

SUMMARY PROPOSAL FOR FIRST INITIATIVE FUNDING OF SPI ALBANIA

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

The objective of the proposed technical assistance is to make available three local experts that will assist the Albanian banking community to prepare about ten regulatory or self-regulatory proposals in 2009 under the SPI Albania program (details below). The reform proposals address important financial sector modernization issues in terms of five market efficiency criteria as follows: 1) asymmetry of information, 2) completeness of markets and products, 3) possibility to engage in financial transactions, 4) cost of transactions and competition issues.

The reform proposals, which are presently being finalized through an extensive consultation process, include the following topics:

- A. Issues raised by the Governor of Bank of Albania in his Banking Forum addresses. These are as follows:
 - The publication of the results of banks' activity/transparency in bank-customer relationship
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 - The recognition of and protection from the various risks
 - The strengthening of internal control
 - Introduction of new products
 - The functioning of the interbank market
 - The increase of funds circulation through the system
 - The building of full technological capacities
 - The increase of ALL denominated lending
 - Improvement of bank's governance
- B. Projects that have already been assigned top priority selected in 2008. These are as follows:
 - Facilitating leasing transactions
 - Developing credit scoring cards for individuals
- C. Projects that the authorities want to undertake as part of the Doing Business 2009 Reform package. They comprise the following:
 - Closing of business
 - Contract enforcement
 - Credit registry
 - Private investor protection

The 2009 program will be finalized in January 2009. By that time SPI Albania intends to submit the Project Application to the FIRST Initiative.

SPI Albania is a public-partnership to promote large-scale financial sector modernization in Albania which has started operating in May 2008, with initial World Bank's Convergence Program technical and funding support. SPI Albania runs projects aiming at proposing regulatory and self-regulatory (industry) solutions for business development, reducing transaction costs and increasing reputation. SPI Albania handles public-private interest modernization projects, as proposed by stakeholders and agreed by the SPI Committee. The SPI Committee gathers top level representatives of Bank of Albania, Ministry of Finance, Ministry of Economy (the consumer protection representative), Authority for the Financial Market and Albanian Association of Banks. 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.

2. Issues to be addressed by the proposed technical assistance

The recipient of technical assistance is the **SPI Albania Secretariat** that works under the oversight of the **SPI Albania Committee**. The **SPI Albania Secretariat** consists of a **Director for Analytics and Policy** and a **Director for Operations, coordinated by a General Manager**. The financing request refers to cover the cost of the SPI Albania staff for one year starting from March 2009.

The SPI Secretariat is the executive manager for SPI Albania projects. It performs research in the local and international experience on specific issues, plans the project, runs banking surveys and consultations with involved parties, performs Regulatory Impact Assessments for the proposed amendments, prepares all documents based on before mentioned and on individual contributions of the PWGs members, using EU Better Regulation methodology. The SPI Secretariat plans, prepares the meeting and SPI Committee documents (as a technical secretariat). SPI Albania staff is currently Convergence Program's World Bank consultants, with contracts running through February 2009 for the professional staff and through June 2009 for the acting General Manager. SPI Albania is planning to hire a full-time General Manager as from March 2009.

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

The SPI Albania Committee considers that the most suitable SPI Albania partner institution to become the employer-of-record of the SPI Albania Secretariat staff is the Albanian Association of Banks. The SPI Albania staff, employed by the Association of Albanian Banks, will operate exclusively under the oversight of the SPI Committee.

The SPI Albania proposals will continue to be prepared by experts mobilized from Albanian public institutions and financial intermediaries. In 2008, SPI Albania has mobilized 14 experts from 6 public 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

SPI Albania projects address regulatory obstacles to financial intermediation in terms of the market efficiency criteria outlined under 1. above. SPI Albania 2008 projects are: Improving Auction Procedures for Immovable Collateral under Foreclosure, The impact on the banking regulation of the IFRS implementation, Reducing Cash Transactions, Reviewing the Capital Adequacy Regulation, Consumer Financial Education. In less than 6 months of activity, SPI Albania succeeded to prepare recommendations on modifying the Civil Procedure Code in respect of auction procedures for immovable collaterals under foreclosure, on the bailiff service and on implementing IFRS in the banking regulations. The Project Working Group proposals have been endorsed by the SPI Committee and sent, under SPI Committee signatures, to the respective regulatory bodies for enactment. Extensive information on the projects and their outcomes can be found on SPI Albania website www.spi-albania.eu. The website contains also documents on SPI Albania and SPI Committee governance, approved by the SPI Committee in its first meeting in June 2008. The documents are showing the commitment and responsibilities assumed by all the parties participating in this private-public partnership.

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, all public and private partners of SPI Albania assumed their contributions to the partnership, being financial and/or by providing their staff's expertise to the PWGs for solution identification and for proposal enactment. AAB approved the extension of its financial support for ensuring the office facilities and for organizing events for 2009. AAB started also to discuss on the possibility to set up a SPI Albania NGO financed out of the banks' contributions and from international funds. Based on the SPI Albania 2008 results, AAB will engage in consensus-building among its members in 2009 with a view to raise the membership fees in 2010 to cover the SPI Albania Secretariat expenses.

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

As shown also on the website, the outputs of the SPI Albania activities are regulatory or self-regulatory PWG recommendations that are promoted to the regulatory authorities for enactment or throughout the banking community for application.

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

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.

Furthermore, each regulatory proposal is associated with an estimated quantitative impact calculated through Regulatory Impact Assessment techniques, in terms of net benefits consisting of cost savings and/or additional lending.

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 as shown by the cover letter to this summary proposal.