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SECTOR PROFILE OF ICT BUSINESS PROCESS OUTSOURCING AND CUSTOMER SUPPORT CENTRES SECTOR



March 2014





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Petrir Gashi, Phd – External Consultant

Author

Diedon Kica

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List of abbreviations

BPO	Business Process Outsourcing
CSC	Customer Support Centres
ICT	Information and Communication Technology
IT	Information Technology
KBRA	Kosovo Business Registration Agency
MCYS	Ministry of Culture, Youth, and Sports
MTI	Ministry of Trade and Industry
MI	Ministry of Infrastructure
MEST	Ministry of Education, Science and Technology
RAECP	Regulatory Authority of Electronic and Postal Services
STIKK	Kosovo Association of Information and Communication Technology
TAK	Tax Administration of Kosovo
UNDP	United Nations Development Programme

1. Introduction

This sector profile provides information on the current situation of the ICT sector in Kosovo, focusing mainly on business process outsourcing (BPO) and customer support centre (CSC) activities. The objective of this paper is to present a profile that describes the current situation, identifies obstacles and assesses the relevant productivity of the sector as well as its potential.

Data presented in this report are derived from five sources. Description of the industry is based on data extracted from the Kosovo Business Registration Agency (KBRA), Tax Administration of Kosovo (TAK), interviews with personnel of the Kosovo Association of Information and Communication Technology (STIKK), as well as surveys conducted by the STIKK. Information on the sector's exports and imports are based on data from Kosovo Customs. Except for a few cases, the data for all firm level indicators are calculated based on a United Nations Development Programme (UNDP) survey undertaken during October-November 2013. Such situations are supplemented with data from the aforementioned STIKK surveys. The sample frame for this survey was based on the membership list of STIKK (76 companies) and 4 additional companies known to be active in the sector. Data was drawn from many different sources, due to the lack of data and well-defined categories for reporting ICT-BPO-CSC sector activities in Kosovo. Concerning methodology, primary and secondary research methods were used, including desk research and interviews. Desk research was performed during September and November, while survey results were ready by mid-December. The UNDP survey sample included 23 companies who are actively engaged in BPO and/or CSC activities: 11 micro, 9 small, 1 medium, and 2 large.

The ICT-BPO-CSC sector is a vibrant sector with potential for youth employment and innovation and that could help in invigorating the economy of Kosovo in a long term. Currently, 220 registered companies exist in this sector, among which 120 are considered to be active. Given the response rate of firms reporting to engage in BPO and/or CSC activities in the sampling frame, it can be estimated that approximately 20% of these businesses are directly involved in the BPO-CSC sector. The majority of ICT businesses provide products or services related to telecommunications, hardware consultancy, software consultancy and supply, and are engaged in other computer related activities. The most significant positive changes in business activities are noticed in i) training, certification and consulting, ii) software development or programming, and iii) internet service provision. In terms of geographical distribution, 45% of companies are located in Prishtinë/Priština municipality, and 84.5% of them have less than 10 employees. In addition, 87% of ICT companies are owned completely by Kosovans, and most of them are individual businesses.

The surveyed companies reported that on average raw material and intermediate goods account for 67.7% of their overall costs, with salaries being second largest (22.6%). Regarding the value of production, results reveal that a large difference exists among companies. Businesses that produced in the interval between €250,001 and €500,000 have had the largest negative change, whereas the number of those that produced €10,000 or less per year increased. As for capacity utilization, a pos-

itive growth of 24% was realized from 2011 to 2012. Additionally, regarding turnovers in 2012, 44.4% of companies declared to have generated €250,001–€500,000. Although the number of companies that reported to take place in this interval in 2012, have dropped by 5.6 percentage points versus 2011 (11.20% decrease). Seventy five percent of surveyed companies reported selling more than 90% of their products and services domestically. When comparing 2011 with 2012 local and international sales have remained relatively stable. Overall, the ICT sector had a trade deficit of €50.5 million in 2012, exporting only €210,661 worth of goods and services. While only a small share of these exports was sold overseas to the United States and Canada (9%), Balkan countries accounted for 67% of all exports. Regarding the channels of export, 71.4% reported selling to retailers, and only 30.4% sold to end-users or final consumers.

The total workforce in the ICT industry was approximately 1,716 employees in 2013, and it is estimated that approximately 334 were employed during 2012 in the BPO/CSC sector. Companies engaged in the latter reported that 74% of their employees have either university or post-graduate degrees. BPO/CSC business perceptions on the skill level of the workforce are fairly positive, since only 19% of companies responded that employees with the right skills are in low supply. Regarding the technology and machinery, 86% of interviewed companies own these assets and their average market value in 2012 was around € 11,000. However, only 31% did invest in their products or services during 2012.

Based on the interviewees, taxes are ranked as top business barriers alongside high level of corruption and low efficiency by the tax administration. Sixty-two percent of respondents claimed that taxes are either 'high' or 'very high,' while only 5% claimed that taxes are 'very low.' Moreover, the BPO/CSC sector is not incentivised as much as it needs, in order to reach its full potential. Within current government structures, no established agencies, vital support programmes or policies are in force. A need exists for greater support of ICT companies and their workforce, endorsement of BPO initiatives and creation of conditions that could draw foreign direct investments to this sector.

2. Basic firm data

2.1. Number of registered firms in the industry

Based on the database of KBRA, at the end of 2013 there were 220 registered businesses that operated in the ICT sector (Table 1).¹

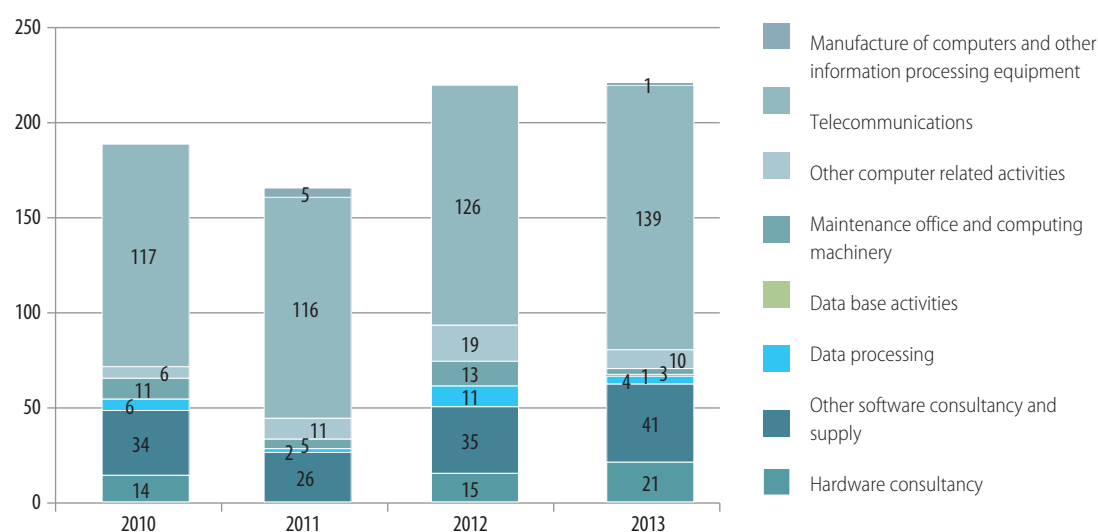
Table 1: *Registered ICT Businesses*

Year	2010	2011	2012	2013 ²
No.	188	165	219	220

Source: KBRA, 2013²

The majority of companies have registered 1) Telecommunications; 2) Hardware consultancy; 3) Other software consultancy and supply; and 4) Other computer related activities as their primary activity (Figure 1). It is important to note that approximately 15% of businesses that operate with telecommunications as their primary business activity are, in fact, merely small internet coffee shops or other retail -oriented businesses. This list of registered companies also includes other shops that are not necessarily defined as IT companies by the ICT community.

Figure 1: *Number of registered businesses by activity, 2010-2013*



Source: KBRA, 2013

¹ Filtered by using primary business activities. Codes: 3002, 6420, 7210, 7222, 7230, 7240, 7250, 7260

² For 2013, the registered businesses are given only up to 22 November

Based on the Tax Administration of Kosovo database for 2013, 245 active businesses operate in this sector. However, data regarding business activities differs between TAK and KBRA (Table 2).

Table 2: Contrast between KBRA and TAK database

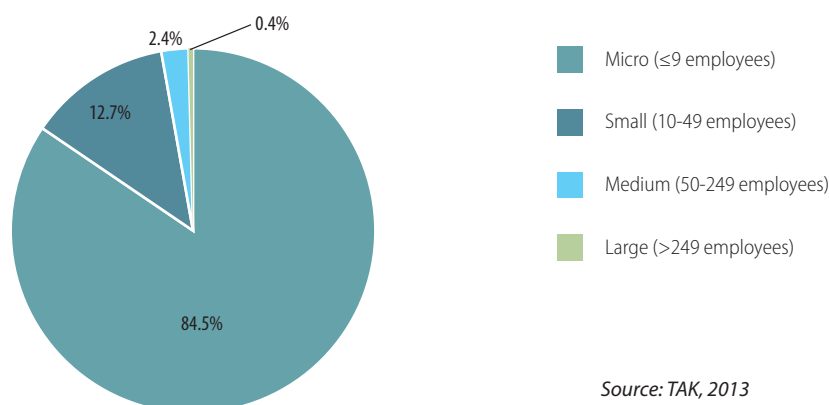
Business Activity	No. of businesses (KBRA 2013)	No. of businesses (TAK 2013)*
Manufacture of computers and other information processing equipment	1	0
Telecommunications	139	186
Hardware consultancy	21	24
Other software consultancy and supply	41	0
Data processing	4	10
Data base activities	1	1
Maintenance office & computing machinery	3	13
Other computer related activities	10	11

Considering the data from these two institutions it is clear that some data discrepancies exist for key business activities. STIKK data on the other hand estimate that the ICT sector has in total approximately 120 active companies.³ Moreover, given the response rate of firms reporting to engage in BPO and/or CSC activities in the sampling frame, it can be estimated that approximately 20% of these businesses are directly involved in the BPO-CSC sector.

2.2. Size distribution and location of firms in the industry

The majority of companies in the ICT industry are micro and small businesses. According to the TAK database, 84.5% are micro businesses, 12.7% small, 2.4% medium, and 0.4% are large enterprises (Figure 2).

Figure 2: Distribution of businesses by size (no. of employees)



Source: TAK, 2013

³ STIKK (Dec 2013) - www.stikk.com
^{*} For 2013, the registered businesses are given only up to 22 November

Around 45.3% of ICT businesses are located in Prishtinë/Priština while Prizren ranks second with 9.8% of companies registered in this municipality. (Table 3)

Tabela 3: Location of businesses

Municipality	Businesses	Frequency (%)
Prishtinë/Priština	111	45.3%
Prizren	24	9.8%
Ferizaj/Uroševac	13	5.3%
Gjilan/Gnjilane	13	5.3%
Others (<5.3%)	84	34.3%

Source: TAK, 2013

2.3. Industry breakdown of activities

Looking at the STIKK survey regarding different business activities within ICT sector, there are some noticeable changes that reflect small shifts within the industry (Table 4).

Table 4 : Business Activities⁴

Business activities of ICT companies	2010	2013
Internet Service Providing	7.7%	25.0%
Training / Certification and Consulting	13.2%	34.0%
Maintenance and Repair	17.6%	29.0%
Information Services	11.0%	6.0%
Software Development / Programming	13.2%	28.0%
Vendor (hardware and/or software)	33.0%	12.0%
Manufacturing / Assembling	8.8%	5.0%
Retail Sales	18.7%	5.0%
Online Banking and E-commerce Services	1.1%	2.0%
Network & Systems Oper. / Management	-	12.0%
Business Process Outsourcing (BPO)	1.1%	-
Engineering Services	4.4%	-
Other	-	3.0%

Source: STIKK, 2013

As may be observed in the table above, the number of companies that are vendors of hardware and/or software has declined from 2010. There are multiple reasons why this may be the case. Besides the demand side, it may also be that these businesses have started to shift their resources more toward offering custom-based solutions and services. This may be partly supported by the growth in the number of companies that listed Software Development or Programming as their activity. Another activity that has undergone positive growth is Internet Service Providing. This is obvious not just here but also based on the larger number of businesses and the increased demand for supply and quality of this service in the market.

