



## **SPI ALBANIA 2009 PROGRAM**

### **QUESTIONNAIRE ON ISSUES PROPOSED TO BE UNDERTAKEN UNDER SPI COMMITTEE AEGIS**

Dear stakeholder,

SPI Secretariat is planning the projects to be undertaken under the SPI Committee public – private partnership in 2009.

We would like to invite you to formulate proposals on the issues that you consider as priorities for you and that meet some eligibility criteria, as described in the attached selection procedure.

Please indicate the persons to be contacted by SPI Secretariat for clarifications and details.

In order to forward your proposals to the SPI Committee, please provide us with the necessary details by filling in the questionnaire for each proposed issue. Should you have any questions, please do not hesitate to contact the SPI Secretariat.

In order to facilitate the project proposal process, you may find some references on the areas to be looked in for issues to be solved.

All the projects proposed will be gathered on a common list and you will be asked to prioritize a number of projects to be handled in 2009, according to SPI Albania capacity.

After the project proposals will be approved by the SPI Committee, SPI Secretariat will invite you undertake ownership on them and to contribute with your expertise and with data to the achievement of the projects' objectives.

With best regards,

SPI Secretariat

## I. REFERENCES FOR PROJECT PROPOSALS

### 1. Issues raised by the Governor of Bank of Albania within the Banking Forum

Within the Banking Forum meetings, the Governor of Bank of Albania outlined the following issues as being of strategic importance for Albania banking system. SPI Secretariat has mapped them according to ECB modernization criteria and listed some possible actions in order to address them, showing also how 2008 SPI Albania projects integrate themselves under these priority directions. In order to create the necessary synergies and an efficient use of the resources, please use these issues as guidelines in formulating project proposals for 2009.

ECB Modernization Criteria	BANKING FORUM ISSUE	Possible actions	Related 2008 SPI Albania projects
<b>Asymmetric Information</b>	The publication of the results of banks' activity/transparency in bank-customer relationship	IFRS Implementation	IFRS Implementation
		Consumer financial education	Consumer financial education
		Minimum standard information on basic bank products	
		Annual effective interest rate	
		Define a code of conduct for housing loans	
		Discipline the criteria for transparency of banking products and services (Patti Chiari)	
		Modernize moveable collateral registries	
		Make financial statements' certification mandatory for SME-s	
<b>Completeness of Markets</b>	The publication of the results of banks' activity/transparency in bank-customer relationship	Building up an institution for banking staff training	
		Adjustment of the university curricula to the needs of the banking system	
		Help public authorities to build skills on advanced products	
		Setup and regulate banking OMBUDSMAN	

<b>ECB Modernization Criteria</b>	<b>BANKING FORUM ISSUE</b>	<b>Possible actions</b>	<b>Related 2008 SPI Albania projects</b>
	The recognition of and protection from the various risks	Improving capital adequacy regulation	Improving capital adequacy regulation
		Developing a rapid detection of non-performing loans	
		Improving liquidity management	
		Improving FX risk management	
		Reviewing the regulation on foreign currency open positions	
		Setup public guarantees for SME-s	
		Provide guarantees in farming and fishing credit operations	
		Setup public guarantees for unemployed people	
		Link deposit insurance premiums to risk profiles	
	The strengthening of internal control	Developing principles for internal control	
Establishing a database on business data			
<b>Increasing Opportunities to engage in Financial Transactions</b>	Introduction of new products	Improving leasing transactions	
		Promote project financing	
		Clarify regulation of preliminary contracts for real estate transactions	
		Define agreements with disabled people associations to facilitate home banking	
	The functioning of the interbank market	Transactions with T-bills	
		Law on repurchase agreements	
	Developing securities trading market		
<b>Reduction in Transaction Costs</b>	The increase of funds circulation through the system	Reducing cash transactions	Reducing cash transactions
	The building of full technological capacities	Developing scoring cards for individuals	Developing scoring cards for individuals

