Kosovo

RISK & COMPLIANCE REPORT

DATE: March 2018

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Executive Summary - Kosovo	
Sanctions:	None
FAFT list of AML Deficient Countries	No
Higher Risk Areas:	Non - Compliance with FATF 40 + 9 Recommendations Weakness in Government Legislation to combat Money Laundering Not on EU White list equivalent jurisdictions Corruption Index (Transparency International & W.G.I.) World Governance Indicators (Average Score) Failed States Index (Political Issues)(Average Score)
Medium Risk Areas:	US Dept of State Money Laundering Assessment

Major Investment Areas:

Agriculture - products:

wheat, corn, berries, potatoes, peppers, fruit; dairy, livestock; fish

Industries:

mineral mining, construction materials, base metals, leather, machinery, appliances, foodstuffs and beverages, textiles

Exports - commodities:

mining and processed metal products, scrap metals, leather products, machinery, appliances, prepared foodstuffs, beverages and tobacco, vegetable products, textile and textile articles

Imports - commodities:

foodstuffs, livestock, wood, petroleum, chemicals, machinery, minerals, textiles, stone, ceramic and glass products, electrical equipment

Investment Restrictions:

The Government of Kosovo (Government), specifically the Ministry of Trade and Industry (MTI) and the Investment Promotion Agency of Kosovo (IPAK) actively promote foreign investment and welcome the expansion of the private sector.

All major sectors of the Kosovo economy are open to foreign investment.

Contents

Section 1 - Background

The central Balkans were part of the Roman and Byzantine Empires before ethnic Serbs migrated to the territories of modern Kosovo in the 7th century. During the medieval period, Kosovo became the center of a Serbian Empire and saw the construction of many important Serb religious sites, including many architecturally significant Serbian Orthodox monasteries. The defeat of Serbian forces at the Battle of Kosovo in 1389 led to five centuries of Ottoman rule during which large numbers of Turks and Albanians moved to Kosovo. By the end of the 19th century, Albanians replaced the Serbs as the dominant ethnic group in Kosovo. Serbia reacquired control over Kosovo from the Ottoman Empire during the First Balkan War of 1912. After World War II, Kosovo became an autonomous province of Serbia in the Socialist Federal Republic of Yugoslavia (S.F.R.Y.) with status almost equivalent to that of a republic under the 1974 S.F.R.Y. constitution. Despite legislative concessions, Albanian nationalism increased in the 1980s, which led to riots and calls for Kosovo's independence. At the same time, Serb nationalist leaders, such as Slobodan MILOSEVIC, exploited Kosovo Serb claims of maltreatment to secure votes from supporters, many of whom viewed Kosovo as their cultural heartland. Under MILOSEVIC's leadership, Serbia instituted a new constitution in 1989 that revoked Kosovo's status as an autonomous province of Serbia. Kosovo's Albanian leaders responded in 1991 by organizing a referendum that declared Kosovo independent. Under MILOSEVIC, Serbia carried out repressive measures against the Kosovar Albanians in the early 1990s as the unofficial Kosovo government, led by Ibrahim RUGOVA, used passive resistance in an attempt to try to gain international assistance and recognition of an independent Kosovo. Albanians dissatisfied with RUGOVA's passive strategy in the 1990s created the Kosovo Liberation Army and launched an insurgency. Starting in 1998, Serbian military, police, and paramilitary forces under MILOSEVIC conducted a brutal counterinsurgency campaign that resulted in massacres and massive expulsions of ethnic Albanians. Approximately 800,000 Albanians were forced from their homes in Kosovo during this time. International attempts to mediate the conflict failed, and MILOSEVIC's rejection of a proposed settlement led to a three-month NATO military operation against Serbia beginning in March 1999 that forced Serbia to agree to withdraw its military and police forces from Kosovo. UN Security Council Resolution 1244 (1999) placed Kosovo under a transitional administration, the UN Interim Administration Mission in Kosovo (UNMIK), pending a determination of Kosovo's future status. A UN-led process began in late 2005 to determine Kosovo's final status. The negotiations ran in stages between 2006 and 2007, but ended without agreement between Belgrade and Pristina. On 17 February 2008, the Kosovo Assembly declared Kosovo independent. Since then, over 100 countries have recognized Kosovo, and it has joined the International Monetary Fund, World Bank, and European Bank for Reconstruction and Development, and is in the process of signing a framework agreement with the European Investment Bank (EIB). In October 2008, Serbia sought an advisory opinion from the International Court of Justice (ICJ) on the legality under international law of Kosovo's declaration of independence. The ICJ released the advisory opinion in July 2010 affirming that Kosovo's declaration of independence did not violate general principles of international law, UN Security Council Resolution 1244, or the Constitutive Framework. The opinion was closely tailored to Kosovo's unique history and circumstances. Serbia continues to reject Kosovo's independence, but the two countries are currently engaged in an EU-facilitated dialogue aimed at normalizing the countries' relations.


SERBIA
MONTENEGRO
ALBANIA
MACEDONIA
PRISTINA
Podujevë/
Podujevo
Mitrovicë/
Mitrovica
Vushtrri/
Vučitrn
Pejë/
Peć
Gjeravica/
Đeravica
Gjilan/
Gnjilane
Gjakovë/
Đakovica
Ferizaj/
Uroševac
Prizren/
Prizren
Ibër/Ibar
Beli Drim
Drini i Bardhë
Drin
Ligeni i
Fierzës
0 20 40 km
0 20 40 mi

Section 2 - Anti – Money Laundering / Terrorist Financing

FATF status

Kosovo is not on the FATF List of Countries that have been identified as having strategic AML deficiencies

Compliance with FATF Recommendations

A Mutual Evaluation relating to the implementation of anti-money laundering and counter-terrorist financing standards has not yet been undertaken for Kosovo.

IMF Report: Republic of Kosovo: Third Review Under the Stand-By Arrangement and Request for Waiver of Nonobservance of Criterion: -

Extract: -

"The Anti Money Laundering Law has significant gaps that could affect the effectiveness of AML activities in the banking sector. An UN Interim Administration Mission in Kosovo (UNMIK) regulation on AML was in effect until 2010, when the Assembly of Kosovo approved the Law on the Prevention of Money Laundering and Terrorist Financing. As reported to the assessors, this Law presents several technical deficiencies, including the lack of specific provisions giving authority to the CBK or the Financial Intelligence Unit to carry out compliance inspections in several types of institutions, most notably banks. Furthermore, this Law provides insufficient protection to bank officials filing reports to the FIU in the discharge of their responsibilities."

US Department of State Money Laundering assessment (INCSR)

Kosovo was deemed a Jurisdiction of Concern by the US Department of State 2016 International Narcotics Control Strategy Report (INCSR).

Key Findings from the report are as follows: -

Perceived Risks:

Kosovo is not considered a regional financial or offshore center. The country has porous borders that facilitate an active black market for smuggled consumer goods, especially fuel, cigarettes, and pirated products, largely along the Kosovo - Serbian border. Kosovo is a transit point for illicit drugs. Drugs from Afghanistan make their way through Turkey where they are often routed through the Drenica Valley in Kosovo, from where they are smuggled to Western Europe. Proceeds of drug trafficking do not fund the black market of smuggled and pirated items. There are estimates that the Kosovo informal economy approaches 40 percent or more of GDP.

Illegal proceeds from domestic and foreign criminal activity are also generated from corruption, tax evasion, customs fraud, organized crime, contraband, human trafficking, and various types of financial crimes. A large amount of money is invested in real estate, restaurants, trading companies, bars, and games of chance operations, such as casinos, slot machines, and sports betting facilities. There is no capacity to supervise this movement. There is also a tendency to conduct business and to engage in business transactions on private accounts without business registration. Official corruption is believed to be a significant problem, as are resource constraints.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR ILLEGAL DRUG SALES THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:
"All serious crimes" approach or "list" approach to predicate crimes: All serious crimes
Are legal persons covered: criminally: YES civilly: YES

KNOW-YOUR-CUSTOMER (KYC) RULES:
Enhanced due diligence procedures for PEPs: Foreign: YES Domestic: YES
KYC covered entities: Banks; money exchangers and remitters; securities brokers and service providers, portfolio and fund managers; insurance companies; issuers of traveler's checks, money orders, e-money, and payment cards; political parties; casinos; attorneys, accountants, notaries, and auditors; real estate agents; high-value goods dealers; nongovernmental organizations (NGOs); microfinance institutions; and construction companies

REPORTING REQUIREMENTS:
Number of STRs received and time frame: 335: January 1, 2015 – November 1, 2015
Number of CTRs received and time frame: 1,948: January 1, 2015 – November 1, 2015
STR covered entities: Banks; money exchangers and remitters; securities brokers and service providers, portfolio and fund managers; insurance companies; issuers of traveler's checks, money orders, e-money, and payment cards; NGOs; political parties; casinos; attorneys, accountants, notaries, and auditors; real estate agents; and high-value goods dealers

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:
Prosecutions: 32: January 1 – November 1, 2015
Convictions: 1: January 1 – November 1, 2015

RECORDS EXCHANGE MECHANISM:
With U.S.: MLAT: NO Other mechanism: YES
With other governments/jurisdictions: YES

Kosovo is not a member of a FATF-style regional body.

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

In September 2014, the Government of Kosovo adopted its five-year National Strategy and Action Plan for the Prevention of and Fight Against the Informal Economy, Money Laundering, Terrorist Financing, and Financial Crimes; subsequently, a national money laundering/terrorist financing risk assessment report was prepared. Kosovo law restricts all money laundering investigations in Kosovo to a relatively small unit in the prosecutor's office, which focuses mostly on organized crime and corruption; however, all prosecutors may pursue seizures and confiscations of instrumentalities and proceeds for all types of crimes. The National Coordinator for Economic Crime Enforcement and his staff monitor compliance with international AML/CFT standards and promote increased prosecutorial effectiveness.

In 2014, the Central Bank of Kosovo (CBK) finalized a draft AML/CFT regulation for the financial sector. In 2015, a Kosovo working group established by the Ministry of Finance began working with international donors to prepare a revised AML/CFT Law in line with relevant international standards. As of the end of 2015, the law was still pending approval.

The CBK carried out 12 compliance inspections from January 1 – November 1, 2015, and the financial intelligence unit (FIU) carried out 25 compliance inspections in the same period. The threat of terrorist finance in Kosovo has been confirmed by various officials. The FIU reports it has observed several suspicious transactions related to terrorist financing. The FIU maintains electronic communication with financial institutions and government agencies and is still taking steps to obtain access to other available databases and to integrate them into its analytical system.

