Kosovo

RISK & COMPLIANCE REPORT

DATE: January 2017

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
Ibër/Ibar
Podujevë/
Podujevo
Mitrovicë/
Mitrovica
Vushtrri/
Vučitrn
PRISTINA
Pejë/
Peć
Beli Drim
Drini i Bardhë
Gjeravica/
Đeravica
Gjilan/
Gnjilane
Gjakovë/
Đakovica
Ferizaj/
Uroševac
Prizren/
Prizren
Drin
Ligeni i
Fierzës
20
21
43
42
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

Reports

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 2014 (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 women, children, and some men subjected to sex trafficking and forced labor. Most sex trafficking victims in Kosovo are female citizens, though in previous years women from Moldova, Slovakia, Albania, Serbia, Turkey, and Poland also face forced prostitution by criminal groups in Kosovo. Children from Kosovo and neighboring countries, including Albania, were subjected to forced begging within the country. An increasing number of girls aged 14-17 were victims of sex trafficking. Women and girls are subjected to sex trafficking in private homes and apartments, night clubs, and massage parlors. Traffickers deceived victims by promising employment as dancers and singers in restaurants, and instead forcing them into sex trafficking in private apartments. Traffickers subject Kosovo citizens to forced prostitution and forced labor throughout Europe. Traffickers reportedly exploit the visa-free regime to bring victims into Europe.

The Government of Kosovo does not fully comply with the minimum standards for the elimination trafficking; however, it is making significant efforts to do so. The government opened a new shelter for victims, accommodating male trafficking victims for the first time, and increased funding for victim protection. A new law on victim protection established, among other innovations, a residency permit for foreign trafficking victims. Courts made progress in reducing the backlog of cases. However, the government struggled to hold trafficking offenders accountable. The government convicted fewer offenders and imposed lenient sentences on convicted traffickers. Several provisions of the new protection law were not yet implemented during the reporting period, including a victims' compensation fund and the new residency permit.

US State Dept Terrorism Report 2015

Overview: The threat of violent Islamist extremism has been slowly growing in Kosovo since its 1999 conflict, assisted in part by funding from foreign organizations that preach extremist ideologies. Approximately 250 to 300 foreign terrorist fighters from Kosovo have traveled to Syria and Iraq to fight for the Islamic State of Iraq and the Levant (ISIL) or al-Nusrah Front, of which approximately 50 have been killed. Violent extremist groups actively used social media to spread propaganda and recruit followers. No terrorist incidents took place inside Kosovo in 2015, although police have arrested suspects for planning such attacks. In September, the Government of Kosovo approved a comprehensive strategy and action plan for countering violent extremism (CVE). The CVE strategy and action plan provide a five-year roadmap for stemming the growing threat of violent extremism through a whole-of-government approach, emphasizing the critical role of local stakeholders and civil society. While relevant governmental and nongovernmental stakeholders have expressed the willingness and commitment to implement their respective action items, lack of capacity and sufficient budget remained challenges. CVE funding made available through Kosovo's recent designation as a pilot country for the Global Community Engagement and Resilience Fund (GCERF) could significantly bolster the government's capacity to implement its CVE action plan, but the process will require close U.S. engagement to ensure the government meets the strict deadlines and standards required to maximize its allotment of available GCERF funds. 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 has mentored and assisted law enforcement and judicial institutions on active counterterrorism cases. Through the Export Control and Related Border Security program (EXBS), International Criminal Investigative Training Assistance Program (ICITAP), Overseas Prosecutorial Development Assistance and Training program (OPDAT), and Office of Defense Cooperation (ODC), the United States has provided training opportunities on various aspects of counterterrorism and CVE.

Because the security and political situation in northern Kosovo continued to limit the government's ability to exercise its authority in that region, the NATO Kosovo Force (KFOR) and 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. Kosovo's ability to exercise its authority in the north has improved since the signing of the 2013 Brussels Agreement to normalize relations with Serbia, but the two countries have yet to fully implement the agreement. Although Kosovo and neighboring Serbia do not usually cooperate on counterterrorism issues, the governments have had an Integrated Border Management (IBM) plan since 2013 and have participated in joint U.S.-sponsored training.

Kosovo is a member of the Global Coalition to Counter ISIL 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, as well as tracking and restricting financing for terrorist groups. Kosovo is not a member of the UN; however, the Government of Kosovo has pledged to implement UNSCRs 2170 and 2178 unilaterally.

2015 Terrorist Incidents: The KP arrested five Kosovo-Albanians on July 11 for attempting to poison Pristina's primary water source, Lake Badovc. Police arrested three of the men after officers patrolling the reservoir spotted them behaving suspiciously at the banks of the lake. The KP subsequently arrested two additional suspects. Two of the suspects had fought for ISIL in Syria. All five were charged with terrorism offenses.\

Legislation, Law Enforcement, and Border Security: Kosovo's legislative framework is sufficient to prosecute individuals suspected of committing or supporting terrorist activities, but prosecutors lack experience in trying such cases. Kosovo officials recognize the need to improve interagency cooperation.

Kosovo has a comprehensive legal framework that covers all criminal aspects related to terrorism. The Criminal Code of Kosovo preserves the UN model on counterterrorism criminal legislation and 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 such as wiretapping, undercover agents, disclosure of financial data, and interception of computer communications. It further gives authorities flexibility to investigate criminal activity during the planning stage to prevent crimes and 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 the relevant 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 and related propaganda. A conviction on these charges carries a penalty of up to 15 years imprisonment.

The Kosovo Assembly adopted the Law on the Prohibition on Joining Foreign Conflicts March 12, and it became effective April 18. No arrests had been made under the statute at year's end.

Authorities were inexperienced in dealing with terrorism cases, and communications and information sharing across agencies remained a challenge. 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 (SPRK), 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 (RACVIAC), a South Eastern European organization that focuses on security-related issues, including terrorism. Representatives from Kosovo attended training activities and conferences on counterterrorism-related topics sponsored by the EU and the United States.

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 UN, INTERPOL or EUROPOL; the UN Mission in Kosovo and EULEX serve as Kosovo's intermediaries with these organizations, slowing down cooperation and preventing Kosovo from having access to their watchlists. Kosovo has applied for INTERPOL membership, but faces opposition from Serbia and other non-recognizing states. The KBP and Directorate against Terrorism use biometric equipment to enroll suspicious foreigners entering or applying for benefits in Kosovo, as well as locals 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.

The KBP applies specific profiling techniques to identify persons attempting to travel to Syria and Iraq to join ISIL. In 2015, the KBP, in cooperation with regional countries and Turkey, identified and blocked at least 10 such persons from leaving Kosovo and turned them over to the KP Counterterrorism Directorate. 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 program supported Kosovo participation in a series of border security-related courses aimed at addressing foreign terrorist fighter travel.

Trials are ongoing for several of the 59 suspects arrested in August 2014 during the government of Kosovo's largest counterterrorism operation to date. Three indictments against 33 individuals have been filed. Many of the defendants pled guilty to the charges. Kosovo prosecutors indicted six other individuals in 2015 who were arrested by EULEX in June 2014 in connection with a separate case. Investigations are ongoing against a dozen other individuals, including several imams. During 2015, Kosovo authorities opened 20 new cases against 45 suspects. Police arrested 14 of these suspects. On July 11, 2015, the KP arrested five individuals near Pristina on terrorism-related charges. On December 1, Italian Police arrested and extradited two Kosovo Albanians and the KP arrested a third individual in Kosovo suspected of being members of a terrorist cell that had threatened the Pope and the former U.S. Ambassador to Kosovo.

