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USAID KOSOVO PRIVATE ENTERPRISE PROGRAM (KPEP)

ICT Incubator Feasibility Study

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DISCLAIMER

The author's views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government

STUDY TO ASSESS THE VIABILITY OF AN ICT INCUBATOR FOR KOSOVO

Kosovo Private Enterprise Program – “ICT Incubator Feasibility Study”. Contract No. EEM-I-07-00007-00, TO #2

This report submitted by Booz Allen Hamilton / February 12, 2010

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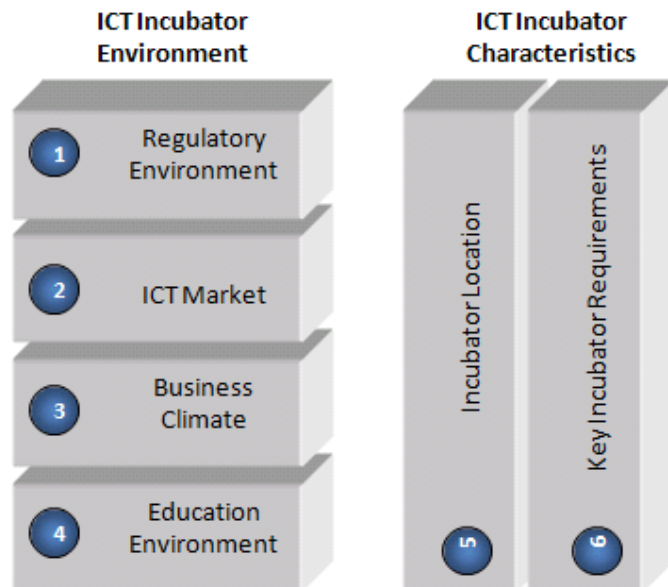
PURPOSE OF ASSIGNMENT

The purpose of this assignment is to evaluate the viability of an ICT incubator by evaluating Kosovo’s regulatory, business, financial, and policy climates.

The assignment tasks included:

- Determination of the regulatory and policy environment’s ability to support such an effort and any impediments which may prevent success.
- Analysis of the business demand for IT services to include both private and public markets, impediments to successful ICT business growth, and potential external markets.
- Review of Kosovo’s business climate to determine its ability to support small ICT businesses and/or hinder their development. Given ICT’s capital expenditures, assess access to capital and any impediments to credit.
- Discussion with multinational corporations and their role in supporting and sustaining the incubator.
- Analysis of the secondary education and university systems to determine their ability to ‘feed’ high quality candidates to the incubator.
- Identification of Kosovo’s private ICT sector – major players, numbers by technology area/segment, and recent successful startups (addressable market).
- Identification of potential locations for the incubator to be housed.
- Determination of key requirements for a successful startup within Kosovo.

These assignment tasks were grouped into the following major six components, which will be used as the framework for this report.



BACKGROUND

In September 2008, USAID awarded the Kosovo Private Enterprise Program (KPEP) to Booz Allen Hamilton. Designed to stimulate private sector competitiveness in Kosovo, KPEP consists of four components:

1. Private sector support in targeted sectors with potential for growth and competitiveness;
2. Identify demand driven development for business support services;
3. Improve business enabling environment; and
4. Workforce development.

The Kosovo Private Enterprise Program also addresses several cross-cutting areas including gender, youth and minority development. Finally, the program manages a Strategic Activities Fund (SAF) valued at \$3,760,000.

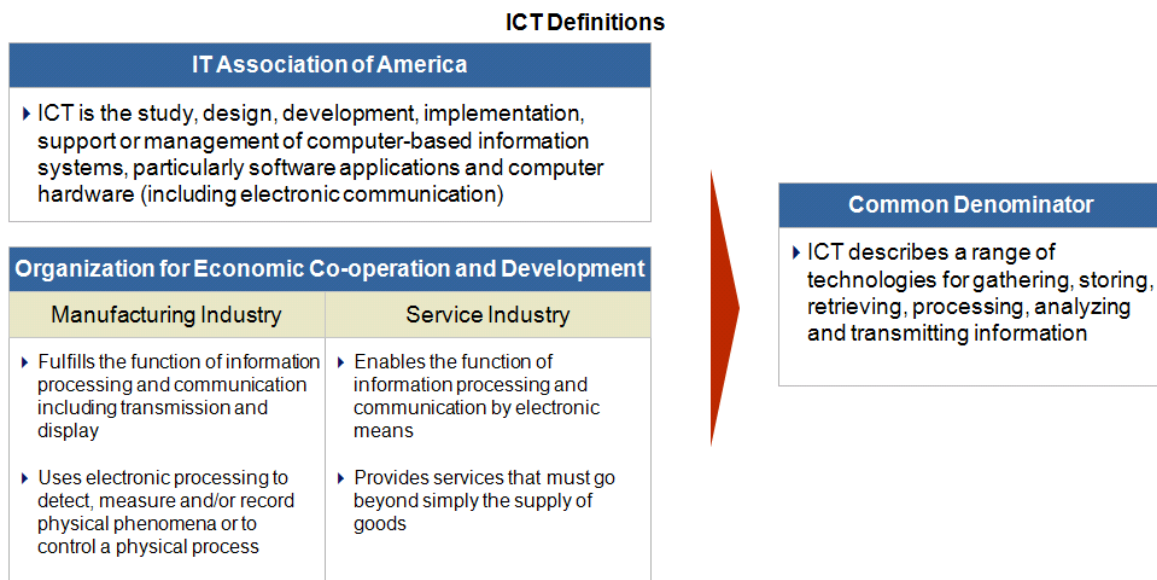
During the sector selection exercise conducted by KPEP in the fall of 2008, the Information and Communications Technology (ICT) Sector was identified as a transformational sector because of its perceived tremendous potential to impact the Kosovo economy in terms of job growth, revenue growth, and the potential to attract FDI.

Effective evaluation of ICT incubator feasibility requires a common understanding of the ICT market, as well as the role of an ICT incubator, and the remainder of this chapter addresses these issues.

Defining the ICT Market

Multiple definitions of ICT are in use, and for the purpose of this study we propose the common definition presented in Figure B-a.

Figure B-a: Proposed ICT definition for ICT incubator.



The Kosovo ICT market can be broken down to three major components, as presented in Figure B.b

Figure B-b: Three major components of Kosovo ICT industry

ICT Incubator Focus		Definition	Examples
	<div style="background-color: #e6e6fa; padding: 5px; text-align: center;"> Information Technology Industry </div>	Contains businesses associated with the production and distribution of information technology goods and services	<ul style="list-style-type: none"> ▶ IT services ▶ Packaged software ▶ Embedded software <ul style="list-style-type: none"> ▶ IT hardware ▶ Private networks
	<div style="background-color: #e6e6fa; padding: 5px; text-align: center;"> Information Content Industry (Internet and e-Commerce) </div>	Contains business associated with the provision of information either directly to consumers or through some intermediary who transforms that information into some other medium	<ul style="list-style-type: none"> ▶ Call Centers ▶ IT education & awareness ▶ Public & private usage <ul style="list-style-type: none"> ▶ Business Process Outsourcing ▶ Content ▶ Security ▶ Regulation
	<div style="background-color: #4169e1; color: white; padding: 5px; text-align: center;"> Telecommunications Industry </div>	Contains businesses associated with the production and distribution of telecommunications goods and services	<ul style="list-style-type: none"> ▶ Telecommunication services (voice & data) <ul style="list-style-type: none"> –Fixed network –Mobile network <ul style="list-style-type: none"> ▶ Transmission equipment ▶ Switching equipment ▶ Routers

Kosovo is one of the youngest countries in Europe with more than 50% of population under 35 years of age. It enjoys a reasonable Internet penetration rate (at around 30-40% as of Dec. 2008), especially among younger people. In recent years, Kosovo has developed a number of university-level education institutions who develop local talent and feed a pipeline of young graduates and entrepreneurs. Kosovo’s Diaspora – dispersed throughout the world – also holds potential to return to their native land with skills and experiences that can assist in the development of self sufficient ICT industries that create jobs, economic opportunities and positive balances of trade.

One key aspect to Kosovo’s development will be the diversification of its economic base from agrarian and raw materials exports to a model which includes value added services. The sector with perhaps the greatest opportunity for growth is the ICT sector, which can provide growth in areas from business outsourcing (contact or call centers, technology help desks, back office outsourcing, etc.) to the development of customized IT applications and products.

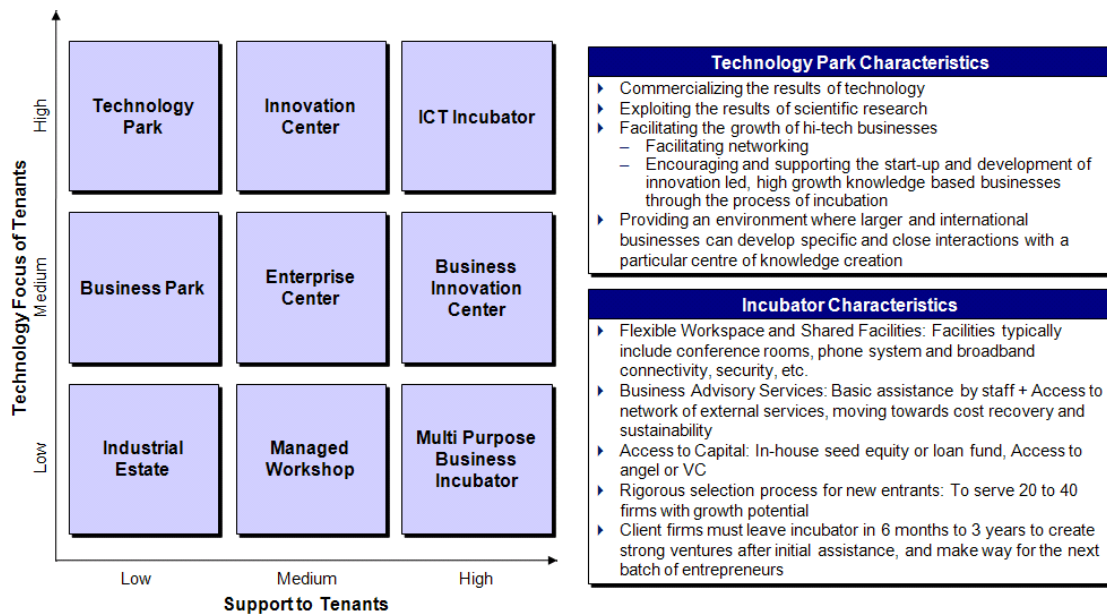
Furthermore, ICT is unique in that it supports the growth of sectors across the wide spectrum of the economy. As a first step, and in order to attract the interest of ICT firms to work with KPEP, the project’s immediate objective should be the facilitation of transactions.

Defining an ICT Incubator

While Kosovo has engaged in building industrial parks and free trade zones for more established industries, there are neither initiatives to establish, nor existing, incubators in the IT/ICT sector.

The differences between technology parks and incubators are outlined in Figure B-c:

Figure B-c: Differentiation of ICT incubator and technology park characteristics



Business incubators are programs designed to accelerate the successful development of entrepreneurial companies through an array of business support resources and services, developed and orchestrated by incubator management and offered both in the incubator and through its network of contacts.

Incubators vary in the way they deliver their services, in their organizational structure, and in the types of clients they serve. Although most incubators offer their clients office space and shared administrative services, the heart of a true business incubation program is the services it provides to start-up companies.

