

Policy study: —————>

# RECOVERY THROUGH LOANS - THE EXPECTATIONS AND ACHIEVEMENTS OF THE SECOND MEASURE OF THE RECOVERY PACKAGE



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The Institute for Development Policy (INDEP), within the project “Recovery for Sustainability,” will monitor the implementation of the Economic Recovery Package. At the same time, it will inform citizens about the benefits of this package and will analyze the goals and expectations of the measures included in the Economic Recovery Package. This project is supported by the Balkan Trust for Democracy, a German Marshall Fund of the USA, and the USAID project.

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# Introduction

The COVID-19 pandemic is both a health and a socio-economic challenge. Appearing in Kosovo for the first time in March 2020, especially at a time of general isolation, has put vital segments of the economy at risk of extinction. Gross domestic product growth in Kosovo during 2020 fell to 6.88%.<sup>1</sup> Considering that just a year ago, in 2019, GDP growth was 4.9%, the decline to almost 7% below zero was rapid and shocking for the economy. The cessation of economic activity for a significant number of businesses meant a complete shutdown and for those who recovered, it took time to do so.

The difficulties posed and the danger of an unknown virus forced the countries around the world to restrict most of the activities and for a period of their closure. Various examples of pandemic care were presented, where for example Sweden did not stop economic activities for a moment, and many other countries stopped them. Our country is among the countries that prevented the spread of the virus through lockdown and cessation of economic activities. Unfortunately, such a measure caused significant losses in the economic sector, where the damages presented at that time continue to be present even today. To mitigate the injury, the Government of Kosovo adopted and implemented economic packages, which focused on the economic recovery of the Republic of Kosovo.

Law no. 07 / L-016 on Economic Recovery

- Covid-19 was adopted at the end of 2020, although drafting had begun about seven months before. Such a delay left many sectors lagging in recovery and the overall implementation of the recovery package was incomplete<sup>2</sup>. Moreover, the package that had been approved had been the subject of intense political discussions and conflicts, which also led to the adoption of several amendments that established additional incentives for the extraction of coal and other minerals. What the recovery package in particular lacked were criteria that would prepare for a better, greener recovery.

The Government of Kosovo has already approved the Economic Recovery Package, and the application process has started.<sup>3</sup> This package intends to alleviate the damage caused by the COVID-19 pandemic. Although this package is not the first aid package offered to citizens, it is the fourth package in a row. This package has allocated 420 million Euros and includes severely affected categories. The implementation of the package started after the changes made in the budget allocations and the approval of the package by the Government of Kosovo.

The recovery package did not take into account the pre-defined criteria for “green recovery”. There were neither criteria for cost-reflection from the pandemic, the greatest multiplier effect on the economy, nor criteria for energy system transformation and environmental improvement. These cri-

<sup>1</sup> World Bank (2020), Annual GDP - Kosovo, accessible at

<https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?locations=XK> (accessed October 2021).

<sup>2</sup> INDEP, (2021), Overview of the implementation of Law no. 07 / L-016 on Economic Recovery - COVID-19, Pristina: INDEP

<sup>3</sup> Ministry of Finance, Labor and Transfers, News, Minister of Finance, Labor and Transfers presented the Economic Recovery Package of 420 million Euros, accessible to <https://mf.rks-gov.net/Page.aspx?id=1,2,1091> , (accessed October 2021)

teria could be used to increase the effectiveness of recovery packages but also to utilize these moments to help energy transition and decarbonization.

The Assembly of the Republic of Kosovo, on July 16, 2021, approved in principle the Draft Law no. 08/L-016<sup>4</sup> on amending and supplementing Law no. 07/L-041 on budget allocations for the budget of the Republic of Kosovo for 2021. On July 28, 2021, the Assembly of the Republic of Kosovo held a plenary session, including the second reading of the Draft Law no. 08/L-016 on amending and supplementing Law no. 07/L-041 on 2021 Budget Allocations of the Republic of Kosovo. The Assembly of the Republic of Kosovo, on the same date, adopted Law no. 08/L-016 amending Law no. 07/L-041 on the 2021 Budget Allocations of the Republic of Kosovo.

