

# Political Risk and Foreign Direct Investments in Kosovo

Neshat Podvorica

MSC. NESHAT PODVORICA

## Abstract

The purpose of this paper is to present the importance of political risk and its impact on attracting investments, also to analyse policies made by the Kosovo institutions to reduce political risk and increase the FDIs. Attracting of the FDIs is complex because they depend on many factors, and one of the methods that measure political risk is the model used by the PRS Group that includes the flow of the economy through 12 components.

Measuring political risk plays an important role in transitional countries, because these are countries that have problems in various fields and also the trust on by the investors is low. As a finding of this study is that Kosovo is estimated to have moderate political risk, and is close to joining the group of countries with low political risk. Challenges faced by Kosovo in reducing political risk are concentrated in several components, which are: socio-economic, corruption and rule of law components. Kosovo has taken significant steps in improving the conditions for investment, government stability and positioning of the country facing internal and external conflicts.

**Key Words:** Political risk, FDI, Kosovo, transition, corruption.

## 1. Introduction

Political changes, even being minor, affect the size and structure of FDIs, although it is estimated that today there is a strong economic relation between countries, overall being open.

Investments are quite sensitive to the risks and due to changes that occur in a country they can also be withdrawn. Institutions of almost all countries try to provide the most appropriate climate for potential investors. The stability of a country is a very broad concept, which in itself contains components that enable the normal functioning of a country.

Political risk, as an overview for investors, shows the overall performance of a country and meanwhile identifies strengths and weaknesses it has and at the same time it also enables them to take precautions before making their investments.

Developing countries, with special emphasis those in transition such as Kosovo, have great challenges because they face different problems, as of functioning of the fragile democracy to the creation of common economic policies. Therefore, in order to see progress and changes that are made in Kosovo, political risk gives a real picture for most economic areas of the country.

Kosovo coping with different processes at the same time ranging from improvement of interstate relations, European Integration, economic development and, given the presence of international institutions that are in place have made an impact in reducing the political risk in general.

An important role in the development of Kosovo was played by remittances, while in the recent years also by FDIs. The effect of remittances on the economy is estimated to be replaced by increased FDIs, therefore, it is important for Kosovo to create conditions and incentives for attracting FDIs. Moreover, regional cooperation should be seen as common opportunity for all states to increase FDIs, as state domestic policies are not sufficient.

In the first part of this paper, the political risk will be discussed in theoretical aspect and methods that reduce its impact. In the second part, there will be a presentation of the link between political risk and FDIs, and as political risk will be discussed in the context of Kosovo. In the last part, the methodology of data processing and drawing conclusions about the case of Kosovo is presented.

## 2. Definitions and main events of public risk

Political risk has emerged recently, wherein the starting period is considered to be 1960s (Moosa, 2002), although political risk was also seen earlier as an important element in the economic relations between countries. But considering that before this period investments were smaller, then, its impact is small (Hill, 2005). Political risk is not only related to FDIs. Giving loans between various states had the risk not to return the funds as a result of various conflicts or wars. The main investments were usually made by the countries, which had power and influence on the countries receiving the investment, and in certain cases in order to realize this the military power was also applicable.

Among the main researchers of political risk there are Kobrin 1978, Fitzpatrick 1983, Simon 1984, Friedman 1988, 1992 and Jarvis Chermack 2008 (cited in Sottilotta, 2013), who analysed the political risk, depending on the time period in which they were. According to the Yackee (2014) defined as the probability or likelihood likely for something to happen, wherein such event is likely to affect the next event. White and Fan (2006) define the risk in financial terms as return variance that as equal distribution, which means that the risk of investment returns has a similar distribution throughout the period.

Web (2014) says there is fair relation among production costs and risks, because the greatest costs be even greater risk is the possibility that because waste is higher and vice versa. Also Stoycheva (2013) defines political risk as derivation from the political situation puts the stakeholder in a particular hazard.

