of 23 January 2012);
- the Law “On Declaration, Origin and Control of Property of Senior Public Officials and on Declaration, Origin and Control of Gifts of all Public Officials” (law No. 04/L-050 of 31 August 2011);
- the Law “On Prevention of Conflict of Interest in Discharge of Public Functions” (law No. 04/L-051 of 31 August 2011);
- the Law “On Liability of Legal Persons for Criminal Offences” (law No. 04/L-030 of 31 August 2011);
- the Law “On International Legal Cooperation in Criminal Matters” (law No. 04/L-031 of 31 August 2011);
- the Law “On Public Procurement” (law No. 04/L-042 of 31 August 2011);
- the Law “On Witness Protection” (law No. 04/L-015 of 29 July 2011);
- the Law “On Access to Public Documents” (law No. 03/L-215 of 7 October 2010);
- the law “On Amending and Supplementing of the Law No.03/L-048 on Public Financial Management and Accountability”, (law No. 03/L-221 of 12 July 2010);
- the Law “On Ombudsperson” (law No. 03/L-195 of 22 July 2010);
- the Law “On Management of the Sequestered or Confiscated Assets” (law No. 03/L-141 of 10 July 2009);
- the Law “On Anti-corruption Agency” (law No. 03/L-159 of 29 December 2009);

It remains to be assessed however, whether the legal framework for anti-corruption and its implementation meet international and European standards. The legislative and regulatory framework, although very often changed and amended, still calls for a streamlining process and remains ambiguous in certain areas. Few laws/amendments with relevance to anti-corruption are currently in the parliamentary or Government process, namely:

¹² UNOCD, “Technical Assessment Report”, April 2010

¹³ B&S Europe, 2007 “Survey on the extent and prevention of the illegal economy and money laundering in Kosovo. Report prepared for the European Agency for Reconstruction”, p.21,

www.eulex-kosovo.eu/training/police/PoliceTraining/ORGANIZED_CRIME/DOCUMENTS/2.pdf.

¹⁴ www.europol.europa.eu/sites/default/files/publications/octa_2011.pdf.

¹⁵ United States Department of State, “International Narcotics Control Strategy Report (INCSR), Volume II, Money Laundering and Financial Crimes”, March 2011, p. 46 and March 2012, p.41. Kosovo has moved from “Other Jurisdictions Monitored” column to the “Jurisdiction of Concern” column since the INCSR Priorities for 2011, *ibid.* p.37 and p.33

- Draft Criminal Procedure Code (04/L-123) – the first reading has been carried out in the Assembly in June 2012;
- Draft Law “On extended powers for confiscation of assets acquired by criminal offence” which is still under Government procedures.

On 11 January 2012, the Kosovo authorities approved the **Anti-Corruption Strategy and Anti-Corruption Action Plan for 2012-2016**. These documents were reviewed by the Kosovo Assembly in first reading on April 19, 2012 and are still awaiting final approval.

As for the institutional framework, the Prime Minister’s Office of Good Governance, Human Rights, Equal Opportunities and Gender Issues (OGG) has a central role in issues related good governance, which include *inter alia*, anti-corruption policies. Along with the Inter-Ministerial Working Group on Corruption that it chairs, the Office is participating in co-ordinating and monitoring corruption policy across sectors.

The Kosovo Anti-Corruption Agency (KAA) is the main operational anti-corruption policy and oversight body. It has been established in 2006, and has managed to increase and strengthen some of its capacities, and as of recently is operating under a new amended Law on Anti-corruption Agency of Kosovo.¹⁶ According to Article 3 of the Law, the Agency “is an independent and specialized body responsible for implementation of state policies for combating and preventing corruption in Kosovo”.

As for law enforcement and prosecution, the Special Prosecutors Office of Kosovo (SPRK) was established in February 2010. The main task of the SPRK is to deal with cases of high level corruption. Today, one third of high profile corruption cases in the SPRK are assigned exclusively to the jurisdiction of local Kosovo prosecutors, although the most sensitive investigations are still under the purview of EULEX nominated international prosecutors.¹⁷

As regards to the prevention of corruption in the judiciary, the Kosovo Judicial Council (KJC) was established pursuant to UNMIK Regulation No. 2005/52 “On the Establishment of the Kosovo Judicial Council”, and is currently based on the 2008 Law “On the Temporary Composition of the KJC” and the Law No. 03/L-223 “On Kosovo Judicial Council” of 3 November 2010. The Council shall ensure the independence and impartiality of the judicial system. It is responsible for recruiting and proposing candidates for appointment to judicial office.¹⁸ The Council is also responsible for the transfer of judges and disciplinary proceedings. Within the KJC, the Office of the Disciplinary Council is the body responsible for addressing allegations of corruption and misconduct in the judiciary.¹⁹ However, proper investigation in this domain has reportedly been lacking.²⁰ An equivalent body, the Kosovo Prosecutorial Council (KPC), exists for prosecutors. The KPC is an independent institution ensuring equal access to justice as well as independent, professional, and impartial performance of prosecutors.²¹

Thirty (30) investigators of the Kosovo Police (KP) are part of the SPRK’s Task Force on Anti-Corruption. Furthermore, KP has established a Directorate against economic crime and corruption. The newly founded Directorate is still challenged by a lack of proper equipment and staffing. Complaints have arisen also on the internal restructuring and promotions of KP, which allegedly as reported have been based on political preferences and not on professional experience or performances.²² Capacity in intelligence-led investigations, proactive investigations and covert operations seem to remain limited.²³ Co-ordination between the judiciary and the KP has been described as “problematic”.²⁴ EULEX police officers are co-located with their KP counterparts, but EULEX police officers act mainly in a supportive role, with KP being operationally in the lead.²⁵

