



CHALLENGES POSED BY THE COVID-19 PANDEMIC TO KOSOVO'S ECONOMIC RECOVERY



DONORS



GOVERNMENT OF KOSOVO



UNITED STATES AGENCY FOR
INTERNATIONAL DEVELOPMENT
(USAID)

KFW

GERMAN DEVELOPMENT BANK
(KfW)

PARTNERS



SWEDISH INTERNATIONAL DEVELOPMENT
COOPERATION AGENCY (SIDA)



THE WORLD BANK (WB)



EUROPEAN INVESTMENT FUND (EIF)



MILLENNIUM FOUNDATION KOSOVO (MFK)

PARTNER FINANCIAL INSTITUTIONS



Opinions, beliefs and analysis expressed through the published articles do not necessarily reflect the standpoint of the KCGF or the Institution's approach to them.

CONTENTS



-
- 04 Foreword speech by the Chairman of the KCGF Board
 - 06 Challenges Posed by the COVID-19 Pandemic to Kosovo's Economic Recovery
 - 09 Kosovo Credit Guarantee Fund - Added Value for the Financial System
 - 11 Banking Sector in the Time of COVID-19: A Balanced Response by Commercial Banks
 - 13 Pandemic Economic Relief through Legislation
 - 16 Will Kosovo's Budget Defeat the COVID-19 Economic Crisis?
 - 18 AgroSoft Platform and Its Role in Supporting the Agriculture Sector
-
- 20 **SUCCESS STORIES**
 - HIT FLORES - A Collection Center in the Sharr Mountains
 - ARBËRIA GROUP - Producer of Natural Mineral Water "Ujë i Alpeve"
-
- 22 **NEWS CORNER 2020**
 - MFK and KCGF Introduce Innovative Guarantee Mechanism for Renewable (Solar) Energy Producers
 - 22 Financial Agreement on Increasing KCGF Guarantee Capital Signed
 - 22 MoF and KCGF Sign Assistance Agreement
 - 23 MFK, KCGF, and MoF Sign Letter of Intent
 - 23 Financial Agreement on Increasing KCGF Guarantee Capital Signed
 - 23 Implementation of the World Bank's Financial Sector Strengthening Project in Kosovo
 - 24 Economic Recovery Package
 - 24 KCGF Introduces its Institutional Role in Domestic Economic Growth
 - 24 KCGF Attends Virtual Forum Hosted by AmCham
 - 25 KCGF Hosts Coordination Meeting with Donors and Partners
 - 25 AgroSoft Platform Launch by Kosovo Credit Guarantee Fund
 - 25 KCGF Attends Third Edition of Kosovo Sustainable Development Week
 - 26 Training on Institutional Capacity Building related to RE and EE
 - 26 Training on AgroSoft Platform
 - 27 KCGF Attends Annual Convention of the Kosovo Banking Association 2020 - "Banking in the Time of Covid-19"
 - 27 New KCGF Office Location
-



FOREWORD SPEECH BY THE CHAIRMAN OF THE KCGF BOARD

Dear Reader,

Thanks to the tireless efforts of our colleagues at the KCGF institution, who despite the challenges caused by the COVID-19 pandemic, found the motivation and will to contribute to the development of the idea and the launch of the KCGF Bulletin, today we have the pleasure to introduce the First Edition of the Kosovo Credit Guarantee Fund Bulletin.

Intended to be published regularly on a six-month basis, the Bulletin aims to enhance public transparency related to the activities of our institution and will endeavor to encompass the opinions of the most actual minds in Kosovo on specific economic and financial topics, which will be selected to feature depending on current affairs within a certain period.

Therefore, as Chair of the Board of Directors, I have the honor and pleasure to kick off the First Edition of the KCGF Bulletin with this address, and it does not take much to guess that the most actual topic to feature as a central theme is the effect of the crisis caused by the COVID-19 pandemic in Kosovo's economy, as well as the role that the KCGF will play in the process of economic recovery.

Being an institution established with the aim of improvement of business environment for private enterprises in Kosovo, the KCGF as a financial facility will have an active role in the economic revival during the next year. Restoring confidence in the banking sector and combating the potential credit crunch, which in turn would deteriorate the private sector liquidity cycle, is the principal objective that the KCGF guarantee scheme should address in the period during and after



RINOR GJONBALAJ

Chair of the Board of Directors
KCGF

the crisis brought on from the COVID-19 pandemic.

From the early days, when the first SARS-CoV-2 infection cases in our country were confirmed and as a result the Government of the Republic of Kosovo introduced the first set of measures to prevent the spread of the COVID-19 pandemic, the governing structures of the KCGF have offered all possible alternatives to deploy the infrastructure and institutional capacities of the KCGF, with the sole purpose of combating the adverse impact caused by the COVID-19 pandemic crisis to the domestic economy.

In addition, throughout the COVID-19 pandemic, when Kosovo's economy began to weaken, job losses were on an unprecedented trend, while borrowers' demands to restructure loan obligations had exceeded 50% at the banking sector level, the KCGF continued to keep its existing guarantee windows open, despite the increased risk perception in the market and the unpredictability of the course of

events worldwide, but especially in our country. As an illustration, during March-October alone, the guarantee windows under the KCGF provided guarantees to approximately 1,200 companies for a loan amount of more than € 40 million.

Additionally, by actively participating in the working groups initiated by the Ministry of Finance for the design of the economic recovery package, the KCGF presented the vision of how the KCGF guarantee scheme facility can be best deployed to address the consequences of the economic crisis caused by the COVID-19 pandemic and how this scheme should be adapted to the newly created situation. Restoring confidence in the banking sector to avoid a credit crunch, which in turn would lead to a paucity of liquidity in the market, has been identified as one of the fronts where the KCGF would have to mount a fight, during and after the COVID-19 crisis. To achieve this goal, in a situation where the perception of credit risk in the market is considered much higher than under normal circumstances, it was deemed necessary for the KCGF guarantee scheme to provide greater coverage. Therefore, increasing the credit guarantee coverage from 50% to 80% was considered a prerequisite for making a difference in the market. At the same time, in constant coordination with the business community, the CBK and the partner banks, an ambition emerged that this period could also be used to help launch a private sector reformatting effort, by introducing opportunities for more market segments that would boost the competitiveness of the Kosovo economy. To this end, special guarantee windows were designed, which would address the specific needs of certain market segments. More specifically, this would help sectors that were deemed strategic to the economy, as well as marginalized segments in business life.

While the enhancement of coverage required amendments to the current legislation governing the KCGF operations, which is contingent on policymakers, the second part of the guarantee window

design was driven and prepared by the KCGF's own internal structures. First and foremost, the synchronization of the fundamental KCGF objectives for the package to make an economic difference and achieve additionality in the market, while at the same time steering clear of being a facility that promotes the wrong market incentives that in turn would result in irresponsible lending practices, was and continues to be a challenge, not only for the KCGF institution, but also for the regulator and partner banks.



... during March-October alone, the guarantee windows under the KCGF provided guarantees to approximately 1,200 companies for a loan amount of more than € 40 million.

Nonetheless, we remain hopeful that together with the partner banks and with the continued support of the CBK, we will be able to do our level best in balancing these two objectives and this package will yield the best benefits that will help the economy and the private sector.

Finally, on behalf of the KCGF Board of Directors and staff, allow me to thank all the contributors who added value to this First Edition of the KCGF Bulletin with their insightful pieces. At the same time, we wish you all good health and wish that in the next edition of our Bulletin we can discuss the success of our economic recovery and the introduction of new opportunities for Kosovan entrepreneurs.

CHALLENGES POSED BY THE COVID-19 PANDEMIC TO KOSOVO'S ECONOMIC RECOVERY

Kosovo, much like the rest of the world, has experienced economic constriction from severe shocks caused by the COVID-19 pandemic. To deal with this unusual situation, the Government of Kosovo has undertaken a series of coordinated actions with our development partners, international financial institutions, and other stakeholders, including the business community.

