

UNIVERSITETI I TIRANËS
FAKULTETI I EKONOMISË



REPUBLIKA E SHQIPËRISË



The Challenges of FinTech in the Western Balkans

ALBULENA SHALA
albulena.shala@uni-pr.edu

UNIVERSITY OF PRISHTINA "HASAN PRISHTINA"
KOSOVO



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Challenges

- What are the challenges faced by the FinTech industry in the Western Balkans?
- What challenges does the FinTech industry face in Albania and Kosovo?

Methodology

- **The first step** is a thorough examination of each country's legislation regarding the FinTech industry. The evaluation methodology is similar to that of Berg et al. (2020)
- **The second step** is to research the challenges that face the FinTech industry in the Western Balkans (WBs), especially in Albania and Kosovo, from reports or working papers of the World Bank and other serious materials
- WBs: Albania, Bosnia and Herzegovina, North Macedonia, Montenegro, Kosovo, and Serbia
- Central Banks, the relevant ministries, and other institutions

Western Balkans

Table 1. Data overview for Western Balkans

Country	Population	Digital Readiness Index (WB,2020)	Internet usage (% of pop.)	ITU(2020)-ICT skills		
				Individuals with basic skills	Individuals with standard skills	Individuals with advanced skills
Albania	2.8 M	Basic	80%	22%	16%	4%
Bosnia & H.	3.5 M	Basic	74%	37%	9%	2%
Montenegro	628,238	Basic	78%	70%	27%	6%
N. Macedonia	2.08 M	Basic	81%	37%	20%	3%
Kosovo	1.8 M	Basic	97%	n.a.	n.a.	n.a.
Serbia	6.9 M	Evolving	79%	51%	27%	4%

Sources: World Bank (2022); The Global Findex Database (2021); CEE Fintech Atlas-RBI; ITU statistics (2020).

Western Balkans

Table 2. FinTech firms by category

Category	Number
Payments	19
Cryptocurrency	8
Middleware	7
E-commerce	5
Crowdfunding	5
Insurtech	4
Credit	4
Others	11

Source: World Bank Group (2019)

- **In 2019:** a total of approximately 67 fintech providers were found to have operations in the Western Balkans (World Bank, 2019)
- **In 2022:** more than 100 fintech companies
- **Serbia and Albania**
- **The majority operating in the payments sector**

Western Balkans

Challenges

- **Regulatory challenges**
- **Data protection (AML/CFT concerns & Cybersecurity)**
- **Lack of government support for FinTech**
- **High cash-use levels**
- **Low financial literacy rates**
- **Emigration of local talent or “brain drain”**

Sources: (CEE Fintech Atlas (RBI, 2018); CEE Fintech Atlas (2019); World Bank, (2019); World Bank Group (2020).

AML-Anti-Money Laundering

CFT-Combating the Financing of Terrorism

Regulatory challenges

Table 3. Data overview for Western Balkans

Country	Name of Regulator/ Operator	Facilitator Types/initiatives and policies
Albania	The Albanian government	The Albanian ICT Association; Digital Agenda of Albania 2015-2022
Bosnia & H.	-	n.a.
Kosovo	-	ICK-Innovation Centre Kosovo
North Macedonia	The National Bank of the Republic of North Macedonia	'Innovation hub'-Innovation Gateway/National Fintech Strategy
Montenegro	1.The Central Bank of Montenegro 2.Montenegro Capital Market Authority	<ul style="list-style-type: none"> • The Central Bank of Montenegro-CBCG FinTech Hub - Regulatory Innovation Centre • Rules on Regulatory Framework For Financial Innovation (SANDBOX) • Regulatory Sandbox
Serbia	Central Bank	Regulatory sandbox framework'-innovations in Payment Services

Sources:<https://www.worldbank.org>;<https://www.scmn.me>/<https://fintechhub.cbcg.me>;<https://www.bsi.si/en/>;<https://www.nbs.sk/en>;<https://bqk-kos.org/>
<https://www.hanfa.hr/fintech1/>;

Facilitator Types:

- **Innovation offices** - Fintech start-ups frequently use innovation offices as their initial step.
- **Regulatory sandboxes**- are more formal than innovation offices and offer a live testing environment for financial services and business models under a specific framework for supervision and regulation.

Regulatory challenges

Table 4. Digital platforms and open banking

Country	Peer to peer lending (P2PL)	Equity Crowdfunding	Open Banking/PSD2	Law on Payment Services (LPS)
Albania	NO	NO	NO	The Law on Payment Services (30.04.2020)
Bosnia & H.	NO**	NO	NO	n.a
Kosovo	NO**	NO**	NO	Kosovo National Retail Payments Strategy (2021-2026)
North Macedonia	YES	YES-NO	NO	Law on Payment Services and Payment Systems (01.01.2023)
Montenegro	NO	NO	NO	Law on Payment Transactions (2015)
Serbia	NO	YES-NO	NO	Serbia National Retail Payments Strategy (2019-2024)

Sources: Central Banks; **Prohibited activity;

- **Equity Crowdfunding/P2PL** - The EU members began to implement Regulation (EU) 2020/1503 on 10.09.2021 (European Union, 2021)
- **European Payment Services Directive 2 (PSD2)**
- **Open banking** is a term used to describe a set of technologies and standards, which allows consumers to safely and securely share their account information, for example through apps and websites.

Data protection-Cybersecurity

Table 5. Data overview for Western Balkans

Country	Law of cybersecurity	GDPR	National Cyber Security Index	Global Cybersecurity Index
Albania	Law n. 2/2017 “For Cyber Security”	NO	66	80
Bosnia & H.	Law on the Protection of Personal Data	NO	102	110
Kosovo	Law No. No. 06/L–082 on personal data protection	NO	Na.	Na.
North Macedonia	The Law on Personal Data Protection	NO	50	38
Montenegro	The Personal Data Protection Law Agency	NO	87	87
Serbia	The law on Personal Data Protection	NO	31	39

Source: <https://ncsi.ega.ee/ncsi-index/>; <https://www.itu.int/en/> (Global Cybersecurity Index 2017, 2018, and 2020). Note: We have no data on Kosovo.

- **Countries that have not yet joined the GDPR** are Albania, Bosnia and Herzegovina, Montenegro, Kosovo, North Macedonia, and Serbia
- **The General Data Protection Regulation (GDPR)** - A data protection law

Other challenges

- **Lack of government support for FinTech**
- **High cash-use levels**
- **Low financial literacy rates**
- **Emigration of local talent or “brain drain”**

Sources: (CEE Fintech Atlas (RBI, 2018); CEE Fintech Atlas (2019); World Bank, (2019); World Bank Group (2020).

Albania

- **Lack of financing and capital**
- **Lack of support system for FinTech innovation**
- **Lack of a clear FinTech strategy by regulators and policymakers**
- **Poor ICT infrastructure in several parts of the country**
- **Emigration of local talent or “brain drain”**

Kosovo

- **Lack of financing**
- **Poor ICT infrastructure**
- **Vital actors of the ecosystem depend highly on international donor funding**
- **Emigration of local talent or “brain drain”**

Conclusions

- **Regulatory barriers and cybersecurity are the main challenges to the FinTech industry in the Western Balkans**
- **Financing, "brain drain," and poor ICT infrastructure are the main challenges in Albania and Kosovo**

Recommendations

- **Remove the legal barriers to the entry of new players into the market**
- **Create basic conditions for FinTech companies (such as an innovative office)**
- **Promoting innovation in payments**
- **Harmonize the laws with the relevant laws of the EU**
- **Financial support of FinTech companies from the respective governments.**