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**Ministria e Tregtisë dhe Industrisë - Ministarstvo Trgovine i Industrije - Ministry
of Trade and Industry**
Departamenti i Tregtisë/ Departament Trgovine / Department of Trade

Analytical Report on Trade in Services – ICT Sector

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Introduction

Trade in services in Kosovo in 2016 reached in total 1,498 billion Euros. Out of this amount, the total of export includes an amount of 1,038 billion Euros, while the total amount of import was 460 million Euros. This shows a positive trade balance of 579 million Euros. If we compare it with 2015, we see that the export of services was 887 million Euros, while the import resulted in 467 million Euros in the international trading of services. Based on these figures, we see that there is a positive trend of increased export of services by 151 million Euros more or calculated in percentage 17%.

The main sectors that contributed to a positive trade balance for the period (January - December 2016) are: travel (tourism) with an export value of 809 million Euros, followed by business and professional services with 63 million Euros, Information and Communication Services (ICT) with 48.5 million Euros, construction services with 13 million Euros and Government Services with 35.5 million Euros.

Trade in Services / Trade Balance for the period 2014-2016

Year	Export of services	Import of services	Balance
	<i>Million Euros</i>	<i>Million Euros</i>	<i>Million Euros</i>
2016	1038.4 (billion)	473.4	565
2015	951.5	494.4	457.1
2014	928.6	468.7	459.9

(Source: Central Bank of Kosovo)

This analytical report aims to explain the role of the ICT sector in the current economic situation in Kosovo and its potential for growth and expansion by focusing more on its added value.

Export of Services / ICT Sector

Year	2014	2015	2016
	<i>Million Euros</i>	<i>Million Euros</i>	<i>Million Euros</i>
Computer, Information and Telecommunication Services	77.7	54.8	48.4

(Source: Central Bank of Kosovo)

From the data on export presented in the table we can see that we have a negative trend, if we compare 2016 where the export of ICT services was 48.4 million Euros with 2015 where export was 54.8 million Euros, it can be seen that we have a decrease of 6.4 million Euros, it turns out that for ICT companies in target countries, the most significant obstacles towards building their export capabilities over the years were: lack of a brand of domestic information industry abroad, lack of business contacts in target markets as well as lack of market information. But there are also some basic obstacles such as: visa requirements or cultural and linguistic barriers, even export costs and experienced staff to perform that type of activity. All of these are challenges that have not yet been resolved and that should be faced in the near future so that these companies can take full advantage of one of the most profitable industries.

The role and policies of the Government

The Government of Kosovo is aware that the ICT sector is a critical component of a wide range of national economic activities that are vital for creation and cultivation of international trade relations and are crucial to social cohesion and the spread of knowledge to all layers of society. Therefore, in cooperation and with technical assistance of EU, has drafted a document called “Digital Agenda for Kosovo 2013-2020”.

The Electronic Communications Sector Policies - Digital Agenda for Kosovo 2013-2020 is drafted considering that the development of information technology is a dynamic process that is constantly undergoing rapid changes in numerous areas of public and state activities, and the successful involvement of the public sector in promoting positive effects and minimizing the negative ones in this process is a major contribution to the sustainable development of the Information Society.

The purpose of Policies is to define the priorities, objectives and tasks of ICT development to maximize the social and economic advantages provided by these technologies, mainly the Internet

as a very important instrument for economic and social activities, the utilization of which enables the provision or reception of services, works, access to entertainment, communication and free expression of thoughts. Policies address the Information Society as an open and educated society, whose members use ICT effectively in all areas of activity.

The Strategic Objective of Policies is to improve the quality of life for Kosovo residents and the business environment for companies through the use of ICT-enabled opportunities and increase the percentage of Internet users in Kosovo to at least 85% by 2020.

The main objectives of these policies are:

1. Development of ICT infrastructure.
2. Development of electronic content and services and promoting their use.
3. Advancing the skills of Kosovo residents in ICT usage.

