



SPI Albania Feasibility Framework

A document prepared by
the World Bank's Convergence Program
for the Association of Albanian Banks

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1. What is SPI Albania and why it should be incorporated as a legal entity

In January 2008 Bank of Albania and the Albanian Association of Banks launched a Financial Sector Modernization Program named **SPI Albania**. The Program is placed under the oversight of a high-level committee (the SPI Committee) and orchestrated by a secretariat (the SPI Secretariat) with temporary support from the World Bank's Convergence Program.

The SPI Albania's unique design allows the AAB membership to initiate their priority modernization projects; to have them prepared by their professional staff in collaboration with experts from relevant authorities; and to have them endorsed by senior public officials before they enter the official decision-making process.

When an independent expert, Mr. Marko Škreb, former Governor of Croatian National Bank, performed an assessment of the similar SPI Romania program, he formulated a set of recommendations for its sustainability. Among these featured one to strengthen the institutional form, legal status and registration of the program.

According to the independent expert's recommendations, the institutional framework should be a solid construction, well-regulated and represented, which would also have the capacity to attract, in the future, financing sources other than those coming from its initial sponsors.

Incorporating SPI Albania as a legal entity would secure its future role as the instrument-of-choice of the Albanian financial community to tackle rapidly financial modernization opportunities. It would also provide a platform to deliver specialized training services. Finally, it would also facilitate the attraction of international funds, including from the European Union.

SPI Albania could become a benchmark for similar SPI institutions in other countries in the Adriatic region (Montenegro, Bosnia and Herzegovina, Macedonia, Kosovo, Serbia), thus reinforcing Albania's catalyst role for regional cooperation.

2. Products and Services

SPI Albania will undertake two activities in support of financial sector modernization:

- 2.1 It will handle public-private micro regulatory projects for the financial market modernization in Albania, proposed, prioritized and endorsed unanimously by the regulatory authorities and the market players.
- 2.2 It will organize specialized training courses and conferences for the financial market.

3. SPI Albania Competition

- a. **Regulatory Modernization** – there is no other platform gathering public and private forces for solving rapidly modernization issues. International institutions as World Bank, IFC, IMF, European bodies do not offer a

continuous and structured program as SPI Albania. Their recommendations are not based, as in SPI Albania's case, on the local expertise and on consultations amongst private and public stakeholders.

Consulting companies might also analyze situations and offer solutions, but these would be unilateral solutions, not commonly agreed by the public and private actors at the PWG level and at top management level (by SPI Committee). Their enactment, promoted by the Association of Albanian Banks, would be much more difficult than in SPI Albania case. Lastly, consulting companies charge high professional fees. The SPI Albania average project cost is about EUR 20 thousand.

- b. **Financial Professional Center** – there is no training institution for the financial market in Albania. Training is provided by some local or international institutions on a punctual basis. There is an offer-driven training market than a demand-driven one. Banks are covering their training needs mainly through their internal systems. The training costs of individual banks could be thus shared with other banks benefiting from the economy of scale effects. Moreover, the local training could be less expensive than the headquarter training for international banks. A training program answering banks' needs could facilitate the network expansion plans of the banks.

4. Key Business Model Features

Legal status

Having in view its objectives (modernization of the financial market), features and methodology (public – private partnership, working with project working groups), the SPI institution should be a **non-for-profit legal entity**. At the same time, it should have the possibility **to perform some revenue - producing activities**. Law n. 8788 7/5/2001 regulates the activities of not-for-profit entities in Albania¹.

Objective/mission

The legal entity's mandate will cover both the preparation of regulatory proposals for financial sector modernization and the delivery of training activities of the banking and financial industry staff.

Promoters and stakeholders

The AAB should be the main promoter. It should involve other market participant associations as joint promoters.

Governance

In order to enforce the public-private partnership, the **legal entity's Board** could have representatives from **BoA, MoF, AMF, AAB and other sponsoring professional associations**. In order to facilitate EU financing, representatives of Regione Puglia could be invited to join the Board of SPI Albania.