⁴ This table and information is presented here with the permission of STIKK (Skill Gap Analysis, 2013, STIKK-EYE) - www.stikk-ks.org

Another major change is noticed in Training, Certification and Consulting which indicates that businesses and clients of this sector are becoming more aware of the complexity of ICT solutions and the need for training and education. However, critical activities such as Online Banking and E-Commerce Services have not yet expanded significantly.

2.4. Ownership, legal structure and age of firms in the industry

Currently 87% of ICT companies are owned completely by Kosovars, while in 2010, this number was 7 percentage points lower (Table 5). Only 8% are completely foreign-owned companies, and this has not changed much in the past three years.

Table 5: Ownership Structure⁵

Company ownership	2010	2013
100% Kosovo owned companies	80%	87%
Most of the company is Kosovo owned	0%	2%
50-50 Kosovo owned / foreign	3%	3%
100% foreign-owned companies	7%	8%
Other/Refused	10%	-

Source: STIKK, 2013

From a legal perspective, the majority of companies are individual businesses and limited liability companies, and only 6% are registered as joint stock companies (Table 6).

Table 6: Legal Structure⁶

Type of company	2010	2013
Individual Business	53.8%	59%
Limited partnership	4.4%	12%
Limited Liability Company	28.6%	23%
Joint Stock Company	2.2%	6%
Other/Refused	11.0%	-

Source: STIKK, 2013

Survey data show that 74% of businesses in the ICT sector were established between 2000 and 2009, only 8% started after 2010, while 18% of the firms already existed prior to 1999 (Table 7).

⁵ Ibid

⁶ Ibid

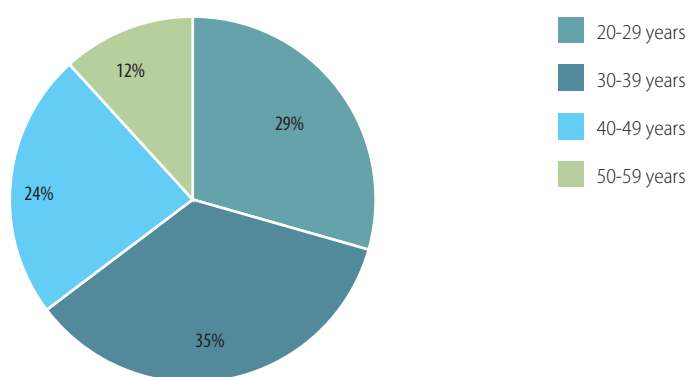
Table 7: Age Structure⁷

Year of foundation	Percent of companies
After 2010	8%
2000 - 2009	74%
Prior to 1999	18%

Source: STIKK, 2013

2.5. Age, gender, and ethnicity of the (main) owner of the company

The majority of interviewed owners of the BPO-CSC firms reported to be between 20 and 49 years old. While a fairly high percentage of them (35%) are 30-39 years old, only 12% of these firms' owners reported to be between 50-59 years old (Figure 3).

Figure 3: Age Structure of BPO-CSC firm owners

Source: UNDP survey, 2013

Disaggregation of these data by gender shows that 87% of the business owners are men, and only 13% are women. With regards to ethnicity, only 4.3% of the owners reported to belong to a non-Albanian ethnic group.

7 Ibid

Box 1: Profile of successful business operating in Kosovo

3CIS offers professional and quality services for large telecom carriers, and it started in 2008 as a pilot project and sub-contractor of the telecommunications manufacturer Tellabs. Since then, it grew rapidly from a handful of employees to over 150, and today it continues to exemplify steady growth and a positive cash flow. Its services revolve around 3G, 4G & LTE Networks, End-to-End Backhaul, Architectural Network Design, OSS, R&D, Lab Testing and Training, Software Engineering and capacity management projects for large carriers, among others. 3CIS has served and currently serves global markets in North America and Europe, the Middle East, and Africa.

Entering a global market to serve telecom carriers requires great dedication, high quality services and a very professional and trained workforce. These demands come as a result of the critical business role that such services have in a telecom carrier's business and the potential negative impact of trivial errors. This industry is known for its fierce competition and highly aggressive selection of outsourced services. However, 3CIS was able to prove to its partners and clients that they could meet their needs. Looking back at its beginning to understand what made this business successful; several factors must not be overlooked.

Firstly, 3CIS has had a very inspiring and bold company vision coupled with unshakable dedication to professionalism. In 2008, most of the companies in Kosovo were looking to compete domestically, while 3CIS founders had the courage to think about new possibilities and external opportunities. Due to their professional expertise and experience, they wanted to challenge themselves at the global level and compete against the best by providing high quality services. This allowed them to take risks and start with smaller projects, while proving their expertise to clients and partners in order to procure bigger projects in the future (Pula, 2013).

Secondly, 3CIS has an intense focus on workforce education and quality of service. Besides having largely non-hierarchical, organization-wide communication that facilitates knowledge sharing, 3CIS provides extensive in-house training for their employees. 3CIS uses international best-practices and professional certifications to build the capacities of its workforce. Moreover, they utilize real-life simulations, by using the latest technology for practical work and training, in order to prepare employees for real projects. Such heavy investments in education go hand in hand with the high quality services that they consistently deliver.

Thirdly, this company enjoys access to global markets through professional connections and partners. One of its founders, Kujtim Tali, already had extensive experience in this industry and worked in the US with various telecom partners before 2008. This expertise and social networking proved to be very crucial. Besides being able to share his experience with others and transfer some of his expertise to other founders and employees, Kujtim's experience also helped 3CIS to create solid relationships with Tellabs and other relevant partners. Moreover, 3CIS was able to offer its partners and clients very competitive prices for high quality services, and thus helping the company to gradually establish partnerships worldwide.

Fourthly, the firm has shown persistence and dedication in facing barriers and challenges in Kosovo. 3CIS has had many problems that revolved around Kosovo's business and regulatory environment; insurance services market; quality level of educational institutions; and the tax system. Similar to other companies that operate

in the ICT sector, 3CIS had problems specifying their business activity as coded by KBRA. Moreover, the political instability in Kosovo and difficulties with liability insurance services created great challenges as well. Contracts and warranties, such as General Third Party Liability Insurance and Product Liability Insurance, had to be executed outside of Kosova. Another concern of 3CIS was (and is) the educational system, since university graduates do not have the skills necessary to work in the market. Therefore, as noted above, 3CIS has had to invest a considerable amount of time and money in building the required professional capacities through in-house trainings and professional certifications. Other issues have had to do with the tax system in relation to exports. 3CIS exports 100% of its services, and occasionally, they have had problems with TAK as such services have occasionally been taxed. In addition, they are somewhat “penalized” by customs because 3CIS must pay fees on imported devices and equipment they use to train employees and conduct simulations for research and development activities.

Lastly, as an organization, 3CIS has been a very fast learner and innovative. It bounced back from initial mistakes regarding organizational structure, HR policies and workforce selection system. They have been able to look back and learn from their own mistakes, in order to progress and stay competitive in the market. Nevertheless, considering all the challenges, 3CIS has persisted in solving problems, changing, learning and delivering their services with long-term vision for success.

3. Firm/industry input and output

3.1. Raw material and intermediate products

Inputs in the ICT industry have been categorized as costs for raw material and intermediate products, energy and other utilities and wages for employees.

For raw material and intermediate products, the average monthly costs reported by interviewed BPO-CSC companies in 2012 were €23,172.⁸ Considering that ICT companies do not utilize large volumes of raw material as compared to other industries, this amount can be considered slightly misleading. However, businesses in this industry classify some of their devices and equipment that they resell as intermediate products, and sell them on top of their own value added services hence such a high amount could be valid.

Table 8 : Average costs of raw materials and intermediate goods per firm (in 2012)

	Monthly	Annually
Input Costs	€23,171.67	€278,060.00

Source: UNDP survey, 2013

3.2. Electricity and utilities

For 2012, the average costs per firm for electricity, water, fuel and other costs are presented below, broken down per month and annually (Table 9).

Tabela 9: Average monthly costs per firm (in 2012)

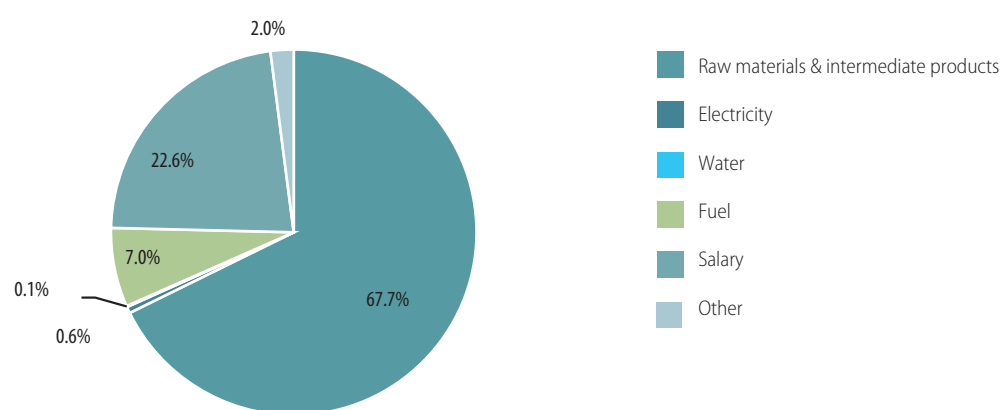
	Monthly	Annually
Electricity	€ 192.50	€ 2,310.00
Water	€ 33.37	€ 400.40
Fuel	€ 2,393.33	€ 28,720.00
Other	€ 700.00	€ 8,400.00
TOTAL	€ 3,319.20	€ 39,830.40

Source: UNDP survey, 2013

Considering all the costs, on average, the cost of raw material and intermediate goods are higher than any other cost individually (67.7%), and salary costs are the second largest (22.6%). In total, raw materials, intermediate products and salaries accounted for 90.3% of overall input costs for these businesses in 2012.

8 Due to a low response rate (26%) for raw materials and intermediate goods, consider this data with reserve.

Figure 4 : Distribution of input costs: average per firm for 2012

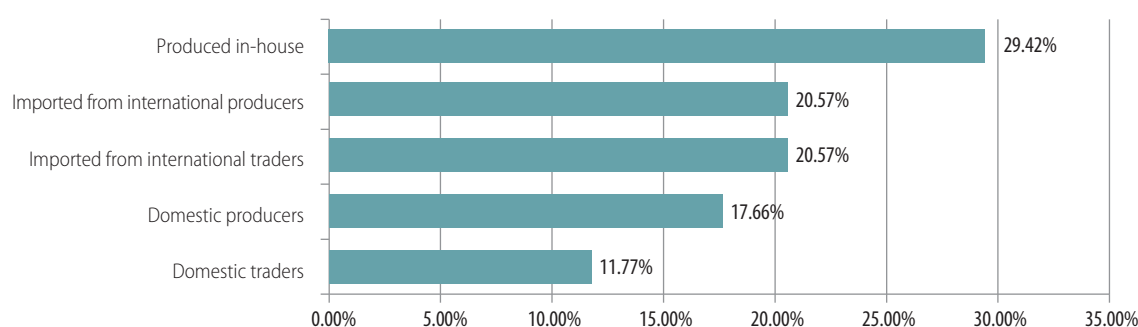


Source: UNDP survey, 2013

3.3. Structure of intermediaries (local vs. imported)

In BPO-CSC sector there are several main actors in industry's supply chain, and in this survey companies were asked to disaggregate the total value of inputs by type of supplier. As depicted in the figure below (Figure 5) 29.4% produce their own raw materials or intermediate products in-house. By the nature of this sector, raw materials and intermediate goods are considered to be hardware, software, equipments and tools that companies utilize to develop and re-sell their own products and value added services. Moreover we can see in the diagram below that 58.9% of firms report to produce their inputs in house or purchase them domestically, while slightly more than 41% of them import them from international producers or traders.

Figure 5: Share of the total value of raw materials and intermediaries used by type of suppliers

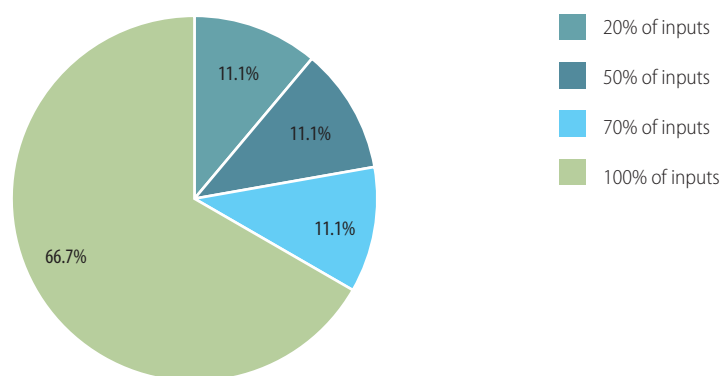


Source: UNDP survey, 2013

If we delve further into the mix of in-house inputs⁹ we can see that majority of companies (66.7%) do use 100% of self-produced inputs for their final output. Such high level of inputs comes as no surprise if we understand that most of these inputs could be software packages and licenses that are customized and utilized for further processing and value added activities.

