

INITIAL INQUIRY FOR “FIRST” FINANCING OF SPI ALBANIA PROJECTS

April 2009

1. Brief summary of the objectives of the proposed technical assistance

The objective of the proposed technical assistance is to undertake the following three projects that contribute to Albania’s financial market development:

- 1) Establishing a guarantee scheme for SMEs;
- 2) Facilitating lending to PPPs;
- 3) Modernizing the movable collateral register.

2. Issues to be addressed by the proposed technical assistance

Describe briefly and clearly the institutional, legal, capacity or other constraints to be addressed by the recipient through the project.

- A. To help assess the constraints to be addressed by the recipient, we would like first to describe who the recipient is. The recipients of the project are Bank of Albania, Ministry of Finance and Albanian Association of Banks acting jointly through SPI Albania, a public-partnership that started to operate in May 2008 to promote large-scale financial sector modernization in Albania through closer cooperation and coordination of local institutions and mobilization of local experts.
- B. The SPI Albania’s governing body is the SPI Committee which gathers top level representatives of Bank of Albania, Ministry of Finance, Ministry of Economy (the consumer protection representative), Financial Supervision Authority and Albanian Association of Banks.
- C. SPI Albania runs projects, as proposed by stakeholders and agreed by its SPI Committee, aiming at increasing the efficiency of financial intermediation through regulatory and self-regulatory (industry) solutions that address asymmetries of information, market completeness, enforceability of financial contracts and transaction costs. The solution finding to the existing problems is entrusted to Project Working Groups (PWGs), gathering representatives of all stakeholders, with support from a full-time SPI Secretariat.
- D. The SPI Secretariat presently consists of two full-time members (a Director of Analytics and a Director of Operations) and a part-time member with analytical functions (all financed by the Convergence Program through February 2010), operating under guidance from the Convergence Program’s SPI Regional Operations Director.
- E. The SPI Secretariat has two functions: a) “general analyst” and b) “project working operations”. The former role comprises the following activities: a) it performs research in the local and international experience on specific issues, plans the project; b) it runs banking surveys and consultations with involved parties; c) it performs Regulatory Impact Assessments for the proposed amendments; d) it prepares all documents based on before mentioned and on individual contributions of the PWGs members, using EU Better Regulation methodology. The latter role covers the following activities: a) it convenes the PWGs that are entrusted with the projects; b) it prepares the minutes of the PWG meetings; c) it distributes questionnaires and collects the findings; d) it assists in-

house or external consultants in consensus-building activities with local stakeholders; e) it organizes enactment support activities.

- F. The members of the SPI Committee approved the SPI Albania 2009 activity program consisting of 10 projects which represents the maximum capacity limit of a one-and-a-half “general analyst” presently available. Recognizing that the “project working operations” functions could support additional projects if the technical analyst constraint is addressed through hiring of additional experts, it directed the SPI Secretariat to identify sources of funding for experts to undertake additional projects where the need of specific expertise prevails over the use of “general analyst” skills. Extensive consultations performed in 2009 to build up the annual activity program identified 30 other important modernization project proposals.
- G. FIRST assistance is therefore requested to hire international and local experts that would expand the limited SPI Secretariat “general analyst” capacity, while relying on SPI Secretariat “PWG operations” functions for efficiency.
- H. The FIRST-hired consultants for the three proposed projects will: a) organize project management according to EU Better Regulation methodology; b) assemble a note on international experience; c) prepare an assessment of the impact of the proposed regulatory/other measures; d) prepare project documents for each EU Better Regulation step for PWG discussion; e) any additional analytical work in support of consensus-building.
- I. SPI Project Working Group involvement will consist of the following: a) validation of the project’s ToR to ensure it meets the information requirements to prepare a sound actionable proposal in the local context; b) definition of the coverage of the note on international experience to meet local needs; c) agreement with the “Scoping of Problem” note to ensure adequate identification of issues as stake and possible policy options; d) input into the design of the impact questionnaire to cover relevant economic drivers; e) discussion of the implications of the impact questionnaire findings for the proposed solution; f) discussion and validation of the detailed proposed solution elaborated by the expert.
- J. SPI Secretariat’s involvement will consist of the tasks indicated in the latter part of paragraph E above plus assistance in the preparation of the final document for SPI Committee consideration, reflecting Project Working Group consensus.

3. Recipient agency’s role in the area to be addressed by the proposed technical assistance

Indicate (a) to what extent the recipient is responsible for, and in the position to coordinate the activities under the project and implement the expected changes proposed, (b) other government agencies that will be involved and (c) the nature and legal basis of the cooperation between the recipient and other stakeholders involved in implementation.