The KP is overseen by the Ministry of Internal Affairs (MIA). Within the MIA, the Police Inspectorate of Kosovo is established as an executive body. The Police Inspectorate consists of the executive head and inspection officers, who are civilian officials and independent of the Kosovo Police Service. They are mandated with inspection of police units, interviewing police officers, collecting data on task accomplishment, and investigating misconduct, including corruption allegations. The executive head of the Inspectorate is accountable to the MIA.²⁶ Besides overseeing the KP, the MIA is in charge of internal security in Kosovo in general, and thus of combating organized crime and corruption.

¹⁶ Law No.03/L-159 on the Anti-Corruption Agency of Kosovo, decreed on 19 January 2010

¹⁷ www.eulex-kosovo.eu/en/news/000218.php

¹⁸ www.kgik-ks.org/?cid=2,1.

¹⁹ www.kgik-ks.org/?cid=2%2C152

²⁰ Freedom House, *ibid*.

²¹ www.md-ks.org/?page=2,83,320.

²² KIPRED, *ibid*.

²³ KIPRED, *ibid*.

²⁴ www.sigmaweb.org/dataoecd/28/41/46401972.pdf, at p.3.

²⁵ www.eulex-kosovo.eu/en/police/.

²⁶ www.mpb-ks.org/?page=2,12

The Agency for Managing Seized and Confiscated Assets (AMSCA) has been established in June 2010 as a part of the Ministry of Justice, following the promulgation of the Law on Management of Sequestered and Confiscated Assets. AMSCA's mandate is purely administrative and involves among other responsibilities: managing, administering, and/or selling seized or confiscated assets. Although, AMSCA has been in operation for more than a year now, being new as such in doubt represents a structure which needs specialized capacities and skills to handle and manage cases of confiscated and/or seized assets and fostering cooperation with other institutions of relevance to their work. For instance, since its establishment and until today, AMSCA has managed to handle only a couple of cases of seized property, one of which concerned livestock, and resulted to be very difficult by its own nature of the case and lack of tools for such cases. In June 2011, EULEX has started a 12-month training and workshop program for Kosovo and EULEX judges, prosecutors and investigators on confiscation of criminal assets.²⁷

International mutual legal assistance remains problematic due to Kosovo's status situation: Kosovo is not party to the European Convention on Mutual Assistance in Criminal Matters (ETS 30). Several European states cooperate with Kosovo on an *ad hoc* basis, several others do not. Outside Europe, co-operation with law enforcement and judiciary is scarce. The lack of international co-operation by foreign states is damaging prosecution of crimes in Kosovo and in these states.

Anti-money laundering and combating the financing of terrorism (AML/CFT)

With respect to anti-money laundering/combating terrorism financing, there does not exist, as yet, a formal strategic document for measures in this area. With regard to legislation, the system has been based on an UNMIK²⁸ regulation until 2010. A new AML/CTF law has been passed by the Assembly on 30 September 2010 (law No. 03/L-196 "On the Prevention of Money Laundering and Terrorist Financing") and promulgated by Decree No. DL-055-2010 of the President of 18 October 2010. Earlier drafts of the law have been strongly supported by technical advice from EULEX, and reviewed twice by the Council of Europe in order to ensure its compliance with European standards. However, the law, in its different, adopted version has been criticized as flawed by many stakeholders involved in financial investigations. The flaws appear to include, *inter alia* technical mistakes in the cross-referencing of key articles, which leads to questions of the legal standing of some norms. The law is currently under the revision and expected to be submitted to the Assembly for approval during summer 2012. Secondary legislation has been elaborated only partially and most of it is still in the pipeline.

Recent important legislative developments include the adoption of the following laws²⁹ :

- The Law "On Banks, Microfinance Institutions and Non Bank Financial Institutions" (law No. 04/L-093 of 12 April 2012), which includes a range of important regulatory provisions relevant to the AML/CFT framework.
- The Law "On Games of Chance" (law No.04/L-080 of 6 April 2012);
- The law "On Freedom of Association in Non Governmental Organisations" (law No. 04/L-057 of 29 August 2011);
- The law "On Amending and Supplementing of the Law No. 02/L-123 on Business Organizations" (law No. 04/L-006 of 23 June 2011);
- The Law "On Central Bank of Kosovo" (law No. 03/L-209 of 12 July 2010).

The Financial Intelligence Centre (FIC), formerly the competent authority to collect, analyse and disseminate financial intelligence information has transferred these responsibilities in June 2012 to the Financial Intelligence Unit, which is now solely responsible for accumulating, analysing and transferring suspicious transaction reports to law enforcement bodies in order to prevent money laundering (and related offences) and terrorist financing. The FIU keeps databases of all cash transaction reports and suspicious activity reports and of all the data and information gathered whilst performing an analysis of such reports. Furthermore, FIU disseminates intelligence data and information to the law enforcement agencies of Kosovo (Police, Tax Administration, Central Bank, Customs etc.), to the international bodies and entities in Kosovo (EULEX, KFOR, etc.) and to other FIUs abroad. The FIU does not conduct its own criminal investigations, but rather provides other investigative bodies with intelligence/information to be used to initiate or proceed with criminal investigations.³⁰ However, the FIU rarely receives any feedback on the outcome of investigations. The FIU has concluded memoranda of understanding (MoU) with neighbouring countries (approximately 7 MoUs³¹) and furthermore has established electronic communications channels to exchange requests with Albania and Montenegro (through encrypted secured channels). Cooperation with other countries is due to the status situation of Kosovo-uneven at best: certain European FIUs have to date not responded to either intelligence on suspicious transactions provided for by the FIU or to requests for information. This lack of co-operation is probably seriously hampering law enforcement in Kosovo as well as in European countries. The FIU is constantly training financial institutions on their obligations, but has no capacity at all for on-site visits for compliance in the non-banking sector, where it is the designated supervisor. The FIU maintains international presence, and more specifically 3 EULEX advisors.