Due to the significant decline in revenues, on the one hand, and the significant rise in expenditures related to pandemic management, on the other hand, in July 2020, the Government of Kosovo conducted a budget review, as a necessary action to ensure that the state budget shall reflect the declining trend of revenues because of the stall in economic activity, but also to make the necessary legal adjustments enabling an efficient execution of arrears to citizens and businesses. Immediately after that, we created the Economic Recovery Program (ERP) in the amount of EUR 365 million and drafted the Law on Economic Recovery–COVID-19, which has already passed the first reading in the Assembly of the Republic of Kosovo.

The ERP includes important measures that aim to mitigate the socio-economic impacts caused by the pandemic and lay a solid foundation to give a boost to the economy to rebound to a positive trend. The program measures place the citizens and private businesses at the center of the recovery plan. The ERP implementation operational plan clearly defines the institutional actions, budget allocations, beneficiary eligibility criteria, and the implementing actors for each measure.

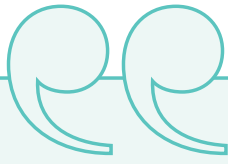


HYKMETE BAJRAMI
Minister of Finance

The ERP is designed to be fully integrated into the Government Program 2020-2023, where combating the pandemic and socio-economic recovery feature as priority pillars in our policies and investments. The implementation plan ensures that the measures are implemented efficiently and that investments produce socio-economic chain effects for the recovery to start faster and be sustainable.

To ensure that no one is left behind or uncovered by State care provisions in this period of socio-economic uncertainty, we have applied the principle of inclusion. In this regard, we have supported the private sector with subsidies, tax relief, and improved access to finance; we have provided funding for the health care sector to strengthen overall capacity to cope with the pandemic, but also to improve resilience in managing eventual health crises in the long run; we have accounted for gender equality; we have allocated funds

for youth, culture, sports, communities, farmers, local government, green economy, digitalization of businesses, etc. We have also increased funding for households benefiting from the social scheme.



... we created the Economic Recovery Program (ERP) in the amount of EUR 365 million and drafted the Law on Economic Recovery–COVID-19.

We engaged to ensure the ERP implementation process is well-coordinated; carried out in a transparent manner and in accordance with the legislation on public financial management. In this regard, we have fostered an open dialogue with representatives of the private sector who have assisted the Government with concrete proposals and ideas which have been included in the recovery program (i.e. the recent move by the Government to allocate EUR 60 million to businesses – initially proposed by business associations), whereby many active businesses in country are benefiting according to well-articulated criteria by an inter-ministerial commission (e.g. businesses that have 1-50 employees benefit over 72% of the funds, or those with 1-100 employees benefit over 80% of this amount).

Notwithstanding budgetary difficulties and constraints, we are committed to ensure that our pandemic management policymaking is not distracted from our long-term vision of meeting EU integration aspirations, through the implementation of the SAA and the European Reform Agenda, as well as meeting our objectives under the 2030 Agenda for Sustainable Development.

The budget deficit, due to rising expenditures and declining revenues, is being offset by raising the public debt, either through soft loans from international financial institutions or through the emission of securities. Therefore, we have changed the fiscal rules by establishing the legal basis for accommodating the increase in public debt - which fortunately has been low. In this regard, we are working closely with the IMF to adopt best debt management practices by ensuring that public debt growth is geared towards economic development and improved well-being for the citizens of our country.

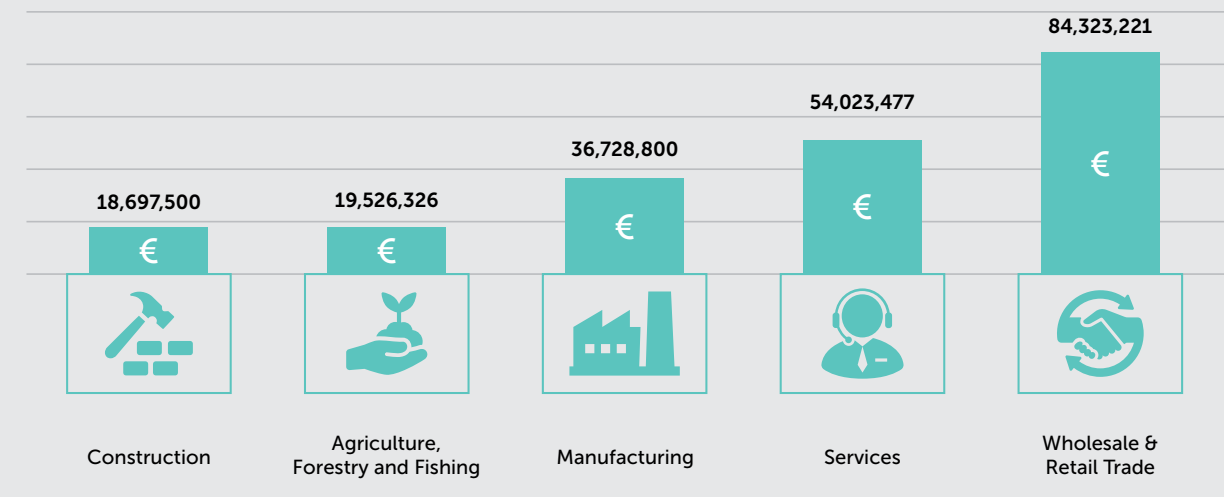
It should be noted that despite the challenges created by this unprecedented situation, subject to end only contingent on epidemiological developments in the coming period, we have managed to maintain macro-fiscal stability in country and intensify our engagements to advancing reforms to meet our goals for sustainable socio-economic development and EU integration.



APPROVED LOANS



LOANS BY ECONOMIC SECTORS



TURNOVER GROWTH

As of 31st OCTOBER 2020

5,622
Loans to MSMEs



anticipating

211.3 million
EUR

increase in turnover on the current turnover baseline of the respective MSMEs.

KOSOVO CREDIT GUARANTEE FUND - ADDED VALUE FOR THE FINANCIAL SYSTEM

Credit guarantee funds were first introduced in Europe in the 19th and early 20th century. Public loan guarantee funds are a form of government intervention to enable access to finance for Micro, Small and Medium Enterprises (MSMEs). Now more than half of the world's countries have established such funds to support MSMEs. MSMEs are especially important for economic growth and job creation.

In Kosovo, until 2016, despite the great success shown by banks and other financial institutions in economic development and financing of the economy, access to finance was still low. Some MSMEs, especially MSMEs in the agriculture sector, new MSMEs and women owned MSMEs had difficulties with financing their activities. This constraint was usually a result of the high interest rates and administrative costs associated with small loans, the high perceived credit risk of MSMEs, and the lack of collateral in the possession of MSMEs.

Considering this situation, in early 2016, the Government of Kosovo together with international donors, such as USAID and KfW, established the Kosovo Credit Guarantee Fund (KCGF). KCGF is an institution established by law. External help is usually needed to start a loan guarantee fund. KCGF was fortunate to have the assistance of its donors, particularly USAID and KfW making the largest contributions to establish the Fund's capital.

Within a noticeably short time, KCGF launched operations and began to serve MSMEs in the form of loan guarantees of up to 50%. The impact of the KCGF was quickly noticed. The annual credit growth after the start of



FEZMI MEHMETI

Governor, Central Bank of the Kosovo

the Fund's operations reached double digits and continued with this trend until the beginning of 2020, before the COVID-19 pandemic. Eight banks are already registered in the Fund, as well as a microfinance institution, and I believe that other lending institutions will join ranks in the meantime.

Increasing access to finance for MSMEs is of great importance for Kosovo's economic growth. The CBK as regulatory body of the financial system has improved the working environment of the KCGF and has made its guarantees more attractive to banks aiming to enhance lending activity in the financial industry. One of the first actions taken by the CBK for this purpose was to weigh the share of loans guaranteed by the KCGF for the purpose of calculating capital adequacy at 0%.

This allowed the banks to relax capital adequacy requirements for all loans guaranteed by the KCGF, thereby

enabling credit growth and at the same time increasing access to finance.

The success of the KCGF is very visible. To date, the KCGF has boosted lending in the amount of EUR 200 million, providing guarantees for EUR 97 million. This result is impressive considering the short time that the Fund has been operational and, most importantly, that these loans were for MSMEs with difficulty financing their activities. As a result of this financing of MSMEs, according to KCGF estimates, about 8 thousand new jobs were created.