In October 2015, Kosovo's Minister of Internal Affairs issued an executive order revoking the licenses of 16 NGOs on suspicion of recruiting for ISIL and disseminating extremist propaganda.

Kosovo demonstrated political will to address threats related to terrorism, and the state possesses the legal framework to do so. However, national institutions – including investigative and prosecutorial elements –have limited capacity, resources, and experience to handle terrorism cases effectively.

Countering the Financing of Terrorism: Kosovo is not a member of the Financial Action Task Force (FATF). The Kosovo financial intelligence unit (FIU) worked towards becoming a member of the Egmont Group. Kosovo has a Law on the Prevention of Money Laundering and Terrorism financing, which allows it to comply with international anti-money laundering and counterterrorism finance standards. This law also established enforcement mechanisms for the examination of reporting entities and narrowly defines terrorism financing. However, it lacks an appropriate registration and monitoring system to track NGOs that receive funding from suspicious entities. Other legislation, amendments, and directives are pending on counterterrorism financing, and its indicators. Kosovo has not yet successfully prosecuted a terrorism financing case or identified and frozen assets of sanctioned individuals and organizations.

Countering Violent Extremism: One of the four strategic objectives in the government's CVE strategy is the prevention of violent extremism and radicalism, which the government began implementing in November. This includes raising awareness of radicalization among community stakeholders and building their capacity to fight it, increasing support for young people, counter-messaging, incorporating CVE into existing community initiatives, undertaking regional CVE activities, and establishing a strategic communications plan. Kosovo's CVE strategy also includes the preparation and promotion of counter-narratives to weaken the legitimacy of violent extremist messages.

Kosovo's CVE strategy includes a section on de-radicalization and the reintegration of radicalized persons. The goals include helping radicalized individuals abandon violent extremist ideology, assessing risks posed by individuals returning from foreign conflicts (to include alternatives to detention when appropriate and psychological support), raising awareness within the correctional system on the risks posed by imprisoned terrorists, and building capacities for their rehabilitation. The government began work on this objective in November.

International and Regional Cooperation: The OSCE and the Terrorism Prevention Branch of the UN Office on Drugs and Crime provided training to Kosovo law enforcement, prosecutors, and judges on terrorism-related topics. Kosovo's membership in many regional and international organizations, including the UN, has been blocked by countries that do not recognize its independence. Lack of membership and non-recognition impedes cooperation on many issues, including counterterrorism. Serbia and Bosnia and Herzegovina's non-recognition of Kosovo hinders participation in many regional counterterrorism initiatives.

Several Kosovo officials attended the White House Summit on Countering Violent Extremism in February, and the Leader's Summit on Countering ISIL and Violent Extremism hosted by President Obama in New York in September, and a regional CVE summit in Tirana, Albania, in May. Kosovo was selected as a beneficiary country for the Global Community Engagement and Resilience Fund (GCERF), which will fund community-level initiatives aimed at reducing the risk of radicalization to violence.

International Sanctions

None applicable

Bribery & Corruption

Index	Rating (100-Good / 0-Bad)
Transparency International Corruption Index	36
World Governance Indicator – Control of Corruption	37

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 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 a per capita GDP (PPP) of $7,600 in 2013. An unemployment rate of 45% encourages emigration and fuels a significant informal, unreported economy. Remittances from the diaspora - located mainly in Germany, Switzerland, and the Nordic countries - are estimated to account for about 15% of GDP, and donor-financed activities and aid for approximately 10%. 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 lack of technical expertise. With international assistance, Kosovo has been able to privatize a majority of its state-owned-enterprises. Minerals and metals - including lignite, lead, zinc, nickel, chrome, aluminum, magnesium, and a wide variety of construction materials - once formed the backbone of industry, but output has declined because of ageing equipment and insufficient investment. A limited and unreliable electricity supply due to technical and financial problems is a major impediment to economic development, but Kosovo has received technical assistance to help improve accounting and controls and, in 2012, privatized its distribution network. The US Government is cooperating with the Ministry for Energy and Mines and the World Bank to prepare commercial tenders for the construction of a new power plant, rehabilitation of an old plant, and the development of a coal mine that could supply both. In July 2008, Kosovo received pledges of $1.9 billion from 37 countries in support of its reform priorities, but the global financial crisis has limited this assistance and also negatively affected remittance inflows. In June 2009, Kosovo joined the World Bank and International Monetary Fund, and Kosovo 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. The official currency of Kosovo is the euro, but the Serbian dinar is also used illegally in Serb enclaves. Kosovo's tie to the euro has helped keep core inflation low. Kosovo maintained a budget surplus until 2011, when government expenditures climbed sharply. In 2013 Kosovo signed a Free Trade Agreement with Turkey and is negotiating liberalization of trade with EU as part of a Stabilization and Association Agreement.

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

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

Kosovo has recorded an average GDP growth rate of 3.3% over the last few years, marking one of the few countries in the region to have positive growth despite the Euro zone crisis. At the end of 2013, the country successfully concluded a two-year Stand-by-Arrangement with the International Monetary Fund (IMF) that helped guard the sustainability of public finance. With an estimated 2014 GDP of €5.4 billion, Kosovo is planning no budget growth with its 2014 budget of €1.5 billion. Its 9% of GDP public debt is well below international standards. The economy relies heavily on imports; exports cover only about 11% of its trading activities. Diaspora transfers at 12% of GDP account for a substantial part of the economy, with risks of decreases if the effects of the Euro zone crisis persist. The informal economy is estimated at 40% of GDP. While the official unemployment rate is 30.9%, it is believed to be closer to 45%. In addition, a high level of perceived and actual corruption in the government and weak rule of law have taken their toll in attracting Foreign Direct Investment (FDI) and slowed the country's general economic development.

Kosovo continues to move towards a market-oriented economy, and the Government of Kosovo is working to improve the investment climate by strengthening the legal environment necessary to attract and retain foreign investment. The World Bank's Doing Business report acknowledged these efforts with a higher 2014 score for Kosovo. Kosovo has adopted numerous legislative acts, and established task forces and councils. Practical implementation of reforms and these bodies' roles, however, need to be strengthened. Privatization of former Socially Owned Enterprises (SOEs), as well as of the country's key assets, is an ongoing process, and often faces public discontent and charges of corruption.

The banking sector in Kosovo is stable and liquid, but high interest rates on loans are stifling commercial endeavors, prompting the government to enter into credit guarantee schemes with international donors to improve access to credit for businesses.

Despite the many challenges, Kosovo's relatively young population, low labor costs, and abundant natural resources attract foreign investment, with several international firms and franchises already present in the market.

1. Openness To, and Restrictions Upon, Foreign Investment

Despite many investment opportunities and the lack of strong competition in certain sectors, Kosovo's business climate remains challenging. 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. Nevertheless, public distrust of the private sector, opposition to the government's policy of privatizing all Socially Owned Enterprises (SOEs) and many Publicly Owned Enterprises (POEs), political or self-interested interference by government officials, a lack of a comprehensive economic development plan, and unreliable energy supply increase the risk and cost of investment in Kosovo.

