

Strengthening Albania's Financial Resilience and Inclusion: All Hands On Deck to Maximize Impact

NOVEMBER 2024



Albania

As a small, open economy, Albania is highly exposed to external shocks, such as a recession in the European Union (EU) or further tightening of financing conditions in international capital markets. Access to finance for households and small and medium enterprises (SMEs) is well below the needs of the economy.

Targeted reforms are needed to enhance the country's financial resilience and inclusion. Building on its longstanding relationship with Albania's financial sector authorities, the World Bank has been strategically leveraging complementary trust funds financed by the Swiss State Secretariat for Economic Affairs (SECO) and the Austrian Federal Ministry of Finance (BMF) to take the country's financial sector to the next level.

These trust funds have been instrumental in supporting the government's reforms to address multi-dimensional challenges in the sector, playing a vital role in bolstering the government's efforts. The programs financed by these grants are making significant contributions to Albania's growth while supporting its EU integration agenda.

Challenges in the Financial Sector



Resilience to shocks

Albania is highly exposed to global and domestic shocks and needs to ensure its financial buffers can continue to absorb them. Albania's small, open economy has weathered the 2019 earthquake, COVID-19 pandemic, and effects of Russia's war on Ukraine. However, tighter global financial conditions, an economic slowdown in Europe, and climate change continue to pose threats to economic development. According to the [World Risk Index 2024](#), Albania has the highest level of disaster risk in the Western Balkans region (figure 1), ranked 76th in the world. Yet the country remains under-prepared financially to meet these disaster-related contingent liabilities (World Bank 2020).



Access to finance

Limited access to finance and challenges with capital market instruments, insurance, and private pensions is impeding Albania's business growth and productivity. Albania has

FIGURE 1. ALBANIA'S HIGH RISK INDEX



Source: World Risk Index 2024.

Note: The WorldRiskIndex 2024 assesses the disaster risk for 193 countries. It covers all United Nations member states and more than 99% of the world's population.

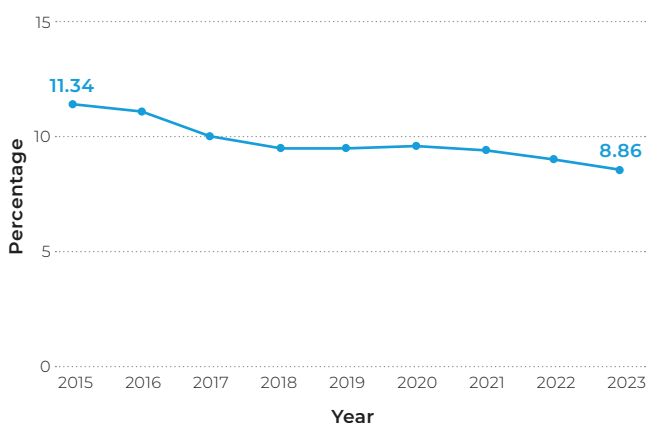
the lowest level of access to finance compared to other countries in the region. In 2023, Albania's domestic credit to the private sector was 30.6 percent of gross domestic product (GDP), the lowest in the region. Less than one-fifth of smaller rural enterprises have a bank loan or line of credit (World Bank 2022), and 21 percent of micro, small, and small businesses report access to finance as a major constraint (World Bank 2020). The country's [capital markets legal framework](#) (2020) lines up with EU legislation, but changes are needed in insurance and private pensions to better align with EU's evolving regulatory framework.



Usage of digital financial services

Trust remains an obstacle for expanding supply and demand for digital financial services (DFS), which would increase financial inclusion and resilience. The Albanian economy heavily relies on remittances, fluctuating around 10 percent of its GDP (figure 2). In addition, data shows that in 2018, cash usage was deeply rooted in the payment habits of most Albanian consumers and businesses, with few adults holding accounts, scarce access points and acceptance of electronic payments, low financial literacy, and high informality (World Bank 2018).

FIGURE 2. REMITTANCE INFLOWS AS PERCENTAGE OF GDP IN ALBANIA, 2015–23



Source: World Development Indicators 2024.



The banking sector is the blood circulatory system of the economy. Unless it is stable enough, it cannot effectively contribute to the development of the country. FinSAC has been a trusted partner in the stability effort for over 10 years, and our success relies on our continuous engagement. Albania knows that if they need expertise, they will get it.”

—Vahe Vardanyan, Task Team Leader



Prior World Bank Support Built a Strong Foundation to Address the Challenges

Albanian authorities, with the support of the World Bank and development partners, have taken a multi-pronged and complementary approach to address these challenges and focus on systemwide reforms. In the last 10 years, the coordinated engagements collectively increased financial resilience to shocks while improving financial inclusion through digitalization.