Kosovo's status as a non-member of the UN, which stems primarily from political disagreements with Serbia, limits the country's eligibility to participate in many regional and international bodies, organizations, treaties, and conventions.

The government should prioritize financial crimes enforcement and investigations to work toward successful prosecutions of money laundering. The Government of Kosovo should address border security and take steps to effectively combat organized crime and corruption.

Current Weaknesses in Government Legislation (2013 INCRS Comparative Tables):

According to the US State Department, Kosovo does not conform with regard to the following government legislation: -

Arrangements for Asset Sharing - By law, regulation or bilateral agreement, the jurisdiction permits sharing of seized assets with third party jurisdictions that assisted in the conduct of the underlying investigation.

States Party to UN 1988 Convention - States parties to the 1988 United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances, or a territorial entity to which the application of the Convention has been extended by a party to the Convention.

International Terrorism Financing Convention - States parties to the International Convention for the Suppression of the Financing of Terrorism, or a territorial entity to which the application of the Convention has been extended by a party to the Convention.

States Party to United Nations Transnational Organised Crime Convention - States party to the United Nations Convention against Transnational Organized Crime (UNTOC), or a territorial entity to which the application of the Convention has been extended by a party to the Convention.

States Party to United Nations Convention Against Corruption - States party to the United Nations Convention against Corruption (UNCAC), or a territorial entity to which the application of the Convention has been extended by a party to the Convention.

EU White list of Equivalent Jurisdictions

Kosovo is not currently on the EU White list of Equivalent Jurisdictions

World Governance indicators

To view historic Governance Indicators Ctrl + Click here and then select country

Failed States Index

To view Failed States Index Ctrl + Click here

Offshore Financial Centre

Kosovo is not considered to be an Offshore Financial Centre

US State Dept Narcotics Report 2016:

Kosovo is not a significant source country for illegal drugs but remains a transit country for drugs smuggled to other European markets. Kosovo coordinates its interagency efforts to combat narcotics trafficking through the National Coordinator for Anti-Drug Strategy. The Kosovo Police Directorate of Trafficking in Narcotics Investigations (DTNI) is tasked with implementing Kosovo's 2012-2017 National Anti-Drug Strategy and Action Plan and carries out narcotics-related investigations, seizures, and arrests.

Over the first nine months of 2015, authorities seized 146 kilograms (kg) of marijuana and 37 grams of cocaine, both sharp decreases from what was seized over the same period in 2014 (672 kg and 21 kg, respectively). Although the volume of seized heroin rose by 332 percent compared to the same period last year (8.6 kg versus 2 kg), one seizure of 6.9 kg accounted for most of this increase. Synthetic drug seizures were minimal, totaling 265 MDMA (ecstasy) tablets and 1.8 grams of amphetamine. Factors adversely impacting Kosovo's efforts to combat narcotics trafficking include the lack of full integration of the four northern municipalities, a weak economy, non-recognition by some states in the region, and a less than fully effective border management system.

There are no comprehensive reports assessing drug use in Kosovo. Based on available information, the majority of offenders are men, and marijuana is their primary drug of choice. To discourage drug use, the Ministries of Health and Education conduct drug education programs, community police officers educate students about risks of drug use, and non-governmental organizations assist with anti-drug education and drug treatment.

Estimating the extent to which corruption influences drug trafficking in Kosovo is difficult. Laws prohibit narcotics-related corruption, but allegations persist that narcotics move across Kosovo's borders, sometimes with the acquiescence of officials.

Because Kosovo is not yet a member of the United Nations, it is party to few international conventions and protocols or bilateral agreements relating to counternarcotics. Kosovo cooperates and exchanges information with international partners through informal bilateral and multilateral meetings. Kosovo also cooperates with the United States on counternarcotics issues and receives technical assistance and training from U.S. assistance programs. In June 2015, two senior DTNI officials attended the International Drug Enforcement Conference in Colombia sponsored by the U.S. Drug Enforcement Administration.

US State Dept Trafficking in Persons Report 2016 (introduction):

Kosovo is classified a Tier 2 country - a country whose government does not fully comply with the Trafficking Victims Protection Act's minimum standards, but is making significant efforts to bring themselves into compliance with those standards.

Kosovo is a source and destination country for men, women, and children subjected to sex trafficking and forced labor, including in the restaurant industry. Most sex trafficking victims in Kosovo are girls, though Kosovo criminal groups also force women from Albania, Moldova, Romania, Serbia, and other European countries into prostitution. Women and girls are subjected to sex trafficking in private homes and apartments, night clubs, and massage parlors. Traffickers offer employment as dancers and singers in restaurants—and sometimes false marriage promises—but then force victims into sex trafficking. Traffickers increasingly use social media to recruit victims. Children from Kosovo and neighboring countries are forced to beg within the country. During the reporting period, authorities identified children exploited as dancers and escorts, who are also vulnerable to sex trafficking. Traffickers subject Kosovo citizens to forced prostitution and forced labor throughout Europe. Government corruption creates an environment that enables some trafficking crimes. Several police officers, labor ministry employees, and other government officials have been charged with or convicted of trafficking crimes.

The Government of Kosovo does not fully meet the minimum standards for the elimination of trafficking; however, it is making significant efforts to do so. The government licensed two NGO shelters to exclusively serve trafficking victims, increased funding for the shelters, and offered shelter and services to all victims identified in 2015. It implemented procedures to screen for trafficking among vulnerable populations, appointed a coordinator for national anti-trafficking efforts, and began implementation of its national action plan, including disbursing funds to support the plan's activities. However, the government identified fewer victims and prosecuted fewer suspects than the previous year, convictions decreased to a five-year low, and judges imposed lenient sentences on convicted traffickers. Furthermore, while complicit officials faced administrative action for involvement in trafficking crimes, courts formally acquitted them of trafficking charges. The government continued to lack a victim compensation fund required by law, and the national anti-trafficking agency was inactive for much of the reporting period.

US State Dept Terrorism Report 2016

Overview: The threat of violent Islamist extremism has been growing in Kosovo, assisted in part by funding from foreign organizations that preach extremist ideologies and violent extremist groups actively using social media to spread propaganda and recruit followers. Approximately 315 foreign terrorist fighters from Kosovo have traveled to Syria and Iraq to fight for ISIS or al-Nusrah Front (al-Qa'ida's affiliate in Syria), of which approximately 58 have been killed. The Government of Kosovo is implementing a comprehensive strategy and action plan for countering violent extremism (CVE). The Kosovo Police (KP) Counterterrorism Directorate is enhancing its investigative capacities by increasing personnel and developing a cyber-counterterrorism unit.

The Kosovo government continued counterterrorism cooperation with the United States. The United States assisted law enforcement and judicial institutions on active counterterrorism cases.

Because the security and political situation in northern Kosovo continued to limit the government's ability to exercise full authority in that region, the NATO Kosovo Force (KFOR) and European Union (EU) Rule of Law Mission (EULEX) worked with the KP to maintain a safe and secure environment and strengthen the rule of law, including at the borders. Although Kosovo and neighboring Serbia do not usually cooperate on counterterrorism issues, the governments have had an Integrated Border Management plan since 2013 and have participated in joint U.S.-sponsored training.

Kosovo is a member of the Global Coalition to Defeat ISIS and has taken steps to support the various lines of effort within the limits of its capabilities. It has primarily focused on stemming the flow of foreign terrorist fighters and tracking and restricting financing for terrorist groups. Kosovo is not a member of the United Nations (UN); however, the Government of Kosovo has pledged to implement UN Security Council resolution 2178 unilaterally.

Legislation, Law Enforcement, and Border Security: Kosovo has a comprehensive legal framework that covers all criminal aspects related to terrorism. The Criminal Code of Kosovo criminalizes all forms of terrorism, including commission, assistance, facilitation, recruitment, training, and incitement to commit terrorism. It also criminalizes concealment or failure to report terrorists or terrorist groups, organization and participation in terrorist groups, and preparation of terrorist offenses against the constitutional order and the security of the state of Kosovo. It defines a terrorist group as a structured group of more than two persons, established over a period of time and acting in concert to commit terrorism. In addition, the Criminal Procedure Code provides authorities with all the necessary powers to investigate and prosecute such cases, including sanctioning the use of covert measures. It further gives authorities flexibility to investigate criminal activity during the planning stage to prevent terrorist acts. The Procedural Code also allows Kosovo courts to admit evidence from other countries, thus allowing prosecution of international terrorism in Kosovo. This framework provides authorities with the tools necessary to fight any form of terrorism. Kosovo law also criminalizes joining a foreign army, police, or paramilitary formation in armed conflicts outside the territory of Kosovo. A conviction on these charges carries a penalty of up to 15 years imprisonment.

Law enforcement authorities increased their capacity to handle terrorism cases and share information across agencies, although challenges remain. The KP Counterterrorism Directorate, which is responsible for counterterrorism investigations, has resource constraints that inhibit its ability to track suspects. The law provides the Special Prosecution Office, which is composed of local and international staff, with exclusive jurisdiction over terrorism cases. Prosecutors have made considerable improvements in the past year in dealing with terrorism-related cases. The Department of State supported programs with the Department of Justice to mentor Kosovo law enforcement and prosecutors. Kosovo is a member of the Regional Arms Control Verification and Implementation Assistance Centre, a southeastern European organization that focuses on security-related issues, including terrorism. Representatives from Kosovo attended EU and U.S.-sponsored training activities and conferences on counterterrorism-related topics.

Kosovo has issued biometric travel and identity documents since 2013. All major border crossing points, including Pristina International Airport, are equipped with computerized fraudulent/altered document identification equipment, for which a database is updated regularly with information from other countries. The Kosovo Border Police's (KBP) regularly updated STOP/WATCH list of persons suspected of connections to terrorism or criminal activities had more than 1,700 hits in 2015; however, the electronic Border Management

System does not interface with INTERPOL and does not always function properly. Kosovo is not a member of the United Nations, INTERPOL, or Europol; the UN Interim Administration Mission in Kosovo and EULEX serve as Kosovo's intermediaries with these organizations, slowing down cooperation and preventing Kosovo from having direct access to their watchlists. Kosovo applied for INTERPOL membership, but INTERPOL as of November has suspended all pending applications indefinitely. The KBP and Directorate against Terrorism use biometric equipment to enroll suspicious individuals who may be affiliated with terrorism. The Law on Border Control obliges airlines to submit Advance Passenger Information/Airline Passenger Name Record data to Kosovo; the KBP has been using this information. In 2016, the KBP, in cooperation with regional countries and Turkey, identified and blocked at least five persons from traveling to Syria and one citizen was arrested upon his return from a conflict zone; however, at least five individuals successfully transited to Syria. With U.S. assistance, KBP is revising its curricula used to train border officers to focus more on early identification of persons affiliated with terrorism. The Department of State's Antiterrorism Assistance (ATA) program supported Kosovo participation in a series of border security-related courses aimed at addressing foreign terrorist fighter travel.

