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SPI ALBANIA - NOTE ON EXTERNAL FUNDING SOURCES

According to SPI Committee's March decision, SPI Secretariat explored alternative funding sources for SPI Albania, particularly to cover our needs after the termination of Convergence Program support. SPI Secretariat also prepared a presentation for the SPI Committee in the Regional Donors' Coordination Conference where we offered SPI Albania's infrastructure and processes to support donors' financial modernization initiatives.

SPI Secretariat identified a primary source for technical assistance funding e.g., the European Commission's TAIEX (Technical Assistance and Information Exchange). TAIEX has been designed to assist countries with regards to the approximation, application and enforcement of EU legislation. It is a demand driven program that channels requests for assistance and contributes to the delivery of appropriate tailor-made expertise to address problems at short notice- perfectly compatible with SPI Albania project needs.

For a longer term and more self-sustainable SPI Albania future, SPI Secretariat has identified the possibility to apply for financing from IPA (Instrument for Pre-Accession Assistance) through the new IPA Adriatic Cross-border Program 2007-2013 which is a strategic instrument of European cooperation in the Balkan Area ("Strengthening of sustainable development capabilities of the Adriatic Region through a concerted strategy of action between the partners of the eligible territories").

Details on these EU programs with regards to their objectives, past experiences in Albania as well as their applicability towards SPI Albania's needs can be found in Appendix I.

SPI Secretariat summarizes in this note the actions it will take to access the two sources of funding.

1. TAIEX Application - Proposed Steps

6 out of the 10 SPI Albania 2009 projects are related to regulatory acts that serve public interests and are in line with EU legislation. Bank of Albania, Financial Supervisory Authority, Ministry of Finance and Ministry of Economy as public institutions could apply for TAIEX assistance.

In order to apply for TAIEX assistance, SPI Secretariat proposes the following action plan:

- 1) To discuss with each PWG the need to secure additional technical expertise;
- 2) In case of PWG approval, SPI Secretariat will draft the ToRs for the technical consultant;
- 3) Based on PMG approval, SPI Secretariat will send the ToRs to applying SPI Albania public institution;
- 4) SPI Secretariat will support with needed information the internal approval of the application to TAIEX and in filling the necessary documentation for the TAIEX application;
- 5) SPI Secretariat could follow up with TAIEX (c/o the EC Delegation in Tirana).

In order to follow the projects' implementation schedule approved by the SPI Albania Committee, SPI Albania anticipates that applications will be considered as per the below tentative schedule:

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| No. | Projects | Applicant institution | Target* |
|-----|---|---------------------------------|------------|
| 1. | Revising public Procurement Law | Ministry of Finance | April 2009 |
| 5. | Unique and rationalized reporting system | Bank of Albania | May 2009 |
| 4. | Revising Regulatory act on execution of procedures on Bank accounts | Bank of Albania | June 2009 |
| 2. | Revising Foreign Currency Open positions | Bank of Albania | July 2009 |
| 3. | Loan loss provisioning under IFRS | Bank of Albania | July 2009 |
| 6. | Preparing a feasibility study for a central depository | Financial Supervision Authority | July 2009 |

If TAIEX assistance becomes available:

- SPI Secretariat will coordinate with the applying institution and the respective Project Working Group how best to benefit from the expertise.
- SPI Secretariat will report on the application progress and on the evaluation of the received expertise to the applying SPI Committee institution as well as to all the SPI Committee members.

2. IPA Application - Proposed Steps

While TAIEX supports individual projects, IPA Adriatic supports an entire program. It is therefore the ideal source of financing for the costs of the SPI Secretariat. According to the IPA Adriatic rules, however, the application should be submitted by a legal entity, There are two options:

- 1) SPI Albania should be incorporated as a legal entity or
- 2) an SPI Albania partner applies for IPA Adriatic and makes available the funding to support the SPI Albania program. It is difficult to conceive that the SPI Albania public partners will be able to secure the necessary approvals for such an innovative activity. It is therefore more reasonable to target AAB as the applicant for IPA Adriatic funding.