The first objective is to ensure consistent development in the geographic sense of broadband electronic communication networks across the national territory and the promotion of the use of electronic communications services.

The second objective is to achieve the security and integrity of electronic communications networks and services, in order to increase public and business confidence in cyberspace.

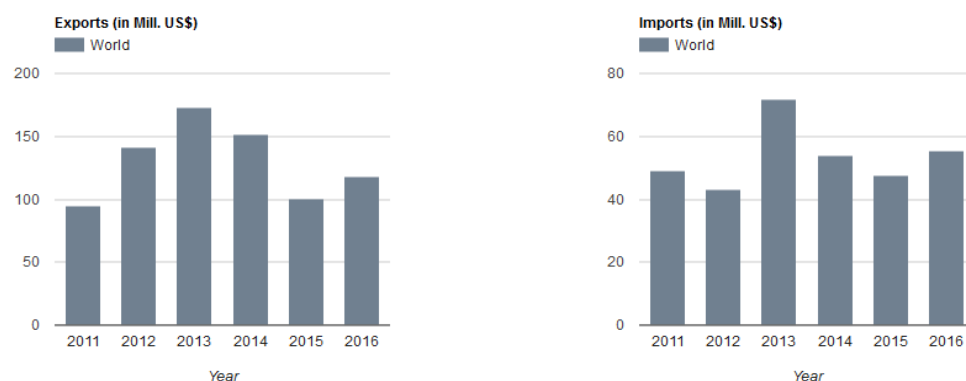
The third objective is to promote the development of e-business. It is an objective to encourage Kosovo residents to acquire the knowledge and skills necessary for successful use of ICT and to be involved in the Information Society to improve their quality of life and reduce their social exclusion (Digital Agenda of Kosovo 2013-2020 MED).

Trade in Services in Albania

Services in Albania play a very important role and accounted for 52.3% of GDP in 2015 (WTO, 2016). Export of services in 2015 resulted in 2 billion Euros, import - 1.5 billion Euros, and the balance was 500 million Euros (EU Report, 2016). The sectors that contributed the most were: travel, tourism, communication services and business services.

The ICT sector is one of the sectors with the best performance in Albania and based on WTO data in 2015, exports marked an increased by 18% from 100 million Euros to 118 million Euros, while imports amounted to 55 million Euros. Table no.2 illustrates the changes over the years and the included sub-sectors.

Table no. 2: Statistics of the ICT sector, export and import in Albania



	Partner	Value (Mil.US\$)			% in total services - 2016	% in world - 2016	Average growth		
		2014	2015	2016			2005 - 2016	2015	2016
▾	Exports ⓘ								
▾	Telecommunications services ⓘ								
	World	151.22	100.64	118.32	4.5	100.0	5	-33	18
▾	Audiovisual and related services								
	World	2.38	1.47	3.04	0.1	100.0	79	-39	107
▾	Postal and courier services ⓘ								
	World	4.15	1.81	1.96	0.1	100.0	23	-56	8
▾	Imports ⓘ								
▾	Telecommunications services ⓘ								
	World	53.91	47.77	55.26	3.2	100.0	13	-11	16
▾	Audiovisual and related services								
	World	2.39	2.37	2.73	0.2	100.0	13	-1	15
▾	Postal and courier services ⓘ								
	World	1.87	1.21	1.07	0.1	100.0	29	-35	-11