<b>ECB Modernization Criteria</b>	<b>BANKING FORUM ISSUE</b>	<b>Possible actions</b>	<b>Related 2008 SPI Albania projects</b>
		Setup tailored scoring systems for SME-s	
		Increase the use of new payment systems	
	The increase of ALL denominated lending	Provide training to judges about advanced financial products	
		Increase the number of specialized courts	
		Improving auction procedures for immovable collateral under foreclosure	Improving auction procedures for immovable collateral under foreclosure
<b>Increased Competition</b>	Improvement of bank's governance	Developing sound banking governance principles and practices	

## 2. SPI Albania projects status

<b>No.</b>	<b>Approved projects</b>	<b>Finalized in 2008</b>	<b>On going</b>	<b>Not started</b>
1.	Improving auction procedure for immovable collateral under foreclosure			
1.a.	Civil Procedure Code amendment	X		
1.b.	Improving Bailiff service	X		
1.c.	Appraisal Standards		X	
2.	Impact on the banking regulations of the IFRS implementation	X		
3.	Reducing cash transactions		X	
4.	Reviewing capital adequacy regulation		X	
5.	Consumer Financial Education		X	
6.	Facilitating leasing transactions			X
7.	Developing credit scoring cards for individuals			X
<b>Total</b>		3	4	2

Do you think that the projects 6 and 7 should be maintained on SPI Albania 2009 agenda?

<b>No.</b>	<b>Approved projects</b>	<b>Yes</b>	<b>No</b>
1.	Facilitating leasing transactions		
2.	Developing credit scoring cards for individuals		

If no, please state the reasons for which you don't consider the above issues as opportune to be handled in 2009.

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### **3. Strategic Directions for Albanian Financial Sector outlined in the National Strategy for Integration and Development 2007-2013**

SPI Secretariat has extracted the following strategic directions for the Albanian financial sector mentioned in the Government Strategy and that might guide you in formulation project proposals:

- improvement and development of the information technology infrastructure to establish a platform of reporting and supervising the insurance and private pension markets;
- improvement of the financial support to SMEs by supporting micro-credit institutions, by establishing a credit guarantee fund, and by using of other financial instruments such as factoring and leasing;
- improvement of the financial support for agriculture through credit schemes with light terms based on credit guarantees, through the expansion of the banking system to rural areas based on fiscal incentives and savings mobilization through support to effective savings-credit schemes.

### **4. Project proposals made by Project Working Groups**

Do you think that the below proposals for projects made by PWGs should be included in the project pipeline for 2009?

<b>No.</b>	<b>Approved projects</b>	<b>Yes</b>	<b>No</b>
1.	Loan loss provisioning under IFRS		
2.	Establishment of a national settlement system for payments in foreign currency		

### **5. Regulations issued in 2008**

AAB has provided the following list of regulations issued by Bank of Albania and SPI Secretariat extracted the following list of laws on financial sector approved by the Parliament in 2008. Please use these lists in formulating your project proposals, in case of secondary regulations are needed or in case of difficulties in implementing the regulatory provisions.

### List of regulations issued by Bank of Albania in 2008

Nr.	Date	Title
11	06/02/2008	“For the implementation of the e-payment”
24	26/03/2008	“For the internal control system of the foreign banks and their branches”
31	30/04/2008	“For the risk administration from the exposure of the banks.
42	16/07/2008	“For the structure and usage of the International Bank Account number. (IBAN)
43	16/07/2008	“ Over the minimum obligatory reserves held in Bank of Albania from banks”
44	16/07/2008	“On the approval of the usage from the banks of the obligatory reserves in Lek.”
59	29/08/2008	On the approval of the regulation on the banking and financial products and services
60	29/08/2008	On the approval of the regulation on the minimum requirements for information publication of the foreign banks and their branches”
61	29/08/2008	For some changes of the “ Credit risk administration “ regulation
62	29/08/2008	For some changes of the “ Activity of the foreign branches administration” regulation
63	29/08/2008	For some changes of the “report of the capital adequacy “ regulation
72	07/10/2008	“For the risk administration from the exposure of the banks
76	29/10/2008	On the agreement of repurchase and the reverse purchase.
84	12/11/2008	“For the approval on the banks usage of the obligatory reserve in Lek.”
91	24/12/2008	On the minimum security conditions and technical specifications for the banking activity environment.
97	24/12/2008	“On the intraday loan”

