



SPI Albania Handover Report

December 2007 - November 2009

By
Convergence Program
www.convergence-see.eu

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Objective

This document summarizes the activities performed by the World Bank's Convergence Program¹ to assist Bank of Albania and Association of Albanian Banks to set-up the SPI Albania public-private partnership for financial sector modernization and to operate it for an initial period through end-February 2010.

Historical Context

Bank of Albania and Convergence Program started the first consultations on possible activities in Albania in 2004. In March 2006, Convergence Program supported an Italy-Albania Remittances Conference in [Bari](#) (Italy), where Regione Puglia President Vendola hosted a large Albanian delegation led by Governor Fullani. The Conference led to follow-on activities in [Tirana](#) and Milan (Italy), in partnership with the Albanian Association of Banks and the Italian Banking Association. In April 2006, Prof. Francesco Cesarini and Mihai Bogza, former Vice Governor of the National Bank of Romania, illustrated how the Italian Banking Association [contributed](#) to Italy's financial sector development at a seminar organized by the Association of Albanian Banks. In May 2006, in partnership with Bank of Albania and the Albanian Deposit Insurance Agency, Convergence Program and European Forum of Deposit Insurers [organized](#) a Regional Technical Seminar to disseminate work done with Romania's Deposit Guarantee Fund. In October 2006, Convergence Program presented a [paper](#) on regional host cooperation at Bank of Albania's Regional Financial Stability Conference. In the same year, discussions started to replicate the SPI Romania structure that was [launched](#) in July 2006 in Romania. In November 2007, Convergence Program joined [Aquifalc](#), a Regione Puglia-led consortium of Italian and Albanian academic institutions and think-tanks administered by the Department of Economics of the University of Bari. It is also important to note that Prof. Shkelqim Cani, former [Governor of Bank of Albania](#), gave a key [contribution](#) in designing and launching the Convergence Program regional activities in the 2005-2007 period, with specific responsibility to launch the successful SPI Romania program.

SPI Albania Launch

In December 2007 Mr. Ardian Fullani, Governor of Bank of Albania, invited Mr. Biagio Bossone, former World Bank Executive Director for Albania and Italy, to visit Tirana to explore the feasibility of helping local stakeholders establish SPI Albania through Convergence Program involvement. In early January, Bank of Albania and Association of Albanian Banks issued a mandate [letter](#) to the Convergence Program to set up SPI Albania and to work with Regione Puglia to mobilize funds to cover its activities² following initial Convergence Program financial support. On 19 January 2008, Governor Fullani together with Regione Puglia President Nichi Vendola, AAB Vice Chairman Pencapligil and Deputy Governor of Central Bank of Montenegro Knezevic [launched SPI Albania](#) at a press conference at the margin of Italy's Annual Banking Symposium held in Bari.

Operational Preparation

To provide the Albanian financial community with the EU methodology for public-private reform design ("Better Regulation"), the Convergence Program delivered a Regulatory Impact Assessment Knowledge Transfer [Program](#) between January and April 2008, under the direction of its Regional RIA Director and with the participation of EU experts. It also delivered a seminar on the SPI Romania experience for the Albanian banking community.

In February-March 2008, it ran extensive interviews to select and recruit the SPI Secretariat staff, after placing job ads in local newspapers. Under the leadership of its SPI Regional Operations

¹ Total cost of Convergence Program intervention during the period under review has been €300 thousand, contributed by Italy's Convergence Program Trust Fund and Regione Puglia through the Aquifalc program.

² Regione Puglia prepared two projects to channel EU funding to SPI Albania, with Convergence Program's technical support. The 2008 proposal was not admitted to final selection. Regione Puglia and the Albanian stakeholders elected not to submit the second proposal (Bank-Enterprise Observatory) in October 2009.

Director, it ran an induction program for two SPI Albania Directors in April 2008. During this period, Convergence Program undertook extensive consultations with the authorities and the banking community to prepare the proposed 2008 Financial Modernization Program.

