Appraisal Environmental and Social Review Summary

Appraisal Stage

(ESRS Appraisal Stage)

Date Prepared/Updated: 08/19/2019 | Report No: ESRSA00241
The World Bank
Enhancing Capital Markets Supervision Capacities of The Albanian Financial Supervisory Authority Phase 2 (P171066)

BASIC INFORMATION

A. Basic Project Data

<table>
<thead>
<tr>
<th>Country</th>
<th>Region</th>
<th>Project ID</th>
<th>Parent Project ID (if any)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Albania</td>
<td>EUROPE AND CENTRAL ASIA</td>
<td>P171066</td>
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</tr>
</tbody>
</table>

Project Name  | Enhancing Capital Markets Supervision Capacities of The Albanian Financial Supervisory Authority Phase 2

Practice Area (Lead) | Financing Instrument | Estimated Appraisal Date | Estimated Board Date
Finance, Competitiveness and Innovation | Investment Project Financing | 8/22/2019 |

B. Borrower(s) | Implementing Agency(ies) |
Ministry of Finance and Economy | |

Proposed Development Objective(s)
The development objective of the project is to support AFSA in implementing selected parts of its ambitious and far reaching Strategy for 2018-2022 by (i) strengthening its capacity to regulate and supervise the capital markets and to (ii) boost market development for capital markets products through increased financial awareness and education, and stimulation of financial innovation.

<table>
<thead>
<tr>
<th>Financing (in USD Million)</th>
<th>Amount</th>
</tr>
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<tbody>
<tr>
<td>Total Project Cost</td>
<td>1.39</td>
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</table>

B. Is the project being prepared in a Situation of Urgent Need of Assistance or Capacity Constraints, as per Bank IPF Policy, para. 12?
No

C. Summary Description of Proposed Project [including overview of Country, Sectoral & Institutional Contexts and Relationship to CPF]
The project is providing support to AFSA in implementing selected parts of its ambitious and far reaching Strategy for 2018-2022 by (i) strengthening its capacity to regulate and supervise the capital markets and to (ii) boost market development for capital markets products through increased financial awareness and education, and stimulation of Financial Innovation.
D. Environmental and Social Overview

D.1. Project location(s) and salient characteristics relevant to the ES assessment [geographic, environmental, social]

The purpose of the project is to enhance the capacities for capital markets supervision of the Albanian Financial Supervisory Authority. Although there are no associated physical footprint activities, the coverage of the Authority includes the whole country of Albania.

Albania is a predominantly mountainous country in Southeastern Europe with a total area of 28,748 square kilometres. Albania borders Montenegro, Kosovo, Northern Macedonia and Greece with a coastline of almost 500 km that extends along the Adriatic and Ionian Sea.

Few of the largest and oldest bodies of freshwater of Europe occur in Albania. The second largest lake of Southern Europe, the Lake of Shkodër, is located in the northwest surrounded by the Albanian Alps and the Adriatic Sea. Nevertheless, one of the oldest continuously existing lakes in the world, the Lake of Ohrid, straddles in the southeast, while the highest tectonic lakes of the Balkan Peninsula, the Large and Small Lake of Prespa are well hidden among high mountains in the southeast. The rivers of Albania belong to the drainage basins of the Adriatic, Aegean and Black Sea. The longest river in the country, measured from its mouth to its source, is the Drin that starts at the confluence of its two headwaters, the Black and White Drin, though also notable is the Vjosë, one of the last intact large river systems in Europe.

There are 799 Albanian protected areas, which covers a surface of 4,600 km² and include 15 national parks, 5 protected landscape areas, 29 nature reserves, 4 protected resource areas and 750 nature monuments. The national parks cover roughly 13.65% of the overall territory. Along with the natural parks, Albania also boasts 8 archaeological parks covering some 11 km².

D. 2. Borrower’s Institutional Capacity

The responsibility for the project implementation for the Capital Markets Area activities will be with the AFSA, as well as project coordination and day-to-day project management. The AFSA will continue to maintain a Project Implementation Team (PIT), which will include staff experienced with donor projects and with adequate technical knowledge, both in capital markets and insurance. PIT will coordinate activities among AFSA departments, consultants, WB, and CFCU, the agency in charge of fiduciary services. The Borrower has no experience in World Bank safeguards. The project could be opportunity to consider activities to better inform the wider audience on capital and insurance literacy. The risk level remains same and it is low in terms of the standards. The Stake Holder Engagement activities in the second phase, the respective project, activities will be of the same nature as those in the first phase, the previous project.

