

COUNCIL OF EUROPE



CONSEIL DE L'EUROPE

MUNICIPAL GUIDELINE ON ACTION PLANS FOR COVID-19 SOCIO-ECONOMIC RECOVERY

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1. Introduction¹

Officially declared on March 11, 2020, the COVID-19 pandemic, is an unprecedented health phenomenon affecting many aspects of personal and societal life globally, specifically human health and the economy. The total number of deaths caused by the virus is over 6.4 million, whereas more than half a billion people are confirmed to be infected by the virus.² Besides being a health emergency, this has resulted also in economic crises, disrupting production and trade, thus negatively affecting socio-economic development globally. The first cases of COVID-19 infection were reported to the health institution on March 13, 2020. Similar to the other countries in the Balkan region, the local population has been hit hard by the pandemic. It also suffered more than neighbouring countries mainly due to its specific economy and economic structure, such as high dependency on imports, high unemployment rates, high negative trade balance, and low country budget. While many local businesses reported a negative impact of COVID-19 and/or inadequate support from the local government or an inability to adequate coordination between the central government and the local ones regarding the understanding and addressing the needs of businesses affected by the pandemic³, the existing literature shows that most of the conducted research so far on the COVID-19 impact, is mainly focused on economic and business effects, socio-economic influences on households, and very few on municipal services.

¹ Dr. Atthe Hetemi developed this guideline. Ethical standards are considered throughout the data analysis and writing process to ensure contributions of the involved parties (CoE, MLGA, and/or other stakeholders) are treated with integrity, respect, and – when required - confidentiality. Thus, opinions expressed hereinafter are in no way the official opinion of the Council of Europe.

² WHO Coronavirus (COVID-19) Dashboard. Available at: <https://covid19.who.int/> (last accessed on 19/10/2022).

³ See UN-Habitat’s report ‘Socio-Economic Impacts of Covid-19 in Kosovo’s Municipalities and Businesses’ (2022)

data collection and analysis methods.

Primarily, these methods include:



2. Major findings

Although in general during the last decade, Kosovo's⁶ economy has grown fast and its growth has been mainly inclusive, it has not been enough to considerably lower the high unemployment rates or to create enough formal jobs, particularly for women, youth, and most vulnerable groups of the society⁷. Moreover, besides the moderate impact of the government authorities, which acted quickly to contain the spread of the virus, and took measures to mitigate the negative effects of restrictions on the overall economy, as many other countries, Kosovo⁸, has been quite hardly hit by the pandemic COVID – 19. Nevertheless, as was pointed out by the Organisation for Economic Co-operation and Development (OECD)⁹, the pandemic's medium to long-term effects are not limited to health issues and the long-term effects will be mostly determined by pre-existing socio-economic vulnerabilities of a specific country. In this context, Kosovo¹⁰ suffered more than its neighbouring countries due to its specific economy and economic structure, such as high dependency on imports, high unemployment rates, very high dependency on remittances, high negative trade balance, and low country budget. Therefore, during COVID-19, many of the surveyed businesses reported a significant negative impact of COVID-19 (see figure 2).

⁶ All references to Kosovo, whether to the territory, institutions or population, in this text shall be understood in full compliance with United Nations' Security Council Resolution 1244 and without prejudice to the status of Kosovo.