Operational Outcomes³

Following an [informal](#) SPI Committee meeting on 27 March 2008, SPI Albania started operating on 15 May 2008. On 10 June 2008, the SPI Committee [approved](#) the 2008 Financial Modernization Program, consisting of four projects, matching the ECB's financial modernization taxonomy. On 4 November 2008, the SPI Committee added a fifth project ([Consumer financial education](#)). In 2008, Parliament enacted laws on changes in the Civil Procedural Code and on the Bailiff's Law reflecting SPI Albania [recommendations](#). According to an [Impact Assessment](#) prepared by SPI Albania, these law changes are estimated to reduce banks' annual operational costs by about €17 million. Bank of Albania received a comprehensive roadmap for regulatory changes to accommodate introduction of [IFRS](#). Two 2008 projects, [Reducing cash transactions](#) and [Review of capital adequacy](#) regulations were carried over into 2009.

On 12 March 2009, the SPI Committee [approved](#) the 2009 ten-project Financial Modernization Program, prepared after extensive consultations with local stakeholders and donor community.

In the course of 2009, SPI Secretariat completed three projects ([Reduction in cash transactions](#), [Consumer financial education](#) and [Liquidity management regulations](#)). The latter project led to the [enactment](#) of a Bank of Albania regulation. The cumulative output in about one year of activity is therefore five completed projects, followed by enactments for three of them. The SPI Secretariat has substantially advanced on one project ([Procurement rules for financial advisory services](#)) and has largely scoped the project on [Execution procedures on bank accounts](#). Therefore SPI Albania has already done substantive analytical and consensus-building work on seven projects. Work on the Capital adequacy regulation was delayed in 2009 because of sequencing considerations in Bank of Albania's work program but is expected to accelerate soon again. Two more projects may advance in coming months (Feasibility study for [central depository services](#) and [Calculation of FX open positions](#)). Overall, in the period under review, SPI Albania will have done substantive work on ten projects leading likely to six or seven enactments – with part them materializing after the end of the Convergence Program's mandate.

Ahead of the completion of its mandate, Convergence Program is organizing a second Regulatory Impact Assessment Workshop with participation of a leading UK expert in December 2009 for the financial community, under the auspices of Bank of Albania.

In conducting its activities, SPI Albania will have organized 27 Project Working Group meetings, mobilizing about 145 local experts in 2008-2009 (for a total of almost 4000 expert/meeting). This confirms the strong support SPI Albania has enjoyed from both Bank of Albania and the Association of Albanian Banks and other public institutions. It is also useful to note that two Bank of Albania staff filled the critical position as SPI Director of Analytics and Policy (later renamed SPI Director, Financial Modernization Program).

Besides receiving Convergence Program managerial and technical support, largely through its dedicated SPI Regional Operations Director Ramona Bratu, and Regione Puglia's financial support through Aquifalc, SPI Albania has collaborated with EBRD, EU, FSVC, IFC, TAIEX

³ SPI Albania activities are displayed on the www.spi-albania.eu website.

and World Bank experts in the course of its activities. The Government of Albania invited SPI Albania to share its [experience](#) during the EU Western Balkans and Turkey Donor Coordination Conference that took place in Tirana in early April 2009.

Other Activities

Convergence Program arranged a technical assistance agreement with the Italian Banking Association that provides for the participation of a senior ABI manager to SPI Committee meetings as Permanent Observer. Same status as Permanent Observer on the SPI Committee was arranged for the Dean of the Economic Faculty of the European University Tirana. Permanent Observers assist SPI Committee deliberations through their technical expertise. In March 2009, the EU Delegation in Tirana was invited to have one of its staff to attend SPI Committee meetings as a Guest.

In addition, Convergence Program introduced SPI Albania activities to several institutions that will be able to provide future funding support. It worked closely with Regione Puglia to structure two [proposals](#) for EU funding. It submitted a request for funding three projects to [FIRST Initiative](#), a \$100 million multi-donor Trust Fund managed by the World Bank. It introduced [CIPE](#) (Washington, DC-based Center for Private Enterprise) as a source of funding and capacity building for AAB, as SPI Albania stakeholder. It supported dialogue between [European Banking Federation](#) and European Commission (DG Markt and [DG Enlargement](#)) to structure EU funding for SPI Platforms in South-East Europe, to be operated by banking associations (e.g., AAB). It explored the possibility of EBRD funding for SPI Secretariat positions. It managed to secure EU [TAIEX](#) support to one SPI Project led by the Ministry of Finance.