⁹ Raw material or intermediate goods

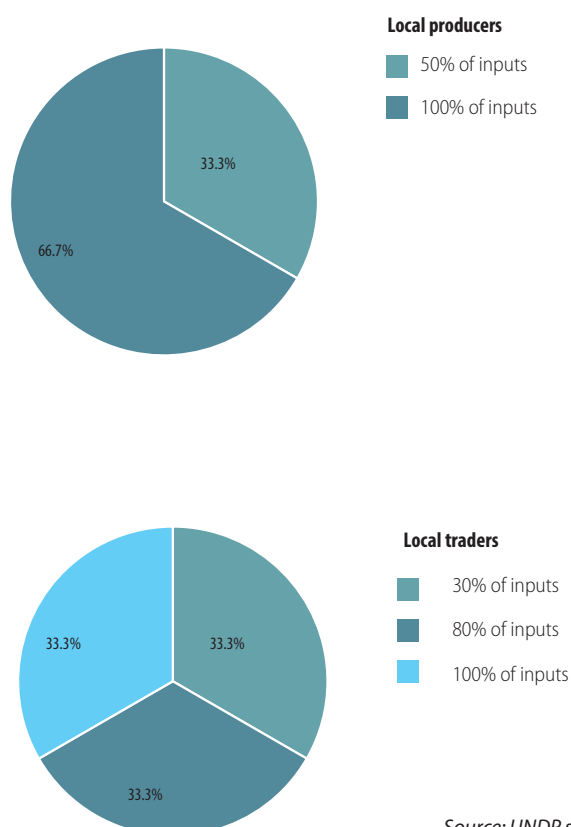
Figure 6: Share of in-house inputs



Source: UNDP survey, 2013

Similar mix of inputs is shown for local producers and local traders below (Figure 7). On average, 66.7% of businesses purchase all their raw material and intermediate goods from local producers, while the rest get only half of their inputs from the latter. On the other hand, 33.3% of companies meet all their needs for raw materials and intermediate goods from local traders.

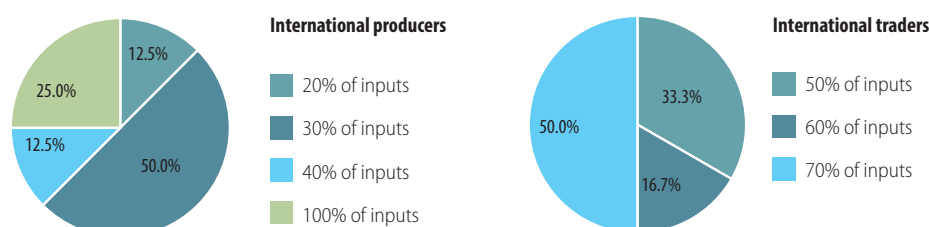
Figure 7: Share of input from local producers and traders



Source: UNDP survey, 2013

Companies that import from international producers and traders have a more diverse distribution of purchases. On average, fifty percent of companies purchase 30% of inputs from international producers, and only twenty five percent get 100% of their inputs. None of the companies purchase all of their inputs from international traders, but fifty percent import 70% of their inputs.

Figure 8: Share of inputs from international producers and traders

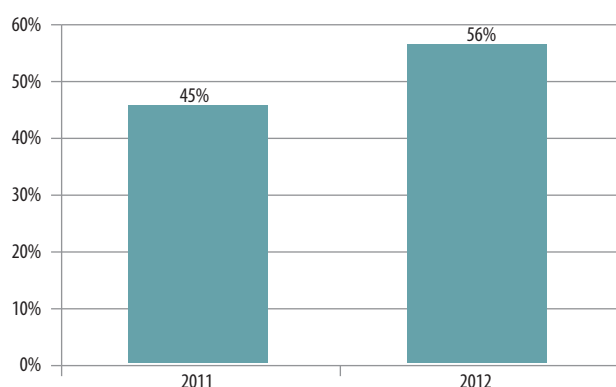


Source: UNDP survey, 2013

3.4. Capacity utilization and value of production

The survey data show the companies in the ICT sector perceive that their capacity utilization¹⁰ is rather inefficient: the surveyed firms reported that on average, only half of their existing capacities are being utilized. This figure raises concerns that companies may have over-invested or that there is a lack of demand in the market for firms' products and services. Nevertheless, if we compare capacity utilization for 2011 and 2012, a positive growth of 11 percentage points (24% increase) in utilization of companies' capacities should be highlighted (Figure 9).

Figure 9: Capacity utilization

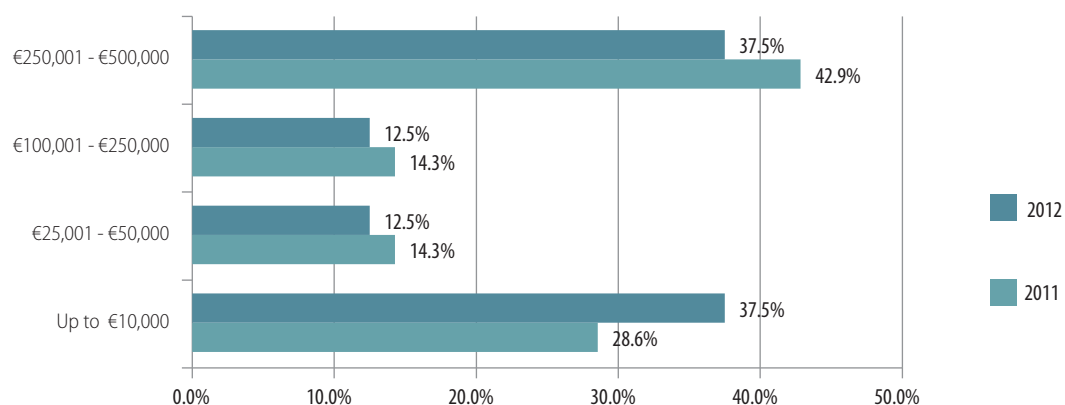


Source: UNDP survey, 2013

On the other hand, if we compare the value of production output for the surveyed companies, it does not directly reflect this growth in capacity utilization. Although differences are not great for 2011 and 2012, the number of businesses who realized a production output, valued between €25,000 and €500,000 shrunk for 14.4%. That was the largest negative change of 5.4 percentage points for production output among other changes (Figure 10). While, the number of those that produced €10,000 or less per year in production value increased by 8.9 percentage points between 2011 and 2012.

¹⁰ The utilization of all existing (installed) machinery in the company

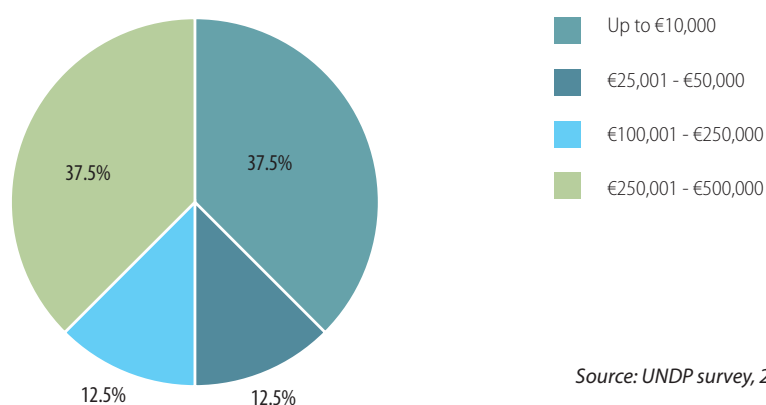
Figure 10: Comparison of annual value of production output per firm in 2011 and 2012¹¹



Source: UNDP survey, 2013

As illustrated below (Figure 11), interestingly during 2012 the number of firms producing €10,000 or less (37.5%) was the same as the number of those producing in the range of €250,001-€500,000 in 2012 (37.5%).

Figure 11: Annual value of production output (for 2012)



Source: UNDP survey, 2013

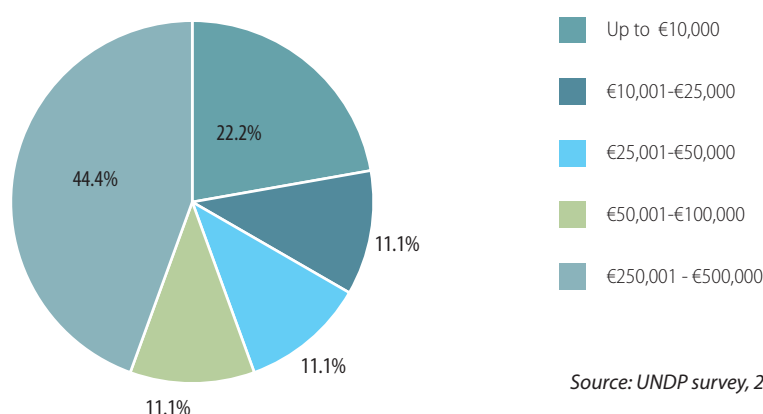
¹¹ None of the businesses reported annual value of production output per firm under category €10,001-€25,000 and €50,001-€100,000.

4. Markets

4.1. Turnover

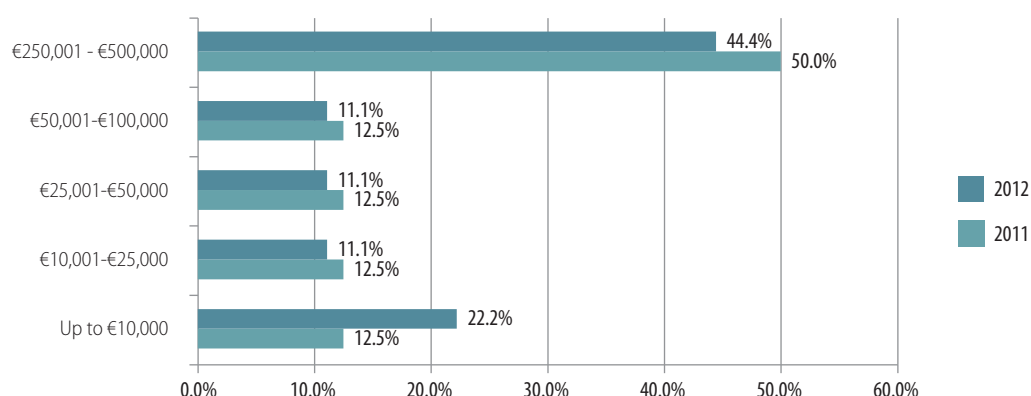
Overall, 62% of firms refused to respond to the question. Knowing as well that the size of this sector is very small we must be cautious and consider these findings with reserve. Nonetheless, for those businesses that did respond to the question we can notice that there are two major intervals where the majority of the companies are scattered with by their turnover level. Forty-four percent of the surveyed companies declared to have generated €250,001–€500,000 annually, and as second largest interval, twenty two percent of companies have reported to have generated below €10,000 annually.

Figure 12: Annual turnover for 2012¹²



When 2012 figures are compared with those for 2011, the most significant changes are evident in lowest interval (+9.7 percentage points) and highest interval (-5.6 percentage points) (Figure 13). This correlates closely with the annual value of production per firm, and based on this data, it seems that companies in this industry had less revenue in 2012 than 2011.

¹² None of the businesses reported annual turnover for 2012 under category €100,001–€250,000.