The COVID-19 pandemic has struck Kosovo's economy and at the same time the lending activity of banks and may have adversely affected the solvency of creditors. This situation will represent one of the next challenges for the KCGF, commercial banks and the Central Bank of the Republic of Kosovo. This challenge will be overcome with a close cooperation of all stakeholders, including the Government of Kosovo, the Central Bank of the Republic of Kosovo, Financial Institutions, and the KCGF. The cooperation between these institutions has been and is excellent.

Economic downturns usually magnify the funding gap, and not just for MSMEs. In periods of economic downturn, the credit supply is lower due to lower levels of capital and liquidity of banks. Additionally, because of the emerging uncertainty, banks may restrict lending. In such situations, many countries react by increasing the amount and percentage of guaranteed loans. In Kosovo, this can only be done through the KCGF.

In this emerging reality, the role of KCGF has become even more important to stir credit growth, which is one of the preconditions for economic recovery. The importance of the KCGF has already been acknowledged in the draft plan for economic recovery, which we hope will garner support in the Assembly of Kosovo.

In this situation, the KCGF should leverage the newly created opportunities by increasing the share of credit guarantees for the underserved sectors that are of great importance for the recovery and economic growth of Kosovo. In this regard, more MSMEs with higher credit risk should be assisted and their associated loans costs should be reduced.

The KCGF should also prioritize MSMEs that can make the greatest contributions to economic growth, such as exports, innovation, and manufacturing businesses. New businesses experience even greater challenges in access to finance compared to existing ones due to lack of operational background. The KCGF should create special windows or guarantees to encourage the opening of new businesses by facilitating their access to finance by guaranteeing their loans.

Another aspect that would allow the KCGF to improve access to finance and elevate the utilization of guarantees is to improve the terms of guarantees related to the payment of losses in case of failure and not necessarily after all have enforcement and collection avenues have been exhausted. Certainly, in the event of any post-payment recovery, the KCGF could be reimbursed for its share.

The KCGF will continue to play an especially important role, not only for economic development but also for augmenting the sustainability of this development. I congratulate the KCGF for its contributions to date and extend best wishes for success in the future. The CBK will continue its cooperation with the KCGF aiming to increase the financial stability and economic growth of Kosovo.

BANKING SECTOR IN THE TIME OF COVID-19: A BALANCED RESPONSE BY COMMERCIAL BANKS

As a result of the global COVID-19 pandemic, in March 2020, much like other countries of the world, Kosovo suddenly came face to face with a serious health crisis. With the introduction of movement restrictions and the complete economic shutdown, almost all economic sectors in Kosovo were hit, including the banking sector. This health crisis soon morphed into a deep economic crisis, with Kosovo experiencing the largest economic downturn ever recorded in its free-market economy history. According to data published by the CBK, the largest annual growth recorded in Kosovo since its declaration of independence was 4.37% in 2011. Whereas, in Q2 of 2020, Kosovo's GDP suffered a contraction of -9.28%.

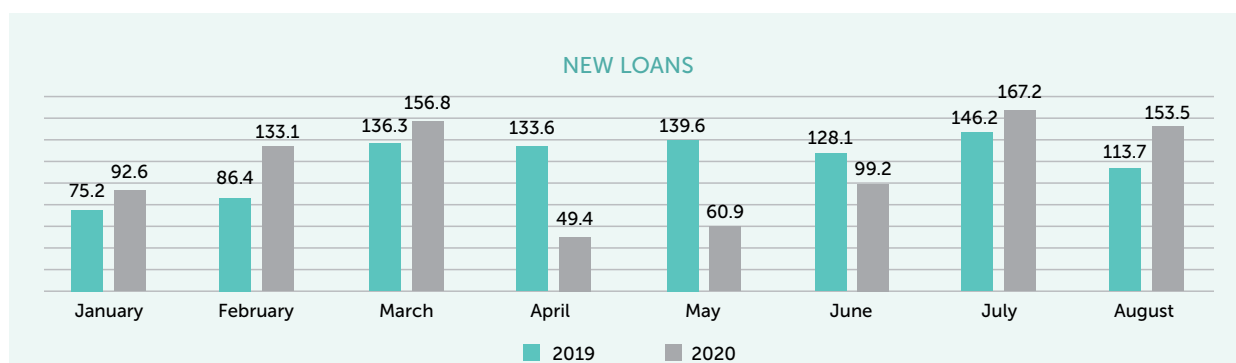


PETRIT BALIJA
Chief Executive Officer
Kosovo Banking Association

LENDING

The shock was also great in the banking sector as with the shutdown of the economy and the restriction of public movement there was a significant decline in lending. The decline in lending was steep and the data show that lending contracted in April (-63%), May (-56.4%) and June (-22.6%) compared to the same period of the previous year. Consequently, the banking sector lent EUR 191.8 million less in these three months compared to the same period of the previous year. With the introduction of the gradual loosening of measures restricting movement and those restricting services by businesses, lending picked up and recovered some of the shortfalls in the above

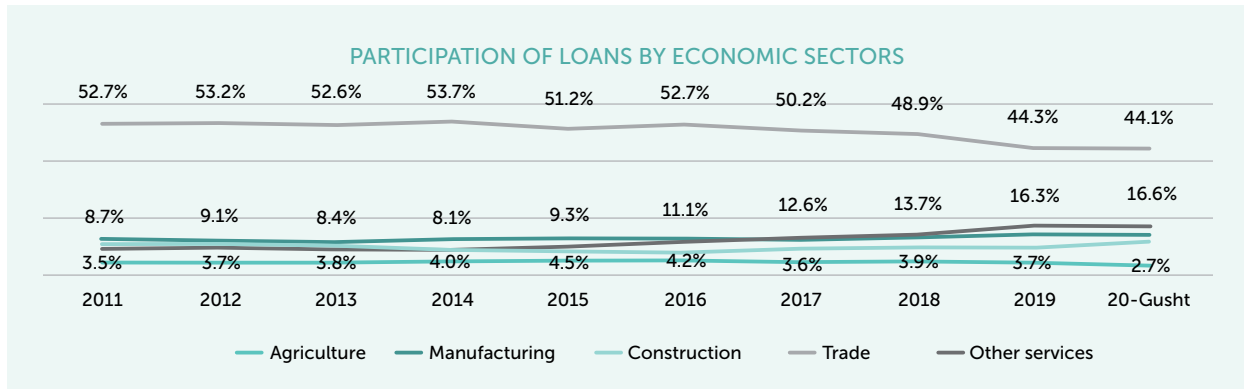
period. In the following period lending even exceeded general expectations and in fact exceeded the volume of new loans granted in the previous year as follows: July (+14.4%), August (+35%). This increase in lending can certainly be attributed to the offset effect for the previous months. Banks were vigilant to not neglect access to finance applications by households and businesses and did not rely on economic procyclicality, allowing higher liquidity and preventing a credit crunch. This served the domestic economy quite well, when it is common knowledge that providing liquidity through lending is of particular importance for economic recovery.



LOANS BY ECONOMIC SECTOR

The share of loans by sector remained relatively the same as in previous years except in the agriculture sector, which recorded a decrease of -1% (EUR 15 million) in share in the loan portfolio and a slight increase was seen in the

construction sector with an increase of +2.2% (EUR 50 million). Considering the economic structure of the country, but also the fact that the pandemic has not hit hard the trade sector, it can be noted that this sector still holds the highest share in the loan portfolio with 44.1%.



EFFECTIVE INTEREST RATES ON LOANS

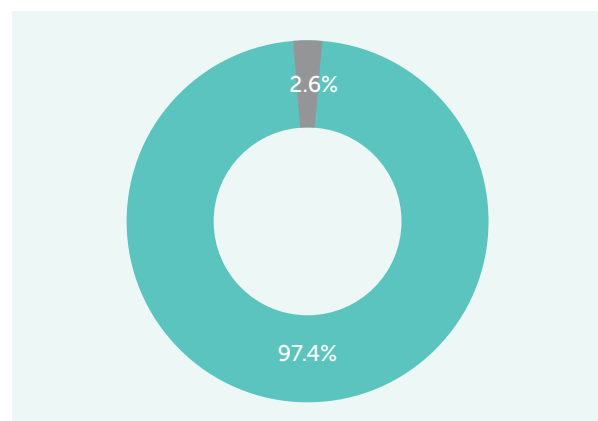
Interest rates on loans have continued to decline during 2020. At the end of 2019, the average effective interest rate on loans was 6.42%, while at the end of August 2020, this rate recorded 6.07%, while interest rates on business loans recorded the lowest level of average interest rate, namely 5.93%. Interest rates applicable in Kosovo remain at the regional average and are on a downward trend.

reinstatement of regulations. This will also have an adverse effect on the net profit of banks.