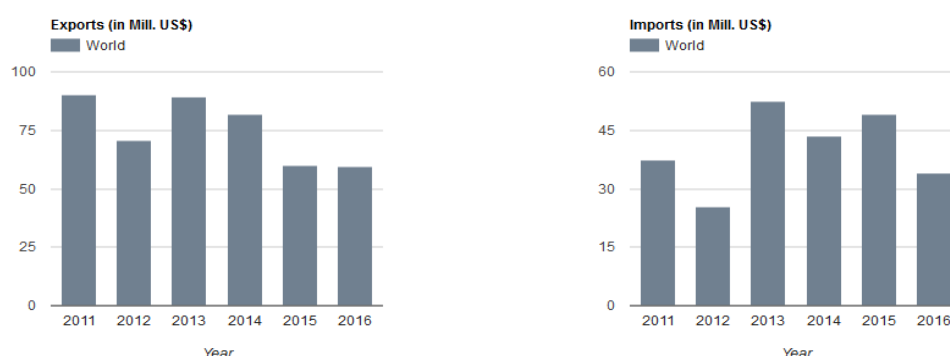
(WTO Statistics, 2016)

Regarding the fiscal policy, Albania has exempted goods and services from customs duties since 2002. The purpose of the government has been to stimulate the ICT sector in importing new and innovative technology at affordable prices, in building human capacity and increasing employment. Unlike the countries in the region that customs duties vary from imported products, Albania has applied a general and non-discriminatory measure to all goods and services of this sector. Regarding VAT, most of the goods and services related to the ICT sector with the potential for development of this sector are subject to the deductible VAT ranging from the highest 20% to the lowest that is 8%.

Trade in Services in Macedonia

Trade in services in Macedonia regarding export in 2016 was about 1.6 billion Euros, whereas the import was 1.3 billion Euros. The best performing sectors were: travel & tourism services, business services, ICT services and transport services. Regarding ICT services, the export value for 2016 was 60 million Euros, and in comparison to previous years it has declined. Table no.3 illustrates the changes over the years and the included sub-sectors.

Table no.3: ICT sector statistics, export and import in Macedonia



	Partner	Value (Mil.US\$)			% in total services - 2016	% in world - 2016	Average growth		
		2014	2015	2016			2005 - 2016	2015	2016
➤	Exports ⁽ⁱ⁾								
➤	Telecommunications services ⁽ⁱ⁾								
	World	81.83	60.15	59.76	3.7	100.0	3	-27	-1
➤	Audiovisual and related services								
	World	7.29	9.67	7.01	0.4	100.0	9	33	-28
➤	Postal and courier services ⁽ⁱ⁾								
	World	3.56	2.63	2.80	0.2	100.0	10	-26	6
➤	Imports ⁽ⁱ⁾								
➤	Telecommunications services ⁽ⁱ⁾								
	World	43.61	48.98	34.04	3.0	100.0	5	12	-30
➤	Audiovisual and related services								
	World	18.40	16.49	12.27	1.1	100.0	13	-10	-26
➤	Postal and courier services ⁽ⁱ⁾								
	World	3.50	3.02	3.58	0.3	100.0	29	-14	19

(WTO Statistics, 2016)

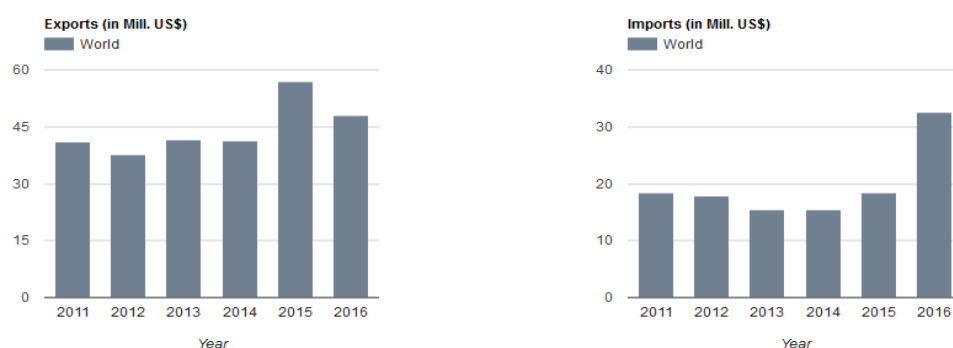
Since the ICT sector in Macedonia was considered very important, the government of this country in 2007 began applying a policy "Every child should have access to a computer" by changing the country's fiscal policies. With the elimination of customs duties and the reduction of VAT from 18% to 5%, Macedonia managed within a very short period of time to become an attractive location also for the countries of the region in terms of this field and products/services

they provided. As a result of this policy, Macedonia also marked an increase in other fields such as: tourism, retail, business and professional services (ICT STIKK Report, 2011).