Figure 13: Comparison of annual turnover for 2011 and 2012¹³

Source: UNDP survey, 2013

4.2. Products, services, and local channels

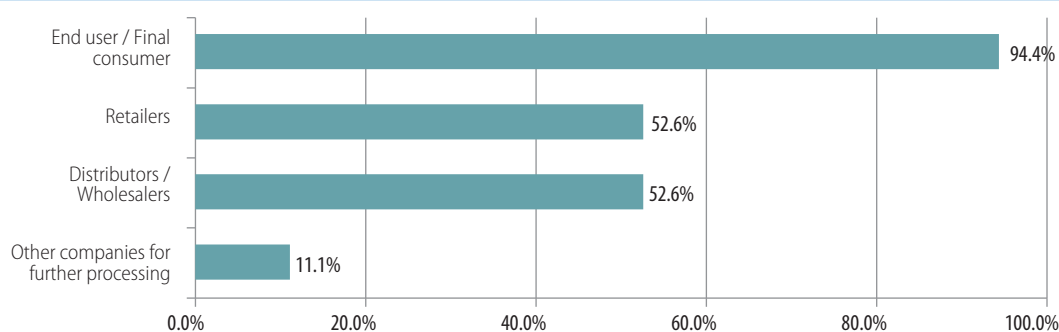
Among the BPO-CSC companies that declared that they sell domestically, approximately 70% stated that 100% of their final products and services are sold in Kosovo (Table 10). On the other hand, 13% of the surveyed businesses reported that they sell 66.7% (on average) of intermediate products and services domestically.

Table 10: Domestic sales: products and services

	% of companies	Sales (%)
Final products and services	69.6%	100.0%
Intermediate products and services	13.0%	66.7%

Source: UNDP survey, 2013

The survey also asked businesses if they sell to different type of buyers domestically. The share of companies that sell to distributors/ wholesalers and retailers is almost equal, 52.6%. Only 11.1% of the companies reported to sell products or services to other companies for further processing, whereas 94.4% reported that they sell their products to end users (Figure 14).

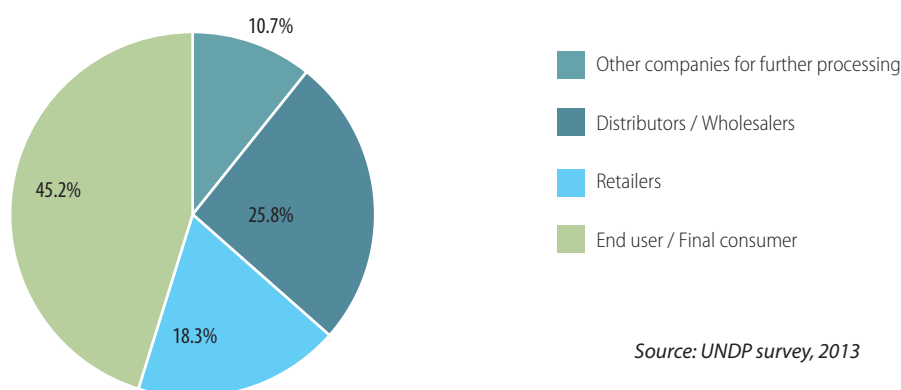
Figure 14: Disaggregation of domestic buyers

Source: UNDP survey, 2013

¹³ None of the businesses reported annual turnover for 2012 under category €100,001-€250,000.

Looking at the share of total aggregates of sales for companies that sell domestically we notice that 45% of products and services are directed toward end-users. Eleven percent of the total sales volume is comprised of sales to other companies that use these products or services as inputs for their production process. However, distributors/wholesalers are considered as important buyers within this value chain as well, since companies get 26% of their sales from them.

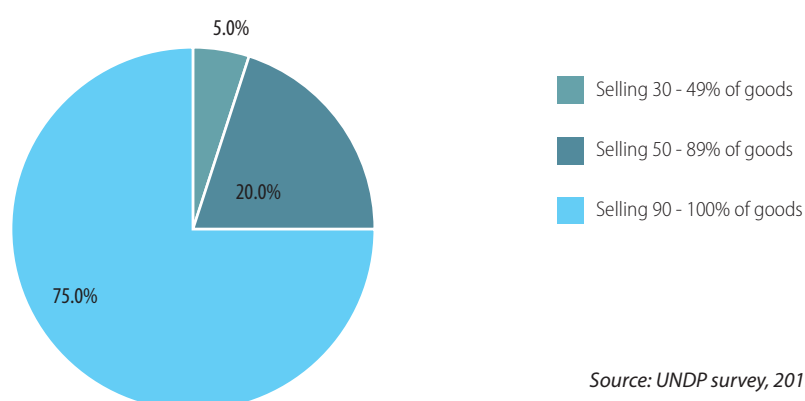
Figure 15: Share of total aggregate sales for domestic sales, by buyer (in 2012)



4.3. Domestic vs. international sales

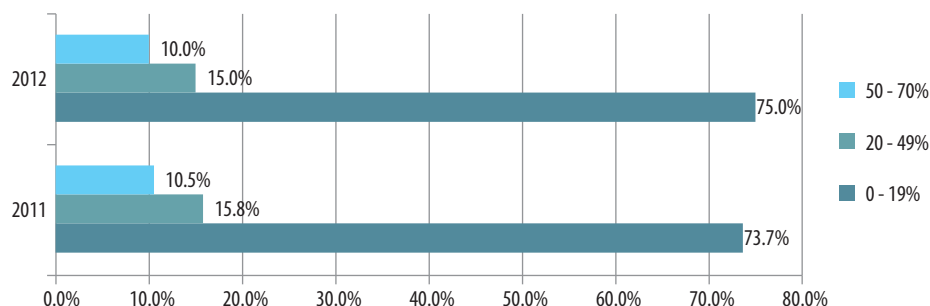
Overall, on average, 95% of companies sell at least 50% of their products and services in the domestic market. When comparing direct domestic sales to international sales, interviewed companies responded that 75% of them sold more than 90% of products and services domestically (Figure 16). When respondents were asked to report about their international sales, we reached approximately opposite results. In this case bottom 25% reported that they sell between 0% and 49% of products and services to international markets.

Figure 16: Domestic Sales for 2012



Based on the surveyed companies no major changes are evident when comparing 2011 with 2012 data as the local and international sales have remained relatively stable (Figure 17). However, as we will explore in next section, based on Kosovo Customs data there are significant changes in exports, this highlights that there are some discrepancies between what is being reported by companies in the survey and what is actually being registered in Kosovo Customs.

Figure 17: International Sales for 2011 and 2012

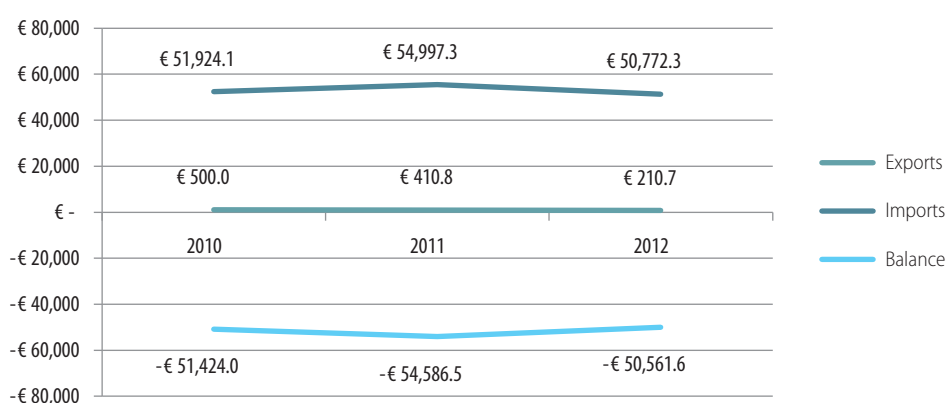


Source: UNDP survey, 2013

4.4. Exports

Custom codes within Kosovo Customs data are not always explicit and cannot be easily identified for BPO-CSC sector, therefore the identification of exact imports and exports of this sector is fairly difficult. Overall, the ICT industry is in trade deficit and has remained as such throughout years last years (Figure 18). In 2012 its trade balance was -€50.5 million, and comparing it with 2010 there is a +1.68% positive change. Within the same period (2010-2012) imports have remained almost constant, while exports have experienced a drastic drop of -57.9%.

Figure 18: Exports, imports and the trade balance (in thousand €)



Source: Kosovo Customs, 2013

Of the surveyed BPO-CSC companies, among those who export, only 30.4% claimed that 100% of their final products and services are exported (Table 11). This correlates to the previous section where 75% of businesses answered that they sell 90% of their products and services domestically. Additionally, only 4.3% of businesses reported to export intermediate products and services. The rest (65.3%) are those who have not responded or do not export any of these two categories.

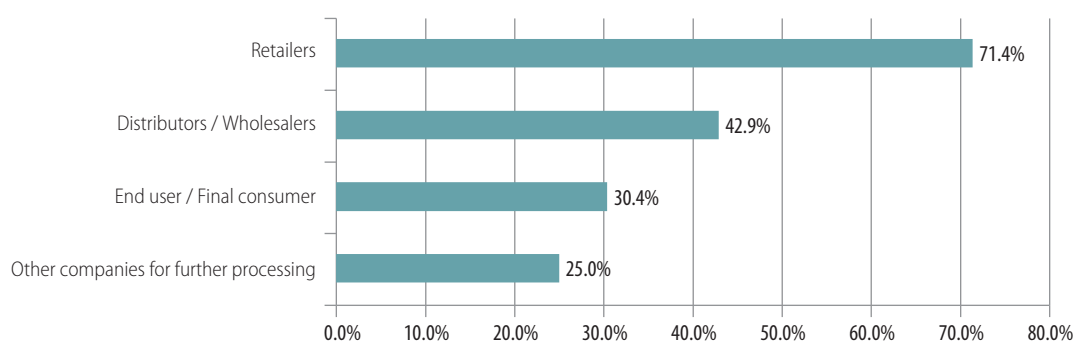
Table 11: Exports: products and services

	% of companies	Products (%)
Final products and services	30.4%	100.0%
Intermediate products and services	4.3%	100.0%

Source: UNDP survey, 2013

The surveyed companies claimed that they mainly export to retailers (71.4%), while only 30.4% export to end-users or final consumers (Figure 19). In addition, distributors or wholesalers are also relatively large buyers, with roughly 43% of the surveyed firms stating that they sell their products or services to them.

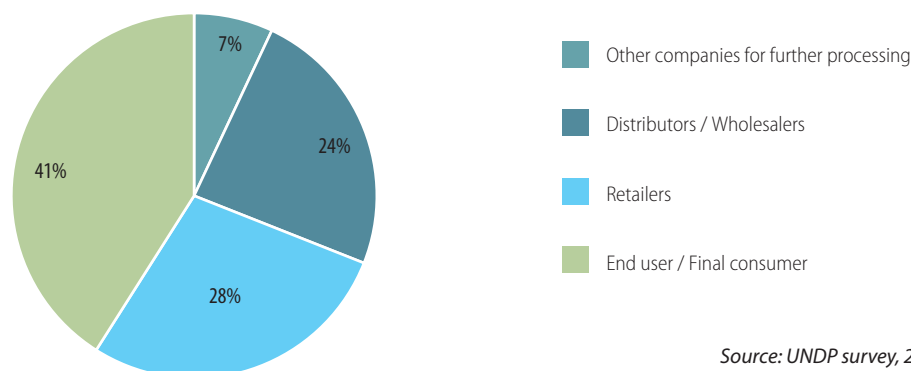
Figure 19: Disaggregation of foreign buyers



Source: UNDP survey, 2013

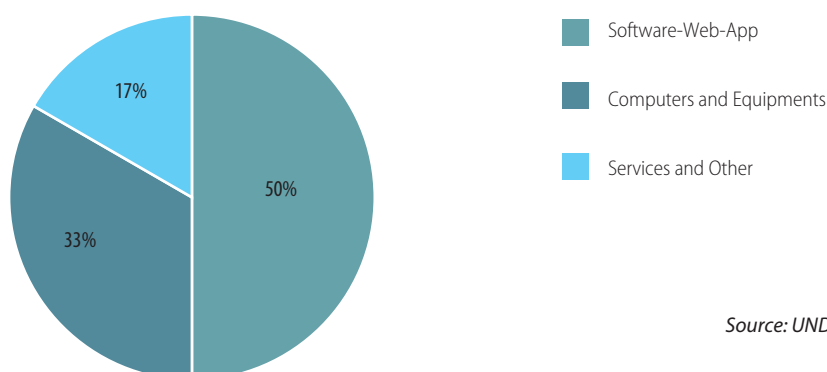
Looking at the aggregate share of foreign sales, 41% of the firms claimed to export directly to end users, while only 7% of the share come from other companies that use these products or services for further processing (Figure 20). Distributors/wholesalers and retailers make-up 52% of the share in exports. As such, they play an important role in the value chain and influence the exporting of products and services much more than buyers in domestic market.