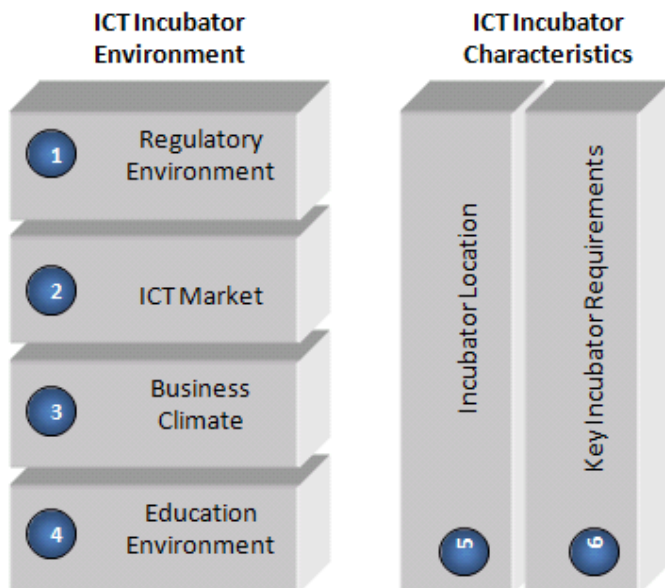
The amount of time a company spends in an incubation program can vary widely depending on a number of factors, including the type of business and the entrepreneur's level of business expertise. Many incubation programs set graduation requirements by development benchmarks, such as company revenues or staffing levels, rather than time in the program.

EXECUTIVE SUMMARY

The Kosovo ICT sector was identified a transformational sector because of its potential impact on the Kosovo economy. A successful ICT incubator can be a strong catalyst for expanding the current embryonic ICT industry in Kosovo. A feasibility study was conducted to determine if the establishment of an ICT incubator is viable.

The feasibility study focused on six key components impact an ICT incubator, as presented in Figure ES-1.

Figure ES -1: Six key components impacting an ICT Incubator

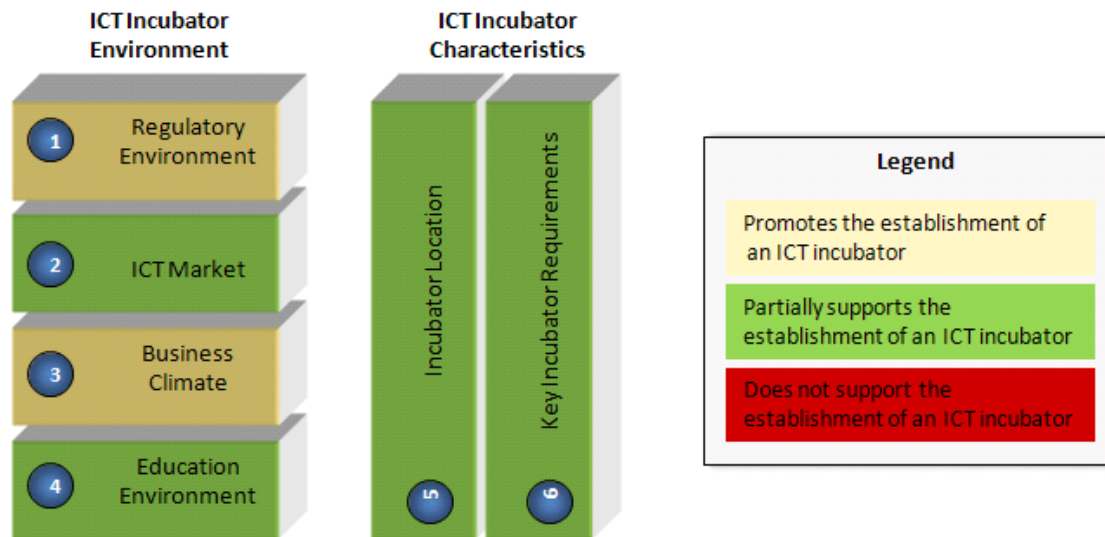


Each component was analyzed and evaluated whether:

- The component promotes the establishment of an ICT incubator
- The component partially supports the establishment of an ICT incubator
- The component does not supports the establishment of an ICT incubator

The outcome of the assessment is presented in the Figure ES-2.

Figure ES – 2: Assessment of components support to creation of incubator



The assessment of the six components, indicate the feasibility of establishing an ICT incubator in Kosovo, as none of the components presents major obstacles, and only two components partially supports the establishment:

- **Regulatory Environment – Partially Supports.** The legal framework for protecting the establishment and operations of an ICT incubator is mostly in place. The implementation of the legal framework is a problem area.
- **ICT Market – Promotes:** The size of the Kosovo ICT market is relatively small, but expected to grow over the next few years.
- **Business Climate – Partially Supports.** The business climate supports the creation of new businesses. The primary challenge for ICT businesses is the lack of government incentives for ICT businesses, compared to competitors in other countries in the region.
- **Education Environment – Promotes.** A sufficient number of ICT professionals are education with Kosovo, with more private universities planning to introduce ICT programs in the near future.
- **Incubator Location - Promotes:** Acceptable facilities and locations are available for the ICT Incubator.
- **Key Incubator Requirements – Promotes:** The key strategic partners, capital funds, and venture capital funds are available to support the establishment of an ICT incubator.

FIELD ACTIVITIES TO ACHIEVE PURPOSES

The information needed for the feasibility study was gathered through interviews, research and other methods, followed by detailed analysis conducted on that data to determine variances with internationally accepted best practices and Kosovo's unique needs.

The following individuals were interviewed:

Ms. Vjollca Çavolli Executive Director Kosovo Association of Information & Communications Technology (STIKK)
Mr. Driton Hapçiu Chief Technical Officer, Cactus Chairman, Board of Directors, STIKK
Mr. Kreshnik Lleshi Country Director Center for Entrepreneurship & Executive Development
Mr. David Gold Managing Director Crimson Capital
Mr. Chris Hall, President & CEO American University in Kosovo (AUK)
Ms. Teresa Crawford Director, Sustainable Leadership Initiative Partners for Democratic Change and Member of IPKO Foundation (IPKO-F)
Mr. Akan Ismaili Former CEO IPKO Telecom Private Investor
Mr. Mustafë Hasani CEO, Investment Promotion Agency of Kosovo (IPAK)
Mr. Kreshnik Thaqi, Senior Investment Promotion Officer, Investment Promotion Agency of Kosovo (IPAK)
Mr. Agim Kukaj Head, IT Dept. Ministry of Transport & Communications (MTC)
Mr. Lekë Musa Director, American Chamber of Commerce

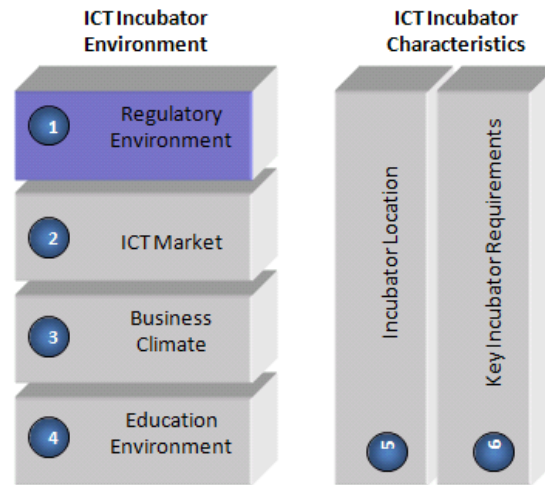
Mr. Naim Hoxha ICT Project Manager AAB University
Prof. Dr. Myzafere Limani Dean, Faculty of Electrical and Computer Engineering University of Pristina
Mr. Besnik Krasniqi Director Business Support Centre (Kosovo)
Ms. Marieke Pluk Project Manager Business Start-up Center Network (Spark)

TASK FINDINGS

Component 1: Regulatory Environment

An ICT incubator is dependent on a regulatory environment that protects and fosters the development of new business initiatives. This assesses the Kosovo regulatory environment, according to:

- Applicability of the current regulatory framework impacting an ICT incubator, and
- Application of this regulatory framework.
- Regulatory impediments to ICT incubator success



Regulatory Framework

A regulatory framework that will benefit an ICT incubator needs to address intellectual property protection, cybercrime, electronic signatures, and government wide policies to promote a common government approach to the use and application of ICT.

Kosovo has made strong progress towards the creation of an open, liberalized ICT business and regulatory environment. ICT legislation, regulations and enforcement are the platform on which ICT business and e-commerce is transacted. The ICT regulatory framework implemented by the Government of Kosovo (GOK) is based on European Union standards as well as best practices embodied in the GOK's membership in the Electronic South East Europe Initiative (eSEE) Stability Pact.

eSEE member nations include Kosovo, Albania, Bosnia & Herzegovina, Croatia, Macedonia, Greece, Moldova, Montenegro, Romania, and Serbia. eSEE nations are committed to developing an integrated information society based on a shared action agenda including:

- Introduction of new, and modification of, existing ICT legislative frameworks for ICT-based society.
- Regulation, policy and strategy related to unified electronic communications and service.
- Establishment of an institutional framework for ICT-based society.

The eSEE evaluates the status of member country progress towards achievement of the eSEE Agenda. Kosovo's progress vis-à-vis the eSEE Agenda as of December 2009 is summarized in Figure 1-a below.

Figure 1-a: Status overview of remaining eSEE Agenda commitments

eSEE Agenda commitment	Signatories of eSEE Agenda									
	Albania	Bosnia and Herzegovina	Croatia	Former Yugoslav Republic of Macedonia	Moldova	Montenegro	Serbia	UNMIK-Kosovo		
Adoption of Strategies for IS Development on the basis of the common guidelines prepared by the eSEE WG	ADOPTED (Yes/No) YES New Strategy on information society approved by COMI decision No. 39 dated 21 January 2009	YES 16 November 2004	YES January 2002	YES 16 June 2005	YES 9 March 2005	YES 17 June 2004	YES 9 October 2006	YES 24 April 2005		
Cabinet Level Bodies for the development of IS in line with ToR prepared by the eSEE WG	ESTABLISHED (Yes/No) YES National Agency for information society is established (COMI decision no 348 dated 27.4.2008).	NO in the procedure.	YES March 2007	YES - Ministry for Information Society. July 2008 - MO. CIT formed in 2002. Competences shared with Min. of Transport and communication.	YES June 2001	YES Ministry for Information Society - December 2008.	YES Ministry for Telecommunications and Information Society May 2007.	YES-NO The Cabinet Level Body for IS will be established by 15 December.		
Legal framework on e-Signature	ESTABLISHED (Yes/No) YES 25 February 2008	YES September 2006	YES January 2002, May 2008 - in implementation, fully harmonized with the EU framework.	YES 25 April 2005 - still needs legal acts.	YES 15 July 2004	YES 24 September 2003	YES By-laws updated in March 2008. CA established.	YES July 2005		
Legal framework on e-Commerce	ADOPTED (Yes/No) YES Law No 10128 date 11.3.2009	YES-NO A draft law in the Parliament.	YES October 2003, May 2008, March 2009 fully harmonized with the EU framework.	YES 02 November 2007	YES 22 July 2004	YES 24 December 2004	YES May 2009.	YES July 2005		
Law on Electronic Documents	ADOPTED (Yes/No) NO Draft law under consultations; it is prepared and discussed with different stakeholders.	NO	YES December 2005	YES Law for data in electronic form and Electronic signature.	YES 15 July 2004	YES 24 December 2007	YES July 2009	YES Covered by the Law on information services.		
Law on Cybercrime	RATIFIED (Yes/No) YES Convention was signed and ratified in 2002. Some amendments in the National Law were adopted in November 2008.	YES Convention was signed in March 2006.	YES November 2001	YES Computer crime partially regulated in the Crime code, Enacted, 2007.	YES February 2009	NO	YES Conversion ratified March 2009	YES 31 August 2005		
Law on Telecommunications	ADOPTED (Yes/No) YES New law on electronic communications was approved on 19 May 2008.	YES November 2002	YES May 2008, Law on e-comm., July term, with EU framework, in Parliament procedure.	YES June 2004, electronic communications law adopted in February 2005.	YES Law adopted - June 2003. New grant law sponsored by the Parliament in Dec., 2005.	YES 29 July 2008	YES March 2003	YES May 2003		
Law on Personal Data Protection	ADOPTED (Yes/No) YES 10 March 2006	YES 2001	YES June 2003, April 2008	YES January 2005	YES 15 February 2007	YES 17 December 2008	YES November 2008	YES July 2005		

¹ http://www.eeseinitiative.org/sadrzaj/RelatedDocuments/sadrzaj/terms/Matrix_of_Fulfillment_of_eSEE_Agenda_Plus%20December_2009_Final.pdf.