¹ This section is based on prior background research prepared by Ilda Duhanxiu of Pasut International Corporate Advisors Albania (iduhanxiu@hotmail.com) who could assist with incorporation procedures.

The Board's main responsibilities are to agree on the public-private modernization projects to be undertaken, on the training program and to promote the enactment of the regulatory or self-regulatory proposals.

Financing sources

The legal entity could be financed by AAB and other financial professional associations (such as the insurers' association). The entity will seek financing from public sources e.g., EU development programs. The training activities will mostly be financed out of participation fees.

Management

To ensure continuity with the present management arrangements temporarily provided by the Convergence Program, SPI Albania needs to appoint a General Manager (CEO) who is not a member in the Board, in order to ensure the separation of powers. The CEO will manage the day-to-day activity of the legal entity, ensuring the achievement of the planned activities within the approved budget.

Other business model features are illustrated in Annex 2.

5. Critical Success Factors

a. Mission

- i. strong commitment by local institutions to support SPI Albania activities;
- ii. financial authorities' commitment to support enactment of SPI Albania proposals;
- iii. AAB commitment to be SPI Albania's lead financial sponsor;

b. Management

- i. A dynamic and entrepreneurial General Manager, with a high profile on the financial market and with a very good professional background, combining analytic and practical skills. He should be able to create synergies and use resources efficiently. Exposure to regional activities and to international banking would be a plus.

c. Staff

- i. Experience with SPI Albania activities
- ii. Strong commitment to build a new institutions
- iii. Proactive
- iv. Dynamic
- v. Team spirit.

d. Quality of training course and events organized – this would ensure SPI Albania exclusivity for training courses and events requested/organized by banks.

6. Some preliminary financial data

The annual running costs of SPI Albania are estimated to be about Euro 320 thousand. About one third relate to the professional training activities which should be covered

by revenues generated in the same activities. Grants and donor funding could be raised in an average annual amount of no less than Euro 70 thousand. The residual AAB annual financial commitment should therefore be about Euro 120 thousand (Annex 3). This translates into an individual bank annual contribution of Euro 7,500.

7. Conclusions

The creation of a low-cost legal entity to host public-private collaborative financial sector modernization activities is an act of enlightened self-interest by the Albanian banking community.

SPI Albania's public-private governance and tight project management practices will generate measurable monetary benefits for the AAB membership that are a multiple of its low-cost base -- in line with the experience of leading banking associations (e.g., the Italian Banking Association²).

With the growth of AAB's influence over scope and pace of regulatory modernization induced by SPI Albania, there will also be increased demand in industry outreach and consensus-building activities which will remain part of AAB's core mandate.