In addition to the ATA program, the United States provided training opportunities on various aspects of counterterrorism and CVE, through the Export Control and Related Border Security program (EXBS), the DOJ's International Criminal Investigative Training Assistance Program (ICITAP), the DOJ's Office of Overseas Prosecutorial Development, Assistance and Training (OPDAT), and the Office of Defense Cooperation (ODC).

Trials are ongoing for several of the 59 suspects arrested in August 2014 during the government of Kosovo's largest counterterrorism operation to date. Investigations are ongoing against a dozen other individuals, including several imams. During 2016, Kosovo authorities arrested 32 individuals on terrorism-related charges, including 18 in November. Authorities also secured several high-profile convictions, including the sentencing of seven citizens to 42 years imprisonment on terrorism charges in May, and five individuals to 49 years imprisonment for ISIS involvement in July. Additionally, the Ministry of Public Administration suspended the activities of 21 NGOs suspected of supporting violent extremism.

Kosovo demonstrated political will to address threats related to terrorism, and the state possesses the legal framework to do so. National institutions also strengthened the capacity of their investigative and prosecutorial elements, but limited capacity, resources, and experience continued to limit their ability to handle terrorism cases more effectively.

Countering the Financing of Terrorism: Kosovo is not a member of the Financial Action Task Force (FATF) or any FATF-style regional bodies. In 2016, the Kosovo financial intelligence unit worked towards becoming a member of the Egmont Group of Financial Intelligence Units. Kosovo has a Law on the Prevention of Money Laundering and Terrorist financing, modeled after international anti-money laundering and counterterrorist finance standards. This law also established enforcement mechanisms for the examination of reporting entities and narrowly defines terrorist financing. Kosovo has not yet successfully prosecuted a terrorist financing case or identified any frozen assets of sanctioned individuals and organizations.

Kosovo has not consistently frozen and confiscated assets without delay. A prosecutor may only freeze bank accounts for 72 hours, during which time the pre-trial judge is obliged to approve or reject the freezing order. Under a judge's temporary order, assets may be frozen for 30 days, but owners may dispute asset freezes. Kosovo monitors and regulates money/value transfer and other remittance services. Kosovo requires the collection of Know Your Customer data for wire transfers. Because Kosovo is not a member of the FATF network, we are unable to assess how well this framework is implemented or meets the international standard.

Kosovo's FIU distributes the UN Security Council ISIL (Da'esh) and al-Qa'ida sanctions list to financial institutions and publishes the direct link to the UN list on its web page.

International Sanctions

None applicable

Bribery & Corruption

Index	Rating (100-Good / 0-Bad)
Transparency International Corruption Index	39
World Governance Indicator – Control of Corruption	40

Corruption in Kosovo poses high risks for companies operating or planning to invest in the country. A lack of transparency and accountability in Kosovo's public administration results in widespread corruption and negatively affects the investment climate. The judiciary, customs, public utilities and procurement sectors are the most-affected by corruption. While anti-corruption laws are strong, the judicial system is inefficient, leading to poor enforcement. Active and passive bribery, extortion, money laundering and abuse of office are prohibited by Kosovo's Criminal Code, while facilitation payments are not addressed. According to Kosovan law, all gifts received by public officials should be declared and registered. Notwithstanding, the practices of offering gifts and bribery are common in Kosovo.
Information provided by GAN Integrity.

US State Department

The World Bank's "Doing Business" Report for 2014 ranks Kosovo 86 out of 189 economies, an improvement of 10 places in one year. Corruption, real and perceived, remains one of the most serious problems in attracting foreign investment in Kosovo. Transparency International's 2012 "Corruption Perceptions Index" ranked Kosovo 111 out of 177 countries and territories surveyed, similar to the prior year's results.

Corruption and Government Transparency - Report by Global Security

Political Climate

Kosovo is a parliamentary republic, with the institutional and legal setup providing for an authoritarian Prime Minister and a strong executive. In December 2010, following a vote of no confidence in the government, Kosovo held its first general election since declaring independence. Incumbent Hashim Thaci's party, the Democratic Party of Kosovo (DPK), won the most votes. However, the election was marred by allegations of fraud, with some areas recording 94% voter turnout - highly implausible when compared to the national average of 48%. As a result, five municipalities held reruns in January 2011, and a coalition government was formed in February 2011 between the PDK, the New Kosovo Alliance (AKR) and minority parties. The European Commission 2012 Kosovo report states that there were 'serious shortcomings' in the electoral process and impunity regarding electoral fraud persists. A 2010 report by the Council of Europe, states that crime, corruption and politics are closely intertwined. With the region becoming more stable, former practices of ignoring some principles of justice to ensure short-term stability have become redundant. Thus, dealing with corruption in Kosovo has taken on greater importance for the international organisations, revealed in the more prominent role the European Union Rule of Law Mission in Kosovo (EULEX) is undertaking reflected in the rise from just one judgement in 2009 to 15 in 2010, according to the EULEX 2010 Judicial Annual Report.

The Anti-Corruption Strategy 2012-2016 was adopted in 2011. Firstly, the new Anti-Corruption Strategy recognises the failings of the previous strategy, namely the lack of political will. With this in mind, it hopes that by accompanying the strategy with a detailed and specific action plan the new strategy will be more successful in addressing the problem of widespread corruption. The aim is to address corruption using a comprehensive approach that will cover all of society, starting from the legislative, executive and judiciary to the private sector, media and other civil society organisations. The strategy also envisages civil society and public participation. In addition, as part of the government's anti-corruption efforts, the Anti-Corruption Task Force is the latest anti-corruption unit to be established by the government to combat corruption, following on from the creation of the Kosovo Anti-corruption Agency (ACA), the Office of Good Governance, and the Ombudsperson Institution. In August 2011, several new laws related to anti-corruption were adopted: the law on the declaration of assets for senior public officials and gifts for all public officials, a law on the protection of whistleblowers and a conflict of interest law, especially relevant for public procurement.

In recent years, Kosovo has achieved some progress in key structural reform areas, including public enterprise restructuring and law enforcement. Also, in order to reduce red tape and promote transparency in the regulatory processes, the government has launched several internet portals and has created one-stop shops to reduce propensity for corruption by reducing meetings between civil servants and companies. Furthermore, as emphasised by Transparency International's Global Corruption Report 2009, Kosovo has begun to move towards a somewhat more competitive political landscape, with the ability to penalise corrupt officials at the polls. Nonetheless, corruption remains pervasive, impeding business growth. For instance, in the Transparency International Global Corruption Barometer 2010/2011, political parties are identified as the area which is most affected by corruption in Kosovo, since 55% of the surveyed households assess it as 'extremely corrupt'. According to the same source, 57% of households believe that the government's fight against corruption is 'somewhat/very ineffective'. However, at the same time, the Global Corruption Report 2009 points out that despite high-level corruption scandals in Kosovo, corruption appears to be of both political and public salience, with competitive elections providing a check on malfeasance.

Business and Corruption

Over the past few years Kosovo's economy has shown significant progress in transitioning to a market-based system and maintaining macroeconomic stability, but it is still highly dependent on the international community and the diaspora for financial and technical assistance. Kosovo's citizens are the poorest in Europe, with an average GDP per capita of approximately USD 2,750. The major market challenges are: a small population with an underdeveloped and untrained workforce, unnecessary business requirements, weak judicial system, and a poor infrastructure, as cited in the US Commercial Services 2012. Kosovo's economic growth has been one of the highest in the region recently at 5% in 2011; however, the black market economy is estimated to account for between 30-40% of GDP. Economic growth has largely been driven by the private sector, mostly small-scale retail companies. In partnership with the business and private sector, Kosovo has been developing a modern and diverse economy that generates revenues, invests in strategic commercial infrastructure, provides business opportunities for SMEs, and attracts foreign investment, according to the US Commercial Service 2010. The government views foreign direct investment as essential to the country's economic development and prosperity. As a result, foreign companies operating in Kosovo are granted the same privileges as domestic companies.

However, despite a relatively liberal legal regime for foreign direct investment, corruption is one of the biggest obstacles to investment as shown by figures from the World Bank & IFC Enterprise Surveys 2009, where 73% of the companies surveyed identify corruption as a major constraint on doing business in Kosovo. A 2010 news article from The Economist corroborates this, stating that big foreign investors are discouraged from investing due to corruption. Anti-corruption efforts suffer from a lack of cohesive, forceful action and follow-through with punitive measures, as pinpointed by the US Commercial Service 2012. In addition, although some reforms have been implemented successfully, Kosovo still needs to address a multitude of issues to comply with international standards of good governance. As outlined by the World Bank 2010, these issues include improving the investment climate, improving public administration, reforming public financial management, notably in relation to tax administration, investment planning, procurement, and the civil service.

In Transparency International's Global Corruption Barometer 2010/2011, corruption within the business and private sector is perceived to be pervasive with 23% of respondents giving a score of 5 on a 5-point scale (1 'not at all corrupt' and 5 'extremely corrupt'). The actual occurrence of petty corruption is, however, not very high, with only 7.5% of the surveyed companies from the Enterprise Surveys 2009 expecting to make informal payments to public officials in order to 'get things done', compared to a regional average of 24.2% and the world's average of 25.3%. In addition, the same survey also shows that 10% of the surveyed companies state that they expect to give gifts in order to secure government contracts, with the average gift amounting to approximately 1% of the contract value. Companies are recommended to develop, implement and strengthen integrity systems and to conduct extensive due diligence when planning to invest and when already doing business in Kosovo.

Regulatory Environment

Public administration in Kosovo can be characterised as inefficient and subject to political interference, while the civil service lacks full transparency and accountability, despite the legal framework in place, as emphasised by the US Department of State 2009. This is supported by the EU Commission Progress Report 2011, according to which, public administration and the coordination capacity of public bodies in Kosovo continue to be weak, with limited reforms having taken place. The report recommends that ensuring the delivery of public services in Kosovo and establishing a professional, accountable, accessible and representative public administration, free from political interference should be a key priority for Kosovo. Regulatory authorities have been set up for all major industries in Kosovo, but their capacity remains weak. In several instances, the potential positive effects of liberalisation have not been able to materialise due to weak corporate governance, as suggested by the EU Commission Progress Report 2008. The Law on the Prevention of Conflicts of Interest and the Act on the Disclosure of Information by Public Agencies have been adopted as part of the government's anti-corruption programme to decrease public officials' susceptibility to bribery and corruption. Nonetheless, foreign investors and companies continue to cite corruption as a major obstacle to business growth in Kosovo.