The topic of this paper will be the first sub-measure of the second measure of the Economic Recovery Package. This sub-measure, entitled “Investment Loans Subsidy,” aims to achieve economic recovery and damage mitigation, focusing on businesses. The Kosovo Credit Guarantee Fund (KCGF) is also committed to implementing this sub-measure, through which funds will be guaranteed for a recovery from the damages caused by the COVID-19 pandemic. This paper is organized with data obtained from the Ministry of Finance, Labor and Transfers and bulletins within the “Recovery for Sustainability” project.

The analysis aims to elaborate the goals, expectations, and model that the measures have provided, to conclude the quality of the measure as such, and also the status of implementation so far. Above all, having the target audience of policymakers and with special emphasis on the Ministry of Finance and the Office of the Prime Minister, we aim that through the recommendations at the end, this analysis will serve to further improve the implementation of this measure. Also, utilizing the lessons learned, we aim to make the recommendations as a basis for designing new packages that will be even more applicable but also more efficient.



4 Official Gazette of the Republic of Kosovo, Law no. 08/L-016 amending the Law no. 07/L-041 on 2021 Budget Allocations of the Republic of Kosovo, accessible at <https://gzk.rks-gov.net/ActDetail.aspx?ActID=36153>, (accessed October 2021)

# Methodology

In the part where quantitative research was used, INDEP, through the method of monitoring and desk research, collected data and information about the implementation steps of the Economic Recovery Package measures. In addition, INDEP analyzed the data from the reports, and the team of analysts has concluded this report to be as complete as possible.

The work was carried out in the framework of the Recovery Package's monitoring process. Four bulletins and six infographics have been developed, aiming to inform citizens about the implementation of measures. The paper and the newsletters and infographics are followed by research and interviews organized by INDEP to collect data about the Economic Recovery Package. Data help in providing accurate information and in enhancing transparency by the relevant institutions.

After collecting the data, through the content analysis method, we also analyzed the attitudes of government officials to identify the expectations and impact that the measure is expected to have. This, in the absence of consultation documents, explanatory memoranda, and accompanying clarifications which is mainly lacking in the process of drafting legislation. The content analysis allowed us to match data on the level of implementation with the expectations that officials had for the sub-measure in question.

## The second recovery measure

Businesses have faced huge losses over the months leading up to the outbreak of the COVID-19 pandemic and its spread. Losses have been not only in revenue and financial turnover but also in labor losses. Due to economic hardship, many workers lost their jobs, and some of them were forced to work for reduced wages. The pandemic, as such, didn't only damage the global health sector, but at the same time, dealt a severe blow to the economy.

To address the negative consequences of the COVID-19 pandemic in Kosovo's economy, the Government of Kosovo initially approved an emergency package worth 179 million Euros. This package focused its impact on small and medium-sized enterprises. Afterward, the Government of Kosovo approved the Economic Recovery Program, allocating 365 million Euros to support businesses in creating and maintaining jobs. The current package, which has been adopted and is being implemented, has allocated 420 million Euros, and the small, medium and large enterprises are at the center of the assistance. The progressive growth of recovery packages has gone hand in hand with the fact that the Covid-19 pandemic has withstood the test of time and was relatively present all the time from the onset of the first cases until the end of 2021.

One of the most critical sub-measures and with the highest budget is sub-measure 2.1. Subsidizing investment loans.<sup>5</sup> It has a total

<sup>5</sup> Ministry of Finance, Labor and Transfers, Economic Recovery Package, accessible at <https://mf.rks-gov.net/desk/inc/media/D3A6FA8F-6A6A-42AA-A090-52062568DC47.pdf> , (accessed October 2021)



of 30 million Euros allocated, and its goal is to enable new investments, recover from pandemic damage and expand existing capacities. In addition, investment loans allow businesses more room to recover and meet individual and customer requirements.

Investment loans are funding that enables the opening of a business, investment in the current business, business expansion, purchase of facilities, or even business renovation. These loans provide an opportunity for revitalization and return to normalcy because they can fund the reopening of businesses, the return to work of those who have lost their jobs, or even the opening of a new business. Therefore, in terms of importance and function, investment loans are an option for businesses aiming to recover from the pandemic.