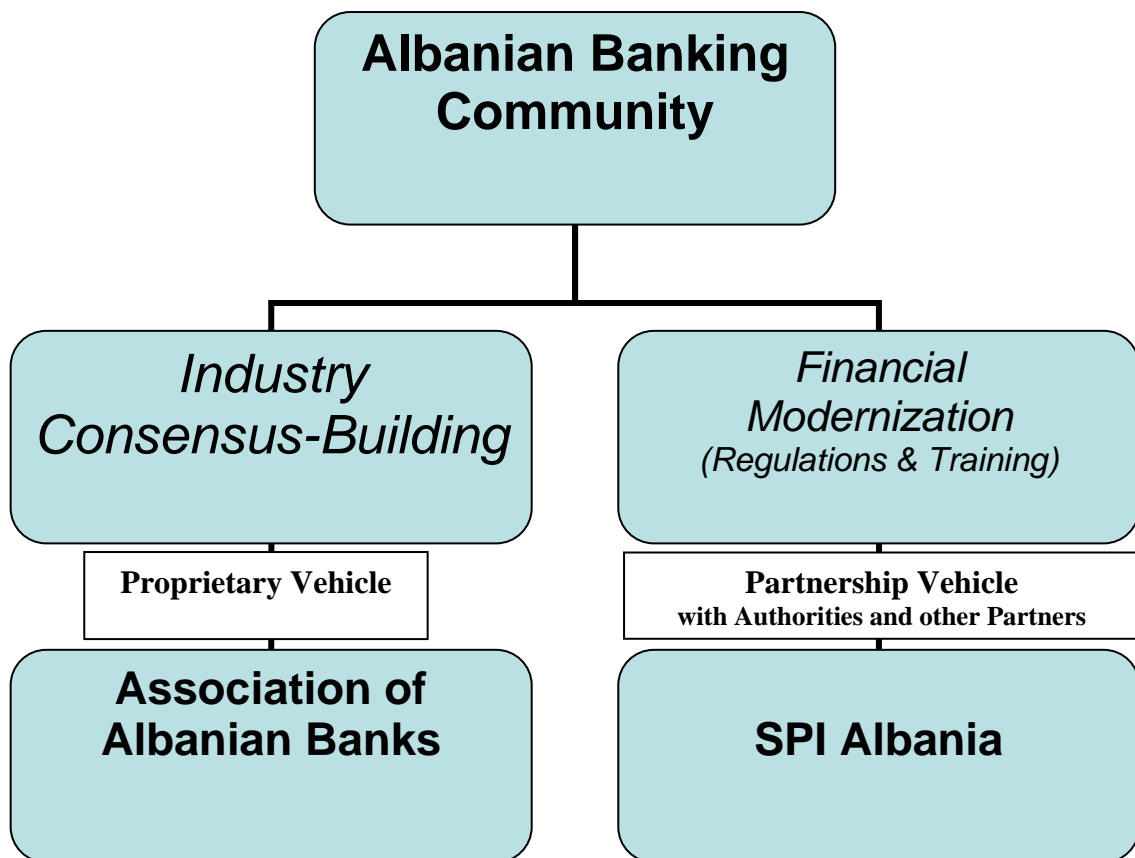
SPI Albania and AAB will reinforce each other's role – with large benefits for the Albanian banking community and society as a whole.

8. Recommendations

1. AAB Executive Committee to recommend to AAB General Assembly that AAB initiates the procedures to incorporate SPI Albania as a not-for-profit entity.
2. AAB General Assembly will formally empower AAB Chairman to sign the incorporation act after discussion of a full business plan for SPI Albania.

² ABI's cost base is less than 5% of the annual monetary benefits it generates for its membership.

AAB and SPI Albania Positioning



Main Questions and Answers on SPI Albania Incorporation

1. Why should AAB members care about SPI Albania?

SPI Albania, which is based on a public-private partnership, deals with issues that have an ex-ante agreement of importance for both market and authorities. AAB members do not waste resources on issues that may not be of interest to the authorities. Furthermore, SPI Albania tackles these issues through working groups where experts from the authorities work elbow-to-elbow with banking experts in an informal context. This creates a good atmosphere where opinions are exchanged and agreements are reached. Given this context, SPI regulatory proposals have therefore better chances for enactment than proposals coming only from AAB. SPI Albania complements and expands AAB work which consists of building an industry position vis-à-vis various issues, including SPI Albania projects.

2. Why should SPI Albania be incorporated as a legal entity?

To keep the public-private partnership going overtime, it is important to consolidate its governance and work practices in a “corporatized” form. This also makes it possible to organize revenue-generating activities and to raise contributions from domestic and international sources. Former Governor of Croatian National Bank Marko Škreb made this recommendation when he assessed SPI Romania.

3. Why should AAB discuss now the SPI Albania incorporation?

The main reasons to take now the decision of establishing SPI Albania as a legal entity are as follows:

- SPI Albania has already shown visible results in its first months of activity;
- Convergence management support is ensured through the end of June 2009 and thus can guarantee the successful start up but we need to think about the future;
- The application for European funds through Regione Puglia may give AAB additional resources to support SPI Albania;
- Now it is time to discuss financial planning matters for 2009.

