

RECOVERY, INCLUSIVENESS, SUSTAINABILITY

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RECOVERY

ECONOMY

COORDINATION

ORGANIZATION

VARIETY

EQUALITY

RESPONSIBILITY

YOUTH

Measure 2

Revival of Economy and Manufacturing

For the Newsletter

The “Recovery, Inclusion, Sustainability” Newsletter is a monthly publication of the Institute for Development Policies - INDEP, whose aim is to provide detailed information to Kosovo citizens about the implementation of measures contained in the Economic Revival Package. The measures integrated in this package are aimed at facilitating the economic recovery, and overcoming the disruptions caused by this pandemic in peoples’ lives and businesses. Therefore, this package holds great importance for the economic recovery of the country.

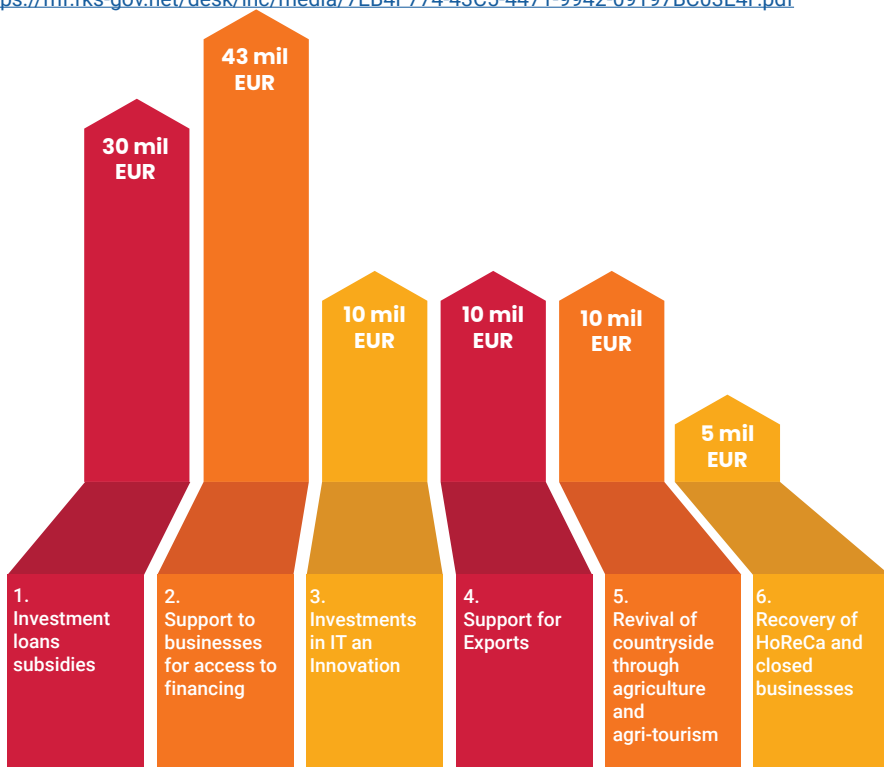
This newsletter, the fourth in a row, will elaborate and provide additional information including analyses regarding Measure II of the Economic Revival Package. This measure is called the Revival of the Economy and Manufacturing and allocates a total of **108 million Euros** to support these sectors. The “Recovery, Inclusion, Sustainability” Newsletter is realized within the “Recovery4Sustainability” Project supported by the Balkan Trust for Democracy (BTD) and USAID.

→ WHAT DOES MEASURE II OF THE ECONOMIC REVIVAL PACKAGE OFFER?

Since March 13, 2020, when the first two cases of infection with the COVID-19 virus were confirmed in the Republic of Kosovo, to this day, the economic sector and especially the manufacturing sector have suffered tremendous disruptions. The initial total lockdown, followed by partial openings, have caused serious disruptions and obstacles in the economic development of the country and in the progress of the manufacturing sector. To prevent further spreading of the pandemic, businesses faced losses in the order of millions, some of them even total closure.

