

# What is the SPI Platform?

## 1.1. Understanding the Special Projects Initiative (SPI) Platform

The information in this chapter is intended to enable the promoter of the SPI Platform – that is, an EBF Associate – to understand the nature of the public-private partnership, how it works, how it is organized and its benefits and costs. Examples from Romania and Albania are used to illustrate the concepts.

### 1.1.1. SPI Platform Objective

The SPI Platform is a public-private partnership for institutional cooperation among market players, users of financial services and relevant authorities for addressing national financial-sector modernization opportunities through proposals for reform.<sup>2</sup>

### 1.1.2. SPI Platform Partners

SPI partners include associations of financial institutions, users of financial services – consumers and enterprises, regulating and supervising authorities of the financial market, academic institutions and international donors.

Box 1		SPI Platform Partners	
Romania		Albania	
Initial	<ul style="list-style-type: none"> <li>• National Bank of Romania</li> <li>• Romanian Banking Association</li> <li>• Ministry of Finance</li> <li>• Convergence Program</li> </ul>	Initial	<ul style="list-style-type: none"> <li>• Bank of Albania</li> <li>• Albanian Association of Banks</li> <li>• Ministry of Finance</li> <li>• Financial Supervisory Authority</li> <li>• Convergence Program</li> </ul>
Joining later	<ul style="list-style-type: none"> <li>• National Authority for Consumer Protection</li> <li>• Romanian Banking Institute</li> </ul>	Joining later	<ul style="list-style-type: none"> <li>• Ministry of Economy (Market Surveillance and Consumer Protection Department)</li> <li>• European University of Tirana</li> <li>• Italian Banking Association</li> </ul>

SPI partners undertake responsibility for managing, funding, staffing, data and any other aspects of supporting financial sector modernization.

They commit themselves to dialogue, cooperation and consensus-building in deciding the issues to be tackled and the most suitable solutions<sup>3</sup>.

They use their institutional strengths – authority in the case of public institutions, and convening power in the case of private institutions – in implementing the regulatory and self-regulatory outcomes of the partnership.

<sup>2</sup> General information about SPI Platform can be found at: <http://www.convergence-see.eu/instrument>

<sup>3</sup> An effective framework for openness, transparency and dialogue is the main pillar of OECD's "Principles for Transparency and Integrity in Lobbying" [http://www.oilis.oecd.org/olis/2009doc.nsf/ENGREFCORPLOOK/NT0000503A/\\$FILE/JT03270937.PDF](http://www.oilis.oecd.org/olis/2009doc.nsf/ENGREFCORPLOOK/NT0000503A/$FILE/JT03270937.PDF).

The cooperation framework is set by the SPI Committee Operating Guidelines, which set out the responsibilities and rights of the parties (see **Annex I-1**).

### **1.1.3. Legal Status**

An SPI partnership may or may not be incorporated as a legal entity. It can function only on the basis of agreement between partner institutions on the basis of sound governance approved and implemented by the partner institutions.

If an SPI partnership is constituted informally it has a high degree of flexibility in its day-to-day work. But its institutional strength can be enhanced by legal incorporation as a new entity – a complicated and lengthy process – or by affiliation as a distinct entity with an existing institution, which would ideally be neutral or one of the main partner institutions. Former Governor of Croatian National Bank Marko Škreb made this recommendation when he assessed SPI Romania.<sup>4</sup> In either case, it is critical to preserve the public-private nature of the activities in terms of governance, implementation and administration. Legal incorporation will make it easier to organize revenue-generating activities and to raise contributions from domestic and international sources. A combination of these options may be designed, with the partnership starting as a non-legally formalized entity for a trial period and legal incorporation at a later date. This depends on the stakeholders' preferences, their financial options and institutional constraints. It is an important aspect of the SPI public-private partnership that has consequences for staffing, management and financing.

#### **Box 2 - The Convergence Program's Experience with SPI Platform Legal Status**

In Romania and in Albania SPI started as a non-legal entity under an agreement between the stakeholders. Its efficient functioning may have been influenced by the sponsorship and participation of the World Bank's Convergence Program. After 18 months, the financial and managing ownership of the SPI was transferred to the local stakeholders. In Romania ownership was transferred to an existing separate legal entity in which both main partners – the National Bank of Romania and the Romanian Banking Association – were already shareholders: the Romanian Banking Institute. In Albania the transfer was a matter of absorption by one of the main partners. The appointment of the SPI Director for Financial Modernization Program and Analytics as Secretary General of the Albanian Association of Banks ensured the transfer of analytical skills, methods and procedures.

