

# The Program and Law on Economic Recovery

Transparency and criteria applied during the implementation process



March 2021

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## Executive summary

In addition to having a negative impact on health and social aspects, the COVID-19 pandemic also had a significant impact on Kosovo's economy. The real economic decline in 2020 in Kosovo is estimated to be 6.7% of Gross Domestic Product (GDP). To mitigate this decline, following the Fiscal Emergency Package, in August 2020, the Government of Kosovo approved the Economic Recovery Program for 2020, in the amount of 365 million Euro. The program consisted of 15 measures and several sub-measures which provided support to sectors and citizens affected by the COVID-19 pandemic. While, at the end of 2020, the Assembly of Kosovo had also approved the Law on Economic Recovery proposed by the government, which provided for additional measures to help the economy. Specifically, both of these initiatives envisaged different assistances to citizens, sectors such as health and education, businesses, and public enterprises.

In 2020, the allocated amount under the Economic Recovery Program was only 250 out of the 365 million Euro planned fund. Around 143 million Euro were allocated as assistance for the private sector, 24 million Euro for the public sector, 12 million Euro for social issues, around 10 million Euro for education, and 2.5 million Euro for culture, youth and sports. Meanwhile, by the end of December, with the adoption of the Law on Economic Recovery, the government allocated 21.5 million Euro to the Kosovo Credit Guarantee Fund (KCFG) to guarantee new business loans. In addition, through the withdrawal of 10% from the Kosovo Pension Savings Trust (KPST) citizens with savings of under 10,000 Euro were able to benefit, as the government will reimburse their withdrawn savings. Since January 1, 2021, businesses from the mines and minerals sector were helped too, as they will not pay royalties for five months, and citizens and businesses will pay lower electricity bills for the first three months of 2021.

The findings of this report indicate that the distribution of funds under the economic recovery program led to businesses benefiting proportionally, rather than based on the impact of the COVID-19 pandemic on their activity. This includes the 60 million Euro wage subsidy measure for the private sector, despite that some economic sectors, such as information, healthcare, and manufacturing industries had a real growth during the pandemic of up to 30%. For other measures, implementing institutions took arbitrary decisions, without an analysis, to allocate the entire fund of the measure to only one group of citizens or businesses. Such a case was the decision of the Gender Equality Office, under the Government of Kosovo, to allocate the entire fund of the measure to improve women's position in the society to kindergartens only. Also, the Law on Economic Recovery exempted all operators of the sector from royalties for five months, despite the data from the Independent Commission for Mines and Minerals, indicated through the collection of revenues from royalties, showed no decrease of economic activity during 2020 in this sector. This policy alone is expected to cost the state budget around 15 million Euro. The government also decided to subsidize the tariff of electricity generated by renewable sources for three months for all citizens and businesses, despite that a large number of citizens worked continuously throughout the pandemic, as did over 80 thousand employees in the public sector, a large part of the civil society, private sector, etc. The same applies with the decision to reimburse 10% of savings withdrawn from the Kosovo Pension Trust (Trust) for citizens with savings under 10,000 euros,<sup>4</sup> which discriminates against less experienced employees, those with lower salaries, employees in the informal sector, and women.

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\*This report analyzes developments and data available until February 2021

In order for the impact of the distributed aid to be greater, the distribution of funds should be transparent and focused only to those that need it. In particular, the design of appropriate criteria remains key for an efficient allocation of government funds. The findings of this report indicate that the institutions responsible for the implementation of these measures have not been transparent during the distribution of funds, where for several measures the lists of beneficiaries were not published, while in several other measures the amount of the provided financial assistance was not disclosed. In addition, the criteria for the implementation of these measures were designed in a way that they didn't take into account the impact from the pandemic for benefiting the financial assistance. Therefore, the assistance distributed through most of the measures was proportionate to all beneficiaries, rather than classifying as eligible to benefit from the assistance only businesses and citizens affected by the pandemic.

