



**Financial Sector
Reform and
Strengthening Initiative**

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INITIAL INQUIRY ABOUT FIRST FUNDING

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

The main objective of the proposed technical assistance is to promote financial market development and Albania's economic development by establishing a guarantee scheme for SMEs, by facilitating lending to PPPs and by modernizing the movable collateral register.

All three projects are intended to contribute to a better access to finance under manageable risk conditions and with lower costs. These projects will contribute further to SMEs development and to infrastructure building in Albania.

2. Issues to be addressed by the proposed technical assistance

Most of the businesses in Albania is SME type, but banks are reluctant in lending to them because of high risks associated to SMEs. The coverage of a guarantee scheme would boost SMEs expansion. Many of high value infrastructure projects are undertaken by PPPs and in Albania there is no specific PPPs regulatory framework. The lending procedures against moveable collateral are not rapid and the evidence is not very reliable. The moveable collateral register is not accessible online. On the other hand, even if the registry exists, as there is no compulsoriness to check with this register before purchasing, pledged goods can be sold with negative consequences on buyers and banks.

The proposed technical assistance consists in identifying solutions in order to establish a SMEs guarantee scheme, to revise the existing regulations on PPPs in order to improve the credit mechanisms for these partnerships, and to improve the functioning of the moveable collateral register as well as its regulatory framework. The solutions should be identified based on the international experience adapted to the local realities and through extensive consultations with stakeholders. The enactment of the solutions should be supported by quantitative impact assessment showing the net benefits for the stakeholders.

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

The recipient is Ministry of Finance, as part of the SPI Albania partnership (gathering also Bank of Albania, Albanian Association of Banks, Financial Supervision Authority, and the Ministry of Economy, Trade and Energy – the consumer protection department).

MoF will contribute with members in the Project Working Groups and will undertake ownership of projects, by appointing a Project Owner and a Project Manager for each of the projects. Albanian Association of Banks/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, and of Bank of Albania will be invited to join the PWG. MoF and AAB will play an important role in identifying the solutions that would answer best to the needs, will provide data for the impact assessment and will act for enacting the solutions.

4. Financial sector development context

The financial sector is the most advanced area of the Albanian economy, with the banking industry at the top. The banking community's role in supporting the real sector's development should enhance but under a robust risk management framework, in order to prevent the occurrence of systemic crisis.

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.

4. 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?

FIRST's technical assistance would complement the human and other resources of the local stakeholders (through PWGs) and of the Convergence Program (SPI Secretariat). 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.

The estimated value of in kind contribution of the local stakeholders is the opportunity cost for about 25 experts dedicating a total of 800 hours.

Convergence Program's contribution is the cost of SPI Secretariat's following activities for the 3 projects: a) convening the PWGs that are entrusted with the projects; b) preparing the minutes of the PWG meetings; c) distributing questionnaires and collecting the findings; d) assisting FIRST consultants in consensus-building activities with local stakeholders; e) organizing enactment support activities.

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

The projects proposed outputs are:

- a feasibility study on the establishment of a guarantee scheme, including identification of financial structures;
- a position document with the proposals for legislative amendments and regulatory actions by the relevant line Ministry to facilitate lending to PPPS;

- a position document with the proposals of regulatory amendments and implementation of actions to modernize the movable collateral registry.

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

The outcomes of the projects will be more loans granted to the real economy through SMEs and PPPs, the development of Albania’s private sector and of its infrastructure, as well as an increase in the general welfare.

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

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