Companies surveyed in the World Bank & IFC Enterprise Surveys 2009 report that senior management spends almost 10% of its time each year dealing with requirements of government regulation. In a similar vein, in Transparency International's Global Corruption Barometer 2010/2011, public officials/civil servants are identified as one of the most corrupt sectors in Kosovo - 21% of the surveyed households assess this sector as 'extremely corrupt'. With Kosovo continuing to establish regulatory institutions, the procedural transparency for obtaining permits and licenses can vary, according to the US Department of State 2012.

Kosovo's main sectors attracting foreign investment are transportation and hotel services, trade, the financial sector, the construction sector, processing, and consulting. According to Investment Promotion Agency of Kosovo (IPAK), a one-stop shop for investors under the Ministry of Trade and Industry, incentives such as custom duties exemption on exports and value-added-tax exemption on exports are granted to foreign investors and foreign SMEs in Kosovo. The Law on Foreign Investment protects foreign investments from expropriation, and guarantees due process and timely compensation payment for valid claims. Kosovo is a signatory of the Washington Convention 1965, which is an international convention regulating the mutual acceptance and enforcement of foreign arbitration. Kosovan law accepts binding international arbitration of investment disputes between foreign investors and the state. However, foreign companies should be aware that Kosovo's commercial court has jurisdiction over disputes involving shipping, intellectual property rights and unfair trade practices. The court's effectiveness has been undermined by extremely long delays in the adjudication of commercial court cases and poor enforcement of existing laws, as reported by the US Department of State 2012. Access the Lexadin World Law Guide for a collection of laws in Kosovo.

Section 3 - Economy

Kosovo's economy has shown progress in transitioning to a market-based system and maintaining macroeconomic stability, but it is still highly dependent on the international community and the diaspora for financial and technical assistance. Remittances from the diaspora - located mainly in Germany, Switzerland, and the Nordic countries - are estimated to account for about 15% of GDP and international donor assistance accounts for approximately 10% of GDP. With international assistance, Kosovo has been able to privatize a majority of its state-owned enterprises.

Kosovo's citizens are the poorest in Europe with a per capita GDP (PPP) of $8,000 in 2014. An unemployment rate of 31%, and a youth unemployment rate near 60%, in a country where the average age is 26, encourages emigration and fuels a significant informal, unreported economy. Most of Kosovo's population lives in rural towns outside of the capital, Pristina. Inefficient, near-subsistence farming is common - the result of small plots, limited mechanization, and a lack of technical expertise. Kosovo enjoys lower labour costs than the rest of the region. However, high levels of corruption, little contract enforcement, and unreliable electricity supply have discouraged potential investors.

Minerals and metals production - including lignite, lead, zinc, nickel, chrome, aluminium, magnesium, and a wide variety of construction materials - once the backbone of industry, has declined because of ageing equipment and insufficient investment. A limited and unreliable electricity supply is a major impediment to economic development, but Kosovo has received technical assistance to help improve the sector’s performance. In 2012, Kosovo privatized its electricity supply and distribution network. The US Government is cooperating with the Ministry of Economic Development (MED) and the World Bank to conclude a commercial tender for the construction of a new power plant, Kosovo C. MED also has plans for the rehabilitation of an older coal power plant, Kosovo B, and the development of a coal mine that could supply both plants.

In June 2009, Kosovo joined the World Bank and International Monetary Fund, and began servicing its share of the former Yugoslavia's debt. In order to help integrate Kosovo into regional economic structures, UNMIK signed (on behalf of Kosovo) its accession to the Central Europe Free Trade Area (CEFTA) in 2006. Serbia and Bosnia previously had refused to recognize Kosovo's customs stamp or extend reduced tariff privileges for Kosovo products under CEFTA, but both countries resumed trade with Kosovo in 2011. Kosovo joined the European Bank for Reconstruction and Development in 2012 and the Council of Europe Development Bank in 2013. In 2014, Kosovo concluded the Stabilization and Association Agreement negotiations (SAA) with the EU, focused on trade liberalization, and signed it into law in 2015. In 2015, Kosovo negotiated a $185 million Stand-by Arrangement (SBA) with the IMF following the conclusion of its previous SBA in 2014. The official currency of Kosovo is the euro, but the Serbian dinar is also used illegally in Serb majority communities. Kosovo's tie to the euro has helped keep core inflation low.

Kosovo experienced its first federal budget deficit in 2012, when government expenditures climbed sharply. In May 2014, the government introduced a 25% salary increase for public sector employees and an equal increase in certain social benefits. Central revenues could not sustain these increases, and the government was forced to reduce its planned capital investments. The government, led by Prime Minister MUSTAFA - a trained economist - recently made several changes to its fiscal policy, expanding the list of duty-free imports, decreasing the Value Added Tax (VAT) for basic food items and public utilities, and increasing the VAT for all other goods. In August 2015, as part of its EU-facilitated normalization process with Serbia, Kosovo signed agreements on telecommunications and energy distribution, but disagreements over who owns economic assets within Kosovo continue.

Agriculture - products:

wheat, corn, berries, potatoes, peppers, fruit; dairy, livestock; fish

Industries:

mineral mining, construction materials, base metals, leather, machinery, appliances, foodstuffs and beverages, textiles

Exports - commodities:

mining and processed metal products, scrap metals, leather products, machinery, appliances, prepared foodstuffs, beverages and tobacco, vegetable products, textiles and apparel

Exports - partners:

Italy 25.8%, Albania 14.6%, Macedonia 9.6%, China 5.5%, Germany 5.4%, Switzerland 5.4%, Turkey 4.1% (2012 est.)

Imports - commodities:

foodstuffs, livestock, wood, petroleum, chemicals, machinery, minerals, textiles, stone, ceramic and glass products, electrical equipment

Imports - partners:

Germany 11.9%, Macedonia 11.5%, Serbia 11.1%, Italy 8.5%, Turkey 9%, China 6.4%, Albania 4.4% (2012 est.)

Banking

Kosovo's financial sector has developed rapidly during the last six years, particularly in banking. The Central Banking Authority of Kosovo (CBAK), the successor of the Banking and Payments Authority of Kosovo, is a distinct public entity with the authority to license, supervise and regulate financial institutions in the territory of Kosovo. The CBAK has adopted banking rules and regulations that are in line with the Basel Accords and EU directives.

Kosovo uses the euro as its national currency, although the country is not a member of the European Central Bank.

Eight private commercial banks dominate Kosovo's financial sector, many of them foreign-owned, comprising around 80% of total financial assets. Insurance companies, pension funds and other financial intermediaries make up about 20% of the financial sector. At the end of 2009, financial sector assets amounted to EUR 2.1 billion, a 20% increase compared to the previous year.

Neither the banking sector nor local commercial enterprises are ready to finance large investment projects in the private sector. In the past three years, there has been little private investment in Kosovo, outside of housing reconstruction. About 80 percent of bank credits are short-term credits, which do not support long-term investments. Most of deposits are demand deposits.

Section 4 - Investment Climate

Executive Summary

The Republic of Kosovo, a province of the former Yugoslavia, declared independence from its neighbor to the north, Serbia, in 2008. Serbia does not recognize Kosovo as a state, although with the Brussels Agreement of 2013 it has accepted the legitimacy of Kosovo institutions. Kosovo is considered Europe's poorest country, as it was in prior times the least developed region of Yugoslavia. With a population of 1.8 million, a land-locked area 6,675 square miles, and virtually no industry, Kosovo is challenged by political instability, corruption -- practiced and perceived -- unreliable energy supply, a large informal economy estimated at 35 percent of GDP, and a lack of contract enforcement that create significant barriers to foreign investment.

Kosovo's official unemployment rate is 35.3 percent, although some estimates are as high as 45 percent. Unemployment levels for youth and first-time job seekers are considerably higher than the official rate. According to the World Bank, Kosovo's economy is characterized by: limited integration into the global economy; the success of its Diaspora in foreign labor markets resulting in a steady stream of remittances; pro-growth budgetary priorities; and continued international financial support.

Despite the challenges, Kosovo's relatively young population, low labor costs, and abundant natural resources have attracted some foreign investment in services such as parcel delivery and private security, with several international firms and franchises already present in the market. In 2015, Foreign Direct Investment (FDI) in Kosovo was estimated at €338 million, up from €151 million in 2014 and €280 million in 2013. Real estate and leasing activities have received the most FDI, followed by financial services and construction. The food, IT, infrastructure, and energy sectors are growing and could attract new FDI. Portfolio investment in 2015 totaled €1,388 billion, with equity securities of €1,086 billion and debt securities of €302 million.

The government has implemented several policies aimed at fostering sustainable, private-sector led growth that has improved the overall business climate. It adopted a new fiscal package in 2015 aimed at strengthening its public finances and attracting FDI. The Kosovo Investment and Enterprise Support Agency (KIESA) is Kosovo's official investment promotion agency, providing investment-support services to all potential investors. The KIESA website is available in English and can be accessed at: http://www.invest-ks.org/en/. In addition, the government and international donors created a Credit Guarantee Fund that will improve access to credit for businesses. With USAID assistance, the Ministry of Trade and Industry is working on improving its place on the World Bank's Doing Business index.

Table 1

Measure	Year	Index or Rank	Website Address
TI Corruption Perceptions index	2015	103 of 168	transparency.org/cpi2015/results

World Bank's Doing Business Report "Ease of Doing Business"	2016	66 of 189	doingbusiness.org/rankings
Global Innovation Index	2015	N/A	globalinnovationindex.org/content/page/data-analysis
U.S. FDI in partner country ($M USD, stock positions)	2014	$84 million	IMF
World Bank GNI per capita	2014	$4,000	data.worldbank.org/indicator/NY.GNP.PCAP.CD

Millennium Challenge Corporation Country Scorecard

The Millennium Challenge Corporation, a U.S. Government entity charged with delivering development grants to countries that have demonstrated a commitment to reform, produces scorecards for countries with a per capita gross national income (GNI) of $4,125 or less. The MCC generally rates Kosovo as "green" in all areas (Control of Corruption, Democratic Rights) with particular challenges ("red") in the areas of rule of law, fiscal policy, trade policy, and natural resource protection. A list of countries/economies with MCC scorecards and links to those scorecards is available here: http://www.mcc.gov/pages/selection/scorecards. Details on each of the MCC's indicators and a guide to reading the scorecards are available here: http://www.mcc.gov/pages/docs/doc/report-guide-to-the-indicators-and-the-selection-process-fy-2015.