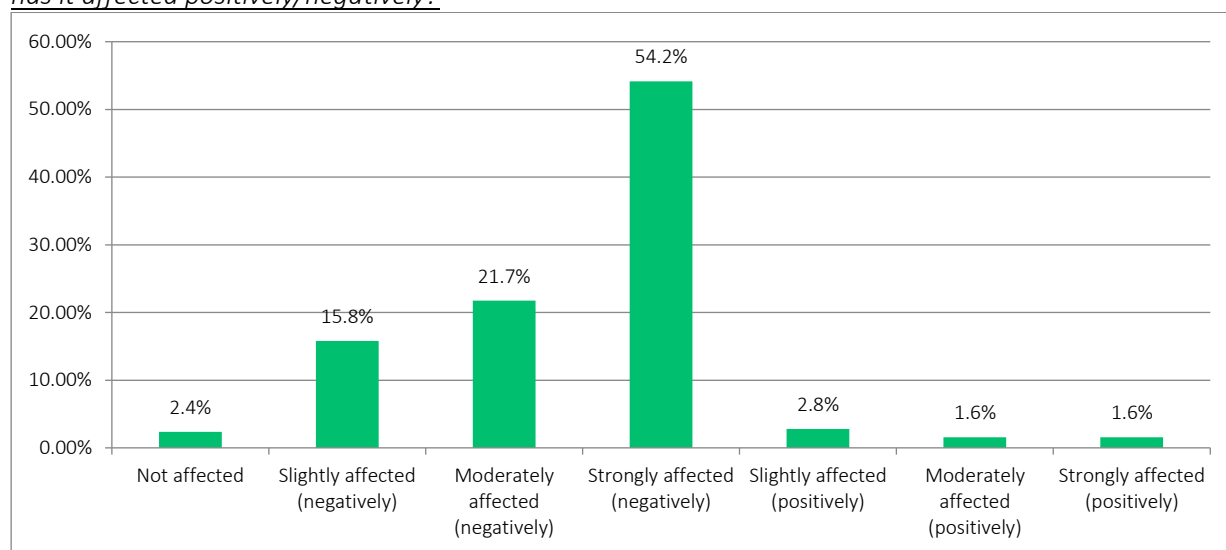
⁷ See World Bank in Kosovo at: <https://www.worldbank.org/en/country/kosovo/overview> (last accessed on 17/11/2022)

⁸ All references to Kosovo, whether to the territory, institutions or population, in this text shall be understood in full compliance with United Nations' Security Council Resolution 1244 and without prejudice to the status of Kosovo.

⁹ See OECD iLibrary at: <https://www.oecd-ilibrary.org/sites/0314c10c-en/index.html?itemId=/content/component/0314c10c-en> (last accessed on 17/11/2022)

¹⁰ All references to Kosovo, whether to the territory, institutions or population, in this text shall be understood in full compliance with United Nations' Security Council Resolution 1244 and without prejudice to the status of Kosovo.

Figure 2. In general, has COVID-19 impacted positively or negatively your business activity? To what extent has it affected positively/negatively?



Among the reported reasons for these negative effects included low or inadequate support from the local government, or an inability to assure adequate coordination between the central government and the local ones regarding the understanding and addressing the needs of businesses affected by the pandemic¹¹. As a result, many businesses have been closed. However, besides the pandemic crises, during 2021, Kosovo's¹² economy experienced unique economic growth, with increased exports, employment, and gross domestic product (GDP) which was also accelerated by the record number of diaspora visits¹³. But, challenges from global events cut short this 'booming' recovery path. With the global energy crisis, Ukrainian conflict, and disturbance of the supply chain, the local economy, already fragile as it was, subsequently hit hard by the pandemic, suffered and continues suffering greatly. As a result, in 2022, real GDP growth is predicted to drop to 3.1% due to a decline in investment and private expenditures¹⁴. Thus, municipal businesses have been facing challenges of various natures before, during, and after the phasing out of the pandemic¹⁵. Local and central governments have been continuously attempting to identify the needs and devise necessary plans with concrete actions to address them¹⁶. However, due to the nature of the pandemic and the specificity of the issues that arose afterward, which generated unusual circumstances and situations, institutions at the local and central levels were often unable to promptly and successfully address the newly created situation through their emergency economic recovery packages¹⁷.

¹¹ Source; databases of the UN-Habitat and the MLGA surveys for the production of the entitled report 'Socio-Economic Impacts of Covid-19 in Kosovo's Municipalities and Businesses'

¹² All references to Kosovo, whether to the territory, institutions or population, in this text shall be understood in full compliance with United Nations' Security Council Resolution 1244 and without prejudice to the status of Kosovo.

