

An FSE-ECSPF Working Seminar

February 11, 2003

A Bankers' Association Initiative

To catalyze public-private dialogue in financial sector reform

A Pilot in South-Eastern Europe

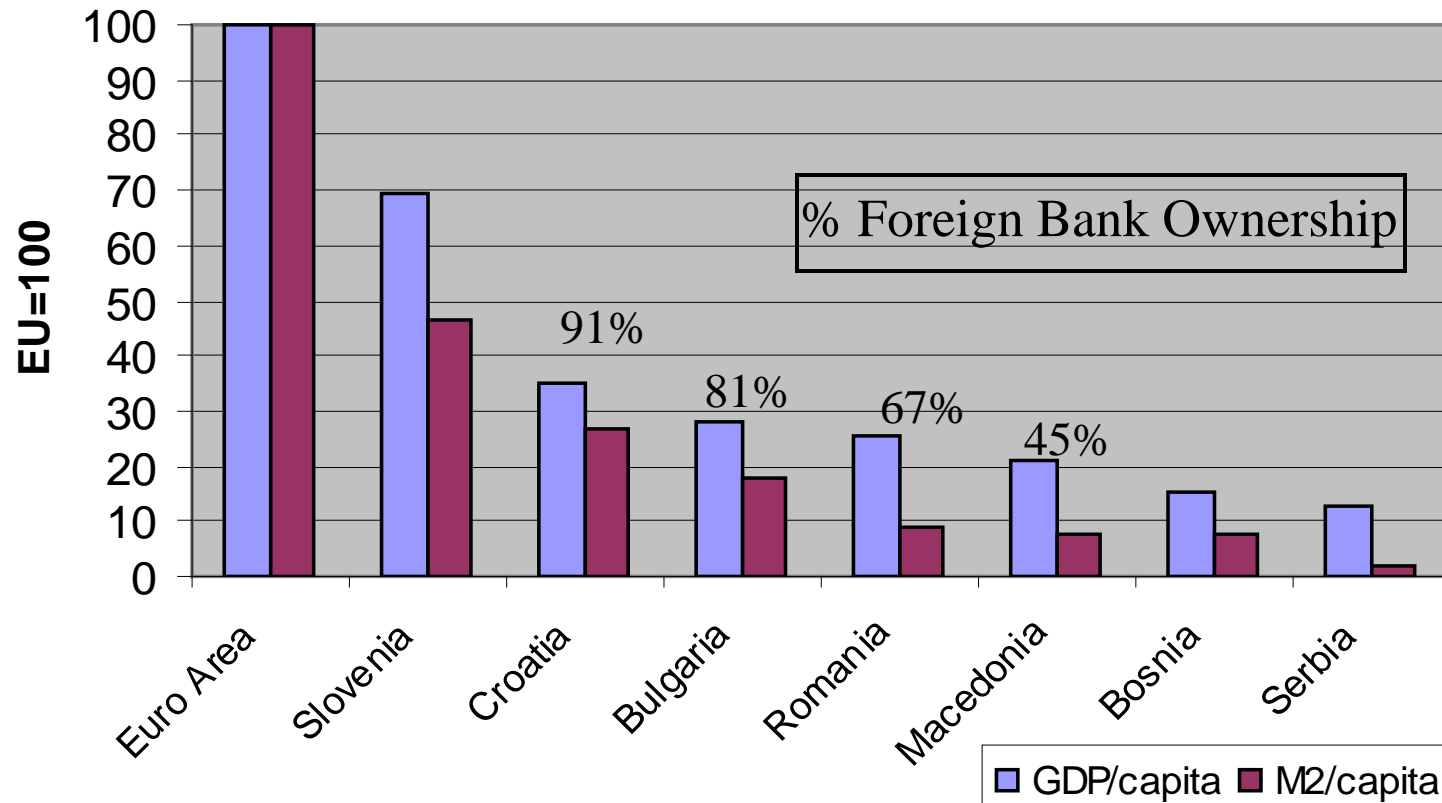
(Albania, Bosnia-H, Bulgaria, Croatia, Macedonia, Moldova, Romania, Serbia and Montenegro)

The World Bank

In association with the EU, EBRD and other partners

The Context

South-Eastern Europe: Large Financial Depth Gap With The EU



Foreword

This Initiative is about the World Bank assembling a multilateral and bilateral group which will help organize a framework for an effective dialogue on financial sector reform between the public and the private sectors

- Small and time-bound: \$[2]m over 18 months
- Catalytic: small WB contribution (10% of total)
- EU-led implementation: WB in a back-seat
- Initial focus: banking (90% of financial assets)
 - but open to other sectors overtime
 - » securities, leasing, asset management, insurance,...