Review of Kosovo's eSEE Agenda progress reveals that Kosovo has adopted and established virtually all ICT regulatory legislation and policy based on eSEE standards. This includes legislating the legal frameworks for:

- e-Signature law;
- e-Commerce law;
- Electronic documents;
- Cybercrime control & prevention;
- Telecommunications law; and,
- Personal data protection.

The extent to which the legal framework supports the eSEE standards needs to be investigated in more detail. The Kosovo parliament is currently discussion the Law on Personal Data Protection, even though eSEE was notified that the law is in place.

Application of Regulatory Framework

ICT regulatory frameworks and laws do not guarantee a robust legal regime that protects intellectual property rights (IPR) of ICT enterprises and innovators, or secures e-commerce transactions for private citizens. Ultimately, GOK prevention and law enforcement efforts safeguard IPR and private citizens from IPR crime.

Kosovo has a good legal framework in place, but the laws are not enforced, due to a lack of capacity and funding. The key issues that need to be addressed in Kosovo are:

- Lack of a national root Certificate Authority (CA);
- Weak Intellectual Property (IP) rights enforcement; and,
- Lack of a national strategy and framework for e-business.

Regulatory Impediments to ICT Incubator Success

National Certificate Authority: Lack of a national root CA is a serious constraint to doing e-commerce and e-government transactions in Kosovo. The CA is the keystone of e-commerce protection: it licenses and regulates e-services providers and, most critically, creates, authenticates and controls encrypted public keys that enable secure e-commerce and e-Government transactions. Electronic web-based transactions are not secure in Kosovo until a root national CA is created and operational.

IP Rights protection: Computer software piracy is a very serious problem in Kosovo. Piracy accounts for an estimated 70-75% of all PC software installed in Kosovo, according to IT industry executives. However, Kosovo scored slightly better than other countries in the South East European (SEE) region. The SEE regional average piracy rate was 88% in 2009 according to the 2009 Business Software Alliance-IDC Global Software Piracy Study². However, compared to the European Union average piracy rate of 33%, software piracy represents a major constraint to IT industry growth in Kosovo and the SEE region. And clearly, IPR piracy is a threat to incubator software developers, resellers, and established local systems integrators.

IP piracy including illegal computer software, bootleg movies, and music CDs, "robs" Kosovo of millions of dollars in VAT and customs duties. A robust Government of Kosovo

² The 2009 Business Software Alliance-IDC Report available at <http://www.bsa.org/country.aspx> .

(GOK) legal regime that protects intellectual property is essential to creating a supportive environment for ICT sector growth.

National-business strategy: Kosovo lacks the framework for a national strategy for e-business. Building the framework for a national strategy would be a vital step towards enabling Kosovo to achieve key development objectives including:

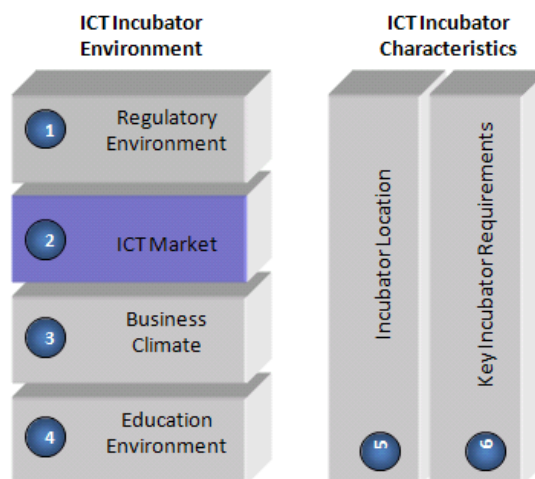
- **Poverty reduction:** Building foundations for electronic business will enhance the potential of Kosovo small and medium-sized companies (SMEs) that employ people and create jobs.
- **Economic growth.** E-business has the potential of mobilizing additional resources for economic growth and improving the efficiency of business, the driving force behind Kosovo's market economy expansion.
- **Attracting foreign investment.** IT integrates the business processes and IT systems in Kosovo's economy with those of Western Europe and the global economy. Improved business process integration will help Kosovo attract foreign direct investment (FDI) that stimulates economic growth, reduces poverty and social inequality.

Component 2: ICT Market

The strengths and dynamics of the Kosovo and regional ICT markets will determine the sustainability and characteristics of an ICT incubator.

This section assesses the capacity of the ICT market to support an ICT incubator, specifically:

- Information Technology Industry
- IT market compositions and leaders
- Telecom services market
- Kosovo government market
- Call center market
- Potential external IT services markets
- General impediments to ICT business



2.1 Information Technology Industry:

An assessment³ of the Kosovo IT market in 2008 provided the following market metrics:

- In 2008, the Kosovo IT market totaled \$98.23 million. The total includes both private and public sector spending. IT market year-on-year growth was 15.3% in U.S. dollars. Measured in Euros, the market expanded 7.8% year on year in 2008.
- IDC expects the Kosovo IT market to expand at a compound annual growth rate (CAGR) of 8.1% over the five-year forecast period to \$144.84 million in 2013.

The performance of key product and service segments of the 2008 IT market include:

- Spending on IT services increased 22.2% year on year in 2008 to \$13.42 million. The leading IT services providers in the country were Pronet, Cactus, and Komtel Project Engineering.
- Spending on license and maintenance (L&M) fees for packaged software reached \$12.22 million in 2008, up 9.2% from 2007. The top three software vendors in Kosovo in 2008 were Microsoft, Pronet, and Cisco Systems.
- PC shipments (desktops, notebooks, and x86 servers) totaled 20,325 units, up 2.1% year on year. Within this market, desktop unit shipments increased 1.0%, notebook shipments grew a modest 6.1%, and x86 server shipments increased 11.6%. The top three PC vendors in the county in 2006 were Dell, HP, and Comtrade Computers.
- Hardcopy Peripherals (HCP) shipments in Kosovo totaled 10,378 units valued at \$4.87 million in 2008. This reflects a year-on-year increase of 57.6% in volume and 133.7% in value. Shipments of multifunctional peripherals (MFPs) increased 117.2% year on year, while shipments of single-function (SF) machines rose 24.4% over the same period. The leading HCP vendors in 2008 were HP, Samsung, and Xerox.

³ IDB Kosovo Market Study

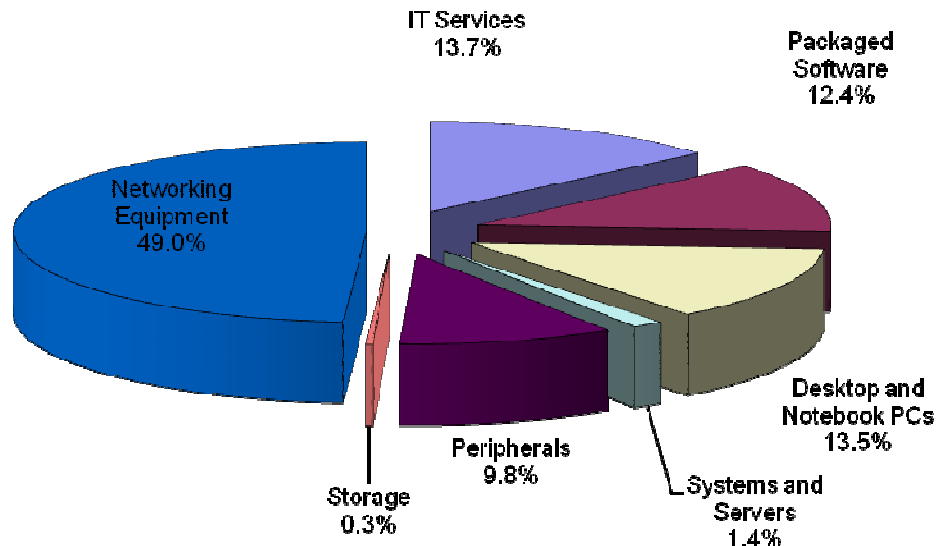
Figure 2-a below provides a summary of the 2008 Kosovo IT Market Profile, and was developed using IDC market research data. Note that IT spending per capita is only \$54 in Kosovo; this excludes consumer telecom services (landline voice, mobile voice & data, Internet, cable TV). Low per capital IT spending clearly indicates that IT services and products are not yet major priorities for Kosovo consumers. IDC reports average per capital IT spending of \$150 in the Adriatic region (Kosovo, Slovenia, Croatia, Serbia, Montenegro, Bosnia & Herzegovina, Macedonia, and Albania).

Figure 2-a: Kosovo IT Market Profile 2008 (US\$M)⁴

Kosovo IT Market Profile 2008	
Population	1.80 million
GDP growth rate	5.4%
Number of employees	0.33 million
Total IT spending	\$98.23 million
IT spending per capita	\$54
PCs sold per 1,000 inhabitants	11
IT spending as % of GDP	1.8%

Figure 2-b below illustrates the 2008 Kosovo IT Market Structure; it reveals networking equipment as the largest IT market segments (49%) in 2008. IT services with 13.7% followed as the second largest segment.

Figure 2-b: Structure of Kosovo’s \$ 98.23 million IT Market (US\$M) 2008

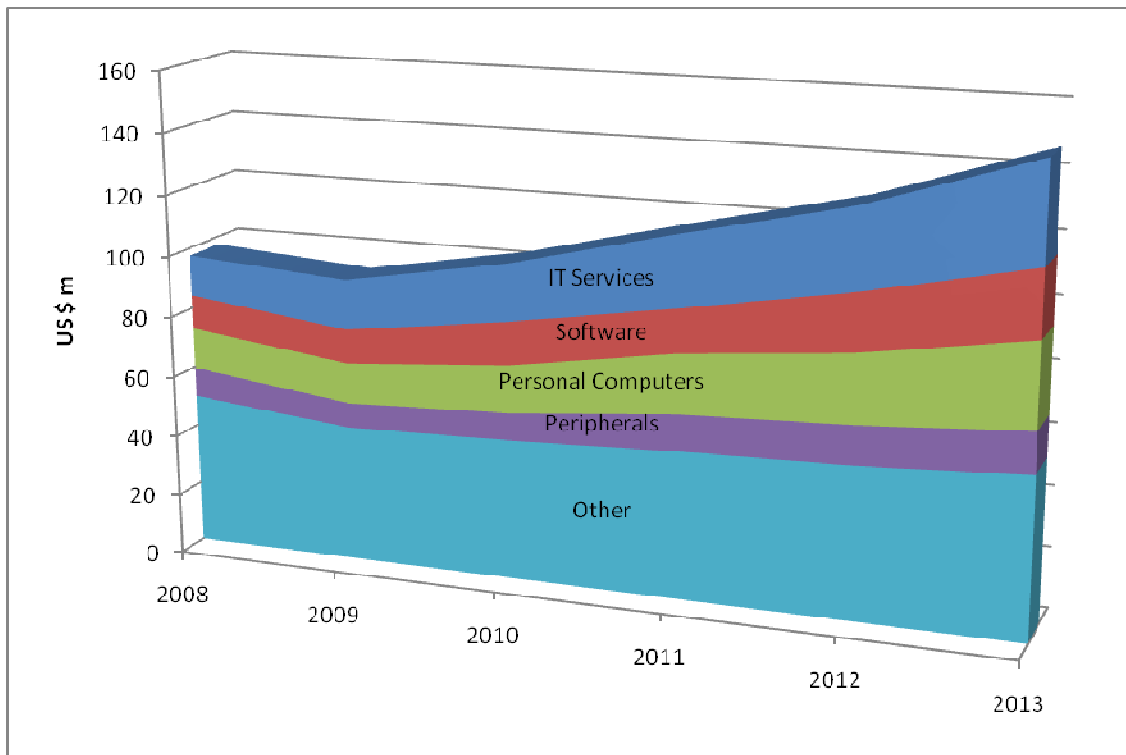


⁴ IDC 2008 market research

In 2008, the IT market in Kosovo totaled \$98.23 million, representing year-on-year growth of 15.3% in U.S. dollars. Measured in the local currency, the market grew 7.8% year on year in 2008. The Kosovo IT market is expected to expand at a compound annual growth rate (CAGR) of 8.1% over the 2008-2013 forecast periods to \$144.84 million in 2013.