Despite the challenges it faces, the banking sector remains committed to contributing greatly to solving the problems caused by COVID-19 by providing access to finance for both households and businesses. At the same time, the response of the banking sector to the economic crisis will be balanced, offering flexibility to customers, but also maintaining the stability of the banking sector. This stability will continue to serve the overall economic recovery for better social wellbeing in Kosovo. It is worth noting that the Government and the Assembly of Kosovo should introduce state economic and fiscal measures posthaste, for the sake of faster economic recovery.

NON-PERFORMING LOANS

One of the biggest uncertainties in this situation is the issue of Non-Performing Loans (NPLs). The banking sector in Kosovo entered this pandemic with a low NPL rate of only 2.5% in February 2020. This has provided commercial banks with ample room to respond. However, the ambiguity stems from the fact that some of the regulations on reporting and provisioning losses have been repealed and the currently published data do not reflect the real cost of losses. Consequently, statistics showing the NPL rate at the end of August at only 2.6% may not be accurate indicators.



The true reflection of costs and NPLs will be seen in 2021, after the gradual

PANDEMIC ECONOMIC RELIEF THROUGH LEGISLATION

The SARS-CoV-2 virus pandemic is the most significant and identifying event for all generations that are living in these years. There is no person in the world who is not facing a new normal. However, many states and companies have used this new situation as a catalyst to change the way they work and operate. While many countries have digitalized many aspects of their lives, where citizens can vote, access public services, receive electronic certificates and diplomas that are more secure than physical ones, Kosovo still lags in this regard. This is totally unnecessary, as Kosovo is one of the countries with the youngest population in the world. In a society where just about everyone has a smartphone and a presence on social networks, it is normal to expect electronic services in every aspect of life. In Kosovo, the basis for establishing cooperation and concluding agreements in electronic form can be introduced by one law: Law on Electronic Identification and Signature.

It is a notorious fact that the main recommendation for combating the COVID-19 pandemic is physical distance from each other. However, this is awfully hard if there is no way of engaging in cooperation without physical contact. Historically, people have made deals to barter the goods they produced. For this activity, it is essential to know the identity of the persons and the terms of the deal, i.e., to know who is making the deal and what is the deal about. This is easily executed when people are close by and write these things down on paper. Remotely, this is impossible by means of internet if there are no laws governing the process. Thankfully, this was very well regulated in the European Union (EU) in 1999. Fortunately, the Law on Information Society Services in Kosovo



PARTIN PRUTHI
Lawyer

was adopted in 2006, and its successor law in 2012. Electronic identification and signature enable individuals and companies to enter into agreements anywhere in the world, with the same legal certainty and information security as granted by a paper agreement. Additionally, it improves efficiency in other aspects, e.g., submission of invoices, enhanced integrity of information, and easier archiving.

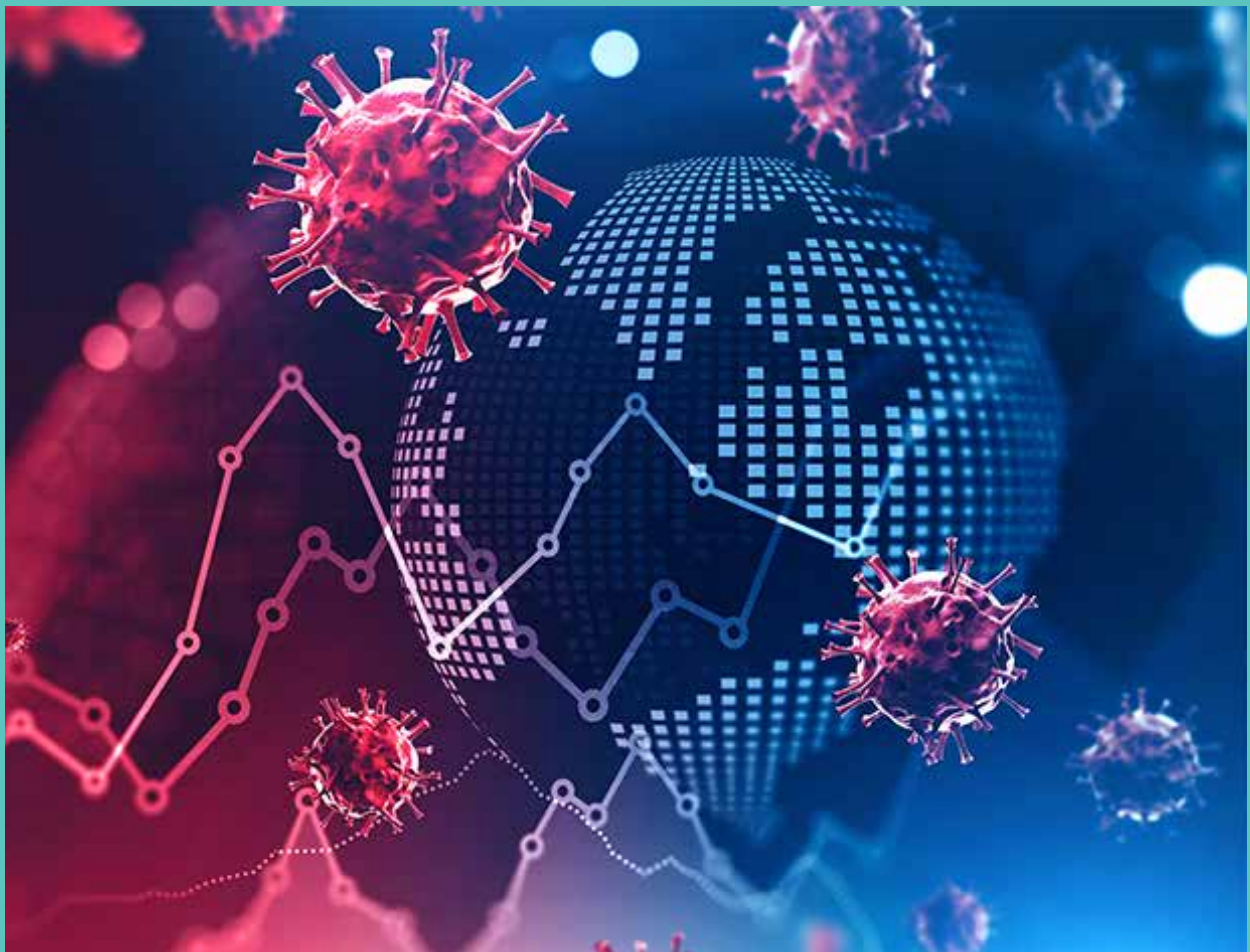
Unfortunately, the Law on Information Society Services has been overlooked and hardly ever used. Even the bylaws defined by law to be issued have not been drafted. Apparently, in Kosovo, physical agreements on paper were considered quite good, and there was never a will to think of something better. In the EU, on the other hand, the above-mentioned directive was replaced six years ago, and discussions have begun on how to improve the eIDAS Regulation.



...the introduction of electronic identification and signature in Kosovo would help its economy during the pandemic, especially the financial sector...

It is not difficult to do in Kosovo what already exists in the EU and through legislation allow businesses to develop and provide various electronic services. There is no need to invent laws, just copy the EU legislation. At any rate, we have already to this as a contracting party with the EU on the Stabilization and Association Agreement.