#### **Box 3- Location Options for the SPI Platform**

##### **1) Public**

a. The Central Bank may wish to host the SPI Platform along the lines of the European Central Bank (ECB) European Financial Market Lawyers' Group (EFLMG) (<http://www.efmlg.org/>) and equivalent units hosted by the Bank of England, the Federal Reserve Bank of New York and the Bank of Japan. The advantage is

<sup>4</sup> Report of the External Evaluation of the SPI Romania – Convergence Project, Marko Škreb, March 2007.  
[http://www.spiromania.eu/admin/filemanager/files/report\\_of\\_the\\_external\\_evaluation\\_of\\_spi\\_romania\\_final\\_ms\\_march\\_7\\_2007.pdf](http://www.spiromania.eu/admin/filemanager/files/report_of_the_external_evaluation_of_spi_romania_final_ms_march_7_2007.pdf)

that the unit draws on the institutional and professional strength of the central bank; the disadvantages are the lost opportunity to create multi-polar intellectual capabilities in the country and a possible rigidity in adapting its activities to new opportunities.

b. The Prime Minister's Office or equivalent central unit may be the host, as in the United Kingdom 10 Downing Street "Delivery Unit" model (<http://www.number10.gov.uk/Page3055>). The advantage is considerable political influence in supporting reforms; the disadvantage may be the distance from civil society, whose sustained intellectual engagement is beneficial to the reform process.

c. The European Commission (EC) also hosts various think-tanks for the purpose of improving the quality of regulatory design. A notable example is Fin-Use, which was set up to represent the views of consumers of financial services ([http://ec.europa.eu/internal\\_market/fin-use\\_forum/index\\_en.htm](http://ec.europa.eu/internal_market/fin-use_forum/index_en.htm)).

## 2) Private

Local public and private stakeholders may decide that it is strategically important to improve the analytical activities of the banking association, in line with good practice in more advanced countries. To preserve the public-private nature of this work, the banking association could sponsor the creation of a separate legal vehicle for this work that would operate under public-private governance. The Romanian Banking Institute is an example of such a public-private set-up, although its driving force is the central bank. A similar institution in Italy is the *Osservatorio Regionale Banche Imprese* (Regional Bank Enterprise Observatory) (<http://www.bancheimprese.it/eng/index.asp>). In the past, the Association of Italian Banks and the Bank of Italy jointly ran a think-tank specializing in financial sector issues (<http://www.entelugieinaudi.it/en/index.htm>).

## 3) Civil Society

A think-tank or university department with leadership open to building bridges with policy analysis could be identified to host the catalytic function. The benefit is to host the activity on neutral ground protected from commercial influence. Long-term fundraising from foundations and public sources is easier with this vehicle compared with the public or private options. The downside is that its leadership, independent of the authorities and private stakeholders, may not have the incentives and capabilities to establish a track record of practical contributions to policy design. Possible benchmarks for this choice are the recent Center for Financial Regulation (<http://www.icfr.org/>) promoted by the UK Treasury and, closer to the commercial end of the spectrum, the "Better Regulation" activities of the Oxford-based Oxera ([www.oxera.com](http://www.oxera.com)).

### 1.1.4. Object of the SPI Platform

The SPI Platform handles financial modernization issues that increase the efficiency of financial intermediation through interventions with the following objectives:

- reducing asymmetric information;
- completing the market;
- increasing contractual opportunities for entering into financial transactions;
- reducing transaction costs; and
- enhancing competition in the market.

This taxonomy is drawn from the ECB criteria for measuring progress in financial integration in the European Union's Single Financial Market:

"Financial modernization refers to the process of financial innovation and organizational improvements that make the financial system more efficient by overcoming a number of frictions such as asymmetric information, incompleteness of markets, limited opportunities for agents to engage in financial transactions through contracts, high transaction costs and limited competition."