4. Why does AAB need to sponsor the creation of a legal entity covering also training and events activities?

The training institution is necessary in any developing market. By covering training needs, aggregated at the industry level, the training institution is a more efficient solution than the individual ones. Its results will be reflected further in better risk management. The experience of SPI projects has shown that for a better dissemination and a more comprehensive implementation of SPI projects results, training initiatives are needed. At the same time, SPI projects include also awareness raising actions on international experience and on their findings; therefore the SPI activities include

event organizing activities such as conferences, workshops and seminars. By placing all these activities under the same roof, resources can be better used, synergies created and effects of the economy of scale could be reached. The Romanian example of the Romanian Banking Institute that developed its institutional capabilities by including SPI is very illustrative. Speaking about economy of scale, SPI Albania could become a center for the neighboring area.

5. What does exactly do the SPI Secretariat in running SPI projects?

Running SPI projects require strong organization capabilities. SPI projects involve close to one hundred banking experts belonging to many public institutions and AAB members, organized in Project Working Groups (PWG). To make the most of the experts' time and knowledge, with as little interference as possible in their official daily responsibilities, the SPI Secretariat prepares most of the analytical work as follows:

- **Project ToRs drafting:**
 - background information – interviews with stakeholders and research;
 - project objective;
 - strategy;
 - methodology (steps, output, contributions)
- **Drafting list of eligible persons/project in consultation with stakeholders**
- **Drafting, getting signatures and sending invitation letters**
- **Organizing PWGs meetings:**
 - Meeting details – in cooperation with PMT
 - Invitation with agenda and documents for discussions
- **Preparing background studies** – based on interviews, research, international benchmark, compilation of regulations
- **Preparing PWGs meeting minutes**
 - Venue, date, meeting number
 - Participants
 - Agenda/meeting objective
 - Summary of discussions and conclusions
 - Next steps
 - Future meeting
- **Summarizing individual contributions**
- **International expertise**
 - Identifying, with Convergence support, international experts. Procurement – direct, through Convergence; indirect – through donors and other international institutions (WB, IFC, etc)
- **Preparing draft ToRs for the expert**
 - Supporting contracting process
 - Handling the relationship with the expert
 - Endorsing, together with PMT, the payment to the expert
- **Preparing documents for PWGs discussions**
- **Preparing draft RIA questionnaire**
- **Collecting data and performing calculations**
- **Preparing SPI Committee summary documents**

6. Why does SPI Albania need to use PWGs to run its projects?

The use of PWGs is the great innovation of the SPI Platform. Through PWGs, banks participate in the actual design of regulatory solutions, working closely with colleagues from the authorities' side. PWGs are discussion platforms facilitating knowledge and information that help create feasible solutions. The alternative, which has been used in the past, is to hire local and international consultants for each project. This is not only a very expensive option but it also generates ideas that may not be implemented in practice. A further alternative would be to have an extended team of specialists in the SPI Secretariat. But this is also expensive and unjustified. The SPI Secretariat needs to be a small team of humble and service-oriented people that are able to use the knowledge that exists in the country – both with the banks and the public institutions.

7. What are SPI Albania results up to now?

SPI Albania started 4 projects that are now in different stages, after project working groups meetings (held in July). First project to be concluded by the end of September refers to IFRS implementation; its deliverable will be the list of regulations to be modified and the sense of the changes to be brought, together with an amending plan, for a coherent implementation of IFRS. The project on auction procedures for immovable collateral and the project on reducing cash transactions are planned to be finalized by the end of October. First of them will bring proposals on amending the Civil Procedure Code, on improving Bailiff service and on introducing appraising standards. The second one will end in self-regulatory and regulatory proposals in order to reduce the volume of cash transactions. The project on capital adequacy will be finalized by the end of year with the respective regulatory proposal.

8. How can one measure the impact of the SPI activity?

The SPI activity focuses on preparing only regulatory intervention proposals that have a high likelihood of enactment in a reasonably short period of time. It excludes any activity that does not have a high likelihood of resulting in actual regulatory changes, no matter how useful it can be in the longer term. Accordingly, the SPI projects are associated with an expected banking sector P&L impact through Regulatory Impact Assessment techniques. Other quantitative effects are also calculated (additional lending and equity release opportunities); also for the authorities and consumers.