1. Openness To, and Restrictions Upon, Foreign Investment

Attitude toward Foreign Direct Investment

To the extent that Kosovo has laws impacting foreign investment, they are nascent and untested. The Prime Minister's Office, Ministry of Trade and Industry (MTI) through its Kosovo Investment Enterprise and Support Agency (KIESA), Ministry of Finance, and the Ministry of Economic Development – actively promote foreign direct investment and welcome expansion of the private sector. However, the lack of government coordination is a hurdle to some projects.

Other Investment Policy Reviews

The World Bank Group has published an "Ease of Doing Business 2016" report for Kosovo. Additionally, in late 2014, the NGO "RIINVEST Institute" and the European Union issued "Business Climate for Kosovo, A Cross Regional Perspective" which identified mid-term opportunities and risks. The report, as well as several other sector-specific reports on investment opportunities, is available in English at: http://www.riinvestinstitute.org/index.php?gjuha=al&action=category&cid=3

As a new country, Kosovo has not undergone any investment policy reviews by OECD, WTO, or UNCTAD.

Laws/Regulations on Foreign Direct Investment

The legal system in Kosovo has three layers of legislation operating simultaneously -- laws enacted by the former Yugoslavia through 1989, regulations issued by the United Nations Interim Administrative Mission in Kosovo (UNMIK) in the aftermath of the NATO military intervention (1999-2008), and laws passed by the Kosovo Assembly since its inception in 2002. With international assistance, Kosovo has been moving towards a legal structure that meets European standards. These efforts are likely to intensify in accordance with the April 1, 2016 entry into force of the EU's Stabilization and Association Agreement (SAA).

Although the legislative framework for a market-oriented economy is in place, a lack of experience owing to the communist Yugoslavia legacy, poor enforcement, a nascent modern judiciary, and uncertainties regarding legal recognition of foreign arbitral awards, hinder economic growth and investment. To address these challenges, the U.S. Government and the EU have been providing technical assistance aimed at improving Kosovo's judiciary. Licensed private enforcement agents began assisting enforcement of judicial decisions in 2014; they have had moderate success in executing collections on non-performing loans.

The Law on Foreign Investment, passed by the Assembly in late 2013, further improves the legal infrastructure and helps address inconsistencies in current legislation that unduly discourage foreign investment. All sectors of the Kosovo economy are open to foreign investment. The Kosovo Assembly and UNMIK, which governed Kosovo until 2008 under UN Security Council Resolution 1244, have passed pro-business legislation that specifically seeks to attract foreign investment. Under Kosovo law, foreign firms operating in Kosovo are granted the same privileges as local businesses, with this national security exception: foreign investors may not hold more than 49 percent ownership in a business producing or selling military-related products (Reg. No. 2001/3, Section 6).

In 2011, the government took substantive steps to further open Kosovo to foreign investment through the passage of the Public Private Partnership (PPP) Law, which was harmonized with European Council regulations and EU Acquis Communitaire. The law creates separate definitions for concessions and PPPs, resulting in FDI transactions being structured more flexibly. Certain constraints have been removed, such as limits on the length of investment projects and a provision allowing unsolicited proposals, which could have allowed procurement outside a competitive bidding process. In 2015, the Assembly passed amendments to the Public Procurement Law mandating electronic procurement to improve transparency and reduce the risk of corruption.

In September 2015, amended tax laws intended to improve the business climate entered into force. The laws authorize tax breaks for new investments, and are expected to enter into force in 2016 once the necessary sub-legal acts are in place. The government is also drafting a Strategic Investment Law which would enable fast-track negotiations with strategic investors and bypassing current procurement practices.

The courts are perceived as being influenced by the executive branch. USAID, the U.S. Department of Justice, EU Rule of Law Mission in Kosovo (EULEX), and other international partners have been working to reform the judicial system by assisting the local institutions with court reform and decentralization. In addition, USAID is implementing programs to improve contract enforcement and property rights.

Kosovo's commercial laws are available to the public in Kosovo's official languages (Albanian and Serbian), as well as English. They can be found on the Kosovo Assembly's website at: www.assembly-kosova.org/?cid=2,191 and on Official Gazette website at: http://gzk.rks-gov.net/default.aspx.

Business Registration

The Kosovo Business Registration Agency (KBRA) under the Ministry of Trade and Industry registers all new businesses, closes businesses, and modifies business data. The KBRA website is available in English and can be accessed through the following link: http://www.arbk.org/en/. Business registration must be submitted in person at a KBRA center. Application documents and instructions can be downloaded from the website. Successful applicants will receive a business-registration certificate, the business-information document, and a fiscal number. New businesses must register employees for tax and pension programs with the Tax Administration under the Ministry of Finance. Business registration takes one day for an individual business and up to three days for joint ventures. A notary is not required when opening a new business unless the business registration also involves transaction of real property.

The Kosovo Investment and Enterprise Support Agency (KIESA) is the official investment promotion agency, providing investment-support services to all potential investors. The KIESA website is available in English and can be accessed at: http://www.invest-ks.org/en/.

Enterprises with up to nine employees are classified as micro enterprises; 10-49 employees are small enterprises; and 50-249 employees are medium enterprises. Per the amended Law on Support to Small and Medium Enterprises, KIESA offers support to both domestic and foreign-owned micro, small, and medium enterprises (MSMEs), without any specific criteria. Such services include voucher programs for training and advisory services, one-stop-shops for foreign companies to facilitate investment, assistance to female business owners, and provision of business spaces with complete infrastructure at industrial parks at minimal costs.

Industrial Promotion

Kosovo does not yet have a comprehensive industrial policy/investment program. KIESA promotes ICT, agribusiness, tourism, mining, and energy as potential sectors for investment. It does so by publishing information on its website, attending tradeshows and conferences in Kosovo and abroad, and organizing workshops with local and foreign companies.

Limits on Foreign Control and Right to Private Ownership and Establishment

Foreign and domestic private entities have the right to establish and own business enterprises, and engage in all forms of remunerative activity. Kosovo legislation does not interfere with the establishment, acquisition, or sale of interests in enterprises by private entities. Under Kosovo law, foreign firms operating in Kosovo are granted the same privileges as local businesses except in the production and selling of military related-goods, where foreign firms cannot hold more than 49 percent of ownership (Reg. No. 2001/3, Section 6). Foreign investors can receive private ownership rights. Foreign investment is not subject to approval by the government, except when such approval would be required for similar domestic businesses. The following rights also apply:

a. Foreign investors may transfer property rights, including permits, to other legally-qualified persons in the same manner and to the same extent as domestic investors;

b. Foreign investors have the right to purchase residential and non-residential property to the same extent as domestic entities;

c. Foreign investors with less than a majority stake in an investment are protected as domestic minority shareholders in accordance with applicable law;

d. Foreign investments are subject to the same tax obligations as domestic businesses; and

e. Foreign investors may establish subsidiary enterprises, branches, and representative offices in the same manner and to the same extent as domestic businesses.

The U.S. Embassy has heard no reports of sector-specific restrictions. There are no licensing restrictions particular to foreign investors and no mandatory domestic partners for joint ventures.

Privatization Program

Since the early 2000s the government has been progressively privatizing the assets of hundreds of former socially-owned enterprises (SOEs) that were a legacy of the communist regime. These "SOEs" are legally distinct from the more commonly-known entities sharing this acronym, "State-owned enterprises". The Privatization Agency of Kosovo (PAK), an independent agency, is legally mandated to handle the disposition of Kosovo's SOE assets. As of February 2016, PAK has created a trust fund of over €660 million from the sale of approximately 400 SOEs. The privatization process is open to foreign investors and follows Kosovo's public procurement procedures. Despite this, bidding processes often have been criticized in the media as non-transparent and illegal. Kosovo's Law on Publically Owned Enterprises (POEs) was amended in 2015 to give the government authority to transform current socially-owned enterprises to government-controlled "POEs" (e.g. entities that are known in the rest of the world as State-owned enterprises, or SOEs).

Screening of FDI

Kosovo laws do not require FDI to be screened, reviewed, or approved. However, the lack of predictability in government processes creates uncertainty, allows for abuse and corruption, and permits the politicization (or appearance thereof) for many private investments.

Competition Law

The Law on Competition and Law on Antidumping and Countervailing Measures were adopted in 2010 and amended in 2014. The Competition Authority, established in 2008 and consisting of four members and a chairperson appointed by the Assembly, is in charge of implementing these laws, as well as the Law on Consumer Protection. However, the Authority has been nonfunctional since November 2013 due to the expiration of its members' mandates and a prolonged delay by the Assembly in appointing new members. In April 2016, the government approved a slate of candidates, who must be approved by the Assembly.

2. Conversion and Transfer Policies

Foreign Exchange

Kosovo adopted the euro in 2002; however, it is not an official Eurozone member. The Foreign Investment Law guarantees unrestricted use of income from foreign investment following payment of taxes and other liabilities. This guarantee includes rights for transfers to other foreign markets or foreign-currency conversions, which must be processed in accordance with EU banking procedures. Conversions are made at the market rate of exchange. Foreign investors are permitted to open bank accounts in any currency.

Remittance Policies

Remittances are an important source of finance for at least 43 percent of Kosovo's population, representing over 12 percent of GDP (or over €700 million) in 2015. The majority of remittances come from Kosovo's diaspora in European countries, especially Germany and Switzerland. The Central Bank reports remittances are mainly used for personal consumption, not for investment purposes.

3. Expropriation and Compensation

Articles 7 and 8 of the Foreign Investment Law protect foreign investments from expropriation that is not in the public interest. They guarantee due process and timely compensation payment based on fair market prices. UNMIK approved the addition of an eminent domain clause to Kosovo's expropriation regulations in April 2005 to curtail lawsuits arising from the expropriation and sale of property through the privatization of socially-owned enterprises.

The Law on Expropriation of Immovable Property permits the expropriation of private properties by the government or municipalities when such action is in the public interest. In the mining sector, the expropriation of properties is conducted through the Resettlement Framework Policy, which the government drafted with World Bank support.

4. Dispute Settlement

Legal System, Specialized Courts, Judicial Independence, Judgments of Foreign Courts

Kosovo has a civil legal system. Ownership of property and contracts are enforced according to relevant legislation. The Law on Enforcement Procedures permits claimants to utilize bailiffs licensed by the Ministry of Justice to execute court-ordered judgments. The 2012 Law on Obligations repeals the former Yugoslav Law on Obligations and provides the basic legal framework for contracts and torts. In addition, the government adopted Laws on Arbitration and Mediation in 2007, and later harmonized these laws with the Law on Contested Procedures. These have all addressed key impediments to enforcing arbitral awards.