Although the call for applications has not yet been published (based on past experiences the deadline for submissions will not be later than June-July 2009), and considering the importance and the complexity of the application process, SPI Secretariat proposes the immediate initiation of the following steps:

- Pre-selection stage – To be concluded within May 2009:

- 1) Based on discussions with AAB, SPI Secretariat will send a proposal to the SPI Committee on the applying entity as outlined above And on the EU and non-EU member partners (see reference to application criteria Appendix I);
- 2) SPI Secretariat will support the application process (following the decision on the applying entity);
- 3) SPI Secretariat will follow-up with the application stages and consultations with the Program Coordinator – Albanian Ministry of Integration;

- If pre-selected:

- SPI Albania Secretariat and AAB (in case it is the applying institution) will follow up with the next stage of application based on the implementation manual to be issued by Ministry of Integration;

- Upon approval of the funds

- SPI Secretariat and AAB (in case it is the applying institution) will draft an administrative plan accordingly to the IPA criteria for funds management and reporting;
- SPI Secretariat will report on the evidences of funds received to the SPI Committee and to Ministry of Integration.

PROGRAM DETAILS

| | TAIEX | IPA |
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| Program Information | <p>TAIEX, or the Technical Assistance and Information Exchange, is an instrument of the Directorate-General Enlargement of the European Commission. TAIEX helps countries with regard to the approximation, application and enforcement of EU legislation. It is largely demand driven and channels requests for assistance and contributes to the delivery of appropriate tailor-made expertise to address problems at short notice. TAIEX' main tasks are:</p> <ul style="list-style-type: none"> • To provide short term technical assistance and advice on the transposition of EU legislation into the national legislation of beneficiary countries and on the subsequent administration, implementation and enforcement of such legislation; • To provide technical training and peer assistance to partners and stakeholders of the beneficiary countries; • To be an information broker by gathering and making available information; • To provide database tools for facilitating and monitoring the approximation progress as well as to identify further technical assistance needs. <p>The beneficiaries of TAIEX assistance includes those sectors, both public and private, that have a role to play in the beneficiary countries in the transposition, implementation and enforcement of EU legislation.</p> <p>The main target groups are:</p> <ul style="list-style-type: none"> ▪ Civil servants working in public administrations; at national and sub-national level and in associations of local authorities; ▪ The Judiciary and Law Enforcement authorities; | <p>The new IPA Adriatic Cross-border Program 2007-2013 has been approved by European Commission on March 25, 2008, has being confirmed as a strategic instrument of European cooperation in the Balkan Area. The General Objective of the Program is “<i>Strengthening of sustainable development capabilities of the Adriatic Region through a concerted strategy of action between the partners of the eligible territories</i>”, and it is further implemented through 4 Intervention Priorities:</p> <p style="padding-left: 40px;">- Priority 1 – Economic, Social and Institutional Cooperation. (30% of available resources) General Objective: <i>Strengthening research and innovation in order to contribute to competitiveness and increasing the development of the Adriatic area through economic, social and institutional cooperation.</i> Specific objectives:</p> <ol style="list-style-type: none"> 1. <i>Improving research capacity, also by increasing levels of competence, encouraging the transfer of innovation by the creation of networks between the entrepreneurial , institutional, academic, training and research sectors, and principally by promoting joint activities</i> 2. <i>Incentivizing the territorial and productive systems to invest in research and innovation through diversified and innovative offers of financial instruments</i> 3. <i>Creation of new, and strengthening of existing cooperation networks in social, labor and health policy</i> 4. <i>Promoting innovative services to the citizenry through the exchange of technical and government expertise and the exchange of best practice between governments and local/public authorities.</i> <p style="padding-left: 40px;">- Priority 2 – Natural and Cultural Resources and Risk Prevention. (30% of available resources) General Objective: <i>Promoting, improving and protecting natural and cultural resources through joint management of technological and natural risks</i></p> <p style="padding-left: 40px;">- Priority 3 – Accessibility and Networks. (30% of available resources) General Objective: <i>Strengthening and integrating existing infrastructure networks, promoting and developing transport, information and communication services.</i></p> <p style="padding-left: 40px;">- Priority 4 – Technical Assistance. (10% of available resources) General Objective: <i>Guarantee management, implementation, monitoring, control and evaluation of the program</i></p> |