The Italian Banking Association experience (which is the model for SPI Albania) generates benefits for its membership that are a 20 times multiple of its operating costs. These objectives are feasible in less sophisticated banking markets. SPI Romania has generated NPV benefits of about EURO 200 million for the Romania banking community with operating costs of about Euro 300 thousand.

9. What is the most critical factor for SPI success?

From Convergence experience in Romania and Albania, the most critical success factor is the commitment by the banking community to support an instrument that addresses the community's objectives to have a modern regulatory framework that allows the development of business opportunities.

Annex 3

INDICATIVE SPI ALBANIA BUDGET					
<i>(EUR)</i>					
Indicators	2009	Quarter			
	Total , of which:	I	II	III	IV
I.TOTAL REVENUES, of which:	320.000	75.000	80.000	135.000	30.000
a) Funds from founders	120.000	60.000	-	60.000	-
b) Income from training activities	80.000	10.000	30.000	25.000	15.000
c) Income from events	50.000	5.000	15.000	15.000	15.000
d) Funds from international donors	70.000	-	35.000	35.000	-
II.TOTAL OPERATING EXPENSES, of which:	320.000	55.000	95.000	90.000	80.000
a. SPI projects	190.000	40.000	50.000	50.000	50.000
b. Training	80.000	10.000	30.000	25.000	15.000
c. Events	50.000	5.000	15.000	15.000	15.000
III. Investment Budget	20.000	20.000	-	-	-

Contribution/bank to operating expenses: about EUR 7. 500

Other Business Model Aspects

Budget principles

AAB and other professional associations will cover a minimum general budget (staff salaries, rent, administrative costs, etc). Training courses and events will generate additional revenues to be used in order to cover the related direct costs.

Staff

SPI Albania's regulatory modernization activities will be orchestrated by a 3 persons SPI Secretariat: a Director for Analytics and Policy, a Director for Operations and a Director for Bank Products and Services.

SPI Albania's Financial Professional Center will have a Director for Training Programs. The Director for Operations could oversee one staff in charge of Events.

The two teams will share a common administrative team composed by an office manager and a research assistant.

The accounting, legal and cleaning services will be outsourced as will large scale printing, editing and catering services.

Premises

The optimal solution could be sharing the same premises with AAB (in an expanded location) as it would facilitate synergies and coordination. At the same time, AAB and SPI Albania could share the costs with common areas such as conference room and therefore banks' contribution to cover overheads will not double. The combined AAB-SPI Albania premises will use a rented office located in a central area in order to be easy accessible to all institutions.

Office equipment

A desk with all office equipment (PC, phones, internet connection, etc) will be assigned to each of the member staff. A high performing copying machine, a fax and a scanner will cover all the office needs. Other office equipment needed: furniture, projector, one laptop, etc.

Website

The PWG documents as well as the training material will be published on the entity's website and be an open domain.

SPI Albania Business Approach

Regulatory Modernization

SPI Albania activity has a practical focus evidenced by four aspects:

- Ex-ante agreement among public and private stakeholders on issues needing reform;
- Quantification of the economic impact of the proposed changes for each stakeholder;
- Extensive analytical and consensus-building discussions within public-private working groups supported by expert advice if necessary; and
- Ongoing focus on enactment.

The projects will be run by public-private Project Working Groups led by Project Management Teams comprising for each project a Project Owner and a Project Manager (representing the stakeholder proposing the project) and a Deputy Project Manager (on behalf of the other main stakeholder on that specific project).

The PWGs will have as main objective to identify the solutions for solving the issues raised. In accomplishing this task, they will receive full support from the SPI Secretariat.

SPI Secretariat will play the honest broker role by ensuring a balanced and relevant participation in PWGS and by mediating the reach of the technical consensus within the PWGs. SPI Secretariat will support PMTs in the project management, will search for international experience in order to be facilitate PWGs efforts of identifying the most appropriate solutions, will bring Technical Anchors/Pier Reviewers for the projects (international and domestic experts in certain areas) and will prepare all documentation of the projects.