## Introduction

The emergence of the COVID-19 pandemic in 2020 forced the responsible institutions to take decisions to restrict the movement of citizens and the operation of many economic enterprises. This had led to a decline in activities of many economic sectors<sup>1</sup> and a doubling of registered jobseekers within the year, to about 200,000.<sup>2</sup> As a result, 2020 marked a real economic decline of 6.7% of GDP.<sup>3</sup> In an effort to normalize this shock to the economy, the Government of Kosovo approved the Economic Recovery Program in the amount of 365 million Euro.<sup>4</sup> However, by the end of 2020, this program was only partially implemented, at the rate of 68.5%. There are a total of 19 government decisions<sup>5</sup> which provide for the allocation of funds for the implementation of a number of measures and sub-measures of this program, with an allocated amount of around 250 out of the fund of 365 million Euro.<sup>6</sup>

Alongside this program, the government also proposed the Law on Economic Recovery, which was adopted by the Assembly of Kosovo only in December 2020.<sup>7</sup> This law envisages a series of measures to help the economy, some of which were applied as soon as the first week following adoption, as previous preparations had already been made, and others to be implemented during 2021. Measures implemented first were the withdrawal of 10% of savings, VAT exemption for producers of raw materials, VAT exemption for the supply of goods for the gastronomy sector, etc.

This report analyzes the distribution of funds under these measures, namely the level of transparency regarding the beneficiaries of financial assistance and the amounts received. The criteria used by institutions for the allocation of funds will also be analyzed, to check if they targeted businesses and citizens most affected by the pandemic.

1 Kosovo Agency of Statistics. Gross Domestic Product Q3 2020. Source: <https://bit.ly/3rZkl4l>

2 Data received by the Kosovo Employment Agency in October 2020.

3 Ministry of Finance. Budget 2021: Macroeconomic Perspective. Source: <https://bit.ly/3toVgpX>

4 Government of Kosovo, Decisions of Meeting No. 23. Source: <https://bit.ly/33CIHg3>

5 The amount allocated under the Recovery Package was derived from government decisions on the allocation of funds after the Treasury Department of the Ministry of Finance failed to send us data on the implementation of payments under fiscal packages.

6 See Annex.

7 Government of Kosovo. Law on Economic Recovery. Source: <http://bit.ly/3n1tsLX>

## Implementation of the Economic Recovery Program in 2020

Of the measures implemented in 2020 under the Economic Recovery Program, the highest amount is the assistance to the private sector, namely the full implementation of the emergency package to cover two wages of 170 Euro for private sector employees affected by the pandemic, as well as the distribution of one wage of 239 Euro for employees of all active businesses. It should be clarified that the Economic Recovery Program has also included measures and other obligations from the Fiscal Emergency Package which were not implemented, which comprise around one third of the recovery program. The amount of 21.5 million Euro has also been allocated for the Kosovo Credit Guarantee Fund, to increase the coverage of new loans, as well as 12 million Euro for doubling direct payments and subsidies for farmers.

The second category, with more budget allocated in 2020 under this program, was that of the public sector, which mainly includes supplements for medical and police staff, who were more exposed to the COVID-19 virus. This category also includes support for public enterprises, with the largest assistance provided to Trepça, with over 1.1 million Euro.

The third category is mainly dominated by the doubling of social assistance for several months of 2020, and assistance to associations of families of martyrs. There is an additional 3 million Euro allocated to cover the cost of insurance policies at the border for the diaspora. The budget for this measure may not have been fully executed, however, as it has been allocated, funds can be executed over the coming months.

Around 10 million Euro have been allocated for the teaching process during the pandemic, another 2.5 million Euro for the culture and youth sectors, which program envisages subsidies for artists affected by the pandemic and provides opportunities for internships for a significant number of young people.

**Figure 1. Allocation of funds from the Economic Recovery Program 2020 by sector**



## Transparency in implementing measures under the Economic Recovery Program

A varied approach of institutions in terms of transparency and the application of criteria was observed in the implementation of measures mentioned above, and others, in 2020.