Trade in Services in Montenegro

Montenegro as well in 2016 had an overall good performance and a positive balance in terms of trade in services. Exports in 2016 were about 1.4 billion Euros, whereas imports were 517 million Euros. From this, it can be seen that Montenegro had extraordinary high positive balance of around 883 million Euros. Sectors that performed the best were: tourism & travel; recreational, cultural and sports services; transport services; and ICT services. Table no.4 illustrates the changes over the years and the included sub-sectors.

Table no.4 Statistics of ICT sector, export and import in Montenegro



	Partner	Value (Mil.US\$)			% in total services - 2016	% in world - 2016	Average growth		
		2014	2015	2016			2005 - 2016	2015	2016
✚	Exports ⓘ								
✚	Telecommunications services ⓘ								
	World	41.31	56.95	48.04	3.4	100.0	...	38	-16
✚	Audiovisual and related services								
	World	2.12	1.80	2.25	0.2	100.0	...	-15	25
✚	Postal and courier services ⓘ								
	World	0.86	0.72	0.53	0.0	100.0	...	-16	-26
✚	Imports ⓘ								
✚	Telecommunications services ⓘ								
	World	15.51	18.35	32.52	6.3	100.0	...	18	77
✚	Audiovisual and related services								
	World	14.81	13.56	16.23	3.1	100.0	...	-8	20
✚	Postal and courier services ⓘ								
	World	0.88	2.30	1.37	0.3	100.0	...	161	-40

(WTO Statistics, 2016)

Montenegro has also eliminated customs duties with the entry into force of the SAA, it also changed fiscal policies by applying VAT deduction from 19% to 7% in 2013 in all products and services.

The role of ICT in economic development

The role of ICT is important in the economic development process as it acts as a mean to improve productivity and bring added value. Additional feature of ICT is that it represents an important indicator of innovation and knowledge-based activities, which in turn have an impact on economic growth. As a direct result of current economic needs and ongoing technological developments, the ICT industry is undergoing a number of basic challenges. In order to remain relevant to their customers, it is increasingly important for businesses to monitor closely the developments by adapting essential products and services to meet new market demands.

The ICT market in Kosovo, albeit smaller than that of the countries in the region, is reported to record a steady increase, which is higher than in the surrounding countries. ICT businesses expect to grow mostly in local level, in areas such as Internet service provision, software development/programming, maintenance and repair, sales of retailers, engineering services, training/certification, information services and web development.

But for every significant increase, some conditions need to be met, and the most pressing is to create a favourable business climate for ICT, bringing tax and customs payments in comparison with neighbouring countries and creating other incentive schemes for ICT. Some fiscal policies undertaken by the Government can have a major impact for both ICT industry in Kosovo and also for non-ICT businesses.

The majority of ICT companies in Kosovo (88%) are family businesses, 2% are mainly owned by Kosovars, 3% are co-owned by Kosovo and foreign owners and 8% are foreign-owned companies. It is important to note that there are more ICT companies co-owned by Kosovars and foreign owners, and 8% are foreign-owned companies. It is important to note that there are more ICT companies with mixed Kosovar and foreign ownership, as well as companies that have entire foreign ownership. It has also been noted that the ICT sector is well-organized, where over half of ICT companies are members of an industry or professional association, while 80% of non-ICT companies are not.