In 2011, the Kosovo Assembly passed three laws of particular importance to privatization matters: the Law on the Privatization Agency of Kosovo, Law on the Reorganization of Certain Enterprises and their Assets (the "Trepca Law"), and Law on the Special Chamber of the Supreme Court of Kosovo. Comprised of 13 international and seven local judges, the Special Chamber adjudicates disputes and claims related to privatization and economic restructuring. It has primary jurisdiction over appeals against decisions of the Privatization

Agency of Kosovo (PAK), claims arising from the privatization and liquidation of SOEs, and creditor, ownership, and property claims brought against SOEs and POEs. The procedures for claimants wishing to institute proceedings are detailed in the PAK Law.

Significant legislation overhauling the 2004 UNMIK-based Criminal Code and the Criminal Procedure Code went into force in 2013. This legislation brought Kosovo’s Criminal Law in compliance with the EU Convention on Human Rights and updated definitions and best practices. The Criminal Code contains penalties for tax evasion, bankruptcy, fraud, intellectual property offenses, antitrust, securities fraud, money laundering, and corruption offenses.

The Law on Courts also changed the structure and jurisdiction of the Commercial Court, creating a Department for Commercial Matters within the Basic Court of Pristina that has jurisdiction for the entire territory of Kosovo and a Department within the Court of Appeals. The Court’s jurisdiction changed to specifically include “disputes between domestic and foreign economic persons in their commercial affairs.” It also includes reorganization, bankruptcy, and liquidation of economic persons; disputes regarding impingement of competition; and protection of property rights and intellectual property. The Department for Commercial Matters has jurisdiction over economic disputes between both legal and natural persons. Commercial cases take on average six months to one year to resolve. The Court of Appeals also includes a Commercial Matters Department and addresses all appeals coming from the Pristina Basic Court’s Department for Commercial Matters.

Kosovo’s judicial system, although improving, still suffers from many weaknesses. The judicial branch is perceived as being influenced by the executive branch. Local courts recognize foreign arbitral awards, but not foreign court awards. Enforcement is weak and time-consuming. There are no specialized courts that have standing to hear intellectual property claims, and Kosovo’s judiciary lacks the subject-matter expertise to effectively handle complex economic issues.

Bankruptcy

Bankruptcy is criminalized under the Criminal Code. In the World Bank's 2016 Doing Business report, Kosovo ranked 163 out of 171 in addressing insolvency. A new Law on Bankruptcy is with the Assembly and is expected to improve the commercial legislation.

Investment Disputes

Article 16 of the Foreign Investment Law assigns exclusive jurisdiction for business dispute resolution to domestic courts. Foreign investors are free, however, to agree upon arbitration or another alternative dispute resolution mechanism. There have been no investment disputes involving U.S. citizens or companies over the last 10 years.

International Arbitration

Since 2011, arbitration services have been available at arbitral tribunals within the Kosovo Chamber of Commerce and American Chamber of Kosovo. Kosovo’s Arbitration Rules are a set of model rules based on the 2010 United Nations Commission on International Trade Law (UNCITRAL) Model Rules for Commercial Arbitration. They are consistent with international best practices. The Law on Foreign Investment also favors the use of arbitration. To access this option, the law requires the disputed agreement/contract include an arbitration clause.

In addition, in accordance with the Law on Mediation, the Ministry of Justice has established a Mediation Commission, which has adopted the necessary rules to create mediation services and has trained and certified several mediators. For more information, visit http://www.kosovo-arbitration.com/en.

ICSID Convention and New York Convention

In 2009, Kosovo became a party to the International Center for Settlement of Investment Disputes (ICSID) Convention and has incorporated the Convention into national law. The Foreign Investment Law stipulates that investors may utilize the following alternative dispute resolution mechanisms:

a. The ICSID Convention if both the foreign investor's country of citizenship and Kosovo are parties to said convention at the time of the request for arbitration;

b. The ICSID Additional Facility Rules if the jurisdictional requirements for personal immunities per Article 25 of the ICSID Convention are not fulfilled at the time of the request for arbitration;

c. The United Nations Commission on International Trade Law Rules. In this case, the appointing authority referred to therein will be the Secretary General of ICSID; or

d. The International Chamber of Commerce Rules.

Kosovo is not a signatory to the Convention on Recognition and Enforcement of Foreign Arbitral Law (New York Convention). However, Kosovo's courts do nonetheless recognize international arbitration awards.

Duration of Dispute Resolution – Local Courts

The court system has a backlog of cases mostly related to utility bills and loan collections. These cases often take months or years to resolve. Following finalization of a judgment by a court, the execution of a judgment is often lengthy and problematic. The Law on Enforcement Procedures has slightly improved execution of court decisions through the private bailiff system. Foreign investors are litigants in approximately 10 percent of the cases, most of which are trademark cases.

5. Performance Requirements and Investment Incentives

WTO/TRIMS

Kosovo is not a World Trade Organization (WTO) member, but plans to apply for observer status in 2016.

Investment Incentives

The government’s new fiscal package entered into force in September 2015, replacing a 16 percent flat rate of value added tax (VAT) with an eight percent rate on basic goods and 18 percent for all other items. VAT was eliminated on production line expenses, raw materials, machinery used in production, and for the purchase of IT equipment. An administrative instruction granting tax holidays for new investments is expected to enter into force in the first half of 2016.

To encourage investment, the government grants businesses certain VAT-related privileges, such as a six-month VAT deferment upon presentation of a bank guarantee for companies importing capital goods. Suppliers may export goods and services without being required to collect VAT from foreign buyers. A Customs internal administrative instruction reduces the number of documents required for export and import. Only two documents are needed to export – a commercial invoice and a customs export declaration – and only three are now required to import – a commercial invoice, a customs import declaration, and a certificate of origin. Suppliers may claim credit for taxes on inputs by offsetting those taxes against gross VAT liabilities or claiming a refund. Kosovo's flat corporate tax of 10 percent helps attract FDI.

Building on the amended law on Publicly-Owned Enterprises and in another attempt to boost investment, the government is working on a new law on strategic investment through which the government can transfer ownership of lands under administration of PAK to the state and offer it to strategic investors. If approved, the law will enable the government to directly negotiate with potential strategic investors, without going through tendering procedures.

Research and Development

Kosovo has no government financed and/or subsidized research and development programs.

Performance Requirements

Kosovo does not specify performance requirements as a condition for establishing, maintaining, or expanding investments. There are no onerous requirements that would inhibit the mobility of foreign investors or their staff. There are no conditions on permissions to invest, and the government does not mandate local employment.

Data Storage

Depending on the tender, there may be requirements for foreign IT providers to turn over source code and/or provide access to surveillance. Kosovo complies with international best practices for such requirements and does not have a standard policy for such requests. Similarly, Kosovo does not yet have standard rules on data storage, but the government follows international best practices. The Agency for Information Society is charged with storage of government-level data, and other institutions store their respective data as well.

6. Protection of Property Rights

Real Property

Property rights are enforced based on the Law on Property and other Real Rights, adopted in 2009. The law defines security interests on property as a pledge used over tangible/intangible assets except on immovable property, and a mortgage as a pledge used only over immovable property and personal guarantees. Mortgage agreements must be registered with municipal cadastral offices. Pledge agreements must be registered with the pledge registry that is a centralized registry office in the Business Registration Agency. Personal guarantees do not need to be registered.

Generally, Kosovo's de jure property-related laws are well structured and provide for security and transferability of rights. The country's legal and regulatory framework is complex. Although general agreement exists that many of Kosovo's property laws reflect international best practice, the pluralistic legal environment would benefit from harmonization. Government ministries, municipal authorities, and independent agencies often have overlapping jurisdictions, and the court system is backlogged with property-related cases. Many cadastral records were destroyed, lost, or moved out of the country in 1999 (see below), though the registry is being rebuilt. Issues with records limit the development of the formal property market needed for more stable economic growth. Concerns about restitution of property and the privatization of SOEs have not yet been fully resolved, and issues related to the rights of minority communities sometimes lead to inter-ethnic tensions.

Resolution of residential, agricultural, and commercial property claims remains a serious and contentious issue in Kosovo. Most property records were destroyed or removed to Serbia by the Serbian government during the 1998-1999 conflict, making determination of rightful ownership for the majority of properties complex. Cases of multiple ownership claims on a single property with each claimant presenting a variety of ownership documents as proof are common. The EU-facilitated Kosovo-Serbia dialogue process is helping address the cadastral records taken from Kosovo. The Kosovo Property Agency (KPA), formerly the Housing and Property Directorate (HPD), has the authority to receive, register, and resolve property claims on private immovable property, including agricultural and commercial property. Decisions taken by the Kosovo Property Claims Commission within the KPA are subject to a right of appeal to the Supreme Court. KPA has received 42,696 total claims, of which 37,645 relate to agricultural property. The KPA is also mandated to deal with a limited number of activities that formerly belonged to the UNMIK-era HPD and to implement decisions of the Housing and Property Claims Commission (HPCC) pending enforcement. Legislation currently in the National Assembly will transform the KPA into the Kosovo Property Comparison and Verification Agency with the additional mandate of implementing the EU dialogue agreement on cadastral records. The KPA is expected to complete adjudication of all claims by the end of 2016, and is preparing to transfer its mandate to the new agency once it is approved by the Assembly.

In an attempt to better identify owners of agricultural lands, the government conducted an agricultural census in November 2014, over 50 years after the last such census took place. The Kosovo-Serb northern municipalities did not participate. The results show 413,635 hectares of agricultural land in use, of which 405,429 are in use by agricultural households and individual businesses and the rest by legal persons. The government is currently negotiating with the northern municipalities to incorporate their data into the national census.

The World Bank's Doing Business report noted Kosovo made transferring property easier in 2014 by introducing a new notary system and combining procedures for drafting and legalizing sale and purchase agreements, while mitigating these improvements by increasing the fee for the registration of property transactions.

Intellectual Property Rights

Resources for Rights Holders

The Law on Patents, Law on Trademarks, Law on Industrial Design, and Law on Geographical Indices together with the relevant Criminal Code provisions, provide for strong protection of intellectual property rights, authorize enforcement of trademark, copyright, and patent laws, and comply with related international conventions. The IPR laws were amended in 2015 to strengthen legal remedies for right holders and to further align them with the EU standards. MTI established the Industrial Property Rights Office (IPO) in 2007, which is tasked with IPR protection. The 1981 Yugoslav Law on Protection of Inventions, Technical Improvements, and Distinctive Signs, and the 1991 Law on Authors Rights are also considered applicable laws in Kosovo's courts. These laws adhere to international treaties and conventions, such as the Paris Convention, Madrid Protocol, Trade-Related Aspects of Intellectual Property Rights (TRIPS) Agreement, Budapest Treaty, and several European Council Directives on protection of IPR.