Institutions have not published information on the allocation of funds for the measures and sub-measures implemented, particularly for those with a higher budget and aimed at supporting the private sector. At this point, the approach of institutions can be categorized into two groups. Firstly, there is the group of institutions responsible for the implementation of a series of measures, and which have not published full lists of beneficiaries or the amounts allocated to each beneficiary. Specifically, the Ministry of Regional Development has allocated 2 million Euro for 156 businesses, but has not published the lists of beneficiaries and amounts allocated to each.<sup>8</sup> Similarly, the Office of Community Affairs, which intended to allocate the amount of 1 million Euro of the Economic Recovery Program to three categories, failed to publish the lists of each beneficiary group (only did so partially), or the amount allocated to beneficiaries.

The other group includes institutions which have published one of these, either data regarding beneficiaries or the amounts of assistance provided. For the allocation of 60 million Euro for businesses in the form of salary subsidies by the Ministry of Finance, lists of beneficiary businesses have not been published, only an information was announced that the assistance will be 239 euros for each employee. Similarly, the list showing the amount allocated for each municipality has not been published, for the distribution of 10 million Euro to 38 municipalities. In addition, although lists of beneficiaries were published for the measures implemented to improve the position of women, artists and non-majority communities affected by the pandemic, amounts allocated for each beneficiary were not been published.

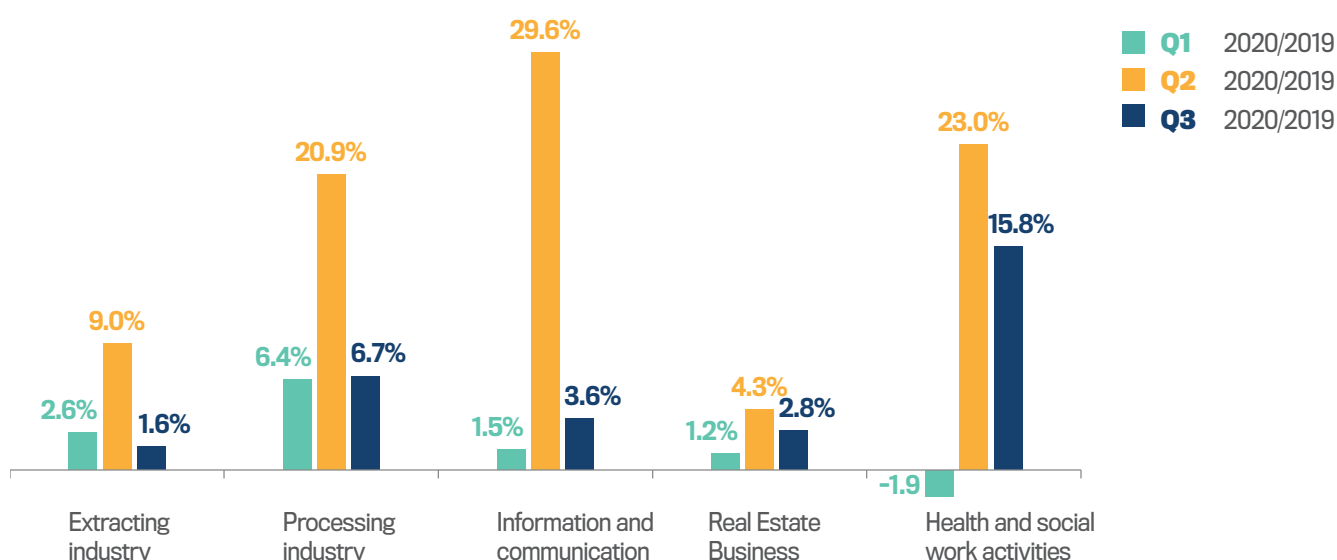
## Criteria used for the selection of beneficiaries under the measures of the Economic Recovery Program

In terms of the criteria, as the most relevant aspect for a more efficient allocation of funds and assistance to businesses most affected by the pandemic, findings indicate that the benefit was not conditioned on the damage suffered by the COVID-19 pandemic for most of the measures. As in the case of the distribution of 60 million Euro for salaries in the private sector, and for the subsidies and direct payments in agriculture, support of businesses through grants, financial support of kindergartens failed to emphasize whether beneficiaries had to provide proof that the operation of their business or job is risked by the pandemic. Only the support of businesses through the measure for non-majority communities includes as a criterion the impact of the COVID-19 pandemic on their operation. Similarly, the measure for the allocation of 10 million Euro to municipalities states that one of the criteria for benefit is the forced restriction in isolation during the pandemic. However, even in these two cases, the extent in which they were applied is not known as the institutions implementing the measures have not published data on the allocation of funds.