Under the SPI Albania platform, projects are handled by public-private Project Working Groups where all stakeholders are represented. The responsibility of the timely achievement of the project objectives is entrusted to the Project Management Team gathering top level representatives of the stakeholders. According to the SPI Albania Operating Guidelines, as the above mentioned projects are proposed by banks, AAB will appoint Project Owners and Project Managers, while Bank of Albania/ Ministry of Finance/Ministry of Justice will appoint a Co-Project Manager. Given the nature of the projects, representatives of SMEs or corporate professional

associations, of the Ministry of Economy, Trade and Energy will be invited to join the PWG.

The final PWG recommendations are to be endorsed by the SPI Committee and the responsibility for the implementation of the proposals is of the SPI partner institutions. The inter-agency cooperation is regulated by the SPI Committee Operating Guidelines (available on the www.spi-albania.eu website).

4. Financial sector development context

Briefly summarize the reform strategy, legislative and/or capacity building agenda to which the project will contribute i.e. analytical underpinnings. If available, indicate articles of law, resolutions, strategies and other such documents which indicate the commitment of the recipient, the government and other stakeholders.

The proposed SPI Albania projects are addressing financial intermediation efficiency issues by creating more opportunities to engage in business transactions under better risk management conditions. They match also the priorities raised in Banking Forum speeches by the Bank of Albania Governor (the recognition of and protection from various risks, the introduction of new products and the building of full technological capacities) and to the Government of Albania development strategy. Their implementation should also produce an improvement of the World Bank Doing Business ranking and should promote the economic development of Albania through increased access to finance by SMEs, through mobilization of additional financing sources for infrastructure investments) and through the improvement of the capacity of market participants to manage risks.

5. Are there any efforts being undertaken by the recipient, other government agencies, domestic stakeholders, bilateral or multilateral development partners to address the issues identified in 2? Why are other sources of funding not available?

As stated above, public and private partners of SPI Albania directly contribute to the partnership. For 2008, value of in kind contribution of the local stakeholders could be estimated as the opportunity cost for 75 experts dedicating a total of 2,400 hours to Project Working Group meetings. FIRST's technical assistance would complement the human and other resources of the local stakeholders (through PWG) and of Convergence Program (SPI Secretariat). At SPI Committee's request, the SPI Secretariat is also actively exploring mobilization of EU technical assistance under the TAIEX program to execute two or three additional projects where specific expertise of EU norms and regulations is a strong requirement. During the 2009 program consultations that covered the entire donor community active in Albania (WBG, EU, EBRD and USAID), the SPI Secretariat determined the absence of any overlap between the proposed projects and existing or envisaged donor projects.

6. Expected outputs of the proposed technical assistance and how they are expected to contribute to achieving the stated objectives of the recipient

Identify (a) expected tangible and verifiable outputs (reports, knowledge-sharing forums, manuals, etc.) and (b) how they will contribute to achieving the project's objectives.

The projects proposed outputs are:

- Implementation of a guarantee scheme based on a feasibility study including identification of financial structures;
- legislative amendments and regulatory actions by the relevant line Ministry to facilitate lending to PPPS;
- regulatory amendments and implementation of actions to modernize the movable collateral registry.

7. Expected outcomes [results] of the proposed technical assistance

Identify, in quantitative terms if applicable, the measurable indicators of the project's impact.

The outcomes of the SPI Albania activities are enactment of actual regulatory and legislative changes. Based on the SPI Romania benchmark (www.spi-romania.eu), it is reasonable to estimate that 75% of the SPI outputs turn into SPI outcomes with a time lag of about one year which is the time span in parliamentary democracies to enact legislative proposals.

8. Support/endorsement of the government agency or entity exercising oversight of the recipient

Indicate whether the governmental or other entities exercising oversight of the recipient support this proposal. Indicate the person, including title and agency, whose support may be critical for achieving project objectives.

The SPI Committee, with membership from Bank of Albania, Ministry of Finance, Ministry of Economy, Energy and Trade, Authority for Financial Market and Association of Albanian Banks, is fully committed to the SPI Albania activities and to the proposed projects undertaken as part of its Annual Financial Modernization Program.

SPI Committee Members:

Mr. Fatos Ibrahimi	First Deputy Governor	Bank of Albania
Mr. Libero Catalano	Chairman	Association of Albanian Banks
Mr. Nezir Haldedaj	General Treasury Director	Ministry of Finance
Mr. Keler Gjika	Deputy Chairman	Financial Supervisory Authority
Ms. Anila Jani	Market Surveillance Director	Ministry of Economy