On the other hand it is important to make the distinction between the country's risk and political risk, in some cases it is thought to be the same (Moosa, 2002), that is because the country's risk is broader than the political one. The country's risk occurs when due to interstate transactions any loss of investors occurs because of the lack of work by the government but never caused by any private factors (Moosa, 2002). It is important to stress that there is a negative relation between the political and economic risk because it was seen that in the countries of huge political risk weight, that the economic impact is very low (Moosa, 2002). While the link between political regime and political risk still remains an unexplored field (Sottilotta, 2013), because there may be other factors that give more significance to the political regime. There is also a difference between

political risk and political environment, as the first is analysed following the occurrence of investments and the second how much the situation changed and how dynamic it is over the time (Moosa, 2002).

Political risk has become part of the discussions especially after the end of World War II, from the 1960s, and different methods to measure it have been presented (Sottilotta, 2013). However, his analysis was almost impossible because of the deep division that existed during the Cold War where countries were divided into different systems of organization (Sottilotta, 2013), and cooperation between them had major problems that diminish the role of political risk.

Therefore, according to Moosa (2002), the political risk is part of the countries risk that derives from political factors, whereas Kobrini (1979) relates the political risk with the government's influence on business operations of enterprises. In FDI political risk is estimated to have more impact than the economic one (Moosa, 2002), because the risk of a country influences government's policies which, if they have a negative effect, also affect the performance of the economy. Whereas, if economic risk usually occurs due to various crises that could have a regional or wider character, but following the crisis, economic development of the country can take place.

Wafo (1998) notes that its development has gone through several stages. These stages include approximately a decade, wherein this concept started to be used in the 1960s, but it was not meaningful. In the 1970s it could not occur because of the cold war. In the 1980's, its role started to increase and it started to be studied and further methods for its calculated were developed, while in 1990s and later on, this concept began to have impact on the other sciences.

### **3. Ways of eliminating the political risk by the investors**

Since the political risk is of great importance to investors, modalities should be found by which risk would be reduced in order to increase profits and boost up investment. Depending on the strategy and the strength of investors, they use methods that suitable for you, besides these characteristics of investors, the stage of economic development of a country is also important.

In the developing countries, according to OECD, investors should use the following instruments: influence the government policies on

investment; provide multilateral security to specialized agencies to protect against political risk; create alternative mechanisms for dispute resolution; and reduce the political risk by practicing the rules of the World Trade Organization (Moosa, 2002). Using these instruments, despite the effect in creating better conditions for investors, at the same time it will also affect the overall climate for economic development in that country.

Another important way to be protected from the political risk when faced by the investors is through avoidance of its transfer or through negotiation (Moosa, 2002). Avoidance or transfer can best be achieved through *joint venture* investments where the foreign investor bears a risk to the domestic investor. The risk for investors is grown when state institutions take measures to protect the local economy to the detriment of foreign investors, and if there is cooperation with local investors, a part of the political risk can be removed. Whereas, the second way of multilateral agreements can be accomplished through various government programs, agency, business, international organizations' programs, insurance company programs and others. Based on these steps investors can eliminate the political risk because they have a guarantor or insurer who compensates the effect of occurrence of any political risk.

An important role in protecting investors from risk is played by the organization established in 1985 by the UN that is the Multilateral Investment Guarantee Agency (MIGA), which has an obligation to promote FDIs in developing countries in particular by providing more security for their investments<sup>1</sup>. The sectors in which this organization for facilitation of investment is concentrated are the following: restrictions on money transfers; expropriation; breaches of contracts; civil unrest and wars (Moosa, 2002).