²⁷ www.eulex-kosovo.eu/en/news/000304.php.

²⁸ UNMIK Regulation No. 2005/42 30 August 2005, amending UNMIK Regulation No. 2004/2, as amended, on the deterrence of Money Laundering and Related Criminal Offences

²⁹ See also some relevant laws already mentioned in the anti-corruption component (pp. 8-9 above).

³⁰ <http://fic-ks.org/>; www.eulex-kosovo.eu/en/news/000237.php.

³¹ With Albania, Macedonia, Montenegro, Croatia, Slovenia, San Marino and Turkey.

The Central Bank of Kosovo (CBK)³² is the supervisor and regulator of financial institutions in Kosovo. There is no capital market in Kosovo. All banks are primarily retail banks and 80% of them are owned by foreign financial institutions. Even though Kosovo is predominantly a cash economy, the confidence in the banking system is systematically increasing by around 20% per year. Reportedly, all banks have compliance officers. In addition to this, CBK has a MoU with the FIU on exchange of information for any suspicious activities within financial institutions. This MoU has been enforced in many cases when suspicious activities were detected. Insurance companies have no compliance officers. The insurance market is primarily oriented to motor insurance (around 74% of all insurance policies are car insurance), however no information has yet been obtained on the size of the life insurance sector as well as other investment-related insurance products which carry a money-laundering risk. Pension funds have been affected by financial crisis (10.4% drop at the value of total assets) as they mainly invest in international markets (95%), however the value of total assets has been picking up as markets are recuperating. According to the CBK, the main money laundering risks should be sought in the informal sector. International donors organized training activities for CBK staff and compliance officers, some of them together with the FIU staff and/or the police.

The financial investigation unit under the Directorate for Investigation of Organised Crime is only responsible for so-called integrated cases (financial cases closely connected to organized crime), but not for independent financial crime cases. The Directorate for Economic Crime and Corruption Investigation of the Kosovo Police (DECCI) and the newly established anti-corruption task force, supervised by the Special Prosecutor's Office (SPRK-ACTF), deal with all types of financial crimes. DECCI tackles regular financial crime and money-laundering cases and the SPRK-ACTF focuses on high profile and complex cases³³.

Kosovo is a member of the World Bank (WB) and the International Monetary Fund (IMF) since June 2009. Kosovo FIU is seriously considering the future admittance to the Egmont Group which includes a total of 106 members (Financial Intelligence Units). Kosovo is not a member of the Financial Action Task Force (FATF) or any of the FATF-style regional bodies (e.g. MONEYVAL).

3.3 Related Technical Assistance by International Donors

In the anti-corruption area the principal institution – the Kosovo Anti-Corruption Agency is currently not receiving any major technical assistance following the end of last year EU funded project which provided technical assistance and legal advice on certain areas of KAA's operation. In fall 2011, the Council of Europe, through its technical assistance programme provided a long term expert for the KAA in supporting their Anti-corruption Strategy revision and drafting of the new Action Plan along with performance measuring tools. Apparently, a comprehensive project in the area of anti-corruption covering a range of sectors and themes is planned by the UNDP to be started in late 2012.

In the AML/CFT area Kosovo institutions are currently receiving extensive technical assistance from the U.S. Department of the Treasury - Office of Technical Assistance (OTA), specifically through a Resident Advisor stationed in Pristina. The program includes training and consulting a wide range of key agencies involved in the AML/CFT system, including the FIU and law enforcement authorities on their operational activities and institutional set-up, as well as assistance in legislative drafting. In 2011 the OTA Resident Advisor assisted the FIU/FIC in setting up an informal interagency working group to assess the compliance of the AML/CFT Law with the FATF 40+9 Recommendations. A comprehensive set of amendments to the AML/CFT Law has been drafted as a result of this exercise and submitted in early 2012 to the Minister of Finance of Kosovo, who, as it is anticipated, will submit a formal proposal to Parliament in the second half of 2012.

3.4 Current Needs

During the Start-up activities and meetings with main counterparts and beneficiaries, the current needs concerning the areas of anti-corruption and anti-money laundering and combating the financing of terrorism were generally confirmed to be the following:

- | | |
|---------|---|
| Need 1: | To define competencies for regulating and enforcing anti-corruption; |
| Need 2: | To strengthen co-ordination with regards to implementation of the Anti-corruption Strategy and Action Plan, encourage the elaboration of a strategy as well as interagency cooperation in the AML/CFT area and specifically with regard to law enforcement; |
| Need 3: | To build capacities in key areas such as prosecution, asset recovery, mutual legal assistance and supervision; |

³² There are 74 institutions in total, including 8 banks, 11 insurance companies, 2 pension funds and 15 micro-financial institutions.