This Initiative is NOT about the World Bank providing or paying for policy advice for the private use of bankers' associations.

Summary

- World Bank Role in the Region
- Why Public-Private Co-operation?
- Other World Bank Public-Private Partnerships
- The Issue
- The Vision
- The Instrument
- The Overall Structure
- Risks and Mitigations
- Annex

The World Bank Role in the Region: The Strategic Context

- The Middle-Income Countries Task Force
- Framework for WBG Support to EU Accession Countries
 - MoU between Bank and EU
- Preliminary Strategy For A Knowledge Economy in EU Accession Countries
- The WB Program For Business Partnerships with the Private Sector

Focus: Knowledge and Advisory Work With Partners

A Public-Private Cooperation: Conceptual Framework

- “The traditional role of the financial sector in underpinning investment and realizing growth potential through its intermediation and governance functions is still very limited in most EU accession countries”.

Eugenio Domingo Solans, ECB Executive Board Member

- “Further financial integration can only result from the an effective interplay between competitive market forces, co-operative efforts among market participants and the action of public authorities. Market participants should be able, in some circumstances, to achieve solutions of common interest that go beyond the pursuit of their own immediate benefit. Public authorities should act as both catalyst – fostering co-operation among market participants, whenever needed – and as regulators.”
- “We cannot be blind to the fact that the necessary co-operation among private market participants does not materialize unless public authorities play an important role in promoting it”.
- “Regulators and policymakers have much in common with teachers. A teacher should be friendly to pupils – just as regulators need to be industry-friendly – but like teachers, regulators always have to remember who they are and exercise the necessary discipline when needed.”

Tommaso Padoa-Schioppa, ECB Executive Board Member

A Public-Private Cooperation: Conceptual Framework(2)

- “First, market participants need to have sufficient information to reach informed judgments. Second, they need to have the ability to process it correctly. Third, they need to have the right incentives. Finally, they need to have the right mechanisms to exercise discipline.”

-Andrew Crockett, General Manager, BIS

- Without motivated owners, bank supervision alone will in all likelihood be ineffective.....A fundamental element in [building safer and more sound banking systems] should include aligning incentives of bank owners with the goals of the country and the national authorities (that is, making the system “incentive compatible”).