#### 4. The structure of FDIs in Kosovo

According to the Central Bank of Kosovo (2014) (now on referred as CBK), most of the investments coming to Kosovo are from: Turkey, Switzerland, Germany and Albania, countries which are closely familiar with the situation prevailing in the country, because of their presence in Kosovo or connections generated by Kosovar immigrants who are in those

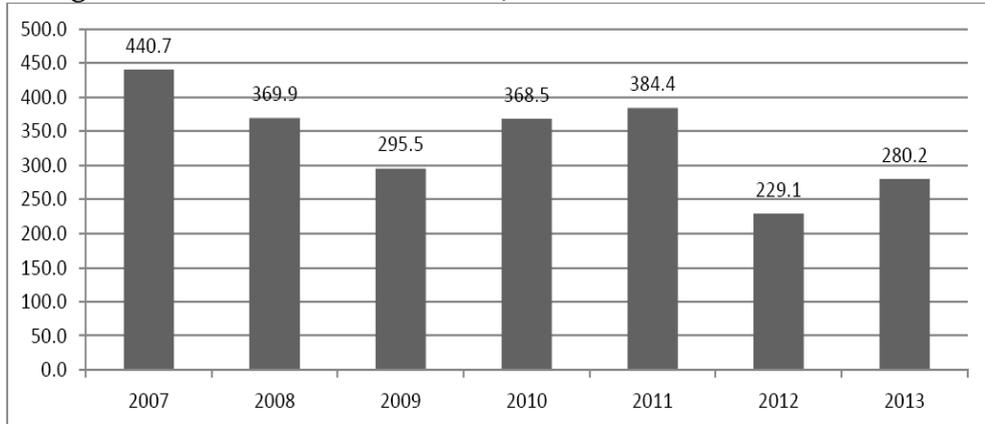
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<sup>1</sup> For more information see: <http://www.miga.org/whoweare/index.cfm>

countries. On the other hand it is noted that FDIs are low from countries that are not informed about political risk.

According to MTI (2014), the greatest sum of FDIs was in 2007, wherein their value reached around 440 Million Euros, as it is presented below in figure 1.

**Figure 1:** FDIs in Kosovo in million/euros

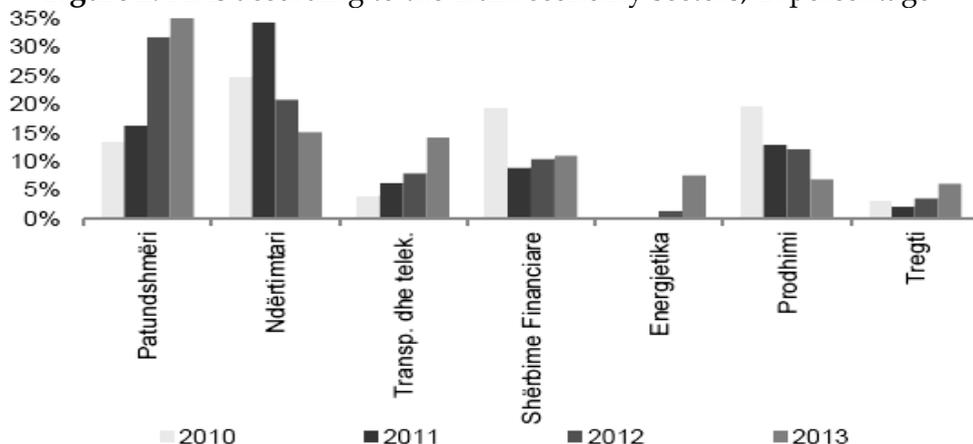


**Source:** MTI (2014)

As seen above, the lowest amount of FDIs is in 2012. It is thought that Kosovo's economy will not be affected by the global financial crisis of 2008, but FDIs can be an example of how there was a negative impact on the performance of the economy, in which the trend of FDIs does not reach the amount of 2007. In general, it is noted that on average FDI in Kosovo are 300 Million euro, so with this trend of economic growth in Kosovo, taking into account the 2014, it is seen that absorption capacities are approximate values (CBK, 2014b)

According to the CBK (2014), the structure of the FDIs that was growing during 2013 is concentrated on crediting between firms to refinance capital. At the same time this can be a good signal to potential investors that above all businesses in Kosovo realize profits and it should be invested on it.

The sectors in which FDIs are concentrated are dominated by investments in real estate and construction, sectors which are of particular importance for developing economies as they are in the process of rebuilding them. Over the years the sector that was growing most is the purchase of real estate which influenced the decrease in construction investment.

