

## KONTEKSTI PODCAST: RECOVERY?

### Episode Transcript

Ngadhnjim: Welcome to the next K2.0 podcast, Konteksti! Finally, the Law on Economic Recovery, Covid-19 has been approved. 6 months have passed since it was proposed, it has been discussed, contested, and finally voted on. Today we have decided to discuss this with Artan Mustafa, social policies lecturer, and Blend Hyseni, a senior researcher at the GAP Institute.

Blend, we can start with you. In general, how did the law and the developments surrounding the Covid-19 pandemic law seem to you?

Blend: Thank you for your invitation. First of all, the main defect of the Law for Economic Recovery is its delay. We have often mentioned in different interviews that during economic crises it is better to have an imperfect law, but implemented at the right time, than a perfect law that is delayed. The main defect starts at the delay and then I can talk about a few of the issues within the law...

Ngadhnjim: When I mention the delay, maybe two or three points, why has the delay damaged [the law]. Meaning, what is the damage since the law was delayed for 6 months?

Blend: Well it starts with the Emergency Package, from when the two ruling parties were LDK and Vetevendosje. Then we have seen that with the vote of no confidence the government collapsed, and when the government collapses, you cannot go to the assembly to talk to them. And that economic package could not be implemented entirely because some budgetary changes needed to be made, and for budgetary changes, it needed to pass through the assembly, while the assembly had just discharged the government. Thus, [the delay] starts with the collapse of the discharge of the government and continues until the establishment of the new government. Then, after the establishment of the new government, initially, it took time, and then the assembly votes were not secured to pass this law. We know that it was voted a few times... there were attempts to pass this law, but they have failed. As a result, we are many months too late. Why is time crucial? During the time that there was no aid, many businesses have bankrupted. Plus there is the other aspect that something which can be produced today, cannot be produced tomorrow. The day passes, what will be produced tomorrow, belongs to tomorrow. This is how the local gross-production is calculated. It is calculated every day, which adds up until the end of the year. For a while, when you work with a reduced schedule, reduced staff, you have no sales, then that part ends and all that's left is the rest of the year. For this reason, it is important to intervene as soon as possible and to identify the sectors which most need support.

## K2.0

During the discussion, we can mention that many sectors have had [economic] growth. So, not all sectors have been impacted in an equal way, some sectors have been impacted much more. From the moment that the measures have started, some businesses are still closed. There are some that during this time, when the measures were relaxed... and there are businesses that have functioned in a normal manner from the start. For example, public services: Water, waste management, electric energy production, markets, pharmacies, which in general offer health products, all of these have functioned regularly, they have even had, in the turnover declaration at KTA, have had growing up to 74%, 15%. This is as an overall, then we can talk about the specifics of the law.

Ngadhnjim: I believe we will discuss them. Artan, the Emergency Package during the Kurti government was mentioned, and now the Law for Recovery. Can you see a connection or continuation of the policies that have started with the Emergency Package? Or should there be, at the end?

Artan: We discussed with the former minister Bislimi and GAP, a few days ago with D4D, maybe not to be repetitive, but I am trying to relate to what Blendi said. He analyzed how the law... which businesses... maybe it would be good to focus on specific sectors, and that it is late. A short interpretation from the perspective of social policies: What was good about the law, first of all, was the fact that the 30 million fund was created for all the unemployed workers... they have lost their job during the year, from February 29 to December 30. Another positive side is that the payment was increased to 300 euros, which is offered as a living wage for Kosovo conditions. This is a good aspect. To relate to the emergent measures, which you asked about. The former government gave information about where they spent the funds. This current government has not shared any detailed information about where the funds were distributed, and this is a great shortcoming of the measures since the Hoti government has come [to power]. We do not know where the money went, no report was made, neither at the Ministry of Finances, now on the prime minister's website, or the Ministry's.

Ngadhnjim: Why do you believe that is?

Artan: I do not know. Maybe there was no general inquiry for public responsibility or addressing it. However, in the former government's report, it was mentioned about 142 workers who have applied for the unemployment protection scheme, which means somewhere about 63% of all the private-sector workers have been endangered.

Ngadhnjim: When we talk about the private sector, we are talking about those that are registered, because in reality there are others without any...

Artan: We're getting there because I want to address that as well. The second element here, it is important to see this amount, within 30 million, since I do not think it is completely random, we have not had any official data until now about the number of workers which have lost their employment. From this fund, if we subtract 30 million with 300 (then multiplied by 3) we realize

## K2.0

that there are 30 to 33 thousand people who have lost their place of employment. Officially, the Kosovo Assembly, authorities, believe that these many people have lost their employment.