– Jerry Caprio, Director, World Bank

Other World Bank Public-Private Experiences

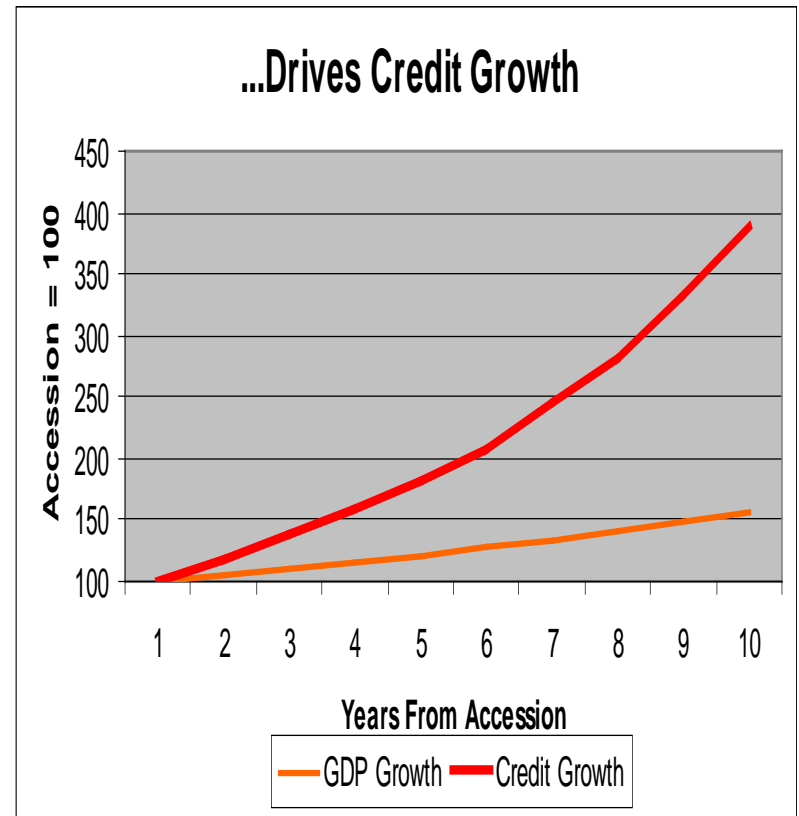
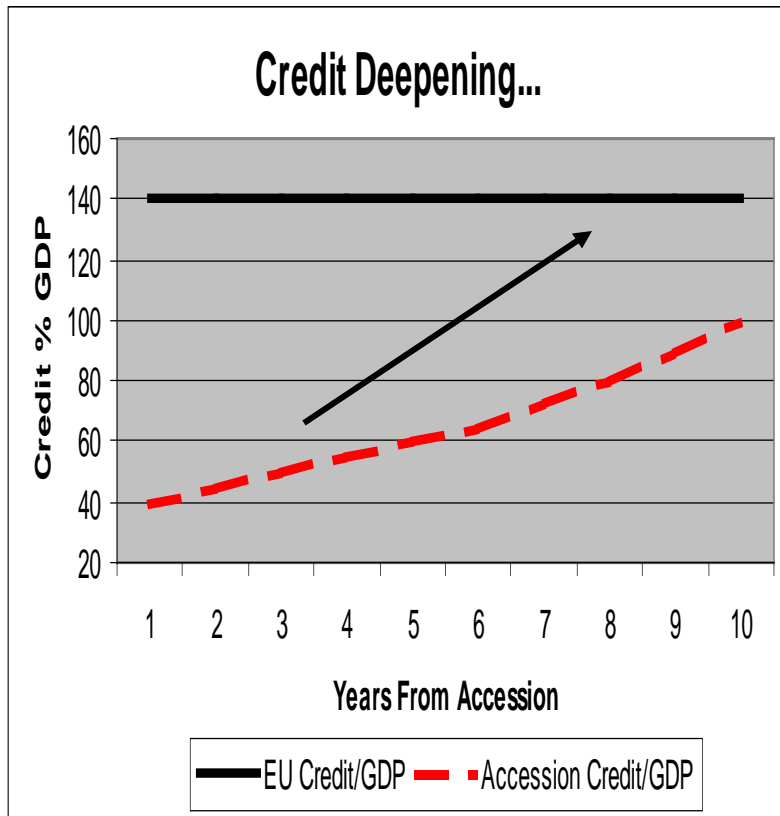
- FIRST supports projects with bankers' associations
 - Without a dialogue framework with government
- SEED supports business associations in the Balkans
- GlaxoSmithKline-WB Partnership in Strategic Communications in Africa
- Clean Air and Road Safety Public-Private Partnerships
 - Many big corporations contribute
 - Ford, Daimler-Chrysler, Shell, BP, Microsoft, HP, Siemens, Toshiba, etc.

The Issue

- Financial sector overhauled in SEE countries
 - Right incentives now: privatization and foreign entry
- But size and depth still small: 1/4 EU level (% GDP)
- Financial sector development is key contributor to economic growth
 - Given tight fiscal and monetary policies per EU requirements
- Large reform agenda outstanding
 - (incl. adoption of EU regulatory framework)
 - Legal infrastructure
 - Banking efficiency and safety
 - Capital markets development

➤ Quality and Speed of Implementation Matter!

The Vision



A strong public-private cooperation can make this happen!

