



STIKK

SHOQATA PËR TEKNOLOGJI TË INFORMACIONIT
DHE TË KOMUNIKIMIT TË KOSOVËS

KOSOVO ASSOCIATION OF INFORMATION
AND COMMUNICATION TECHNOLOGY

Enabling Startup Ecosystem

The Support that Matters
for New Entries in the ICT
Sector

POSITION PAPER

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List of Abbreviations

EC	European Commission
EU	European Union
ICT	Information and Communication Technology
ICK	Innovation Centre Kosovo
JIC	Jakova Innovation Center
MFE	Ministry of Finance and Economy
MED	Ministry of Economic Development
MTI	Ministry of Trade and Industry
STIKK	Kosovo Association of Information and Communication Technology
TAK	Tax Administration of Kosovo
WB	The World Bank

1. Background

1.1. Objectives

This activity provides assistance to STIKK (Kosovo Association for Information and Communication Technology) to thoroughly review the startup climate and potential benefits of enabling a prosperous startup ecosystem in Kosovo. For the purpose of this paper, a startup ecosystem is understood as a constellation of people, startups and various types of organizations in one location (physical or virtual) that interact as a system to evolving and creating new startup companies. The initial support to generating financially viable business plans and models from raw creative ideas, is what usually makes the differences between successful and unsuccessful business endeavors. The statement particularly holds true for ICT startups who usually involve individuals or groups of tech-savvy enthusiasts without proper entrepreneurship or business training gathered around a project.

The enabling environment support services which are usually offered by either commercial or non-for profit centers are often vital to providing the chance for businesses through structuring their ideas and providing them with the necessary expertise support in the implementation of various aspects of their projects. Given the relatively young age of tech savvy entrepreneurs, which is lower than in any other sector, providing structured support in terms of training, infrastructure and services, becomes essential. As high growth technology startups are considered to be the primary growth engine of the new information economy of developed countries, the startup ecosystems increasingly emerging across the globe, will most certainly shape the future of the global economy.

Under such framework, STIKK has commissioned IQ Consulting to produce this position paper aimed at exploring possibilities of providing support to startups in the ICT sector, hence, increasing the likelihood of success for the newcomers in the market. Given the current economic situation in Kosovo, and the high unemployment rate, the success of entrepreneurial initiatives also translates into alleviation of both aspects. The paper is thus aimed at bringing to the attention of the relevant stakeholders and decision-makers the opportunities presented in the current business environment that would facilitate successful evolution of ICT startups. The targeted audience in this paper primarily includes STIKK, Innovation Centre Kosovo (ICK), Jakova Innovation Center, UNICEF Innovation Lab, the relevant line ministers, as well as, major bilateral and multilateral donor organizations.

1.2. Current Situation

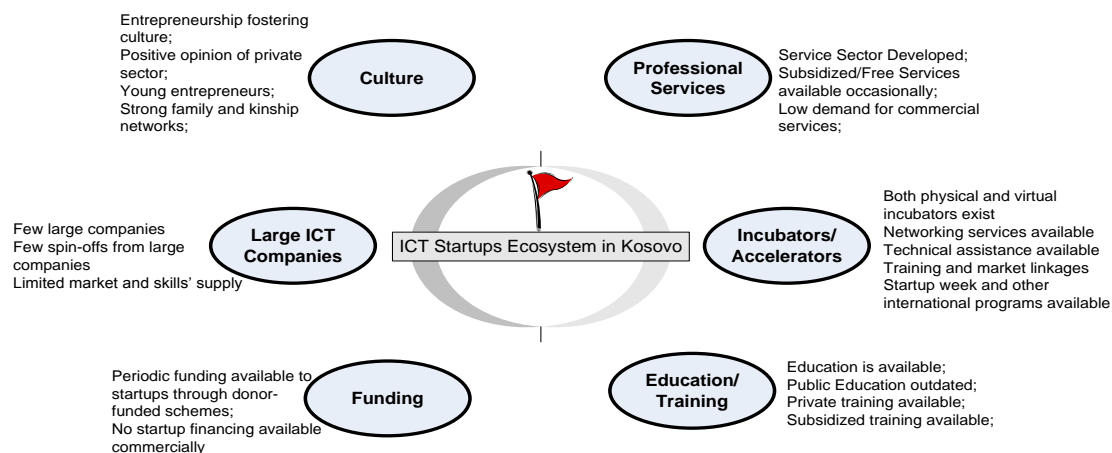
ICT sector in Kosovo is characterized by a large number of small and medium-sized companies with limited capacities for large-scale projects and endeavors. Due to the small-size of the market, companies that grow beyond competitiveness have been forced to spin a part of their operations off into new enterprises in order to maintain market leadership. Such sector composition provides for quite favorable market entry conditions for new companies in the market.