¹³ See European Bank 'Kosovo Overview' at: <https://www.ebrd.com/where-we-are/kosovo/overview.html> (last accessed on 17/11/2022)

¹⁴ See World Bank in Kosovo at: <https://www.worldbank.org/en/country/kosovo/overview> (last accessed on 07/11/2022)

¹⁵ See OECD iLibrary at: <https://www.oecd-ilibrary.org/sites/0314c10c-en/index.html?itemId=/content/component/0314c10c-en> (last accessed on 17/11/2022)

¹⁶ See Economic Recovery Package - Government of Kosovo 2021 Available at: <https://mf.rks-gov.net/desk/inc/media/379199A4-66AC-4095-BF61-F1184FF5169C.pdf> (last accessed on 17/11/2022)

¹⁷ See the Friedrich Ebert Stiftung Report on the 'Effects of Covid-19 Pandemic in Kosovo – Outlook of Municipal Budgets' <https://library.fes.de/pdf-files/bueros/kosovo/17758.pdf> (last accessed on 17/11/2022)

The survey findings as well, with local municipalities and businesses, show that the undertaken measures often were inadequate and untimely, which further resulted in increased inefficiency of government measures¹⁸. Many of the challenges of businesses, identified in the UN-Habitat and MLGA report (2020) on “The impact of Covid-19 in Kosovo’s Municipalities and Businesses” remain relevant today, in addition, new challenges arose which are affecting most parts of the world, as shown in many relevant and reliable findings of the different reports. That is why, small and medium-sized enterprises (SMEs) should be the focus of local and central government for the economic recovery plans, as they account for a large percentage of all registered businesses, and provide numerous jobs. As, despite their preeminent position in the local economy, small firms frequently struggle with a lack of financial access and competitiveness, and their contribution to export is only about 5–6%¹⁹. Moreover, this continuous struggle worsened dramatically with COVID-19 and was made even worse by the major ongoing international events mentioned above. This, together with a lack of proper and tailored data-driven initiatives by local and central authorities to tackle the issue of the post-pandemic effects at its grassroots in a creative way, has put the business in a very difficult and hard-to-survive position and requires immediate actions. Below are presented some of the major economic challenges identified by local businesses in 2020²⁰, but that are still relevant:

- Difficulties in ‘access to finance’
- Difficulties in meeting business obligations, such as bank loans, overdrafts, employee payments, rents, and other financial burdens
- Unsatisfactory cooperation between local businesses and local authorities
- Decreased government spending related to capital investment on the central and local levels²¹

In addition to this, the following additional economic challenges are identified during the research phase for the development of this document:

1. High levels of migration abroad²²

According to the Kosovo Agency of Statistics, only during 2021, 42,728 persons emigrated. The motivations behind migration are mainly economic reasons followed by opportunities for education, higher living standards, etc. ²³. These numbers of migrations have a huge impact on the potential of economic development, as migration not only lowers the number of potential employees and entrepreneurs but also, potential consumers and investors. Thus, these factors help create and maintain a vicious cycle between migration and economic development²⁴.

¹⁸ Source; databases of the UN-Habitat and the MLGA surveys for the production of the entitled report ‘Socio-Economic Impacts of Covid-19 in Kosovo’s Municipalities and Businesses’

¹⁹ See European Bank info on ‘unlocking the potential of SMEs in Kosovo’ at <https://www.ebrd.com/news/2019/unlocking-potential-of-smes-in-kosovo.html> (last accessed on 17/11/2022)

²⁰ Source; databases of the UN-Habitat and the MLGA surveys for the production of the entitled report ‘Socio-Economic Impacts of Covid-19 in Kosovo’s Municipalities and Businesses’

²¹ See Kosovo Agency of Statistics <https://ask.rks-gov.net/en/kosovo-agency-of-statistics> (last accessed on 17/11/2022)

²² See Kosovo Agency of Statistics <https://ask.rks-gov.net/en/add-news/vler%C3%ABsimi-i-popullsis%C3%AB-2021/> (last accessed on 07/11/2022)

²³ See Kosovo Agency of Statistics at <https://ask.rks-gov.net/media/1379/migrimi-kosovar-2014.pdf> (last accessed on 17/11/2022)

²⁴ See ‘The Economic Dimension of Migration: Kosovo from 2015 to 2020’ at <https://www.nature.com/articles/s41599-021-00923->

2. The paradox of high unemployment but lack of qualified workforce in several industries such as wood processing; textile and apparel; hospitality industry, and construction industry as reported by GIZ²⁵

The local education system has been criticized for failing to adequately connect its curricula to the demands of the local business industries. Due to a divergence between worker skills and employer needs, the local vast and young labor population frequently remains unemployed²⁶. Such is the case in the wood processing and its by-products industry, which is a significant sector of the economy that has shown consistent robust growth. Since 2017, there has been an increase in investment in businesses that make kitchens, bathrooms, doors, upholstered furniture, and products that blend wood, metal, and glass. However, they continuously have difficulties finding employees that have the relevant skills²⁷. The main labor-related barrier to operation and expansion, according to businesses, is a shortage of skilled staff²⁸.