³³ 2011 EU Progress Report,
http://ec.europa.eu/enlargement/pdf/key_documents/2011/package/ks_rapport_2011_en.pdf

- Need 4: To further improve legislation in key areas, such as the criminal code, criminal procedure, anti-money laundering law, as well as the necessary secondary legislation; and
- Need 5: To ensure the availability of comprehensive data and information for assessing risks and the effectiveness of measures.

4 SUMMARY OF PROJECT OUTPUTS/PURPOSES

4.1 Activities

Overall objective	To contribute to democracy and the rule of law through the prevention and control of corruption, money laundering, and terrorist financing in Kosovo.	
Project Purpose	Strengthen institutional capacities to counter corruption, money laundering and terrorism financing in Kosovo in accordance with European standards through thorough assessments and recommendations for improving and streamlining economic crime reforms.	
Result 1	Assessment of anti-corruption measures	
Activities		
1.1.	Assessment and progress reports available on the level of compliance of applicable regulations and practices with European standards (based on the experience and criteria used by GRECO and other relevant international bodies);	<p>Initiate proceedings that will support the launching of the periodical assessments on measures against corruption: prepare and finalize ToR and the questionnaires in coordination and consultation with EULEX; prepare a compliance matrix and set priorities with regard to corruption assessments.</p> <p>Costs: Fees Key Expert, STCs, per diems, international travel, translation/interpretation, publication and dissemination, workshop and conference costs.</p> <p>Inputs: Key expert daily advise, STCs consulting, legal opinions, study research.</p>
1.2	Carrying out peer assessments on anti-corruption measures based on European monitoring methodology.	<p>Organize two consecutive assessments (initial and final) on measures against corruption including one progress report in between the assessments in coordination with EULEX; support the Kosovo institutions in enhancing their reporting capacities in line with assessment methodology on anti-corruption measures/reforms and developing mechanisms of collecting and processing of data necessary for the reporting on anti-corruption measures/reforms.</p> <p>Costs: Fees Key Expert, STCs (int+local), per diems, international travel, workshop, translation/interpretation cost.</p> <p>Inputs: Key expert daily advise, STCs consulting, legal opinions, meetings</p>

1.3	Recommendations available on regulatory, institutional, and policy-related areas.	Prepare and introduce recommendations based on the assessments and ensure a unified understanding of the proposed reforms in coordination with EULEX.
		Costs: Fees Key Expert, STCs (int+local), per diems, international travel, workshops, translation/interpretation cost. Inputs: Key expert daily advise, STCs consulting, legal opinions, meetings
1.4	Assessment and progress reports (including compliance matrix) are published and disseminated in English, Albanian and Serbian.	Publish, translate, disseminate and make awareness of the assessment and progress reports (including compliance matrix) in English, Albanian and Serbian languages.
		Costs: Fees Key Expert, STCs (int+local), per diems, international travel, conference, translation/interpretation, publication and dissemination cost. Inputs: Key expert daily advise, STCs consulting, legal opinions, meetings
Result 2	Assessment of anti-money laundering and combating financing of terrorism measures	
Activities		
2.1	Assessment and progress reports available on the level of compliance of applicable regulations and practices with European standards (based n the experience and criteria used by MONEYVAL and other relevant international bodies).	Organize two consecutive assessments on measures against money laundering and financing of terrorism in coordination with EULEX; prepare a compliance matrix and set priorities with regard to money laundering and financing of terrorism assessments.
		Costs: Fees Key Expert, STCs (int+local), per diems, international travel, workshops, conference, translation/interpretation, publication and dissemination cost. Inputs: Key expert daily advise, STCs consulting, study research, legal opinions, meetings
2.2	Carrying out of peer assessments on money laundering and financing of terrorism financing measures based on European monitoring methodology.	Support the Kosovo institutions in enhancing their reporting capacities in line with assessment methodology, and in developing mechanisms of collection and processing of data necessary for reporting on AML/CFT reforms.
		Costs: Fees Key expert, STCs, per diems, international travel, workshops, translation/interpretation cost. Inputs: Key expert daily advise, STCs consulting, legal opinions, meetings

2.3	Provision of recommendations on regulatory, institutional and policy-related areas.	Prepare and introduce recommendations based on the assessments.
		Costs: Fees Key Expert, STCs, per diems, international travel, workshops, translation/interpretation, publication and dissemination cost. Inputs: Key expert daily advise, STCs consulting, legal opinions, meetings
2.4	Publication and dissemination of assessment and progress reports (including compliance matrix) in English, Albanian and Serbian.	Publish, translate, disseminate and make awareness of the assessment and progress reports (incl. compliance matrix) in English, Albanian and Serbian languages.
		Costs: Fees Key Expert, STCs (int+local); per diems, international travel, translation/interpretation, publication and dissemination cost. Inputs: Key expert daily advise, STCs consulting, legal opinions, meetings, study visits.

4.2 Inputs

The project will provide for the following inputs while supporting and assisting the achievement of the expected results in line with the approved work plan and emerging needs as appropriately agreed through the Steering Committee Meetings:

- Research studies
- On-site assessment visits
- Roundtables and Seminars
- Translation/Publication
- Press coverage and visibility actions

4.3 Deliverables

The deliverables under both components will include:

- Terms of Reference on the assessment methodology and procedure;
- Assessment and progress reports, and compliance matrixes;
- Trainings (information sessions) on the methodology of international assessment as exercises;
- Workshops (small working groups identified as working/interviewing methodology during on-site visits);
- Conferences (plenary sessions discussing the results of the assessments).