<sup>8</sup> Only a few lists of eligible beneficiaries in the second phase were published, where the business name, amount, etc. are not indicated, but rather only data on the city or the protocol number.

As a result of this approach, supporting businesses and individuals may have resulted in unjustifiable distribution of funds, as not all businesses, agricultural crops, etc., may have been adversely affected by the pandemic. Similarly, the proportional distribution of financial support minimizes the desired effect as it may be insufficient for the those severely affected by the pandemic, and its purpose is lost in the case of its distribution to businesses which are slightly affected by the COVID-19 pandemic. Data of the Kosovo Agency of Statistics (KAS) until the third quarter of 2020 indicate that the processing, information and real estate industries had a steady real growth in each quarter compared to 2019. Similarly, the health sector, which includes private hospitals, pharmacies, and private laboratories, except for a slight decrease in the first quarter of 2020, compared to 2019 (1.9%), had a significant increase of 23% and 16% in the following two quarters. Despite all this, all businesses in these sectors were provided financial support through the salary subsidy measure, with a total of 60 million Euro.<sup>9</sup>

**Figure 2. Real growth of sectors during the period Q1-Q3 2020 compared to 2019**















































































Source: KAS

Similarly, some of the institutions responsible for implementing the measures have targeted only one group of businesses that can benefit, without producing an analysis indicating the greater impact of the pandemic on them. At the same time, when the institution in question envisaged a budget allocation for more than one group, no justification or reasoning was provided for the budget allocation between groups. In the implementation of the measure to improve the position of women in the society and the economy, with a total of 1 million Euro, all funds were distributed to kindergarten businesses. Thus, businesses run by women or employing mostly women, from other sectors, have been left out. The implementation of the measure of 1 million Euro in aid for non-majority communities also fails to provide a reasoning as to why the budget should be allocated to these three selected groups. Moreover, the first group, which includes the delivery of food packages to people in need, envisages no selection criteria, giving the implementing office a large discretion in selecting households to be helped.

<sup>9</sup> Kosovo Agency of Statistics. Gross Domestic Product Q3 2020. Source: <https://bit.ly/3rZkl4l>

**Table 1. Transparency and criteria used during the implementation of the Economic Recovery Program, 2020**

	 Yes  No  Partially  Not known	Have the benefit calls and criteria been published?	Have the lists of beneficiaries been published?	Has the eligibility for assistance been conditional with the damages caused by COVID-19?	Have the funds been distributed in proportion to the damage caused by COVID-19?	Is the amount divided shown?	Criteria in website
Salary subsidy for workers in businesses affected by the pandemic for March and April (170 Euros), in the amount of 47,300,000.00 €							
Financial support for Projects and initiatives aimed at improving the position of women in society and the economy							
Subsidies and direct payments in agriculture							
Support for existing and new programs related to the regional development of the Ministry of Regional Development							
Improving the lives of non-majority communities and their economic recovery							
Culture, youth, sports							
Supplementary for doctors, nurses (September 2020 - December 2020) and support staff (July 2020 - December 2020)							
Subsidies for the public enterprise "Trepça"							
Wage subsidy for all businesses in the private sector							
Transparency of Publicly Owned Enterprises							
Supplements for police officers							
Support for municipalities of Kosovo in managing the situation created by the COVID 19 pandemic, in the amount of ten million Euro (10,000,000 Euro)							