FDI Summary

Kosovo is a secular, western-oriented country with European Union (EU) integration goals. Current legislation and regulations are purposely written with EU standards in mind. Perceptions of official corruption, a slow judiciary, weak protection of intellectual property rights, competition from unlicensed vendors, and frequent irregularities in public-procurement processes prove to be obstacles to attracting significant levels of foreign investment. These obstacles exist notwithstanding the government's stated pro-business posture, the country's strategic location, rich natural resources, low wages, and an educated young workforce. Kosovo has attracted foreign investment in the construction, infrastructure, transportation, mining, and telecom sectors. The most visible foreign investment projects for 2013 included the Pristina International Airport concession operated by Turkish-French consortium Limak-Aeroport de Lyon that includes a newly constructed 42,000 m^2 terminal, and the purchase of the previously state-owned electricity distribution and supply company by Turkish consortium Limak-Calik. American-Turkish consortium Bechtel-Enka recently completed construction of Route 7 (the Ibrahim Rugova National Highway), which was paid entirely by Government funds without incurring any debt. International firms and franchises, including Coca-Cola, RC Cola, FedEx, UPS, DHL, Deloitte, Booz Allen Hamilton, PriceWaterhouse, Hertz, Century 21, and Microsoft have an established presence or a local agent in Kosovo. A flat 10% corporate tax and temporary exemptions on Value Added Taxation (VAT) payments for new exporters help attract foreign investors and businesses. Nonetheless, no western franchises yet exist in the food, hotel, or hospitality industries in Kosovo.

The American Chamber of Commerce (AmCham), the Kosovo Chamber of Commerce (KCC), and the Kosovo Business Alliance (KBA) are active and directly involved in strengthening the private-sector business climate in Kosovo. At times, they appear to have the government's ear on business matters, as reflected in their participation in the government's economic policy discussion body, the National Council for Economic Development (NCED), which resumed work in April after a six-month pause. These business organizations are also part of the Economic Advisory Council (EAC) established in December 2013 that includes representatives of the Ministry of Finance, Customs and Tax Administration. The EAC provides a forum for businesses and the government to work together on fiscal reforms. In addition, Kosovo's President Atifete Jahjaga helped launch the Kosovo Women's Chamber of Commerce in October 2012. The Chamber aims to provide connections, mentoring, and support for women entrepreneurs and business leaders. A lack of access to finance and cultural attitudes concerning the role of women typically pose a challenge to businesswomen in Kosovo.

Kosovo is a member of the International Monetary Fund (IMF) and the World Bank, and became a member of the European Bank for Reconstruction and Development (EBRD) in December 2012. In May 2013, EBRD announced its strategy for Kosovo, which entails targeted investments in energy, water supply, sanitation, and rural infrastructure, as well as a commitment to forging a stronger relationship between the government and private sector. In June 2013, Kosovo signed a framework agreement with the European Investment Bank (EIB) and a credit line with the ProCredit Bank, both of which aim to support small and medium businesses. The same month, Kosovo also joined the Council of Europe's Development Bank, which will enable the country to receive up to $60 million annually through credit lines and loan guarantees.

Laws/Regulations for FDI

The legal system in Kosovo is a matrix of three layers of legislation operating simultaneously, and includes laws enacted by the former Yugoslavia through 1989, regulations issued by the United Nations Interim Administrative Mission in Kosovo (UNMIK), and laws passed by the Kosovo Assembly. With international assistance, the government of Kosovo has been moving towards a legal structure that complies with European standards. Although the legislative framework for a market-oriented economy is in place, poor enforcement, uncertainties regarding legal recognition of foreign arbitral awards, and a nascent modern judiciary hinder economic growth and investment. To address these challenges, the U.S. Government and the EU provide assistance aimed at enhancing Kosovo's judiciary. On the enforcement front, licensed private enforcement agents began assisting enforcement of judicial decisions in January.

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 except that foreign investors may not hold more than 49% ownership in a business producing or selling military-related products (Reg. No. 2001/3, Section 6). A new 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 major sectors of the Kosovo economy are open to foreign investment. In 2011, the Government took substantive steps to further open Kosovo to foreign investment through the passage of the Public Private Partnership (PPP) Law. The PPP Law was harmonized with European Council regulations and EU *Acquis Communitaire*. The law creates separate definitions for concession and PPP, meaning that FDI transactions can be structured more flexibly. Prior limits on the length of investment projects and a provision allowing unsolicited proposals, which could have allowed procurement outside a competitive bidding process, while have been removed.

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 the Government's Official Gazette website at: http://www.gazetazyrtare.com/e-gov/index.php?lang=en. A full understanding of a specific legal issue might require research into various legal acts and amendments. USAID is assisting the development of a legal information database, which should include all governing normative acts. While national laws are generally available, access to municipal regulations is often difficult. USAID is similarly assisting with transparency in this regard, including encouraging municipalities to post municipal regulations on their websites.

Privatization Program

The government has an ambitious agenda to privatize its key assets. Despite some notable successes, however, the process has received criticism, partially because the government has failed to educate the public on the benefits of privatization. Energy distribution and supply was privatized in mid-2012, and the Limak/Çalik Turkish consortium's final takeover took place in May 2013. The government is preparing to issue a tender for a new coal-fired power plant, “New Kosovo,” in June, with a September submission deadline and an award expected later in the year. The government is also considering options for privatizing an existing 2x330 MW lignite power plant. Kosovo’s Assembly approved the spatial plan and the public-private partnership strategy for the year-round tourist resort Brezovica in February. The tender for the private-sector concession is underway, and a contract signing is scheduled for September. Following the second failure to privatize Post and Telecom of Kosovo (PTK) in the beginning of 2014, the GoK is working to revitalize the company after 18 months of neglect related to the failed privatization process. The Privatization Agency of Kosovo (PAK), an independent agency, is legally mandated to handle the disposition of Kosovo’s numerous SOE assets. As of 2014, PAK has created a trust fund of over €600 million sales from the sale of about 300 SOEs.

Competition Law

Kosovo has adopted legislation limiting unfair competition. The Law on Competition and Law on Antidumping and Countervailing Measures were adopted in 2010. Established in 2008 and consisting of four members and a chairperson appointed by the Assembly, the Competition Authority is in charge of implementing these laws, as well as the Law on Consumer Protection. It took several decisions following its establishment, but has been nonfunctional since November 2013 due to the expiration of its members’ mandates and the Assembly’s delay in appointing new members.

Investment Trends

Kosovo’s reforms to improve its business environment include its eliminations of charter capital requirements for Limited Liability Companies (LLCs), of the business registration fee, and of the municipal work permit. In late 2013, the Assembly adopted a new Law on Licenses and Permits that aims to streamline and simplify the system with a view toward further improving the business environment. These reforms helped lift Kosovo 12 places to 86/189 in the World Bank’s Doing Business Report for 2014, placing the country among the 10 most improved economies.

Kosovo has an active business registration process. MTI reported the registration of over 9,200 new businesses in 2013, indicating a growing development of local enterprises. In 2013, however, more than 1,500 businesses failed for a variety of reasons, including poor business model planning and a lack of access to credit. MTI’s Agency for Business Registration processes requests through offices located in municipalities and normally issues them within three business days. Completion of all necessary steps, including secondary requirements such as municipal business licenses or technical inspections, however, can take as long as two weeks.