Currently, there is a draft law transposing the eIDAS Regulation and it has been sent to the Assembly. What does not exist is the will of the Assembly to approve it forthwith, enabling the relevant Ministries to implement it. In addition, funding for the implementation of that law will also be available from the Instrument for Pre-Accession Assistance (IPA) facility. There is no doubt that the introduction of electronic identification and signature in Kosovo would help its economy during the pandemic, especially the financial sector, which is entirely based on agreements written on paper and manually signed by the parties. Nor is there any doubt about the content of the above noted draft law and its implementation. The only doubt is related to the intentions of the Members of the Assembly, where with the multiple attempts to approve the Draft Law on Economic Recovery it has become debatable whether they hold the interests of their constituents as a priority.





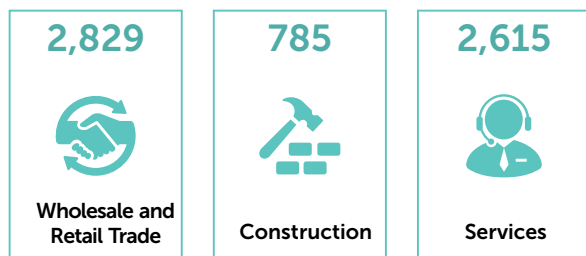
8,401
JOBS CREATED

**LOANS TO WOMEN
IN BUSINESS**

12% of guaranteed loans
are for female entrepreneurs



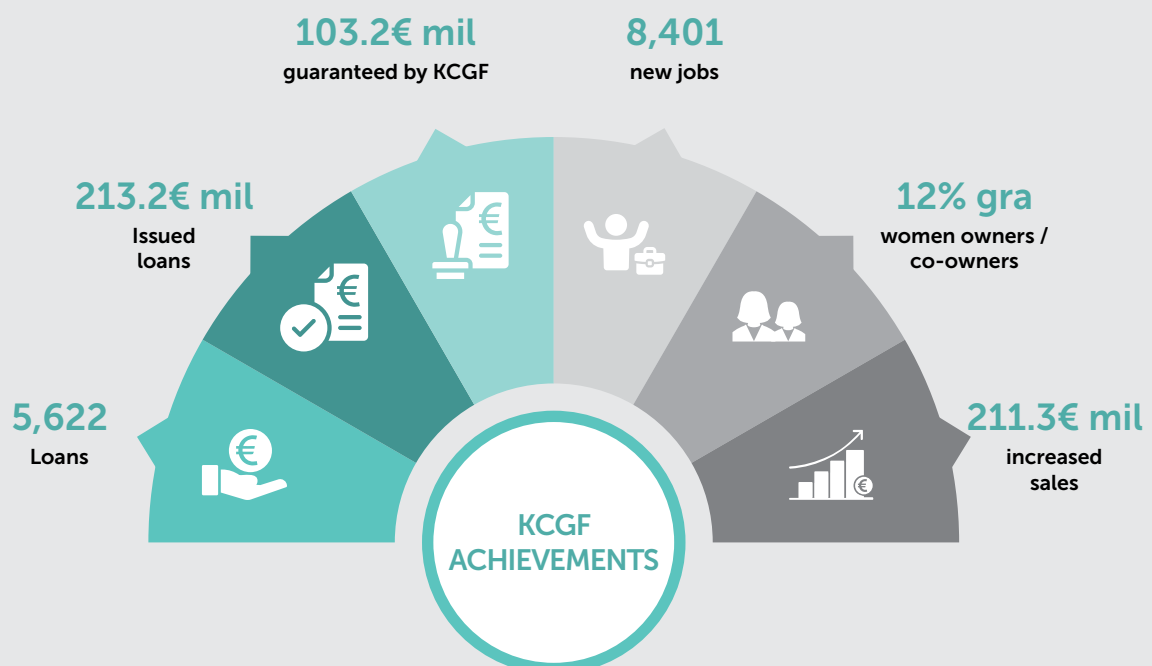
12%



An estimation reported by the beneficiaries



KCGF ACHIEVEMENTS AS OF 31 OCTOBER 2020



WILL KOSOVO'S BUDGET DEFEAT THE COVID-19 ECONOMIC CRISIS?

Because of the delays in forming the Government, the Kosovo Budget for 2020 was adopted outside of regular legal deadlines. Considering the health and economic crisis anticipated considering COVID-19, the budget was approved urgently by the Assembly of Kosovo. However, the adoption of the budget did not solve the problems related to creating opportunities for the Government to mount a full response to the economic shock and social crisis brought on by COVID-19. This is because the budget is drafted almost a year earlier and, in certain cases, the accommodation of unanticipated expenditures requires endorsement by the Assembly of Kosovo. Specifically, in case a transfer exceeding 25% of a budget allocation should be made, it would be necessary to include the Assembly of Kosovo. Another limitation regarding the creation of budget space for dealing with the crisis was the remarkably high percentage of the budget for capital investments, which was a continuation of previous years' practice.

In addition to the expenditure aspect, the vote of the Assembly of Kosovo is also needed to increase the budget deficit and take new loans. The need to increase the budget deficit came because of declining revenues, but also rising expenditures, as the Government approved an emergency fiscal package, and a second package called the "Economic Recovery Package". While the budget appropriated for the emergency package was about EUR 179 million, the budget appropriated for the recovery package goes up to EUR 365 million, however this amount includes some unexecuted payments from the emergency package.

Kosovo entered the crisis caused by COVID-19 with an incredibly low public



BERAT THAQI

Policy Analyst
GAP Institute

debt, about 20 percentage points lower than the debt allowed by law, and this allowed considerable fiscal space to address the crisis. However, all these measures as mentioned above were rendered impossible as a quick alternative because the ruling coalition suffered a vote of no confidence in the Assembly of Kosovo. While the emergency package was put to a vote by the Government, the vote on new loans or increasing the deficit took place after the election of the new Government. The Government's decision to implement the recovery package was taken only in mid-August, or about five months after the start of the pandemic in Kosovo.

While the budget review was voted owing to the constructive support of the opposition parties, some of the measures for economic recovery, as part of the draft law on recovery, as well as some international loan agreements are yet to be implemented. Considering that the approval of international loans requires

2/3 of the votes of the Members of the Assembly, it will be impossible to fully address the economic crisis without political unity between the political parties. In the event of non-approval of loans, public spending will fall, and this will further accelerate the economic downturn. In 2020, Kosovo is expected to have the lowest public spending as a share of Gross Domestic Product (GDP).

In addition to the risk of declining spending that could deepen the economic downturn, capital investment as a category which helps faster economic growth, may have a sharp decline this year. This is because the budget was approved late and some of the works, especially in infrastructure that make up most capital investments, have been interrupted because of measures to contain COVID-19.

According to the International Monetary Fund (IMF), in the emergency package, the Government had properly focused measures on addressing the crisis. However, now that the rules for state aid to the private sector are almost suspended in Kosovo and elsewhere in the world, this situation brings new risks to budget management. The large increase in subsidies, as one of the less legally regulated categories, may create room for abuse of public money and inequality in competition between private sector companies.

Despite the risks and challenges brought on by COVID-19, this moment also presents opportunities either for the use of the budget for domestic economic transformation, or for the achievement of social and cultural goals. Kosovo continues to have the lowest level of public debt in the region and that is a good thing. However, to make the best use of this situation and fiscal space, an ongoing political and social debate is needed between different social groups. Public projects and assistance to the private sector need to be based on strategic priorities, clear and transparent criteria to avoid patronage in public

