



CONVERGENCE PROGRAM “FORWARD LOOKING” STOCK-TAKING

Rome, Saturday 30 January 2010

15:00-19:45

The World Bank Rome Office

MINUTES

<u>Participants:</u>	
Mr. Mihai Bogza	Former Vice-Governor of National Bank of Romania
Mr. Shkelqim Cani	Former Governor of Bank of Albania
Mrs. Ramona Bratu	SPI Regional Operations Director
Mr. Riccardo Brogi	Convergence Program Regulatory Impact Assessment Director
Mr. Pierfrancesco Gaggi	<i>Special guest</i> - Deputy Director Corporate Area Association of Italian Banks
Mr. Luigi Passamonti	Head and Founder of Convergence Program and Senior Advisor, The World Bank
Mrs. Viktorija Proskurovska	<i>Special Guest</i> - Adviser on Economic and Monetary Affairs, European Banking Federation
Mrs. Romyana Uzunova	Office Manager Convergence Program
<u>Apologies:</u>	
Mr. Biagio Bossone	<i>Special guest</i> - Former World Bank's Executive Director for Italy and Albania

Part 1: Activities 2005-2010

The meeting opened with the Program Head and Founder welcoming participants and acknowledging their individual contributions and efforts in establishing and coordinating the Convergence program's activities from its inception in 2005. The two guests from the European Banking Federation and the Italian Banking Association were warmly greeted and encouraged to familiarize themselves with the program's history of operations so as to learn how to carry out future SPI Platform operations through the upcoming potential allocation of EU resources under EBF leadership. Individual statements with expectations on the meeting followed.

In this initial round of discussion, core Convergence Program members emphasized their strong convictions and commitment to the Convergence Program since its very first steps and their continuous support of its future development. It was reported that a new regional public-private sector partnership, under IMF leadership, has recently emerged in the context of securing the consolidation of the funding commitments of international banks to their South-East European subsidiaries. At the same time, in countries that do not have formalized public-private partnership arrangements, policy dialogue remains weak because banking associations have yet



to emerge as dynamic partners. In this context, it was mentioned that the apparent difficulties of the Association of Albanian Banks in generating membership consensus to offset the loss of the Convergence Program's financial support can create a sustainability risk for the SPI Albania activities. It was also noted that the upcoming DG Enlargement Civil Society Facility for the Western Balkans and Turkey funding application is predicated on the existence of a strong commitment by the local banking association to engage in public-private activities.

Extensive presentations on the [EU Civil Society Facility](#) and the [SPI Platform](#) followed after this introductory discussion. The guest from the European Banking Federation observed the importance of the DG Enlargement Civil Society Facility for the Western Balkans and Turkey as well as the importance that the inclusion of Banking Associations would play towards the European Commission's objectives of strengthening civil society. Regional partnerships are necessary to create ideas and initiatives with the purpose of encouraging dialogues, improve networks and bring common EU values with EU standards and increase regional cooperation. It was further stressed that the DG program has been adapted to make the SPI Platform eligible for financial support under the framework of the EU Civil Society Facility. In this context, the sustainability of the SPI Albania activities is seen as linked to the eventual success of the EBF regional initiative and, as such, represents a pre-condition for Albania's participation in this initiative. Further, the guest from the Italian Banking Association, who is a Permanent Observer on the SPI Albania Committee, commented on the difficulties he observed to generate an effective public-private response to keep SPI Albania operational. He noted this may be due to the innovativeness of the SPI Platform as a tool for policy dialogue and the lack of familiarity of the local community with public-private coordination and collaboration.

The first part of the meeting concluded with a general presentation of the Convergence [Website](#) and key documents released since the beginning of its operations.

Part 2: How Have We Performed and What Are The Next Steps?

Benchmarked against the Convergence Program's objectives as they were set out in the funding agreement with Italy's Ministry of Economy and Finance (see Annex), participants offered detailed and candid analyses of strengths, obstacles and outcomes. The ensuing group discussions can be summarized by the following key points:

- Participants remarked how well had the Convergence Program principles been articulated during the design phase in a series of key "constitutional" documents, now shown on the Convergence Program "History" [webpage](#).
- Participants also noted how meticulously these principles have been implemented in the actual operations of the SPI Romania and SPI Albania projects. An independent [IFC Evaluation](#), concluded in April 2008, illustrated quite well the main features of the SPI Platform, following [intense scrutiny](#) of its performance.