Businesses are required to obtain a fiscal number and a Value-Added Tax (VAT) number from the Tax Administration. Certain businesses may require additional filings. In addition to national-level requirements, businesses sometimes must obtain a business license from the municipality in which they plan to operate. This practice is being phased out, with several larger municipalities other than Pristina recently adopting ordinances that reduce, suspend, or eliminate local business license requirements.

Kosovo's economy is based on a private property ownership model, with significant state and publicly owned assets, whose privatization is scheduled for completion in the coming years. Determining private property ownership remains a challenge. Formal property transfers require a review by a court, but many occur via informal agreements between buyers and sellers who frequently do not record them. While declining, the practice remains widespread. Finished commercial and habitable residential buildings are subject to property tax, while unimproved land is not. The government adopted a new Construction Law in 2012, which streamlined and simplified the process for obtaining construction permits, and requires that the calculation of construction permit fees be based on cost recovery principles. Along with similar reforms in spatial planning/land use regulations and a law to legalize existing construction that entered into force in January, this effort helped contribute to Kosovo's significant improvement in the World Bank's 2014 Doing Business Index Report. The government is also moving forward with the adoption of a comprehensive construction code based on European norms, expected in 2014.

Kosovo's rankings in select surveys are noted below where data are available:

Measure	**Year**	**Rank or value**	**Website Address**
TI Corruption Perceptions index	2013	(111of 177)	http://cpi.transparency.org/cpi2013/results/
Heritage Foundation's Economic Freedom index	2013	(X of 177)	http://www.heritage.org/index/ranking
World Bank's Doing Business Report "Ease of Doing Business"	2013	(86 of 189)	http//doingbusiness.org/rankings
Global Innovation Index	2013	(x of 142)	http://www.globalinnovationindex.org/content.aspx?page=gii-full-report-2013#pdfopener
World Bank GNI per capita	2012	USD 3,600	http://data.worldbank.org/indicator/NY.GNP.PCAP.CD

TABLE 1B – Millennium Challenge Corporation (MCC) Scorecards:

MCC Scorecard	Year	%
Government Effectiveness	2013	47%
Rule of Law	2013	38%
Control of Corruption	2013	34%
Fiscal Policy	2013	77%
Trade Policy	2013	n/a
Regulatory Quality	2013	72%
Business Start Up	2013	38%
Land Rights Access	2013	n/a
Natural Resource Protection.	2013	19%

2. Conversion and Transfer Policies

The 2013 Foreign Investment Law guarantees unrestricted use of income from foreign investment following payment of taxes and other liabilities. This ability 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.

Remittances

Remittances are an important source of finance for at least 43% of population in Kosovo, representing over 12% of GDP or €633 million in 2013. The majority of remittances come from Kosovo's diaspora residing in countries like Germany and Switzerland. The Central Bank reports the remittances are mainly used for personal consumption and very little for investment purposes.

3. Expropriation and Compensation

Articles 7 and 8 of the Foreign Investment Law protect foreign investments from unreasonable expropriation, and guarantees due process and timely compensation payment based on fair market prices for valid claims. To prevent lawsuits due to the expropriation and sale of property during the privatization of SOEs, UNMIK approved an eminent domain clause in April 2005.

4. Dispute Settlement

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

A new Law on Enforcement Procedures that came into force in January 2013 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 amendments to the Law on Contested Procedure to harmonize it with the Law on Arbitration. These have all addressed key impediments to enforcing arbitral awards.

In 2011, the Kosovo Assembly passed three laws of particular importance to privatization matters: 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 eight international judges and 12 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.

Major overhauls to the 2004 UNMIK-based Criminal Code and the Criminal Procedure Code that entered into force on January 1, 2013 are fully compliant with the EU Convention on Human Rights, modernized definitions and best practices, and should reduce the waste of judicial resources. The new 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 entered into force on January 1, 2013 and significantly changes and simplifies the current structure of the courts. The new court structure includes Basic Courts, a Court of Appeals, and the Supreme Court. The Basic Courts and Court of Appeals each have a Department for Administrative Cases, Department for Serious Crimes, General Department, and Department for Minors.

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 now has jurisdiction over economic disputes between both legal and natural persons. Commercial cases take on average six months to one year to resolve. Following the finalization of a judgment, however, its execution has often been lengthy and problematic. Backlogs should be significantly reduced with the implementation of the 2013 Enforcement of Procedures Law (see above) and its bailiff system, which has been successfully used in a number of countries in the region. Foreign investors are litigants in about 10% of the cases, most of which are trademark cases. 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.

The backlog in the overall court system, much of which is related to utility bills and loan collections, is a major obstacle to dispute resolution. To address this issue, the Kosovo Judicial

Council adopted a Backlog Reduction Strategy in 2010 and cooperative mechanisms (MOUs) with Post Telecom of Kosovo (PTK) and electricity utility Kosovo Energy Corporation (KEK). While some progress has been achieved, significant obstacles remain.

Kosovo's judicial system, although improving, still suffers from many weaknesses. Local courts recognize foreign arbitral awards, but enforcement is weak and time-consuming. In addition, the lack of secondary legislation pertaining to bankruptcy hinders the work of the Basic Court's department for commercial matters in discharging bankruptcy cases.

Investment Disputes

Article 16 of the Foreign Investment Law assigns jurisdiction for business dispute resolution to Kosovo courts. Foreign investors are free, however, to agree upon arbitration or another alternative dispute resolution mechanism. The American and Kosovo chambers of commerce operate alternative dispute resolution centers and an increasing number of businesses are stipulating use of these centers in their contracts. The results of arbitration are enforceable by local courts, since Kosovo has voluntarily accepted the International Center for Settlement of Investment Disputes (ICSID) Convention and enshrined it in local law. The Foreign Investment Law stipulates that investors select from the following standards for investment dispute arbitration:

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.

Since 2011, arbitration services have been available at Arbitration Tribunals within the Kosovo Chamber of Commerce and American Chamber of Kosovo. Six cases have thus far been processed through the former and two through the latter. Kosovo 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 utilize 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.

5. Performance Requirements and Incentives

The Government does not specify performance requirements as a condition for establishing, maintaining or expanding investments in Kosovo. A 16% across-the-board value added tax (VAT) came into force in January 2009. Article 27 of the Law on Value Added Tax provides exemptions for VAT on certain goods, such as medicines, medical services, pharmaceutical products, agricultural inputs, and public education services. Reduced VAT rates as low as 5% and enhanced rates up to 21% are also provided for certain goods and services, but the Assembly has not acted to trigger these rates. 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. Suppliers may claim credit for taxes on inputs, by offsetting those taxes against gross VAT liabilities or claiming a refund. A 10% flat corporate tax helps attract FDI.

In September 2000, the EU formally recognized Kosovo as an autonomous customs territory and amended its General Scheme of Preferences, eliminating quantitative restrictions for most industrial products from Kosovo. By June 2002, the EU granted preferential treatment to all imports from Kosovo, removing all remaining tariff ceilings for industrial products, including steel and textiles, and improving access to EU markets for agricultural products. Kosovo Customs continues to work to harmonize certificates of origin standards with EU Customs. In December 2008, the United States designated Kosovo a beneficiary developing country under the Generalized System of Preferences (GSP) program. While only a few companies currently take advantage of this designation, the GSP program provides an incentive for investors to export products, such as light manufacturing and certain agricultural goods, in Kosovo and export them duty-free to the United States.

A Customs internal Administrative Instruction (AI) 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.