The majority of ICT companies (87%) have their clients in Kosovo, where a small number of businesses (13%) have their clients abroad (from 3.3% in 2010). The main industry currently targeted by most ICT companies in Kosovo is telecommunication (66%), followed by government, police and emergency services (46%) and financial sector (45%). Other target

industries are retail, wholesale, professional, scientific and technical services, education and training etc. (IT Barometer - STIKK, 2016).

The ICT industry is of strategic importance for Kosovo's economic and social development for several reasons:

- The development of the ICT sector would have a direct impact on economic growth by creating jobs and generating revenue.
- Considering the structure and the competitive advantage of the ICT industry in Kosovo, the country has the potential to follow the example of Estonia and Bulgaria by using the ICT industry as a catalyst for economic growth.

The positive effect of the ICT industry on job creation has been reinforced by the fact that ICT is an industry of intensive workforce and a skill-intensive industry. In the ICT industry (especially in software development), the degree was achieved by qualifying and employing more people. As far as employment is concerned, the development of the ICT sector has two positive effects: first quantitative by increasing the number of jobs and second qualitative by creating employment for the most qualified people. Thus, the ICT sector in Kosovo can play an important role in reducing unemployment, especially among youth.

Given that trade in services in all countries has a key role in economic development, the ICT sector is also developing, which will have a direct impact on export. Increase of export is particularly important for Kosovo, due to its negative trade balance and the relatively small and underdeveloped domestic market. The increase of ICT exports will provide a number of long-term benefits to Kosovo, such as accelerating the transformation into a knowledge-based economy through transfer of technology and creation of better and higher-wage jobs.

As cross-sector technology, ICT is a catalyst for product and process innovation. Moreover, ICT plays a key role in the knowledge-based economy, where its strategic importance will increase considerably due to mega-trends such as the Internet of things. Therefore, ICT can play a decisive role in increasing the capacity for innovation of Kosovo economy. In addition, the ICT sector can also serve as a catalyst for entrepreneurship and the establishment of a vibrant

start-up. One such case is the Innovation Centre Kosovo (ICK), which demonstrates the potential of the ICT industry for entrepreneurship and innovation. (Kosovo IT Strategy)

Developing countries with strong national ICT industries are usually better in attracting foreign direct investments (FDI). Thus, promotion of Kosovo's ICT industry can help stimulate foreign investors and attract FDI, by improving its image, the technical and skill base, and the business climate.

Findings from visits made to local companies and identified barriers

The Kosovo Assembly adopted the Law on Services on 10 March 2017, which was published in the Official Gazette on 3 April 2017. Based on this law, the Ministry of Trade and Industry, namely the Department of Trade, has been interested and committed to further assist in the development of the service sector by conducting studies about the companies providing services within and outside Kosovo, focusing on the requirements of companies and professional associations to strengthen the service sector as well as reduce and eliminate trade, legal and administrative barriers.

On this occasion, during the period February - April 2017, were visited various chambers, associations and private companies for the purpose of identifying eventual barriers in the service provision.

The topics that were discussed in these meetings were:

1. Information on the current work of the Ministry of Trade and Industry respectively Department of Trade regarding the regulation and facilitation of procedures for service provision.
2. Information on the Law on Services.
3. Information about negotiating the services with CEFTA countries.
4. Recognition of professional documents and qualifications in the countries of the region.
5. Provision of information on the types of services that the concerned companies provide, whether they are services provided within or outside the country. Eventual barriers faced during service provision.
6. Other issues related to the new law and business requirements.

In the ICT sector, the following companies were visited: Baruti AG, IQ to Link, 3CIS, Gjirafa and STIKK association and the identified issues in this sector are presented below:

- Reduction or elimination of customs duties in IT equipment
- Greater promotion of the ICT sector
- Cultural and linguistic barriers

Meanwhile, the most prominent barriers are:

- Visa requirements
- Lack of brand name of the domestic IT industry abroad
- Lack of support from government institutions (export financing schemes, etc.)