**Figure 2:** FDIs according to the main economy sectors, in percentage

Source: CBK (2014)

Investments in the manufacturing sector declined over the years, which are important indicators of performance in presenting Kosovo's economy. While investments decreased in the production process considering the negative balance of Kosovo (CBK, 2014), it hints that imports will continue to be dominant compared to exports. As the replacement of productive activity in the economy is trade, therefore it is noted that FDIs have increased, though being small, that will affect the overall structure of the Kosovo economy.

Other sectors where FDIs are concentrated are approximately in transport and telecommunications and financial services, while it is expected to have movements in the energy sector in the future, because by building new energy capacities investments can be absorbed, also the construction of hydropower can play a significant role in the future.

## 5. Impact of political risk on the FDIs

Factors driving investors to enter into the new market are different but the main one is to increase profits, and multinational corporations, investment synonyms, in addition to profit growth in the long term, they want to create bigger and stable markets. Given the corporate financial capacity as well as the position which oftentimes was created in the markets enables you to require conditions and greater security by the

receiving countries, because their activity has impact on the general flow of the economy of these countries.

Other elements that push investors to a particular country are: managerial skills, economy of scale, innovation and technological change (Bausse and Hefeker, 2007). Besides economic factors, political security, social, they require stable and reliable mechanisms, impartial and professional in the event of dispute settlement (USAID, 2009).

Investors face different risks in the countries they invest to, these countries have fragile functioning democracy and that means not functioning institutions that are tasked to create incentives for investors, and taking into account that a significant part of investments are in the developing countries (UNCTAD, 2014), it is noted that investors have problems in earning profits. FDI advantage is that they are more resilient to various economic crises that may occur in a country in relation to other types of investments (Bausse and Hefeker, 2007).

Therefore, alternative means for dispute resolution (arbitration and mediation) have a special significance in developing countries due to major differences in terms of legislation they have. However, even their previous backgrounds have had an effect in order not to see the investments as friendly thinking that the state should protect local businesses.

Alternative means for resolving disputes may have an important role in reducing political risk because of the advantages in possession of these mechanisms are directly related to several factors which measure political risk (ICRG, 2015).

## **6. Political risk of FDIs in Kosovo**

Kosovo bases a part of economic development on attraction of FDIs. It is therefore important to create suitable climate for investors, especially by reducing political risk, because state institutions have the opportunity to do more in comparison to local risks which affected the flow of the economy and other factors: geographical position, crisis faced by that region, conflicts, and others.

The attitude of the international missions in Kosovo, as the war of 1999 until today, (UNMIK<sup>2</sup>, EULEX<sup>3</sup>) even though they played an important role in state building processes that have imposed impressions of potential investors that there is political stability in Kosovo. On the other hand, the political risk is linked to political stability because some of its components are directly related to the political situation prevailing in the country.

Reduction of political risk in the country means stronger democracy that guarantees intellectual property rights, and that their protection contributes to the increase of FDIs (Busse & Hefeker, 2007). It is important that there is a good perception in terms of general investors to the country's stability but also economic stability and partly to the rule of law in Kosovo (IFC, 2014).

## **7. Methodology for assessment of political risk**

In order to explain the political risk, it should be analysed in the context of economic and financial risk and to check the relations that exist, but in this paper the political risk is analysed, given the disadvantages arising from the exclusion of economic and financial risk.

International guide for local risk (ICRG) is from 1980's, which provides ranking of countries according to the political, economic and financial risk, which includes 140 countries. This model has been successful in measuring the risk because it involves developed countries and developing countries, where their sequencing at the same time under this methodology gives rough estimate in terms of stability of the country, if compared with other reports related fields, for example the World Bank report in doing Business. As of 1993, the measurement of political risk was transferred under the management of Political Risk Services (PRS) (The PRS Group, 2015). Under this method the largest share in the overall risk measurement takes the political risk.