All these difficulties made the inclusion of such a measure in the Economic Revival Package inevitable. In terms of the amount of money allocated to this package's Measure II, Revival of the Economy and Manufacturing, it is the second in size, with a total of **108 million Euros**.¹ This amount of money is foreseen to be divided into six sub-measures which represent the sectors included in this category. The six sub-measures of Measure II of the Economic Revival Package are:

¹ Ministry of Finance, Economic Revival Package, Measure 2, available at <https://mf.rks-gov.net/desk/inc/media/7EB4F774-43C5-4471-9942-09197BC03E4F.pdf>



SUB-MEASURE 2.1. INVESTMENT LOANS SUBSIDIES

What are investment loans?

Investment loans are financing tools that enable the opening of a business, investment in a current business, business expansion, purchase of facilities, or even business renewal. These loans are an opportunity for revitalization and return to normalcy, as a tool to finance the reopening of businesses, the return to work of those who have lost their jobs, or even the opening of new businesses. Therefore, in terms of importance and function, investment loans are an option for businesses aiming to recover from the pandemic.

Investment loans are of particular importance in terms of economic development and business upgrades. The investments made by securing funding through investment loans, create greater stability for businesses, increase revenues, secure employees and develop capacities. Therefore, such assistance is welcome, because it can support and develop businesses but also the country's economy.

During difficult economic periods, loans to businesses are of particular importance, as they create conditions for economic development and recovery of losses. Investment loans enable the circulation of money, various investments, and the strengthening of financial stability. Therefore, the first sub-measure of Measure II of the Economic Revival Package, seeks to provide assistance to businesses in this regard. A total of **30 million Euros** are allocated for this sub-measure.

The beneficiary categories of this measure are:

- **Businesses aiming to expand current capacities**
- **Women-owned businesses**
- **Businesses that have maintained their number of employees, but that have incurred financial losses**

This sub-measure is quite effective for beneficiary businesses, as it enables subsidizing of 20% of the loan principal, with 10% subsidized at the beginning, and also providing an initial grace period, which enables businesses to develop and generate income, without having the burden of the loan repayment, while the other 10% will be subsidized at the end if the foreseen investments are accomplished. This sub-measure could have been designed differently, for example to provide interest coverage for short-term loans. But this would pose problems for businesses as the pressure of time would increase, and the loan installment would increase, and at the same time the Government of the Republic of Kosovo would have bigger problems in terms of subsidies.

SUB-MEASURE 2.2. SUPPORT TO BUSINESSES FOR ACCESS TO FINANCING

This sub-measure will seek facilitate the access of businesses to investment guarantee funds. In this context, this sub-measure will seek to support the capital of the Kosovo Credit Guarantee Fund (KCGF), increasing the capital of this institution by **40 million Euros**, an action that will pave the way for guaranteeing another 120 million Euros in loans to businesses. However, this sub-measure includes another **3 million Euros**, which according to the Government of the Republic of Kosovo will pave the way for another 86 million Euros of guaranteed loans. So in total, to this measure are allocated **43 million Euros**.

But what is the Kosovo Credit Guarantee Fund (KCGF)?

The Kosovo Credit Guarantee Fund (KCGF) is an independent institution that issues guarantees to financial institutions to cover the credit risk of micro, small and medium enterprises (MSMEs). This institution creates security and facilities for access to finance for businesses belonging to these categories. Therefore, the assistance of this sub-measure to said fund will enable the increase of capacities and will consequently create more space for businesses and for their access to the guarantees provided by the KCGF. The support of KCGF with 43 million Euros represents a direct impact on the regional economy, by increasing the fund's ability to provide assistance to businesses in need, and by also raising the hopes of businesses to seek assistance from this fund. At the same time it contributes to sustainable development, offering more options for business recovery.

The beneficiary categories of this measure are:

- **Micro enterprises**
- **Small enterprises**
- **Medium enterprises**

SUB-MEASURE 2.3. INVESTMENTS IN IT AN INNOVATION

When executed correctly, digital transformation makes a business more efficient and profitable. Technology can speed up processes, provide new ways to reach customers, and make it easier to adapt to market changes. Unfortunately, few companies realize these benefits, as most digital transformation projects fail. The need for transformation and progress is also noticed in Kosovar businesses, as technology is evolving by the day, and it has much to offers to businesses.