5 INCEPTION ACTIVITIES

5.1 Summary of Actions

The following activities were carried out during the inception phase of the project and subsequently prior to start-up of project activities (01 February 2012 – 15 August, 2012):

Description of Inception Phase Activities	Status (as of 30 April 2012)
Recruitment of the Project Team (Strasbourg and Pristina): Project Adviser/Manager (Pristina – 100% time): Recruited and Operational Local Project Officer (Pristina– 100% time): Recruited and Operational Project Officer (Strasbourg – 50% time): Recruited and Operational; Project Assistant (Strasbourg – 100 % time): Recruited and Operational.	Completed
Engagement of 6 Experts (for the Anti-corruption and AML/CFT components) for the period of the project's time line.	Completed
Allocation and Set up of the Project Office	Completed
Start-up Activities (Phase I: 14-17 February 2012): Introduction of the project to counterpart/beneficiary institutions/drafting of the Terms of Reference (assessment methodology)	Completed
Start-up Activities (Phase II: 26-28 March 2012) : Review of Terms of Reference (assessment methodology); and Discussion of Assessment Questionnaires concerning AC and AML/CFT	Completed
Launching of the Project - Phase III (25-26 April 2012)	Completed
Confirmation of Steering Committee Members by Kosovo authorities	Completed
Explanatory meetings with Kosovo authorities on the assessment questionnaires (10-12 July 2012)	Completed
Preparation and submission of draft inception report	Completed

5.1 Set-up of the Project Team/Recruitment

Each of the positions of the Project Team in Strasbourg and Pristina is being filled by vacancy notices announced in line with the rules and procedures and their time lines of the Human Resource policies and other procedures of the Council of Europe. In view of this, during the month of February 2012, the Local Project Officer (LPO) in Pristina was recruited. The recruitment of the Project Advisor took place subsequently in July 2012. The Project Advisor is situated in Council of Europe Office in Pristina and will be advising and monitoring the project's implementation on a day-to-day basis.

All applicants and then candidates have been shortlisted and then selected based on their qualifications, work experience and skills, as well as their performance during the interviews. In addition, performance and evaluations of prior employment were confirmed through reference checks.

The Pristina project team of two members (Project Adviser and Local Project Officer) is directly reporting to the Economic Crime Unit at the Action against Crime Department for substance matters and those workplan implementation related issues, and as such, they are supported by the Project Officer and the Project Assistant in Strasbourg. Their administrative daily work in Pristina will be supervised and supported by the Office of the Council of Europe in Pristina.

5.2 Project Office/Premises

The project offices are situated within the premises made available at the Council of Europe Office in Pristina which also provides the technical and IT infrastructure necessary for the team. The Project Office address and relevant data are:

Project: PECK-Kosovo
Council of Europe Office in Pristina
Bedri Pejani 3,10000 Pristina, Kosovo
Phone: + 381 38 243 749 ext.105; Fax: + 381 38 243 752
luljeta.plakolli@coe.int

5.3 Start-up Activities - Phase I (14-16 February 2012)

A Council of Europe mission team – composed of Ms Ardita Abdiu, Head of the Economic Crime Unit, and Ms Luljeta Plakolli-Kasumi, Local Project Officer and Mr Tilman Hoppe, Council of Europe expert initiated the PECK-Kosovo start up activities (namely, Phase I) during the week of 14-16 February 2012 (see Annex IV – Mission Programme).

During this mission, bilateral meetings with all project's counterparts and beneficiaries as well as international organizations took place with a view to describing the project in detail. More specifically, presentation of the project's duration, its cycles, objective, purpose, expected results and its component, including here the administrative and human resource engagement in implementing the project as well as the methodology of carrying out the two assessments (components of the project) were explained and shared during each bilateral meeting. These meetings once again confirmed that this project is going to be well received and supported by our different partners in Kosovo. The idea of the project and its nexus with CoE as well as its monitoring mechanisms methodology was praised by international organizations (EULEX, UNMIK, OSCE etc.) and considered not only as a valuable tool for meeting common objectives in Kosovo, but also as sustainable intervention that would assist and incorporate expected outcomes that these organizations are working towards.

On 16 February 2012, the Start-Up Workshop with the presence of representatives of the previous bilateral meetings but also of other representatives from different counterpart institutions was held, which brought together around 30 participants. This workshop gave the possibility to introduce in a unified way the necessary details and information on the project, and more specifically the methodology of carrying out the assessment of Component 1-Corruption and Component 2-Money Laundering and Terrorist Financing. Furthermore, it gave the possibility to provide a presentation on the methodology that will be applied in and for each component, (which will be based on the methodology and questionnaire used by GRECO and MONEYVAL evaluations), although specifically tailored for Kosovo and its status/neutral situation, and considering that this exercise will be called and run as an assessment process and not a mutual evaluation of a monitoring mechanism.

The Start-Up Workshop was opened by CoE Office in Pristina and the EU Office in Kosovo. The Head of CoE Office in Pristina chaired and facilitated the workshop. Technical aspects concerning the project, the Terms of Reference for the assessment process of both components, and the type of categories of assessment reports (their cycles), report publicity linked to confidentiality clauses, and time table were introduced and explained by the Economic Crime Unit Secretariat and Expert Mr Tilman Hoppe. Representatives from OSCE, EU Office in Pristina, CoE Office in Pristina, Kosovo Anti-Corruption Agency, Central Bank of Kosovo, Office of Good Governance, and EULEX Police provided inputs and comments in improving and clarifying further the Draft Terms of Reference. As a result, those comments and inputs are now incorporated and address issues as raised by the abovementioned representatives.