Ngadhnjim: Does this seem presumptive to you? Is there any data...

Artan: The Statistics Agency has not published data further than during the first trimester, neither has there been any official data from the Employment Agency, nor from the alternative surveys there were no publications, there have only been a few projections which I have read on the media. But, we suppose that the employment loss is around 33,000.

The second element, as you mentioned, a great problem of these measures is that it does not cover informality. If we take a look, the social protection system that we now have, the social aid scheme targets those in poverty — it is built to protect those in poverty. However, it has built so many qualification tests that during the past 10 years it has excluded many people. Therefore, it is very difficult to qualify. In this period we do not have ease of criteria, only additional measures. Meaning it is very difficult for families to qualify, plus I do not believe that the relevant centers at the municipalities have changed the numbers of those who partake in this scheme.

On the other hand, this fund does not help informality at all, this shows that those people who live with unstable jobs, etc. will suffer and will not find support from the economic recovery measures. The workers who are part of the informality, they're neither in poverty, neither unemployed workers, but are workers who no longer have an income because of their unstable job, but the system does not recognize them.

But it's not these people's problem that the system does not recognize them, this is important, why? Because the state itself, our politics, has aided informality. In which form? Taxes, Kosovo's budget, is funded up to 85% by consumption taxes. If you are Kosovo's prime minister, you do not need to take a look at what is happening in the job market because you are funding the budget from indirect taxes. The government has not been very interested and therefore has not employed many inspectors for the job market, it is not very interested in workers' rights.

The other thing, the workers have not had any rational interest to be involved in formality because the political interest in worker protection has been very low, lack of social insurance, for example, unemployment insurance, medical insurance, adequate retirement insurance, etc. So, what rational interest do people have to be involved? The government is punishing a part of the population because they are part of the informality, however, they [the government] are themselves responsible for such high levels of informality, so they cannot punish them [the workers] in this manner.

Ngadhnjim: Blend, Artan mentioned the number of the people who have potentially lost their employment. You as an institute, have you conducted any research, or any other data, on how many people have lost their jobs from March until now?

## K2.0

Blend: It is difficult to say, because the Statistics Agency has not published the latest data, and up to date we have only followed those as more credible and official. We have some data from KTA, but they only deal with registered employees. Something interesting that Artan mentioned is the informal sector, usually during a crisis or even when public budgetary funds are spent, it would be good to connect them with a few stimuli. For example, during the former government, I liked the policies that offered some stimuli to the informal workers to register them to the formal sector and receive the aid. It is good to connect state aid with a policy that puts the country in a better place once the crisis is surpassed.

Ngadhnjim: Even though very few have applied. If I'm not mistaken, only 9,000 people...

Blend: What I'm trying to say is that it is good logic. To apply the logic that at least a few stimuli are created to improve it. Some countries use their budgets to make structural changes in the economy. For example, in the industries where there is over-employment, they offer courses or training for other industries that have development potential, and as such redirects or structures the economy better than...

Artan: Yes, absolutely. Intervention in capacity building, then intervention with these measures with pension contributions, taxations for vulnerable categories. And something else, the fact that we have incomplete politics, the non-formation of the social insurance institutions are also very important. Imagine if today we had functioning unemployment insurance, how much easier it would be for the administration to find all the data they needed, all the applications — there would be a logic for covering income, etc., etc.

Ngadhnjim: Blend, do you see the approach to this law, that which...

Blend: There is not, I have not seen. More, this law could cause some damage, but another deficiency of the law is that it does not identify the sectors that have had the greatest loss, but is distributed uniformly. For example, the latest aid was 60 million, for businesses, each business has received it based on the number of employees. I mentioned that many industries have had growth and these are industries that hire large numbers. Let's take the big markets as an example, which have sold more than in previous years...

Ngadhnjim: You're trying to say that the businesses that have profited during the pandemic should not receive aid, but [the aid] should be directed somewhere else?

Blend: Yes. The sectors that have a greater need and are heading toward bankruptcy. There are many different methods. First of all, I said that it is better to identify strategic sectors and to make an economic structuring since you're already intervening so much with all this money, you are increasing the debt, it is better to think about the future so those sectors can be successful, to return the money and pay the debt.

Artan: This came as a consequence when with the emergency measures, the government requested applications for the 170 euros aid, it overwhelmed the administration. To examine all

## K2.0

the applications. Now the prime minister, the minister, has gone to KTA and has asked which is the easiest way to spend the fund, and this has been the easiest way to distribute it. I completely agree that the money has gone also to entities that have not been affected by the crisis.

