

OFFICE MEMORANDUM

DATE: July 12, 2002

TO: Messrs. Cesare Calari, FSEVP and Paul Siegelbaum, ECPSF

FROM: Luigi Passamonti, Senior Advisor, FSEVP

EXTENSION: 35776

SUBJECT: **Institution and Capacity Building Initiative for Bankers' Associations in South-Eastern Europe**

I visited Bulgaria, Croatia and Romania July 1-4 to make a first assessment of the feasibility of promoting the above. I briefed possible Italian funding counterparts and the Italian Banking Association about the main findings on July 5 in Rome. Attachment 1 gives the conceptual background of the initiative. Notes from individual meetings are in Attachment 2. Names of contacts are in Attachment 3.

Overall assessment

Authorities, bankers, professional advisors and our country office colleagues have confirmed that pace and sustainability of financial sector reform would benefit from the proactive engagement of a well-organized bankers' association. It would facilitate a deeper involvement by the banking community in understanding objectives and sequence of reform and in helping design concrete modalities of its implementation.

The need for assistance

I have detected two complementary aspects:

- a) institution-building: to help bankers review current mandate and activities of their bankers association in order to strengthen its role.
- b) capacity-building: to help the bankers association deliver the specific additional technical functions identified as part of an expanded mandate.

The proposed approach

I propose to start with a phased approach. Based on current evidence, I would envisage to run a low-key 6-month pilot in two or three countries to better scope feasibility, benefits and constraints of this initiative. By that time, we should have more information to make a proposal for an expanded program to be conducted over a 2-year period.

Next Steps

I will prepare a project description and a funding request to be discussed early September.

cc: Messrs. Sherif, Vorkink; Messrs. Hirat, Teodoru; Ms. Kondova

Stronger Financial Sectors In Central Europe

A Capacity Building Initiative For Local Bankers' Associations

Issue

The financial sectors of Central European countries have been overhauled during the last decade with privatization and foreign banks entry. However, there is a large legislative and regulatory reform still outstanding for the sectors to perform in line with Western standards, including the adoption of EU legislation. Within this context, market participants lack an organized forum to elaborate a common approach to market development and regulatory reform and to effectively advocate key regulatory issues to promote real changes. Local bankers' associations lack the mandate or the representation capabilities to become a credible interlocutor of both market participants and the authorities; their international recognition doesn't exist.

Foreign investors, whose business is highly regulatory sensitive, are sensitive to the opportunity cost of such a fragile regulatory infrastructure as it affects their cost of capital. The equity market factors in the regulatory risks undertaken in that area. While this premium has dropped in conjunction with recent US events, it may rise again if Central European countries lag behind the reform efforts in reporting and accounting standards reforms in developed markets.

Objective

To strengthen the capabilities of local bankers' associations & official representative bodies to analyze and elaborate legislative and regulatory reform needs; to assess their impacts on different components of the economy and to advocate them with local authorities and international institutions on behalf of their members.

To promote forms of self-regulation and responsible market conduct that complement and reinforce the activities of the supervisory authorities and launch a first consultation process between market participants and regulators.

To implement reliable and efficient tracking record procedures describing direct & indirect outcomes of the reforms, thus stimulating further cooperation around the initiative and reinforcing domestic and international credibility.

Participants and Roles

It is proposed that the World Bank promotes and structures the capacity building program with designated bankers' associations in selected countries.

It is proposed to seek the support of Italian Trust Funds to cover the costs of this initiative.

It is proposed that the Italian Banking Association (ABI) and other consultants provides technical assistance and day-to-day management involvement. Universities, other institutional entities and consulting firms could have specific interest in joining the initiative providing value added in the area of technical & professional experience.

Rationale

For the World Bank this initiative aims at the emergence of an institutional counterpart to the banking and supervisory authorities. A satisfactory cooperation between authorities and market participants is required to strengthen the regulatory framework.

For the Italian authorities this initiative represents an opportunity to address a systemic development need in a geographical area of strategic interest.

For ABI this initiative builds on and aims to leverage its ongoing institutional activities where it has gained a unique experience given the profound changes in the Italian financial sector over the last decade. It represents a natural extension of its activities to a geographical area where several of its most prominent members have made significant acquisitions and whose markets represent a strategic investment and trade target for a large part of Italian industry.

An Action Plan

July 2002:	Discussions with ABI and World Bank
	Identification of specific opportunities
September 2002:	Preparation of business plan
	Discussions with Italian authorities
November 2002:	Launch of first country pilot
January 2003:	Launch of second country pilot.

