



## **The Special Projects Initiative (SPI): A Key Financial Sector Modernization Instrument**

### Modernizing the Financial Sector: A Complex Challenge

In many European Union countries, financial sector authorities routinely consult with market participants when they design financial sector policy measures. They well recognize the importance of hearing the voice of those who properly understand the subtleties of the market, if their intervention is to avoid causing consequences that might either frustrate its purpose or obstruct market innovation unnecessarily. Consultations, on the other hand, help to make market participants better aware of the concerns of the public authorities with the risks involved in their activities.

Dialogue and cooperation between financial sector authorities and market participants, however, have not yet taken ground in those countries where the large number of complex regulatory reforms that are necessary to pursue financial sector modernization would require very close cooperation and coordination between authorities and markets. In many developing, emerging and post-transition countries, authorities are still loath to accept that modernizing finance without engaging market participants is bound to produce bad regulation and harm the economy, since it is impossible for them to be up to speed with new market developments and fully grasp the implications of regulation for the industry; and market participants on their side are still lured by the temptation to seek quick remedies through individual "lobbying", and. Therefore, a well structured public-private policy dialogue is not only warranted, it is nowadays a necessity: it represents the new policy frontier for developing countries.





The existence of a robust and transparent cooperation framework also enables national authorities to consider with confidence well-structured proposals for regulatory fine-tuning initiated by market participants and prepared by public and private experts. Putting scarce country public and private analytical resources under a single virtual roof considerably expands the possibility for a country to pursue a much larger financial sector modernization program than otherwise.

#### Modernizing the Financial Sector: The Case of Albania

The Special Project Initiative (SPI) supported by the World Bank's Convergence Program is designed to help post-transition countries move toward this new frontier. In January 2008, the Bank of Albania and the Albanian Association of Banks (AAB) have launched "SPI Albania" ([www.spi-albania.eu](http://www.spi-albania.eu)), built on the successful "SPI Romania" model. The program is placed under the oversight of a high-level committee (the SPI Committee), where the financial regulatory authorities and the banking community are represented at the highest level, and orchestrated by a secretariat (the SPI Secretariat). SPI Albania tackles issues that have an ex-ante agreement of importance for both market and authorities, through working groups where experts from the authorities work elbow-to-elbow with banking experts in an informal context. SPI Albania gives Bank of Albania and other financial authorities a structured forum where they can prepare policy interventions based on the EU Better Regulation method of evidence-based policy design in consultation with affected stakeholders. The SPI Albania's unique governance design also allows the AAB membership to initiate their priority modernization projects, to have them prepared by their professional staff in collaboration with experts from relevant authorities, and to have them endorsed by senior public officials before they enter the official decision-making process.





Currently, there is no other platform in Albania comparable to the SPI, which gathers public and private forces for addressing modernization issues. International institutions like the World Bank, IFC, IMF, European bodies and agencies do not offer the continuous and structured program that SPI Albania does, and their recommendations are not based, as in the case of SPI Albania, on the local expertise and on consultations amongst private and public stakeholders. Consulting companies may well analyze situations and offer solutions, yet these solutions would not be broadly agreed by the local public and private actors as it is the case with SPI Albania.

#### The SPI Framework: A Unique Approach

The SPI framework serves in a unique way the purpose of: (i) identifying country needs for micro-regulatory reforms; (ii) supporting an informed dialogue between local financial regulators and market participants on the technical aspects of the identified reforms; (iii) facilitating consensus building among local stakeholders before official action is initiated; (iv) monitoring the implementation of the action taken; and (v) fostering a local analytical and implementation culture.

The use of working groups of local experts is one of the great innovations of the SPI framework. The group discussion platforms catalyze local knowledge and information that help create feasible solutions. The alternative option that has been used in the past, to hire local and international consultants for each project, is not only very expensive but generates ideas that may not be implemented in practice. The further alternative of setting up in the country an extended and permanent team of specialists is also expensive and unjustified. The SPI Secretariat is a small team of public service oriented professionals, who commit to mobilizing the knowledge that exists in the country, both within the banks and the public institutions.



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## Looking Forward: A Regional SPI Network

Looking forward, SPI Albania could be the building stone for an SPI Adriatic initiative. Countries in South East Europe with an interest in modernizing the financial sector might set up their SPI country units, which would then be connected in a regional network. This network would allow SPI country units to share their knowledge resources and expertise as well as to address issues of common concern, including regional financial infrastructure projects. A light regional secretariat would ensure smooth and continuous interactions among SPI country units, and would assist them to develop regional common work programs, share the costs of preparing reform proposals, and reach harmonized outcomes, coordinating their action where necessary. The regional secretariat would also support the development of functional centers of excellence on financial sector modernization issues.

The coordination by the regional secretariat, in combination with the decentralized management of the SPI country units, would ensure consistency of the modernization process at the regional level while preserving local flexibility, and maximize the opportunity for exploiting synergies at the regional level.

The organization of the SPI activities would help regional partner countries to build up local strategic and policy making expertise, strengthen their international policy cooperation capacity, and speed up their adoption of regulatory and operational standards required by the single EU financial market.

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