What is digital transformation and what is it good for?

Digital transformation utilizes technology to change the way of doing business. It' a cultural change in the way businesses interact with their clients. Companies undergoing a digital business transformation will:

- Integrate digital technology into every aspect of their business
- Change the way they work by modifying or creating new processes and new experiences for clients
- Promote a culture that represents innovation and change

As such a transformation will facilitate and at the same time bring innovation to a very important sector of the economy, contributions in this category are welcome.

7 million Euros are earmarked for this technological chapter, which aims to help small and medium-sized businesses towards their digital technology transition. While in total to this sub-measure are allocated **10 million Euros**, and the remaining **3 million Euros** will be invested in the Prizren Innovation and Training Park. Therefore, small and medium businesses are encouraged to apply for this assistance, as the era of digitalization is an inevitable future, which will create benefits for businesses but also for clients, as working becomes easier while increasing business productivity and efficiency.

The beneficiary categories of this measure are:

- **Small businesses**
- **Medium businesses**
- **Innovation and training park in Prizren**

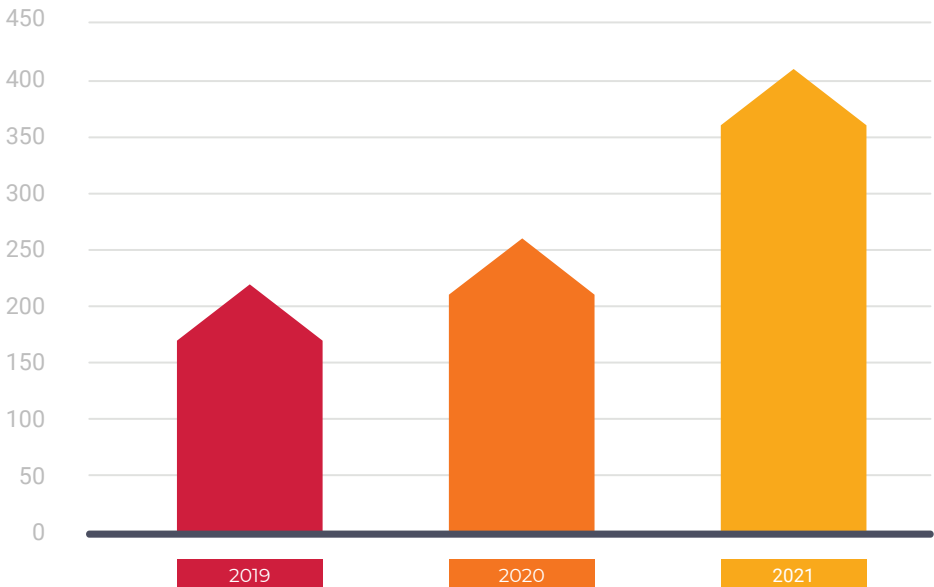
SUB-MEASURE 2.4. SUPPORT FOR EXPORTS

Trade in goods in 2020 was worth 2.8 billion Euros, indicating a lower trade deficit by 9.4% compared to 2019. Total exports for 2020 were 474.8 million Euros. Trade flows of goods fell significantly in 2020, as COVID-19 disrupted economic activities not only in Kosovo but also worldwide. There are several factors that have contributed to this decline. The total and partial closure of economic activities, the closure of borders and the interruption of free movement of citizens, the safeguards to prevent the spread of the pandemic and the declining business of many manufacturers, importers and exporters, all led to the reduction of trade deficit across the globe.

By August 2021, goods export reached a total value of 406.8 million Euros. Compared to the same period, i.e., until August 2020, when goods exports had reached the value of 255.4 million Euros, there is an increase of 59.27% of the value of exported goods. Such an increase occurred as a result of gradual openings, and the slow return to normalcy. Whereas if we compare these data with the data of the same period of 2019, when goods exports had reached the value of 218.1 million Euros, we have an increase of 86.51%.

These figures show a more successful year in terms of exports, compared to previous years. Therefore, support for this sector for further development would bring even greater benefits to the overall economy.