In estimating political risk, which has a large number of variables, there is an important role of human judgment as perceptions will affect the

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<sup>2</sup> Adoption of 1244 Resolution by the Security Council was a sufficient basis for deployment of the International Mission that had the mandate until the Declaration of Kosovo Independence.

<sup>3</sup> Adoption of the Resolution 2008/124/CFSP by the European Union deployed the EULEX as a mission that would support Kosovo towards European Union and negotiations with Serbia. For more information see: Eulex homepage. Available from: <http://www.eulex-kosovo.eu/?page=1,16>

assessment of data more than there is risk. Political risk assessment will be based on the method followed by the PRS Group including 12 variables and assessing each of them by giving points taken in the case of Kosovo. The evaluation will be for 2013. Components included in the analysis of the model are shown in Table 1, which take different values namely by 4, 6 and 12 points at the maximum, depending on the weight allocated to play within the political risk. Also the inclusion of the subcomponents in the assessment provides an accurate picture of the overall stability of the country, in this case of Kosovo.

**Table 1:** Political risk components

Component name	Points (Maximum)
Government stability	12
Socioeconomic conditions	12
Investment profile	12
Internal conflict	12
External conflict	12
Corruption	6
Military in politics	6
Religious tensions	6
Law and order	6
Ethnic tensions	6
Democratic accountability	6
Bureaucracy	4
<b>Total</b>	<b>100 Point</b>

**Source:** ICRG 2015

Assessment and analysis of these indicators in Kosovo will be based on the subject reports published by institutions and organizations depending on the scope they have. Also, evaluation and interpretation of the criteria will be based on the light of the democracy that exists in the region, because strictly comparing to the countries characterized by low political risk, then the results will not be consistent.

## 8. Overall analysis of political risk in Kosovo

*Governmental stability* indicates the ability of central institutions whether they have any governance programme and how much willing they are to implement it. This component includes three sub-components which are: government unity, legislative power and popular support.

In Kosovo, there is multi-party system, wherein 30 parties or coalitions ran for the elections at the national level in 2014 (CEC, 2014), and this implies that creation of the government is conditional on the parties' coalitions, at least this has happened as of 2001 in which no party could establish the government alone.

Due to the fact that the government is created by coalitions and constitutional obligations implying that minorities are included in state institutions (Constitution, 2008), it affects the government not have great sustainability, because the main party is under pressure from other parties to abandon the coalition.

With regard to legislative bodies in controlling the work of the government as well as in monitoring how the legislation is implemented, they haven't done enough (OSCE, 2013), and the pressure was observed in setting the agenda for the work of the parliament by the government. Low trust of citizens in our institutions (Riinvest, 2014) at the same time means little support for the work and efficiency on performance of the central institutions of the country.

*Socio-economic conditions* - Kosovo faces huge economic problems, in the economy after the war was completely destroyed. Such situation is still affecting economic problems today, especially in terms of unemployment and poverty, because there is unemployment and greater poverty in the region. Regarding the first subcomponent that unemployment in 2013 was 30 percent, there is also a high degree of inactive labor power (KAS, 2013), although there has been a decrease by about 15 percent since 2009 (KAS, 2009), there is no tendency in reducing unemployment in recent years. Taking into consideration the type of unemployment, which is structural and the great occurrence of unemployment among young people, such sub-component is highly influential in increasing the political risk of the country.

In regards to consumer safety and protection of their rights, there is no high security because the governmental or non-governmental organizations for products' quality control are not spread throughout the

country. The smuggled goods through eastern border of Kosovo and Serbia in addition to the damage caused to Kosovo budget (KIPRED, 2013), they risk the health of the citizens of the country because the products do not go through the product quality controls.

On the other hand, the third sub-component of poverty is quite apparent in Kosovo, wherein over 30 percent of the population lives in poverty, and around 10 percent live in extreme poverty (CSA, 2013). Therefore, poverty remains a problem in the economic development of Kosovo, where the policies of the institutions have not given any results in the reduction of it. Therefore, the second component plays a significant role in the country's political risk because Kosovo has serious and persistent problems its three subcomponents.

