

2 Investment policy and promotion

Creating an attractive environment for investors is essential to stimulate economic activity and to foster sustainable economic growth. This chapter assesses the scope and effectiveness of existing policies and strategies that aim to enhance investment volume and quality. The first sub-dimension, investment policy framework, assesses the robustness of legal framework for investment, the efficiency of dispute settlement mechanisms, as well as intellectual property rights enforcement and awareness-raising capacity. The second sub-dimension, investment promotion and facilitation, focuses on investment promotion agency structures, investment promotion strategies and investor incentives, all geared towards attracting foreign direct investment. The third sub-dimension, mobilising sustainable investment, explores the strategic framework for a sustainable investment governance, while also reflecting on the scope of financial and technical support allocated to sustainable investment.

Key findings

Kosovo has significantly improved its performance in the investment policy and promotion dimension. The economy's score increased to 3.4, compared to 2.0 in the 2021 assessment, with important progress across all policy areas (Table 2.1). Kosovo performs on par with the regional average and outperforms the region in mobilising sustainable investment.

Table 2.1. Kosovo's scores for investment policy and promotion

Dimension	Sub-dimension	2018 score	2021 score	2024 score	2024 WB6 average
Investment policy and promotion	1.1: Investment policy framework	2.6	2.0	3.8	3.9
	1.2: Investment promotion and facilitation			3.0	3.3
	1.3: Mobilising sustainable investment			3.5	2.8
Kosovo's overall score		2.6	2.0	3.4	3.4

The **key findings** are:

- Kosovo's foreign direct investment (FDI) remains overly concentrated in non-tradable sectors – construction and real estate account for 80% of the FDI stock. Despite an increase in investment promotion activities by the Kosovo Investment and Enterprise Support Agency (KIESA), initiatives targeted at attracting investment in high-value and export-oriented sectors will be crucial.
- Recent reforms concerning dispute settlement create a more favourable business environment in Kosovo. The economy established a dedicated Commercial Court in August 2022 tasked with handing all business disputes and administrative conflicts and introduced an online mediation tool – the number of civil cases resolved through mediation saw a notable increase, from 184 in 2020 to 887 in 2021.
- The adoption of the new Law on Sustainable Investments is expected to strengthen the institutional setting for attracting and promoting investments. The Law includes the establishment of a new investment promotion agency (IPA) that will supplant KIESA in functions related to foreign investment facilitation and assistance. However, at the time of writing, the IPA had yet to be established.
- With the adoption of several new laws in 2022, the economy considerably improved its legislative framework for intellectual property rights, increasing its alignment with international standards. Nevertheless, intellectual property rights (IPR) enforcement and awareness raising continue to remain challenging in Kosovo.
- Kosovo is in the process of developing a National Investment Policy, expected to be finalised in late 2024. This policy is partially aligned with the Sustainable Development Goals (SDG)-linked sustainable investment objectives set out in the OECD FDI Qualities Policy Toolkit. However, Kosovo already counts on financial and technical supports for investments responding to all four SDG-linked sustainability objectives.

State of play and key developments

Unlike many other economies in the region, Kosovo did not experience a decline in inward foreign direct investment flows in 2020 and 2021 during the COVID-19 pandemic. Rather, inward FDI has increased year-on-year since 2019, reaching EUR 844.3 million in 2022, over three times its 2019 level (EUR 255 million) (Central Bank of Kosovo, 2023^[1]). In terms of GDP, annual net FDI inflows reached 8.6% in 2022, such that Kosovo was second only to Montenegro by this measure that year (World Bank, 2023^[2]). FDI inflows remain highly concentrated in the real estate sector,¹ which has accounted for a majority every year since 2014. Together with construction, it accounts for 80% of FDI (European Commission, 2023^[3]). While inward investment into the manufacturing sector was significant in the past, that has not been the case over the past decade. The EU remains the most important source of FDI, accounting for 40% as of June 2023 (Central Bank of Kosovo, 2023^[1]).

Sub-dimension 1.1: Investment policy framework

Kosovo considerably reformed its **legal framework for investment**. In October 2023, the government approved a new draft stand-alone Law on Sustainable Investments (Box 2.1). The new legislation will consolidate and streamline the legal framework, while strengthening the institutional setting for investment promotion and SME development. By clearly defining the respective roles of both KIESA and the Agency for Investment and Export (AIE), the two agencies could enhance their efficiency in assisting existing companies and attract more quality FDI. In 2022, the government also passed the Law on Technological and Industrial Parks, which regulates the creation, oversight, organisation, promotion, and usage of industrial parks and technological parks. The law came into force in November 2023. The government is also developing a new National Investment Policy, expected to be adopted in late 2024.