The Instrument (1)

Bankers' Associations Are "Hollow" Bodies

Some Growth Constraints

Substantive

- Small size (1-2 staff)
- No stature
 - reacting to authorities' requests on small matters
- Significant knowledge gap on policy issues
- Few financial sector reform consultants available
- EU Bankers' Association know-how not easily transferable abroad

Organizational

- Who takes the leadership?
 - The President?
 - The Managing Director?
 - The Board?
- Membership co-ordination problems
 - Outdated membership representation often
 - New foreign owners not well connected with local institutions

The Instrument (2)

A Bankers' Associations Initiative (BAI)

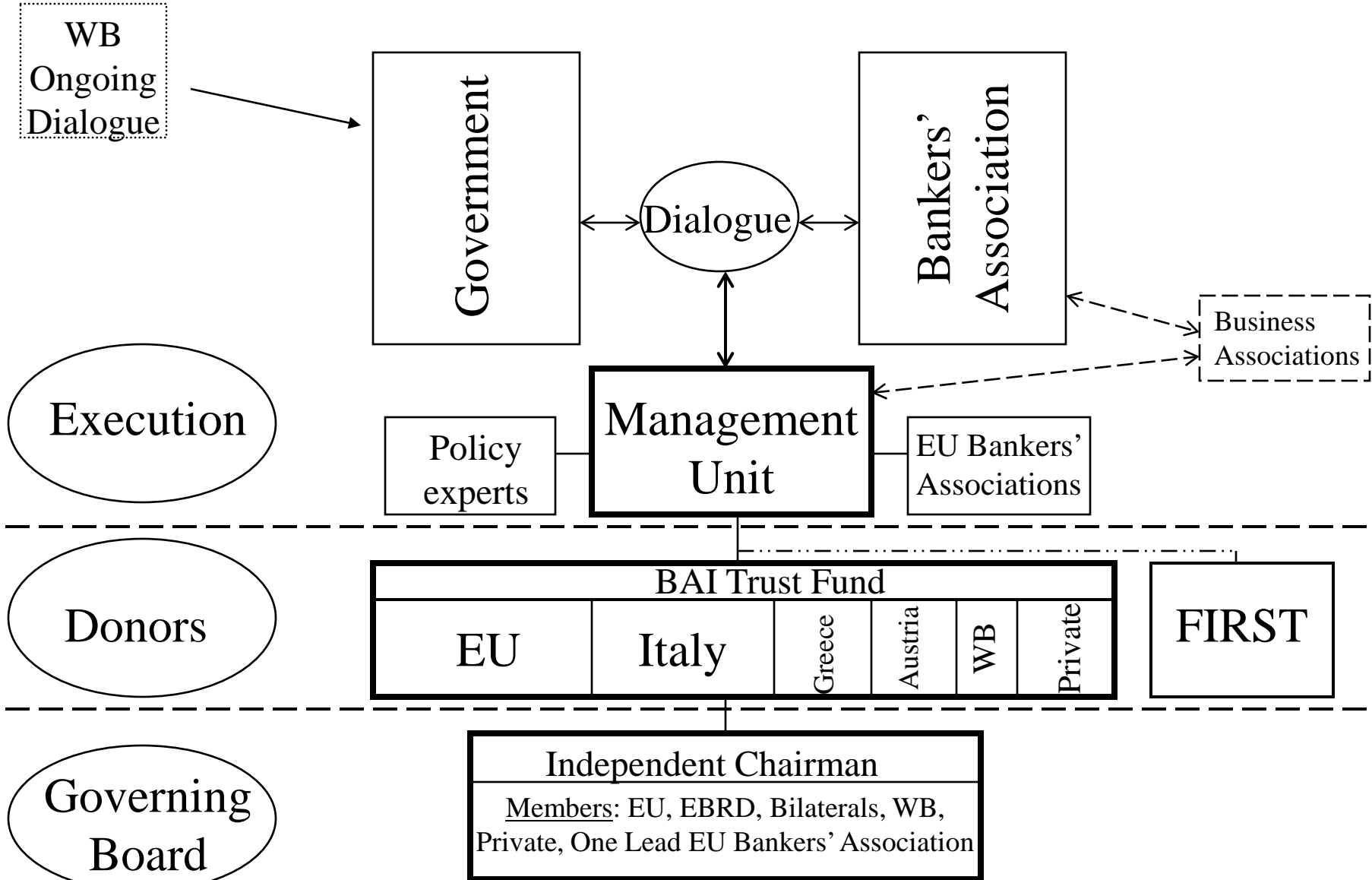
1. To demonstrate it is possible for the private sector to participate in shaping reforms
 - In agreement with authorities
2. To start building reform analysis and advocacy capabilities within the local financial sector
 - Knowledge economy
3. To make financial sector reform a participatory topic
 - Not only with bankers, but also with business associations and other financial sector groups

- An effective bankers' association is a valuable training platform for the banking industry
- GDLN

Why A Public Initiative?