6. Right to Private Ownership and Establishment

Government regulations and the Foreign Investment Law do not interfere with the establishment, acquisition, or sale of interests in enterprises by private entities. Foreign investors can receive private ownership rights. Foreign investment is not subject to approval by the Government of Kosovo, 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.

7. Protection of Property Rights

Generally, Kosovo's *de jure* property-related laws are well-structured and provide for security and transferability of rights. As a result of regime changes, confiscation, and conflict, a complex legal and regulatory framework prevails. Although general agreement exists that many of Kosovo's property laws reflect international best practice, most also argue that the pluralistic legal environment would benefit from a harmonization exercise.

In general, the current institutional framework is not designed to resolve claims and challenges to property rights in an efficient and effective manner. Government ministries, municipal authorities, and independent agencies often have overlapping jurisdictions, and the court system is backlogged with property-related cases. The cadastral record, having been moved out of the country in 1999 (see below) and with many documents destroyed or lost, is slowly being rebuilt. The delay also limits 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, while issues related to the rights of minority communities exacerbate tensions between groups. Illegal construction in Kosovo abounds, and obstacles to women's right to inherit land, maintain marital property, and protect their property rights claims in the court system are widespread. This piecemeal approach to reform over the past decade has left the country with a patchwork of uncertain property rights, which continues to undermine long-term growth and economic stability.

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. There have been cases of multiple ownership claims on a single property, each claimant presenting a variety of ownership documents as proof. The EU-facilitated Kosovo-Serbia dialogue process is helping to address the cadastral record taken from Kosovo in 1999 by Serbia. With respect to the 1998-1999 armed conflict, 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 only to the Supreme Court. KPA 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 Housing and Property Claims Commission (HPCC) decisions 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 the cadaster. The U.S. government in conjunction with the EU also will soon launch a four-year project on property rights to improve legislation, reduce court times for property-related cases, strengthen relations between municipalities and the relevant central-level institutions, and raise awareness for women's property rights.

Intellectual Property Rights

The Law on Patents, Law on Trademarks, and Law on Industrial Design, 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. In 2013, the Assembly adopted the Law on Geographical Indices, further enriching the IPR legal base. 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 1991 Law on Authors Rights are also considered applicable law 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 adopted an IPR Strategy and established the National Intellectual Property Council and the Task Force against Piracy. These bodies' structures are similar, comprised of the IPO, the Copyright Office, Customs, Kosovo Police Departments for Economic and Cyber Crimes, Market Inspectorate, Ministry of Justice. The Council also comprises the Kosovo Prosecutorial Council, courts, and other government and non-governmental institutions. The presence of institutions notwithstanding, relevant staff engaged in IPR protection generally lack capacity, and the government needs to conduct more training and enforcement actions.

Protection of intellectual property is poor. A number of counterfeit consumer goods (notably CDs, DVDs, and clothing items) are available for sale and are openly traded. The government implemented an anti-piracy awareness campaign in April-August 2013 that resulted in the confiscation of more than 37,000 counterfeit CDs and photocopied books. In addition, two associations for collective administration of copyrights were licensed in 2013 and are negotiating tariffs with media broadcasters. These actions mark the first serious steps by the government towards combating IPR infringements.

Embassy point of contact: Cavan Fabris FabrisCE@state.gov

List of local attorneys: http://pristina.usembassy.gov/attorney_information.html

8. Transparency of Procurement Regulatory System

The 2011 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 November 2013, the GoK amended the Law on Public Procurement in line with a request by business associations to encourage the purchase of domestic goods through public contracts. The amended law was passed by the Assembly in late March, 2014.

All legal, regulatory, and accounting systems in Kosovo were created to adhere to European Union standards and follow best international practices. Laws passed in the Assembly are generally business-friendly. However, public procurement practices in Kosovo remain an ongoing challenge. While the government seeks transparency in the process, international companies competing in high-value public procurement projects have reported numerous irregularities. The government publishes the rules, regulations, and procedures of the tendering process 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). The PPRB did not operate from August 2013 to March due to Assembly delays in appointing new board members. Once reconstituted, the PPRB experienced a backlog of over 250 appeals, many with expired mandates.

9. Efficient Capital Markets and Portfolio Investment

The Central Bank of Kosovo (CBK) is an independent body responsible for fostering the development of competitive, sound, and transparent 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. Kosovo received a SWIFT code in August 2013, which aims to ensure the safety of the Kosovo banking system, following failed prior attempts due to a lack of international recognition. The CBK cannot grant loans to banks, but issued the first government securities in the form of 90-day Treasury bills at 3.5% in January 2012. Only commercial banks could participate in the auction, because they met the criteria of primary bond traders per the Regulation on Treasury Bonds. A secondary market to allow banks and other clients to trade the securities is under development. The Government raised €80 million through Treasury bills last year, and is planning to raise €100 million through six-month to two-year Treasury bills in 2014.

Kosovo’s private banking sector remains well-capitalized and profitable. Difficult economic conditions, a lack of strong rule of law and contract enforcement processes, and a risk-averse posture have limited banks’ lending activities. This cautious approach is evident in its excess reserves, which are above the minimum level required by the Central Bank of Kosovo. Most deposits are demand deposits, and total assets of the three largest banks, which are international banks, amount to 67.9% of Kosovo’s entire banking sector. As of June 2013, Kosovo’s banks increased loans at an annual rate of only 2.8% (less than one-third the rate of the prior year). Approximately 70% of all lending activity is to businesses. Despite positive trends, relatively little lending is directed toward long-term investment activities. High interest rates (averaging approximately 13%) and collateral requirements act as disincentives to borrowers. Slow lending is most notable in the northern part of Kosovo due to a weak judiciary, slow economic growth characterized by informal business activities and few qualified borrowers.

As of the beginning of 2014, Kosovo had nine commercial banks and 13 licensed insurance companies.

The official currency of Kosovo is the Euro even though the country is not part of the eurozone. Given that the Central Bank of Kosovo does not have independent monetary policy; prices react heavily to market trends in the larger eurozone.

10. Competition from State-Owned Enterprises

Kosovo has 61 state-owned enterprises, 44 of which municipalities manage and are concentrated in central heat, waste, and water sectors. The majority of Kosovo’s state-owned enterprises operate with loses and need government subsidies to sustain. A few, like Post and Telecommunications (PTK) and the Kosovo Energy Corporation (KEK), generate profits. State interference in the operation of these companies is considerable since the appointment of boards and senior executives is based on political patronage, with little importance placed on qualifications. These companies are led by Boards of Directors, and each board reports to the government. All POE directors must complete an annual training course on Corporate Governance. State-owned enterprises must submit annual reports and are subject to external audits. The government has privatized some of its key assets and aims to continue doing so. Kosovo does not have a sovereign wealth fund.

11. Corporate Social Responsibility

With the maturation of Kosovo's economy, reflected in its legislation, institutions, and an improving business climate, the private sector is beginning to adopt and pursue international best practices on corporate social responsibility (CSR). Through the efforts of the business community, CSR is becoming a more widely recognized concept. AmCham Kosovo, for example, has prioritized raising funds for local charities, such as those supporting autistic children, and organizations that promote employment of persons with disabilities.