## Measures under the Law on Economic Recovery

The adoption of the Law on Economic Recovery in December 2020<sup>10</sup> allowed for the implementation of several other measures related to economic recovery.<sup>11</sup> In December, the government's policy of allowing citizens to withdraw 10% of their savings from the Trust was implemented. This policy, especially the part where the government undertakes the reimbursement of accounts, listing as criterion the maximum amount withdrawn being up to 999 Euro, discriminates against a number of groups such as less experienced employees and those with lower salaries. This also includes employees in the informal sector and women, as categories with fewer opportunities in the labor market and with only 33% participation in the Trust.<sup>12</sup> This means, in consequence, that disadvantaged persons in the labor market, affected the most by the pandemic do not benefit from the measure, but rather persons with higher incomes do. The effects of this policy on the economy may be more reflected during 2021, although as the data on contributors showed, that about 20% of them could withdraw over 72% of the fund of 200 million euros intended to be injected into the economy, the likelihood that the funds would not be spent by a large number of contributors but saved would be high.<sup>13</sup> Therefore, the increase of 11% in bank deposits at the end of 2020, over 40% is estimated to have been influenced by the withdrawal of the Trust savings, which were deposited in private accounts but were not spent immediately.<sup>14</sup>

By the end of December 2020, the Government of Kosovo had allocated 21.5 million Euro to the Kosovo Credit Guarantee Fund (KCGF) in order to increase the number and degree of loan coverage. As this measure was adopted later, its effect is expected to be observed mainly during 2021. According to KCGF data, from December 2020 to February 2021 this institution has guaranteed loans worth about 6.8 million Euro through five open windows, through the Economic Recovery Program, where the guaranteed amount was about 5 million Euro or about 73%. The largest number and value of guaranteed loans is for the trade sector, with 57 guaranteed loans with an average loan value of over 73 thousand Euro. It is followed by the services sector with the highest number of guaranteed loans (23). KCGF has also created a window only for women in business, which is an appropriate step given the limited access of women to finance. 22 credits are guaranteed through this window. The rest of the loan guarantees were made for businesses in the manufacturing sector, where the average value of guaranteed loans was about 44 thousand Euro and the number of guaranteed loans was 17. The last one is the category of loans for agriculture with only 11 guaranteed loans.<sup>15</sup>

<sup>10</sup> Government of Kosovo. Law on Economic Recovery. Source: <http://bit.ly/31ntsLX>

<sup>11</sup> Measures under the law for which no budget has been allocated or their implementation has not started were not covered in this report.