*Profile of investments* - contains components which are not covered either by economic or financial risk. Regarding the first subcomponent related to implementation of contracts and expropriation, Kosovo stands well in relation to investors, especially in the second point where the investment law prohibits any form of expropriation unless in case of public interest, and also provides security for future period in case of any change of legislation (Law no. 04 / L-220). As for the expropriation of citizens' land, their assessment was below market prices. There is good practice in regards to fulfillment of contracts by government institutions, while the situation is worse in contractual relations with private businesses. Withdrawal of profit second subcomponents is safe for investors because also by the Kosovo Constitution free withdrawal of earnings is guaranteed (Constitution 2008, Article 119.6), therefore Kosovo has made significant strides in this matter.

As for the delay in payment, it is due to bureaucratic procurement procedures that prolong the process of execution of funds, while the government has been able to fulfill the obligations undertaken so far. Except in cases that come from the privatization process, wherein though a decision was rendered in favor of stakeholders by the Constitutional Court, the government has not fulfilled its obligations deriving from that decision (Constitutional Court, 2010).

*Internal conflicts* - as of the war ended in 1999, Kosovo has not had conflicts or internal riots that would have threatened the overall stability of the country except the social riots of 2004, as well as demonstrations by the opposition concerning relations with Serbia. Therefore, the first sub-component about wars or social unrest can be assessed positively and that means full security for investors, although care should be taken in the

future because the above mentioned problems such as poverty, unemployment could cause occurrence of various riots.

With regard to terrorism and terrorist acts, Kosovo is calm because there were no cases that have created fear and panic among citizens. Since the independence of Kosovo, except the Kosovo Penal Code which defines terrorist offense (Law no. 04 / L-082), the state institutions also adopted strategies against terrorism that have contributed in capacity building against this phenomenon (Government of Kosovo, 2009, 2012), especially considering the involvement of some citizens in Syria and Iraq war, which are seen as opportunities for disturbing religious harmony in the future.

Moreover, there were no major problems or social tension which would affect the overall social stability, although there was accumulation of dissatisfaction among citizens, in terms of raising the price of electricity, the privatization process, and others, but no reactions that would have questioned the safety of the country. Therefore, in general, Kosovo regarding the internal conflicts component provides sustainable security for investors.

*External conflicts* - because of the specifications that the state of Kosovo has, which, in addition to being new, the lack of military in a way conditions its involvement in foreign wars or conflicts, although Kosovo has always supported its allies openly as it is the case with the USA (2014, September 30)<sup>4</sup> or the war between Ukraine and Russia (2014, March 2)<sup>5</sup>.

Kosovo has no direct conflicts with any country, although there are strained relations with Serbia regarding the part of North Mitrovica, but due to obligations and international pressure that Kosovo has, especially from the European Union, it has contributed to reduce these problems. Although until Serbia recognizes Kosovo as a state and they normalize their relations, it will remain an open threat to Kosovo.

*Corruption* is one of the factors being the most present in Kosovo, which is a characteristic of countries in transition, wherein a large role is played by bureaucratic procedures that increase contacts mainly with businesses and also chances of corruption. According to the United Nations office on drugs and crime (2013) business representatives consider the phenomenon

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<sup>4</sup> The Guardian (online). Available from:

<http://www.theguardian.com/commentisfree/2014/sep/30/kosovo-america-isis-radicals-jihadi-networks> (accessed on: 16.03.2015).

<sup>5</sup> Koha Net website. (online). Available from: <http://koha.net/?id=27&l=1652>, (accessed on: 16.03.2015).

of corruption as a major problem in their business activity. Also, according to Transparency International (2015) corruption is present in state institutions, as well as among politicians.

Although some institutional mechanisms for fighting corruption have been established such as the Anti-Corruption Agency (Law no. 03 / L-159), the National Anti-Corruption Council was established by the President Office of Kosovo in 2012 (Office of the President, 2015), their results are still not significant. According to non-governmental organizations, only in 2014, there were filed 3,500 cases of corruption related fields, where a major part of them are still unresolved (Fol, 2015). Therefore, corruption presents one of the main problems regarding the attraction of investors to the country.