12. Political Violence

In the summer of 2011, a trade dispute with neighboring Serbia, one of Kosovo's largest trading partners, led to a blockade of cross-border trade between the countries for approximately two months. Isolated incidents of inter-ethnic and politically motivated violence, as well as sporadic political protests, have occurred since then, but none of these events adversely affected Kosovo's political stability or overall economic situation. The Kosovo Police, Kosovo Security Force, the European Union's Rule-of-Law Mission in Kosovo (EULEX), and the NATO Kosovo Security Force (KFOR) respond to and investigate such events in accordance within their legal mandates. Kosovo's judiciary is augmented by EULEX, which has a Monitoring, Mentoring, and Advising (MMA) role, in rule of law matters.

13. Corruption

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.

General Advice

It is important for U.S. companies, irrespective of their size, assess the business climate in the relevant market in which they will be operating or investing, and to have an effective compliance program and measures to detect and prevent corruption, including foreign bribery. U.S. persons and firms operating or investing in foreign markets should become familiar with the relevant anti-corruption laws of both Kosovo and the United States in order to properly comply with them, and where appropriate, they should seek the advice of legal counsel.

The U.S. Government seeks to level the global playing field for U.S. businesses by encouraging other countries to take steps to criminalize their own companies' acts of corruption, including bribery of foreign public officials, and requiring them to uphold their obligations under relevant international conventions. A U.S. firm that believes a competitor is seeking to use bribery of a foreign public official to secure a contract should bring this to the attention of appropriate U.S. agencies, as noted below.

Anti-Bribery Treaties and Conventions:

U.S. Foreign Corrupt Practices Act: In 1977, the United States enacted the Foreign Corrupt Practices Act (FCPA), which makes it unlawful for a U.S. person, and certain foreign issuers of securities, to make a corrupt payment to foreign public officials for the purpose of obtaining or retaining business for or with, or directing business to, any person. The FCPA also applies to foreign firms and persons who take any act in furtherance of such a corrupt payment while in the United States.

Guidance on the U.S. FCPA: The Department of Justice's (DOJ) FCPA Opinion Procedure enables U.S. firms and individuals to request a statement of the Justice Department's present enforcement intentions under the anti-bribery provisions of the FCPA regarding any proposed business conduct. The details of the opinion procedure are available on DOJ's Fraud Section Website at www.justice.gov/criminal/fraud/fcpa. Although the Department of Commerce has no enforcement role with respect to the FCPA, it supplies general guidance to U.S. exporters who have questions about the FCPA and about international developments concerning the FCPA. For further information, see the Office of the Chief Counsel for International Counsel, U.S. Department of Commerce, Website, at http://www.ogc.doc.gov/trans_anti_bribery.html. More general information on the FCPA is available at the Website listed below.

Exporters and investors should be aware that generally all countries prohibit the bribery of their public officials, and prohibit their officials from soliciting bribes under domestic laws. Most countries are required to criminalize such bribery and other acts of corruption by virtue of being parties to various international conventions discussed above.

Other Instruments: It is U.S. Government policy to promote good governance, including host country implementation and enforcement of anti-corruption laws and policies pursuant to their obligations under international agreements. Since enactment of the FCPA, the United States has been instrumental in the expansion of the international framework to fight corruption. Several significant components of this framework are the Organization of Economic Cooperation and Development (OECD) Convention on Combating Bribery of Foreign Public Officials in International Business Transactions (OECD Anti-bribery Convention), the United Nations Convention against Corruption (UN Convention), the Inter-American Convention against Corruption (OAS Convention), the Council of Europe Criminal and Civil Law Conventions, and a growing list of U.S. free trade agreements. Kosovo is party to the OECD Anti-bribery Convention and the Council of Europe Convention at this time.

OECD Anti-bribery Convention: The OECD Anti-bribery Convention entered into force in February 1999. As of December 2009, there are 38 parties to the Convention including the United States (see http://www.oecd.org/dataoecd/59/13/40272933.pdf). Major exporters China, India, and Russia are not yet parties, although the U.S. Government strongly endorses their eventual accession to the Convention. The Convention obligates the Parties to criminalize bribery of foreign public officials in the conduct of international business. The

United States meets its international obligations under the OECD Anti-bribery Convention through the U.S. FCPA.

UN Convention: The UN Anticorruption Convention entered into force on December 14, 2005, and there are 143 parties to it as of December 2009: http://www.unodc.org/unodc/en/treaties/CAC/signatories.html. The UN Convention is the first global comprehensive international anticorruption agreement and requires countries to establish criminal and other offences to cover a wide range of acts of corruption. The UN Convention goes beyond previous anticorruption instruments, covering a broad range of issues ranging from basic forms of corruption such as bribery and solicitation, embezzlement, trading in influence to the concealment and laundering of the proceeds of corruption. The Convention contains transnational business bribery provisions that are functionally similar to those in the OECD Anti-bribery Convention and contains provisions on private sector auditing and books and records requirements. Other provisions address matters such as prevention, international cooperation, and asset recovery. Kosovo is not currently a party to the UN Convention, but is a party via UNMIK Regulation 2001/3 to the OECD Convention (see above).

Council of Europe Criminal Law and Civil Law Conventions: Many European countries are parties to either the Council of Europe (CoE) Criminal Law Convention on Corruption, the Civil Law Convention, or both. The Criminal Law Convention requires criminalization of a wide range of national and transnational conduct, including bribery, money-laundering, and account offenses. It also incorporates provisions on liability of legal persons and witness protection. The Civil Law Convention includes provisions on compensation for damage relating to corrupt acts, whistleblower protection, and validity of contracts, inter alia. The Group of States against Corruption (GRECO) was established in 1999 by the CoE to monitor compliance with these and related anti-corruption standards. Currently, GRECO comprises 46 member States (45 European countries and the United States). As of December 2009, the Criminal Law Convention has 42 parties and the Civil Law Convention has 34 (see http://www.coe.int/greco).

Free Trade Agreements: While it is U.S. Government policy to include anticorruption provisions in free trade agreements (FTAs) that it negotiates with its trading partners, the anticorruption provisions have evolved over time. The most recent FTAs negotiated now require trading partners to criminalize “active bribery” of public officials (offering bribes to any public official must be made a criminal offense, both domestically and trans-nationally) as well as domestic “passive bribery” (solicitation of a bribe by a domestic official). All U.S. FTAs may be found at the U.S. Trade Representative Website: http://www.ustr.gov/trade-agreements/free-trade-agreements. Kosovo does not currently have a FTA with the United States.

Local Laws: U.S. firms should familiarize themselves with local anticorruption laws, and, where appropriate, seek legal counsel. While the U.S. Department of Commerce cannot provide legal advice on local laws, the Department’s U.S. and Foreign Commercial Service can provide assistance with navigating the host country’s legal system and obtaining a list of local legal counsel.

Assistance for U.S. Businesses: The U.S. Department of Commerce offers several services to aid U.S. businesses seeking to address business-related corruption issues. For example, the U.S. and Foreign Commercial Service can provide services that may assist U.S. companies in conducting their due diligence as part of the company's overarching compliance program when choosing business partners or agents overseas. The U.S. Foreign and Commercial Service can be reached directly through its offices in every major U.S. and foreign city, or through its Website at www.trade.gov/cs.