Kosovo maintains an open market with minimal **exceptions to national treatment**. According to the 2019 OECD FDI Regulatory Restrictiveness Index, Kosovo scored the lowest (0.001) among the WB6 economies, significantly below the OECD average (0.064) (OECD, 2020^[4]). This exceptionally low score signifies that Kosovo imposes very few restrictions on foreign investment. Foreign firms operating in Kosovo enjoy the same privileges as local businesses, as there are no screening mechanisms in place. Article 40 of the draft Law on Sustainable Investments envisages investment screening on the basis of public order and security (see Box 2.1).

Kosovo has made important strides in terms of upgrading its **dispute settlement** regime. In line with a Recommendation from the *Competitiveness Outlook 2021*, a dedicated Commercial Court commenced operations in August 2022. Previously, commercial disputes had been handled by the Pristina Basic Court, but due to a deficiency in specialised expertise, ineffective management, and insufficient processes, cases often became stalled in a state of uncertainty, requiring several years to achieve resolution (USAID, 2023^[5]). The commercial court adjudicates all commercial disputes and administrative conflicts and serves as both a first- and second-instance court. The new court was expected to be assigned more and better trained judges and court staff, leading to shorter deliberation times, better quality decisions and more transparent processes (USAID, 2023^[5]). In July 2023, Kosovo Judicial Council (KJC) and the United States Agency for International Development (USAID) Programme for Commercial Justice signed a Memorandum of Co-operation on the Digitisation of the Commercial Court. The Memorandum encompasses improvements in the Case Information Management System to make it the primary data source for supplementary procedures in administrative and managerial decision making. USAID will also support KJC in setting modules for managing performance indicators, enhancing the Open Data Platform, addressing data protection challenges, harmonising processes with the platform of the Tax Administration and implementing the mobile application for notifications, along with linking the Registry of Bank Accounts to the Case Information Management System (Kosovo Commercial Court, 2023^[6]).

Box 2.1. Kosovo's draft Law on Sustainable Investments

In October 2023, the government adopted a new Law “to regulate protection, promotion and encouragement of sustainable investments in Kosovo” (Article 1). The new Law will also contribute to compliance with EU Regulation 2019/452² establishing a framework for the screening of FDI entering the EU. In stating its basic principles (Article 4), the Law commits to responsible and sustainable investment in line with both the UN Principles for Responsible Investment and the Declaration and Decisions on International Investment and Multinational Enterprises of the Organisation for Economic Co-operation and Development”. The legislation also commits to non-discrimination (Article 6), protection from expropriation “except when it is necessary for the purpose of public interest, according to the legal provisions of the Law on Expropriation” (Article 10), and market value compensation in the event of expropriation (Article 13).

Substantively, the draft Law identifies 10 priority sectors for investment³ (Article 16): i) manufacturing and processing industry, ii) agriculture, iii) information and communication technology (ICT), iv) education, training, research and innovation, v) health, vi) tourism, vii) sewage and waste administration, viii) transport, ix) energy, and x) mines.

The draft Law defines both “strategic” and “sustainable” investments and foresees the creation of a new IPA – the AIE – which would supplant KIESA. It also envisions the establishment of an aftercare unit within the agency, which would be tasked with supporting the strategic expansion of foreign-owned firms already operating in Kosovo. Unlike its predecessor, the AIE will fall under the remit of the prime minister’s office (Article 19) rather than the Ministry of Industry, Entrepreneurship, and Trade. This suggests a high degree of political commitment to the sustainable investment agenda.

The AIE is also to be assigned responsibility “for co-ordination with competent bodies of the ministries and agencies for processes of evaluation and additional verification of investments” (Article 19). A second body, the Agency for Support to Enterprises in Kosovo (ASEK), will be established in parallel to take on the SME promotion activities currently undertaken by KIESA. In addition, a new Investment Council, chaired by the prime minister and with the AIE operating as its secretariat, is to be established (Article 21) to “evaluate, select, implement, supervise and decide on strategic investment projects”. It will also “approve action plans and publish reports on the promotion and protection of investments”.