Figure 20: Share of total aggregate sales for foreign sales, by buyer (in 2012)

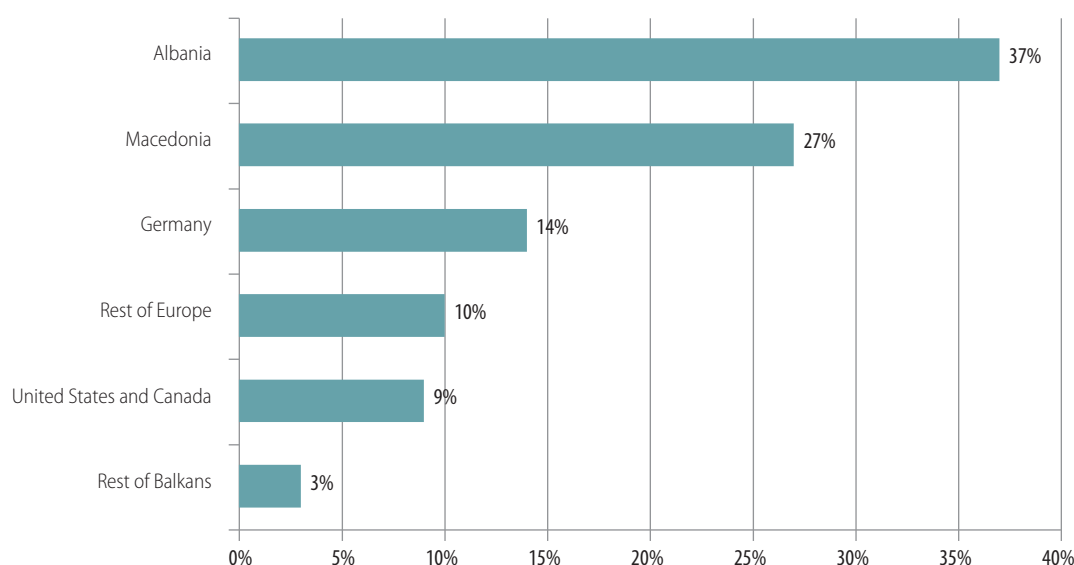


The main products and services that are exported by BPO/CSC companies are computers and other relevant IT equipment, software products (desktop, web, mobile) and other related services (Figure 21). Software products constitute 50% of exported products, while other hardware equipment make-up only 33% of the total. Although computers and other hardware equipment are exported, they are not necessarily produced in Kosovo.

Figure 21: Exported products and services



Moreover, businesses were asked to report about foreign sales based on their overall volume of products and services that they export to each particular destination. Based on the overall aggregate export volume for each foreign market, on average, the main exporting destinations of the ICT products and services in Kosovo are the countries in the continent of Europe (91%), while only 9% of the companies reported to export to United States and Canada (Figure 22). In Europe, Balkan countries account for 67% of exports, with Albania taking 37% of the total share. Among western European countries, Germany constitutes 14% of total exports.

Figure 22: Export Markets

Source: UNDP survey, 2013

Most of the businesses that export to these countries/regions initiated their exporting operations between 2006 and 2010. Only 14.3% started exporting during 2000 and 2005, and 28.6% began after 2010. Among all of those surveyed, 38% of companies want to export, but they claim to face many barriers.

Some of the barriers identified for exporting were categorized as external and internal barriers during the survey. Responds were asked to rank each of listed barriers within 0-10 interval. The following table shows the list of barriers with their intensity (ranking). For instance, the top external barrier was identified to be political relationships with exporting country (Table 12).

Table 12: External barriers to export

Barrier	Intensity
Political relationships with exporting country	55
Limited business and networking opportunities	53
Infrastructure with exporting and transit countries	53
Inefficiency of custom agents/intermediaries	50
Inefficiency of custom administration of exporting and transit countries	46
High costs of bank guarantee	44
Lack of loans/credit for exports	40
Customs execution procedures	37
International quality standards	35
Transportation costs	30

Source: UNDP survey, 2013

Moreover, the inability to create relationships with foreign partners and businesses was ranked as the top internal barrier, pinpointing the importance of networking and establishment of different associations between Kosovo and other countries in facilitating exports (Table 13).

Table 13: *Internal barriers to export*

	Intensity
Inability to create relationships with foreign partners and businesses	34
Ineffective management structure	31
Inability to market and introduce products effectively	31
Lack of owner's willingness to expand	27
Inability to execute the trainings or train employees	20
Inability to finish the certification process for quality standards	19

Source: UNDP survey, 2013

Box 2: Trade regulations

Some of the regulations and processes for trading across borders in Kosovo have been recently reduced and optimized. For example, based on the Doing Business Report 2014, approximately 25% of export costs have been reduced compared to 2012. Additionally, Kosovo's overall rank for ease of trading across borders improved by 3 positions—124 to 121—from 2012 to 2013. (TWB, 2013) (TWB, 2014).

Trade regulations: Imports

In Kosovo, on average, all the necessary procedures for importing products and goods may take up to 15 days ¹⁴ to execute, and eight documents are required in total, based on the World Bank Doing Business Report. ¹⁵ However, this does not apply for services and for typical imports related to ICT products, since only three general documents are required, and these are executed in a much shorter time period:

- Single Administrative Document (i.e. unique customs declaration)
- Commercial invoice
- Certificate of Origin ¹⁶

Currently, no customs duty exemptions exist for ICT products and services, and this is something that the ICT community is dissatisfied with since "other countries in the region have... a zero percent import tax on technological [IT] products... in comparison to the ten percent customs duty for technological products which is applicable in Kosovo" (UNDP, 2012). After years of lobbying, Kosovo's Ministry of Finance compiled a new draft-law on goods exempt from custom tax that was approved by parliament in December 2013. ¹⁷ However, this law exempts from custom duties only a limited set of ICT products.

Trade regulations: Exports

Regarding exports, only two general documents are required to be submitted by Kosovar businesses, and this is also the case for the ICT-BPO-CSC sector:

- Single Administrative Document (i.e. unique customs declaration)
- Commercial invoice

¹⁴ <http://www.doingbusiness.org/data/exploreeconomies/kosovo/#trading-across-borders>

¹⁵ This includes all procedures also from from the sea port in Albania

¹⁶ Excluding countries with which Kosovo has Free Trade Agreement, or any other agreement that has exemptions based on rules of origin

¹⁷ [http://gazetazyrtare.rks-gov.net/Documents/Ligji%20per%20Mallerat%20e%20Liruar%20nga%20tatimi%20doganor%20\(anglisht\).pdf](http://gazetazyrtare.rks-gov.net/Documents/Ligji%20per%20Mallerat%20e%20Liruar%20nga%20tatimi%20doganor%20(anglisht).pdf)

Box 3: Free Trade

Kosovo has a liberal trade regime, and multiple trade agreements that contribute to the development of international trade in Kosovo (IPAK-MTI, 2010).¹⁸ However, at present, no specific agreement regarding the products or services related to ICT-BPO-CSC exists.

CEFTA

Currently in Kosovo, the ICT-BPO-CSC sector does not have any additional privileges or restrictions with regard to the CEFTA agreement. However, some discussions have been held regarding an agreement to liberalize services among CEFTA countries.¹⁹ It is also important to note that Kosovo has the most liberal stance within CEFTA towards foreign short-term workers.

EU-ATP

Based on the EU Autonomous Trade Preference Regime (EU Council Resolution 2007/2000), Kosovo enjoys nonreciprocal duty-free trade with the EU market and “in 2012 the total export to EU was 107.4 million and import 978.1 million.”²⁰ During 2009-2010, a considerable number of ICT-BPO-CSC companies did export services to Switzerland, Germany and Austria, mainly in the form of call-centres and customer support (IPAK-MTI, 2010). In 2012-2013, even though this number had not changed to a great extent, services have migrated toward higher value added products such as technical maintenance and support, web design and development and software engineering. Nevertheless, most of EU countries are more open to outsourcing in EU+EFTA countries, and Kosovo is not yet on the EU+EFTA list (CBI, 2013).

US Market

Kosovo enjoys a Generalized System of Preferences (GSP) privileges with the US government for customs free access to the US market.²¹ However, ICT-BPO-CSC products and services are not part of this agreement.

Kosovo-Turkey Free Trade Agreement

Regarding the ICT-BPO-CSC sector, a limited number of products manufactured in Turkey are imported to Kosovo (or vice versa), so this agreement is expected to have a trivial impact on this sector. As part of this agreement, mainly industrial goods and agricultural products are released from customs duties, and ICT related products and services are not specifically mentioned.

Trade with Japan and Norway

Currently, no free trade agreement exists with Japan or Norway; however, “quantitative and qualitative restrictions remain in force only for a very limited number of goods.”²² Moreover, for the ICT-BPO-CSC sector, Norway is considered a supporting partner. The Norwegian Embassy, in coordination with Crimson Capital and STIKK, has created several BPO opportunities for ICT companies and start-ups in Kosovo.

¹⁸ http://www.eciks.org/english/publications/investing_in_kosovo_2010 & <http://www.cefta.int>

¹⁹ <http://siteresources.worldbank.org/ECAEXT/Resources/BarrierstoTradeinServicesintheCEFTARegion.pdf>

²⁰ <http://www.invest-ks.org/en/Why-Kosovo>

²¹ <http://www.ustr.gov/trade-topics/trade-development/preference-programs/generalized-system-preferences-gsp/gsp-program-i-0>

²² <http://www.invest-ks.org/en/Why-Kosovo>

5. Firm/industry employment and human capacities

5.1. Number of employees and the cost of labour

Considering that roughly 20% of 120 active ICT businesses are assumed to be involved in BPO-CSC activities, based on the UNDP survey, it is estimated that the ICT-BPO-CSC sector had 334 employees in 2012. In addition, if we consider the data from another recent STIKK survey (Berisha & Ilazi, 2014) it is estimated that there were 1,848 employees in the overall ICT sector in 2012, and 1716 in 2013 (Table 14).²³

Table 14: Number of employees

Year	UNDP survey ICT-BPO-CSC	STIKK survey ICT
2011	321 employees	
2012	334 employees	1,848 employees
2013		1,716 employees

Source: UNDP survey, 2013; STIKK, 2013

On the other hand, the average monthly wage costs for a BPO-CSC firm in 2012 was €7,721.43, making the average annual wage cost per firm €92,657.14 (Table 15). Salary costs are considered as second largest costs for BPO-CSC companies. Whereas the average wage of employees in ICT industry is €409²⁴, in the BPO sector the average wage is around €555.²⁵

Table 15: The average cost of salaries in this sector for 2012

Period	Costs
Monthly	€7,721.43
Annually	€92,657.14

Source: UNDP survey, 2013

²³ The average number of employees per firm in 2012 was 15.4, and in 2013 is 14.3; Skill Gap Analysis, 2013, STIKK-EYE (www.stikk-ks.org 2013)

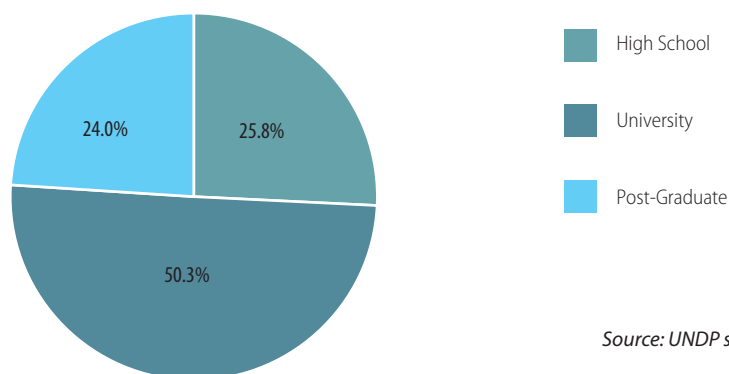
²⁴ Ibid

²⁵ Typically large companies pay much higher salaries than micro and small businesses, and due to a small size of this sector that reflects the small sample size as well, high contrasts in sample size impact the overall average wage value. Therefore this outlook should be taken under consideration when referring to this information.

5.2. Education structure, training and development

The workforce of the ICT-BPO-CSC sector can be considered very educated and highly qualified, if formal education is considered a determining factor. Among surveyed respondents, 50% of businesses confirmed that their employees have university degrees, 24% post-graduate degrees, leaving only 26% with high school education (Figure 23).