The objective of the sub-measure 2.1. is to assist businesses in expansion, women-owned businesses, and businesses that have not reduced the number of employees but have suffered financial damage due to the pandemic. Among other things, this is a motivation for businesses that can benefit from this sub-measure, as the economic recovery may start through economic loans. Therefore, businesses will have the opportunity to take steps towards sustainable development and advance the country's economy.

By investing through loans, you are investing borrowed money, which means you can invest a much larger amount. Because you are investing more money, the profit is bigger when the markets grow, and at the same time, the losses are higher when the markets fall if you can accept that high level of risk,

investing in credit can be an effective way to build or increase the wealth faster. Especially with the subsidy of the principal through measure 2.1. of the Economic Recovery Package, businesses have an added reason to use credit.

Investment loans may be subsidized for all businesses belonging to the beneficiary categories, which have received loans from October 1. The benefit from this sub-measure or subsidy can be up to 400,000.00 Euro. 20% of a loan up to 2,000,000.00 Euro may be subsidized if the foreseen investments are met. Businesses, of course, may get higher loans, but the peak of subsidy through sub-measure 2.1 is 400,000.00 Euro. This measure continues to be open until June 2022.



## What are the benefits of investment loans?

- Investments through investment loans can reach the targets or goals of businesses in a shorter time.
- An investment through investment loans in the total amount starts to be implemented immediately instead of waiting to build your savings with a traditional strategy.
- Investment loans create conditions for fostering sustainable development.

## What are the risks of investment loans?

- The loan involves greater risk than buying the investment using only your money because it can increase investment losses.
- You are required to repay the loan, including interest, regardless of the return on investment
- An investment loan may restrict your access to credit due to unpaid loan debt.

Beneficiaries of investment loan subsidies, or the first sub-measure of the second measure, may be some categories affected by the COVID-19 pandemic. These beneficial categories are<sup>6</sup>:

- Manufacturing and processing businesses aiming to expand current capacities
- Women-owned businesses
- Businesses that have maintained the number of employees but have had financial losses

Therefore, as a business category affected by the pandemic, investment loans can be a viable option to overcome the damage and problems that have been caused in the pandemic period.

For manufacturing and processing businesses, some conditions must be met to benefit from Investment Loan subsidies. The subsidy requirement is<sup>7</sup>:

- At least 50% of the investment should be allocated to equipment for capacity expansion, while the rest may be allocated to support costs for capacity expansion.
- The purpose of obtaining a loan should be to expand capacity.

Such a condition encourages these businesses for further development, creating larger spaces, and increasing existing capacities through the loan obtained in advance.

There are some categories in manufacturing and processing businesses in which invest-

6 Ministry of Finance, Labor and Transfers, Economic Recovery Package, Measure 2 - Economic and Production Recovery, Sub-measure 2.1. Subsidizing investment loans, accessible at <https://mf.rks-gov.net/desk/inc/media/D3A6FA8F-6A6A-42AA-A090-52062568DC47.pdf> , (accessed October 2021)

7 Ministry of Finance, Labor and Transfers, Decision No. 66/2021, accessible at [https://mf.rks-gov.net/desk/inc/media/7095D9A9-25D7-4FB5-97AD-8EEFF4EDC1C9.pdf?fbclid=IwAR0Wr\\_w1xbCvd4z\\_fHfecDFE-9k-GnITM0bIQQCC1](https://mf.rks-gov.net/desk/inc/media/7095D9A9-25D7-4FB5-97AD-8EEFF4EDC1C9.pdf?fbclid=IwAR0Wr_w1xbCvd4z_fHfecDFE-9k-GnITM0bIQQCC1) , (accessed October 2021)



ing the loan money is not allowed. For example, these funds are not authorized to be used to purchase real estate or investments not related to the production and processing activity. Therefore, this business category has defined the subsidy application requirements, which aim at achieving sustainable development and mitigating the damage caused by the COVID-19 pandemic. Still, these funds cannot be used for purposes not approved by the Government of Kosovo.