Figure 2-c below illustrates the 2008-2013 Kosovo IT market forecast by revenue and technology. Networking equipment (shown as Other Hardware) is forecasted as the largest market segment growing gradually for 49% in 2008, to roughly 55%+/- in 2013. This indicates steady demand for hardware and software system integration services and solutions, IT consulting services, and internetworking solutions.

Figure 2-c: 2008 – 2013 Forecast & Analysis of Kosovo IT Market (US\$M) by Technology⁵



The IT Services and Software markets are expected to grow by approximately 19% in 2010, 14% in 2012, and 20% in 2012 as well as in 2013. This is the primary market that the ICT Incubator will address.

2.2 Kosovo IT Market Composition & Leaders

The Kosovo IT market is composed of a small number of dominant market players, and multiple small formal and informal IT market players. Market leaders compete as GOK-favored systems integrators. As systems integrators, all key players resell, license and integrate imported computer hardware and software produced by global technology leaders (Microsoft, Oracle, HP, Cisco, etc.).

⁵ IDC 2008 Market Research

Figure 2-d below presents the IT market leader data. Publicly available company data is limited, or not available (NA). Revenue data, where known, are stated in US\$ at an exchange rate of 1€ = US\$ 1.44.

Figure 2-d: Key Data: ICT Market Leaders (US\$M) ⁶

Company	Core business	Target Vertical Market	Estimated FY08 revenues	Estimated market share %
ProNet	Systems integration; hardware & software reseller; training	GOK; banking	\$13.3M	13%
Cactus	Systems integration; hardware & software reseller; training	GOK; international orgs/NGOs; corporate	\$10M	10%
Komtel	Systems integration hardware & software reseller; training	Energy; GOK	\$10M	10%
InterAdria	Systems integration hardware & software reseller; training	GOK; telecom	\$5.09M	5%
PPC-IT	Systems integration; hardware & software reseller; training	GOK	NA	NA
Botek	Systems integration; hardware & software reseller; training	GOK	NA	NA
Comtrade	Hardware & software reseller; systems integration	Municipal government; SME sector; retail consumer	\$4.4	4%
			Est. FY 2008 total: US\$98.2M	

2.3 Telecom Services Market Data

The telecom services market is not the focus of the ICT incubator feasibility study. However, telecom services are the largest component of the Kosovo total ICT services market. Telecom services providers offer landline voice, mobile voice and data, Internet, and cable TV services to residential and corporate customers.

The total value of the served telecom services market is unknown. Publicly available company data is limited or not available (NA). However, interviews with industry executives yielded anecdotal data for the top telecom players. Revenue data, where known, are stated in US\$ at exchange rate of 1€ = US\$ 1.44. Figure 2-e below presents this anecdotal data.

⁶ Industry interviews, IDC market research

Figure 2-e: Top telecom players

Company	Ownership	Service Offering	Customer market segments	Estimated 2008 revenues (€M)	Estimated 2008 revenues (US\$M)
PTK	Incumbent GOK owned telecom	Landline; Mobile, Internet	Residential; corporate; GOK (key provider)	€160M	\$230M
IPKO	Private; owned by Telekom Slovenia	Land line (VoIP); mobile; internet; digital television	Residential; corporate; GOK (small share)	€42M	\$60M
Kujtesa	Private	Internet; digital television	Residential; corporate; GOK (small share)	€ NA	\$ NA
Vala	Subsidiary of GOK owned PTK; may be privatized	Mobile voice; Internet & data	Residential; corporate; GOK (key provider)	€ NA	\$ NA

Source: Industry data and executive interviews

2.4 Kosovo Government IT Market:

GOK IT spending accounts for roughly 40% of the total IT services market value, making the GOK the largest consumer of IT products and services in the Kosovo market. Table 2-f below shows the GOK IT budget for 2010-2012. In 2010, approved GOK IT spending totals €23.0 million (US\$33.2 million), an impressive 8% of the total GOK capital budget. Planned GOK IT spending will decrease to 7% annually to €20.7 million in 2012. The GOK budget reflects only central government IT spending; it excludes local government IT spending for which firm numbers are not available. Exchange rate: 1€ = US\$ 1.44.

Figure 2-f: GOK IT Budget 2010-2012 (€ M) ⁷

GOK IT Budget	2010	2011	2012	Total 2010-2012
Total Capital Investment Budget	€305,325,089	€309,568,246	€305,949,599	€920,842,934
Total It Expenditure	€23,047,940 US\$33.2M	€20,666,107	€20,755,676	€64,469,723 US\$93M
Software (including licences)	€10,769,725	€9,047,293	€9,101,834	€28,918,852
Other IT Services (networking, hardware, training)	€12,278,215	€11,618,814	€11,653,842	€35,550,871
IT Budget as % of total capital budget	8%	7%	7%	7%

⁷ GOK budget data

- Excludes telecommunication services
- This budget shows only central government planned expenditures and doesn't include the local governance (municipalities)
- 2010 budget approved by Assembly, 2011 & 2012 projected budget and might change in the meantime.
- All amounts are shown in million of Euro.

Figure 2-g lists the top five (5) high-value GOK IT projects for 2010. They total \$13.4 million, or roughly 30% of total 2010 GOK IT budget (\$33.2m). The GOK will publicly tender these projects on a competitive basis. Leading systems integrators and IT equipment resellers shown in Table 2-d are positioned to bid and win these contracts.

Figure 2-g: High Value 2010 GOK IT Projects (US\$M)⁸

Project	GOK Ministry	Value (US\$M)
E-governance project	Ministry of Public Administration	\$3.5M
Computers and IT equipment	Ministry of Security Force (Defense)	\$3.1M
Information Technology for pre-university education	Ministry of Education, Science and Technology	\$2.8M
Car registration software update	Ministry of Internal Affairs	\$2.0M
Passport and ID card software update	Ministry of Internal Affairs	\$2.0M
		Total: \$13.4M

2-5 Call Center Market

KPEP conducted a study of the call center industry in Kosovo, to identify:

- How many call centers operate in Kosovo;
- What type of services these centers perform (inbound, outbound, sales calls, customer service calls, etc.);
- The approximate number of employees and average annual sales;
- How this market has developed over the past few years and what the growth forecasts are in terms of size and type of service offerings;
- Whether and if so, what technical, legal or regulatory obstacles and opportunities there are in Kosovo and in markets that these call centers serve;
- The average qualifications required by management for a call center employee, the average employee retention time, average wage, and what types of trainings the call center management considers important and would like help with;
- Gauge call center management interest in growing their inbound (i.e. customer service as opposed to cold calling/sales calls) business, and what help they would need to grow this inbound business;

⁸ GOK budget data

Significant research went into identifying the call centers, including contacting companies in businesses relevant to call centers: advertising agencies (for marketing and sales calls), public and private enterprises (such as PTK, KEK, IPKO, etc. for customer service calls), specialized call centers (related to specialized services acquired by private companies, domestic and/or abroad).

The key findings of the survey are:

- There are at least 21 call centers operating in Kosovo, employing at least 1,000 people.
- Only four call centers focus solely on the Kosovo market, and the rest also serve foreign clients.
- Half of the call centers work exclusively with clients outside of Kosovo, in Switzerland (eight cases), Germany (six cases) and Austria (three cases), as well as Albania, Romanian (two each), Macedonia, UK, Italy, Sweden, Croatia, and Slovenia (one each)
- Salaries ranges from €326 for call agents to €600 for managers
- The majority of the respondents (17 companies out of 21) agree that participating in call center fairs would help them in the development of their business.
- A number of the call centers operate “underground”.

The overall finding of this survey was that the call center market is active with a good potential for growth.

2-6 Potential External IT Services Markets:

The Kosovo IT services market appears too small and embryonic to support many ICT startup enterprises on an ongoing basis. Incubator enterprises will require market reach & presence in the MAK region (Macedonia, Albania and Kosovo). Kosovo also has a young population with good language skills, especially from regional strong economies such as Austria, Germany, and others that can form a secondary market. This secondary market should also be entered in the long term to support incubator viability.

However, the near-term external IT services market potential is impeded by the same constraints impeding domestic ICT business growth (See Section 2-2). The external market potential is further impeded by the composition of Kosovo’s IT services industry. The industry, excluding telecom service providers, is composed mostly of systems integrators. Systems integrators are importers, not exporters, of technology products and services. Kosovo systems integrators market, integrate, license and support technology products and solutions produced by their global technology partners including Microsoft, Cisco, and Oracle.

The reality is that Kosovo’s ICT industry currently has little or no export potential, and will remain an embryonic industry unless the following occurs:

- ICT start-up firms are encouraged and nurtured to generate exportable capabilities;
- GOK-IT services project spending increases dramatically ($\geq 7\%$ annually);
- An IT Enterprise Development Fund is created to ease entrepreneur access to investment capital;
- Foreign direct investment (FDI) increases dramatically;
- The current shallow pool of trained Kosovo IT professionals deepens rapidly with the increasing number of ICT graduates produced by the educational institutions; and,
- IP rights and piracy violations are reduced.

These constraints cannot be overcome quickly. Increasing FDI, and deepening the pool of IT human resources could take years to resolve. Kosovo has not excelled at FDI and venture capital (VC) attraction. Attracting FDI and VC capital requires startup companies with market-ready products and services, supported by world-class “Brand Kosovo” marketing in global capital markets.

2-7 ICT Market Impediments

Key impediments to ICT business growth include:

Small served market size: The total served Kosovo IT market of \$98 million (2008) is a major constraint in itself. Although growing at 8.1% CAGR, the market will only total a very modest \$144.84 million in 2013. GOK IT spending will account for most projected growth: 8% in 2010, and 7% from 2011 to 2012. Kosovo is an embryonic IT services market by any measure, and will remain so near-term. Kosovo incubator enterprises will require regional market reach & presence in the MAK region (Macedonia, Albania and Kosovo).

Consumer IT spending: Kosovo people are not big consumers of IT services and products. 2008 per capital IT spending of \$54 (excludes telecom services) clearly indicates weak demand. IT spending per capita averaged \$150 in neighboring countries, according to IDC market research data. PC sales per 1,000 inhabitants of 11 units also confirm weak consumer demand.

IT trained manpower & entrepreneurs: A robust, growing IT services markets requires a steady flow of trained IT manpower and innovative entrepreneurs. At present no university in Kosovo offers undergraduate or graduate degrees in computer sciences. This means existing IT companies are talent starved, and entrepreneurial company formation limited. Establishing and funding an IT Enterprise Development Fund and ICT incubator would be proactive steps toward mitigating IT manpower and entrepreneurial impediments.