- **More generally, the SPI Platform has demonstrated the feasibility to generate large public interest in undertaking “financial modernization” reforms¹ which aim at removing regulatory and institutional obstacles that hamper efficient delivery of financial intermediation services to the real economy.**
- **The SPI Platform has also evidenced the feasibility for the banking community to take national leadership for the “financial modernization” agenda, using the specific public-private governance arrangements and solution-searching analytical methodologies elaborated by the Convergence Program.**
- Building on the SPI Romania and SPI Albania operations, the SPI Platform features are now very well documented in the EBF SPI Platform Toolkit which will facilitate their replication by other partners.
- However, the two-year term for the BOT (build-operate-transfer) initiative is seen as too short to allow the local community to become responsible for the next phase.
- To successfully operate an SPI Platform, there is a strong need of a local General Manager capable of monitoring staff and networking with local public-private community. Banks’ CEOs not always follow closely the work by their technical staff in the SPI working groups on various subjects. This lack of communication can cause an important obstacle for the SPI activities in the long-term.
- Middle management of banks must be “on board”: they can both convince top management on issues like RIA, and make their subordinates (experts) work.
- The multiple attempts to help the Albanian community take over financial and operational responsibility for SPI Albania highlight the challenges for a community both to align itself behind a public-private dialogue framework and to play an active and coordinated role in promoting financial sector modernization. These challenges, on the other hand, provide a strong justification for the role of a catalyst role, as the one played in this case by the Convergence Program.
- Future SPI Platform initiatives under the EU umbrella will require from the beginning strong local leadership around the local banking association and the banks’ CEOs. It will be their responsibility to get authorities into the initiative, using the EU accession agenda which is a very strong argument. It is not the same situation as in the Convergence Program’s case where an externally-funded body came up with the initiative, methods and money, and locals had no responsibility for the money spent. In the future, local banking associations will have to sign contracts with EU bodies. Therefore they will have to be very committed to do a good job. Their performance under these contracts will be an element for evaluation of their countries’ accession preparedness.

¹ These “financial modernization” reforms (that enable new financial intermediation) are usually conducted less vigorously than “financial regulation” reforms (that set prudential limits on financial intermediation), because the latter benefit from much clearer institutional leadership arrangements (financial regulators and Ministry of Economy), stronger international momentum and specific “good” practices (in the form of “standards and codes”).



- Overall, it was concluded that the SPI Platform could be an excellent instrument if local banking associations wish to evolve from a “Bankers’ Club” into professionally-run institutions capable to contribute pro-actively to and take advantage of financial modernization opportunities.
- It was decided to take appropriate outreach initiatives on the basis of the conclusions of this meeting, starting with posting these minutes on the Convergence Program website and sending a letter summarizing this assessment to the Program’s Administrator.

Minutes prepared by Romyana Uzunova and cleared by all participants

Description of Activities and Expenditures under the Trust Fund for South-East Europe Public-Private Financial Sector Dialogue (“Convergence”)

1. Description of Activities

The Program will help financial sector authorities of seven South-East European¹ countries start incorporating considerations of market development issues in the regulatory fine-tuning work that is necessary to promote real convergence of their economies with the EU. In advanced economies, “business-friendly” issues are routinely taken into consideration in the legal and regulatory process owing to the existence of large analytical capabilities in financial economics, banking and finance and legal and regulatory matters within their civil societies in the context of ongoing close consultations between authorities and market participants. In the region, these capabilities are significantly under-developed.

“Convergence” will thus contribute to the promotion of public-private consultation fora by undertaking analytical activities conducted in open consultation with market participants’ associations and other civil society organizations. The activities will be largely focused on the identification of micro-structural regulatory issues that hamper financial sector intermediation. They will quantify the estimated impact on financial market size of their successful change through reliance on “regulatory impact assessment” analyses, and propose possible ways to effect these changes with market participants’ inputs.