A new investment screening regime, for purposes of “public order or national security” (Articles 40-44) is to be established. With respect to dispute resolution, the AIE is to be a first potential port of call by way of providing an investor with a “consultation” (Article 45), while recourse to a Complaints Panel (Article 46), domestic courts (Article 46), and arbitration (Article 48) is also explicitly provided for. With respect to the latter, it is stipulated that an “arbitral award shall be recognized and enforced in accordance with the relevant law on arbitration”.

Taken as a whole, the draft Law represents an important advance in, and streamlining of, Kosovo’s legal framework for investment.

Source: Government of Kosovo (2023^[7]).

The Commercial Court has reached its intended roster of 18 appointed judges. In July 2022, a total of 6 754 cases were relocated to the first-instance chambers of the Commercial Court, while 1 342 cases were transferred to the second-instance chamber (European Commission, 2023^[3]). At the time of writing, there were 2 126 published judgements of the first instance chambers and 3 027 of the second instance chambers since the court began its operations (Kosovo Commercial Court, 2024^[8]; Kosovo Commercial Court, 2024^[9]). The court services have received a generally positive evaluation from users, with 65%

expressing satisfaction with the accuracy of information provided by court employees regarding their respective cases. Additionally, 68% reported timely notification of court schedules. A significant majority, 68%, stated that they were adequately informed about their rights in court, were treated fairly alongside other parties, and could use their mother tongue during proceedings. However, there is room for improvement in the efficiency of proceedings, as 57% of surveyed users indicated challenges in completing their tasks within a reasonable time frame (Kosovo Commercial Court, 2024^[10]).

There is evidence of a sharp increase in the number of civil cases resolved through mediation (from 184 in 2020 to 887 in 2021 (USAID, 2022^[11]). As a response to the COVID-19 pandemic, the government introduced an online mediation tool. When the courts returned to pre-pandemic activities, online mediation remained as a viable tool for dispute resolution. In line with another Recommendation from the *Competitiveness Outlook 2021*, significant efforts have been made, in partnership with USAID, to increase public awareness and implementation of mediation mechanisms. As part of these efforts, in September 2022 USAID, in collaboration with the government, the private sector and professional mediators, organised Kosovo's Mediation Week, which comprised awareness-raising workshops, roundtables and information sessions. Moreover, from February 2019 to February 2024, USAID led an initiative – Commercial Justice Activity – focused on limiting corruption opportunities and enhancing public and business perceptions by refining commercial dispute resolution and reinforcing the implementation of judgements. The initiative also piloted an internship programme – the Commercial Justice Academy initiative – and fostered outreach and awareness messaging targeted toward youth (USAID, 2019^[12]).

In 2022 there were several significant reforms to Kosovo's **IPR legal framework** aimed at bringing the economy into closer alignment with international norms. In 2022 new laws entered into force, including Laws on Trademarks, Protection of Trade Secrets, Topographies of Semiconductors, Industrial Design and Patents. Nevertheless, IPR enforcement and awareness raising remain challenging in Kosovo, as insufficient co-ordination between law enforcement and policy makers hinders effective enforcement (European Commission, 2023^[3]). The public's awareness of IPR remains low. The National Strategy for Strengthening the Copyright System 2019-23 included endeavours to improve this, as two specific objectives of the National Strategy aim at raising awareness through written materials, lectures and workshops. Nonetheless, public awareness of the importance of IPR remains below potential, suggesting the need to further reinforce these efforts going forward.

Sub-dimension 1.2: Investment promotion and facilitation

Kosovo's **investment promotion agency structure and strategy** is set for fundamental reform. The Kosovo Investment and Enterprise Support Agency (KIESA) currently has a broad mandate, which includes investment promotion and facilitation. Following KIESA's restructuring later in 2024, one of the proposed new successor agencies, the AIE, would be a dedicated IPA coming under the auspices of the prime minister's office. Even in advance of implementation of this institutional reform, KIESA has been stepping up its activity levels, backed by improved financial resources. The agency organised 29 investment promotion or matchmaking events in 2022, up not only from the artificially low pandemic-era levels (5 in 2020 and 11 in 2021), but also from the pre-pandemic peak of 24 seen in both 2017 and 2018. KIESA's budget reached EUR 10.5 million in 2022, having increased steadily during the pre-pandemic years (from EUR 2.6 million in 2016 to EUR 6.7 million in 2019). Staffing at the agency has, however, remained stable since 2019 at 24, of which 6 are dedicated to investment promotion, facilitation and aftercare activities. It will be important that the new AIE, once established, is assigned sufficient financial and, in particular, human resources with which to deliver on its mandate.