The existing registration and licensing procedures under the currently applicable laws do not provide for any barriers to entry for startups, regardless of the sector. The company registration procedures can be completed within one working day and business registration process is cost free. No systemic/regulatory barriers aside from those related to the more efficient implementation of intellectual property rights were identified during this exercise. Given the

nature of the ICT sector and the relatively low initial investment costs for most of the startups, the focus should be placed on providing both systemic and ad-hoc support to startups as the ingredient that needs more attention.

Currently, there are only two organizations¹ and one program² providing startup support to ICT companies, but other initiatives³ are also starting to pick up. Other general startup support programs financed from donor organizations⁴ are also being implemented or await continuation in the near future. While general startup support programs have been vital for some startups (including ICT) getting the seed funding for materializing their ideas and some basic skills in business management and/or entrepreneurship, the limited time duration of these programs has been a key drawback limiting their success.

While the necessary ingredients for a start-up ecosystem do exist in Kosovo, a systemic approach to connecting them to properly function as an ecosystem in support of innovation and entrepreneurship has been missing. While there are incubators (both physical and virtual), training providers, professional support services that available to startups, the ‘seasonality’ of funding dependent from donor programs, has been a major drawback in the functioning of the ecosystem. In addition, lack of permanent funding for research and innovation has also been identified to be a serious drawback to an enabling ecosystem. The experience has shown that systematic servicing, support and training for ICT start-ups that receive seed funding for materializing their business ideas is vital to increasing their survival rate. The current situation with the startup ecosystem is presented in the figure below.



¹ Innovation Centre Kosovo and Jakova Innovation Center

² UNICEF Innovation Lab

³ Prishtina Hackers Space

⁴ EC programs, EYE project and EYE startup support, WB Kosovo Youth Development Project, WB SILED project, etc.

1.3. Achievements and Best Practices

This section of the paper covers the lessons learnt and best practices that have been implemented in Kosovo and elsewhere in similar environments. It also examines the main challenges faced by existing actors in the ecosystem, and explores opportunities to best address these challenges. While all ingredients for a startup ecosystem exist in Kosovo, and all relevant actors in the ecosystem are present, lack of linkages between actors into a one synchronized system has been the main shortfall to boosting the sector's performance in stimulating startups.

Innovation Centre Kosovo, Jakova Innovation Center and other business incubators or quasi incubators bring very valuable experience and know-how and are a solid foundation for providing support for startups in Kosovo. Some of the good practices applied thus far include among other the provision of virtual services, which has made possible servicing of startups outside of the physical location of the center. Cloud support through enabled access to services and resources is a low cost approach that has been proven efficient in achieving its ends.

Participation in regional and global initiatives and networking with organizations of similar character to create a global startup environment should also be continued as an important hallmark of ICT incubators.

1.4. Barriers and Main Challenges for Startup Ecosystems in Kosovo

Coordination between actors to enable proper functioning of the Ecosystem is one of the biggest priorities to improve the environment for enabling startups. To this end, a separate government ministry dedicated to innovation and entrepreneurship has been identified as a major shortfall to the ecosystem's functioning. A ministry with such mandate would be able to coordinate all ecosystem's actors and facilitate greater synergy from their activity. In the absence of such ministry the sectoral association STIKK, despite the challenges it may incur, commit more intensely to stakeholder coordination and cooperation.

Steady inflow of core funding for key stakeholders is also one of the biggest challenges to stable and sustainable startup ecosystem in Kosovo. The dependency of vital actors in the ecosystem from international donor funding represents one the biggest risks to an environment that enables startups. STIKK as the only sectoral association and ICK as one of the best models of ICT startup incubators are heavily reliant on the availability of donor funding, which makes long-term planning and resource development very difficult.