Overall Assessment

The SPI Albania platform has catalyzed the ability of the Albanian financial community to run a large-scale financial modernization program, relying on local expertise for both project management and solution-searching, with very limited reliance on foreign experts.

Based on its own capacity to identify regulatory change opportunities, the community agreed to undertake many projects of strategic importance for the future of financial intermediation in Albania, reflecting objectives of authorities, market participants and consumers that were consistent with policy priorities. And it was able to lead and organize the work of many experts that have produced recommendations, using the EU Better Regulation methodology, which authorities have relied upon to prepare legislative and regulatory acts.

This ability to identify issues of common concern, to mobilize local resources to handle them quickly and rigorously and to produce quality results that support authorities' enactment activities, is a considerable achievement for which the Albanian financial community deserves full recognition. It is remarkable how open the community has been to embrace an innovative way to operate and how quickly this methodology has become an accepted norm.

In essence, through the SPI Albania experience with its own specific governance, management and analytical instruments, the Albanian financial community has empowered itself to contribute to Albania's accession to the European Union. A useful benchmark for SPI Albania's activities is the ECB-hosted European Financial Markets Lawyers Group (www.efmlg.org).

Prospects

With the benefits of collaboration and coordination well established by now, the SPI Committee⁴ offers the space to carry on with the financial modernization agenda, which is necessary for Albania's convergence with EU institutional and economic standards. Building on financial stability, [financial modernization](#) refers to legislative and regulatory actions that improve the economic impact of financial intermediation. While the former is under sole Central Bank responsibility, the latter requires coordinated interventions by several public institutions and civil society associations and is therefore more difficult to pursue in the absence of an SPI Platform-like coordination mechanism.

Likewise, public and private institutions will find it advantageous to appoint their best experts to meet their peers in public-private working groups to share views, influence solution-searching and, above all, to participate in the step-by-step process of improving the business environment for financial intermediation, using the EU [Better Regulation](#) methodology. Such [project working group](#) gatherings offered fantastic professional learning experiences, enabling the deepening of professional skills, a particularly important feature given the absence of a bank training center in Albania.

Key Requirements

Keeping the SPI Albania activities going will require above all organizational and coordination skills among SPI Albania stakeholders. But it is critical that a local institution replaces the Convergence Program as the SPI Albania "champion". While discussions among local stakeholders will lead to the identification of the institution that will play this role, the SPI Albania financial modernization agenda will not advance unless the Association of Albanian Banks plays a prominent role to advocate for it – as do its peers in advanced jurisdictions⁵. It is important to recognize that this "champion" role involves **civic** leadership and responsibility above all, with very modest financial requirements.

The costs of the part-time technical expertise required to support project working deliberations is immaterial – in the context of the cost of domestic professional services in Albania. A critical ingredient to the smooth functioning of the system, and of the good use of the voluntary professional contributions to project working group activities made by participating institutions, is the presence of an agile central person with the capacity to bring order and coordinate loose resources scattered throughout the community. This person is also the "custodian" of the SPI Committee Terms of Reference (that is, ensuring that SPI activities are conducted in accordance with the highest standards of public-private governance). The cost to the local community of this central resource, when calculated on a per project basis, is also immaterial.

While discussions of sharing resources for a common project are never easy, a reasonable approach could be to share the total cost of technical and coordination resources of about Euro 5 thousand per SPI project between public and private stakeholders. Funding and location decisions are separate. As during the Convergence Program assistance the central person was

⁴ The SPI Committee ([Terms of Reference](#)) offers a structured context for public-private cooperation through: a) high-level commitment to financial modernization; b) consensus decision-making; and c) mobilization of local experts of public institutions, market participants and other institutions to work collaboratively to find practical solutions.