Blend: In fact, they have also had growth.

Artan: In general, an important conclusion that can be made, is that with the modernization of a society, the state takes the greatest responsibility to protect human lives. Kosovo, in my opinion, has failed in this aspect — and this is a sign of the failure of the state — because a large part of the society even though they have continuously paid taxes, even though they had sufficient finances, plus international financing agreements, loans, and borrowing, the government is not able to help them...

Ngadhnjimi: Artani is maybe the only [one that says] that in Kosovo there is money but we do not know how to distribute it...

Blend: It is true and we have mentioned in one of the analyses that Kosovo has been in the best position to exit this crisis because we have the lowest public debt in the region, and let's not forget that we have a liquid bank system, where the banks have sufficient money to even release funds if stimuli are created. For example, one very good aspect of the Recovery Law is the covering of loan risks through the fund for a loan guarantee. These funds have shown good results in other countries as well. It is good that the money from the banks enters circulation.

Ngadhnjim: Not from the budget...

Blend: Even from the budget, but the banks as well, in different ways. There is also the part of the [retirement] trust. We have mentioned that it is not a conventional method of exiting the crisis. No country exits the crisis with the approach of taking the money that is dedicated to retirement. Even if this fund had to be used, that should have been the last option, after all, other options had been exhausted. It is normal to increase public debt during a crisis because when residents do not spend, the public expenditure should be used to neutralize as much as possible the aggregate decline. It is good for the banks to give out loans, but banks tend not to give out loans when the business environment is risky, and here enters the loan guarantee fund to relax the banks.

Ngadhnjim: Do you believe that this is going to affect the banks?

Blend: I believe so because when up to 80% of the risk is covered, it is a very high coverage...

Ngadhnjim: Add the high installments...

Blend: The installments as well, so the bank can recuperate their losses. Even the bank is looking into giving out loans because there is excess money in the banks and they do not gain

## K2.0

by not giving out loans. Therefore, it is a good motive in this aspect. The aspect of the [retirement] trust, we can discuss, should have been the last option.

Ngadhujim: We could start here with Artan, the [retirement] trust...

Artan: Okay, let me just wrap up my argument and I'll come back to the trust.

Meaning, the misfortune is that 20 years after the war, 12 years from the establishment of the state of Kosovo, the family carries the burden or the confrontation with the crisis. The family had to decrease the expenses, for example, investment in education, etc., etc. that will then impact on the opportunities, mobility of future generations, and so forth.

And secondly, regarding the Trust, why is it problematic? What Blendi mentioned, an element is that the financing from the Government will go to the categories that are a little better off, except those that are very rich, which include 6% of the Trust contributors. Now, 94% will be refinanced, however, 80% have less than 110 euros. This means that the middle 16%, benefits, but who does that include? They are mainly workers of public administration, few businesses that are better off, and there are back thoughts of elections behind this Assembly action, there is thought of election, how people are going to act on the day of voting.

Why it is harmful as well, other than the imbalance, the inequality, this also impacts the adequacy of future pension, if our system does not change, and how it should change is a different conversation.

We have held a different discussion, there are as well discussions, different documents within the Government and the Assembly which have been drafted for a while now, but I believe that our pension system should change toward a more solidarity system, because this pension privatization system has not been accepted by the US themselves, meaning this radical, pension privatization system has failed after the US have rejected it. It started to fail a while after being very popular, especially during the 90s. As far as I know, even Chile, from where we have taken the pension system model, has taken the same measure to extract 10% until now. I also do not believe that the purpose will be justified, because the purpose has been to encourage consumption, but if 80% will extract only about 100 euros, I do not know what's the logic behind it...

Ngadhujim: What impact does that have? Is there a risk that the remaining percentage who have more money, and that will extract more money from the trust, will deposit those in their banks as savings, and the money will not enter the market. For example, someone who has a good salary and extracts that money, but puts it in a bank, it will not be put in direct consumption.

Blend: That is the risk, that it is difficult to measure the effect of this policy because first of all, we cannot know how many people will actually extract that money. It is believed that up to 100 million is the part that the state guarantees in a way that will be returned, and there is no logic

## K2.0

for people not to extract the money if they are told that they will be reimbursed. So there is a chance that up to 100 million will be extracted, this is what I heard from an official of the Trust. The other part, now, even if it is extracted, we cannot know the time period when this money will be spent. Since it has already been approved, it is good to spend them as soon as possible...

Ngadhnjim: I saw some statements, they are trying to put this money into circulation by the end of the month so people can spend it for the end of December.

