TERMS OF REFERENCE

Support for the Development of a Private Credit Bureau in Albania - International Consultant

1. Background

Credit information has an essential role in the financial infrastructure of emerging markets as it improves access to finance, especially for individuals and small and medium-sized enterprises. Micro, small and medium-sized enterprises (MSMEs) in Albania make up a large share of the country’s economy. According to INSTAT statistics, large enterprises with 50 and more employees represent only 1.1% of total enterprises; the other 99% are MSMEs. Yet this segment is largely underserved by the financial sector. Only 26% of the outstanding banking loans had been granted to MSMEs in Albania, with another 31% being lent to individuals. Meanwhile, the non-bank financial institutions’ lending portfolio, although closer to the MSME sector, in total makes up for only 4% of banks’ lending.

One of the reasons for this limited access to finance for MSMEs and individuals is the limited information available to creditors about potential borrowers’ credit history. Since much of the economy is informal, banks and other crediting institutions have limited access to objective information on which to make lending decisions. In addition, the risk aversion of banks is high due to the continuous high stock of nonperforming loans (NPLs), which continues to suppress credit growth. Despite many measures and interventions by the Government and banking community in the country in the last years, the NPLs ratios still stands at 13.7% of total loans in February 2018.

Establishing a comprehensive credit bureau could address these problems by enabling financial institutions to evaluate the risk of individuals and MSMEs more accurately, ultimately resulting in increased availability of credit and lower borrowing costs. The only credit information available in the country at the moment is that provided by the Credit Registry, created and administered by Bank of Albania (BoA) since 2008. It only contains information on the exposure of borrowers to the banking and partly non-bank financial system, and it does not provide for a credit scoring system.

In this context, in 2016 the European Bank for Reconstruction and Development (“EBRD” or the “Bank”) hired consultants to carry out a feasibility study for the Establishment of a Credit Bureau in Albania (the “Feasibility Study”). The project was undertaken in accordance with EBRD’s Strategy for Albania in facilitating SMEs’ access to finance, and within the framework of the Investment Climate and Governance Initiative (“ICGI”) for Albania, expressed in the Memorandum of Understanding between EBRD and the Government of Albania, signed in 2014.

The Feasibility Study provided: (i) an overview of best international practices; (ii) a market and stakeholders analysis; and (iii) recommendations on the model, governance and ownership structure of an optimal bureau. The recommendations suggested that the credit bureau: should be established as a separate, private entity under ownership of banks (and potentially other stakeholders such as non-banks and utility companies); should function in collaboration with, and parallel to, the existing
Credit Registry at BoA; and should collect information about borrowers’ exposure from all relevant stakeholders, such as utility companies, telecommunications providers (mobile and fixed-line), insurance companies, etc.

The recommendations of the Feasibility Study were discussed with both the BoA and the Albanian Association of Banks (AAB) and its member banks. It was generally agreed that the establishment of such a credit bureau shall address the lack of a credit scoring system in Albania as an added value to the banking and financial system, creating a more complete risk profile for borrowers. The scoring system, among other functions, is foreseen as a measure for the reduction of non-performing loans in Albania, in accordance with the Inter-Institutional Plan of Measures drafted by the authorities for this purpose.

Considering all the above, AAB has decided to undertake the initiative of developing a private credit bureau in Albania, and has requested the support of EBRD with technical assistance during its setting-up phase, through the engagement of consultants that bring international expertise and experience.

The EBRD will provide assistance to the AAB (the Project) in these main areas: (i) raising awareness amongst all relevant stakeholders; (ii) enabling the necessary legislative and regulatory framework for the establishing and functioning of a private credit bureau; (iii) identifying the functional technology requirements of the bureau and ensuring the selection of an appropriate technical provider; and (iv) enabling an efficient operational structure and governance of the credit bureau.

The project will include therefore two main assignments, and is going to be undertaken by two consultants: one shall be in charge of bringing international experience in setting up credit bureaus including awareness raising and technical and operational governance of the new bureau (the “International Consultant”); and one shall be in charge of the Legal Support (the “Legal Consultant”).

These Terms of Reference details the activities of the International Consultant (the “Consultant”).

2. **Objectives**

The general objective of the Assignment is to support the Albanian Association of Banks, by providing guidance and expert advice, throughout each of the steps of setting up a private credit bureau, based on international experience.

3. **Scope of Work**

In order to attain the objectives set forth in Section 2 above, the Consultant shall carry out the following main tasks:

- Build awareness of the credit bureau among all key stakeholders, including the potential participants as well as the relevant authorities;
- Working with AAB and other relevant stakeholders, and in collaboration with the Legal Consultant, assist in establishing the appropriate regulatory and legislative framework;
• Identify processes of work of the credit bureau, relevant technical solutions, and prepare bidding documents for potential technical providers;

• In collaboration with the Legal Consultant, recommend an institutional and organisational development plan.