Gertrude Tumpel-Gugerell, ECB Executive Board Member, July 2006 speech

The aim of these interventions is to remove legal, regulatory and institutional obstacles to matching demand and supply in financial services. These interventions are normally prudentially neutral in terms of the overall targeted risk profile of financial intermediation chosen by financial regulators.

In this respect, financial modernization<sup>5</sup> defines an innovative area of intervention that is almost fully complementary with that of financial regulation, which traditionally defines the interface between financial regulators and market participants. **Annex I-2** gives examples of the financial modernization programs handled by SPI Platforms in Romania and Albania. The Convergence Program developed a search engine<sup>6</sup> for identifying the modernization issues to be built into a program.

#### 1.1.5. SPI Institutional Capacity

Experiences in Romania and Albania showed that an SPI Platform supported by a three-person SPI Secretariat can handle ten to fifteen financial modernization projects per year.

#### Box 4 - SPI Romania 2007 12-Project Activity Program

- Positive credit information reporting
- Electronic processing of debit instruments
- Improving anti-money-laundering (AML) reporting
- Revamping rural lending based on deposit certificates
- Consumer financial education
- Banking ombudsman
- Credit rating agencies
- Stress testing
- Provisioning under International Financial Reporting Standards (IFRS)
- Mortgage loan and loss given default databases
- Markets in Financial Instruments Directive (MiFID) implementation
- Optimizing bank security

<sup>5</sup> For discussion, see: <http://www.convergence-see.eu/convergence/faq.html>

<sup>6</sup> <http://www.convergence-see.eu/our-mandate/how-to-identify-financial.html>

**Box 5- SPI Albania 2009 10-Project Activity Program**

- Enhancing banks' liquidity risk management
- Revising regulatory act on Execution of Procedures on Bank Accounts
- Revising public procurement law on financial advisory services
- Rationalized central bank reporting system
- Revising Foreign Currency Open Position regulation
- Preparing a feasibility study for central depository services
- Loan loss provisioning under IFRS
- Consumer Financial Education
- Expansion of the credit bureau services: database for businesses
- Expansion of the credit bureau services: scoring cards for individuals

**1.1.6. SPI Results**

The outcomes of the SPI public-private partnership are regulatory and self-regulatory proposals whose impact is qualitative and quantitative – increased volume of transactions and reduced transaction costs – from the private and public good points of view. **Annex I-3** shows the outcomes of the SPI Platforms in Romania and Albania and the quantitative assessments of the outcome of some of the projects completed.

**1.1.7. SPI Governance**

The strength and solidity of the SPI Platform are ensured by its partners' commitment to collaboration, strong governance and effective work methods.

The comprehensive governance framework (see SPI Committee Operating Guidelines in **Annex I-1**) was conceived by the Convergence Program and tested and improved in Romania and Albania. Its project methods are the result of practical experience; the analytical methods are based on the advanced European approaches of EU Better Regulation and Regulatory Impact Assessment.

**1.1.8. SPI Organization****SPI Committee**

The supervising body of the SPI Platform is the SPI Committee of high-level representatives of the partner institutions. An SPI Committee has the following responsibilities: i) to decide on the activity program; ii) to monitor implementation; and iii) to endorse and promote the outputs of the program.



**Box 6- SPI Committee in Romania**

**Members**

National Bank of Romania – First Deputy Governor

Romanian Banking Association – Chairman

Ministry of Economy and Finance – State Secretary

National Authority for Consumer Protection – Vice-President

Convergence Program – Head

**Alternates**

Ministry of Economy and Finance – General Director

National Authority for Consumer Protection – Director

**Box 7- SPI Committee in Albania**

**Members**

Bank of Albania – First Deputy Governor

Albanian Association of Banks – Chairman

Ministry of Finance – General Director

Financial Supervisory Authority - Deputy Chairman

Ministry of Economy – Director of the Market Surveillance and Consumer Protection

Convergence Program – Head

**Permanent Observers**

Italian Banking Association – Director

European University of Tirana – Dean of the Faculty of Economics

**Alternates**

Albanian Association of Banks – Secretary General

Financial Supervisory Authority – Director

Convergence Program – SPI General Manager

### SPI Working Groups

Implementation of the activity program is entrusted to public-private working groups established for each project. These consist of experts from all the stakeholders, led by a strong project management group reflecting the main stakeholders of the issue to be solved.