Bulgaria, Croatia and Romania

July 1-4 Meetings

Main findings

BULGARIA

Summary of Findings:

- There is a consensus among the banking community that there is a need for TA to the Association of Commercial Banks (ACB) to make it possible for the Association to provide specialized information and assistance in the form of thematic help desks, consultations, etc.
- The identified areas in demand of outside consultant expertise assistance to the ACB include: the obligatory introduction of international IAS in 2003, design and development of a working credit information bureau, training of bank managements on financial sector policy issues.
- Cooperation between ACB and another European banking association on specific issues is perceived as an advantage.
- Both the Central Bank (BNB) and the ACB have expressed satisfaction with the cooperative spirit of their working relation.

CROATIA

Concept: Emergence of local interlocutor to carry out policy dialogue with the authorities in specific sectors (Banking sector in this case)

Overall Conclusions:

- A stronger more cohesive Bankers association, representing the whole of the Banking sector to carry out policy dialogue with the authorities is an excellent idea.
- Currently, each major bank trying to pursue its own agenda with respect to the government.
- Receptive to outside assistance in the form of twining arrangements or organization of workshops.
- Funds are not the main problem, but lack of interest.
- Someone has to take leadership.
- Management more concerned about day-to-day operations, short-term view.
- Bankers Association needs to clarify what role it should play with respect to being an interlocutor with the Government.
- Restricted lending due to lack of properly functioning courts for dispute resolution and poor or non-existing facilities for registration of property (both fixed and movable).

ROMANIA

Summary of meetings (details of counterparts – next page)

- Romanian Banking Association (RBA) - established in 1991 - wasn't very active in the past; it wasn't a real partner in the discussion with National Bank and the Ministry of Finance.
- The cooperation with NBR has improved: NBR and RBA meet every month for discussion/consultation on the matters/norms/regulations related to the banking sector
- The lack of logistic capacity; the executive personnel/activity is very limited (a secretary general, a secretary)
- The professionalism of the working groups (accounting group, treasury group, etc.) should be strengthened
- There is no capacity to collect information and/or to conduct sectoral analyses
- There are banks members of the RBA which seem to have "different interest"
- Poor communication between the Board of the association and the members; a good PR is needed
- Need to understand how other banks associations do work; need transfer of know-how
- RBA must step up to a higher qualitative level
- RBA should become "more visible", should become a "public voice"
- To improve the relationship/dialog with the other institutions and other associations on the financial sector (insurance, securities, etc.)
- The conclusion is that a strong banks association is a high priority topic of interest for all institutions we met. All interlocutors consider that a capacity building program is needed; strengthening RBA's capability will be a benefit for all institutions in the financial sector. Some of them suggested that the organization by the Bank of a seminar (a regional seminar) would be a good opportunity for the bankers to better understand how a true association should work.

Attachment 3

BANKERS ASSOCIATION IN SOUTH-EASTERN EUROPE

MEETINGS IN BULGARIA, CROATIA and ROMANIA

BULGARIA

INSTITUTION	NAME	TITLE
Bulgarian National Bank	Prof. Emilia Milanova, D. SC. (Ec.)	Deputy Governor
Association of Commercial Banks	Irina Martseva, Ph.D.	Secretary General
BULBANK	Levon Hampartzoumian	Chairman of the Management Board and Chief Executive Officer
United Bulgarian Bank	Stilian Vatev	Chief Executive Officer
KPMG Assurance	Kassimir Hadjidinev	Partner

CROATIA

Croatian National Bank	Snježana Levar	Deputy Director
Croatian Banking Association	Dr. Zoran Bohaček	Managing Director
Zagrebacka banka	Nikola Kalinić	Deputy Chairman of the Management Board
Privredna Banka Zagreb	Martina Dalić	Chief Economist & Chief Strategist
Deloitte & Touche	Ivica Smiljan	Chairman
Deloitte & Touche	Peter Szabadhegy	Partner
Deloitte & Touche	Katarina Marić	Personal Assistant to Regional Managing Partner
KPMG	Janez Uranič	Partner

ROMANIA

National Bank of Romania	Mihai Bogza	Vice Governor
Banca Comercială Română	Ionel-Mihail Cetățeanu	Chief Economist
Banca Comercială Română	Anamaria Macri	Analyst
Banca Comercială Română	Lucian Claudiu Anghel	Assistant to the Chairman
Banca Comercială Română	Dr. Nicolae Dănilă	Chairman and CEO
Banc Post	Elena Petculescu	President & CEO
Banc Post	Maria Sultănoiu	Personal Adviser to the President
Citibank	Zdenek Turek	Country Corporate Officer
HVB Romania	Dan Pascariu	Chairman
Price Waterhouse Coopers	Vasile Iuga	Partner