3. Inflation at local and international levels

In the first few months of 2022, intense inflationary pressures were made worse by the war in Ukraine's effects on the economy. Growing geopolitical uncertainties, rising commodity prices, enduring inadequacies in the area of public investment management, and probable vulnerabilities in the external sector are the primary risks to the outlook of the economic situation²⁹.

4. Lack of knowledge of online sales techniques and benefits such as market research, market penetration, the importance of compliance with international quality standards, etc.³⁰

SMEs work as a catalyst for societal advancement and economic expansion. However, SMEs need to invest in skills, digitalization, and innovation to enhance productivity and higher-paid employment in order to promote growth. Local businesses have made little progress in encouraging innovation in SMEs; however, the local economy is still among the worsts in this category³¹.

[6#Sec7](#) (last accessed on 17/11/2022)

25 See GIZ's project data on 'Improving the employability of young people in Kosovo' at <https://www.giz.de/en/worldwide/103577.html> (last accessed on 17/11/2022)

26 See Helvetas data on 'How Kosovo is Preparing Youth for the Jobs of Tomorrow' at <https://www.helvetas.org/en/eastern-europe/about-us/follow-us/helvetas-mosaic/article/June%202022/how-kosovo-is-preparing-youth-for-the-jobs-of-tomorrow> (last accessed on 17/11/2022)

27 See USAID Report on '2022 Investment Climate Statements: Kosovo' at <https://www.state.gov/reports/2022-investment-climate-statements/kosovo/> (last accessed on 17/11/2022)

28 See World Bank 'Kosovo Country Report' at <https://documents1.worldbank.org/curated/en/209751557432399449/pdf/Kosovo-Country-Report-Findings-from-the-Skills-towards-Employment-and-Productivity-Survey.pdf> (last accessed on 07/11/2022)

29 See International Monetary Fund data at <https://www.imf.org/en/Publications/WEO#:~:text=Global%20inflation%20is%20forecast%20to,to%204.1%20percent%20by%202024> (last accessed on 07/11/2022)

30 See UNDP data at <https://www.undp.org/kosovo/stories/talking-about-kosovos-digital-potentials-inclusive-digital-transformation> (last accessed on 17/11/2022)

31 See OECD 'Innovation policy for SMEs (Dimension 8b)' at <https://www.oecd-ilibrary.org/sites/ec7a78a6-en/index.html?itemId=/content/component/ec7a78a6-en#section-d1e81624> (last accessed on 17/11/2022)

5. Unstable supply of electricity and increasing prices

More than half of businesses surveyed by the World Bank Enterprise Survey cite electricity supply as a serious issue, along with crime and corruption. Only 28% cite labor-related issues as a significant difficulty, while 55% identify electricity-related issues as a major business constraint³².

6. High fuel prices affect many economic spheres directly and indirectly

It is well-known fact that the world is facing an increase in fuel prices. And rising gas prices may force some businesses to re-evaluate their hiring plans, holding off because they are uncertain about the economy's health.

7. Disturbance of the supply chain due to the Ukrainian war

The economic effects of the war in Ukraine have exacerbated the energy crisis and increased food costs, and in March 2022, inflation spiked to 10% year-over-year. Consequently, spending on social programs that support the economy and electricity imports rose³³.

8. Decreased remittances³⁴

Kosovo³⁵ is highly dependent on remittances. And, it is facing a decrease in the number of remittances. The main causes of the drop in remittances are weak economic growth and low employment in migrant-hosting nations³⁶.

These are only some of the - national-level - identified concerns which undoubtedly affect the municipalities as well.

3. Potential Solutions

In order to address the current economic challenges for economic recovery and also future economic development initiatives, local governments, should employ different research tools and develop frameworks that will increase the probability of success. One of the proposed tools is the matrix, which enables municipalities to adequately prioritize the identified issues, define the actions, outline the steps and timeframes, monitor the process of implementation, assess the end results, etc.