⁵ [European Commission](#) has stated that "Banking associations play a crucial role in the uptake, implementation and monitoring of the socio-economic *acquis*".

paid by the World Bank and located in AAB premises, in the future another pragmatic arrangement could emerge. In any case, proving the ability to keep SPI Albania running is a strong selling point to future donors (e.g., the EU or CIPE) about the depth of management and technical resources that are available in Albania to manage projects that will contribute to Albania's accession to the European Union.

Conclusions

The paucity of resources required to keep the partnership alive pales when compared to the power of achieving tangible results that this partnership has demonstrated. It is a matter of dialogue among local stakeholders to proceed to the next step of their partnership: after agreeing to undertake a common financial modernization program, to share professional resources to execute it and to reach conclusions by consensus, stakeholders will now have an opportunity to agree on how best to contribute the little spark that will keep the SPI Albania engine running.

The AAB decision to appoint as Secretary General the former SPI Director, Financial Modernization Program (and former Bank of Albania staff) was a first visionary step to embed SPI Secretariat experience in a local institution. With a strong public-private mandate, the new AAB Secretary General could energize SPI Albania in its next phase under local management.

In the March 2009 SPI Committee meeting ([Agenda item](#)), SPI Albania stakeholders stated their willingness to ensure SPI Albania sustainability ([Minutes](#)). As the Convergence Program mandate is nearing its conclusion, it will be useful that they start translating their commitment into specific actions to support Albania's continuous financial modernization.

As Head and Founder of the Convergence Program, I confirm my full availability to assist the Albanian financial community design the appropriate formula to preserve its hard-won institutional achievement.

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Summary Findings of the Evaluation of SPI Secretariat Activity

<u>Projects</u>
<ol style="list-style-type: none"> 1. Improving Banks Liquidity Risk Management 2. Reducing Cash Transactions 3. Consumer Financial Education 4. IFRS Implementation 5. Improving Auction Procedures: (i) Civil Procedure Code (ii) Bailiff Practices

I. Statistics of the survey

No. of active Project Working Group members:	52
No. of respondents:	26
Participation ratio:	50 %

II. Summary findings of the survey

No.	SPI Secretariat Activity Aspect	General Assessment	For the 5 projects
1.	Role in organizing PWG activity	Very good	5- Very Good
2.	Preparation of the Project TORs	Very good	5- Very Good
3.	Support in organizing PWG meetings	Very good	5- Very Good
4.	Contribution in helping conduct the PWG meeting	Very good	4- Very Good; 1-Good
5.	The records (minutes) of the discussions held in the PWG meetings	Very good	5- Very Good
6.	Quality of documentation and information	Very good	5- Very Good
7.	Quality of the analytical work	Very good	5- Very Good
8.	Quality of the background documentation	Very good	5- Very Good
9.	Preparing the Regulatory Impact Assessment	Very good	2 Very Good; 1-Good; 2 -n/a
10.	Providing international support for the project	Good	4 – Good; 1- n/a
11.	Support in preparing the project reports	Very good	5- Very Good
12.	Correctness in reflecting opinions in the centralized documents	Yes	5- Y
13.	Contribution in consensus building	Very good	5- Very Good
14.	Neutrality and objectivity during PWG discussions	Yes	5- Y
15.	Support to PWG in reaching the commonly agreed solutions	Yes	5- Y
16.	Correctness in outlining the issues in discussion and in providing solutions in the project documents	Yes	5- Y
17.	Importance of the “honest broker” role played by the SPI Secretariat	Quite important	2- Very Important; 3- Quite Important
19.	Information on the progress with non-PWG activities	Yes	5- Y

Main benefits of the SPI Secretariat supporting the public-private partnership

	Benefits	No. of points	% of max
1.	To assemble and support a project working group	21	84
2.	To identify issues relevant to public-private stakeholders	22	86
3.	To prepare background information and analyses for the project working group, including Regulatory Impact Assessment	22	90
4.	To define a project scope to accurately reflect the needs of all stakeholders	22	90
5.	To keep the project working group work at good pace, anticipating and overcoming obstacles	20	80
6.	To help with consensus-building	21	85
7.	To prepare a convincing SPI Committee decision paper	20	81
8.	To use technical expertise efficiently to find practical solutions	21	84
9.	To keep attention on prompt enactment of issues decided under the SPI Albania framework.	21	87