Goods Exports - January-August 2019-2021 Period





Export of Kosovar goods during 2020, compared to 2019, shows an annual increase of 23.8%, which represents a negative trade balance for Kosovo, as imports are many times higher. The categories that have influenced this growth are:

- various manufactured products
- chemical industry products
- plant products
- textiles and textile items
- base metals and articles thereof
- transportation vehicles
- plastics, rubber and articles thereof, etc.

Manufacturing and exports, as the main categories that strengthen the economy of a country, in addition to the financial assistance they provide to the country, create many jobs and provide monetary turnover during each period of the year. Therefore, in order to maintain and strengthen the impact of this category on economic development and other areas, the Economic Revival Package includes a total of **10 million Euros** for the Support for Export sub-measure IV of Measure II.

Goods produced in our country and products which local manufacturers seek to export to foreign markets, have to be presented to users. Therefore, this measure seeks to assist participations in international fairs through this amount allocated for this sector. In addition to this assistance, support will be provided to the design and marketing of local products. This measure was planned in such a way that the earmarked amount is allocated for the purchase of manufacturing equipment, exemptions from customs fees, and investments in energy efficiency for these businesses. Among other things, the provision of sustainable infrastructure and secure supply of electricity generated from renewable energy sources, would bring to life a measure that can have a more positive impact on this economic category.

The beneficiary categories of this measure are:

- **Manufacturing businesses**
- **Exporting businesses**

SUB-MEASURE 2.5. REVIVAL OF COUNTRYSIDE THROUGH AGRICULTURE AND AGRI-TOURISM

Our country has large spaces to be used for the development of the agricultural sector. As a sector that affects many families and which helps the overall economic development, agriculture has been and still remains a very important sector of the Kosovar economy. During 2020, a year which disrupted the activities of each sector in Kosovo, including agriculture, 188,371.71 hectares were cultivated. From this figure, most of the land was used for planting cereals.

Agri-tourism is a subset of a larger industry, called rural tourism that includes resorts, farmer markets abroad, non-profit agricultural tours, and other leisure and hospitality businesses that attract visitors to the countryside. Currently, this sector is developing in Kosovo, and the closures caused during 2020 had a negative impact on the targeted revenues and the number of tourists that were expected to visit these sites. As two very primary sectors for the economy of our country, both agriculture and agri-tourism help in the development of the countryside and in the recovery after the disruptions caused by the COVID-19 pandemic. Therefore, sub-measure V of Measure II, seeks to provide assistance to these categories by earmarking **10 million Euros**. Assistance will be provided through the establishment of infrastructure and support for further investments.



SUB-MEASURE 2.6. —————> **RECOVERY OF HORECA AND CLOSED BUSINESSES**

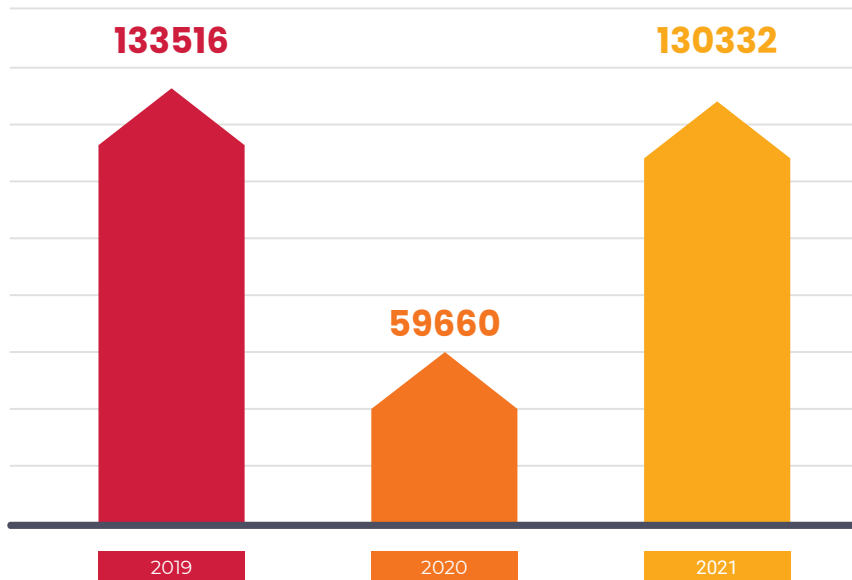
According to the data provided by the Kosovo Agency of Statistics on the various businesses operating in Kosovo, there are a total of 465 accommodation facilities in the territory of our country. Of these, 215 are hotels according to data from the first quarter of 2020. While in the last quarter of 2020, 206 hotels were operational in Kosovo. In order to prevent the spread of the pandemic, the providers of these services have been closed. Such closure lasted until June 2020, when then the gradual opening began, respecting the safeguards imposed by the Government of the Republic of Kosovo.