*The influence of the army in politics* - as far as this component concerns, Kosovo does not have an army yet and as a consequence it can be said that there is no influence of politics. Though there is the Kosovo Security Force that carries out the major functions of the Army (Law no. 03/L-082), including sending forces abroad (Law no. 04 / L-177) no pressure was observed on the country's political spectrum from this force.

*Religious tensions* - Kosovo has historically been a country with religious tolerance, therefore the raised religious tensions in recent days have faded this tolerance but again there is will among the institutions and citizens to preserve this harmony among the religious. According to international institutions, namely the US Embassy in Kosovo, several violations of religious freedoms were highlighted in their report (USA, 2013). Involvement of Kosovo citizen in foreign wars, thought that it may affect the establishment of religious tensions, but Kosovo institutions following measures that have decreased the number of participants (2015, March 21). Also extraction of the ban on the union in armed conflict outside the country (Law no. 05 / L-002) is expected to decrease tensions. If analyzed by countries which are most of the investments in Kosovo is that they are from different countries in terms of religious faith (CBK, 2014) and do not face such problems.

The involvement of Kosovo citizen in foreign wars thought that in the future may affect the increase of religious tensions, but Kosovo institutions following measures that were taken have decreased the number of participants (2015, March 21)<sup>6</sup>. Also the adoption of the law prohibiting on joining in armed conflicts outside the country (Law no. 05 / L-002) is

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<sup>6</sup> Die Presse, (Online).

expected to decrease tensions. If analyzing countries from which the majority of investments come to Kosovo, it indicates that that they are from different countries in terms of religious faith (CBK, 2014) and do not face such problems.

*Rule of law* - based on the explanation of the above components, especially corruption, it is noted to have fragile rule of law and. The large number of senior officials involved in corruption and the occurrence of numerous scandals affected people's trust in the country's institutions to be low (KCSS, 2014). Therefore, the rule of law remains a challenge for the state of Kosovo in order to create a suitable climate for potential investors.

*Ethnic tensions* - since the end of war in Kosovo, there were two key moments in which ethnic tensions have been at critical point, which are riots of March 2004, and the Kosovo police intervention in the 2011's in Mitrovica North. Besides the Serbian community living in northern Kosovo municipalities that have not yet been fully integrated into the Kosovo institutions, the rest of minorities are integrated. The impact of ethnic tensions in FDIs is not a problem except for the part of North Mitrovica, which, anyhow, has capacity for investment.

*Democratic accountability* - although it has been a short period of time since the independence of Kosovo and the functioning of state institutions, the support by organizations and international institutions in Kosovo is expected to install a spirit of accountability by institutions. Among smaller rights is citizens' access to public documents, it was noted that there is low interest, due to reasons of delay or not providing adequate responses (2013, January 28).<sup>7</sup>

The electoral process in Kosovo is accompanied by problems, particularly in parliamentary elections in 2011 (KIPRED, 2011), and then the lack of government spokesman throughout the mandate of the government has affected its transparency (2014, August 8)<sup>8</sup>. Also, it was observed the political interference in the judiciary especially by the executive (European Commission, 2013).

*Bureaucracy*- is a problem especially for countries in transition because changes face, while human capacities as well as technological capacities, such as digitalization, are limited. There is also a link between bureaucracy and corruption for contacts to expedite the proceedings result in

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<sup>7</sup> Jeta Newspaper in Kosovo website. (online).

<sup>8</sup> Koha Net website. (online).

corruption. Reforms made by the institutions to function more easily influenced Kosovo businesses to raise as regards facilities, with special emphasis on the opening of business (World Bank, 2015), but most of the problems are related to public procurement, where hundreds of complaints are made regarding the subjects in the process (European Commission, 2013).

## 9. Results

Political risk measurement under ICRG method is presented in Table 2, which in addition includes subcomponents where the first five have three subcomponents.