During the last decade, the [Financial Sector Advisory Center \(FinSAC\)](#), funded by the Austrian Federal Ministry of Finance (BMF), has been the World Bank’s prominent vehicle to support financial stability and resilience in Albania. Beginning in 2013, FinSAC has supported Albania in banking supervision, bank recovery and resolution, non-performing loans (NPLs) resolution, macroprudential analysis, deposit insurance, and mitigation of climate risks. Financial sector authorities, directed by the EU accession plan, identified reform priorities under FinSAC. Many reform priorities were also guided by the Financial Sector Assessment Program (FSAP) recommendations jointly conducted in 2014 with the International Monetary Fund. These priorities were coordinated and implemented with the

wider World Bank engagement in the country, including through World Bank operations. For example, FinSAC supported three development policy loans in 2014–18, moving the needle on NPLs and bank resolution reforms through prior actions.




In parallel with the FinSAC program, the World Bank supported Albania in strengthening supervision of capital markets, insurance, and private pensions. Through the Swiss State Secretariat for Economic Affairs (SECO) funding, technical assistance projects were provided between 2016–22 to the Albanian Financial Supervision Authority (AFSA),¹ helping the country take a significant step toward the modernization and development of Albania’s financial markets, aligning with international standards and practices. These reforms have paved the way for more small businesses to access finance.

In boosting the country’s financial inclusion, the regional [Western Balkans Remittances and Payments Program Phase 1 \(RPP 1.0\)](#), funded by SECO, was instrumental. Delivered during 2015–22, RPP 1.0 helped to establish and upgrade legal and regulatory frameworks for retail payments in line with the EU frameworks, resulting in the adoption and implementation of the National Retail Payment Strategy, approval of the Payment Services Law, and adoption of the

Supporting Albania's Journey Toward Financial Resilience and Inclusion

- 2013**  FinSAC cooperation to support financial stability and regulatory standards, delivering 17 tailored technical assistance projects on crisis response and recovery and resilience over next 10 years
- 2014**  BoA establishes National Payment System Committee
- 2015**  Western Balkans RPP begins to modernize retail payments
- 2016**    National Strategy for Development and Integration 2015–20
- 2017**  World Bank publishes assessment of the remittances market
-  BoA and World Bank publish baseline survey on remittance beneficiaries' financial behaviors
- 2018**  BoA adopts National Retail Payments Strategy 2018–23
-  BoA launches Project Greenback to enhance financial literacy
- 2020**  Parliament approves Law on Payment Services (Transposition of PSD2), Law on Capital Markets, and Law on Collective Investment Undertakings
- 2022**   AFSA and the World Bank organize conference, “Diversifying the Financial System through Capital Market Reform”
-  AFSA and World Bank organize conference, “Green Finance – Green Opportunities for the Financial Sector in Albania”
- 2023**    CPF 2023–27 supports greener and more resilient and inclusive growth
-  Start of F4D Western Balkans RPP 2.0 grant to continue boosting usage of digital financial services
-   AFSA adopts a five-year strategy (2023–27) for its supervisory and regulatory functions and market development
-    Council of Ministers adopts new strategy on capital market development
-   AFSA adopts all bylaws of Capital Markets and Investment Funds laws
-  BoA adopts bylaws of the Payment Services Law, and government adopts new Private Pension Law
-  F4D grant to develop green finance and strengthen AFSA
-   MoF, AFSA, and World Bank organize conference, “Insurance Sector Development – Opportunities and Challenges in Southeastern Europe”
-  BoA with FinSAC creates Medium-Term Green Strategy 2023–25
-  BoA and World Bank host forum, “Climate, Macroeconomy, and Finance: Navigating Risks and Driving Impacts”
- 2024**  F4D FinSAC grant to continue enhancing regulatory frameworks and build institutional capacities
-  BoA adopts first Financial Inclusion and Education Strategy (2024–27)
-  BoA and World Bank organize conference on Albania's path to the Single Euro Payments Area integration, financial inclusion, and education
-  BoA and World Bank pilot Money Smart exhibition in Tirana, which will travel around Albanian cities

Key for challenge areas addressed

-  Resilience to shocks  Access to finance  Usage of digital financial services

first National Financial Inclusion and Education Strategy. In parallel, the program conducted remittances education campaigns with migrants and their families and with remittance service providers to increase the account ownership and usage of digital payments. RPP 1.0 contributed to the reduction of the cost of remittances, increase in transparency in the market for remittances, and improved financial inclusion, as evidenced by the World Bank's Remittance Prices Worldwide and Global Findex databases.

Complementary Trust-Funded Programs are Maximizing Impact

Buiding on strong progress made in the last decade, today, three complementary trust funded-programs are collectively taking the country's financial sector to the next level. The programs are providing technical assistance and capacity building to Albanian authorities and galvanizing systemic changes at the country level, responding to emerging challenges by leveraging World Bank expertise and knowledge.