In terms of revenues, frequent lockdowns and other restrictions have had a negative impact, with a drop of 81-90% in the HoReCa sector, while the accommodation sector dropped by 28%. In addition to the financial impact and revenues, the sector in question has also posed a risk to workers engaged in this activity, as their job has been endangered or they have lost them. 30% of the staff working for these businesses have faced such a risk. This percentage has come as a result of the employers' difficulties in meeting their financial obligations towards their employees.



The comparison between 2019 and 2020 provides a realistic picture of the impact of the COVID-19 pandemic on the aforementioned sectors. During 2019, about 28% have realized revenues of over € 300,000, while in 2020 34% of businesses belonging to this sector have realized revenues no larger than € 50,000. In total, the data and statistics that cover the entire sector reveal that in 2020, with the outbreak of the pandemic, losses amount to 74.84% compared to 2019. The first half of 2020 brought 59,660 visitors to the hotel sector, while the first six months of 2021 brought 130,332 visitors. So there is an increase of 118.45%. Such statistics include the losses and damages that the COVID-19 pandemic, and the safeguards to prevent its spread, have caused to this sector.

Number of visitors to Q1 and Q2 for the last three years in Kosovo



Damages and losses for these very important activities are intended to be recovered during the following periods. This sector already operates under safeguards that seek to prevent further spread of the pandemic, and it is expected to be assisted by the Economic Revival Package. For this measure are earmarked 5 million Euros, and their purpose is to support the recovery and settlement of liabilities that these businesses have to the state and banks. Also, businesses that have been closed, and for which currently there are no accurate data, are included in this category that will receive assistance.

The modeling of the last sub-measure of Measure II could focus on the write-off of the liabilities these businesses that have been closed and that have suffered the most from the COVID-19 pandemic have towards the state. At the same time businesses would be encouraged to relaunch their operations and help the country's economy. This measure would represent a higher cost for the budget of the Republic of Kosovo, but would be more effective and more welcomed by businesses included in this category.

RECOMMENDATIONS

- Investment loans provided for under sub-measure I of Measure II should also subsidize other categories of vulnerable social groups, such as persons with disabilities. Furthermore, the sub-measures should support businesses that are certified in conformity with the ISO 14001 standard for Environmental Management Systems and that apply energy efficiency measures and renewable sources.
- Sub-measure 2.2 to support businesses in accessing finance should be accompanied by closer government monitoring of the Fund. Particular attention should be paid to facilitating access to loans for green businesses or businesses that transform internal processes to reduce pollution or change energy systems. Regular KCGF reporting should be put into practice in order to increase transparency and accountability.
- We recommend that the share of 3 million Euros provided for the Prizren Innovation and Training Park be awarded by open call and not allocated via the Law on Budget Appropriations. The competitive character of the recovery package must be preserved and thus foster development and recovery by increasing competition, quality and meritocracy in the allocation of public funds.
- In terms of support for exports, we consider that this measure is a good opportunity to establish a carbon dioxide emission control system. Businesses with products that are less intense in releasing pollutants into the atmosphere, must receive more incentives. This measure would thus serve as a first step in preparing Kosovo for a carbon tax system, extremely important for the implementation of the green agenda.
- The 10 million agri-tourism measure should be accompanied by land policies and tax policies for unused lands.





B | T | D The Balkan Trust
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