Blend: I know they are trying because even for the Trust this has been an unpredictable policy.

Ngadhnjim: They have even contested it at the beginning if I am not mistaken.

Blend: Yes, because the Trust is not formed to execute so many payments for such a short period. For example, as we saw, even their website could not handle the great flux of people because they have foreseen the approximate number of people who retire each year, and this policy has disrupted them. This, as I mentioned, is a non-conventional method, other policies could have been used at the beginning, and this could have maybe been the last option...

Artan: The only good we can get from this, from this withdrawal, because it will not increase consumption, it will not reach that purpose.

Ngadhnjim: Why?

Artan: It cannot because the amount of people who gain substantially is very small, most people gain too little and that is a very small amount to have any macroeconomic impact, as it is expected. But if there is any good out of this, it will start the debate for the improvement of our pension system, which I think there should be a debate about the improvement of our pension system because I believe it is insecure and does not offer protection in old age - protection from poverty, protection of income, etc.

There has been an evaluation, we have analyzed it a while back, and it can be seen that only 1% of the people who contribute to the Trust, based on current trends and if they do not lose their place of employment, can ensure income for 12 years of living, based on the average of market income. Imagine that. This system will bring its own end with time, it will spend itself, and what solution will be proposed, the option to be financed from the general taxes, which means, we follow the trend through which we only favor the richest people, and then when we want to amend it when we see that the policies are not working, then we amend that policy with general taxes, we take money from the poor people.

Ngadhnjim: More or less similar to the 2008 crisis which impacted the bigger states...

Artan: This is a problem that people do not know how to articulate, then they emigrate or look for other solutions, which are large problems because then they will have other social

## K2.0

consequences, big ones. For example, the more people emigrate, the fewer people are involved in social movements, fewer leaders, fewer people that offer care. Many family members are left, because of large emigration rates, with no care, because our system expects family members to take care of those in need, the old people, those with no care, etc. So, maybe this crisis and this law will bring back this debate in the agenda...

Ngadhnjim: Maybe this is what good will come out of the law...

Artan: But I do not believe that something like this will occur.

Ngadhnjim: Why?

Artan: Because to reach the discussion of substantive policy change, there should be political change. The parties which have been in power until now, those that have voted for the law, have been in favor of this, they have supported the policies which have been installed after the war by international organizations, mainly the World Bank and IMF, which is ideologically constructed in such a way to preserve the budget and for the people to find themselves in the market, but it has already been proven...

Ngadhnjim: What is the problem, this?

Artan: Because the market should be aided, for example, if you leave the lowest taxes on income, etc., etc. you do not overwhelm the job market with regulations, but the market itself, the rate of employment does not increase. Why? Because state intervention is required, of different policies to increase the rate of employment. That policy is proven to be inspired by ideology, with no empirical data.

Ngadhnjim: But, it is continuously insisted on, Artan, at this point...

Artan: For something to change, there needs to be political mobilization. The political history of Europe shows that such changes have come only after the strengthening of the left, after different coalitions which have supported that direction of politics, therefore, if there is no change in the voting results, I do not expect for politics to change. If the appearance of the assembly remains the same, the division of assembly seats, then we will continue with the policies that protect the status quo, that contribute to the increase of inequality.

Kosovo is a country with high inequalities, historically, even during socialism, and now as well. This is Kosovo's misfortune. The large political resources of our society come from extreme inequality, which is manifested even in the Trust's data. Imagine, few above 6%, 6.3% have over 10, 000 euros in savings. This is a society that works for the richest 10-15%, 20%, as has been the case historically. This is our problem.

Ngadhnjim: Blend, relating to you at this point. The mines and miners were mentioned as well, to cancel some debts, to remove some taxes... did you follow this discussion and...



## K2.0

Blend: Yes, and I think, this has been very negative as well and it should be further discussed, because as I said, there has been no identification of the sectors that have in reality had a decline during the pandemic. These are some of the sectors that at least, according to our data, do not result as an industry that have had operational nor circulation issues, etc. and this has been an aid which was proposed in the latest amendments and it should not be used because there is no good structural effect on the economy, nor the inequality, nor... it holds no purpose.

Ngadhujim: In reality, you are enriching those who have money...

Blend: Yes, it is more a result of some lobbyists within the Kosovo assembly, at least that's how I see it.

Ngadhujim: Even the proposal came from a business... AAC...

Blend: From a businessman, yes, exactly, and I believe that there has been little consensus to pass the law because this has been delayed until the end because a few particular policies were pushed...

