

## *Convergence*

### **Supporting Financial Sector Reform and Better Bank Governance in the Western Balkans**

#### Vision

To support sustainable growth in the Western Balkans, the World Bank, the European Bank, [...] and Italy are sponsoring Convergence, an initiative that aims to promote: (a) the emergence of a single in-country focal point for financial sector development and (b) bi-partisan cooperation between authorities and market participants to enact business-friendly financial sector regulations and protect financial stability through better bank governance. If successful, Convergence may evolve over the longer term into a self-standing regional advisory firm.

#### The Need

The development of a financial sector that supports economic growth is not a matter that authorities, often supported by international experts and institutions, can simply regulate. Laws and regulations do not create markets. Entrepreneurs create markets. Their incentives must be brought to the center of policy design if the regulatory framework is to support market growth. And financial stability cannot be pursued only through bank regulation and supervision. The responsibilities of boards should be enhanced with the support of and in collaboration with bank supervisors.

The question is how to spark this development, when there is little track record of collaboration.

#### First Steps

Operating on the basis of a mandate from authorities (Governor and Minister of Finance), Convergence staff will ensure that financial sector development technical work, be it analytical or regulatory, is conducted in the most rigorously bi-partisan way possible. It will ensure that market participants have an opportunity to initiate this work and that their views and needs are fully considered by the authorities. It will also ensure that objectives, priorities and constraints of the authorities are well understood and endorsed by market participants. In limited circumstances, Convergence will be able to fund directly such technical work.

In order to enhance the effectiveness of board oversight also through closer cooperation between bank supervisors and boards, Convergence will organize joint training programs and arrange the appointment of some its experts as independent non-executive directors to bank boards.

#### Expected Results

The involvement of Convergence, through a combination of coordination and technical work, will catalyze a substantive dialogue between authorities and market participants that will lead to better quality financial sector development. In turn, this will provide an incentive to market participants to organize themselves in professionally-run associations. Its governance activities will improve risk management – a precondition for sustained lending in support of the real economy.

#### Longer-Term Impact

In creating a regional network of experts (some of them former government leaders) with structured access to policy makers and engaged in bank governance, Convergence will broaden the responsibility for financial sector development and stability to civil society.

Through the technical work it will orchestrate and the partners it will bring together, Convergence may catalyze the creation of an in-country focal point for financial sector development – now a part-time function of several institutions and agencies. The result of this fragmentation of ownership speaks for itself: lagging financial sector development is holding back sustainable growth -- the only hope for a peaceful Balkan region.