Women-owned businesses are also a beneficiary category of sub-measure 2.1 Investment loan subsidy. The condition for subsidizing these businesses is<sup>8</sup>:

- The business must be owned by women, or most of the business must be owned by women.
- The purpose of obtaining a loan should be to expand capacity
- At least 50% of the investment must be allocated to equipment and tools related to business activity

These funds are not allowed to be used for the purchase of real estate or investments not related to the production and processing activity.

Other businesses will be subsidized up to 10% of loans that are dedicated to liquidity. The maximum amount can be up to 30,000.00 Euros, but not more than 300.00 Euros per current employee. Therefore, businesses that need liquidity to continue operating and keep employees may benefit.

The application for sub-measure 2.1 Investment loan subsidy is made through the electronic service EDI of the Tax Administration of Kosovo. There are three application phases:

- The first phase of the application is the preliminary approval of the investment plan, purpose, and amount of the loan
- The second phase of the application is the subsidy of the first tranche of 15%
- The third phase of the application is the subsidy of the second tranche of 5%

Access through the electronic services option of the TAK website, under the link titled “Application for loan subsidy.” The required data are needed to examine whether the conditions for business loan subsidy are met.

The evaluation process by the Commission follows the application process. The Commission must approve this application first, and upon approval, an application can be made to any

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<sup>8</sup> Ibid.

commercial bank in the Republic of Kosovo to obtain a loan. The application, approval, and getting a loan by the business are hereby completed.

The expectations from this sub-measure are to help the beneficiary businesses in overcoming the pandemic crisis. The losses and damages are significant, and through investment loans and subsidizing some of them, the problems are not expected to go away. But relief and overcoming some problems can be achieved through them. The possibility of increasing capacities, compensation for losses, and unfinished payments, but also others can be achieved through loans.

The support from the Government of Kosovo, through this sub-measure, has a particular background. This is because, through sub-measure 2.1, the Government of Kosovo will subsidize 15% of the capital at the moment of reaching 70% of the planned investment. In contrast, the rest, i.e., 5%, will be subsidized in the business bank account, at the moment when the wages of new workers are paid in the same amount.<sup>9</sup> Through this methodology, businesses are encouraged to take loans to mitigate losses and then to meet the objectives for which those businesses received the loans.

The objectives of the second measure of the Economic Recovery Package are entirely focused on economic recovery and production recovery. Sub-measure Investment loan subsidy facilitates and accelerates the achievement of the recovery objective. Businesses already, through this sub-measure, will be able to create facilities for future achievements.

### **Objectives of the sub-measure 2.1. Subsidizing investment loans:**

- **Facilitation of damages caused by the Covid-19 pandemic.**
- **Establish the conditions for sustainable development**
- **Support and security for obtaining loans**
- **Reconstruction of the economy**
- **Enable new investments**

In the Republic of Albania, packages and assistance for businesses and citizens affected by the COVID-19 pandemic have also been implemented. In addition, through the Sovereign Guarantee, the Government of Albania has implemented two instruments in the amount of 26 billion Lekë or 213 million Euros.<sup>10</sup> The Sovereign Guarantee Instrument, through its measures, subsidizes the interest on loans and enables a grace period of 3 months. While in Sovereign Guarantee II, the Government of Albania shares the risk with banks, covering a percentage of the principal of each loan and offering a grace period of 6 months.

<sup>9</sup> Ibid.

<sup>10</sup> Ministry of Finance and Economy, Reports on COVID-19, available at <https://financa.gov.al/raporte-per-covid-19/>, (accessed October 2021)

The Republic of North Macedonia is the country in the region with the implementation of the most fiscal packages which have addressed the problems and damages caused by the COVID-19 pandemic. A total of six packages have been adopted, supporting various business categories. The fifth package of anti-crisis measures for the recovery and development of the economy in the Republic of North Macedonia has included a measure similar to the Investment Credit Subsidy measure, which includes the Economic Recovery Package of the Republic of Kosovo. One of the main pillars of the fifth package of the neighboring state, aimed at financial support for the private sector's liquidity with interest-free loans to maintain and increase the number of employees.<sup>11</sup> So, the instrument or aid that has been used there has included the methodology of interest-free loans, while in our country, the principal is subsidized.