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| | <ul style="list-style-type: none"> ▪ Members of Parliaments and civil servants working in Parliaments and Legislative Councils; ▪ Professional and commercial associations representing social partners, as well as representatives of trade unions and employers' associations; ▪ Interpreters, revisers and translators of legislative texts. <p>TAIEX assistance can be channeled through:</p> <ul style="list-style-type: none"> - Expertise Assistance - to advise on legislative acts and interpretation of the acquis, or to provide guidance on administrative arrangements for its implementation and enforcement; - Study Visit - providing opportunities for officials of beneficiary countries to understand how Member States deal with practical issues related to the implementation and enforcement of the acquis and issues related to the interaction with stakeholders; - Request for Workshop – in order to present and explain issues related to the acquis to a wider audience. Such assistance can be focused on the needs of an individual country or of a group of countries facing similar challenges. The multi-country format also provides a valuable opportunity to network and to exchange experience between beneficiary countries. | <p>The IPA Adriatic Cross-Border Cooperation Program gives priority to the objectives of the EU pre-accession and cohesion policies.</p> <p>The program is based on cooperation between four candidate or potential candidate countries and three member states, and thus potentially meets the IPA's objectives by allowing participating countries to take actions together to develop their territories, under community rules and regulations, by developing as well the institutional capacity of aspiring EU members.</p> <p>IPA Adriatic welcomes joint projects involving at least one Member State Partner and one from a Candidate Country/Potential Candidate Country.</p> <p>The aim of the Program is to achieve high quality result orientated projects of strategic character, relevant to the Program area.</p> <p>Selection of projects will be the responsibility of the Joint Monitoring Committee (representatives of all participating Countries). The Joint Monitoring Committee may also introduce top-down elements to stimulate generation of projects in order to achieve high level cross-border projects. These elements may include among others:</p> <p>(a) open call for proposals (targeting all potential applicants, to submit project ideas relevant to Program priorities);</p> <p>(b) restricted calls for project proposals:</p> <p>(i) focusing Program priorities (developing detailed project descriptions);</p> <p>(ii) narrowing the target group of potential project partners;</p> <p>(iii) setting specific eligibility and quality criteria regarding the number and type of partners, activities, etc..</p> <p>Preparation for restricted calls may be supported by thematic seminars at the level of Program stakeholders (target groups, experts, Program management bodies, etc) to define potential fields of strategic cooperation, which might serve as a basis for the calls;</p> <p>The final approval or rejection of projects is the responsibility of the Joint Monitoring Committee. The Joint Monitoring Committee may create subcommittees and involve external experts in the generation and evaluation of projects if necessary.</p> |
| <p>Assistance in Albania</p> | <p>Albania, as an aspiring EU candidate has received TAIEX assistance from March 2007 to date on more than 95 different occasions through seminars and workshops, expert missions, and study tours. Some of the most assisted areas have been:</p> <ul style="list-style-type: none"> - Economy and Business: Internal Audit and Related Issues; e-Commerce private | <p>The Albanian Ministry of Integration with the role of national coordinator of EU funds and specifically IPA funds has managed the programming of the Instrument for Pre-Accession Assistance (IPA) for 2009 under the first IPA Component "Transition support and institution building".</p> <p>IPA 2009 budget for Albania was 70.9 million EUR, and for programming purposes, the ministry prepared a working calendar for each step of the process highlighting the responsibilities of each of the actors involved including four different phases;</p> |