To enhance IPR enforcement and increase inter-agency coordination, the government has adopted an IPR strategy, and established the National Intellectual Property Council and a Task Force Against Piracy. The Council and the Task Force have similar structures and are comprised of the IPO, the Copyright Office, Customs, Kosovo Police Departments for Economic and Cyber Crimes, Market Inspectorate, and the Ministry of Justice. The Council also includes the Kosovo Prosecutorial Council, courts, and other government and non-governmental institutions.

Registration of intellectual property is based on regional and international practices. A trademark registration process takes approximately nine months to be completed, while patents take about 18 months. Public awareness on the importance of brand protection and associated IPR is low. A number of counterfeit consumer goods, notably CDs, DVDs, and clothing items, are available for sale and are openly traded. The government tracks and reports on seizures of counterfeit goods. In 2013, the government began implementing an anti-piracy awareness campaign resulting in the confiscation of more than 40,000 pirated materials and initiation of several criminal procedures. Customs reported confiscation of counterfeit goods valued at over €1.3 million and the initiation of six court cases in 2015.

Evidence suggests there is little domestic production of counterfeit goods in Kosovo, but the importation of counterfeit goods, especially apparel, is a concern. IPR protections are improving slowly, limited by a persistent lack of awareness among the public and judicial system.

Kosovo is not listed in USTR's Special 301 report. Kosovo is not a WIPO member. There is no WIPO profile for Kosovo.

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The American Chamber of Commerce in Kosovo's website is: www.amchamksv.org.

Embassy Pristina's list of attorneys is available at: http://pristina.usembassy.gov/attorney_information.html.

7. Transparency of the Regulatory System

The Law on Public Procurement devolves the power of procurement to budgetary units (i.e., ministries, municipalities, and independent agencies) except when the government authorizes the Ministry of Finance's Central Procurement Agency to procure goods and/or services on its behalf. All tenders are advertised in Albanian and Serbian, as well as in English in cases of large tenders. The Public Procurement Regulatory Commission (PPRC) initiates procurement audits of the various Kosovo ministries, municipal authorities, and agencies receiving funds from the Kosovo consolidated budget. In 2015, the law was amended to mandate the use of electronic procurement as a means of increasing transparency in tendering procedures. All legal, regulatory, and accounting systems in Kosovo were created in line with EU standards and international best practices. Publicly listed companies comply with international accounting standards. Draft laws are published on the Assembly website and distributed to stakeholders; public hearings on proposed laws are also held, including for investment laws.

The Embassy is not aware of any allegations by U.S investors of informal regulatory processes discriminating against foreign investors. Private-sector associations and non-governmental organizations do not manage informal regulatory processes.

Public procurement practices in Kosovo are still being reformed. While the government seeks transparency, international companies competing in high-value public procurement projects have reported numerous irregularities. Some procurement managers in Kosovo's budgetary units have been indicted for corruption. Few private-sector associations and non-governmental organizations serve as watchdogs or organize stakeholder input on regulatory processes.

The government publishes the rules, regulations, and procedures for tenders on the Public Procurement Regulatory Commission (PPRC) website at: http://krpp.rks-gov.net/Default.aspx?LID=2.

Public procurement appeals are managed by the Public Procurement Review Body (PPRB). Kosovo is not listed on www.businessfacilitation.org and it is not a member of UNCTAD.

8. Efficient Capital Markets and Portfolio Investment

Kosovo uses the Euro, although not a member of the Eurozone. In the absence of an independent monetary policy, prices are highly responsive to market trends in the larger Eurozone. The Central Bank of Kosovo (CBK) is an independent government body responsible for fostering the development of competitive, sound, and transparent practices in the banking and financial sectors. It supervises and regulates Kosovo's banking sector, insurance industry, pension funds, and micro-finance institutions. The CBK also performs other standard central bank tasks, including cash management, transfers, clearing, management of funds deposited by the Ministry of Finance and other public institutions, collection of financial data, and management of a credit register. The regulatory system is in line with EU directives and international standards. There are no restrictions beyond normal regulatory requirements related to capital sourcing, fit, and properness of the investors. The CBK has taken all required measures to improve policies for the free flow of financial resources. Requirements under the SAA with the EU oblige the free flow of capital. The government respects the IMF's Article VIII. Kosovo has an open-market economy, and the market determines interest rates. Individual banks implementing risk-profile analysis conduct credit allocation by financial institutions.

The Law on the Establishment of the Kosovo Credit Guarantee Fund was adopted in December 2015 to improve access to finance for MSMEs. The Fund will become operational in the first half of 2016. It has received funding commitments of approximately €12 million from donors and the government, including $6.5 million from USAID.

Money and Banking System, Hostile Takeovers

As of the beginning of 2016, Kosovo has 10 commercial banks and 15 licensed insurance companies. Access to credit for the private sector is improving although still limited. Interest rates imposed by commercial banks and micro-financial institutions have slowly declined but remain high compared to most developed banking sectors.

Kosovo's private banking sector remains well-capitalized and profitable. Difficult economic conditions, weak contract enforcement, and a risk-averse posture have limited banks' lending activities, although marked improvement occurred in the past two years. Their cautious approach is evident in banks' excess reserves, which are above the minimum level required by the CBK. Total assets of the three largest banks, which are international, amount to 64.3 percent of Kosovo's entire banking sector assets, which by December 2015 stood at €3.39 billion. As of December 2015, the lending activities of commercial banks increased at an annual rate of 7.3 percent, indicating a much faster pace of growth compared to the rate of 4.2 percent in 2014. According to the CBK, this growth was due to banks' relaxation of lending terms and conditions for households and businesses, a decrease in interest rates, and an increase in bank liquidity.

Approximately 66 percent of all lending activity is with commercial businesses. Despite positive trends, relatively little lending is directed toward long-term investment activities. High interest rates (averaging approximately 7.7 percent) and collateral requirements act as disincentives to borrowers. Slower lending is notable in the northern part of Kosovo due to a weak judiciary, informal business activities, and fewer qualified borrowers.

There are no restrictions for foreigners to open bank accounts, and they can do so upon submission of valid ID documentation. Kosovo is a signatory country to the United States' Foreign Account Tax Compliance Act (FATCA) aimed at addressing tax evasion by U.S. citizens or permanent residents with foreign bank accounts. For more information, visit the FATCA website: https://www.irs.gov/Businesses/Corporations/Foreign-Account-Tax-Compliance-Act-FATCA.

Under the Law on Business Organizations, Law on Foreign Investment, and Law on Obligational Relationships, rules for hostile takeovers are applied in a non-discriminatory manner.

9. Competition from State-Owned Enterprises

Kosovo has 61 remaining state-owned enterprises (SOE), 44 of which are municipality managed. These SOEs are primarily in the central heat, waste, and water sectors. The Ministry of Economic Development monitors their operations and publishes a list of SOEs at: http://mzhe.rks-gov.net/.

The majority of Kosovo's SOEs operate at a loss and need government subsidies to survive. A few, such as Kosovo Telecom and the Kosovo Energy Corporation (KEK), generate profits. SOEs do not receive a larger percentage of government contracts in sectors that are open to foreign competition, and they purchase goods and services from the private sector, including international firms.

Kosovo is not a WTO member and does not have a Government Procurement Agreement in place. Private companies can compete with SOEs in terms of market share and other incentives in relevant sectors. There are no state-owned banks, development banks, or sovereign funds in Kosovo. State-owned enterprises are subject to the same tax laws as private companies. They do not receive material advantages and are not subject to hard budget constraints. The percentage of expenditures SOEs allocate to research and development (R&D) is unavailable.

OECD Guidelines on Corporate Governance of SOEs

Kosovo exercises ownership over SOEs through the Law on Publicly-Owned Enterprises, which mirrors OECD principles of corporate governance. The law classifies these enterprises into central- and local-level institutions. The government exercises shareholder rights by appointing the boards of central SOEs, while municipalities appoint boards of the local ones. The Ministry of Economic Development implements government decisions related to central SOEs. Municipal shareholder committees implement municipal decisions related to local SOEs. Appointment of boards and senior executives in both central and local SOEs is largely based on political patronage, with little consideration of qualifications. All SOEs are required to adopt a mandatory code of ethics and corporate governance, while all directors must complete an annual training course on corporate governance. SOEs must submit annual reports and are subject to external audits. SOEs are generally perceived as corrupt and nepotistic by third parties due to their political and governmental ties, and they are often overstaffed and inefficiently run. Court cases involving SOEs are often delayed by the large judicial backlog. Decisions are not made public.

Sovereign Wealth Funds

Kosovo does not have sovereign wealth funds.

10. Responsible Business Conduct

There is marginal awareness of expectations for Responsible Business Conduct (RBC), with very few businesses engaged in the issue. However, with a growing number of foreign investors, the topic of RBC has begun to surface in public discussions. AmCham Kosovo has been a leader on RBC issues, establishing the Corporate Social Responsibility (CSR) Network in 2011. With the exception of some existing legislation dealing to a limited extent with environmental, social, and governance aspects (corporate governance and financial accountability), there has not been a campaign on the part of the government to promote and encourage RBC. A small number of investors have embraced CSR through the establishment of sector-related vocational training programs that pull from the University of

Pristina student body. Upon completion of coursework and internships, students are offered permanent jobs in the respective sectors.

The government does not factor RBC principles into procurement decisions, and in most cases, tenders are awarded to the economic operator with the lowest price offer and highest technical score. Kosovo has not witnessed any major cases of corporate impact on human rights. There are occasional complaints and media reports on the health of citizens living near the power plant endangered due to high levels of pollution, but no significant actions have been taken. There is sound legislation protecting individuals from adverse business impacts, such as the Law on Consumer Protection, but implementation is limited. The government has not undertaken any significant action to raise awareness on consumer rights.

The Law on Business Organizations, which will address corporate governance structures and regulations, is currently being amended. The new corporate governance structures foreseen in the law will give greater protection to shareholders, but also demand greater responsibility. The Embassy is not aware of any executive compensation standards to protect shareholders.

Companies generally are not required to make a public disclosure of related policies, procedures, or practices. However, if a company is registered as a joint stock company, there are added responsibilities for the documentation of policies, procedures, and practices related to financial reporting and auditing. AmCham is one of the few business associations actively promoting RBC and CSR concepts, mainly through awareness raising. In the past few years, AmCham has organized a number of round tables and workshops in an effort to bring RBC principles to the forefront of discussions. AmCham and other entities engaged in RBC issues are able to advocate and monitor freely.