Recognizing the critical importance to enhance climate resilience, the Financial Resilience and Development Project is strengthening Albania's resilience to climate risks while developing innovative and green finance for farmers and small businesses to access. The project is collectively financed by the Finance for Development (F4D) Umbrella Trust Fund and the Risk Finance Umbrella (RFU) Trust Fund, both funded by SECO. Work has started on the green bonds framework, project pipeline discovery, and issuance. Sovereign green bonds will help private corporates finance their green projects and test investors' appetite for such instruments. Support is also underway in shaping a robust regulatory framework for crowdfunding activities in the country. Finally, F4D made significant headway in convening partners, building capacity and policy reforms in the insurance and pension sectors. This is expected to bring significant changes in the approach to risk management, enabling companies to handle unforeseen risks as the market develops.

These activities supported by F4D provide the necessary foundation for and complementarity with those implemented with support from the RFU in enhancing the financial resilience of the government, households, and businesses.

The areas supported under the RFU include developing legal frameworks for a public-private partnership to provide earthquake insurance for households, improving the management of government-contingent liabilities, and addressing challenges in agricultural insurance.

The FinSAC program joined the F4D Umbrella in 2023 with continued strong support and contributions from the BMF.

The program builds upon its previous and productive engagements in Albania and further strengthens the country's financial stability with the priority of aligning with the EU directives and regulatory framework. As is the case with the project mentioned above, building resilience to climate risks is critical for this program as well. The FinSAC team engages with the Albanian Deposit Insurance Agency (ADIA) to enhance the deposit insurance legal framework and institutional capacity; build the Bank of Albania (BoA)'s capacity to assess and mitigate financial risks from climate change; support the design of regulations on minimum requirements for NPL strategies; and refine the bank resolution framework for better alignment with the EU regulatory framework.

Significant progress has already been made in addressing financial risks related to climate change and enhancing financial sector resilience.

Internal capacity building on climate stress testing was conducted, with calibration considering current macro models, BoA preferences, and data availability. Draft climate risk guidelines for banks were also discussed and prepared with the BoA. Additionally, strategic advice on investment risk management has started, including preparing recommendations for modernizing the ADIA's investment risk management approach. Further, discussions were initiated with the BoA to conduct a national corporate viability study on NPLs, and extensive discussions took place on the operationalization of bank resolution strategies.



Through the Remittances and Payments Program, the Bank of Albania has enhanced its policies to include the financially excluded, to reduce payments costs, to incentivize formal channels of remittances and to modernize its payment infrastructure, increasing the acceptance of electronic payments and broadening access to financial services nationwide. This program has also been critical in preparing Albania for future integration into the Single Euro Payments Area geographical zone, which will streamline cross-border payments, including remittances.”

—Ledia Bregu, Director of Payment Systems and Accounting, Bank of Albania



Finally, the Western Balkans RPP 2.0, now funded by F4D with SECO's contribution, is advancing the success of the first phase and enhancing its efforts in financial inclusion in Albania as part of the regional program, with a priority focus on usage of DFS by merchants and consumers. This continuation of RPP is creating an enabling environment for delivering and using DFS among banks, non-banks, and the broader population. The project supports authorities on legal and regulatory framework reforms for DFS and delivers capacity building to the BoA on digitalization of remittances. The technical assistance focuses on strengthening the incentives for usage, creating a road map for electronic payment acceptance by small merchants, and promoting financial literacy, especially in digital payments and account ownership. By June 2024, the World Bank team supported drafting secondary regulations in Albania on the payment services. The project is currently supporting the electronic payment acceptance assessment, along with

further activities on financial education. Along policy support, awareness-raising activities have continued. The World Bank team co-organized [a joint event with the BoA on Project Greenback for the International Day of Family Remittances](#) to reinforce the significance of remittances on the Albanian economy and as a lifeline for families, a macroeconomic stabilizer, and a gateway to financial inclusion.

The financial sector agenda in Albania is multifaceted, with various components that are interrelated and mutually influential. By delivering strategic support through these complementary trust funded-programs, the World Bank can expedite results and maximize impact. Each program benefits from the strong involvement of collaborative partners within Albanian authorities, leveraging high-level leadership and engagement of ministries, as well as the technical expertise of financial regulators, to advance policy reforms effectively.

Lessons learned from these programs are actively shared through knowledge management platforms managed by the trust funds and learning events delivered by the World Bank.² This knowledge will inform not only Albania's future programming but also sector-wide support for other countries. By harnessing the unique strengths of each program, the World Bank is strategically positioned to address multifaceted challenges and seize opportunities in the financial sector.

Endnotes

¹The AFSA is responsible for the regulation of capital markets and the voluntary pensions and insurance sectors. See <https://alreg.com.al/rreth-nesh/amf>

²For example, key progress and lessons are captured in the [Impact page](#) of the F4D external website. Also, F4D and RFU participated in the [Global Finance Partner Forum](#) in Vienna, Austria, in May 2024, engaging with donors and sharing experiences.

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