The assessment is based on the total points of components reaching 100 points, and depending on the points that a country takes, it is classified in one of five categories. If the total score is between 0 - 49.9 points means a very great political risk; 50 - 59.9 great political risk; 60 - 69.9 moderate political risk; 70 - 79.9 low political risk; and 80-100 very low political risk. In the table, there are indicated the maximum points score, which means the points that can be taken by a country in the best case, as well as scores achieved for which the situation in Kosovo was assessed.

The assessment on components was carried out based on commenting and evaluating the above reports, wherein in case we have a positive assessment of all reports then it receives maximum assessment and vice versa.

**Table 2: Assessment of political risk in Kosovo**

No.	Component	Maximum points	Achieved points
1.	<b>Government stability</b>	<b>12</b>	<b>8.5</b>
	a. Government unity	4	3
	b. Legislative strength	4	2.5
	c. Popular support	4	3
2.	<b>Socioeconomic conditions</b>	<b>12</b>	<b>4.5</b>
	a. Unemployment	4	1
	b. Consumer confidence	4	2.5
	c. Poverty	4	1
3.	<b>Investment profile</b>	<b>12</b>	<b>10</b>
	a. Contract viability / Expropriation	4	3
	b. Profit repatriation	4	4
	c. Payment delays	4	3
4.	<b>Internal conflict</b>	<b>12</b>	<b>8</b>
	a. Conflict war / Coup threat	4	4
	b. Terrorism / political violence	4	2.5
	c. Civil disorder	4	1.5
5.	<b>External conflict</b>	<b>12</b>	<b>9</b>
	a. War	4	3.5
	b. Cross - border conflict	4	3.5
	c. Foreign pressures	4	2
6.	<b>Corruption</b>	<b>6</b>	<b>2.5</b>
7.	<b>Military in politics</b>	<b>6</b>	<b>6</b>
8.	<b>Religious tensions</b>	<b>6</b>	<b>5</b>
9.	<b>Law and order</b>	<b>6</b>	<b>3</b>
10.	<b>Ethnic tensions</b>	<b>6</b>	<b>3.5</b>
11.	<b>Democratic accountability</b>	<b>6</b>	<b>4</b>
12.	<b>Bureaucracy quality</b>	<b>4</b>	<b>2</b>
	<b>Total</b>	<b>100</b>	<b>66</b>

**Source:** the data processed by the author

Based on the outcomes of the above components, it is seen that Kosovo is in general a stable and safe country, and based on political risk it belongs

to the group of countries with moderate political risk, although it should concentrate more on reduction of political risk in some components.

Components with less political risk are: investment profile, external conflicts, the influence of the military in political and governmental stability, these components which, with particular emphasis on the first, and certainly provide suitable conditions for investors. While the components in which Kosovo stands at worst position are: socio-economic conditions and corruption, in which huge economic problems such as poverty and unemployment affect the overall economic performance.

## **10. Conclusion**

Political risk is more sensible in countries in transition because there are large differences between its components which serve to measure it, increasing the overall risk of the state functioning, because problems could occur at the national level by the total failure of any component.

The entry of FDIs in Kosovo is more associated with macroeconomic performance of other processes, for example privatization, rather than the influence of political risk, because although there was a political risk reduction, it was not observed over the years about positive sustainable FDI growth.

The main parameters in which Kosovo should concentrate to reduce the political risk are: socio - economic conditions; corruption; legality and ethnic tensions, while components which succeeded are: investment profile; involvement in foreign conflicts; government stability and religious tensions.

Achievements in profile investment component are incentives for FDIs to come to Kosovo, because they are guaranteed that terms and procedures on their investments are safe, and have to cope alone with the general conditions prevailing in the country's economy. Also, the second component and the ninth are important indicators for investors because they indicate cheaper labor force and little pressure from unions to fulfill the obligations to workers.

Kosovo has made significant steps in reducing political risk, the results of which are seen, but there must be a willingness and greater political coordination in order to be competitive with the other countries in terms of policies for attracting FDIs.

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