Kosovo does not adhere to the OECD Guidelines for Multinational Enterprises, and there are no domestic transparency measures requiring the disclosure of payments made to governments for projects related to the commercial development of oil, natural gas, or minerals. Kosovo does not participate in the Extractive Industries Transparency Initiative (EITI).

11. Political Violence

Since the summer of 2015, three opposition parties have repeatedly disrupted the Assembly's work and attacked government officials and institutions with tear gas, eggs, stones, and Molotov cocktails. While their official demand is for Kosovo to rescind an EU-brokered agreement with Serbia to establish an association comprised of Kosovo Serb municipalities and a border demarcation agreement with Montenegro, their primary goal is to force the resignation of the governing coalition (whose parties won a two-thirds majority in parliament in June 2014) and bring about early elections. They also held three demonstrations in Pristina, one of which degenerated into violence as protestors vandalized the government building and clashed with the police. Despite the disruptions, the Assembly has continued to legislate and elected the new president of Kosovo in February.

12. Corruption

Kosovo has enacted strong legislation to combat corruption, but the government has thus far been unsuccessful in efforts to investigate, prosecute, jail, and confiscate the assets of corrupt individuals. The Anti-Corruption Agency and the Office of Auditor General are government agencies mandated to fight corruption. The Law on Prevention of Conflict of Interest and Discharge in Public Function as well as the Law on Declaration, Origin, and Control of Property of Public Officials are intended to combat nepotism. They require senior public officials and their family members to disclose their property and its origins. The Criminal Code also punishes bribery and corruption; however, corruption remains widespread. The Embassy is unaware of any government activity to encourage private companies to establish internal codes of conduct.

The government recently completed a draft law on Combating Money Laundering (AML). The law is EU-compliant and is expected to be presented for government approval in 2016 before moving to the Assembly for approval. Laundering is most prevelent in the construction, petroleum, and gambling sectors. Kosovo's Financial Intelligence Agency (FIU) is an independent governmental agency that leads efforts to investigate economic crimes.

U.S. companies operating in Kosovo adhere to FCPA requirements, but the Embassy is unaware of any local company that has internal control systems to detect and prevent corruption. Kosovo participated in 2013 as an observer member in the anti-corruption conference organized by the United Nations Convention against Corruption (UNCAC), and has attended several international conferences on anti-corruption with the support of the Council of Europe and UNDP. Kosovo's laws protect NGOs that investigate corruption. Corruption is most wide-spread in public procurement and is recognized by both local and international businesses as one of Kosovo's largest obstacles to attracting investment.

UN Anticorruption Convention, OECD Convention on Combatting Bribery

Kosovo is not a UN or OECD member, and it is not a signatory to these anti-corruption conventions. Kosovo is seeking membership in both organizations.

Resources to Report Corruption

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13. Bilateral Investment Agreements

Kosovo signed Free Trade Agreements (FTA) with Albania and Macedonia in 2003 and 2005 respectively. In 2006, Kosovo (with UNMIK's assistance) signed FTAs with Croatia and Bosnia-Herzegovina; it also became a signatory to the Central European Free Trade Area (CEFTA) and the EU Common Aviation Area. CEFTA came into force in July 2007. By September 2007, all signatories ratified the agreement, including Serbia. CEFTA signatories, however, intermittently impose non-tariff barriers on Kosovo. In 2013, Kosovo signed an FTA with Turkey, which is awaiting Assembly ratification. In October 2015, Kosovo signed the Stabilization and Association Agreement with the EU, which entered into force April 1, 2016.

Kosovo's membership in the Athens Process on Energy for the Southern Europe Energy Community Treaty is a significant step for Kosovo toward achieving increased regional cooperation and securing alternate sources of energy.

Bilateral Taxation Treaties

While the United States does not have a bilateral investment treaty or taxation treaty with Kosovo, the United States designated Kosovo as a beneficiary developing country under the Generalized System of Preferences (GSP) program in 2008. The GSP program allows the export of certain products duty-free to the United States.

Kosovo has signed double-taxation treaties with Albania, Macedonia, Slovenia, Turkey, and the United Kingdom. Older treaties exist from the time of the former Yugoslavia.

14. Foreign Trade Zones/Free Ports/Trade Facilitation

The Kosovo Customs and Excise Code is business-friendly with the aim of facilitating trade and stimulating export growth. It is compliant with EU and World Customs Organization standards, and addresses topics such as bonded warehouses, inward and outward processing, transit of goods, and free-trade zones. In addition to imported goods, some domestically-produced goods from designated industries can be stored in bonded warehouses when these goods meet export criteria. Foreign firms are permitted to import production inputs for the manufacture of export goods without paying taxes or customs duties.

The Customs Code permits the establishment of zones for manufacturing and export purposes, and the Law on Economic Zones regulates their establishment. In 2014, the government established three economic zones in the municipalities of Mitrovica/e, Gjakovë/Djakovica, and Prizren. Currently only the economic zone of Mitrovica/e has completed the legal and administrative procedures for building infrastructure. Three business parks and one business incubator are operational, while investment is being made in several others.

15. Foreign Direct Investment and Foreign Portfolio Investment Statistics

Table 2: Key Macroeconomic Data, U.S. FDI in Host Country/Economy

	Central Bank of Kosovo		USG or international statistical source		USG or International Source of Data: BEA; IMF; Eurostat; UNCTAD, Other
Economic Data	Year	Amount	Year	Amount	

Host Country Gross Domestic Product (GDP) ($B USD)	2015	$6.4	2014	$7.4	World Bank
Foreign Direct Investment	Central Bank of Kosovo		USG or international statistical source		USG or international Source of data: BEA; IMF; Eurostat; UNCTAD, Other
U.S. FDI in partner country ($M USD, stock positions)	2014	$81.6	2014	$84	IMF
Host country's FDI in the United States ($M USD, stock positions)	2014	$8.7	2014	$10	IMF
Total inbound stock of FDI as % host GDP	2014	2.2%	2014	2.25%	IMF

Table 3: Sources and Destination of FDI

Direct Investment from/in Kosovo Counterpart Economy Data					
From Top Five Sources/To Top Five Destinations *(US Dollars, Millions)*					
Inward Direct Investment			Outward Direct Investment		
Total Inward	3,595	100%	Total Outward	212	100%
Turkey	354	10%	Albania	48	23%
Germany	308	9%	Germany	26	12%
Slovenia	263	7%	Netherlands	18	9%
Netherlands	228	6%	Macedonia	13	6%
Switzerland	217	6%	Switzerland	13	6%
"0" reflects amounts rounded to +/- $500,000.					

Note: IMF data presented in Table 3 differ from the Central Bank of Kosovo's (CBK) data. CBK data for 2014 show a total of $2.8 billion in Inward Direct Investment, with major investors being Germany ($476 million), the United Kingdom ($294 million), Turkey ($287.6 million), Switzerland ($284 million), and Slovenia ($233 million). Likewise, CBK's Outward Direct Investment data for 2014 show a total of $192.4 million, with the biggest investment being in Albania ($43.9 million), Germany ($23.4 million), Netherlands ($16.6 million), Macedonia ($11.6 million), and Switzerland ($11.3 million).

Table 4: Sources of Portfolio Investment

Portfolio Investment Assets								
Top Five Partners (Millions, US Dollars)								
Total			Equity Securities			Total Debt Securities		
All Countries	1,548	100%	All Countries	1,244	100%	All Countries	304	100%
Ireland	685	44%	Ireland	685	55%	Germany	65	21%
Luxembourg	535	35%	Luxembourg	513	41%	Netherlands	53	18%
Germany	65	4%	France	45	4%	Belgium	43	14%
France	64	4%	United States	1	0%	United States	28	9%
Netherlands	53	3%	Germany	0	0%	Denmark	23	8%

Data from the CBK is consistent with IMF data in terms of ranking of the top five partners in each column of the table, but amounts for each country in each category are different. According to the CBK, total portfolio investment assets in 2014 were €1,275 billion, with total equity securities of €1,025 billion, and total debt securities of €250 million. There are no tax havens in portfolio investment.

Section 5 - Government

Chiefs of State and Cabinet Members:

For the current list of Chief of State and Cabinet Members, please access the following - Central Intelligence Agency online directory of Chiefs of State and Cabinet Members of Foreign Governments

Legal system:

Evolving legal system; mixture of applicable Kosovo law, UNMIK laws and regulations, and applicable laws of the Former Socialist Republic of Yugoslavia that were in effect in Kosovo as of 22 March 1989

International organization participation:

IBRD, IDA, IFC, IMF, ITUC (NGOs), MIGA

Section 6 - Tax

Exchange control

There are no foreign currency exchange controls applicable in Kosovo.

Treaty and non-treaty withholding tax rates

With the exception of the Double Tax Treaty with Albania, the Republic of Kosovo does not have any double tax treaties in effect.

Methodology and Sources

Section 1 - General Background Report and Map

(Source: CIA World Factbook)

Section 2 - Anti – Money Laundering / Terrorist Financing

	Lower Risk	**Medium Risk**	**Higher Risk**
FATF List of Countries identified with strategic AML deficiencies	Not Listed	AML Deficient but Committed	High Risk
Compliance with FATF 40 + 9 recommendations	>69% Compliant or Fully Compliant	35 – 69% Compliant or Fully Compliant	<35% Compliant or Fully Compliant
US Dept of State Money Laundering assessment (INCSR)	Monitored	Concern	Primary Concern
INCSR - Weakness in Government Legislation	<2	2-4	5-20
US Sec of State supporter of / Safe Haven for International Terrorism	No	Safe Haven for Terrorism	State Supporter of Terrorism
EU White list equivalent jurisdictions	Yes		No
International Sanctions UN Sanctions / US Sanctions / EU Sanctions	None	Arab League / Other	UN , EU or US
Corruption Index (Transparency International) Control of corruption (WGI) Global Advice Network	>69%	35 – 69%	<35%
World government Indicators (Average)	>69%	35 – 69%	<35%
Failed States Index (Average)	>69%	35 – 69%	<35%
Offshore Finance Centre	No		Yes

Section 3 - Economy

General Information on the current economic climate in the country and information on imports, exports, main industries and trading partners.

(Source: CIA World Factbook)

Section 4 - Foreign Investment

Information on the openness of foreign investment into the country and the foreign investment markets.

(Source: US State Department)

Section 5 - Government

Names of Government Ministers and general information on political matters.

(Source: CIA World Factbook / https://www.cia.gov/library/publications/world-leaders-1/index.html)

Section 6 - Tax

Information on Tax Information Exchange Agreements entered into, Double Tax Agreements and Exchange Controls.

(Sources: OECD Global Forum on Transparency and Exchange of Information for Tax Purposes PKF International)

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