### List of laws on financial sector approved by the Parliament in 2008

No.	Law’s name	Law no. and approval date by the Parliament	Published in 2008 Official Gazette <sup>1</sup>
1.	Repurchase Agreement	9974 dated 28.07.2008	No. 128
2.	Money laundering and terrorism financing	9917 dated 19.5.2008	No. 83
3.	Securities	9879 dated 21.02.2008	No. 36
4.	Local government borrowing	9869 dated 4.02.2008	No. 18

<sup>1</sup> Publication in the Official Gazette indicates that law becomes effective. Full text of the law is found in the relevant Official Gazette

No.	Law's name	Law no. and approval date by the Parliament	Published in 2008 Official Gazette <sup>1</sup>
5.	An amendment to the law no. 8360 dated 10.06.1998 on criteria and modality of property distribution of legal non banking persons that have borrowed from the large public	9935 dated 26.6.2008	112
6.	Electronic signature	9880 dated 25.02.2008	No. 40
7.	Some amendments to the law no. 9369 dated 12.05.2005 on financial leasing, modified	9966 dated 24.7.2008	128
8.	Some amendments to the law no. 9630 dated 30.10.2006 on Factoring	10029 dated 11.12.2008	193

## 6. Other issues raised in SPI Albania 2008 survey and not short listed in 2008

The survey ran in 2008 resulted in the following list of issues that hamper banks' activities and efficiency and that were not undertaken as SPI Albania projects due to the limited capacity and/or because they were not voted as priorities. The remaining issues could be a reference for your project proposals. In formulating the project proposals, please take into consideration also the short term feasibility and the validity criteria.

No.	Potential SPI Project	Background information
1.	Facilitating agricultural lending	Farmers have difficulties in borrowing from banks due to lack of collateral (titles on the land being not clear, farmers cannot mortgage it). Micro-financing institutions are lending small amounts to farmers, but at very high costs. The collateral issue could be solved by establishing a guarantee fund for agriculture.
2.	Facilitating lending to tourism	The lack of a regulatory framework hinders the development of a bankable environment
3.	Facilitating lending to PPPs	Many of high value infrastructure projects are undertaken by PPPs. In Albania, there is no specific PPPs regulatory framework
4.	Strengthening the stock exchange	Although in Albania there is a stock exchange, it has no proper regulations for transacting.
5.	Lending to municipalities	There is no legislation on municipal

		bonds issuance.
6.	Increasing mortgage loans	The mortgage registration procedure is very long. An electronic register would facilitate this process. Banks also would like to have registered mortgage on unfinished buildings (it seems there is a WB project – to be checked). The lack of a city address system impedes property registration and prevents potential borrowers from using their property as collateral for bank loans
7.	Improving credit risk in consumer lending	The credit risk in consumer loans is appreciated as very high due to the lack of proper identification system (ID cards and addresses). The issue regards, in fact, all banks' relationship with clients because of the impossibility to properly identify and know the customers.  Lack of a properly functioning registry for vehicles is a serious disincentive for car loans.
8.	Improving KYC policies	Electronic Register of Commerce On-line system for customs, tax offices, courts, etc.
9.	Better credit risk management	Access on statistics on industries and sectors. There is an institutions that collects and manages the information - INSTAT – and it should be developed.
10.	Facilitating expansion of banks activities	In Albania, tax on profit is paid in advance, based on the budget projections. This prevents banks of gaining income from placing the respective amounts. At the same time, the netting procedures are very long.
11.	Improving the lending environment	Due to taxation level, Albanian companies don't keep an accurate evidence of their transactions. Accounting standards are very poor. Considering the official balance sheets, most companies are not creditworthy, although there are some other indications on the real situation. Banks have to rely on unofficial statements and various proxies for appraising the credit risk.