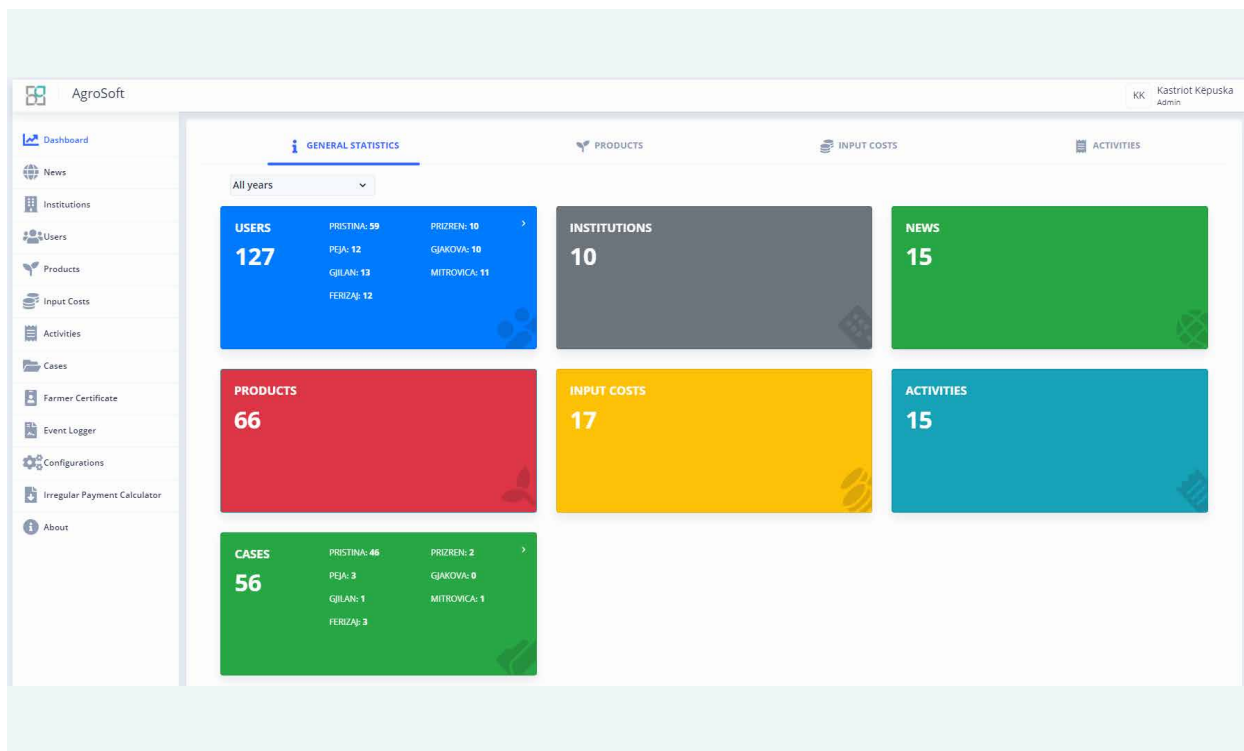
spending. Alternatively, Kosovo will end up increasing public debt and spending taxpayers' money to no avail. In view of the fragility of the current Government numbers, transparency, and the involvement of other stakeholders outside the Government (opposition parties or civil society) in designing eligibility criteria attached to the economic recovery package could help achieve political and social unity. The approval of the budget review and some international loan agreements was a good and constructive moment between the parliamentary political parties, and such a constructive approach is necessary in the coming months.



In addition to the risk of declining spending that could deepen the economic downturn, capital investment as a category which helps faster economic growth, may have a sharp decline this year.

Therefore, the question raised in the title of this article, whether Kosovo's budget will help resolve the economic crisis, will depend on our will as a society, our political representatives in the Government and in the Assembly of Kosovo, and cooperation and good governance.

AGROSOFT PLATFORM AND ITS ROLE IN SUPPORTING THE AGRICULTURE SECTOR



Agriculture is a fancy word for the sector responsible to produce foods of plant and animal origin. Perhaps this could be a simplistic description to understand the importance of this sector, not only for our country but in general in global terms, where the production of sufficient food is a challenge compared to the constant growth of global population.

In recent years in our country, this sector, which is considered an important pillar of the economy, is facing various challenges, whether from imported products, from insufficient financing compared to the level of support in EU countries, or even from lacking skilled labor. Replacing imported agricultural products with domestic products will remain a crucial challenge, especially since Kosovo will move on to become an even more open market. Local farmers will continue to compete with beans

imported from the Baltic countries or garlic coming from faraway China.

Considering the above, it is especially important that this sector is attractive for investment to younger group ages, even from urban areas.

During the COVID-19 pandemic period, not all agricultural activities were affected equally. While for raspberry growers this was a successful year because of the good stock market price and increased demand for fruit consumption during this period, on the other hand the farmers who supplied the HoReCa chain faced challenges in placing their products in the market. This category includes especially vegetable growers and farmers engaged in broiler farming.

The Kosovo Credit Guarantee Fund, supported by the German Development Bank (KfW), continues to focus on agriculture as a primary production sector and on processing of agricultural products within its added-value chain. In addition to guaranteeing agricultural financing, the KCGF has devised and developed other opportunities that will allow financial institutions to conduct more accurate and reliable analysis.

To get a clear picture on how this platform works, we interviewed Mr. Kastriot Këpuska, who is an Agri-expert with the KCGF.

KCGF: Mr. Këpuska, can you tell us more about the newly launched AgroSoft Platform?

KK: AgroSoft is a dynamic platform, which aims to facilitate the work of financial institutions in making proper decisions during the analysis of agricultural loans, minimizing the asymmetry of information between the farmer and the financial institution. As such, the platform can be used on various devices such as: desktop computers, laptops, or smartphones. Its development was made possible by the KfW bank, which helped to develop this platform through the technical assistance provided under the Agri Window of the KCGF.

This platform receives data in real-time, with ongoing updating by the Ministry of Agriculture, Forestry, and Rural Development (MAFRD). Data collected from the field include yield, retail, and wholesale price in different regions of the country, profit from an agricultural activity, etc.; this data is then used to conduct analysis and create financial statements, which are in turn used by financial institutions to base decisions on extending financing to that client.

During our visit to the MAFRD we met Ms. Delvina Hana-Bakija, who spoke to us about the cooperation between this Ministry and the KCGF.

KCGF: Ms. Bakija, at what level do you cooperate with the KCGF and how did you come to this cooperation?

DHB: The cooperation has been natural, considering our common goal to promote agricultural financing to the greatest extent possible. We, at the Department of Analysis and Agricultural Statistics, did not hesitate to assist the KCGF to integrate and constantly update the data we collect from the field. Depending on their demands, we have provided them the statistics we have available, such as prices of agricultural crops, their yield, cost of production, cost of investment, etc.

It is worth pointing out that during the COVID-19 pandemic period, not all agricultural activities were affected equally. While for raspberry growers this was a successful year because of the good stock market price and increased demand for fruit consumption during this period, on the other hand the farmers who supplied the HoReCa chain faced challenges in placing their products in the market. This category includes especially vegetable growers and farmers engaged in broiler farming.

The AgroSoft Platform, among other things, will indirectly help these farmers affected by the pandemic, allowing greater certainty for financial institutions in their financing based not only on the situation during the pandemic, but referring also to historical trend data related to prices and yields of agricultural crops.

HIT FLORES

A COLLECTION CENTER IN THE SHARR MOUNTAINS

Hit-Flores is a company involved in the harvesting and processing of medicinal plants, mushrooms, and forest fruits. The company is also involved with the processing and packaging of tea, which is harvested directly from the Sharr Mountains.

“We started our business in 2005, initially with the harvesting of forest fruits and gradually expanding operations to include the harvesting of medicinal plants and mushrooms. “Our primary goal is to harvest high-quality fruits and medicinal plants from the beautiful Sharr Mountains and use proper classification and packaging to ensure our presence in international markets”, notes Mr. Arafat Bajrami, business owner of Hit Flores.

Currently, the company is cooperating with more than 4,000 farmers and various international companies from

ten European countries. The company cooperates with local farmers from the region of Dragash, Shtërpçë, Brezovicë, Mitrovicë, Vushtrri, as well as with farmers from northern part of Albania. Hit Flores employs 28 full time workers and 70-120 seasonal workers, as needed.

“With the constant expansion of company activities, we realized that we needed to invest in facility augmentation to ensure that our operations would be supported in the best way possible. We managed to make this investment with a loan guaranteed by the Kosovo Credit Guarantee Fund”, points out Mr. Bajrami.

Through this investment, the company managed to create a better space for storage and preservation of products, making them ready for placement in both domestic and international markets.



The financing benefits from the support of the European Union under the Loan Guarantee Facility established under Regulation (EU) No 1287/2013 of the European Parliament and the Council establishing a Programme for the Competitiveness of Enterprises and small and medium enterprises (COSME) (2014-2020).