II. SUMMARY OF ENVIRONMENTAL AND SOCIAL (ES) RISKS AND IMPACTS

A. Environmental and Social Risk Classification (ESRC)  
Low

Environmental Risk Rating  
Low

The purpose of the project is to support AFSA through (i) strengthening its capacity to regulate and supervise the capital markets and the insurance sectors and to (ii) boost market development for insurance and capital markets.
products. There are no activities that have an associated environmental impact or risk at this point in project preparation.

**Social Risk Rating**

Given that the project aims to support AFSA through (i) strengthening its capacity to regulate and supervise the capital markets and the insurance sectors and to (ii) boost market development for insurance and capital markets products. There are no activities that have an associated social impact or risk at this point in project preparation. The risk rating during the appraisal remains the same one defined during the project concept phase.

**B. Environment and Social Standards (ESSs) that Apply to the Activities Being Considered**

**B.1. General Assessment**

**ESS1 Assessment and Management of Environmental and Social Risks and Impacts**

**Overview of the relevance of the Standard for the Project:**

The project aims to support AFSA in implementing selected parts of its ambitious and far reaching Strategy for 2018-2022 by (i) strengthening its capacity to regulate and supervise the capital markets and to (ii) boost market development for capital markets products through innovation, introduction of new products and product distribution technologies. Specifically, the project will support the following activities: provide implementation support to the newly adopted Securities Markets Law; further strengthen AFSA’s risk based supervision; develop AFSA’s capacity to monitor and supervise securities markets; support AFSA in its Capital Market Development Efforts; strengthen AFSA’s regulatory and supervisory framework for insurance undertakings and promote long-term stability; promote consumer confidence through market stabilization; and project management. There are no activities with a physical footprint identified, nor are there activities that could lead to specific actions that could have an associated environmental or social impact.

There are no identified direct or indirect environmental or social impacts of the project activities. The team will communicate to the Borrower that any subsequent activities that may stem from this TA would be prepared in line with the World Bank Environmental and Social Framework and this will be reflected in the TORs for all such activities, if any.

**ESS10 Stakeholder Engagement and Information Disclosure**

The technical assistance provided under the original project and the newly proposed Phase 2 targets AFSA as the main beneficiary, however there are various groups of stakeholders that are indirectly affected by the projects. Several groups that may be interested and/or affected by the project implementation have been identified since the project concept phase. There are a number of groups of institutions and people who are interested in the Project on different levels. In particular for this Project, these may be identified as following:

(i) **Affected stakeholders**

a. AFSA staff (supervision, legal, research/fin education/PR, human resources) – a part of staff members will be directly involved in implementing and benefiting from the project, while other broader staff in AFSA need to be aware of the project outputs as these may indirectly affect their work.
b. Licensed entities operating in capital markets (asset management companies, banks, securities brokers and advisors, stock exchange, securities depositories and custodians) - regulatory and supervisory regime will be strengthened which will make their activity sounder and less risky but also maybe costlier.

(ii) Other Interested parties
a. Institutions: Bank of Albania, Ministry of Finance and Economy – these are involved along with AFSA through the Financial Stability Advisory Group in safeguarding the stability of the financial system in Albania. Therefore they have an interest on project implementation and outcomes.

b. Potential new market entrants (local and foreign) which will carry out regulated capital market activities or supporting services (technology services for instance).

c. Investing public since project activities will expectedly impact the risks in the market, investment opportunities, and quality of services provided by licensed capital market intermediaries.

The engagement will be organized throughout the implementation and the methods of the engagement are defined in the plan. In summary the stakeholders will be engaged through technical meetings, workshops, regular reports and regular communication efforts.

B.2. Specific Risks and Impacts

A brief description of the potential environmental and social risks and impacts relevant to the Project.

ESS2 Labor and Working Conditions
The Project anticipates engaging approximately 100 CFCD and AFSA workers, all of whom are civil servants. They will be engaged on the project in accordance with the terms and conditions of their employment with government. OHS issues will be addressed in accordance with national laws. There is no change of the assessment from the concept note. The project is continuation of the phase one, thus there is no change of the activities envisages during the concept stage

ESS3 Resource Efficiency and Pollution Prevention and Management
Although there are no activities that could be linked to this standard, there is a capacity building activity aimed at the AFSA staff to handle technologically driven development. New technologies often call for improved resource use efficiency and more stringent environmental mitigation measures. As such, depending on the scope of the capacity building for AFSA staff, part of the training could include a session on resource efficiency and the environmental aspects of new technologies.