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| | <p>pension systems; Insurance and Re-insurance, etc.</p> <ul style="list-style-type: none"> - Legislation: Competition Law; Legislation on motor vehicles; Property Rights on the land; Translation of the acquis into Albanian language; VAT Community Legislation etc. - Agriculture: Olive Oil; Veterinary Research Institute data selection technique and analysis for agricultural statistics - Social and Consumer Protection: food contaminants, phyto-sanitary inspections Social Protection and Social Inclusion; food hygiene, HACCP, food traceability and food safety control Food Labeling - Police and Security Standards: ICT Standards & Guidelines; fight against the human trafficking; fight against drug trafficking; fight against corruption - Education and Technology: information society & Interoperable e-Government Accreditation <p>EU Relations and Experience: Donor Coordination conference; Visa Liberalization Process;</p> | <p>Phase I of IPA 2009 programming was the preparatory phase in which the Ministry of Integration is mainly responsible. The MoI staff made a preliminary assessment of proposals for inclusion in IPA 2009 programming taking into consideration the priorities of line ministries and central institutions included in the updated National Plan for the Implementation of the SAA, sectoral strategies and other strategic documents of the European Union. Once this stage is finished, the selected priorities are distributed officially to all actors involved. Then all institutions are encouraged to bring in their comments and proposals for inclusion of priorities areas of intervention.</p> <p>Phase II of the programming involved potential beneficiary institutions which prepared project proposals for support under IPA 2009. Project proposals were brought in a determined format available through the MoI website. In preparing these project proposals, attention was paid to how the need for support was justified and that linked logically to EU strategic documents such as the Multi-Annual Indicative Planning Document, 2007 European Partnership for Albania, findings of the EC progress report for Albania, the Stabilization and Association Agreement, Interim Agreement, sectoral strategies and the National Plan for the Implementation of the SAA.</p> <p>Phase III of IPA 2009 programming consisted in the finalization of the project package for IPA 2009. Projects were presented in the format of a project fiche</p> <p>Phase IV consisted in the fulfillment of administrative procedures for the entry into force of IPA 2009. The main responsibility for this phase falls under the responsibilities of the European Commission services and the Albanian government.</p> |
| <p>Assistance to SPI Albania</p> | <p>The newly approved SPI Albania 2009 Program's overall theme is risk management through a self-reinforcing combination of market infrastructure and prudential regulations interventions. 6 of the 10 projects for year 2009 are proposed by public stakeholders (supervising authorities such as Bank of Albania, Financial Supervisory Authority and Ministries) that are the main target for the TAIEX assistance.</p> <p>SPI Secretariat has identified the following projects in 2009 activity program that could benefit from TAIEX Assistance:</p> <ul style="list-style-type: none"> - Revising public Procurement Law | <p>In accordance with Article 34 (3) and 89 (2) of the IPA Implementing Regulation the following expenditure shall not be eligible:</p> <ol style="list-style-type: none"> 1. taxes, including value added taxes; 2. customs and import duties, or any other charges; 3. purchase, rent or leasing of land and existing buildings; 4. fines, financial penalties and expenses of litigation; 5. operating costs; 6. second hand equipment; 7. bank charges, costs of guarantees and similar charges; 8. conversion costs, charges and exchange losses associated with any of the component specific euro accounts, as well as other purely financial expenses; 9. contributions in kind. 10. interest on debt; 11. the purchase of land for an amount exceeding 10% of the eligible expenditure of the 12. operation concerned. |