The project management group consists of a project owner such as the CEO of a bank or a central bank director, who appoints a project manager representing the main stakeholder and a co-project manager representing the other main stakeholder. The project owner ensures project oversight and is responsible for signing off the final SPI committee recommendations. The project manager and project co-manager coordinate the day-to-day activity of the project and are responsible for timely achievement of project objectives.

The project working group is set up under detailed terms of reference (see **Annex VIII-1**). The project manager and project co-manager decide membership in consultation with the stakeholders. Participation is voluntary. The members of project working groups provides the necessary mix of authority and expertise for ensuring that projects are successfully implemented.

Project working groups are responsible for identifying optimal solutions that address the concerns of all parties on the basis of EU Better Regulation methods. They contribute to project implementation, participate in meetings, contribute ideas and data, validate questionnaires, interpret consultation feedback and approve the final project document.

### SPI Secretariat

The SPI Committee and the project working groups rely on the work of an SPI Secretariat dedicated to the partnership.

The SPI Secretariat carries out most of the analytical work with a view to making the most of the time and knowledge of project working group members without interfering with their official responsibilities. The SPI Secretariat provides secretarial and communication services. It requires strong organizational capabilities to handle relationships with local and international experts.

#### Box 8- Main Responsibilities of the SPI Secretariat

- Prepare SPI committee meeting agendas; keep and distribute records of meetings.
- Manage relationships with national and international banks, experts and technical assistance providers.
- Build up the activity program.
- Present the SPI annual business plan, quarterly working plans and budgets to the SPI committee for approval.
- Build up visibility for the SPI Platform.
- Draft project ToR.
- Organize project working groups and their meetings.
- Prepare background studies based on interviews, research, international benchmarks and regulations.
- Summarize contributions by project working group members.
- Prepare documents for project working group meetings.

- Prepare draft regulatory impact assessment (RIA) questionnaires.
- Collect data and perform calculations.
- Prepare SPI Committee documents.
- Coordinate actions for promoting, enacting and implementing SPI proposals.
- Submit periodical activity reports to stakeholders.

The Convergence Program tested two SPI Secretariat models: i) in Romania – a General Manager, a Director for Bank Products and Services, a Director for Analytics and Policy, office interns; and ii) in Albania – a General Manager, a Director for Financial Modernization Program and Analytics, a Director for Operations and one or two part-time experts to cover analytical work.

The Romania model did not have separation of duties; the Albania model did not cover all the responsibilities. In Romania, both directors carried out analytical work and could handle four to six projects simultaneously; in Albania only one did analytical work and the Director of Operations had difficulty in covering secretarial work. The optimum formula for an SPI secretariat might be a General Manager with analytical and public relations skills and executive responsibilities, a Director for Analytics and Policy, part-time assistant experts and a junior to manage the office.

One of the most important aspects of the SPI Secretariat's activity is its position as a neutral body, an "honest broker". The SPI Secretariat has to build consensus among project working group members and SPI Committee members. This constitutes a fundamental difference between the SPI Secretariat and other employees of the SPI Platform.

#### Box 9- Ten Golden Rules for Consensus Building

- Gain the confidence of project working groups through sound preparation of documentation and meetings.
- Maintain a neutral position in project working group meetings.
- Focus project working group discussions.
- Keep accurate minutes.
- Keep track of disputed issues.
- Seek the arguments of all parties on disputed issues.
- Look for international experience in disputed issues.
- Ask for the opinions of third parties on disputed issues.
- Seek middle-way solutions.
- Ask for the approval of project working groups for documents, particularly SPI committee recommendations.

In summary, the SPI Platform has three components: i) the policy-making body – the SPI Committee; ii) the operational engine – the SPI Secretariat; and iii) the brain – the project working groups. **Annex I-2** shows the SPI Albania organizational chart, which sets out the main responsibilities of each party and the composition of the managing and executive bodies of the public-private partnership.