5.4 Start-up activities – Phase II (28-29 March 2012)

A Council of Europe mission team – composed of Ms Ardita Abdiu, Head of the Economic Crime Unit, and Ms Luljeta Plakolli-Kasumi, Local Project Officer carried out a series of meetings with stakeholders in the PECK-Kosovo Project on March 28-29, 2012, specifically the Prime Minister's Office of Good Governance (OGG), the Kosovo Anti-Corruption Agency (KAA), the Financial Intelligence Center (FIC), the Kosovo Intelligence Agency, as well as the EU Office in Pristina (see Annex V – Mission Programme).

The meetings were aimed at reviewing and finalising the Terms of Reference and most importantly discussing the content of the questionnaires to be used in the assessments as prepared by the Council of Europe Secretariat, as well as explaining the key coordination role of the KAA and the FIC, and the division of responsibility for various sections of the questionnaires among agencies involved in the exercise. The meetings also focused on the modalities and the preparation of the Launching Conference which is to ensure high-level political support and visibility to the PECK Project.

The Draft Terms of Reference for the Assessments were discussed again in meetings with the EU Office in Pristina, which has yet to endorse and approve them as the final text after the approval by the main beneficiary institutions since this phase. Following those meetings the necessary amendments were incorporated into the draft Terms of Reference.

5.5 Launching of the Project - Phase III (25-26 April 2012)

A series of preparatory meetings were held with key Project stakeholders in light of the PECK Project Launching Conference, specifically the FIC, KAA and EU Office in Pristina to discuss the format of the Conference, order of speakers as well as further steps and activities of the Project (see Annex VI – Mission Programme).

In terms of additional coordination with other technical assistance providers in the same areas, the project team (composed of a CoE Administrator, Project Officer, Local Project Officer and CoE Expert on anti-corruption issues) held a meeting with the U.S. Treasury Office of Technical Assistance (OTA) Resident Advisor aiming to explore possible areas of cooperation and avoid any duplication in the course of implementation of the Project (also see Section 3.3 above). The meeting highlighted the need to ensure close cooperation, especially taking into account the preliminary work that the U.S. Treasury OTA has done on assessing the Kosovo AML/CFT framework vis-à-vis the FATF standards and consequently drafting a set of legislative amendments to address identified gaps. In order to ensure that the end-products envisaged by the PECK Project (assessment reports and recommendations) are up-to-date and relevant, an effort must be made to solicit these findings and legislative drafts, to be analysed and taken into account by the Expert Teams, as well as to further monitor the progress of the assistance provided by the U.S. Treasury OTA. Similarly, a meeting with a UNDP representative identified the possibility to streamline the results of the 1st assessment cycle to be completed by the end of 2012 for use by a planned UNDP anti-corruption project aiming to identify and remedy gaps in the broader anti-corruption framework of Kosovo.

The Project Against Economic Crime in Kosovo (PECK) was officially launched on 26 April 2012 during the Launching Conference in Pristina (see Annex VII – Launching Conference Agenda). The Launching Conference was attended by over 100 representatives of relevant ministries and agencies, international organizations, private sector and civil society. The Launching Conference was opened by the deputy Prime Minister/Minister of Justice Hajredin Kuçi, Minister of European Integration, Vlora Citaku, Mr. Samuel Zbogor, EUSR/Head of the EU Office in Pristina, and the Head of the Council of Europe Office in Pristina, Tim Cartwright. A presentation of the assessment procedure, including the main stages of the process, as well as a general overview of the international anti-corruption (AC) and anti-money laundering/countering financing of terrorism (AML/CFT) standards was made to the broad interagency audience present at the conference. In the course of the presentation the special role of the two local coordinators – the KAA and the FIC/FIU was stressed as well as the communication flow among the various actors involved in filling out the questionnaires. Further, detailed presentations of the AC and AML/CFT questionnaires were made, including the layout of the main sections, themes and specific provisions. The presence of high-level authorities as well as the participation of a broad range of ministries and agencies in the Launching Conference is a key factor in ensuring the necessary long-term commitment to the assessment process and its outcomes.

5.6 Explanatory meetings on the Assessment Questionnaires (10-12 July 2012)

A series of Explanatory Meetings were held from 10-12 July 2012 between the Project team, international experts and Kosovo authorities. The aim of these meetings was to present the substantive aspects of the anti-corruption (AC) and anti-money laundering/combating the financing of terrorism (AML/CFT) questionnaires to be used in the assessment of Kosovo on compliance with the relevant international standards based on the MONEYVAL and GRECO methodologies. The agenda for the Explanatory Meetings was structured to facilitate dialogue with the authorities, and each segment of the agenda was targeted at a specific audience comprising a predetermined list of Kosovo institutions. Expert presentations were detailed and addressed issues from the respective sections of the questionnaires.