12.	Facilitating structural lending	This is considered necessary to finance infrastructure in rural areas
13.	Optimizing Anti-Money Laundering Reporting	Requirements for (e.g., on reporting) banks should be better defined, and practices should be harmonized
14.	Improving write-off of bad debts	International best practice should be introduced
15.	Regulating bank communications of “effective” interest rate (EIR) offered to customers	Precise and uniform methodologies to calculate the EIR should be introduced to facilitate interbank comparisons from customers
16.	Account stopping/blocking	An appropriate regulatory framework is lacking
17.	Strengthening bank staff	Training programs felt necessary at the industry level. Possible cooperation with Academia
18.	Securitization	Lack of regulatory framework felt
19.	Financial ombudsman	Banks need out-of-court systems
20.	Strengthening the AAB	The association is “dysfunctional, ineffective, and non credible”
21.	Developing pension funds	There is no regulatory framework for pension funds
22.	Secondary regulations for implementing Banking Law provisions	Some of the Banking Law provisions should be detailed in secondary regulations with input from banks
23.	Rationalizing security/safety requirements	The regulation on banks’ safety should take into account the insurance contracts covering the same risks.
24.	Rationalizing reporting to BoA	Banks spend a lot of resources in preparing and sending reports to the BoA, Banks and BoA should look for a solution to ease the reporting burden while addressing also BoA concerns on prudential and stability issues.
25.	Avoiding reverse effects of regulations	For example, the way of calculating FX position creates a real exposure to risk for banks.
26.	Improving stability in the regulating environment	BoA to improve transparency in planning regulations and to harmonize the implementation as much as possible with the business cycle
27.	Harmonizing accounting policies	Fiscal and BoA accounting regulations should be harmonized (for example, discrepancies in treating the fixed assets depreciation).
28.	Improving Government transparency	Banks do not have updated information on regulatory changes

29.	Improving transparency and equal access to guarantee funds	There are some guarantee funds established but only some of the banks have information on them or access to them (for example, the guarantee fund for electricity suppliers)
30.	Reducing paper-based documents	Any measure decreasing the amount of paper used would be welcome and would reduce banks' costs.
31.	Improving access to basic banking products	Banks should provide some basic products and services to affordable prices in order to stimulate people to use bank accounts.
32.	Improving FX market	There are no forward transactions on the market. There are no regulatory provisions or industry standards for this market

## II. Project proposals

[please fill in the below section for each project proposal]

### 1. Project proposal

<b>Title of the issue</b>	
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### 2. Description of the proposed issue

<b>Short description of the issue /situation to be solved</b> (regulatory context, difficulties, prior attempts to solve the issue)	
<b>How it should be solved</b> (issuance of a regulation/amendments to an existing regulation, self regulation)	

### 3. Is the issue of public and private interest?

	<b>Short Description</b>
<b>Public interest in the issue</b>	
<b>Private interest in the issue</b>	

### 4. Estimated impact (please tick in the appropriate box)

	<b>High</b>	<b>Medium</b>	<b>Low</b>
<b>Estimated impact</b>			
<b>Some economics (if available) on the size of the issue</b>			

### 5. Action line of the project (please tick in the appropriate box)

<b>New Business Opportunities</b>	
<b>Cost Efficiency</b>	
<b>Better industry-consumer relationships</b>	

**6. International reference (if any)**

	<b>EU level</b>	<b>Deadline (if any)</b>	<b>National level</b>
<b>International reference</b>			

**7. Expected value added from SPI Secretariat:**

**8. Estimated international assistance needed:**

**9. Contact details:**