Kosovo has a fairly well developed framework in place for **investment facilitation services and aftercare activities**. Within the Investment Promotion Sector, KIESA offers pre-investment services, aiding foreign investors in starting a new business, facilitating registration procedures, and assisting in obtaining necessary permits. During the investment phase, the agency provides support in finding suitable real

estate, applying for economic zones and business incubators, and offering information on specific sectors and potential partners. While KIESA does not have a dedicated aftercare unit tasked with helping existing businesses with strategic expansion, the draft Law on Sustainable Investments mandates its establishment. Nevertheless, KIESA provides aftercare services and support for existing companies, facilitating meetings, and keeping them informed about legal and tax changes. Companies can be registered digitally through the Kosovo Business Registration Agency (KBRA), which offers e-registration on their website.⁴ While the companies can be registered on line and perform various administrative changes⁵ on line, the companies cannot access business support services or aftercare services through the KBRA system. The eKosova platform expanded its coverage from 21 services available on line in 2021 to 140 in 2023 (European Commission, 2023^[3]); it now also includes a feature for companies to apply for grants and subsidies. The agency regularly conducts a needs analysis among potential investors, visiting approximately over 300 foreign investors to gather their input on the investment climate and doing business in the economy. Based on the visits, a report is then submitted to the National Council for Economy and Investment, with a review of the required measures being adopted.

In contrast to the other WB6 economies, Kosovo does not employ **investor incentives** to attract investments. Nevertheless, it does boast an appealing taxation system and supportive measures for strategic projects, encompassing both tax benefits based on costs and those tied to profits. With a flat corporate tax rate of 10%, Kosovo also extends VAT (value added tax) benefits, such as deferrals and exemptions, particularly for the importation of raw materials and machinery. The standard VAT rate is 18%, while the reduced rate for basic consumption products is 8% and 10% in certain cases.⁶ Moreover, the tax on dividends is 0%, making the investment climate more favourable. Additionally, the current Law on Strategic Investments offers supplementary advantages to enterprises, including the allocation of state-owned immovable property and facilitated access to essential infrastructure. KIESA promotes the emergence of industrial clusters in the special economic zones, subject to the Law on Economic Zones (first introduced in 2009 and amended in 2013 and 2023). These clusters and technology parks play a crucial role in establishing linkages between public and private sector stakeholders and often offer solutions for investment facilitation (Box 2.2). In December 2020 the government approved a draft Law amending the Law on Economic Zones. The Law was replaced in November 2023 as the Law on Industrial and Technological Parks, which is in the process of implementation.

Box 2.2. Investment facilitation at the Innovation and Training Park (ITP) Prizren – Kosovo

ITP Prizren plays a crucial role in establishing collaborative connections among diverse stakeholders within the park, cultivating an environment that encourages synergies among the private sector (companies, enterprises and start-ups), public sector (public institutions, entities and agencies), civil society organisations (NGOs and non-profit entities) and academia (public and private universities, research and education institutions, vocational education and training providers). This approach leads to improvements in job creation, focusing on enhanced skills and practical knowledge.

Situated on approximately 40 hectares of green spaces with nearly 50 buildings, ITP Prizren strategically targets various sectors:

1. *Kosovar, regional and international companies* – These entities commercialise innovations derived from research and product development activities, stimulating economic growth and providing opportunities for practical learning.
2. *Innovations and support centres* – These organisations promote entrepreneurial activities and facilitate inter-sector interaction and partnerships.
3. *Start-ups* – ITP Prizren supports the growth and scaling up of start-ups through business incubators, capacity development and interaction with other segments within the park.
4. *Academic institutions* – These institutions play a crucial role in offering high-quality, application-oriented education tailored to meet the demands of the labour market.
5. *Public institutions and agencies* – These entities provide access to services and shared infrastructure and equipment.
6. *Civil society organisations* – Their role involves delivering nonformal education and contributing to the park's social and cultural activities.