Lack of funding also represents one of the biggest challenges for startups in Kosovo as there are no commercial or public channels through which they can access finance to invest in their business ideas. While donor-funding programs and projects have provided seed funding for startups periodically, lack of standing/permanent sources of funding for startups is a major challenge that needs to be resolved.

Lack of funding programs also represents a major challenge for the development of research activities, which represent one of the biggest drivers of innovation and new product/service development. Lack of programs funding both academic and applicative research has been identified a key missing ingredient for fostering emergence of startups. While there are companies and organizations that carry out extensive research in Kosovo, they generally carry out on-demand research that is usually dedicated to a restricted audience. Reliable research,

and particularly, academically relevant research is very scarce in Kosovo and startups have virtually no access to it.

2. Startup Perspective: The Case of Support

The economy can be maintained competitive only through invention and re-invention of products and services and through steady inflow of fresh competitors with the ambition to become leaders in their respective markets. The number of new ventures/businesses is often used as an indicator to measure the health and performance of economies. While the general doing business environment in Kosovo has improved significantly in the past few years⁵, and there are virtually no barriers to legally starting a business within two working days, lack of financial support at the inception stage of startups, has been the 'invisible' obstacle hindering the establishment of new ventures.

Nurturing promising business ventures could be compared to nurturing newborns until they are able to care for themselves and even one day care for others. Similarly to the society, the market also needs constant inflow of competitors in order to remain vibrant, competitive and sustainable. In order to maintain business 'birth rate' high an enabling environment needs to be created for the newborns in the market. The first two years in a businesses' life are the most difficult to overcome, and for most startups mark the division line between fragility and established operations. While at infancy stage, businesses need financial support, services, access to resources, and know-how, as well as a market for their product, in order to make the survival threshold and establish long-term presence in the market. While these services are available in the market, startups are not able to commercially access these services.

The financial rationale for supporting ICT startups is also very sound. Given the potential for online business that is increasing very rapidly, the market for ICT businesses is nothing short than global. If one out of 1,000 businesses supported becomes a globally successful business, the added value from that company outweighs the cost of investing in 1,000 startups multiple times.

A fair share of ICT businesses can be successfully initiated with up to € 10,000, this cost is impossible to cover for most of the young entrepreneurs in Kosovo. In absence of full-time employment, property or any documented income, they have no access to the commercial financial market. The strong kinship and family ties that still remain influential in Kosovo have been very important to cover to some extent the shortfalls deriving from lack of finance for startups. In a significant number of startups, the initial financing comes from the family with the perspective of a new family business, or simply through cash support to the one taking the endeavor. In-kind support through equipment provision, particularly coming from the family in Diaspora, has also been a significant element for the initiation of many ICT startups.

An important characteristic of the startups in Kosovo is also that the average startup entrepreneurs' age is much lower than the average age in other countries. While this has been largely due to the population demographics, which rank Kosovo as the country with the youngest population in Europe, it has also had an impact on the success rate of startups. Often, talented young entrepreneurs dismiss their business ideas for salary-based employment in existing

⁵ World Bank Doing Business Reports and other monitoring/measuring reports mark significant improvement of scoring in consecutive years. More detailed information can be found at: <http://www.doingbusiness.org/>

companies. In the absence of financing for the development phase, they turn to full-time employment for satisfying their income needs. Investing in startups is therefore also a sound investment in youth development and ensuring that Kosovo youth pursue their dreams and achieve self-accomplishment in an environment that does not present them with many opportunities.

3. Policy Recommendations

Government should take a greater role in coordinating international donor organizations that provide for seed funding for startups. Instead of having periodic grant schemes published by individual donors that apply diverse set of criteria, the donor organizations should be urged to pool their funding into one public funding scheme that funds startups as per national plans and strategies for sectoral development. Such approach would allow for greater sustainability of funding schemes and greater availability of funding for startups. Such fund could be housed in the Innovation Ministry which is expected to be created by the new government coalition, or be entrusted to sectoral intermediaries such as STIKK and ICK as most suitable actors to manage such type of assistance.