EU Better Regulation approach is the methodology used for formulating the modernization proposals that lies on considering multiple options, analyzing the impact for the options and on running consultations. SPI Committee will endorse the PWGs recommendations and will be responsible for their implementation, with SPI Secretariat support.

Financial Professional Center

Based on the consultations with the financial market players and regulators, the Professional Center will plan and organize training for the financial industry staff, with the contribution of international and domestic experts.

At the same time, the center will plan and organize events such as conferences, seminars, workshops in order to facilitate the continuous modernization of the financial market and to develop dialogue and knowledge sharing.

The center has the potential to become a regional center by offering training and organizing events on common topics in the Adriatic area.

Market environment

Regulatory Modernization

The targeted market encompasses, in a first stage, banks and insurance companies. The other financial institutions refer to pension funds and leasing companies, foreign exchange bureaus, save and loan associations and unions of the save and loan associations. Some of these areas could be envisaged for a further expansion of SPI Albania.

As the banking system is the dominant sector within Albanian financial system (97% of total financial assets, with 16 banks in 2008, the new institution will cover the needs of an important share of the financial market.

	2001	2002	2003	2004	2005	2006	2007
Banks and branches of foreign banks	13	14	15	16	17	17	17
Non-bank financial institutions	4	5	7	7	7	5	6
Foreign exchange bureaus	38	58	58	54	58	60	97
Save & loan associations		113	131	130	131	125	129
Unions of Save & Loan associations		2	2	2	2	2	2

	2001	2002	2003	2004	2005	2006	2007
Insurance Companies	5	5	5	10	10	10	10
Pension Funds	1	1	1	1	3	3	3
Leasing Companies	1	1	1	1	2	3	3

Almost all banks are privately-owned and foreign-owned (14 out of 16). It is a highly concentrated banking system where top 4 banks have 73% of the total assets.

The banking industry registered high growth rates in the past three years, in terms of total assets. The large foreign investors' interest in the Albanian banking system shown by two important entrances on the market in 2007 (Intesa San Paolo and Societe Generale) gives an indication on the potential of the market.

Indicator	Dec '02	Dec '03	Dec '04	Dec '05	Dec '06	Dec '07
Total assets (mln EUR)	2,420.1	2,486.2	3,375.1	4,050.9	5,071.5	6,100
In % of GDP	51.6	50.2	51.9	59.5	69.4	76.6

The big expectations on the Albanian banking system growth are also sustained by the evolution of the total loans in the last three years: more than double in 2007 compared to 2005.

Private loans evolution and structure

	2001	2002	2003	2004	2005	2006	2007
Corporate loans (<i>mln EUR</i>)	182	238	279	375	666	1,040	1,549
Retail loans (<i>mln EUR</i>)	31	54	89	168	309	513.3	852

Although substantial reforms have taken place in the Albanian financial system, there are a lot of issues to be either solved or revised and improved in order to ensure a sustainable development. The need for micro-regulatory reforms and for self-regulatory measures is reflected by the list of more than 30 issues raised by the banking community in the interviews run by Convergence Program. At the same time, Albania's aim is to join EU and therefore it deploys continuous efforts to align its regulations, rules, procedures and standards with European ones.

Financial Professional Center

The banking system developed not only in terms of total assets and total loans, but also in terms of network as shown in the below table. The continuous growth in the banking network and in its activity required an increasing number of employees.

	2004	2005	2006	2007
Number of employees	2,816	3,479	4,263	5,206
Number of outlets	188	250	292	392
Number of employees per:				
- <i>bank</i>	176	217	251	306
- <i>bank unit</i>	14	13	15	13
Number of residents per:				
- <i>bank</i>	194,971	184,410	188,235	186,235
- <i>bank unit</i>	16,593	12,539	10,958	8,077
- <i>bank employee</i>	1,108	901	751	608