Below are numerous recommendations to address the identified economic challenges identified in the previous section that can be listed in the matrix to effectively tackle them:

- Central and local authorities to subsidize and provide grants to address the financial needs of the businesses
- In addition to subsidies and grants to address the financial obligations of the businesses, central and local governments should, when possible, waive taxes, extend deadlines and provide employees with monetized benefits

32 See World Bank data at <https://documents1.worldbank.org/curated/en/209751557432399449/pdf/Kosovo-Country-Report-Findings-from-the-Skills-towards-Employment-and-Productivity-Survey.pdf> (last accessed on 17/11/2022)

33 See European Bank data on Kosovo at <https://www.ebrd.com/where-we-are/kosovo/overview.html> (last accessed on 17/11/2022)

34 See Kosovo Central Bank info at https://bqk-kos.org/wp-content/uploads/2022/09/BQK_VT_TM1-2022.pdf (last accessed on 17/11/2022)

35 All references to Kosovo, whether to the territory, institutions or population, in this text shall be understood in full compliance with United Nations' Security Council Resolution 1244 and without prejudice to the status of Kosovo.

36 See World Bank data at <https://www.worldbank.org/en/news/press-release/2020/10/29/covid-19-remittance-flows-to-shrink-14-by-2021> (last accessed on 17/11/2022)

- Local and Central Government increased capital investment spending has a proven multiplied economic impact directly and indirectly on businesses and the overall economy
- Local government should incentivize actions that bring together similar local and international businesses operating in related industries thus enabling them to benefit from the economies of learning, scale, and scope
- With the revision of their annual budget(s), the municipalities should allocate about 5% of the budget for grants and subsidies for micro and medium local companies. The financing of businesses should be harmonized with the framework of the medium-term spending framework and the economic development strategies of the municipalities
- Central and local authorities together with businesses engage in campaigns to raise awareness of local job opportunities and incentivize companies in hiring new employees for a certain amount of time
- Central and local government to make use of triple Helix (cooperation between Government, Universities, and Businesses) thus developing the high school and university programs to teach the skillset required by the business at a local level for these certain above-mentioned industries thus fostering economic development at municipal and national level
- Central and local government to make use of triple Helix (cooperation between Government, Universities, and Businesses) thus developing the high school and university programs to teach the skillset required by the business at a local level for these certain above-mentioned industries thus fostering economic development at the municipal and national level.
- The central and local government to promote, encourage and incentivize businesses in converting to renewable energy sources
- Central government to continue exercise control in the pricing of the products by companies
- Central and local governments work together with business and their government counterparts to identify alternative supply sources in different industries. On the other hand, the government could exploit the situation to accelerate the development of local agriculture
- National and Local governments incentivize investment from the diaspora by offering land concessions and tax breaks for those willing to invest in the country
- MLGA in coordination with the Ministry of Health, Municipal Directorates for Health, and National Institute of Public Health should develop a plan for post-COVID-19 treatment of patients, respectively offer continuous checks of former patients affected by COVID-19. These checks-ups can be also carried out by Family Medicine Centres.

4. Diversity and inclusion of vulnerable groups

The inclusion of vulnerable groups in the socio-economic recovery plans is also mandatory and has to be done based on the human rights approach. Additionally, these communities might not even have access to public services like education and healthcare, justice, and jobs in their improvised communities. Unemployment is a major issue; some estimates place the rate above 90%. Low levels of basic education and high rates of illiteracy are still a problem for Egyptians, Roma, and Ashkali people in general, and women in particular. Poverty, a lack of resources, and ingrained cultural ideas about women's roles make these issues even worse. As was shown during the pandemic crises, despite the numerous supportive policies put in place for the different disadvantageous communities, new issues have emerged that the pandemic has made more obvious. Therefore it is strongly recommended for;

- local governments to devise special measures that address the specific needs of these

groups

- also, special attention should be paid to the most vulnerable communities such as Egyptians, Ashkalis, and Roma, which still live-in abject poverty, and sometimes even their physical safety or freedom of movement is not guaranteed.

5. User-friendly Matrix

(Matrix on 'Action Plan(s) for Socio-economic Recovery Measures' is attached as a separate excel sheet)