The support for this investment came through with the loan guaranteed by the Kosovo Credit Guarantee Fund, together with the COSME Program of the European Investment Fund supporting access to finance for MSMEs at different stages of their life cycle, such as during the creation, expansion, or transfer of business.

ARBËRIA GROUP PRODUCER OF NATURAL MINERAL WATER “UJË I ALPEVE”

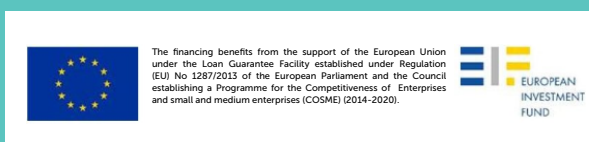
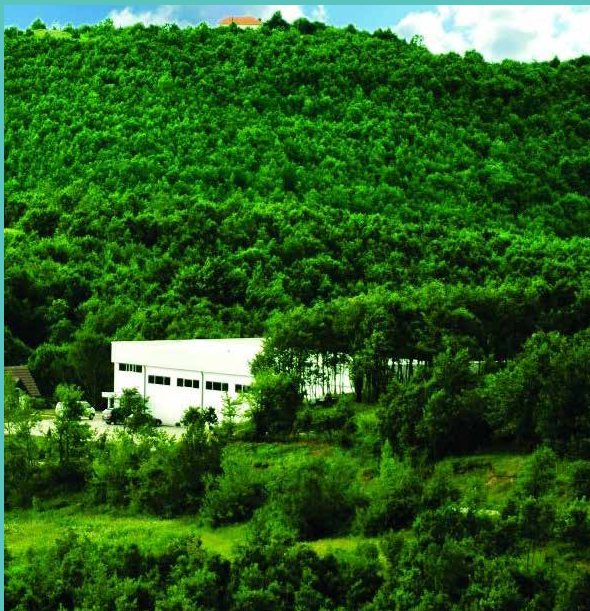
Arbëria Group is a company involved in the production of natural mineral water “Ujë i Alpeve” (Alpine Water) and the production of carbonated beverages.

“It was 2010 when we established the Ujë i Alpeve Water Factory, to produce and bring quality natural water from the spring to the customer’s dining table. Ujë i Alpeve natural mineral water springs from the depths of the Alps in the Gollak Mountains in the village of Koliq, at an altitude of over 1,200 meters, from an ancient spring of natural mineral water, and is well-known as high-quality water”, emphasizes Mr. Afrim Osmani, business owner.

Currently, the company is cooperating with more than 1,500 local companies, local hypermarket, and supermarket chains, as well as retailers.

“Since 2010, our company has managed to expand, adding production lines, and increasing the number of employees, and to become established as a name brand among customers. To offer a high-quality product, we package the water using modern European technology certified according to European standards, which allows our Alpine Water to retain all its natural properties from the spring. However, in addition to the advanced technology we employ, to carry out our planning and to be competitive in the market, we also needed to invest in working capital. We managed to make this investment with a loan guaranteed by the Kosovo Credit Guarantee Fund”, notes Mr. Osmani.

Through this investment, the company managed to achieve production goals and planned sales, which at the same time resulted in business growth.



The support for this investment came through with the loan guaranteed by the Kosovo Credit Guarantee Fund, together with the COSME Program of the European Investment Fund supporting access to finance for MSMEs at different stages of their life cycle, such as during the creation, expansion, or transfer of business.

KCGF AND MFK TOGETHER TO SUPPORT INVESTMENT IN SOLAR RENEWABLE ENERGY

January 2020 - The Millennium Foundation Kosovo (MFK) together with the Millennium Challenge Corporation (MCC) and the Kosovo Credit Guarantee Fund (KCGF) hosted an Executive Informative Session for the donor community, the international development, and financial organizations, to provide more information on the Renewable Energy Independent Power Producer (IPP) Facilitation Project in the amount of USD 5 million.



FINANCIAL AGREEMENT ON INCREASING KCGF GUARANTEE CAPITAL SIGNED

April 2020 - The Acting Minister of Finance and Transfers, Besnik Bislimi, and the Director of the KfW Office in Kosovo, Rene Eschemann, signed the Financial Agreement to increase the guarantee capital of the Kosovo Credit Guarantee Fund in the amount of EUR 6.5 million, with a focus on lending support to the agribusiness sector.



MOF AND KCGF SIGN ASSISTANCE AGREEMENT

September 2020 - The Deputy Minister of Finance, Agim Krasniqi, and the Managing Director of the Kosovo Credit Guarantee Fund, Besnik Berisha, signed an Assistance Agreement in the amount of about EUR 22.3 million. This Agreement, resulting from the Financing Agreement between the Republic of Kosovo and the World Bank for the Financial Sector Strengthening Project, increases the capital of the Kosovo Credit Guarantee Fund to further support private sector.



MFK, KCGF, AND MOF SIGN LETTER OF INTENT

September 2020 - The Millennium Foundation Kosovo (MFK), the Kosovo Credit Guarantee Fund (KCGF) and the Ministry of Finance (MoF) signed a Letter of Intent to launch commercial financing for renewable energy and energy efficiency projects in the amount of up to EUR 25 million. The parties signed the Letter of Intent in the presence of the Millennium Challenge Corporation (MCC) and the delegation of the U.S. International Development Finance Corporation (DFC), visiting Kosovo to promote cooperation and economic development.



FINANCIAL AGREEMENT ON INCREASING KCGF GUARANTEE CAPITAL SIGNED

November 2020 - The financial agreement to increase the guarantee capital of the Kosovo Credit Guarantee Fund is signed. The Director of the KfW Development Bank for Southeast Europe and Turkey, Dr. Klaus Müller, and the Managing Director of the Kosovo Credit Guarantee Fund, Besnik Berisha, signed the financial agreement to increase the guarantee capital of the Kosovo Credit Guarantee Fund in the amount of EUR 5 million. This support is being provided by the German government to strengthen lending to the business sector in general, to avoid the consequences of the crisis brought on by the COVID-19 pandemic. The guarantee facilities, which are fully funded by the German government with intermediation by KfW, are already supported with a capital of EUR 18.5 million.



IMPLEMENTATION OF THE WORLD BANK'S FINANCIAL SECTOR STRENGTHENING PROJECT IN KOSOVO

December 2020 - As a result of the financing agreement between the Republic of Kosovo and the World Bank for the Financial Sector Strengthening Project, the capital of Kosovo Credit Guarantee Fund increased in the amount of 21.4 million euros. Through the Financial Sector Strengthening Project, the World Bank aims to support the recovery of Kosovo's economy by supporting access to finance by targeting the creation of guarantee windows for certain market segments, such as those for women in business, young entrepreneurs, production sector, and aims to advance the financial and technical capacity of KCGF through the provision of technical assistance. The total value of the subsidiary agreement including technical assistance is in the amount of about 22.3 million euros. Through this capital, KCGF will strengthen its role in efforts to combat the negative effects caused by the COVID-19 pandemic under the Economic Recovery Package.



ECONOMIC RECOVERY PACKAGE

December 2020 - As the COVID-19 pandemic was taking its toll, MSMEs began to feel its effects in every aspect. From the beginning, the KCGF took on the responsibility of assisting the MSME sector by creating guarantee products that would respond to the need for uninterrupted lending to MSMEs, aiming to meet the need for liquidity and investment financing. In this regard, KCGF designed products for specific sectors and segments, drafted the guarantee agreements, modified the management information system and kept Partner Financial Institutions informed of novelties to be introduced by the Economic Recovery Package. The implementation of this joint initiative with The Government of Kosovo and international donors, already is possible, after the approval of the Economic Recovery Package in the Assembly of Kosovo and ratification of the Law on Economic Recovery by acting President of the Republic of Kosovo. In this regard, KCGF launched the Economic Recovery Package which will support lending to sectors such as manufacturing, services, agriculture, trade, with a focus on especially for women in business, start-ups, as well as investments in energy efficiency.



KCGF INTRODUCES ITS INSTITUTIONAL ROLE IN DOMESTIC ECONOMIC GROWTH

February 2020 - The Kosovo Credit Guarantee Fund introduced its institutional role in domestic economic growth, with special emphasis on supporting local agribusinesses. The presentation before members of the Association of Fruit and Vegetable Processors of Kosovo (PePeKo) and the National Raspberry Association included discussions on the easiest access to finance that should be available to local agribusinesses in this sub-sector.