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| | <ul style="list-style-type: none"> - Revising Foreign Currency Open positions - Loan loss provisioning under IFRS - Revising Regulatory act on execution of procedures on Bank accounts - Preparing a feasibility study for a central depository - Unique and rationalized reporting system. <p>In addition to the SPI Albania approved 2009 Program, some of the project proposals that SPI Albania has identified as important financial modernization opportunities but may not undertake, can also benefit from TAIEX assistance. Some of the recommended projects are:</p> <ul style="list-style-type: none"> - The creation of a complete regulatory framework on the merger and acquisitions of banks - Facilitating Lending to PPPs - Facilitating agricultural lending - Increase in the number of specialized courts. <p>PWG assisted by the SPI Secretariat will define the need for TAIEX assistance through formulating the following application requirements:</p> <ul style="list-style-type: none"> o Type of assistance required (expert, workshop, study visit) o Stake-holding SPI Albania Committee institution requesting the assistance o Reference to the specific Aquis article or regulatory act (EU directive, regulation, recommendation) applicable to the project o Outline on the current regulatory framework and need for intervention o Objective of required assistance o Draft program for (expert or workshop); | <p>By way of derogation the following expenditure shall be eligible:</p> <ol style="list-style-type: none"> 1. value added taxes, if the following conditions are fulfilled: they are not recoverable by any means, it is established that they are borne by the final beneficiary, and they are clearly identified in the project proposal. 2. charges for transnational financial transactions; 3. where the implementation of an operation requires a separate account or accounts to be opened, the bank charges for opening and administering the accounts; 4. legal consultancy fees, notarial fees, costs of technical or financial experts, and accountancy or audit costs, if they are directly linked to the co-financed operation and are necessary for its preparation or implementation; 5. the cost of guarantees provided by a bank or other financial institutions, to the extent that the guarantees are required by national or Community legislation; 6. overheads, provided they are based on real costs attributable to the implementation of the operation concerned. Flat-rates based on average costs may not exceed 25% of those direct costs of an operation that can affect the level of overheads. The calculation shall be properly documented and periodically reviewed. <p>In addition to the technical assistance the following expenditure paid by public authorities in the preparation or implementation of an operation shall be eligible:</p> <ol style="list-style-type: none"> 1. the costs of professional services provided by a public authority other than the final beneficiary in the preparation or implementation of an operation; 2. the costs of the provision of services relating to the preparation and implementation of an operation provided by a public authority that is itself the final beneficiary and which is executing an operation for its own account without recourse to other outside service providers if they are additional costs and relate either to expenditure actually and directly paid for the co-financed operation. <p>If approved, IPA Adriatic funds may cover SPI Albania's operational expenses, administrative costs and office equipment.</p> <p>In accordance to Art. 94 of IPA Implementing regulation the targets Priorities shall be quantified using a limited number of indicators for output and results, taking into account the proportionality principle. The indicators shall make it possible to measure the progress in relation to the baseline situation and the effectiveness of the targets implementing the priorities. The set of indicators serves for internal program management and forms an indispensable basis for reporting and communication to make the Program's achievements clear to Program partners and to a broader public.</p> <p>The ex ante quantification of the targets is based on two parameters: the financial weight of the priority axes and</p> |
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| | | <p>an average project size drawn from previous experiences.</p> <p>Further explanations about the project typologies will be developed in the Implementing Manual to be issued following the Program's approval for the respective year currently under progress.</p> |
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Special Derogation:

The Program partnership recognizes the value of the Italy-Albania cooperation which has been supported by the two countries and the EU over recent years.

As a result, the Program partnership invites Albania and Italy to develop a strategic project which will be of benefit for the whole Adriatic Program area. The involved Albanian and Italian partners must aim to expand the partnership for this strategic project to other interested partners from the Program area.

The Albanian and Italian partners are invited to submit to the Joint Monitoring Committee - in one of its first meetings – the strategic project, including a financial and activities plan¹.

¹ A series of meetings and exchange of correspondences with regards to a Strategic Project Italy-Albania in the framework of the Program took place from March 2006.

On this month, a Letter of Intent was signed by the Prime Minister of Albania and the President of the Region of Puglia and sent to the President of the European Commission in Brussels, requesting the continuation of the cooperation between Albania and Italy under the Community funded programs of cooperation.

A meeting organized by the European Commission and the Italian Ministry of Foreign Affairs where the new cross-border cooperation programs were presented, took place in Rome on the 9-10 March 2006. It was decided that Albania will participate in only one program with Italy. After the decision not to have a bilateral program Italy-Albania for the next programming period 2007-2013 and in order to continue the cooperation activities started since 1994, efforts to include a Strategic Project Italy-Albania in the Program have continued. A high level Forum on "Investments and Legality in Albania" took place in Bari, Italy, on the 24th of May 2007, where discussions on the future cooperation of the 2 countries under the new Program took place.