The Explanatory meetings started with the delivery of a brief overview of the assessment process and general provisions in the assessment questionnaires. Common to both assessment components, issues of corporate criminal liability, confiscation, freezing and seizing proceeds from crime, law enforcement authorities, investigation and criminal procedure, and issues pertaining to international cooperation of law enforcement/FIU and mutual legal assistance/extradition were explained and discussed with the participants. The specific questions related to the AC component that were addressed during these explanatory meetings related to financing of political parties and election campaigns, the offenses and sanctions for corruption, fundamental safeguards and corruption prevention measures in the police, judiciary, prosecution, public administration, parliament and public procurement. AML/CTF related questions pertained to the criminalization of money laundering and terrorism financing, non-profit organizations, cross-border declaration and disclosure, and the Financial Intelligence Unit, legal persons – access to beneficial ownership and control information, modern secure transaction techniques, record keeping, risk of money laundering and terrorist financing, customer due diligence, politically exposed persons (PEPs), secrecy laws, suspicious transactions reporting related to ML and TF, shell banks, ongoing supervision and monitoring and market entry, supervisors, sanctions and money or value transfer services.

Copies of respective questionnaires and the compilation of international and European AC and AML/CTF standards were disseminated to the participants. The Explanatory Meetings were attended by the relevant institutions, such as the two coordinating authorities for each assessment component i.e. Kosovo Anti-Corruption Agency (KAA), and the Financial

Intelligence Unit (FIU), the overall coordinating authority - Office for Good Governance/Office of the Prime Minister, as well as relevant ministries, judiciary, prosecution, police, customs, independent agencies, and the Central Bank (List of Participants).

5.7 Bilateral meetings with Kosovo institutions

The PECK Project Advisor has carried out during July and August 2012 a series of liaison and pre-assessment bilateral meetings with the following counterpart institutions:

- Financial Intelligence Unit (FIU);
- US Department of the Treasury – Office of Technical Assistance (OTA);
- Kosovo Anti-Corruption Agency (KAA);
- European Union Office to Pristina, Rule of Law Unit;
- Ministry of Public Administration, Department for Registration and Liaison with NGOs;
- Ombudsperson Institution (OI);
- Ministry of Justice;
- Office of the Auditor General;
- Public Procurement Regulatory Commission (PPRC);
- Central Bank of Kosovo (CBK);
- Public Procurement Review Body (PPRB).

Explanations of respective roles and involvement of concerned institutions during the upcoming assessment phases, the need to appoint sustainable contact points/experts when providing information and further support/information have been discussed.

Further liaison and meetings with stakeholders are planned to take place before the submission of questionnaires to domestic authorities (*inter alia*, with the Central Electoral Commission, the Ministry of Justice, the Agency for Managing Seized and Confiscated Assets, the Department of Civil Service Administration, the Office for Good Governance).

6 VISIBILITY/MEDIA COVERAGE

6.1 PECK-Kosovo Website

Project news, upcoming events, and outputs/deliverables will be reported on the Council of Europe Economic Crime website (www.coe.int/corruption), a section of which is exclusively dedicated to the PECK project: http://www.coe.int/t/dghl/cooperation/economiccrime/corruption/Projects/PECK-Kos/PECK-default_en.asp.

The website will report regularly on all Project activities and deliverables as well as news. This Council of Europe official project site will have links to other relevant sites in Kosovo and internationally.

6.2 The EU's visibility

The project will ensure the visibility of the EU's contribution at all stages of its activities. The Council of Europe will take all appropriate measures to publicise the fact that the project funding is being received from a European Union agreement. All reporting and information used and disseminated will acknowledge that actions have been carried out "with funding from the European Union" by also displaying in an appropriate way the European Union logo.

6.3 Disclaimer

All publications will include the following disclaimer: "This document (*report/publication etc*) has been produced with the main funding from the European Union and the Council of Europe. The content of this document can in no way be taken to reflect the views of the European Union or of the Council of Europe".

6.4 Publications

The Project will produce reports to update and inform the European Union Office in Pristina on their findings and progress of the project's implementation. During the project, booklets, leaflets, brochures will be used and copies of such will be available for reporting. As stipulated in the General Conditions of the Project Agreement, "Any [project deliverable] publications and press releases will be communicated to the Contracting Authority [European Union Office in Pristina] as and when they are issued". If any publication takes place, they will acknowledge the financial contribution of the EU, and will contain the above-mentioned disclaimer. They will also be made available for the public.

7 BUDGET AND CONTRIBUTIONS

The total cost of the project is for the period of 30 months involves a total of 1,200.00 Euro. This amount includes:

EUR 1,000.000 Financial Contribution from EU; and

EUR 200.000 Financial Contribution from CoE.

Upon the signature of the contract (January 2012), and upon the submission of the 1st Request for Payment (dated 9 January 2012, the Council of Europe received the amount of **600,000.00 Euro** as first instalment in line with the Article 4(2) of the Special Conditions (the Budget of the PECK Project is attached – see Annex IX).

8 NEXT STEPS AND CONCLUSIONS

8.1 Next Steps

The draft **workplan of activities** along with this **inception report** will be reviewed and discussed at the 1st Steering Committee meeting tentatively scheduled to take place on September 18, 2012 after internal consultations with CoE and EU Office in Pristina have taken place.

