

Convergence

Despite having been overhauled in recent years with privatization and foreign entry, the financial sectors in South-East European countries continue to play a modest role in financing economic activity, especially of small and medium-sized enterprises. This hampers strong and sustainable growth and weakens social cohesion. Even if the situation slowly were to improve, the lack of solid economic prospects will continue to bear on the political and social climate as these countries prepare for eventual EU accession.

Public action is crucial. In this regard Tommaso Padoa-Schioppa's thinking is inspiring. In the European Union context he stated that "*Further financial integration can only result from an effective interplay between competitive market forces, co-operative efforts among market participants and the action of public authorities. Public authorities should act as both catalyst – fostering co-operation among market participants, whenever needed – and as regulators.*". As already practiced in the European Union, policy makers, financial institutions, entrepreneurs and consumers in South-East Europe could get together to identify and define the necessary policies to stimulate the development of financial intermediation in the context of a shared vision for the future of the economy. From the business community perspective, stakeholder participation in the definition of the policy framework would reduce country risk, thus enhancing a more rapid and ambitious implementation of their business projects.

In the region, however, the consultative method is not widely used in policy development and formulation. Stakeholders also are still weakly organized and, especially if they are foreigners, do not have an established routine dialogue with policymakers. It is thus desirable that the international community (e.g., World Bank and EBRD with financial support by other donors) helps policymakers engage in an alliance with other stakeholders by making available a neutral consultative forum. To underline the long-term vision of this participatory approach (to prepare for EU Accession), its intermediate objective (to promote the emergence of a regional economic platform) and the working method (a public-private partnership), this initiative is called *Convergence*.

At government's request, *Convergence* experts will consult with stakeholders (market participants, business and consumer associations) as well as with government representatives, and prepare recommendations and proposals for policymakers on specific policies and regulations that would increase the effectiveness of financial intermediation (including business environment issues). *Convergence* would represent an additional modality of donor support. It will help authorities harness the incentives of market participants to achieve concrete reform results – in addition to their ongoing activity of delivering advice to them.

This consultative-based approach run by a neutral structure is in many ways similar to the one adopted by the EU Finance Ministers for the development of a European capital market (e.g., the Lamfalussy Group). This approach, which does not have the formality of government-run consultations, facilitates the identification of policies which stimulate market growth while minimizing the risk that they either have unintended consequences or even obstruct market innovation. Its supranational nature promotes, in particular, the expression of a constructive private sector perspective and their full ownership of the policies that are formulated.

Operating from a regional base, *Convergence* would cover the area of the Stability Pact for South East Europe: two countries for EU accession in 2007 (Bulgaria and Romania) and the five countries that belong to the Stability and Association framework (Albania, Bosnia-Herzegovina, Croatia, Macedonia, Serbia and Montenegro).