Artan: The police should look into those elements that were mentioned in parliament that day, as well. For example, if the mining rent has been targeted for a single company, then this is a problem.

Ngadhujim: What could the police do, because, in reality, the lobbying cannot be...

Artan: Here there is the need for penal charges because it is unequal treatment.

Blend: There is the law for state aid, which I do not know for sure because I am not a jurist, but it is good to look into it because if a business is aided within an industry and there are no other aided businesses than it could be a case for state aid, which is not allowed. State aid is allowed only when it touches upon many businesses, but when it identifies a few of them then it can be considered a state aid that should be canceled, but this needs to be looked into.

Artan: These were discussed at the Parliament as well, the grant for the energy tariff, it was talked about these as well in the same direction.

Blend: Because these as well belong in the category above...

Artan: Imagine now... it is even immoral, now this...

Ngadhujim: Plus the suspicions that it could even be corruption...

Artan: Imagine such a situation where states are talking about this being a more difficult situation than that of the Great Depression, which is known, imagine, the coalition parties...

## K2.0

Ngadhnjim: Find the time to aid their friends...

Artan: Not only that, but the coalition parties put conditions on the passing of such a crucial law, with potential corruption, if it's as was discussed at the Parliament.

Blend: There is a huge problem. It looked classic, lobbyists, that have one specific group as a purpose, especially when it comes to the mines rent and the energy grants, these were politics that had not been previously discussed, these have been very ad-hoc proposals, and probably there have been conditions for passing the law and they needed to continue. Now we need to see...

Artan: To go back, Blend, to the question that Ngadhnjim asked at the beginning. If we compare the actions of the two governments — I have given an interview and have written a few blogs, at the time that we criticized the actions of the Kurti government, which were limited, not so generous, with the logic of the social state regime we have now. They have not exited, even though there have been a few good measures, but from today's point of view, those measures have been better thought out, and the reporting, above all, the reporting done on them has been much more responsible.

To overthrow a government in the middle of the pandemic, to take 4 months to pass such a crucial law, not to give any report on where the money was spent, it is an extraordinary irresponsibility of conduct in such a crisis, and this is the first economic crisis during which Kosovo is its own state. For example, during the 90s, at the beginning of the 90s, many people have decided to leave their places of employment. Imagine that from today's context, what a great sacrifice that has been.

Many other families have spent during the war and the period after the war, and have taken the burden upon themselves. Now, the state has the potential in its own hands, having all the tools to ease the situation of the families. To allow this burden to return upon the family, to individualize the crisis, for example, through "okay, you can withdraw your own savings," and not to give any accountability about the expenditures, where there might be even higher clientelism. Okay, let's see what the investigating journalism would look into, etc., etc. These are serious problems...

Blend: Maybe I can mention only one policy that I really liked, which was implemented by Northern Macedonia, Serbia, and BiH, maybe other countries as well, but I know about these ones. They have created a few cards where they have credited specific amounts of money, and they have distributed those among families in need, and those cards were made to be spent on local products, catering, and tourism, so these three most impacted sectors.

With one decision, they have aided many, and have impacted many fields. First of all, people in need have been given spending money, that expenditure has gone to the businesses that have

## K2.0

had problems, and they have created a very good cycle of keeping the money within the state. At least for cash flow, because money could exit the country right away if you buy imported goods, but if you buy local products, it passes at least another cycle until it maybe exits through import.

It is a good action, and the best part is that it was very quickly executed. The cards were produced and credited with money right away and credited, and they were distributed to the families in need to allow the expenditure. Kosovo for the first time is going through an economic crisis in the aspect of economic regulations, where the Gross Domestic Product falls for two consecutive months, then officially you are in an economic crisis. It is considered that it is the first time since the war that Kosovo is in such a crisis. I think that all the researchers should analyze this period well and look into the defects, so whenever the next crisis occurs, we are more prepared to intervene as soon as possible, and to know where to intervene...

Ngadhnjim: For the end...

Artan: To add a little to what Blendi said, there are even good spheres, good measures that are being taken — this measure of increasing formal employment, for example, the new workers, incentives through different taxes, pension contributions, etc. Maybe all these can be thought of as good lessons about what can be done in the future, even when we surpass the crisis, because in one way if we look at the rate of unemployment, it is a sort of a continuous crisis.

Blend: In reality, yes. This is an economic crisis that is considered based on economic rules, because in reality, the crisis...

Ngadhnjim: We have been in crisis for the past 20 years...

Blend: Yes, continually.

Ngadhnjim: Thank you a lot for being here. I hope we have had a meaningful conversation, and see you next time.

Blend & Artan: Thank you.