Such a method, i.e., subsidizing the loan interest, could be applied through the Economic Recovery Package. But such a measure would be followed with limited duration as the interest varies depending on the loan repayment duration. 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 more significant problems in terms of subsidies. There may also be a risk that interest rates will rise during this period, and then issues with subsidies will arise.

## Implementing the second measure

30 million Euros have been allocated for subsidizing investment loans. During difficult economic periods, loans to businesses are of particular importance, as they create conditions for economic development and loss recovery. Investment loans enable the circulation of money, various investments, and the strengthening of financial stability. Therefore, the beginning of the implementation of this sub-measure is of great importance.

At the Government of Kosovo meeting on August 25, 2021, the allocation of 10.43 million Euros for this sub-measure was adopted.<sup>12</sup> This amount of money was raised from securities, called Diaspora Bonds. So this sub-measure has started implementation but has not yet reached full implementation.

Beneficiaries	Benefits
Manufacturing and processing businesses	Principal subsidy up to 20% (10% at the beginning and 10% at the end of the loan repayment)
Women-owned businesses	Subsidy up to 20% of the loan principal
Businesses that have maintained the number of employees but have had financial losses	Subsidy up to 10% of the principal

<sup>11</sup> Ministry of Finance, Fifth package of anti-crisis measures - for recovery and development of the economy, accessible to <https://finance.gov.mk/2021/02/16/pakoja-e-pestje-e-masave-anti-krize-per-ringjalljen-dhe-zhvillimin-e-ekonomise/?lang=sq>, (accessed October 2021)

<sup>12</sup> Ministry of Finance, Labor and Transfers, News, Government of Kosovo allocated 40 million Euros for implementing the Economic Recovery Package, accessible to <https://mf.rks-gov.net/Page.aspx?id=1,2,1115>, (accessed October 2021)



The rest of the funds allocated for this sub-measure, i.e., 19.57 million Euros, has not been allocated yet. With the adoption of the remaining amount, the way opens for subsidizing an even larger number of businesses that apply for this sub-measure. However, with non-full operationalization, this sub-measure remains partially implemented.

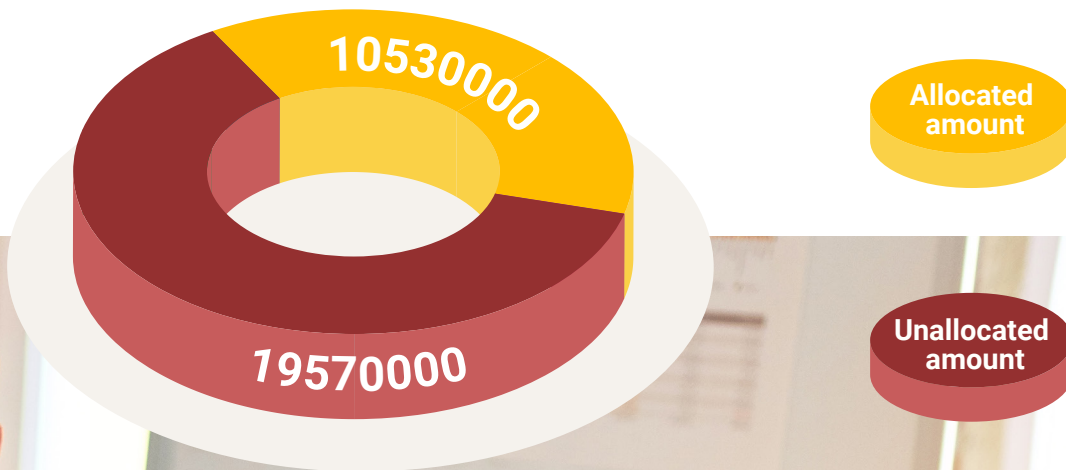
The implementation of the measure for subsidizing investment loans does not provide special support for businesses that rely on green energy. In addition, to support, beneficiaries in this category would get additional motivation in terms of investments in electricity generation through renewable energy sources. Incorporating such a measure would contribute to decarbonization and reduction of pollution caused by the production of electricity from fossil sources.