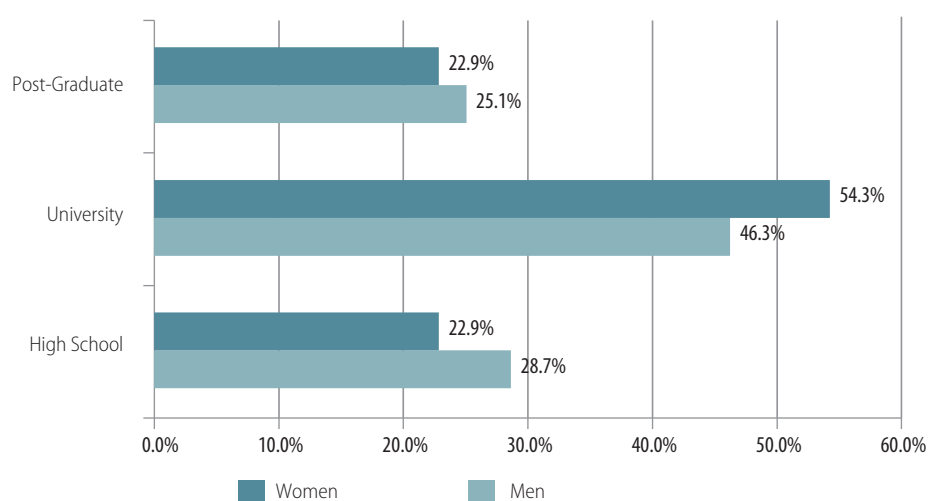
Figure 23: The education structure of the sector



Source: UNDP survey, 2013

The chart below which disaggregates the education attainment of employees in the ICT sector by gender shows that a slightly higher percentage of women (77.2%) have completed university or post-graduate education, while this figure is 71.4% for their men counterparts.

Figure 24: Education structure: men and women



Source: UNDP survey, 2013

In total, ICT-BPO-CSC companies employ 68% full time employees, 25% part-time employees, and 7% seasonal employees annually (Table 16).

Table 16: Employment type

Employment type	Percentage (%)
Full time employees	67.9%
Part time employees	25.1%
Seasonal employees	7.0%

Source: UNDP survey, 2013

Regarding additional training and development for employees, 43% of BPO-CSC companies responded that they provide on-the-job training. Moreover, 83% of all ICT companies provide and execute internal trainings, and only 11% do not train employees at all (Table 17).

Table 17: Training of employees²⁶

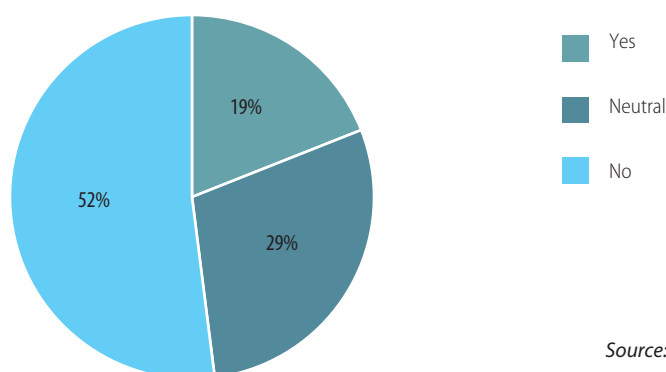
Where do you train your employees?	ICT
In-house (mentoring, orientation, professional training centers)	83%
Outside of the company	4%
Don't train them	11%
Other, don't know	3%

Source: STIKK, 2013

5.3. Perceptions of businesses on the skill level of workforce

The interviewed BPO-CSC businesses' perception about the skill level of the workforce is fairly positive, since only 19% of companies responded that employees with right skills are low in supply (29% were neutral) (Figure 25).

Figure 25: Employees with right skills

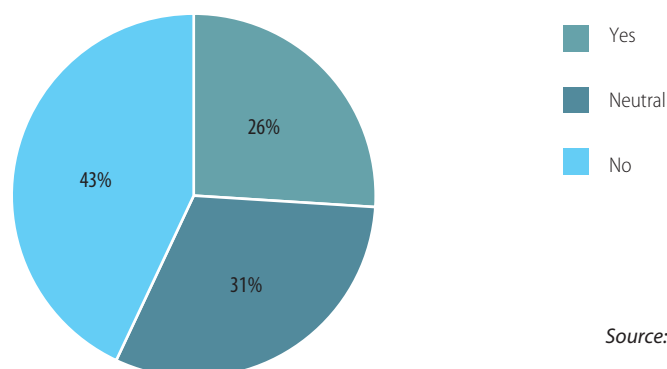


Source: UNDP survey, 2013

However, these ratios change slightly when the same companies were asked if these employees are expensive to acquire. While neutral respondents did not change much, 26% of businesses stated this was true, 43% stated that the workforce with the right skills is not expensive (Figure 26).

²⁶ This table and information was inserted here with the permission of STIKK (Skill Gap Analysis, 2013, STIKK-EYE) – www.stikk-ks.org

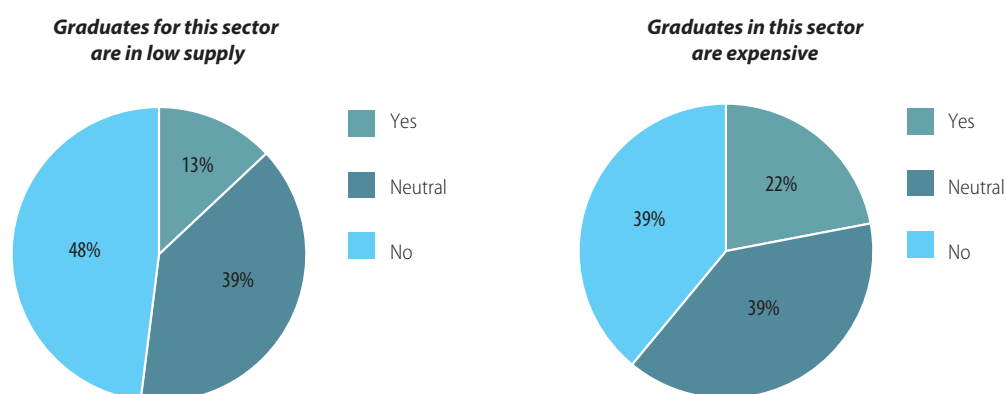
Figure 26 :Expensive employees with right skills



Source: UNDP survey, 2013

Similar responses were provided when this question was asked about employees with graduate degrees (Figure 27).

Figure 27 : Graduate employees: supply and cost



Source: UNDP survey, 2013

However, this does not mean that employees in this sector have all the required skills and no need exists for more training and development. The following tables show in detail²⁷ what kind of technical and management skills are most needed for the entire ICT sector (Table 18).

²⁷ Ibid

Table 18 : Most needed technical skills

Which of these technical skills does your company need most?	
Advanced Networks (CCNP)	37%
Server-Client Programming (Java, C++)	32%
Database Administration (MS SQL, Oracle, MySQL)	31%
System Administration (MS Windows Server, Exchange Server)	28%
Web Programming (PHP, ASP, Perl, Python)	22%
Web Design (Html, JavaScript, photo editing skills)	17%
Basic technical skills (ECDL, Cisco IT Essentials 1)	8%
Administrators of Linux Systems	8%
Basic Network Computing (CCNA)	6%

Source: STIKK, 2013

On the other hand, the top most needed management skills are sales, project, and marketing management (Table 19).

Table 19 : Most needed management skills

Which of these management skills does your company need most?	
Sales management	45%
Project management	35%
Marketing management	29%
Contract management	22%
Business analyst	20%
Financial management	3%
Human resources management	3%

Source: STIKK, 2013

Due to the nature and dynamics of this sector, the technical skills' requirement is always high. Variety of technologies and platforms makes it even more challenging for companies and their workforce to follow up, hence such a high concentration of resources is focused in investing and acquiring technical skills. However, soft skills such as sales, project and marketing management for example have been left aside and perhaps ignored without reflecting its impact. As companies and clients of these businesses continue to grow and mature, a more professional workforce with higher level of management skills will be required to lead these businesses. This could help them solve more complex problems and provide even more value to their clients.

Box 4: Labour regulation in Kosovo pertaining to this industry

Kosovo has a highly flexible labour market with a low tax wedge and low rigidities in terms of hiring and firing of workers. The personal income tax rate system is a progressive tax system with a 0-10% tax rate. In addition to that, only a pension contribution of 5% of the total wage is paid by the employer (whilst another 5% of the wage is paid by the worker). Since 2011 Kosovo has introduced a minimum wage of €170, or €130 for individuals aged under 35 years. Since 2011 employment relations are regulated by the Law on Labour (No. 03/L-212) which takes into account the ILO Conventions, EU Legislation and the fundamental principles of free labour market and economy. Since 2013, occupational health and safety are regulated by the Law on Occupational Health and Safety (No. 04/L-161). All businesses and institutions must operate in conformity with this law.

No specific labour regulations exist concerning the ICT sector.

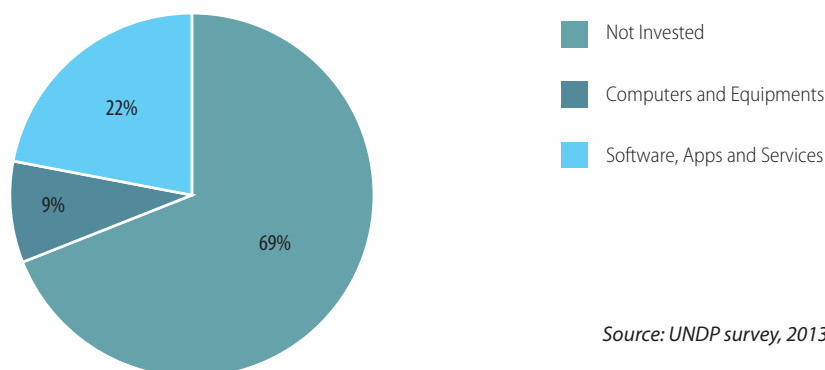
6. Firm/industry investments and technological level

The actual value of assets per firm in BPO-CSC sector is difficult to estimate since only 16% of companies reported about the real value of their lands and objects/buildings. However, when they were asked about the value of technology and machinery, the majority of them provided the information of its market value. On average, companies reported that the value of their technology and machinery in 2011 was € 19,486 and in 2012 it decreased to € 10,946 (-43.8%). It shall be pointed out as well that 86% of the surveyed companies reported to own their technology and machinery, while only 14% rent it.

6.1. Firm investments, R&D and innovations, and industrial property

The value of firms' technology and machinery as an asset decreased by -43.8% during the 2011-2012 period. This may have been due to depreciation, sale, or higher usage of assets that could have impacted the aforementioned growth of capacity utilization by 10.9%. When the companies were asked if they had invested during 2012 in their products or services, 31% reported that they had invested either in software, applications and services (22%) or computers and equipment (9%). It must be noted that 69% of the firms reported that they had not made any investments during 2012 (Figure 28).

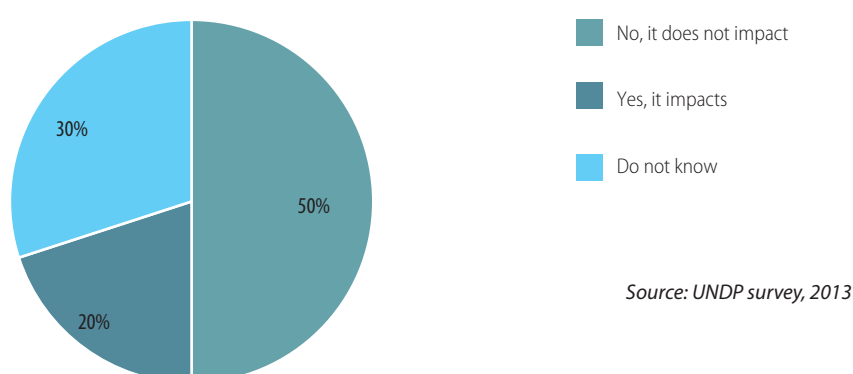
Figure 28 : *Product and service investments*



Regarding investments in research and development, only 9% of the firms reported that they had implemented some production improvements. As for marketing and current products, 13% declared to have undergone some improvements in their processes and existing products and systems.