Access to capital and credit: Impediments to capital and credit access are serious constraints for both ICT entrepreneurs and existing businesses. Cost of capital and highly collateralized bank loans preclude entrepreneurs from getting investment & working capital loans. 85% of Kosovo businesses self-finance rather than obtain bank loans. Establishing and funding an IT Enterprise Development Fund and supporting the Crimson Finance Fund would help mitigate this impediment.

Intellectual property (IP) protection: Piracy accounts for an estimated 70-75% of all PC software installed in Kosovo, according to IT industry executives. IP piracy including illegal computer software, bootleg movies, and music CDs, “robs” Kosovo of millions of dollars in VAT and customs duties. Robust GOK intellectual property (IP) protection is essential to IT industry growth and competitiveness, and would mitigate this impediment.

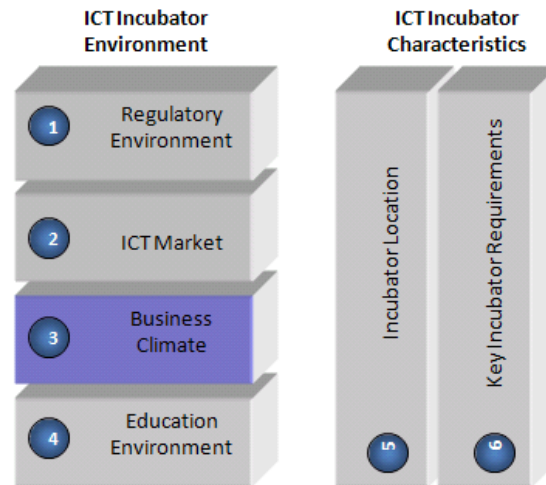
Summary

While there are a number of impediments in this sector, there are no major ICT market obstacles to the creation of new IT initiatives and businesses.

Component 3 – Business Climate

The business climate provides the general supportive environment for establishing and growing an ICT business. This section presents an overview of this business climate in Kosovo, and includes:

- Business climate elements
- Electricity
- Corruption
- Crime, theft, and disorder
- Access to capital and impediments to credit
- Government Incentives



3-1 Definition of key business climate elements:

- As of 2007, separate data on the Kosovo business climate was not available. Kosovo was not covered in the World Bank (WB) *Doing Business In Report* or its *Global Competitiveness Report*. Nor was Kosovo included in the Transparency International's Corruption Perceptions Index (CPI).
- In 2009 the Enterprise Analysis Unit (GIAEA) of the World Bank Group conducted an Enterprise Survey of Kosovo, and produced the *Kosovo 2009 Country Survey*. The *Kosovo Country Profile*⁹ provides an overview of key business environment indicators, benchmarked against countries in Eastern Europe & Central Asia (EECA) region, and low-income countries worldwide.
- The WB surveyed 270 firms from all sectors of the Kosovo economy for the *Kosovo 2009 Country Profile*. Figure 3-a below is a snapshot of main constraints to investment and doing business as perceived by Kosovo firms. The survey reveals that Kosovo scored higher than EECA countries except for electricity, corruption, crime, theft, and disorder indicators.

⁹ <http://econ.worldbank.org>

Figure 3-a: Key business climate constraints

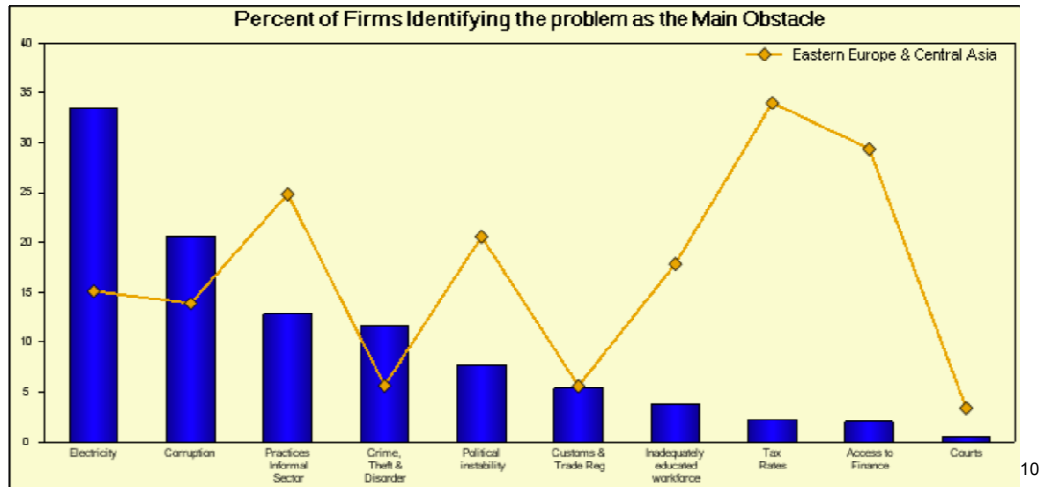
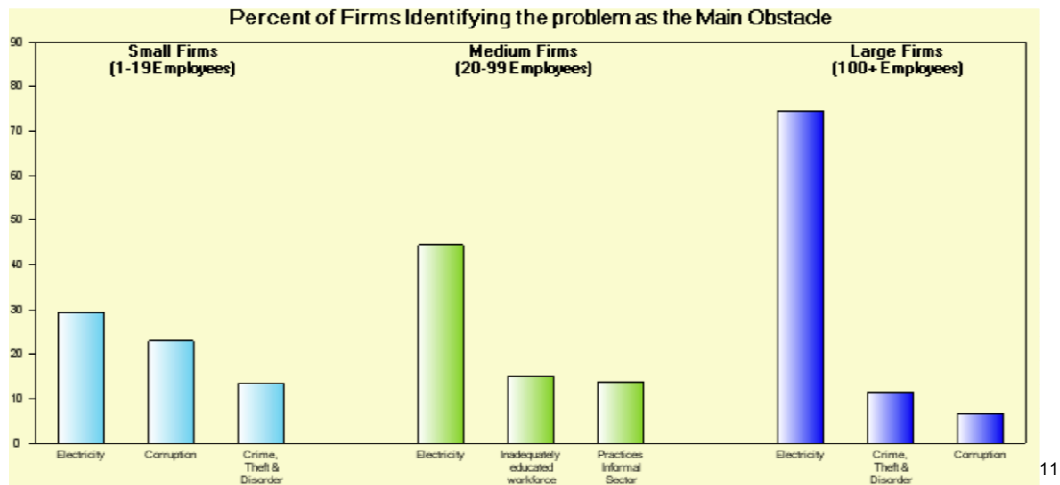


Figure 3-b below shows the top (3) three constraints broken down by large, medium, and small firms in Kosovo. Electricity, corruption, crime, theft and disorder are common constraints to all business regardless of size.

Figure 3-b: Percent of key constraints identified by Kosovo firms



Key Constraint: Electricity

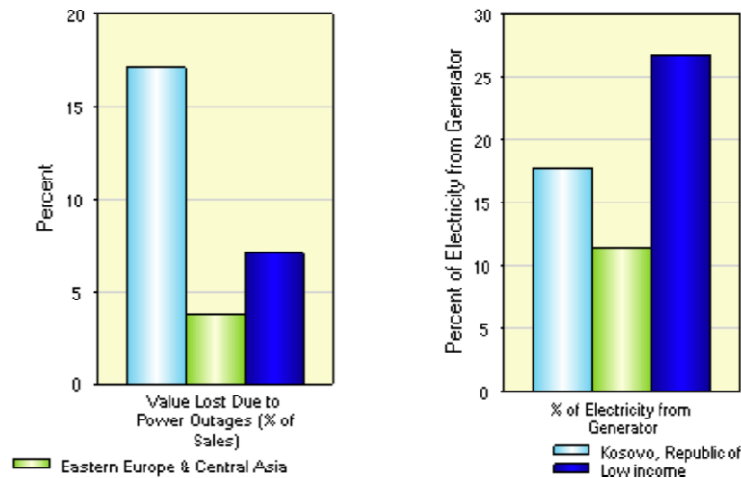
Dependable electricity is essential for ICT business, without it ICT networks, technology platforms and tools, and computers stop functioning. The electrical infrastructure connects ICT firms to their customers and suppliers, and enables the development of technology-based products and services. Unreliable electrical infrastructure is a competitive barrier, and increases the cost of doing business.

¹⁰ World Bank Kosovo 2009 Country Survey

¹¹ World Bank Kosovo 2009 Country Survey

Figure 3-c below presents the quality of electrical infrastructure indicator: the value Kosovo firms lose, measured as a percent of sales revenue, due power outages. The Figure reveals Kosovo firms lost roughly 17% of sales value due to electrical outages. It also shows roughly 17% of Kosovo firms use backup generators to ensure dependable power supply. This is a pragmatic response to pervasive power outages in Kosovo, and requires additional capital as well as operating expenses from ICT firms to operate.

Figure 3-c: Electrical infrastructure constraints

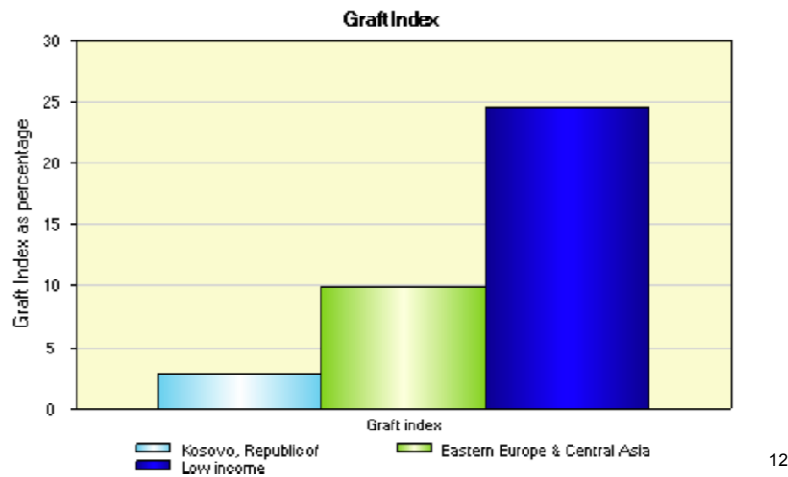


Key Constraint: Corruption

Corruption by public officials presents a major administrative and financial burden on firms. Corruption creates an unfavorable business environment by undermining the operational efficiency of ICT firms raising the costs and risks associated with doing business.

Figure 3-d measures a composite index of corruption, the Graft index reflects the probability that a firm will be asked for a bribe in order to complete a specified set of business transactions. The Figure shows that Kosovo firms are less likely to be asked for a bribe than EECA or low-income countries worldwide.

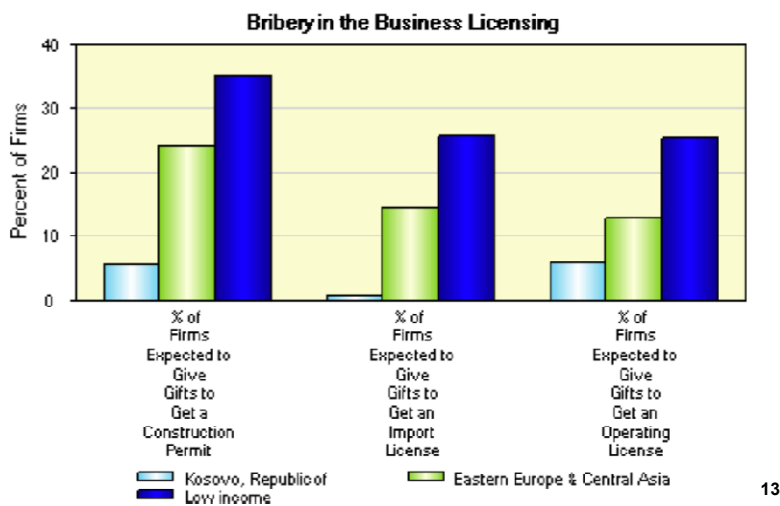
Figure 3-d: World Bank Graft Index



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Figure 3-e below focuses on bribes to obtain permits and licenses, and shows the share of firms that are expected to make informal payments to secure construction, import and operating licenses. Again Kosovo **scores better** than countries in the EECA region or low-income countries worldwide.