The Departments of Commerce and State provide worldwide support for qualified U.S. companies bidding on foreign government contracts through the Commerce Department's Advocacy Center and State's Office of Commercial and Business Affairs. Embassy Pristina became a Commercial Partnership Post with Vienna in January, allowing it to offer more services to qualified U.S. companies. Problems, including alleged corruption by foreign governments or competitors, encountered by U.S. companies in seeking such foreign business opportunities can be brought to the attention of appropriate U.S. government officials, including local embassy personnel and through the Department of Commerce Trade Compliance Center : See "Report a Trade Barrier" Website at http://tcc.export.gov/%5C%5C/Report_a_Barrier/index.asp

Local Information: Public sector corruption in government procurement tenders and privatization, including bribery of public officials and officials seeking payoffs, remains a major challenge for U.S. firms operating in Kosovo. Corruption also remains widespread in private industry, adversely affecting commercial development. The Law on the Suppression of Corruption was passed in May 2005, creating an Anti-Corruption Agency (ACA) to address this problem. This agency is tasked with, among other duties, preparing an anti-corruption strategy for Assembly approval, conducting administrative investigations of alleged corruption cases, and monitoring proper implementation of the Corruption Law. Citizens can report suspected corruption via a toll-free hotline number 044 082 82 or through the Anti-Corruption Agency's website at www.akk-ks.org. For 2013, Anti-Corruption Agency figures show an increase of reports received by ACA and of those forwarded for investigation and prosecution. Other government institutions and agencies in Kosovo that combat corruption include Investigation Units within Customs, Tax Administration, Kosovo Police, State Prosecutor, Financial Intelligence Unit, Public Procurement Review Body, and Office of Auditor General. Transparency International Kosovo has a presence in Kosovo through the Kosovo Democratic Institute, a local NGO anti-corruption watchdog, and several independent local NGOs also monitor and publish anti-corruption reports.

In 2008, the Kosovo government took additional legislative steps to combat corruption. Government officials are now required to disclose all gifts received, as stipulated by the Law on Suppression of Corruption. In June 2009, the Assembly passed the Law on Declaration, Origin, and Control of Assets of Senior Public Officials, which requires government officials to file asset declarations upon entry and exit from government service. ACA reports indicate that over 95% of all senior officers declared their assets; non-reporting officials were subject to court proceedings, with fines resulting in some cases. In January 2010, the Kosovo Assembly adopted a new law that established the Kosovo Anti-Corruption Agency and defined its status and role in preventing and combating corruption. Kosovo's Financial Intelligence Unit has the authority to conduct analysis in support of criminal investigations. The amended Law on the Prevention of Money Laundering and Terrorism Financing passed in 2013 is largely compliant with the EU *Acquis Communitaire*.

There are frequent reports of irregularities in public tendering procedures. The Public Procurement Law clearly defines the division between executive and regulatory functions in accordance with EU practices. Tax evasion is high, and both local and foreign businesses are concerned about the professional ethics of some government officials who reportedly accept bribes or extort firms in exchange for licenses, permits, movement of paperwork, or even routine public services.

Anti-Corruption Resources: Additional resources for individuals and companies regarding the combating of corruption in global markets include the following:

- Information about the U.S. Foreign Corrupt Practices Act (FCPA), including a "Lay-Person's Guide to the FCPA" is available at the U.S. Department of Justice's Website at: http://www.justice.gov/criminal/fraud/fcpa.

- Information about the OECD Anti-bribery Convention including links to national implementing legislation and country monitoring reports is available at: http://www.oecd.org/department/0,3355,en_2649_34859_1_1_1_1_1,00.html. See also new Anti-bribery Recommendation and Good Practice Guidance Annex for companies: http://www.oecd.org/dataoecd/11/40/44176910.pdf.

- General information about anticorruption initiatives, such as the OECD Convention and the FCPA, including translations of the statute into several languages, is available at the Department of Commerce Office of the Chief Counsel for International Commerce Website: http://www.commerce.gov/os/ogc/transparency-and-anti-bribery-initiatives

- Transparency International (TI) publishes an annual Corruption Perceptions Index (CPI). The CPI measures the perceived level of public-sector corruption in countries and territories of the world. The CPI is available at: http://cpi.transparency.org/cpi2013/ TI also publishes an annual *Global Corruption Report* which provides a systematic evaluation of the state of corruption around the world. It includes an in-depth analysis of a focal theme, a series of country reports that document major corruption related events and developments from all continents and an overview of the latest research findings on anti-corruption diagnostics and tools. See http://www.transparency.org/research/gcr.

- The World Bank Institute publishes Worldwide Governance Indicators (WGI). These indicators assess six dimensions of governance in 212 countries, including Voice and Accountability, Political Stability and Absence of Violence, Government Effectiveness, Regulatory Quality, Rule of Law and Control of Corruption. See http://info.worldbank.org/governance/wgi/index.aspx#countryReports The World Bank Business Environment and Enterprise Performance Surveys may also be of interest and are available at: http://data.worldbank.org/data-catalog/BEEPS

- The World Economic Forum publishes the *Global Enabling Trade Report*, which presents the rankings of the Enabling Trade Index, and includes an assessment of the transparency of border administration (focused on bribe payments and corruption) and a separate segment on corruption and the regulatory environment. See http://www.weforum.org/en/initiatives/gcp/GlobalEnablingTradeReport/index.htm.

- Additional country information related to corruption can be found in the U.S. State Department's annual *Human Rights Report* available at http://www.state.gov/g/drl/rls/hrrpt/.

- Additional information on labor legislation and issues can be found at the U.S. Department of Labor's Child Labor Report at http://www.dol.gov/ilab/reports/child-labor/findings/2012TDA/kosovo.pdf

- Global Integrity, a nonprofit organization, publishes its annual *Global Integrity Report*, which provides indicators for 92 countries with respect to governance and anti-corruption. The report highlights the strengths and weaknesses of national level anti-corruption systems. The report is available at: http://report.globalintegrity.org.

- World Bank's Ease of Doing Business Report: http://www.doingbusiness.org/rankings.

- Heritage Foundation: Please note the Heritage Foundation does not cover Kosovo during; general data for other countries can be found at: http://www.heritage.org/Index/Ranking.

- For Millennium Challenge Corporation (MCC) Kosovo Rankings visit: http://www.mcc.gov/documents/scorecards/score-fy13-kosovo.pdf.

14. Bilateral Investment Agreements

Albania was the first country to sign a Free Trade Agreement (FTA) with Kosovo in 2003, followed by Macedonia in 2005. The Kosovo-Macedonia FTA stipulates that Kosovo imports have complete duty-free access to the Macedonian market. In reality, however, Macedonia still imposes some duties at the border, particularly on agricultural imports. In September 2013, Kosovo and Macedonia had a 10-day trade dispute over Macedonia's failure to revoke restrictions on wheat imports by the deadline set by the Central European Free Trade Area (CEFTA), prompting Kosovo authorities to ban imports of all Macedonian goods and resulting in a border blockade by Macedonia's transporters' association. In 2006, Kosovo, through UNMIK representation, signed FTAs with Croatia and Bosnia-Herzegovina and became a signatory to CEFTA and EU Common Aviation Area. CEFTA came into force in July 2007; by September 2007, all signatories ratified the agreement, including Serbia. As with the FTA with Macedonia, CEFTA signatories continue to charge various fees for Kosovo goods. Kosovo signed a FTA with Turkey in September 2013. Kosovo aims to liberalize trade with the EU as part of its ongoing negotiations for a Stabilization and Association Agreement. Its membership in the Athens Process on Energy for the Southeastern Europe Energy Community Treaty is a significant step for Kosovo toward achieving increased regional cooperation and securing alternate sources of energy.