3.1. Build awareness and consensus among all potential participants in the credit bureau and policymakers and regulators

Building on the discussions held so far with the banks and BoA, the Consultant should facilitate further consensus building amongst all stakeholders for the operational and legal changes, necessary to establish the credit bureau, to take place smoothly and within a reasonable time frame. The Consultant (in collaboration with EBRD and supported by AAB) shall organise roundtables and meetings with high-level participation from BoA, banks and non-bank lenders, as well as authorities and other entities identified as potential members to the credit bureau, to secure high level buy-in. This should aim at addressing and discussing issues such as:

• Concerns of sharing personal information in the private credit bureau, and the obligation to respect the privacy of consumer data, including the issue of sharing information between the existing credit registry at BoA and the new credit bureau;

• Need for collaboration with authorities and regulators to ensure their support and prompt response to amending/passing new legislation (as relevant) for the establishment of a new private credit bureau;

• Need for cooperation among the banking, financial and non-financial institutions aiming at a broad participation by bank and non-bank lenders in the credit bureau;

• Concerns about the obligation for all members of the new credit bureau to share information equally and with the same level of quality (amongst reporting of the banks and other financial and non-financial institutions);

• Measures that could be enforced to prevent competitor institutions from poaching customers;

• The importance of sharing positive (in addition to negative) information in the credit bureau.

3.2. Assist in establishing the appropriate regulatory and legislative framework that enables the creation of a private credit bureau

Building on the Feasibility Study and the legal assessment it has produced, and in collaboration with the Legal Consultant, the International Consultant shall present to and discuss with all the relevant stakeholders identified areas requiring amendments needed to allow for the setting up and functioning of the credit bureau.

3.3. Identify processes of work of the credit bureau and technical solutions

3.3.1. Functional requirements for the credit bureau technology

Building on the Feasibility Study and its technical scoping part, the Consultant shall assist AAB in determining the overall objectives of the envisaged credit bureau and specify the functions its core system shall perform (to include typically: collecting, validating, and merging data; generating and distributing reports; and providing data security and backup). This will help to catalogue the required functions, required
reports, expected transaction volumes, and system performance requirements.

The Consultant shall provide a list of detailed activities to be provided by the credit bureau, a description of the information that will be used and the operational mechanisms that will be used to support each activity. The above should answer, *inter alia*, the following questions/issues:

- What will be the universe of borrowers to be covered by the Bureau?
- Who will be all possible members/users?
- Who can buy a report? How many reports?
- Type of information to be gathered and distributed (negative AND positive);
- Will there be public information included (from courts; bailiffs; real estate registry, etc.)?
- Communications channels (for data transmission, inquiries);
- Response time;
- How will it interact with the other existing (or potential) systems in place?
- Backup, disaster recovery;
- Type of hardware and software necessary;
- List of most suitable international providers and their characteristics.

### 3.3.2. Documents for the technical solution provider bidding

Based on the above, the Consultant shall recommend to AAB the suitable system architecture and the necessary technology infrastructure that ensures that the design of the credit bureau is commercially viable and that it will provide value-added services (such as credit scoring, portfolio monitoring, fraud alerts, and the like).

### 3.4. Institutional / organisational development plan

The Consultant shall review the work of the Legal Consultant, as well as present to and discuss with all the relevant stakeholders the identified options as per the legislation in force in Albania, regarding governance rules and structures applicable/recommended for the organisation of the credit bureau, and shall propose to AAB the optimal type of governance and ownership structure.

In this phase, the Consultant shall also make recommendations to AAB in terms of setting up the operational structure, specifying staffing needs (at each phase of the development of the credit bureau) and hiring criteria for each of the suggested staff members.

### 4. Assignment Implementation

- Implementation shall be required to commence immediately after the signing of the contract. The expected maximum duration of the assignment is 6 months.
- The Consultant shall fully cooperate with EBRD, the Legal Consultant and AAB for the duration of the project.
- The Assignment will be managed by the EBRD’s Project Team consisting of the EBRD’s Operation Leader (OL) and the team members communicated to the Consultant.
- The Consultant shall provide explanations and clarifications to EBRD, on any best
practices considered during the implementation of the project.

- The Consultant will be expected to spend at least 45 working days in Tirana during the six-month duration of the Assignment.

5. Deliverables and Reporting

The Consultant will produce the following outputs and reports:

- The Consultant shall submit, not later than two weeks after the mobilisation/start date, an inception report based on a high level review of the overall context and which shall include:
  - Any clarifications of these terms of reference that may be required to meet the objective/tasks of the assignment;
  - List of major issues that need to be resolved, with brief analysis of the issues and recommendations;
  - Other problems encountered or envisaged, along with proposed solutions;
  - Detailed project working plan.
- The Consultant is expected to conduct workshops/meetings with different groups of stakeholders to discuss/finalise the recommended options, and report on their outcome (section 4.1).
- The Consultant shall review the report prepared by the Legal Consultant on proposed legal/regulatory solutions, and discuss with all relevant stakeholders (section 4.2).
- The Consultant shall submit a report describing the proposed system architecture and a mapping of functionalities of the credit bureau (section 4.3).
- The Consultant shall review the proposal prepared by the Legal Consultant for the management, operational and monitoring structures of the credit bureau and requirements for each position (section 4.4).
- Information on progress with the implementation of the project will be provided by the Consultant (in electronic format) on a monthly basis. These reports should include an overview of activities implemented since the previous report, a summary of outputs and identification of any major problems which may have arisen during the delivery of the project.
- Within 30 days after completion of the previous task the Consultant will submit a Final Report. The Final Report will be a review of all of the Consultant’s tasks and recommendations, the level of fulfilment and necessary conclusions. It will also include any major lessons learned from the assignment.

All deliverables need to be prepared in English.

The Consultant will report to the OL at intervals specified in the deliverables section of the Consultant’s contract, and will be available at all times for the duration of the contract to respond to queries and requests for updates from the Project Team.

No deliverable will be considered as final before being approved by the OL as being of an acceptable quality.

All information enclosed in the ToR as well as that associated with the project shall remain confidential.