## Subsidies for investment loans

The Ministry of Finance, Labor and Transfers has not provided details on which budget window or other revenues the funds will be provided for measure 2.1. Therefore, the lack of transparency or such clarifications affects the accurate information of citizens. There is also no data on how many businesses have benefited from this sub-measure and how the whole process is developing.







# Conclusions

- Although the pandemic caused a drastic decline in gross domestic product and economic activity, recovery packages along with opening up the economy have shown their effects. Through past and present packages, economic sectors are being assisted to facilitate their recovery from the losses caused by the COVID-19 pandemic. Although such a thing is happening with not very fast steps, the signs are positive that the problems presented now will be overcome the difficulties of businesses and the overall performance of the economy will return to positive figures.
- The Economic Recovery Package has started implementation. Most of the measures envisaged in this package have started to be implemented. The measures of this package have started becoming operational, although not all of them, and the citizens are being helped. A very important measure, which is the Investment Credit Subsidy, is in the phase of partial implementation, as only 10.43 million Euros have been allocated for this measure, out of a total of 30 million Euros. The amount of 10.43 million Euros has been collected from the citizens' investments in the Diaspora Bonds, while the part of 19.57 million Euros has not been made known from which budget window it will be covered.
- Benefits from sub-measure 2.1 Subsidizing investment loans enable the facilitation of economic recovery. This is because it offers a grace period that enables immediate investments and, later, loan repayment. Also, this sub-measure subsidizes up to 20% of the loan, which is a very significant relief for businesses. Among other things, this sub-measure provides conditions for increasing the existing capacities of businesses, striving to achieve sustainable development in the future.
- The categories benefiting from this sub-measure are highly affected and damaged by the COVID-19 pandemic. Manufacturing and processing businesses that aim to expand current capacity, women-owned businesses, and businesses that have retained employees but have suffered financial losses are the categories that can apply for benefits from this sub-measure. In addition to mitigating losses, these aids represent an added motivation for further economic development for these businesses and the entire county economy, which is associated with these businesses.
- The benefits of sub-measure 2.1 are related to the subsidy of the loan principal. The principal is the total amount to be paid to the bank in which the loan is taken. Therefore, depending on the beneficiary category, the capital subsidy can be up to 20%. A part of it will be subsidized at the beginning, exactly 10%, while the Ministry of Finance will subsidize the other part of 10%, Labor and Transfers if the objectives of the loan are met. So if the foreseen investments, which may include the expansion of existing capacities, creation of new capacities, digitization, or increasing number of staff, are fulfilled, the part of 10% of the capital will be subsidized.



## Recommendations →

- The Government of Kosovo should closely monitor the process of obtaining and using the loan. Investment loans should be used for certain purposes associated with the revival, and their use in other areas should not be subsidized. Also, this measure, i.e., Subsidizing investment loans, should be monitored by institutions to ensure that their use is being made exclusively for the purpose for which they were taken.
- For this aid package, the Government of Kosovo has not conducted discussions and consultations. Therefore, there has been no public consultation, no discussion with citizens to better understand the needs of citizens, and as a result, the Economic Recovery Package could have been designed better if these elements were considered. We recommend that any future resuscitation or recovery package be designed to focus on public consultation with stakeholders. Package documents should be put to public consultation and an opportunity should be given to all parties to contribute.
- A website or a mechanism should follow the monitoring of the Economic Recovery Package. This website or mechanism would increase the level of transparency; the citizens, civil society, and all other actors involved in this process would be informed faster and easier. Also, by applying such a method, the demand for accountability by the Government of Kosovo, respectively the Ministry of Finance, Labor and Transfers could increase.
- The Government of Kosovo should make a more intensified information campaign about the measures of the Economic Recovery Package. There is no proper dissemination of information to citizens. Therefore the number of applications is low. A marketing and information campaign would increase the number of applications and consequently the beneficiaries.
- Categories of businesses benefiting from the sub-measure 2.1 Increasing subsidies of investment loans. In addition to the categories that currently benefit from this sub-measure, other businesses that have suffered losses due to the COVID-19 pandemic should be included in this support provided by this sub-measure.
- For the recovery to be green and to be a reforming force of reducing pollution and green transformation of energy and environmental systems, increased attention should be paid to energy-saving measures, changing energy consumption trends and energy demand, etc.



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