One of the services offered by ITP Prizren is a **Soft-Landing Service** targeting investors from German speaking countries. The service bundle aims to streamline and simplify the integration process in the economy, serving as a reliable local entry point. In partnership with the Kosovo-German Chamber of Commerce (KDWV), personalised consultations are provided for investors. These consultations cover essential aspects such as customs procedures, legal export guidance, supply chain advice, and assistance in identifying partners, suppliers, and clients in Kosovo. The service package provides a one-year membership in KDWV, granting access to a host of benefits and resources. In addition, participants receive courses on effectively navigating the business landscape in Kosovo, facilitating a deeper understanding of local practices. The package extends support in the crucial process of company registration, ensuring a smooth entry into the market. Moreover, connections to legal, audit, and tax offices are facilitated, offering essential guidance and compliance. In 2022-23, KIESA provided EUR 6 million for the development of an innovation ecosystem within ITP.

Source: ITP Prizren (2024^[13]).

Sub-dimension 1.3: Mobilising sustainable investment

Two reforms under development are expected to underpin a solid **strategic framework and governance for sustainable investment** in Kosovo going forward. First, with respect to the National Investment Policy under development, two of the five envisioned objectives are i) the generation of comprehensive and decent employment, and ii) supporting the growth of green industry, broadly aligned with two of the four Sustainable Development Goals (SDG)-linked sustainable investment objectives set out in the OECD FDI

Qualities Policy Toolkit. Moreover, two of the ten expected priority policy actions are, respectively, i) the establishment of modern industrial parks with eco-friendly features, to attract investment and facilitate inter-firm horizontal and vertical collaboration, and ii) supporting increased investments in green technologies through combining loans and grants to improve efficiency and digitalisation. Secondly, the draft Law on Sustainable Investments will provide an overarching legislative and institutional framework for sustainable investment. Nonetheless, the draft legislation does not explicitly link the framework to, for example, the SDGs. Rather, it defines a sustainable investment as being “in an economic activity that contributes to the fulfilment of one or more of the objectives and priority sectors” defined in the law itself. However, the definition goes on to call for “giving priority to the improvement of the environment [and] the social aspect”.

Kosovo already counts on **financial and technical supports for investments** responding to each of the four SDG-linked sustainability objectives set out in the OECD FDI Qualities Policy Toolkit, while further such supports are under consideration following the conducting of a needs assessment.

Overview of implementation of Competitiveness Outlook 2021 recommendations

Progress in implementing the 2021 Competitiveness Outlook Recommendations has been rather strong, especially in the area of reinforcing the strategic and legal framework for investment, as well as enhancing the commercial dispute settlement system, notably through the establishment of the Commercial Court. Moderate progress was achieved in increasing public awareness about the availability of a mediation mechanism and reinforcing KIESA’s investment facilitation role. Moreover, there is room for improvement in the co-ordination of IPR bodies, in which limited progress was achieved despite reforms in the area (Table 2.2).

Table 2.2. Kosovo’s progress on past recommendations for investment policy and promotion

Competitiveness Outlook 2021 recommendations	Progress status	Level of progress
Adopt and develop a clear strategy to attract FDI and proactively target investors	In October 2023, the government adopted the Draft Law on Sustainable Investments, which identifies 10 priority sectors for investment attraction.	Strong
Reinforce the independence, resources and capacity of the court system, notably for commercial disputes	Kosovo established a Commercial Court in August 2022, which significantly improved the business environment in the economy. The court has 18 appointed judges.	Strong
Increase public awareness and implementation of the recently adopted mediation mechanisms	Online mediation was instituted as a response to COVID-19, and has been maintained thereafter. There is also evidence of significant increases in the take-up of mediation.	Moderate
Reinforce the co-ordination between IPR implementation and enforcement bodies, increase IPR agency capacity and resources, and step up IPR awareness-raising efforts	While there have been several important reforms in the legal regime governing IPR, there is no significant evidence of institutional strengthening of the nature envisaged in the Recommendation.	Limited
Reinforce KIESA’s investment facilitation role, notably through better co-ordination with other government bodies and agencies	Article 19 of the Sustainable Investments Law clearly delineates the competencies of two successor agencies, namely the AIE and the Agency for Support to Enterprises in Kosovo (ASEK). The AIE will assume responsibility for investment promotion, facilitation and aftercare, as well as taking responsibility “for co-ordination with competent bodies of the ministries and agencies for processes of evaluation and additional verification of investments”. ASEK will be focused on financially supporting SMEs through several grant schemes, including the Innovation Fund, establishing, developing and promoting industrial and technological parks and business incubators, and promoting tourism activities.	Moderate

