



PAYMENTS MODERNIZATION PROJECT

PAVING THE WAY TO KOSOVO'S INTEGRATION IN THE SINGLE EURO PAYMENTS AREA

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with funding by the European Union

THE WB6 PAYMENT SYSTEM MODERNIZATION PROJECT



Until 2026 - Funded by the European Commission (EC)



Implementation Phase (up to 36 months)

Outputs



INFRASTRUCTURE/ INTEROPERABILITY

- Technical assistance on the implementation of instant cross-border payments

- Link payment infrastructures of WB6 economies with each other and with the EU



LEGAL AND REGULATORY FRAMEWORK

- Technical assistance for the transposition of relevant SEPA and EU Directives and Regulations

- Ensure SEPA readiness from a legal perspective



RISK MITIGATION

- Feasibility of a regional KYC registry
- Harmonization of regional cybersecurity
- Monitoring cross-border payment costs
- Oversight strengthening

- Increase safety and security of national and regional payment systems



PRODUCT DESIGN

- Detailed study for single regime licensing of PSPs
- Regional innovation lab
- Merchant digital payment acceptance / e-commerce

- Ensure access and boost usage

WHAT IS SEPA?

- Single Euro Payments Area connected to the euro's introduction in 1999 and the physical euro notes and coins in 2002.
- Geographic area in which all payments in euro within the EU (and EEA) are treated as domestic from a practical, technical and legal perspective.
- There is no distinction between domestic and cross-border payments: all euro payments within SEPA are domestic.
- The EU and EEA Member States are mandated members of SEPA through EU legislation; other countries and territories have been admitted since 2006.

27

Member States of the Union (EU)

3

Countries of the European Economic Area (EEA)