15. OPIC and Other Investment Insurance Programs

The U.S. Overseas Private Investment Corporation (OPIC) has been involved in Kosovo since 2000, providing financing, political risk insurance and other investment vehicles to U.S. investors. In June 2009, OPIC signed an investment agreement with Kosovo. With OPIC assistance, U.S. investors are currently involved with projects in the energy and real estate development sectors. Kosovo is also a member of the World Bank, Multilateral Investment Guarantee Agency, International Monetary Fund, and EBRD.

16. Labor

Kosovo's Law on Labor requires employers to observe all applicable employee protections, including a 40-hour full-time work week, payment of overtime, adherence to occupational health and safety standards, respecting annual leave benefits, and ensuring up to 12 months of maternity leave (six months of paid leave at a reduced rate, followed by six months of unpaid leave). The labor law calls for a monthly minimum wage, which a 2011 government decision set at €130 for employees under 35 and €170 for those over 35 years of age. A public-sector salary increase of 25% will take effect in May and might cause inflationary pressures on private-sector wages. In March, the GoK, labor unions, and private-sector representatives signed a collective agreement regulating employee-employer relationships, ensuring protection of employee rights, and providing €2 daily allowance for meals for each employee. The Ministry of Labor and Social Welfare has created a compliance office with the authority to inspect employer adherence to labor law requirements. Labor disputes are formally adjudicated in local courts, but access to courts and predictability of judgment presents investor risk.

Kosovo requires businesses to pay a 5% social security contribution per employee, one of the lowest rates in Europe. A new Law on Health Insurance, adopted in April 2014 and scheduled to take effect in 2015, requires a 3.5% payment per employee.

17. Foreign-Trade Zones/Free Ports

The Kosovo Customs and Excise Code is business-friendly, 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 with the aim of facilitating trade and stimulating export growth. In addition to imported goods, some domestically produces 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 GoK recently approved the establishment of economic zones in the municipalities of Gjakova/Djakovo and Mitrovica.

18. Foreign Direct Investment and Foreign Portfolio Investment Statistics

Kosovo does not currently have a formalized system for collecting foreign direct investment data. The Investment Promotion Agency of Kosovo (IPAK) estimates over 2,800 foreign companies of all types and sizes are currently operating in Kosovo. Central Bank figures indicate €204.9 million of FDI as of September 2013, representing an increase of 14% compared with same period in 2012. At the end of September 2013, the top foreign investors by country were Turkey (€72.8 million), Switzerland (€31.6million), Albania (€18.3 million), and Germany (€13.4 million). The top sectors for foreign investment as of September 2013 include real estate (33.4%), construction (17.0%), transport and telecommunications (14.6%), and financial services (10.9%).

TABLE 2: Key Macroeconomic data, U.S. FDI in host country/economy

	Host Country Statistical source* Central Bank of Kosovo		USG or international statistical source IMF		USG or international Source of data Source of Data: IMF
Economic Data	Year	Amount	Year	Amount	
Host Country Gross Domestic Product (GDP) (*Millions U.S. Dollars)*	2012	6.8 billion	2013	7.1 billion	http://www.imf.org/external/country/UVK/index.htm
Foreign Direct Investment	Host Country Statistical source* Statistical Agency		USG or international statistical source IMF		USG or international Source of data: IMF
U.S. FDI in partner country (*Millions U.S. Dollars, stock positions)*	2012	87.2	2012	54	(BEA) click selections to reach. • Bureau of Economic Analysis • Balance of Payments and Direct Investment Position Data • U.S. Direct Investment Position Abroad on a Historical-Cost Basis • By Country only (all countries) (Millions of Dollars)
Host country's FDI in the United States	2012	9	2012	9	(BEA) click selections to reach • Balance of Payments and Direct Investment Position Data

(Millions U.S. Dollars, stock positions)					• Foreign Direct Investment Position in the United States on a Historical-Cost Basis • By Country only (all countries) (Millions of Dollars)
Total inbound stock of FDI as % host GDP (***calculate)***	2012	6.3%	2012	4.3%	http://www.imf.org/external/pubs/ft/scr/2013/cr13379.pdf

TABLE 3: Sources and Destination of FDI

Direct Investment from/in Counterpart Economy Data					
From Top Five Sources/To Top Five Destinations *(US Dollars, Millions)*					
Inward Direct Investment			**Outward Direct Investment**		
Total Inward	3,331	100%	Total Outward	155	100%
Slovenia	297	9%	Albania	41	26%
Germany	265	8%	Germany	17	11%
Turkey	229	7%	Macedonia, FYR	12	7%
Netherlands	223	7%	Switzerland	10	7%
Switzerland	167	5%	United States	9	6%
"0" reflects amounts rounded to +/- USD 500,000.					

IMF data presented in table 3 slightly differ from the Central Bank of Kosovo's (CBK) data: CBK data for 2012 show a total $3.272 billion in FDI, with major investors being Germany ($515 million), Slovenia ($289 million), Switzerland ($240 million), Turkey ($203 million), and the Netherlands (112 million). Data for Outward Direct Investment match the CBK data for 2012.

TABLE 4: Sources of Portfolio Investment

Portfolio Investment Assets

Top Five Partners (Millions, US Dollars)								
Total			**Equity Securities**			**Total Debt Securities**		
All Countries	1,516	100%	All Countries	467	100%	All Countries	1,049	100%
Ireland	471	31%	Ireland	424	91%	Luxembourg	356	34%
Luxembourg	356	23%				Belgium	337	32%
Belgium	337	22%				Italy	53	5%
Italy	53	3%				Sierra Leone	51	5%
Sierra Leone	51	3%				Germany	48	5%

CBK data for 2012 indicate the same country-based percentage participation in Kosovo's portfolio investments. Slight differences are noted in the statistics for the percentage of equity and debt securities in the total assets of portfolio investment, namely 30% (CBK) vs. 26.6 %(IMF) for equity and 70% (CBK) vs. 64 %(IMF) for debt securities.

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)

DISCLAIMER

Part of this report contains material sourced from third party websites. This material could include technical inaccuracies or typographical errors. The materials in this report are provided "as is" and without warranties of any kind either expressed or implied, to the fullest extent permissible pursuant to applicable law. Neither are any warranties or representations made regarding the use of or the result of the use of the material in the report in terms of their correctness, accuracy, reliability, or otherwise. Materials in this report do not constitute financial or other professional advice.

We disclaim any responsibility for the content available on any other site reached by links to or from the website.

RESTRICTION OF LIABILITY

Although full endeavours are made to ensure that the material in this report is correct, no liability will be accepted for any damages or injury caused by, including but not limited to, inaccuracies or typographical errors within the material, Neither will liability be accepted for any damages or injury, including but not limited to, special or consequential damages that result from the use of, or the inability to use, the materials in this report. Total liability to you for all losses, damages, and causes of action (in contract, tort (including without limitation, negligence), or otherwise) will not be greater than the amount you paid for the report.

RESTRICTIONS ON USE

All Country Reports accessed and/or downloaded and/or printed from the website may not be distributed, republished, uploaded, posted, or transmitted in any way outside of your organization, without our prior consent. Restrictions in force by the websites of source information will also apply.

We prohibit caching and the framing of any Content available on the website without prior written consent.

Any questions or queries should be addressed to: -

Gary Youinou

Via our Contact Page at KnowYourCountry.com