Ensure adequate capacity and resources for KIESA to allow it to fully implement its comprehensive mandate	Progress has stalled or – based on budget and staffing – gone into reverse in recent years. However, a new successor agency is to be established under the Sustainable Investments Law, which will come under the remit of the prime minister’s office.	Limited
Integrate green growth priorities into the National Development Strategy	Kosovo is in the process of developing a National Investment Policy, with one of its five objectives being to support “the growth of green industry”.	Moderate

The way forward for investment policy and promotion

While Kosovo has made significant progress across all areas since the last CO assessment, improving the attractiveness of Kosovo as an FDI destination will require the adoption of further investment policy reforms, policy adjustments, and institutional reinforcements in the following areas:

- **Ensure that the AIE is adequately resourced to deliver on its mandate.** It will be crucial that the two successor agencies to KIESA to have a clear separation of mandates and competencies. Establishment of the AIE should ensure better focus on the investment promotion, facilitation and aftercare mandate. It will be important that the AIE is equipped with sufficient financial and human resources to deliver on this mandate in addition to playing its co-ordinating role on the new Investment Council, without impacting KIESA’s personnel levels. In particular, sufficient resources should be made available to reinforce efforts to promote linkages effectively between SMEs and multinational enterprises.
- **Enhance the co-ordination between entities responsible for implementing and enforcing IPR, bolster the capacity and resources of IPR agencies, and intensify efforts to raise awareness about IPR.** Presently, IPR bodies can only conduct modest awareness-raising campaigns as they lack the capability to train and assign specialised judges and prosecutors to address IPR disputes. These aspects should be made central to any successor to the National Strategy for the Strengthening the Copyright System 2019-23.
- **Ensure that the updated Law on Industrial and Technological Parks fully integrates SDG-linked sustainability objectives.** In accordance with the National Development Strategy – 2030,⁷ the forthcoming Investment Policy, and the draft Law on Sustainable Investments, the Law on Industrial and Technological Parks should make explicit provision for measures that contribute to Kosovo’s sustainable development priorities, and to decarbonisation in particular. Consideration could be given to the establishment of one or more “green” economic zones, similar to the Gevgelija zone in North Macedonia.⁸ While there is already evidence of progress in that area, specifically with the Law on Industrial and Technological Parks paving way for integrating greening-oriented, eco-friendly practices in industrial parks, the legal framework should also make provision for the conducting of rigorous cost-benefit analyses of new and existing special economic zones (SEZs), taking into account economic, social and environmental as well as fiscal aspects.

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Notes

¹ The source of the majority of the real estate investments in Kosovo is the diaspora.

² See the regulation on EUR-Lex for more: <https://eur-lex.europa.eu/eli/reg/2019/452/oj>.

³ The list of priority sectors can be amended by way of secondary legislation (per Article 16 of the draft Law).

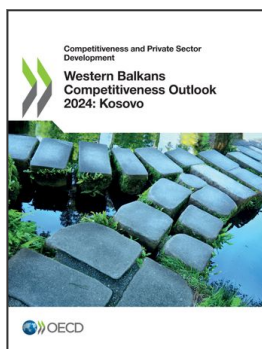
⁴ See the System for Registration of Businesses in Kosovo for more: <https://rbk.rks-gov.net>.

⁵ The system allows changing the following: name, address, activity, owners, board, capital and representative. The system also allows closing the company, adding additional information and requesting duplicates of certificates.

⁶ For example, the supply of electricity, supply of water, agrifood products, medicine, information technology (IT) equipment and medical equipment.

⁷ Read the National Development Strategy 2030 here: <https://kryeministri.rks-gov.net/en/national-development-strategy-2030>.

⁸ The Technological-Industrial Development Zone Gevgelija, situated near the Bogorodica border crossing to Greece, will be the first green zone in the Balkans, covering a total area of 502 500 m². The establishment of this green zone is anticipated to align with the Western Balkans' green agenda beginning in 2020, emphasising the development of medical components within the zone and aiming for zero greenhouse gas emissions by 2050.



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