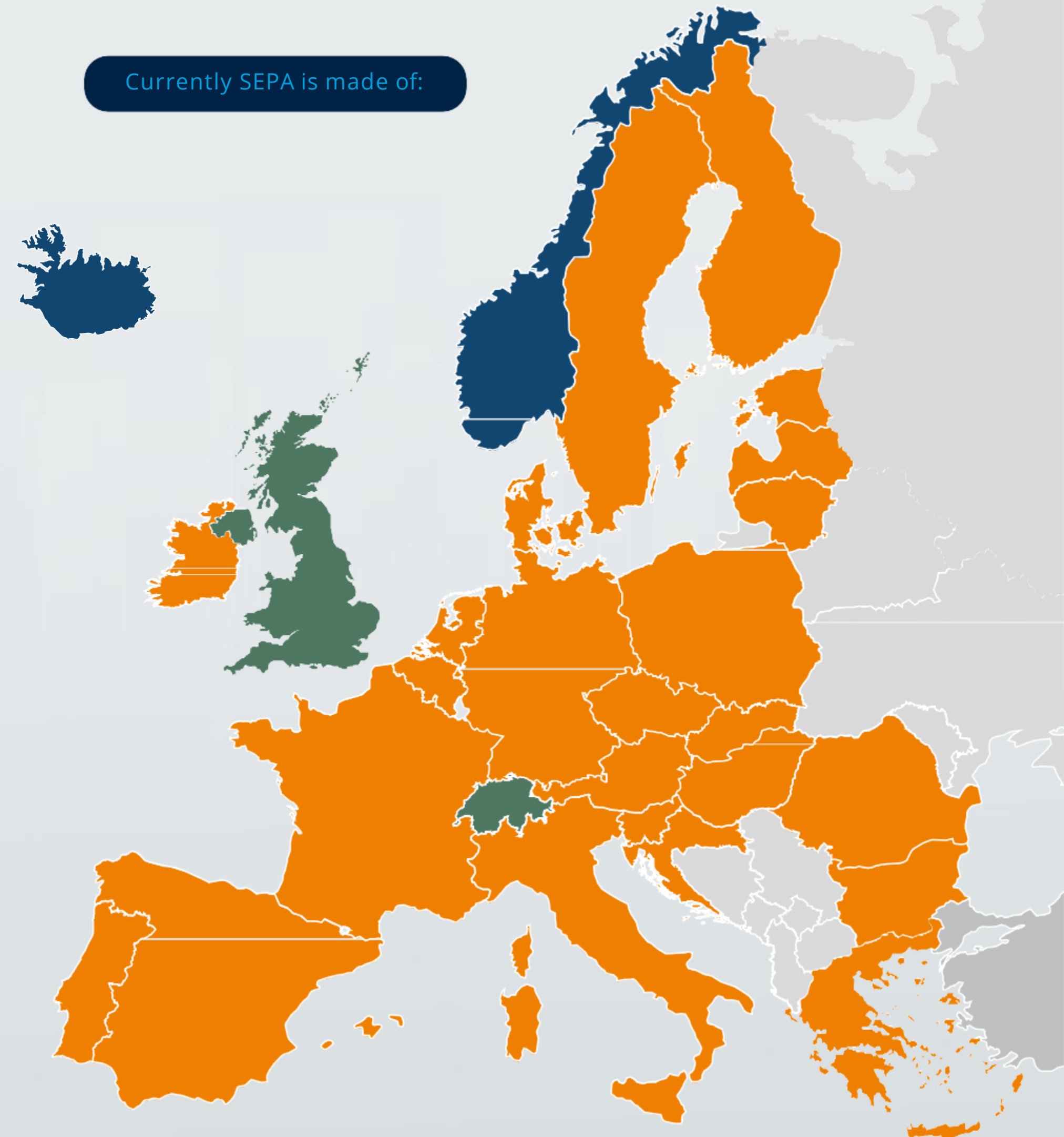
- Norway
- Iceland
- Liechtenstein

6

Non-EEA Countries

- UK
- Switzerland
- Andorra
- Monaco
- San Marino
- Vatican City State

Currently SEPA is made of:



CRITERIA FOR JOINING SEPA



To facilitate SEPA and achieve the underlying policy objectives, the European Payments Council (EPC) has created and manages different SEPA schemes, including the SEPA Credit Transfers, SEPA Direct Debits and SEPA Instant credit Transfers. These schemes are available to Payment Service Providers (PSPs) and their customers in the SEPA area.



EPC has established the SEPA participation criteria applicable to new countries wishing to join the SEPA geographical scope. The aim of these criteria is to create a level playing field for PSPs within SEPA to facilitate interoperability regarding sending and receiving euro payments within SEPA. The Criteria are mainly focused on having in place laws which implement, or are similar to, the relevant EU laws as well as on adopting particular technical standards.



Adherence to these criteria is the initial step to be taken by a country in order for PSPs to then apply for participation in the different SEPA schemes.

JOINING SEPA – REQUIREMENTS RELATED TO LEGAL FRAMEWORK



CURRENT STATUS

- Kosovo is still in the initial stage of fulfilling the criteria regarding SEPA participation.
- Updated secondary legislation (Regulations on the Registration of NBFIs, Oversight Requirements for SIPS, Use of Agents)
- CBK is in the process of implementing Titles III and IV of PSD2, the CRD, the IBAN Regulation and regulations for other PSPs.
- The transposition of the AML Directive and compliance with FATF Blacklist and UN sanctions implementation are also ongoing.



NEXT STEPS

- Adoption and enforcement of Law on Payment Services, transposing PSD2, PAD, EMD, and granting legal basis for IFR transposition.
- Issuing relevant regulations for SEPA readiness, including IBAN Regulation, and anticipating coverage of Regulation 2023/1113 in new AML/CFT Law.
- Technical assistance for the PSP market readiness to join SEPA is critical.
- Once SEPA extends to Kosovo, PSPs can individually apply and join EPC's schemes, complying with eligibility criteria and completing adherence pack documents.

- The Central Bank of Kosovo is working closely with the World Bank to address them in a timely manner.

ROADMAP TO SEPA MEMBERSHIP AND INTEGRATION WITH THE ECB FAST PAYMENT SYSTEM

SEPA Membership

- **Legal Readiness for Single European Payments Area (SEPA)**

Support currently provided in all WB6 as part of TA project (on payment system modernization)