8.2 Longer-term Project Impact

The project derives from the need of Kosovo for a comprehensive and structured assessment process. While reforms related to corruption and money laundering have been underway for several years, there has been no structured, longer-term process to assess their progress and impact. For the first time, a specially designed programme will have as a purpose, strategy and resources the undertaking of periodical and thorough assessments in Kosovo on issues of economic crime and more specifically: corruption; money laundering and terrorism financing. The assessment rounds will cover institutional, legal policy and resource areas divided in separate themes mostly modelled after the Council of Europe's mechanisms (GRECO and MONEYVAL). A concerted effort of the EU and the CoE, based on the experience of many successful joint projects in this area is an appropriate approach to ensure that European standards and practices are clearly followed when applied in Kosovo. Such an effort would contribute to coherent anti-corruption and money laundering reforms in Kosovo, also to the benefit of EULEX Kosovo, thus make reform results more sustainable and bring them in line with European standards. Furthermore, from the beginning and during the inception phase, but also during its implementation, the project will liaise, coordinate and seek support vis-à-vis the related ongoing projects of the other international organizations in Kosovo.

8.3 Steering Committee and Project Coordinators

According to the Description of Action of the project and meetings held with the main counterparts, it has been confirmed by the Kosovo authorities that the Office of Good Governance, Human Rights, Equal Opportunities and Gender Issues (OGG), will designate a Project Coordinator to ensure information flow and cooperation of all relevant institutions. Furthermore, the Kosovo Anti-Corruption Agency (KAA) and the Financial Intelligence Unit (FIU) will be asked to designate two local Project Liaisons as senior officials in the respective institutions (corruption and money laundering). S/he will function as the main counterpart responsible for the coordination of project activities on behalf of Kosovo's institutions/authorities. The Project will have a designated Steering Committee which will consist of :

- The Prime Minister's Office of Good Governance;
- The Kosovo Anti-Corruption Agency;
- The Financial Intelligence Centre/Financial Intelligence Unit;
- The Ministry of Justice;
- The Ministry of Finance;
- The European Union Office in Kosovo; and
- The Economic Crime Unit of the Council of Europe/Council of Europe office in Pristina.

The Steering Committee meetings will take place at least every 6 months and will involve other relevant authorities related to the project results and activities as needed. The Steering Committee will take strategic decisions and supervise the proper implementation of the Project, and it will be co-chaired by an EUO and CoE representative. The terms of reference of the Steering Committee are attached to this report and shall be adopted at the first steering committee meeting.

8.4 Potential Risks

In the course of June-August 2012 Project activities could not progress for reasons beyond the control of the Project team and of the Organization. The Project team had been unable to hold the Steering Committee meeting because of on-going discussions between the Organization and the Contracting Authority concerning the content of the footnote to be used when referring to "Kosovo" in documents of Joint Projects with the EU. Despite the shift in schedule, the Project team will do its utmost to carry out Project activities in accordance with the outline set by the DoA.

The political risk involved in this project is not considered to be high at the time of reporting. However, it is advised to also keep track of the main risks, previously identified in the project's Description of Action.

- Lack of political stability

Presidential elections were held in Kosovo as recently as April 2011, parliamentary elections in December 2010. Without early elections, the project could run until 2014 without change of administration. Besides, political instability would not be likely to influence the results. If it materialises it may delay certain processes within the project or make its work more difficult but within the scope of flexibility built in the Project and through ensuring professional management the Project team shall be able to cope with any negative influence. The Project addressing one of the policy priorities of Kosovo on its way to European standards guarantees that any adverse effects would only be of temporary and manageable nature.

- Lack of co-ordination and co-operative approach by stakeholders

Experience from previous projects allows perceiving this risk as moderate and unlikely to prevent the project from achieving its results. Co-operation of stakeholders under the projects in this field was good. The clear procedure and structure of the project and the focal responsibility of KAA and FIU as well as OGG will ensure the sustainability of the co-ordination process. In case an state institution should show a lack of co-ordinated action within the project, an intervention by the Prime Minister's Office of Good Governance (OGG), and/or the Council of Europe's Office in Pristina should lead to adequate co-operation.

- Lack of financial resources on the part of the beneficiary to consolidate achievements of the Project

The focus of the project is on the assessment of necessary legislative, policy and institutional reforms, and on identifying training needs and where capacity building requires enhancement, hence, the expected results do not all require substantial investments by the beneficiary, rather than maintain the sustainable budgetary resources as allocated to the institutions in charge of operating under the improved policy/institutional and legislative reforms. Furthermore, all state institutions co-operating with and benefiting from the projects are established and operational.

8.5 Conclusions

The inception phase of the project has proven to have been carried out effectively from the outset and has provided sufficient time for the project to initiate its essential actions given that the project agreement was signed in January 2012 and the project itself started in February 2012.

From the very first days of the project's signature, the cooperation received and the team spirit that has been reflected from the side of the project's counterparts has been very fruitful and at the expected level. This is a very promising start where the willingness to cooperate and to carry out important reforms has been made clear and has been manifested on several occasions by the institutions in Kosovo.

Annex I:	Terms of Reference on the Assessment Procedure
Annex II:	Workplan of Activities
Annex III:	Terms of Reference of the Project Steering Committee
Annex IV:	Start-up Activities Programme (Phase I), 14-16 February 2012
Annex V:	Start-up Activities Programme (Phase II), 28-29 March 2012
Annex VI:	Agenda of Launching Conference Preparatory Meetings (Phase III), April 25, 2012
Annex VII:	PECK Project Launching Conference Agenda (Phase III), April 26, 2012
Annex VIII:	Agenda of Explanatory meetings on assessment questionnaires, July 10-12, 2012
Annex IX:	Budget of the Action
Annex X:	List of Short-Term Experts for the PECK Project
Annex XI:	Assessment schedule: key dates and deadlines (1 st assessment cycle)