Figure 3-e: Bribery in business licensing



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Comment: USAID efforts to reduce business licensing corruption in Kosovo have been ongoing for many years. WB findings appear to confirm that USAID anticorruption programs are succeeding. KPEP has an important business climate improvement component making strong contributions to USAID efforts.

Key Constraint: Crime, theft and disorder

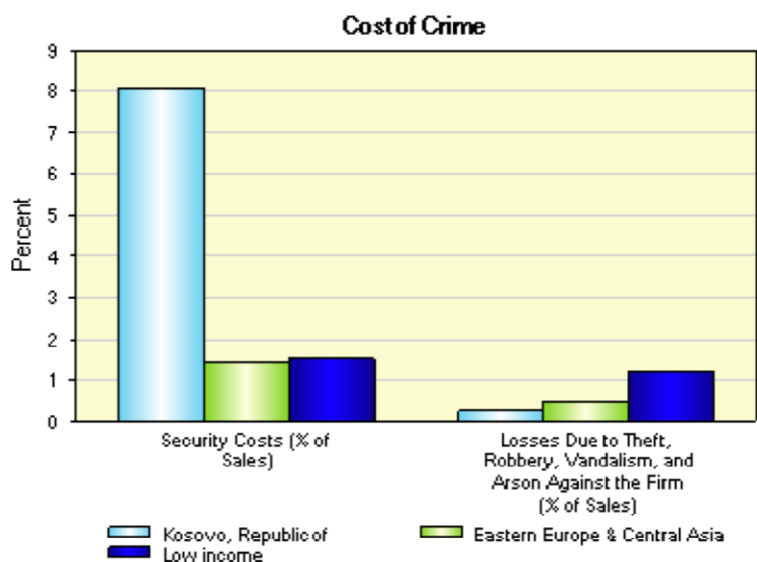
¹² World Bank 2009 Kosovo Country Survey

¹³ World Bank 2009 Kosovo Country Survey

Crime, theft and disorder impose costs on Kosovo firms when they are forced to divert resources from productive uses to cover security costs. Both foreign and domestic investors perceive crime as an indication of social instability, and crime drives up the cost of doing business.

Figure 3-f below presents the direct costs of security incurred by firms as well as their direct losses due to crime. Security costs and losses represent an opportunity cost since they could have been invested in productive activities. The graph shows Kosovo firms spend roughly 8% of sales value on security costs, almost 7% more than EECA countries or low-income countries worldwide, and that Kosovo companies suffer fewer losses due to robbery, vandalism and arson.

Figure 3-f: Cost of crime in Kosovo



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Comment: Kosovo companies are confronting crime and theft directly by spending more money on security than EECA countries. This diverts financial assets from productive use, but it is a legitimate cost of doing business. USAID, international organizations and donors are developing the Kosovo police force, and have stabilized security conditions within Kosovo. USAID and other International donors should continue funding security activities.

Key Constraint: Access to capital and impediments to credit

Efficient financial markets reduce business reliance on self-financing and on money from informal sources such as family and friends, by connecting firms to lenders and investors.

Access to capital and credit are constraints to ICT startups and established firms. The Kosovo investment and working capital situation is summarized below:

- Cost of capital (COC) precludes entrepreneurs from getting investment & working capital bank loans

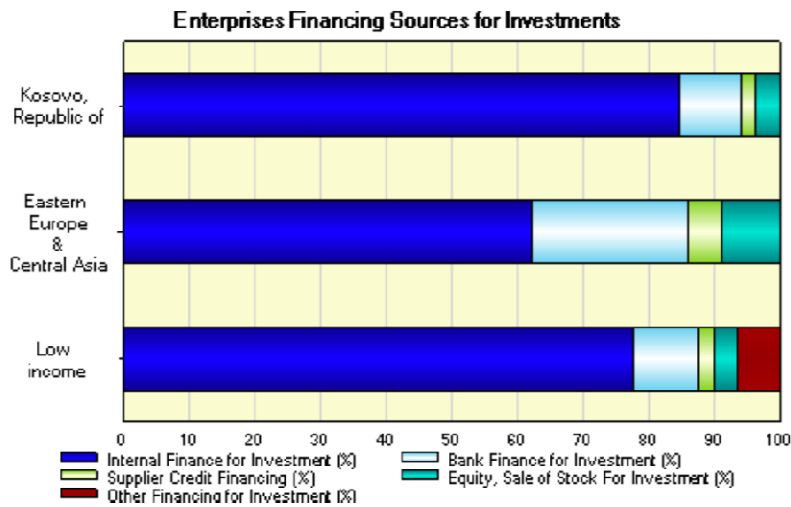
¹⁴ World Bank 2009 Kosovo Country Survey

- Lowest COC rate: 12% p/a Average COC rate: 14-20%
- Loans are highly collateralized, usually based on real estate
- Getting capital involves red tape, time, and bribes
- Most Kosovo firms self-finance rather than obtain bank loans

Figure 3-g compares the relative use of various sources for investment funds. Excessive reliance on internal funds is a sign of inefficient financial intermediation. Figure 3-7 shows the following:

- 85% of Kosovo firms self-finance
- About 10% of Kosovo firms obtain investment capital from banks
- Supplier credit financing (Purchase Order Finance) is virtually non-existent
- Equity financing (stock sales) is minimal

Figure 3-g: Enterprise investment finance sources

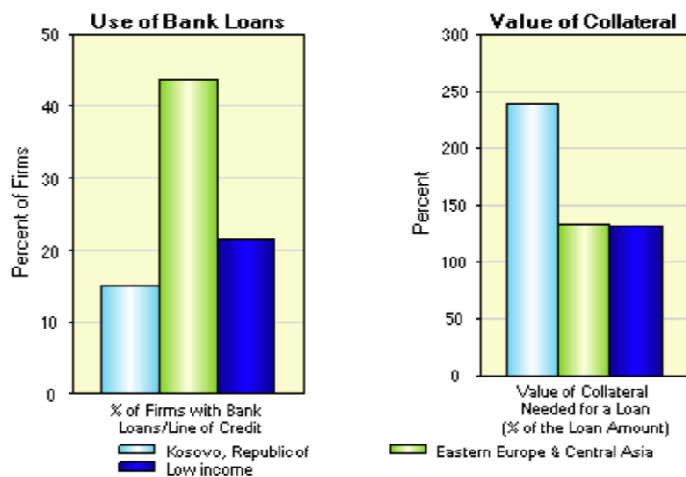


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Figure 3-h shows the use of bank loans and it quantifies the burden imposed by loan requirements, measured by collateral levels relative to the value of the loans. Excessive loan collateral requirements constrain investment opportunities. The figure shows 15% of Kosovo firms obtain bank loans; these loans are collateralized 200%+ loan value.

¹⁵ World Bank 2009 Kosovo Country Survey

Figure 3-h: Use of bank loans and value of collateral



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Government Incentives

Government incentives are usually a relatively easy way to stimulate the development of a specific sector. The Kosovo government does not provide any structural or financial incentives for the ICT industry, which puts the Kosovo industry in a disadvantage against other competitors in the region, as highlighted below¹⁷:

- **National ICT Academic Research Network.** The Kosovo government does not support a national research network. Croatia, Macedonia, Moldova, Montenegro, Romania, and Serbia all have state funded research networks.
- **Address gender digital divide.** Kosovo does not have a program to promote female involvement in ICT. Albania, Bosnia, Croatia, and Macedonia all have programs in place to promote and measure female participation.
- **Active measures to overcome e-Business obstacles.** Kosovo does not have a program in place to overcome e-government obstacles, such as customs barriers and online payments. All other eSEE countries (Albania, Bosnia, Croatia, Macedonia, Moldova, Montenegro, Romania, and Serbia) have government programs to introduce, amongst others, single window programs, root CA, electronic payments, etc.
- **Active measures to remove obstacles to foreign direct and domestic investments.** All eSEE countries, except Montenegro and Kosovo, have government programs in place to removing obstacles to investment, such as taxation and regulatory measures.
- **Favorable and growth-orientated tax schemes for ICT sector.** All eSEE countries, except Kosovo and Croatia, have tax benefits specifically to stimulate ICT sector growth such as reduction in VAT on ICT equipment, income tax exemptions, etc.
- **Support for ICT incubators or techno parks.** All eSEE countries, except Kosovo, have government funded support to foster favorable environments for ICT

¹⁶ World Bank 2009 Kosovo Country Survey

¹⁷

http://www.eseeinitiative.org/sadrzaj/RelatedDocuments/sadrzaj/terms/Matrix_of_Fulfillment_of_eSEE_Agenda_Plus%20December_2009_Final.pdf

professionals and businesses by stimulating business incubators, techno-parks and business start up centers.

Non ICT-Incubator Initiatives in Kosovo

The success of the Business Support Center¹⁸ in Kosovo in establishing and growing new businesses in an incubator-type environment is confirmation that an incubator approach can work in Kosovo. It is further confirmation that the business environment does not constrain the establishment of new businesses.

Summary

While issues persist with regard to the above mentioned business environment, overall we consider that these are not obstacles that impede the creation and growth of small and medium sized businesses that might be produced by ICT incubator.

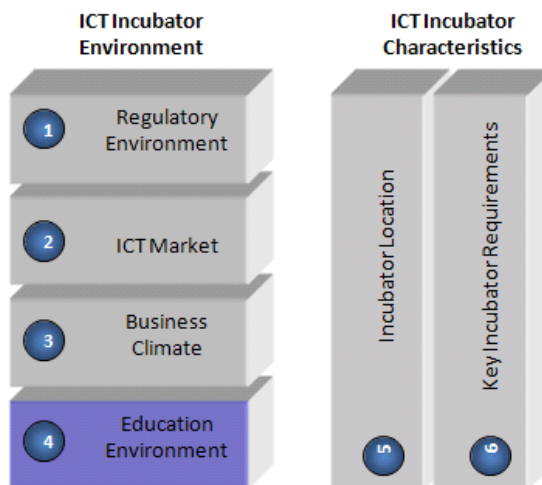
¹⁸ www.bsckosovo.org

Component 4 – Education Environment

The supply of well educated ICT professionals is one of the primary requirements for an ICT incubator. Kosovo has a young population – recently highlighted in the international PR campaign ‘Young Europeans’ - with diverse language capabilities that can be a discriminator for a competitive ICT sector. This section assesses Kosovo’s secondary education environment, and its ability to produce ICT professionals.

The ICT Education Environment consists of

1. A public university,
2. Private universities, as well as
3. Vendor sponsored training institutions.



An overview of the training institutions is presented in Figure 4-a.

Figure 4-a: Major ICT Education Institutions

Institution	ICT students	ICT graduates per year	Notable Partnerships
University of Prishtina	1 300	300	University of Pittsburgh
AAB University	100	25	
American University of Kosovo	0	0	Rochester Institute of Technology
University of Business and Technology			
Cisco Training Program	1 300	1 300	

4.1 Public University

The University of Prishtina is the biggest Kosovo public university has approximately 29,000¹⁹ students (48% female), with 1,300 (24% female) in the Faculty of Electrical and Computer Engineering, which is the primary ICT training institution.

The University produces about 300 ICT graduates per year, and most of them are employed upon graduation, a fact which can serve as an indication of the quality of the education. All pre-graduate ICT students have to attend courses in English and Communication. There are currently 75 ICT students in the Master Program, all of whom are employed.

The Faculty of Electrical and Computer Engineering was the first University of Prishtina faculty to introduce Entrepreneurship into their program.