KCGF ATTENDS VIRTUAL FORUM HOSTED BY AMCHAM

April 2020 - Managing Director of the Kosovo Credit Guarantee Fund, Mr. Besnik Berisha participated in the virtual forum "Role of Kosovo Credit Guarantee Fund in Addressing the Impact of COVID-19" hosted by AmCham. In this panel Mr. Berisha informed the participants on the current activity of the KCGF, as well as the measures being taken by the KCGF, in cooperation with the Government of Kosovo and international donors, to support MSMEs and financial partner institutions during the COVID-19 pandemic.



KCGF HOSTS COORDINATION MEETING WITH DONORS AND PARTNERS

May 2020 - Information on initiatives and developments, mutual coordination to create new opportunities to help MSMEs through the Kosovo Credit Guarantee Fund to overcome the situation brought on by the pandemic, were some of the topics that featured in discussions at this meeting. The meeting was attended by representatives of the Ministry of Finance and Transfers as well as representatives of international donors, such as: KfW, USAID Office in Kosovo, Sida, World Bank, European Bank for Reconstruction and Development (EBRD), European Investment Bank (EIB), European Union Office in Kosovo, International Finance Corporation (IFC), and Embassy of Japan in Kosovo.



AGROSOFT PLATFORM LAUNCH BY KOSOVO CREDIT GUARANTEE FUND

October 2020 - The Kosovo Credit Guarantee Fund (KCGF), in cooperation with the Ministry of Agriculture, Forestry and Rural Development (MAFRD) and the Kosovo Banking Association (KBA), introduced the AgroSoft platform, a project supported by the German Development Bank (KfW). AgroSoft virtual platform will help financial institutions to perform more accurate analyses related to agricultural financing. This user friendly and dynamic platform is accessible from various electronic devices (desktop, laptop, tablet, or smartphone) and updated by MAFRD with the latest data, will be enable financial institutions and other stakeholders to narrow the information asymmetry gap between farmers, financial institutions, and the market.



KCGF ATTENDS THIRD EDITION OF KOSOVO SUSTAINABLE DEVELOPMENT WEEK

October 2020 - The Kosovo Credit Guarantee Fund joined other participants in the virtual panel on "COVID-19 Economic Recovery through Clean Energy". During the panel discussion, Mr. Berisha stressed that the Kosovo Credit Guarantee Fund (KCGF), under the Economic Recovery Package, plans to support the financing of projects with special focus on the renewable (solar) energy sector and energy efficiency.



TRAINING ON INSTITUTIONAL CAPACITY BUILDING RELATED TO RE AND EE



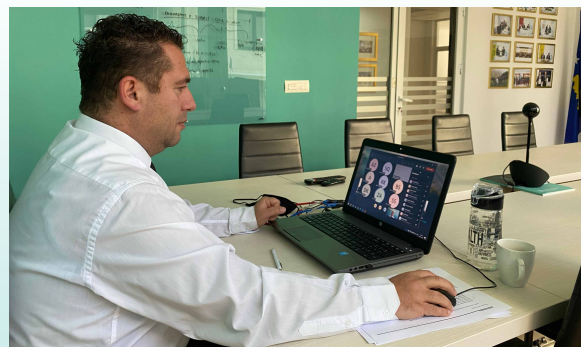
October 2020 - Employees of the Kosovo Credit Guarantee Fund attended a two-day training on renewable energy and energy efficiency, provided by experts from Financial Markets International Inc.

This training, which is part of the one of three key interventions under the Agreement concluded between MFK and KCGF aiming to

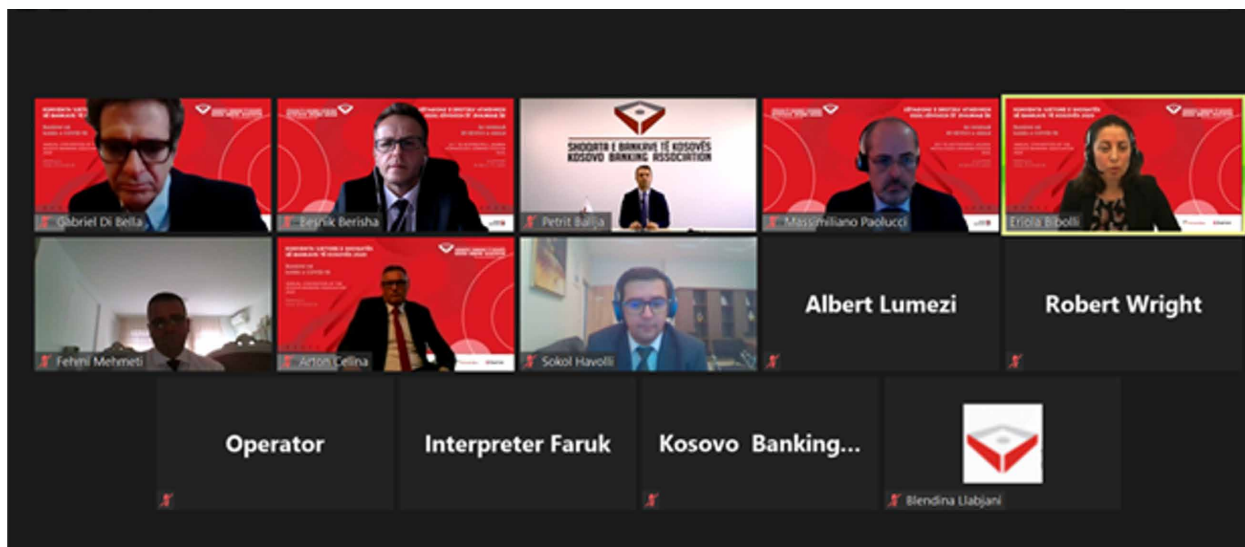
establish an enabling environment for financing renewable energy in Kosovo, focused on supporting KCGF in the development of institutional capabilities related to enhancing its financial insights on the solar energy market, in addition to the introduction of a guarantee window for the financing of renewable (solar) energy projects and investments that boost energy efficiency.

TRAINING ON AGROSOFT PLATFORM

October 2020 - The Kosovo Credit Guarantee Fund conducted the first round of virtual trainings on how to use the AgroSoft platform with the selected staff of partner banks. In addition to credit guarantees, through the AgroSoft platform, the KCGF shall facilitate easier access to finance for local farmers and agribusinesses, in support of easier and more reliable credit related decision-making.



KCGF ATTENDS ANNUAL CONVENTION OF THE KOSOVO BANKING ASSOCIATION 2020 - "BANKING IN THE TIME OF COVID-19"



December 2020 - The Kosovo Credit Guarantee Fund attended the virtual panel on "Challenges and Sustainability of Kosovo Banks during the COVID-19 pandemic: "Recovery and Expected Changes in the Banking Sector." In this panel Mr. Berisha informed the participants on the current activity of the KCGF, as well as measures being taken by the KCGF, in cooperation with the Government of Kosovo and international donors, to support MSMEs and financial partner institutions during the COVID-19 pandemic.

During the panel discussion, Mr. Berisha informed the participants about the new windows and facilities offered for the underserved sectors and segments, such as: agriculture, women in business and start-up businesses, encouraging the financial partner institutions to enable access to finance for these sectors and segments, while consistently ensuring that there is no increase in liabilities to a level that would be overwhelming for the final beneficiaries.

NEW KCGF OFFICE LOCATION

June 2020 - The Kosovo Credit Guarantee Fund moves to new offices. Pursuant to the principle of social responsibility, the Fund ensures that employees shall have access to adequate and suitable space with all the necessary equipment and services for a better working environment.





FONDI KOSOVAR PËR GARANCI KREDITORE
KOSOVSKI FOND ZA KREDITNO JEMSTVO
KOSOVO CREDIT GUARANTEE FUND

Kosovo Credit Guarantee Fund

Address:

Njazi Alishani No. 5,
10 000 Pristina, Republic of Kosovo
Phone: +383 (0) 38 225 600
info@fondikgk.org

www.fondikgk.org