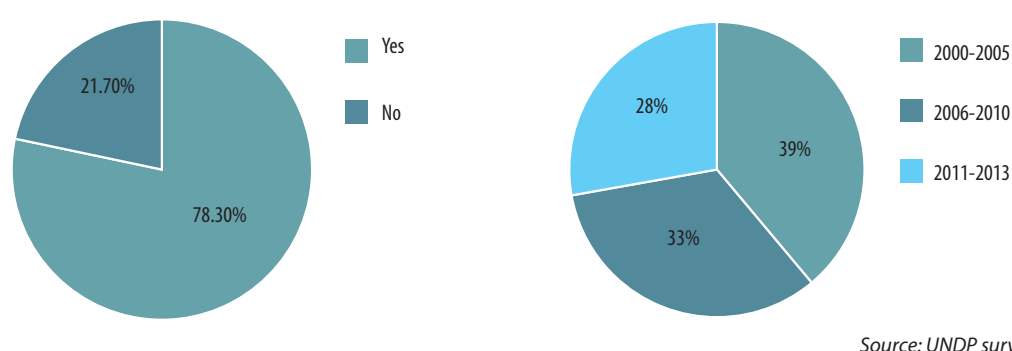
Furthermore, when asked about the current level of protection of industrial property, 50% claim that its present level is satisfying and is not hindering the development of new products and services in the industry (Figure 29). While 30% did not know about its current level and potential effects, 20% say that the process itself is slow, complicated and does affect companies.

Figure 29 : The impact of current level of industrial patenting to businesses



Seventy-eight percent of businesses that are operating in the ICT-BPO-CSC sector have registered patents; only 33% of them reported that they registered patents during the last three years 2011-2013 (Figure 30).

Figure 30 : Have a registered patent



Box 5: Industrial property and patenting in Kosovo

This industry is driven by a knowledge-based workforce that is responsible for producing new and innovative artefacts and processes through their creative endeavour. Software systems are involved and embedded in almost every part of business process outputs, and the most sensitive issues here relate to intellectual property rights and patenting. In Kosovo, intellectual property protection regulations exist, and they fall under two categories: Industrial Property and Copyright. The former contains the majority of legislation regarding patents, trademarks, trade secrets, industrial design, design patent, plant varieties and integrated circuits. However, as noted in the intellectual property manual for software developers, currently “Kosovo offers software developers all the above forms of protection except for patent protection.” (Plakolli Kasumi, 2010).

Moreover, it is imperative to note that the Ministry of Trade and Industry (MTI) has compiled a few relevant documents, such as the Strategy on Intellectual Property Rights²⁸ and the Action Plan for the Implementation of the Strategy for Intellectual Property 2010-2014.²⁹ Additionally, the Industrial Property Office within MTI is a key authority in administering activities to do with intellectual rights, while the Copyright Office continues to run under the umbrella of the Ministry of Culture, Youth, and Sports (MCYS). Nevertheless, although the legislation exists, Kosovar institutions need to work more in enforcing these laws and regulations. As noted earlier about patenting “...the problem lies not only in enforcement, but also in the inability of the original developer to patent the software.” (UNDP, 2012, p. 87). For more information about the related legislation for industrial property and patenting in Kosovo, refer to Annex A.

²⁸ www.mti-ks.org/repository/docs/STRATEGY_ON_INTELLECTUAL_PROPERTY_RIGHTS_eng.pdf

²⁹ http://www.mti-ks.org/repository/docs/Plani_i_veprimi_Strategjiin%20e%20prones%20intelektuale_2010-2014.pdf

7. Business environment

7.1. Perceptions about major impediments in doing business

BPO-CSC companies had a chance to review a long list of potential business challenges they face for doing business in Kosovo. During the survey companies were asked to assign a particular value to each impediment and share their perception about it by ranking them.³⁰ As the figure below illustrates, three top impediments to doing business in Kosovo in the ICT sector are as follows :i) the level of taxes; ii) the high level of corruption; and iii) the low efficiency of the tax administration (Figure 31). Access to land and buildings, difficulties in getting a business certificate and local infrastructure (roads, utilities, etc.) are considered to be less of obstacles in doing business by the ICT companies.

Figure 31 : Major impediments in doing business in Kosovo³¹

Impediments	Rank
Level of taxes	1st
High level of corruption	2nd
Low efficiency of tax administration	3rd
Competition from grey market	4th
Low efficiency of customs	5th
Low efficiency of judicial systems	6th
Lack of electricity and high costs	7 th
Lack of demand from local market	8th
Access to finance / loans	9th
Difficulties in getting machinery / tech	10th
Quality of raw materials	11th
Costs of production material	12th
Employee costs (high wages)	13th
Not qualified employees	14th
Local infrastructure (roads, utilities, etc)	15th
Difficulties in getting a business. certificate	16th
Access to lands and buildings	17 th

Source: UNDP survey, 2013

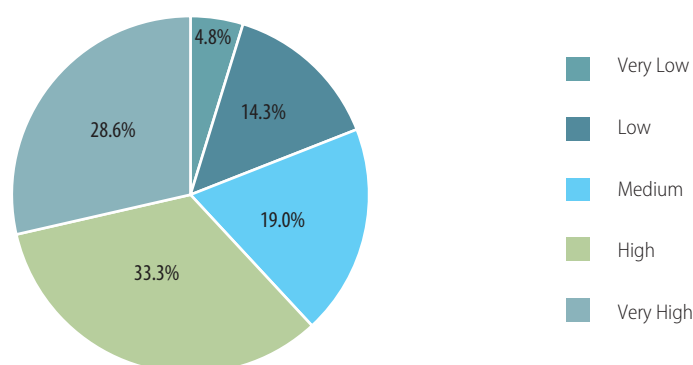
³⁰ Respondents ranked each impediment between 0-17 interval

³¹ Impediments were ranked by calculating the total responses for each perception

7.2. Business perceptions about the tax policy and tax administration

According to the data above, the level of taxes is considered a major impediment in doing business in Kosovo, and as such, 62% of respondents claimed that taxes are either high or very high (Figure 32). Only 5% of companies responded that the taxes are very low.

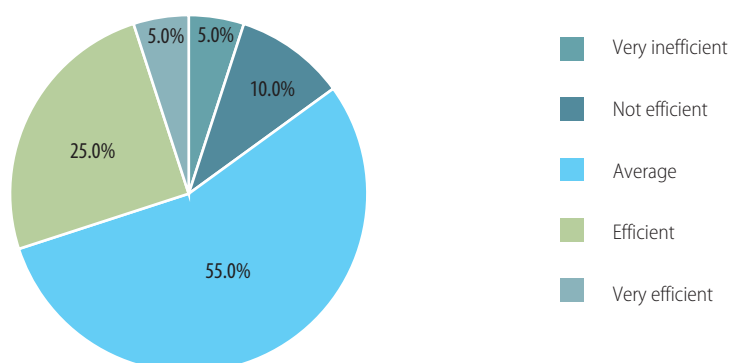
Figure 32 : Level of taxes



Source: UNDP survey, 2013

Although low efficiency of the tax administration was ranked as the third major impediment to doing business, this is not reflected in other questions of the survey. In another related question, 75% of businesses responded that the performance of the tax administration is about average (in terms of efficiency) or efficient (Figure 33). Only 15% of the surveyed firms said that it is very inefficient or not efficient.

Figure 33 : Performance of tax administration

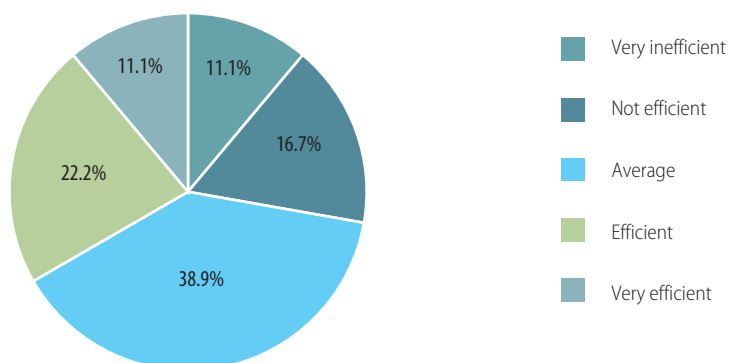


Source: UNDP survey, 2013

7.3. Business perceptions about customs and the financial sector

As a major business impediment, Customs performance is ranked the 5th; nevertheless, again additional questions revealed that 39% of businesses think that performance of customs is about average (Figure 34). Moreover, 28% claim that the Customs are very inefficient or not efficient at all, and 33% consider it is an efficient or very efficient institution.

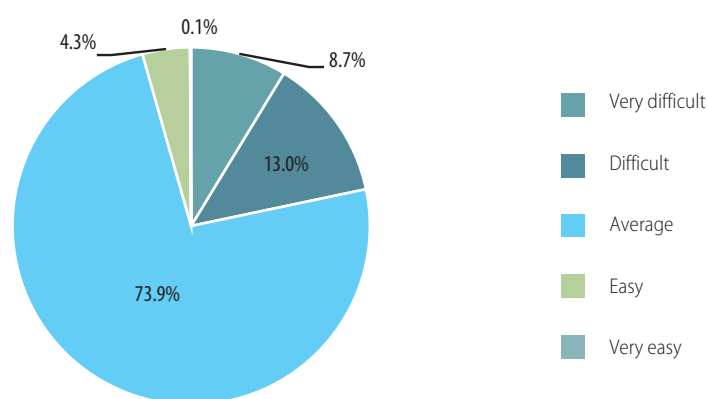
Figure 34 : Performance of Customs



Source: UNDP survey, 2013

Ease of access to finance is, by default, among the most important components for businesses. Roughly 22% of companies in this sector say it is difficult or very difficult to access finance, 74% consider it averagely difficult; while 4% claim that it is easy to access finance (Figure 35).

Figure 35: Ease of accessing finances in the ICT sector

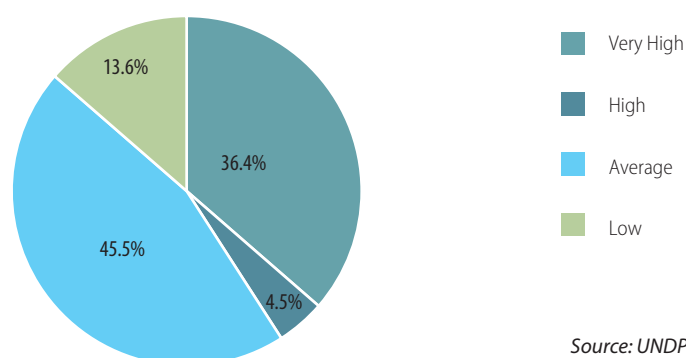


Source: UNDP survey, 2013

However, businesses do not think in the same way when it comes to the cost of finance or loan interests. Although 45% think that loan interest rates are about average, 41% say that interest is high or very high (Figure 36). While 14% consider the interest rates to be low, none of the survey respondents reported that loan interest rates are very low.³²

³² Official effective interest rate on new loans for October 2013 as reported by the Central Bank of Kosovo was 11.72% ("Monthly Statistics Bulletin (No. 146)", October 2013).

Figure 36 : Cost of finance (loan interests)



Source: UNDP survey, 2013

Box 6: List of taxes and duties pertaining to the industry

Currently, all the general taxes and duties are applied for this sector, except for a very limited set of ICT products that are excluded from custom duties ("Law on goods exempt from custom tax and goods with zero rate of the custom tax").³³

Value Added Tax :³⁴ 16%

Corporate Income Tax: 10%

Personal Income Tax: 10% max, progressive

Pension Contribution (from total wage): 5% employer and 5% employee

Taxes on Export: 0%

Customs Duties :³⁵ 10% on imports (exceptions are applicable for with countries in free trade agreement; and a very limited set of ICT products)

³³ [http://gazetazyrtare.rks-gov.net/Documents/Ligji%20per%20Mallerat%20e%20Liruara%20nga%20tatimi%20doganor%20\(anglisht\).pdf](http://gazetazyrtare.rks-gov.net/Documents/Ligji%20per%20Mallerat%20e%20Liruara%20nga%20tatimi%20doganor%20(anglisht).pdf)

³⁴ www.kpmg.com/AL/en/IssuesAndInsights/Documents/2013-Tax-card-Kosovo-EN-web.pdf

³⁵ www.rks-gov.net/en-US/Bizneset/FinancatTaksatDoganat/Pages/default.aspx

8. Conclusion

The Information Technology BPO-CSC sector is very small and approximately consists of 25 companies and most of them have less than 10 employees. Majority of the ICT companies are individual businesses that were established during 2000 and 2009. The BPO-CSC sector is in its early stages of development and is providing, both domestically and exporting, mainly software-oriented products, and customer support services. Although this sector is satisfied with the education level and supply of workforce, in order to move toward higher value added activities, companies must dedicate more resources to increase their professional capacities. Both technical and management education is very important, and the latter definitely should not be overlooked since it may hinder the future growth.