¹⁹ Interview with Dean of Faculty of Electrical and Computer Engineering
<http://web.uni-pr.edu/repository/docs/formulariperjokosovarsipasnacionalitetit.pdf>

The University of Prishtina is very interested in participating in an ICT incubator, and will also provide access to students to promote ICT incubator programs.

4.2 Private Universities

A number of private universities operate in Kosovo, mainly in Pristina, and some of them provide ICT training

AAB University of Kosovo

The AAB University offers an ICT course through the Faculty of Economy. The first class will graduate this year, with about 20 students. The university also works closely with the Riinvest Institute for Development Research, an NGO that focuses on promoting modern economic development in Kosovo through entrepreneurship.

All pre-graduate ICT students have to attend courses in English and Communication. There are no post graduate ICT programs available at AAB.

AAB is interested in participating in the ICT Incubator.

American University of Kosovo (AUK)

The American University of Kosovo (AUK) does not currently have an ICT program, but has told us that it will launch a program in the next academic year.

AUK was one of the stakeholders that approached KPEP with the idea of analyzing the feasibility of setting up an ICT incubator in Kosovo.

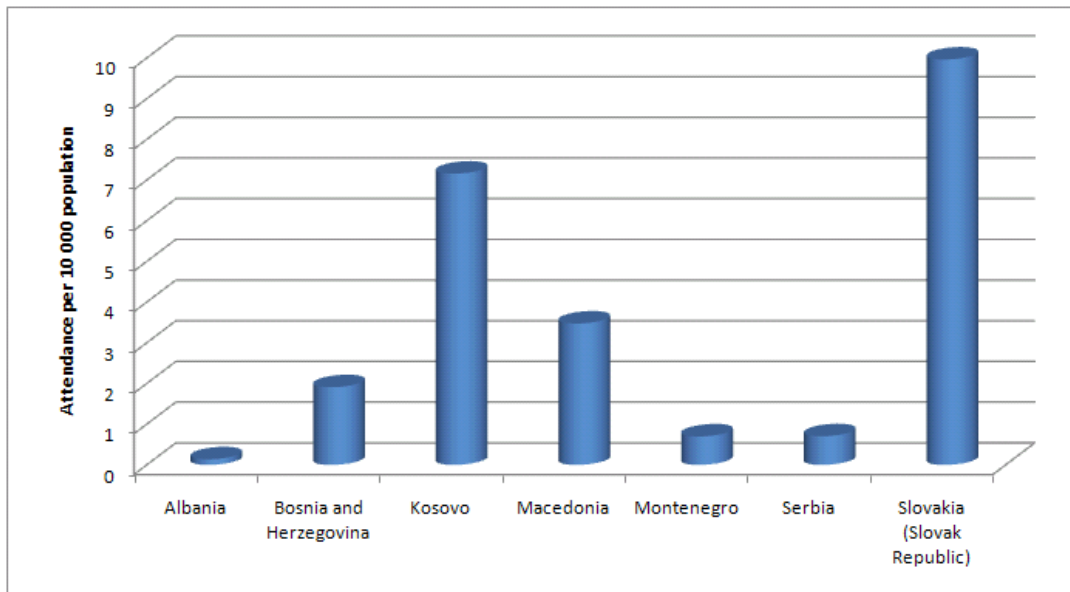
University for Business and Technology

The University for Business and Technology (UBT) offers a number of business related programs, including a Computer Science and Engineering program. This program offers computer science, design and multimedia, networking and telecommunications, and mechatronics and robotics options.

4.3 Vendor Sponsored Training Institutions

Major vendors offer training in their products to develop a base of qualified support staff. These training programs are product focused, but still develop ICT related capabilities. Cisco is offering a number of low cost training programs, which are well attended in Kosovo, as illustrated in Figure 4.b.

Figure 4-b: Cisco Training participants in Kosovo for 2009



A more detailed breakdown of the students attending the Cisco training is presented in Figure 4-c. An interesting finding is the low number of women attending the Cisco training (7%), compared to other countries in the region (Albania 32%).

Figure 4-c: Cisco training attendance in region

Country	Students		Cumulative		Cisco Certification		Instructors		Academies
	Total 2009	% Female	Total TD	% Female	Total	% Female	Total	% Female	Total
Albania	50	32%	79	28%	32	41%	2	0%	1
Bosnia and Herzegovina	881	16%	2,763	17%	789	17%	33	6%	9
Kosovo	1,292	7%	4,228	11%	1,083	8%	37	3%	13
Macedonia	718	22%	1,480	22%	321	19%	19	11%	4
Montenegro	47	15%	131	11%	35	11%	2	0%	1
Serbia	520	21%	1,292	19%	801	19%	28	14%	9
Slovakia (Slovak Republic)	5,443	5%	17,308	6%	2,180	4%	163	23%	60

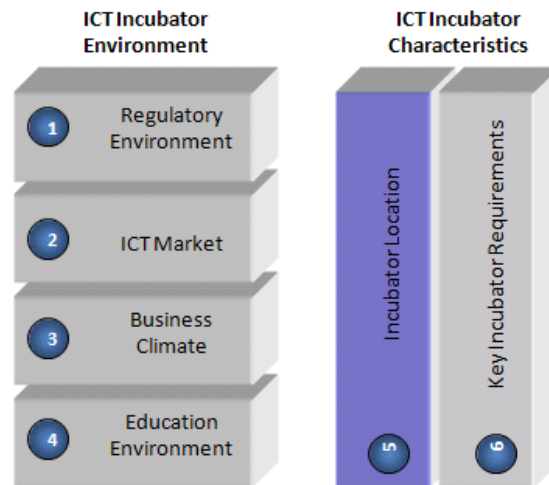
Summary

The education environment produces a sufficient number of ICT trained individuals to sustain an ICT incubator.

Component 5 – Incubator Location

The regional location, and physical facilities of an ICT incubator will contribute to the success of an ICT incubator.

Potential sites for locating the ICT incubator were identified and inspected with support and collaboration of ICT industry executives, the President of American University Kosovo, and Kosovo ICT Association (STIKK). A site selection tool was developed to evaluate and select potential incubator sites.



5-1: Key Findings:

- There is no lack of available office space to rent in Pristina; the recent construction boom combined with recession has produced an oversupply of office space.
- Office space is the least important ICT incubator requirement. Finding the right incubator Site Partner is more critical to success. The right Site Partner would combine excellent incubator office space with strategic mission, goals and objectives focused on identifying, nurturing, funding and spinning-off market-ready ICT startups.
- The right incubator Site Partner will also provide a “protective umbrella” to shelter and shield incubators startups for GOK interference (red tape, taxes, and bribes). Note: Most incubator startups & entrepreneurs will not be registered, licensed companies. The incubator will assist startups & entrepreneurs with business registration & licensing when, and if, they “graduate” the incubator program.
- Two (2) potential incubator partner sites were recommended and inspected:
 - An unoccupied building on the American University of Kosovo (AUK) campus; and,
 - STIKK offices located in Crimson Capital Kosovo HQ building.

5-2 Site inspection:

Key findings: AUK campus building

- AUK building inspected 19 January 2010
- AUK building is under construction, no work was being done to it
- Only external skin is partially complete (some windows & doors not installed)
- No building systems: power, water, heating, telecom, or elevators installed
- Internally the building is “naked” – no internal skin, floors, or ceiling
- The space is huge – and too big for an incubator
- Building not AUK owned;
- Unclear if AUK will maintain and operate the building
- Owner = unnamed private individual
- Owner will “construct and equip office as desired”
- Not clear when & if the owner can afford to complete construction

Assessment: Building not occupant ready - won't be for many months.

Key Findings: Crimson Capital (CC) - STIKK Facilities

- CC - STIKK facilities were visited and inspected January 14, 2010
- CC HQ leases 5 floors in central Kosovo:
 - 1st floor: reception & conference room
 - 2nd floor: CC Fund offices
 - 3rd floor: STIKK offices
 - 4th floor: unoccupied
 - 5th floor: M. Gold apartment
- Crimson Capital stated floors 3-5 are available and easily reconfigured for ICT incubator
- All 5 floors equipped as follows:
 - 100 square meters/floor
 - Multi-use office & common facility space
 - Fully wired ICT infrastructure:
 - Phones: 2 phone points/office
 - 90 channels TV (fiber)
 - Bandwidth
 - 3-4 Mbps dedicated Internet (not fiber) leased line = Kujtesa
 - Kujtesa located next door to CC/STIKK
 - Kujtesa charges E50/month, per M. Gold!!!
 - Network
 - (2) Ethernet ports/office
 - Wireless routers: floors 1,3,5
 - Electricity: Multiple plug points/office
 - Lighting
 - 2 good overhead lights/office
 - Lots of windows = good natural light
 - Balcony access all floors
 - Toilets & kitchen
 - (1) toilet/ floor, except 4th has (2)
 - Fully equipped kitchen all floors
 - Furniture
 - None; cheap, modular workspaces needed

Assessment: CC-STIKK facilities excellent. Only (1) floor (100 square meters) and furniture required for ICT incubator startup & near-term expansion. Downside: limited free parking space, but a paid parking facility is available across the offices. Bottom-line: CC-STIKK space occupant-ready immediately.

5-3 Incubator Site Partner Selection Tool

A site selection tool was developed to evaluate and rank potential AUK and STIKK-CC incubator sites. Figure 5-a below summarizes Partner site selection criteria and results; STIKK-CC site is favored as location for potential ICT incubator.

Figure 5-a: Incubator site selection tool.

Selection Criteria	AUK site	STIKK-CC site
Can Site Partner provide “umbrella protection?”	Yes	Yes
Site Partner strategic mission & goals include:		
• Nurture and develop ICT entrepreneurs & startups	No	Yes
• Develop ICT markets	No	Yes
• Mentor & coach entrepreneurs	No	Yes
• Business Development and networking	No	Yes
• Train & advise entrepreneurs	No	Yes
• Access to investment capital	No	Yes
• Attract FDI to ICT sector	No	Yes
Does existing site ICT infrastructure include:		
• Phones (multiple phone points)	No	Yes
• Bandwidth (3-4 Mps dedicated lease line)	No	Yes
• Network platform & connectivity (Ethernet & Wi-Fi)	No	Yes
• Electricity & back-up generator	No	Yes
• Adequate lighting	No	Yes
• Equipped toilets & kitchens	No	Yes; all floors
• Furnished offices	No	No
• Flexible expansion space	Yes	Yes
Is site occupant ready now?	No	Yes
Is site centrally located?	No	Yes
Is parking space available?	Yes	No
Does Site Partner own or rent site?	?	Rent

Source data: site inspection & interviews

Summary

A good physical location with high quality facilities has been identified for an ICT incubator.

Component 6 – Key Incubator Requirements

The successful establishment and operations of an ICT incubator is dependent on a number of key requirements.

This section presents these requirements.

6-1. Key Incubator Organizational Requirements

The Kosovo ICT business incubator, and its client entrepreneurs and startup companies, will require each of the elements presented in Figure 6-a.