Findings from the visits conducted in Albania and Montenegro

On 20 and 21.06.2017, we conducted a study visits for Trade in Services - ICT Sector in Tirana and Podgorica. During our stay in these two locations we have held meetings with officials of the Department of Innovation and Good Governance and with the chairman of the Albanian IT Association (AITA) in Tirana and with the officials of the Ministry of Public Administration, the Department of Innovation and the independent expert in the field of ICT in Podgorica.

The discussed topics were:

- Information on the current work of the institution regarding the regulation and facilitation of procedures for service provision (fiscal policy, customs and VAT)
- Presentation and discussion on ICT sector issues and ICT service provision
- Are the ICT services regulated and how are they regulated? (Chambers, Associations, etc.)
- What are the possible barriers that the ICT sector faces in service provision
- ICT Sector - Some statistical data on Albania and Montenegro and their relevance for comparison with Kosovo
- Recognition of professional qualifications
- Establishing a Single Point of Contact.

In Albania we were informed that the technological equipment that is imported in the country is subject to a 0 customs duty, i.e. are exempted from customs duty, while regarding VAT, most goods and services related to the ICT sector, with the potential for development of this sector, it is applied the deductible VAT, ranging from the highest 20% to the lowest that is 8%.

Similar to Kosovo, Albania has regulated ICT services which are represented by Albanian ICT Association.

Regarding the eventual barriers that the ICT sector in Albania still faces is the lack of continuous support of SMEs, lack of start-up funds, lack of financing the expansion of operational capacity etc.

As regards the Single Point of Contact - the Albanian government is working intensively on establishing the e-government portal by using the SPC methodology and incorporating more institutions and information and their access in a shorter time.

The meetings ended with discussions where were shared the experiences in the field of services and the abovementioned topics, and it was also discussed about the possibility of bilateral cooperation for the ICT sector. The need for cooperation for further developments of the region through:

- Development of cross-border services and interaction of systems and services;
- Capacity building, skills enhancement and promotion of cooperation of the new generation,
- Creating employment for the new generation.

Regarding the meeting in Montenegro, there was no ICT chamber or association in this country. Unfortunately, the ICT sector was still not well-regulated and in discussions with Montenegro counterparts we noticed that they were very interested in learning more about us and our ICT sector starting from regulation to statistics. Fiscal policies in Montenegro were also more favourable than in Kosovo. Montenegro as well has eliminated customs duty with the entry into force of the SAA, and it also changed fiscal policies by applying VAT deduction from 19% to 7% in 2013 in all products and services.

Conclusions

While there are many sectors where the tax revenues are important, when it comes to the ICT sector, tax obligations play very little or no role, especially in equipment for education and training. Eliminating these duties would affect the country's economic development in the long run as it is directly linked to the more advanced education system, and as a result of tax deductions, the consumption would increase in the country, thus resulting in the creation of new jobs. Afterwards, a good policy, through ICT products and services, would be to target Kosovo Diaspora and foreign tourists who would come for holidays in Kosovo, as well as the foreign missions and their delegations present in the country, for their sale during summer and winter seasons. ICT sector is connected to many other sectors that would generate income for the budget of the country. Drafting of appropriate and well-analyzed fiscal policies, according to some OECD studies would increase the GDP by 2-3% for developing countries (ITIF, 2016). Some of the sectors that are connected to ICT are: business and professional services; tourist services, cultural services, financial and insurance services; transport services, etc. Until 2016, more than 120 countries around the world reduced their tax obligations or even eliminated them in order to stimulate the ICT sector. Based on the data provided by the countries of the region we can also see that countries such as Albania, Macedonia and Montenegro have eliminated customs duties and deducted VAT. Therefore, based on this evidence, it is time for Kosovo to change its fiscal policies in order to benefit more from this sector, which continuously has positive performance and contributes to the trade balance of services and at the same time be more competitive with the countries of the region.

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