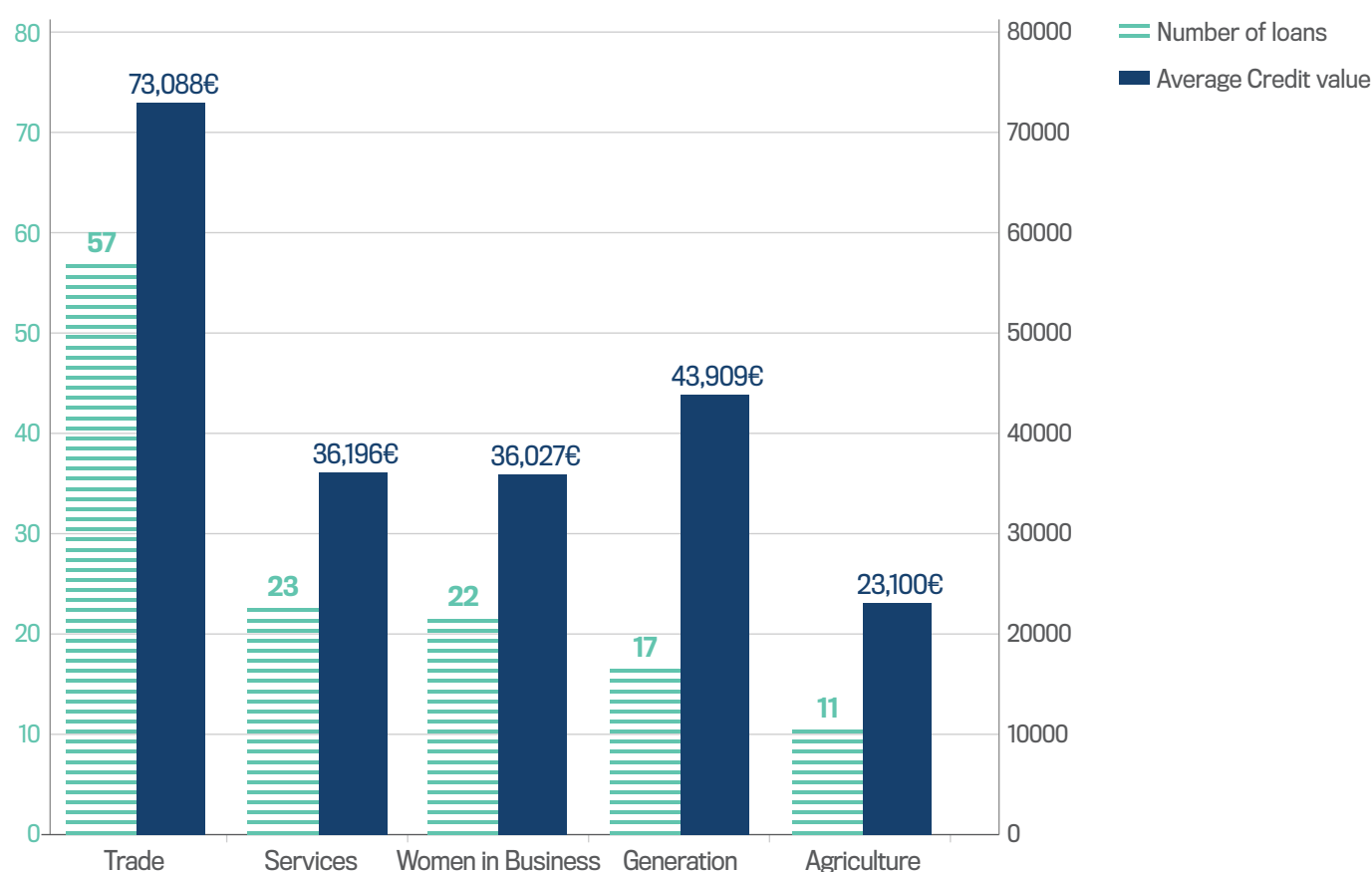
<sup>12</sup> GAP Institute. The dilemma of benefits and losses from early withdrawal of pension savings. Source: <https://bit.ly/3lCN6rl>

<sup>13</sup> GAP Institute. Source: <http://bit.ly/3r7cDKh>

<sup>14</sup> International Monetary Fund. Republic of Kosovo 2020 Article IV Consultation. Source: <https://bit.ly/3oFjJeh>

<sup>15</sup> Kosovo Credit Guarantee Fund. Economic Recovery Package. Source: <https://bit.ly/3sdWsw3>

**Figure 3. Guarantee of loans from KCGF under the economic recovery, February 2021**



Another article of the Law provides for the exemption from the payment of royalties for businesses operating in this field. However, this industry had never stopped its activities during the restrictive measures due to the COVID-19 pandemic. According to the data of the Independent Commission for Mines and Minerals, revenues from royalties during 2020<sup>16</sup> were 29.7 million Euro, or only 539 thousand Euro (1.8%) lower than in 2019.<sup>17</sup> This indicates that the benefit from the exemption from royalty payments is not conditioned on the damage caused by the pandemic, and given the positive performance of the sector it is difficult to argue in favor of this decision, which is expected to cost the state budget around 15 million Euro.<sup>18</sup>

**Figure 4. Revenues from royalties of the Independent Commission for Mines and Minerals during the period 2019-2020**

<b>2019</b>	30,254,453€
<b>2020</b>	29,715,109€

Source: Independent Commission for Mines and Minerals

<sup>16</sup> Independent Commission for Mines and Minerals 2020. Source: <https://bit.ly/3bXiRYC>

<sup>17</sup> Independent Commission for Mines and Minerals 2019. Source: <https://bit.ly/38V5eHL>

<sup>18</sup> Koha.net. Source: <https://bit.ly/38OVrsJ>

Similarly, in another article of this Law, the government undertakes to subsidize the entire Renewable Energy tariff for all citizens and businesses in Kosovo for several months.<sup>19</sup> Namely, the government has decided to implement such a comprehensive policy despite the fact that citizens who work in the public sector, over 80 thousand, a large part of civil society, the private sector, etc., have received regular salaries throughout the pandemic. Thus, even in this case, the adverse impact of the COVID-19 pandemic on the income of businesses or households was not used as a criterion.