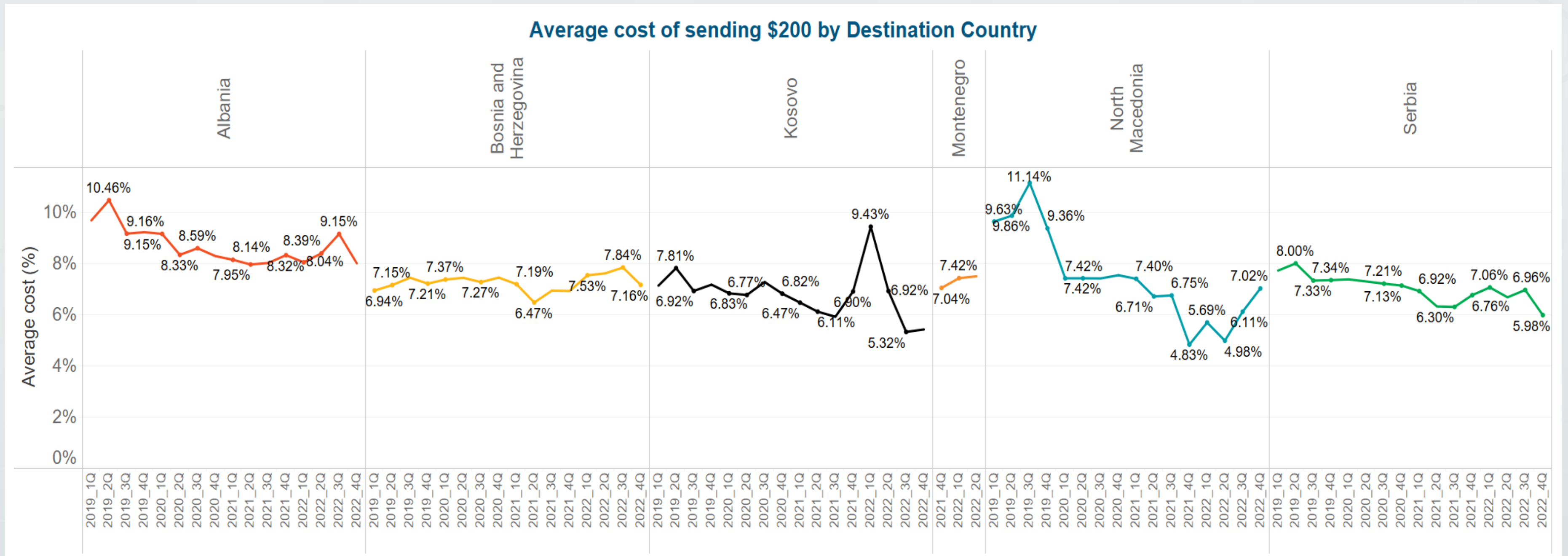
- **Infrastructure Readiness for SEPA, with a focus on having a domestic Fast Payment System (FPS)**

Identified investment needs (beyond TA) to establish domestic FPS

Integration with the European Central Bank (ECB) TARGET Instant Payment System (TIPS) to facilitate cross-border fast payments between Western Balkans and the EU.

REMITTANCE COSTS IN KOSOVO

- Remittances are vitally important to Kosovo reaching \$1.9 billion in 2023.
- The cost of sending \$200 was recorded at 5.36% in the end of 2022. While the average cost is lower than other countries in the Western Balkans, it is still 80% higher than the SDG target of 3%.
- Reducing costs to reach the SDG target would bring up to \$30 million savings for migrants and their families each year.



BENEFITS OF JOINING SEPA

Reduce costs and increase convenience of formal remittance channels

Reduce costs of (intra-region and with EU) and open regional market to Kosovar businesses

Improve efficiency, simplicity, and speed of making euro payments to and from Kosovo

Increase electronic payment acceptance and transparency of merchant payments

Increase adoption and usage of transaction accounts, driving access to finance

THE IMPLEMENTATION OF FAST PAYMENTS CAN FURTHER EXPAND THE BENEFITS OF SEPA PARTICIPATION



FAST PAYMENTS IN A NUTSHELL

- Individuals, businesses and governments to transfer money in real-time, with funds immediately available to the beneficiary on a 24/7/365 basis.
- Fast-payment systems (FPS) can support different payment instruments, use cases and purposes across multiple channels.
- FPS allow for the participation of diverse service providers, including banks and non-banks, therefore driving competition, interoperability, and innovation, which ultimately translates into better services at lower costs for end users.



COMBINED WITH SEPA PARTICIPATION, FPS CAN ADDRESS KEY GAPS IN THE WB6

6X

More expensive for MSME to send B2B payments intra-WB6 vs intra-EU

2%

Projected decrease in informal economy generated by 10% increase in digital payment

0.5B

Estimated savings if remittance costs decrease to 3% to reach the UN's Sustainable Development Goals

~2M

Adults who can be financially included by removing cost and proximity barriers

BENEFITS OF FAST PAYMENTS IN A CROSS- BORDER CONTEXT

Foster safer, faster and affordable digital cross- border payments such as remittances, B2B trade, and e-commerce

Efficiency gains in cross-border e-commerce and B2B payments

Improved transparency on timing and fees

Increased competition and innovation in the cross-border space

Harmonization of KYC/AML/CTF requirements

Improved access to cross-border processes for smaller banks



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THANK YOU



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