IPA Adriatic Criteria Assessment

| Types and characteristics of successful Projects | SPI Albania compliance | Comments |
|---|------------------------|---|
| Project involves at least one Member state partner and one potential candidate country | X | SPI Albania/AAB and ABI |
| <p>The program strategy, reflecting the territorial dimension involved, is wide and pursues difficult objectives through: Research and Innovation, Natural and cultural resources and Risk Prevention, and Accessibility and Networks.</p> <p>Research and Innovation's measure objective is to improve research capacity in the Adriatic area, by increasing levels of competence, encouraging transfer of innovation by creating networks between the entrepreneurial, institutional, academic, training and research sectors, principally by promoting joint research activity.</p> | X | <p>SPI Albania's mission is fully compatible with the program's purpose of facilitating initiatives aimed at strengthening the research system, by strengthening connections between the entrepreneurial, institutional, academic and research sectors, above all by promoting joint activity between the private and public sector</p> |
| It is preferable to utilize principles of appropriate concentration in terms of territories and sectors to maximize the effectiveness. | X | |
| To include joint operations which have been jointly selected by the participating countries through single calls for proposals covering the whole eligible area. The operations will be identified jointly by beneficiaries and partners in the eligible territories, who will pool their experience and common interests. | X | <p>While operations will involve action from at least two parties (SPI Albania and ABI) there will be one single application answering the Albanian call for proposals. The operations will be lead through the SPI Albania Secretariat in Tirana.</p> |
| To be based on high level of co-financing (85% IPA – 15% own funds as per previous IPA programs 2007, 2008, 2009) | X ² | <p>IPA funds are not limited to the nature of the expenses they cover, but more to the objective of the proposed initiative. SPI Albania's financial sector modernization projects fall under the first Priority of IPA objectives of Economic, Social and Institutional Cooperation (Research and Innovation).</p> |
| Be in a long term project because of the complexities of organization, partnership and content | X | <p>SPI Albania commitment to the modernization of the financial sector is envisaged to continue for long-term</p> |
| To have an active and high quality partnership rather than nearly formal participation | X | <p>All SPI Albania participating members are actively involved in all the projects steps from the proposal to enactment.</p> |
| To have particular requirements in terms of content. The strategic Projects will have to show where they coincide and contribute to carrying out the Lisbon strategy and satisfy the integration elements promoted by Community policies regarding cooperation | X | <p>SPI Albania projects, are proposed after several consultation with pubic and private institutions and in-line with the Bank of Albania priorities converging with the EU accession requirements.</p> |

² In case AAB will cover 15% of the total SPI Albania budget

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| To produce positive outcome in the cooperation area. Even if it operates in a limited territorial framework, it rebuilds or completes some network on deals with matters of general interest to the entire area and thus encourages greater overall cooperation. | X | SPI Albania projects have an impact on the entire territory of Albania and the experience gained through the analytical process benefits not only the Albanian financial market but provides also benchmark for the other countries in the region. |
| To produce lasting changes and effect that extend beyond the territory and beyond the actual contents of the project | X | |

In accordance to Art. 94 of IPA Implementing regulation the **targets Priorities shall be quantified using a limited number of indicators for output and results, taking into account the proportionality principle.**

The indicators shall make it possible to measure the progress in relation to the baseline situation and the effectiveness of the targets implementing the priorities. The set of indicators serves for internal program management and forms an indispensable basis for reporting and communication to make the Program's achievements clear to Program partners and to a broader public.

The ex ante quantification of the targets is based on two parameters: the financial weight of the priority axes and an average project size drawn from previous experiences.

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| Output indicators | SPI Albania assessment based on 2009 activity programs |
| <u>Number of projects:</u> Research and Innovation | 10 |
| <u>Types of projects:</u> Developing common policies and strategies Developing common tools Developing pilot actions Developing feasibility studies | Developing common policies and strategies Developing feasibility studies - 2 |
| <u>Partnership:</u> Number of projects involving 5- 8 partners | SPI Albania involves 5 partners |
| <u>Specific Outputs:</u> No. of research activities supported No. of RTE/ Innovation networks created No. of university/research centers involved | |
| Result Indicators | SPI Albania assessment |
| No. of new services/products/process developed with cross-border partners | |
| No. of beneficiaries involved, described by type | Central Bank Other public authorities Banks |