The law also provides for some tax exemptions. It prioritizes local service providers and producers over foreign bidders in award selection procedures in public procurement. The advantage offered is that the bid of the local producer will be selected even if they received up to 10 points less than the foreign bidder in the evaluation, or the price offered by the local producer is up to 15% higher than that of the best foreign bidder. In addition, local producers of raw materials are exempted from Value Added Tax (VAT). Hotels, restaurants and food services will have a similar VAT exemption for purchased goods (supplies). Whereas all taxpayers can benefit from the exemption from interest on tax arrears for 2020 to the Tax Administration of Kosovo (TAK) in case they repay the principal debt.<sup>20</sup>

## Conclusion

The findings of the report indicate a lack of transparency in the spending of public money and failure to apply adequate criteria for efficient allocation of funds under the Economic Recovery Program. Many institutions have not published data on funds allocated to beneficiaries under the Economic Recovery Program. In virtually all measures, especially those with a very high budget, the inclusion of the impact of the COVID-19 pandemic as a criterion to benefit from the allocated funds has been completely neglected. Therefore, the impact of the Economic Recovery Program is expected to be limited.

It is thus important to ensure as follows:

- Conduct an audit of funds spent under fiscal packages and measures from the Law on Economic Recovery through the National Audit Office, which would assess the distribution of funds, criteria set for the selection of beneficiaries, and rationale of the selection of beneficiaries;
- Increase transparency in the implementation of new measures in the fiscal packages to help the economy;
- Any new measure aimed at helping businesses and citizens affected by the pandemic, except for social assistance, discriminated groups and sectors or groups of interest (IT students, tourism, etc.) should use, as the main criterion, the damage incurred by the pandemic;
- Better coordination of institutions so that the implementation of fiscal packages is faster, and consequently the effect on the economy is greater.

<sup>19</sup> The law states that the subsidy will be made for five months, but the 2021 decision 3/69 decided to halve the amount allocated, covering the cost for only three months.

<sup>20</sup> Other measures of the Law on Economic Recovery on wage subsidies for which no funds have been allocated in the budget law 2021 and which, consequently, are not expected to be implemented during 2021, have not been a subject of analysis in this document.

## Annex

**Table 2.** Allocation of funds under the Recovery Program for 2020

Decision	For the measure	Amount €	Description
No. 01/27	11	9,926,959	Approval of the master plan for education in pandemic conditions 2020-2021
1/23	3A	47,000,000	Salary subsidy for workers in businesses affected by the pandemic for March and April (170 Euros), in the amount of forty-seven million and three hundred thousand Euro (47,300,000.00 €)
1/23	13	3,000,000	Financial support for diaspora members, covering the cost of the insurance policy premium, in the amount of three million Euro (3,000,000.00 €)
No. 02/33 however, it must be based on the decision 10/33, although referenced on decision. 1/23	10	1,000,000	Financial support for projects and initiatives aimed at improving the position of women in society and the economy
No. 03/33	4A from the Package but 1.3 from the new decision	12,000,000	Subsidies and direct payments in agriculture
No. 13/33	8	2,000,000	Support for existing and new programs related to the regional development of the Ministry of Regional Development
No.06/34	9	1,000,000	Improving the lives of non-majority communities and their economic recovery
No.10/34		13,000,000	For the implementation of measures for economic recovery - the category of subsidies and transfers
No. 10/33	1.6	2,500,000	Culture, Youth, Sports
No.18/38		8,000,000	Supplements for doctors, nurses (September 2020 - December 2020) and support staff (July 2020 - December 2020)
No.01/44	Measure 6C	1,000,000	Subsidies for the public enterprise "Trepça"
	Measure 1.1	60,000,000	Wage subsidy for the private sector
	Measure 1.2	7,500,000	Doubling social assistance October-December
No.21/48		203,000	For the families of martyrs
No.07/50	1.1 and 1.15	28,176,480.50	Reimbursement of budget lines
No.08/50	1.6 and 1.7	17,034,744.08	Reimbursement of budget lines
No.14/50		1,000,000	Subsidy for public enterprises
No.02/52	Measure 15	1,598,100	Supplements for police officers
No.06/52		21,510,000	Kosovo Credit Guarantee Fund
No. 11/30	12	10,000,000	Support for Kosovo municipalities in managing the situation created by the COVID 19 pandemic, in the amount of ten million Euro (10,000,000 Euro)
02/32	15	2,396,023	At the request of the Ministry of Internal Affairs/Kosovo Police, for an increased engagement and extended field work of police officers active in the field and directly exposed to the COVID-19 pandemic.