Raw materials and intermediate products are driving costs in this sector, although 30% of such inputs are produced in house. Workforce salaries continue to be one of the key costs as well however, Kosovo still is competitively prices comparing it with other developed countries. Looking at the firm's technology and machinery close to 86% of these businesses own these assets, but their value has dropped 44% during 2011-2012. This may have been as a result of the slight increase in capacity utilization within this industry, yet utilization still remains average if not low. The annual production output is relatively lower than in 2011, since the numbers of companies who reported to produce at highest interval of production output have decreased. On the other hand, investments from businesses themselves in R&D remain insignificant, and innovation within production processes and other functional activities remains very low.

Regarding the purchasing power there is a mix of buyers within this industry' with value chain and end-users as domestic buyers leading the way. Retailers on the other hand are considered as primary buyers in foreign markets. In other words, almost all businesses sell at least 50% of their products and services domestically. Exports are continuing to stay very low for the overall ICT industry, and trade deficit is very large. During 2011-2012 exports fell drastically for 57.87%, although the overall volume of exports was almost insignificant (only €210,661). In BPO-CSC sector majority of businesses are exporting their products and services within the Balkans region, Germany being the largest among western European countries. Variety of external barriers such as political relationships with exporting countries and inability to create relationships with foreign markets are hindering the growth of this sector. But also internal management structures and product commercialization strategies seem not to be very effective.

There are trade agreements and bilateral agreements between Kosovo and other countries, but ICT products and services are not exclusive part of such accomplishments. This is something that government and other relevant associations must try to address in the future. On the other hand, high level of taxes and corruption are ham-

mering the BPO-CSC sector besides other impediments such as grey market, and inefficiencies within public institutions. In order to address a variety of problems in ICT industry that affect and are affected by many actors in the public and private sector, there is an urgent need to create a centralized agency within a particular institution. This way ICT and BPO-CSC sector could directly deal with important issues in public institutions, instead of trying to coordinate and address them throughout multiple channels. Challenges such as these are creating a difficult business environment for young entrepreneurial businesses that are just emerging in the market. Therefore besides tackling such inefficiencies government must incentivize this sector through different mechanisms and policies in order to stimulate its growth.

9. Appendices

Appendix 1: Public institutions related to the ICT sector

This industry has cross-sectoral impact and affects many stakeholders in the public and private sector, and therefore, the industry itself is influenced by many actors. Institutions and agencies relevant to this sector reside within different public structures. No single centralized entity exists within any public institution, such as an agency, that is authorized to promote or oversee the functioning of the sector and implementation of related legislation. This is something that is constantly raised as an issue from STIKK to the government; however, up to now, little progress has been achieved. As such, an urgent need exists to create one centralized agency in a particular institution that could deal with important issues and coordinate all relevant activities in other public institutions.

Ministry of Trade and Industry (www.mti-ks.org)

Two different agencies influence the operation and effectiveness of the businesses operating in this industry: KBRA ³⁶ and the Kosovo Standardization Agency. ³⁷ Additionally, the Industrial Property Agency³⁸ within this ministry deals with intellectual property rights central to business operations of this sector.

Ministry of Culture, Youth, and Sports (www.mkrs-ks.org)

This ministry supervises and coordinates the Office on the Copyright and Related Rights ³⁹that deals with copyright issues, another vital part of intellectual property rights.

Regulatory Authority of Electronic and Postal Services (RAEPC) (www.arkep-rks.org)

The Regulatory Authority of Electronic and Postal Services (RAEPC), as an independent body, is mainly responsible for regulating the telecommunications sector (including internet service providers). It can grant and revoke licenses or permits by executing specific regulations and laws under its command. ⁴⁰

Ministry of Infrastructure (www.mi-ks.net)

This ministry is not directly related with this sector; however, it works in close cooperation with RAEPC for the setup of telecom infrastructures that cross over public land, roads, highways and rail networks.

Ministry of Education, Science and Technology (www.masht-gov.net)

This ministry plays a crucial role in the development of policies and education programs, and it is involved at multiple levels with this sector. For example, the latest cooperation was in exploring different opportunities and potentials for ICT research and development in Kosovo (STIKK & SEERC, 2013). However, in general, the ICT community is looking forward to a higher level of coordination between this ministry and the private sector.

³⁶ <http://www.arbk.org>

³⁷ <http://www.mti-ks.org/en-us/Kosovo-Standardization-Agency>

³⁸ <http://www.kipo-ks.org>

³⁹ <http://www.mkrs-ks.org/?page=2,102>

⁴⁰ <http://www.arkep-rks.org/?cid=2,7>

Appendix 2: Business associations of the ICT sector

The Kosovo Association of Information and Communication Technology (STIKK) is involved in most of the activities and issues that revolve around the ICT industry. However, no specific associations are solely focused on Business Process Outsourcing or Customer Support Centres activities. Nevertheless, STIKK does cover issues that have to do with BPO activities that relate to ICT industry. STIKK, as an association, has been active since 2008 and was founded in 2006 under the Kosovo Chamber of Commerce (KCC). It was established through a joint initiative of six founding ICT companies and with the support of the Norwegian Ministry of Foreign Affairs, through Crimson Capital and the Norwegian ICT Association (STIKK, 2013).

STIKK is one of key contributors in the ICT industry, and up to now, it has published research and position papers that have influenced the direction of the sector. Moreover, the association is constantly involved in regulatory issues, research and lobbying with government and international organizations to better represent this sector. It also organizes an annual regional conference for the ICT sector to cover global and local trends.⁴¹ Right now, STIKK is a member of the Pan European Network of the ICT and e-Business SMEs, The World IT Services Alliance, and the South East European ICT Forum. Moreover it has memorandum of understanding with the Albanian IT Association and stands in close partnership with the FYROM IT Chamber, Bulgarian ICT Association and other relevant organizations. STIKK is a stakeholder in the Innovation Centre of Kosovo⁴² that can be considered as one of the drivers of entrepreneurship and innovation efforts in Kosovo, specifically with a focus on the ICT industry.

⁴¹ KosICT - www.kosict.com

⁴² ICK - www.stikk-ks.org

Appendix 3: Incentives to businesses operating in the ICT sector

The International Data Corporation has forecasted that the global revenues for BPO will rise from \$147 billion in 2010 to \$191 billion by 2015.⁴³ However, the ICT market in Kosovo in 2011 was \$126.75 million, and it is expected to grow and reach \$154 million in 2016. (IDC, 2012) This industry in Kosovo must be incentivised in order to grow further, export its services and compete globally. Within current government structures, no established agencies, support programs, or other fiscal and non-fiscal policies are in force to provide incentives to businesses operating in this sector. Therefore, some of the key recommendations that could have the highest positive impact for this sector are elaborated below.

Support ICT companies and its workforce

- Remove custom duties for imported ICT products and services (hardware and software). At least eliminate customs duties for all relevant hardware and software that is used for educational or R&D purposes.
- Establish policies and mechanisms so that public and private educational institutions work closely with ICT businesses, in order to restructure curricula and prepare the next generations of graduates for current and future market needs.
- Provide financial support for students in universities so they can obtain professional ICT certifications through government vouchers.
- Invest in ICT labs within educational institutions to simulate real-life problems; this way, students can obtain skills that cannot be acquired through theoretical approaches.

Endorse BPO initiatives and activities

- In close cooperation with the private sector, target specific foreign firms for possible joint ventures, partnerships and foreign direct investment in BPO.
- Cooperate more closely with foreign embassies to assist in establishing better business partnerships.
- Guide and support the industry strategy and efforts in mastering BPO market dynamics through public and private sector actors (perhaps modelling the Philippines model⁴⁴).
- Support the establishment of a BPO-oriented association – similar to STIKK and modelled after NASSCOM⁴⁵ in India.⁴⁶

Incentivize foreign companies to draw FDI to this sector

- In cooperation with local municipalities, create the necessary infrastructure and set-up a Special Economic Zone (within a city, i.e. Prishtinë/Priština) in order to create better conditions for foreign companies to establish their businesses within ICT Parks and Buildings.⁴⁷
- Assist companies by eliminating corporate tax for a period of time, by putting into a force an Income Tax Holiday (ITH) for several years after it begins operating.

43 <http://www.smh.com.au/business/momentum/outsourcing-to-grow-20121011-27ee8.html#ixzz2kRjrFPLw>

44 <http://www.ibpap.org>

45 <http://www.nasscom.in>

46 Rob Gulick, Business Process Outsourcing

47 For example there are 140+ SEZs in the Philippines designated specifically for ICT and BPO.

- Provide additional deductions equivalent to 50% of training expenses, chargeable against the 3% share of the national government in the special 5% tax on gross income;
- Offer permanent resident status to foreign investors with initial investments of US\$ 350,000 or more.

Appendix 4: Legislation, regulations, licences and permits required

Current relevant legislation for the ICT sector is represented in Annex B. However, specific regulations that pertain to BPO and Customer Support Centres exclusively are non-existent to-date, but some relevant issues are covered within the same legislation. It is essential to also note some important agencies and institutions that play crucial roles in implementing the listed laws and those that regulate this sector. One of the vital actors is the independent Regulatory Authority of Electronic and Postal Communications (RAEPC).⁴⁸

⁴⁸ <http://www.arkep-rks.org>

Appendix 5: Legislation related to industrial property and patenting

Naming of Law	Law No.
Law on Competition:	
Article 12.1 - Agreements on Intellectual Property and Business Secrets http://www.kuvendikosoves.org/?cid=2,191,123	2004/36
Patent Law http://www.kuvendikosoves.org/?cid=2,191,127	2004/49
Law on Industrial Design http://www.assembly-kosova.org/?cid=2,191,175	02/L-45
Law on Trademarks http://www.kuvendikosoves.org/?cid=2,191,190	02/L-54
Law on Copyright and Related Rights http://www.assembly-kosova.org/?cid=2,191,199	2004/45
Law on Amendments and Additions to Law 2004/49 for Patenting http://www.assembly-kosova.org/?cid=2,191,216	02/L-100
Law on Customs Measures for Protection of Intellectual Property Rights http://www.assembly-kosova.org/?cid=2,191,391	03/L-170
Law on Trademarks http://www.assembly-kosova.org/?cid=2,191,190	04/L-026
Law on Patents http://www.kuvendikosoves.org/?cid=2,191,665	04/L-029
Law on Industrial Design http://www.assembly-kosova.org/?cid=2,191,664	04/L-028
Law on Copyright and Related Rights http://www.assembly-kosova.org/?cid=2,191,1033	04/L-065

Naming of Law	Law No.
Law on Telecommunications http://tinyurl.com/ojuzulm	2002/7
Law on Postal Services http://tinyurl.com/ptr5626	2003/18
Law on Standardization http://www.kuvendikosoves.org/?cid=2,191,101	2004/12
Law on Consumer Protection http://www.kuvendikosoves.org/?cid=2,191,121	2004/17
Law on the Information Society Services http://www.kuvendikosoves.org/?cid=2,191,185	02/L-23
Law on the Administrative Procedure http://www.assembly-kosova.org/?cid=2,191,186	02/L-28
Law on Amendments and Additions to Law 2004/12 on Standardization http://www.kuvendikosoves.org/?cid=2,191,195	02/L-83
Law on Amending UNMIK Regulation No. 2003/16 on Telecommunications http://www.kuvendikosoves.org/?cid=2,191,278	03/L-085
Law on Amendment and Supplementation of the Law No. 2004/17 on Consumer Protection http://www.kuvendikosoves.org/?cid=2,191,340	03/L-131
Law on Scientist Research Activity http://www.kuvendikosoves.org/?cid=2,191,132	2004/42
Law on Standardization http://www.kuvendikosoves.org/?cid=2,191,377	03/L-144
Law on Postal Services http://www.kuvendikosoves.org/?cid=2,191,430	03/L-173
Law on the Protection of Personal Data http://www.kuvendikosoves.org/?cid=2,191,466	03/L-172
Law on Prevention and Fight of the Cyber Crime http://www.kuvendikosoves.org/?cid=2,191,490	03/L-166
Law on Information Society Services http://www.kuvendikosoves.org/?cid=2,191,857	04/L-094
Law on Electronic Communications http://www.kuvendikosoves.org/?cid=2,191,966	04/L-109
Law on Consumer Protection http://www.kuvendikosoves.org/?cid=2,191,968	04/L-121
Law on Scientific Research Activities http://www.assembly-kosova.org/?cid=2,191,1013	04/L-135
Law on Information Society Government Bodies http://www.kuvendikosoves.org/?cid=2,191,1022	04/L-145

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