“Convergence” will be implemented by a small team consisting of the World Bank Program Director and other consultants, preferably former Central Bank Governors and Ministers that command considerable standing and recognition within the region’s official and business communities. The team will connect senior country authorities and market participants through a mix of technical activities such as policy notes, outreach activities to build public awareness about financial sector reform, seminars and workshops and in-country capacity building prepared by financial sector experts.

The work, which will be carried out in close coordination with IFC, EBRD, the EU Commission and, where necessary, the European Central Bank, aims at fostering regional collaboration and harmonization among financial sector authorities.

The Trust Fund will pursue these development objectives by funding the following activities:

¹ The countries are: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Macedonia, Romania, Serbia and Montenegro.

- Hiring of financial experts in areas pertaining to financial sector development policy options;
- Hiring of financial experts to build local financial and legal analytical capabilities;
- Organization of outreach activities to build public awareness about financial sector reform;
- Organization of seminars and workshops and other training activities;
- Hiring of several country senior advisors who will build public-private ownership of technical recommendations prepared by the technical experts referred to earlier.

2. Categories of Expenditure

The Contribution funds will be used to finance the following categories of expenditure: Consultant Fees (Short- and Extended-Term), Contractual Services, Staff Costs (Salary and Benefits) without Indirects, Travel Expenses, and Media and Workshop Costs.

Trust Fund Objectives and Activities

35. * Summarize the Trust Fund development objectives

This South-East Europe Public-Private Financial Sector Dialogue Program ("Convergence") will contribute to the emergence of public-private consultation fora on financial sector development issues in the South-Eastern European region. Such fora could greatly enhance financial sector development and thus accelerate growth if they will start basing their deliberations on rigorous quantification of the expected increase in financial intermediation volumes, pursuant to "regulatory impact assessment" techniques that Convergence will help promote.

36. * Key performance indicators

The activities will be assessed in terms of their contribution to the development objective as stated in para 35. Projects undertaken as part of this program will need to lead to (a) increased understanding of financial sector policy micro-issues by both public authorities and market participant communities; (b) preparation of proposed policy changes, supported by an estimated impact on increasing financial sector intermediation; (c) successful promulgation of regulatory changes as recommended through this process; (d) requests for follow-up activities responding to the findings of policy analysis, outreach activities and seminars; (e) increased regional liaison and coordination in regulatory development to prepare for eventual EU membership.

37. * Strategic context (CAS, Strategy Paper etc.)

The functional strategic context is provided by the PSD Investment Climate strategy (SECM2004-0400 as well as the regional strategic context provided by the February 2004 Regional Framework Paper for World Bank Group activities in South Eastern Europe (SECM2004-0131). The regional strategy places a high importance on private sector development and SME support through effective financial intermediation which will benefit from the participatory approach supported through the proposed approach and activities. The output of the fora would also inform individual CASs and future financial sector lending and analytical work to identify reforms that would increase the efficiency and market-friendliness of financial intermediation in the respective countries of the region.

38. * Describe major risks vis-a-vis realization of TF development objectives (e.g. institutional, political, economic, technical) and indicate what measures are being taken into mitigate the risks

Institution-building work in the Balkans has its own specific challenges that have been well documented. To mitigate against performance failure risks, experts/advisors would be selected based on their critical expertise of local regulatory/market situations and professional and personal standing within the countries of operations. The work would also be carried out in close coordination with IFC, EBRD, the ECA region and the European Commission. Program-specific risks include (a) the intrinsic difficulty to establish an ongoing constructive and responsible dialogue between authorities and market participants, (b) the possible lack of coordinated engagement of market participants through legitimately representative associations; (c) the lack of available data to document the market size impact of proposed regulatory changes. The standing and experience of experts/advisors (especially those entrusted with high-level dialogue/liaison tasks) will mitigate the former two risks. The micro-economists that will be engaged to conduct the regulatory impact assessment activities will need to demonstrate familiarity with building adequate data collection capabilities for micro-structural issues.