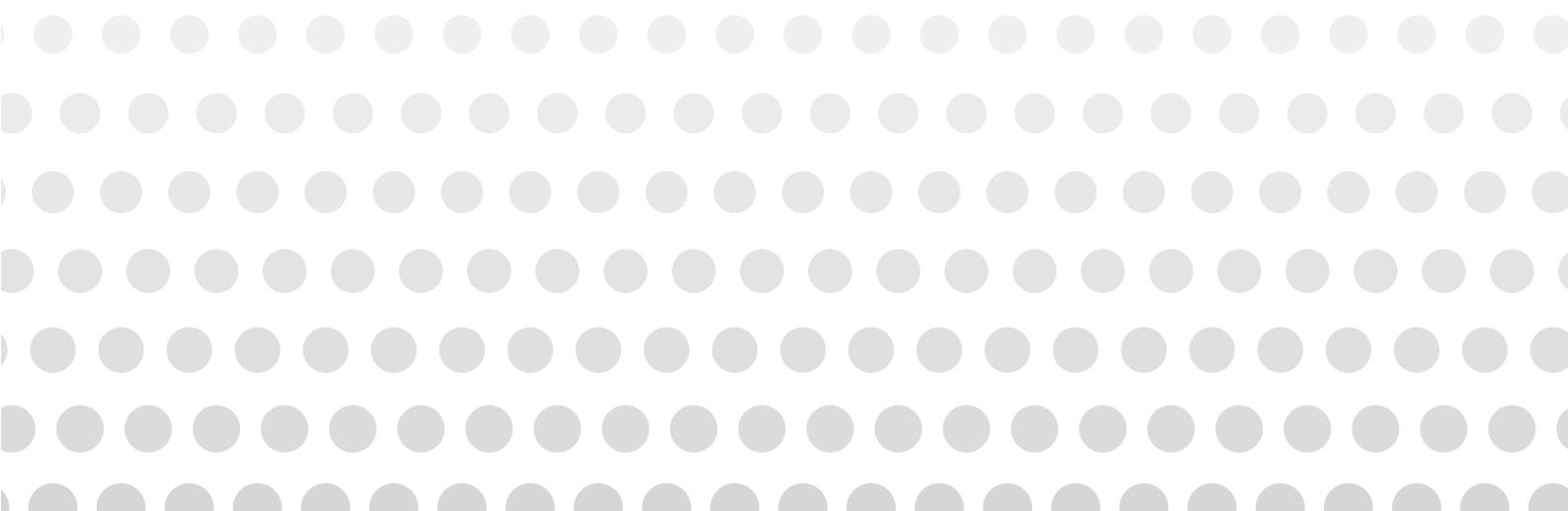
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St. Sejdi Kryeziu, Blloku 4, No.4,  
10000 Prishtine

+381 38 609 339

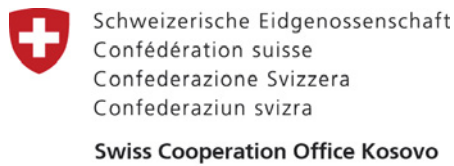
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