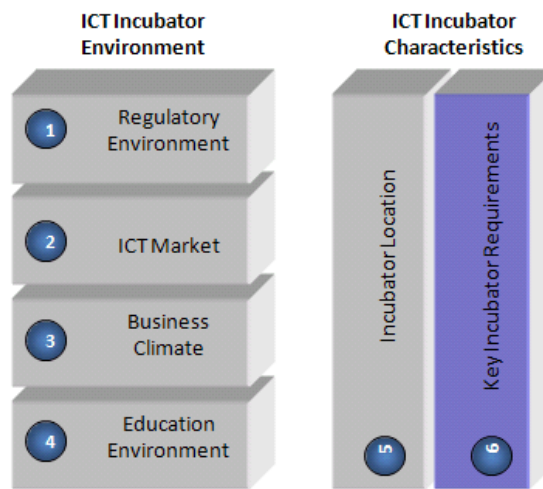
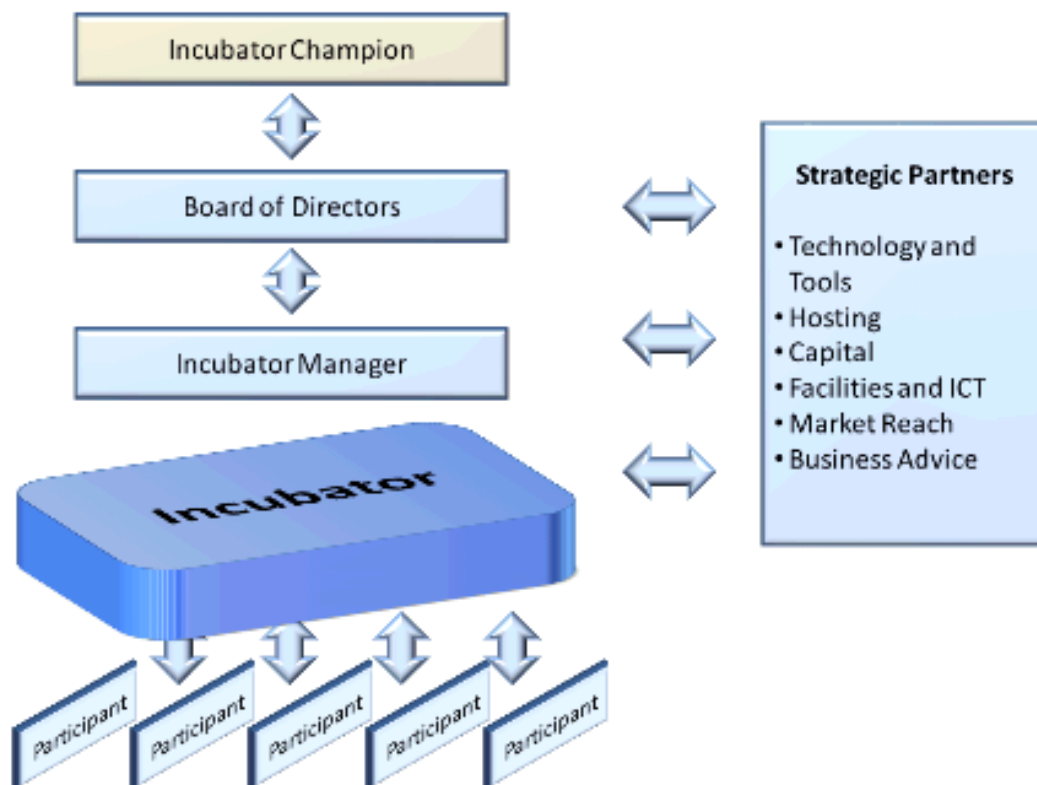


Figure 6-a: Key elements required an incubator to be successful



1. **Incubator Champion (IC):** KPEP/USAID, STIKK or other non-profit NGO, or local university that champions incubator development, and provides a protective “umbrella” for the incubator and startup companies. Specifically, incubator startups need protection from GOK control, interference and taxation until they “graduate” for the incubator program.
2. **Strategic Partners (SP):** Active stakeholders of the ICT ecosystem engaged with developing and nurturing ICT startups. Strategic partners include individuals,

businesses, NGOs and GOK agencies focused on supporting ICT incubator enterprises. Partners provide incubator enterprises with office space & facilities, technology platforms & tools, mentoring, ICT infrastructure, business advice, training, and access to capital. Potential strategic partners identified so far, include:

- a. Office Space: Crimson Capital and STIKK
 - b. Technology platforms and tools: Microsoft and Cisco
 - c. ICT Infrastructure: Crimson Capital
 - d. Business Advice: Universities and other ICT institutes
 - e. Training: Universities, Microsoft, Cisco, et al
 - f. Capital: Crimson Capital and IPKO Foundation
3. **Board of Directors (BOD):** The IC and SPs will elect a chairman and BOD to oversee incubator management and operation. A dynamic, aggressive, hands-on manager with both IT and business management training will manage daily incubator operations.
 4. **Hosting Partner:** Telecom SP offering web hosting for software- and web-based products and services developed by incubator enterprises. Likely candidates include Kujtesa, IPKO, PTK or VALA.
 5. **Technology Partners (TS):** TPs provide world-class tools and platform technologies, technical support, and training used by incubator enterprises engaged in software design, development, testing, demonstration, and hosted application production and deployment. Ideally, TPs platform technology and tools are provided under “no charge” license to incubator enterprises. Likely candidates include Microsoft (MS) & Cisco. Note: MS & Cisco regional offices are located in Macedonia.
 6. **Capital:** Capital is the life-blood of a business. Incubator enterprises require capital throughout their growth cycle. Incubator SPs that have investment capital and provide access to capital are essential to ICT incubator success. Potential capital SPs include: the USAID Kosovo Private Enterprise Program, Crimson Capital, IPKO Foundation, American University Kosovo, Government of Norway, and ICT Norway.
 7. **Facilities & ICT Infrastructure:** Includes office space, furnishings, water, electrical power, Internet access, dedicated bandwidth, and network equipment (servers, routers). Ideally, the incubator site should be small, scalable, centrally located, offer parking, rent-free or inexpensive to rent. A Site Partner, STIKK located in the Capital Crimson HQ, potentially offers all these requirements in its occupant-ready premises.
 8. **Regional market reach & presence:** The Kosovo IT services market is embryonic and may not support many startup ICT enterprises. Incubator enterprises will require regional market reach & presence in the MAK region (Macedonia, Albania and Kosovo). Ideally, Kosovo incubator enterprises would collaborate with, be virtually linked to, and have market reach and presence in the MAK region.
 9. **Business consulting & mentoring:** Incubator enterprises require business consulting, training and mentoring services provided by committed incubator SPs including business executives, university professors, successful entrepreneurs, and incubator “graduates.” SP consulting and mentoring services would emphasize strategic business, marketing & financial planning, technical sales & marketing, and aligning people, enterprise systems and technology for profitable growth.

NEXT STEPS

This feasibility study proved that the establishment of an ICT incubator in Kosovo is feasible, based on the ICT market dynamics, interest from potential partners, and availability of funding and facilities.

These study findings need to be formalized by defining and documenting the strategic partners' roles and responsibilities, as well as the incubator's organizational structure, operational model, capital investment and operating budget. A two phased approach is proposed in the figure below, to ensure the validation and design of the incubator.

Proposed phases and tasks for the validation and design of the ICT incubator

	Task	Notes	Deliverables
Phase I - Validation	Develop Business Plan Challenge to validate entrepreneurial pool	US-based STTA: Define contest rules, requirements, selection criteria, awards, and marketing campaign strategy and plan.	Business Plan Competition outline, Marketing campaign strategy and plan
	Launch Biz Plan Challenge in Kosovo	KPEP: Promote and market Business Plan Challenge to attract ICT entrepreneurs in Kosovo. Note: task performed before STTA team arrives Kosovo.	ICT business plans submitted in response to Business Plan Challenge
	Evaluate and select Business Plan Challenge winner(s).	Review, evaluate, select Business Plan winner; assist with public award and promotion events. Note: Business Plan Challenge= "fishing trip." Shallow entrepreneurial pool = low probability of incubator success.	Business plan evaluation document, including assessment of quality of business plans, and fit for incubator.
	Negotiate strategic partner goals, roles and tablestakes.	Validate, negotiate and document goals, roles, tablestakes and expected results of strategic partners' participation in ICT incubator.	Strategic Partner Roles and Responsibility Document
	Explore regional linkages in Macedonia and Albania.	Travel to Macedonia and Albania to identify regional linkages, partners (MS, Cisco) and market potential for Kosovo-based incubator.	Regional linkage report
	Summary Report	Summary Report: Step-2 findings, conclusions and recommendations.	Summary Report
	Task	Notes	Deliverables
Phase II - Design	Develop incubator organization model	Organizational model includes incubator legal status, governance and management structure, key staff, roles and responsibilities.	Incubator Organizational Model
	Develop incubator operational model	Operational model includes defining and structuring incubator operational support and service offerings for incubator client enterprises.	Incubator Operational Model
	Develop incubator startup financial requirements	Task includes defining incubator startup capital investment and operating budget. Note: Near-term (3-years) incubator self-sustainability is very unlikely.	Incubator Financial Model
	Assist with mapping strategic partners' tablestakes to MOU.	STTA assists KPEP or Incubator Champion with MOU including strategic partner goals, roles, tablestakes and expected results.	Memoranda of Understanding
	Assist KPEP to incubator marketing strategy and campaign	STTA assist KPEP staff with marketing strategy and business development campaign to launch incubator.	Marketing strategy
	Assist recruitment and selection of incubator manager	STTA defines incubator manager job profile, qualifications and experience; assists with candidate recruitment and selection.	Incubator manager job description
	Phase Wrapup	Define next steps	Summary Report

Level of Effort

The effective validation and design of the ICT Incubator will be critical to the long term success of an incubator as well as stimulating the Kosovo ICT market. The validation and design phases will therefore require the guidance and input from two consultants with experience in designing, standing up, and running ICT incubators, as well as ICT sector development. This combination proved successful during the Feasibility Study.

We propose to use the two consultants that conducted the Feasibility Study for the next phase, namely an ICT Incubator SME, and an ICT sector development SME.

The proposed level of effort for the two consultants and timeframe for each activity is presented in the following figure.

Level of effort and timeframe for Validation and Design Phase activities

Validation Phase	Notes	LOE		Timeframe			
		SME1	SME2	M1	M2	M3	M4
Develop Business Plan Challenge to validate entrepreneurial pool	US-based STTA: Define contest rules, requirements, selection criteria, awards, and marketing campaign strategy and plan.	3	4				
Launch Biz Plan Challenge in Kosovo	KPEP: Promote and market Business Plan Challenge to attract ICT entrepreneurs in Kosovo. Note: task performed before STTA team arrives Kosovo.		3				
Evaluate & select Biz Plan Challenge winner(s).	Review, evaluate, select Business Plan winner; assist with public award and promotion events. Note: Business Plan Challenge= "fishing trip." Shallow entrepreneurial poll = low probability of incubator success.	5	2				
Negotiate strategic partner goals, roles & tablestakes.	Validate, negotiate and document goals, roles, tablestakes and expected results of strategic partners' participation in ICT incubator.	10	2				
Explore regional linkages in Macedonia & Albania.	Travel to Macedonia and Albania to identify regional linkages, partners (MS, Cisco) and market potential for Kosovo-based	5					
Summary Report	Summary Report: Step-2 findings, conclusions and recommendations.	5	3				
Total		28	14				
Design Phase	Notes						
Develop incubator organization model	Organizational model includes incubator legal status, governance and management structure, key staff, roles and responsibilities.	5	1				
Develop incubator operational model	Operational model includes defining and structuring incubator operational support and service offerings for incubator client enterprises.	4	4				
Develop incubator startup financial requirements	Task includes defining incubator startup capital investment and operating budget. Note: Near-term (3-years) incubator self-sustainability is very unlikely.	5	2				
Assist with mapping strategic partners' tablestakes to MOU.	STTA assists KPEP or Incubator Champion with MOU including strategic partner goals, roles, tablestakes and expected results.	5					
Assist KPEP to incubator marketing strategy & campaign	STTA assist KPEP staff with marketing strategy and business development campaign to launch incubator.	12	7				
Assist recruitment & selection of incubator manager	STTA defines incubator manager job profile, qualifications and experience; assists with candidate recruitment and selection.	4					
Summary Report	Define next steps	5					
Total		40	14				