Given that a large number of ICT startups require programming/coding as part of business development, schemes supporting the cost of development (programmers) should be established. Such schemes would possibly support business ideas that are currently dismissed because of the inability to fund the development phase. As such, funding for R&D activities should encourage enthusiastic developers build at least demonstration models that can attract commercial funding. This would in turn increase the likelihood of high growth ICT startups receiving funding in the early stages of development.

Formal training at higher level should be maintained up-to-date and be based on the market demand for skills and competencies. While e-learning resources available to ICT startups are abundantly available, formal training and education has often been criticized for the failure to supply high-quality labor in the market. To this end, both revision of curricula in public education system in terms of updating information presented therein, as well as, inclusion of entrepreneurship subjects early in education, are some of the key considerations that should be made. In addition, the improvements in the education system across all levels should include interventions to improve the quality of teaching and learning of Math and natural sciences as the core subjects for ICT development. To this end, extra-curricular activities such science clubs, fairs and competitions for both primary and secondary schools should be organized to promote engagement in science. The practices should be intensified at higher levels of education fostering competition of ideas and innovation.

The links between Academia and private sector should be strengthened. Currently, these two stakeholder groups rarely interact despite their interconnectedness in terms of function. While academia in Kosovo has assumed a primarily teaching capacity, with very little time and efforts spent to research and innovation, the private sector has been inefficient in voicing out their views regarding the education system and the outputs it produces. One of the most efficient models for facilitating such interaction and addressing the existing shortfalls is establishment of programs that fund applicative academic research in the private sector, whereby, these two stakeholders would jointly develop and implement projects, hence, creating the missing link between the two, which could be latter expanded into other activities. Again, research and development activities should be supported by public schemes in the function of enabling startup ecosystem that has the potential to produce local and global market leaders.

4. Key Intervention Points

4.1. Public Institutions: MFE / TAK & MED

Establishment of Ministry of Innovation and Entrepreneurship is a serious shortfall in sectoral organization of the Government. Lack of a ministry with the mandate to coordinate relevant actors into unleashing the innovation potential of Kosovo businesses and entrepreneurs has greatly hindered past attempts of individual actors in the ecosystem. Extensive cross-sectoral coordination required to effectively facilitate the functioning of the ecosystem is impossible without a primary duty bearer to lead the process. The electoral commitment by the parties in the government coalition was to address this shortfall through a new ministry dedicated to technology and innovation. Interested actors with vested interest (i.e, STKK and ICK should hold government accountable for this commitment and advocate for it.)

Financing for startups is inexistent in Kosovo. Aside from periodic grant schemes implemented by donor organizations that finance start-ups, there are no standing programs, funds that invest in this category of businesses. While numerous donor funded programs have provided financial support for start-ups, the impact they have had in the emergence of startups has been limited. The most successful models appear to be those combining start-up funding with technical assistance and capacity development for longer periods of time. One-off programs that only distribute funds to persons with business ideas, rarely generate the desired impact. Permanent incentives packages for startups should therefore be established.

Financial incentive packages should also be provided to promising startups. Legal framework should be amended to provide complete tax breaks for startups for limited-time duration. These could potentially include income taxes, profit taxes, and VAT. In addition, public schemes partially also supporting salaries for development of ICT products and services should also be considered⁶.

4.2. ICT Association

Kosovo ICT Association should proceed with taking upon the responsibilities assigned to it in the national ICT strategy, as well as, the burden of representing the collective interests of the sector. It is upon STIKK to follow up on the policy recommendations from this paper and advocate for their implementation with the relevant stakeholders.

In addition, STIKK should also propose models for coordination of stakeholders for properly functionalizing the startup ecosystem, and strongly advocate for the establishment of Ministry of Innovation and Entrepreneurship.

Regular events and programs need to be developed to foster innovation and inventiveness. Annual/periodic competitions, exchange programs, networking with other similar programs abroad should all be used to promote and stimulate business innovation.

⁶ See also STIKK Position Paper: Unleashing the Export Potential of Kosovo ICT Companies: Structured Approach to Sectoral Export Promotion.

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