- Time-bound: Max 24 months
 - Maximum catalytic leverage of public money
- To help capture the “public good”
 - Financial sector development stimulates economic growth
- With a strong public legitimacy component...
 - Credit access for individuals and SME fosters social cohesion
 - Possible topics for public support:
 - » establishment of a credit bureau for retail and SME clients
 - » how to increase non cash retail payments
 - » mortgage loan instruments
 - » securitization
 - » collateral law reform
 - » a coordinated approach to NPL resolution

BAI Overall Structure



BAI: Risks and Mitigants

- Legitimate role for public institutions?
 - Catalyzing private sector dialogue benefits authorities with weak capacity
 - it makes reform implementation quicker
- Reputational risks?
 - Focus: public good issues, as endorsed by authorities
 - Discussion of public good issues can turn bankers' associations into a powerful driver for market deepening
 - Harnessing owners' incentives: return on investment through market size growth, not short-term profit maximization
- Effective use of public money?
 - “Subsidy” has a higher return on development effectiveness than if used for direct government support, if it helps align private sector behavior with public good objectives
- Need for and extent of WB involvement?
 - WB has unique experience to structure public-private partnerships for effective results on-the-ground
 - Role at inception, not in implementation.

Annexes

Implementation Details

An Illustrative Business Plan

	<u>Phase 1</u>	<u>Phase 2</u>	<u>Phase 3</u>	<u>Total</u>
Time Frame	0-6 month	6-18 month	18-24 month	0-24 month
	Launch	Expansion	Consolidation	
Donors	X	X, Y	Y, Z	
	<u># Projects</u>	<u># Projects</u>	<u># Projects</u>	<u># Projects</u>
<u>Project Size</u>				
Large	1	2	0	3
Medium	2	1	0	3
Small	0	2	2	4

Project	Country						Total
	1	2	3	4	5	6	
Large		X		X	X		3
Medium	X		X			X	3
Small	X		X	X	X		4

Work executed in a regional context to maximize operational synergies

Implementation Arrangements (1)

The Architecture

- WB launches BA Initiative (BAI), with EBRD
 - ECB technical support
- BAI Funding (\$[2]m):
 - EU, Greece, Italy, FIRST (co-financier)
 - WB: small financial contribution (DGF – 10% of total)
 - Co-funding by local bankers' associations
 - Open to commercial bank contributions (collectively, as minority partners)
- BAI Governing Council:
 - Independent Chairman, EU, WB, EBRD, Bilaterals, private investors, an EU Bankers' Association
- Proposed BAI Trustees (2-3 former policy makers):
 - To advise BAI on perception of regulatory capture risk

Implementation Arrangements (2)

The Operating Framework

- Financial sector reform program public-private brainstorming
 - Facilitated by the World Bank (e.g., based on FSSA)
 - Identification of key reform priorities
 - Authorities invite bankers' association to take the lead in preparing background studies on one or two items

Implementation Arrangements (3)

Details

- BAI Implemented by a Management Unit (BAI MU)
 - Based in the region (e.g., Austria, Slovenia)
 - Two financial sector professionals
 - Paid with BAI Funding
- BAI MU brings in technical partners and financial sector policy experts
 - Successful EU Bankers' Associations (EBA)
 - European Banking Federation
 - Former WB/IMF staff and other policy experts
 - Interacts with FIRST
- BAI MU chairs local project steering committee
 - Authorities, bankers association, IMF?

Implementation Arrangements (4)

- WB Role
 - As project incubator and catalyst
 - With small financial contribution
 - As an honest broker between authorities and bankers' associations at inception
 - Monitors BAI as part of Governing Council
 - Without chairing it
 - May undertake follow-on work, as requested by the authorities