ESS4 Community Health and Safety
There are no activities that could be linked to the standard
ESS5 Land Acquisition, Restrictions on Land Use and Involuntary Resettlement
There are no activities that could be linked to the standard.

ESS6 Biodiversity Conservation and Sustainable Management of Living Natural Resources
There are no correlations with the project and the defined activities for capacity building for capital markets and biodiversity.

ESS7 Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities
There are no activities that could be linked to the standard.

ESS8 Cultural Heritage
The project activities are not relevant for the standard.

ESS9 Financial Intermediaries
The project and the defined activities are not relevant for the standard. The project will not provide financing or transaction support to the financial intermediaries.

B.3 Other Relevant Project Risks
None identified.

C. Legal Operational Policies that Apply

OP 7.50 Projects on International Waterways
The project scope does not involve any physical activities, impacts both direct and indirect on any water bodies or international waterways.

OP 7.60 Projects in Disputed Areas
None.

III. BORROWER’S ENVIRONMENTAL AND SOCIAL COMMITMENT PLAN (ESCP)

<table>
<thead>
<tr>
<th>DELIVERABLES against MEASURES AND ACTIONs IDENTIFIED</th>
<th>TIMELINE</th>
</tr>
</thead>
<tbody>
<tr>
<td>ESS 1 Assessment and Management of Environmental and Social Risks and Impacts</td>
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</tbody>
</table>
SEP is prepared as part of ESS1. Stakeholder consultation during the preparation and implementation. Develop and implement Stakeholder Engagement Plan (SEP). Draft SEP acceptable to the Bank will be prepared for the appraisal. The final plan will be ready before the project approval.

### ESS 10 Stakeholder Engagement and Information Disclosure

| Draft SEP prepared. | 07/2019 |
| SEP PREPARATION: Prepare and disclose a Stakeholder Engagement Plan (SEP). | 07/2019 |
| By appraisal. Date now known | 07/2019 |
| Implement the SEP. throughout the project | 12/2022 |
| PROJECT GRIEVANCE MECHANISM: Develop and implement the arrangements for the grievance mechanism. | 09/2019 |

### ESS 2 Labor and Working Conditions

OHS issues will be addressed in accordance with national laws. This is throughout the project.

### ESS 3 Resource Efficiency and Pollution Prevention and Management

### ESS 4 Community Health and Safety

### ESS 5 Land Acquisition, Restrictions on Land Use and Involuntary Resettlement

### ESS 6 Biodiversity Conservation and Sustainable Management of Living Natural Resources

### ESS 7 Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities

### ESS 8 Cultural Heritage

### ESS 9 Financial Intermediaries
B.3. Reliance on Borrower’s policy, legal and institutional framework, relevant to the Project risks and impacts

Is this project being prepared for use of Borrower Framework? No

Areas where “Use of Borrower Framework” is being considered:
The Albanian environmental legislation is largely harmonized with the relevant EU Directives, and majority of the environmental laws have been passed in 2002 and 2003, including the Law on Environmental Protection and Law on Environmental Impact Assessment. The EIA procedure is in place for activities that are screened for before an actual investment is given any of the official permits. The use of this framework is not considered simply because there are no activities that would require its use. However, in the event that a given activity could potentially arise, the environmental protection framework of Albania can be used.

IV. CONTACT POINTS

World Bank
Contact: Keler Gjika  Title: Financial Sector Specialist
Telephone No: 5246+4154 / Email: kgjika@worldbank.org

Contact: Johanna Jaeger  Title: Senior Financial Sector Specialist
Telephone No: 458-9782  Email: jjaeger@worldbank.org

Borrower/Client/Recipient
Borrower: Ministry of Finance and Economy

Implementing Agency(ies)

V. FOR MORE INFORMATION CONTACT
VI. APPROVAL
Task Team Leader(s): Keler Gjika, Johanna Jaeger

Practice Manager (ENR/Social): Kevin A Tomlinson Cleared on 19-Aug-2019 at 16:21:46 EDT