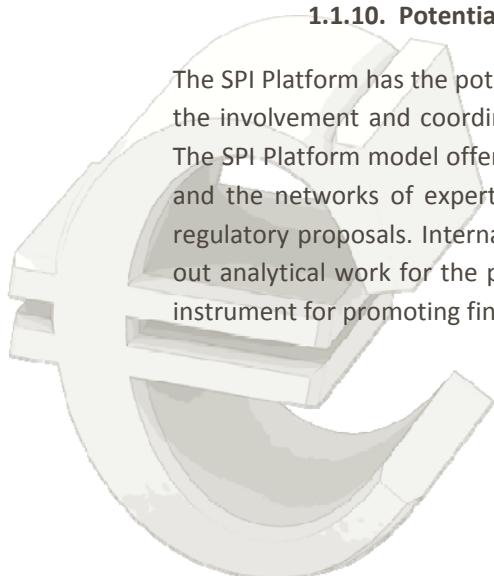
### 1.1.9. SPI Operating Principles

The SPI operating principles are therefore:

- **Local ownership.** This is achieved through the support of the local stakeholders and their powers to: i) decide on the SPI program; ii) mobilize their experts and cover a share of operating expenses; and iii) identify solutions and select those that address their concerns and accommodate their interests.
- **Programmatic focus.** The issues to be tackled under SPI are proposed by the partners in consultation. They are prioritized according to the financial modernization program objectives or policy priorities approved by the SPI Committee. In Albania, for example, the annual program for 2009 was built up in the context of the policy priorities of the Albanian banking system, discussed in Bank of Albania's Banking Forum and other meetings with banks, authorities and donors.
- **Mobilization of local expertise.** The annual program is implemented by public-private working groups of local experts, led by a project management group.
- **Involvement of foreign experts to fill knowledge gaps.** The project working groups prepare proposals for regulatory or self-regulatory changes, supported by the SPI Secretariat; if necessary, project working groups invite international experts to provide complementary perspectives.
- **Disciplined program management.** Project working groups run the projects according to detailed ToR prepared by the SPI Secretariat. The ToR's are based on standard documentation from the EU Better Regulation system and must be discussed in project working group meetings within three months. The recommendations of the project working groups are endorsed by the project management group and the SPI Committee before being sent to the relevant authorities for consideration.
- **Evidence-based analytical methods.** Projects are implemented according to EU Better Regulation methods: the main principles are that stakeholders must be consulted on policy options and that Regulatory Impact Assessment must be used to provide supporting evidence for regulatory proposals.
- **Transparency.** The governance framework, project implementation records and documents are made available to the public through the SPI Platform website and on the websites of SPI partners.
- **Practical impact.** The outcomes of the SPI are not studies or proposals: they are regulatory or self-regulatory changes.

### 1.1.10. Potential Future Development for SPI

The SPI Platform has the potential to become the hub of a country's financial modernization in facilitating the involvement and coordination of donors in a program that reflects national needs (see **Annex I-4**). The SPI Platform model offers significant cost and knowledge benefits in terms of the scale of operations and the networks of experts. The SPI Committee can use its authority to promote the enactment of regulatory proposals. International donors might sponsor the technical assistance necessary for carrying out analytical work for the project working groups, and in return SPI could offer donors a cost-effective instrument for promoting financial modernization and preparation for EU integration.



#### **1.1.11. SPI Costs and Resources**

The costs of an SPI Platform are salary costs for the SPI Secretariat, equipment purchases and the costs of running an office and organizing events. The costs will vary depending on conditions in each country. The annual budget of an SPI Platform is estimated at €100,000 on the basis of the Albania case: a small SPI Secretariat and involvement of foreign consultants as required. A ten-project annual program would therefore cost €10,000 per project.

In 2007 in Romania, 40 institutions – 9 public and 31 private – provided 120 experts who had 55 project meetings and spent 150 hours deciding on projects and implementing them.

With regard to the mobilization of in-kind partners, in the first 18 months of operation in Albania 27 private institutions, of which 16 were banks, and six public institutions appointed 145 experts who met in 27 project working group meetings. The value of this stakeholder contribution in 2008 can be estimated as the opportunity cost of these experts contributing 1,000 person-days, equivalent to five staff for a year, based on two-hour meetings per project.

#### **ANNEX**

#### **ANNEX Section Page Number**

Annex I-1	SPI Committee Operating Guidelines	1
Annex I-2	SPI Platform Presentation to Banking Association	27
Annex I-3	SPI Platform Achievements	35
Annex I-4	SPI Platform: A Financial Modernization Hub Framework	39

