



Public-Private Financial Sector Modernization

The World Bank's Convergence Program SPI Platform

Association of Banks in Moldova

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Convergence Program (World Bank)

Public-Private Cooperation

A Central Bank Governor's View

“Where public policy issues were involved, we established a tradition of extensive consultation right across the relevant sections of the market.

We recognized early on that intervention needed to be informed by those who properly understood the subtleties of the market, if we were to reduce the risk of unforeseen consequences.

In some instances this approach involved encouraging the market itself to address the particular issue in question as a preferable alternative to official action.”

Sir Edward George, (Fmr) Governor, Bank of England

Public-Private Cooperation Opportunities and “Challenges”

- Strong policy dialogue in advanced jurisdictions
 - UK FSA: 23 formal consultations in 2007 (18 in 2006)
 - 135 submissions to EU Retail Policy Green Paper (2007)
 - Authorities need market feedback to optimize regulatory design
 - Market responds because authorities use feedback
- Market participants can help authorities with key self-regulatory actions
 - Transparency (Italy), Deposit Insurance (Germany), short-term money market instruments (Eurozone)
- Market participants have weaker incentives to invest in informed feedback (and in collective actions) if authorities are less committed to policy dialogue
 - Negative externalities
 - A large banking group has inventoried 273 untackled regulatory issues in Central and Southern Europe

The World Bank's Convergence Program

- Set up in 2005 to explore how to foster public-private financial sector policy dialogue in South-East Europe
 - Public-private coordination failures hamper modernization
- Has adopted EU “Better Regulation” analysis tools
 - Promoting transparent and robust dialogue framework
 - Building up market analytical and policy discussion skills
- Operational instrument: SPI Platform
 - Time-to-launch: 6 months
 - Time-to-first regulatory proposals: 12 months
- Proven successful in Romania
 - www.spi-romania.eu
 - New SPI countries: www.spi-albania.eu, Adriatic Region, Bangladesh...



ROMANIA

CONVERGENCE FINANCIAL SECTOR MODERNIZATION

Public-Private Special Projects Initiative



SPI Romania Partners

120+ Experts Mobilized

- National Bank of Romania
- National Authority for Consumers Protection
- Ministry of Economy and Finance
- Ministry of Agriculture and Rural Development
- Ministry of Interior and Administration Reform
- Anti-Money Laundering Office
- TransFonD
- Credit Bureau
- National Authority for the Supervision of Personal Data Processing
- Rural Credit Guarantee Fund
- Grading Commission for Comestible Seeds
- Romanian Commodities Exchange
- Romanian Stock Exchange
- National Securities Comission
- The National Association for Consumers' Protection and Promotion of Programs and Strategies from Romania
- Italian Banking Association
- OECD
- International Finance Corporation
- World Bank
- Romanian Banking Association
- Raiffeisen Bank
- Raiffeisen Banca pentru Locuințe
- OTP Bank
- Banc Post
- CEC
- BCR
- Alpha Bank
- BRD-GSG
- UniCredit Țiriac Bank
- RIB Romanian International Bank
- Credit Europe Bank
- ING Romania
- Citibank
- ABN AMRO
- ATE Bank Romania
- Coface Romania
- Cargill
- KPMG
- Deloitte
- Clifford Chance
- Algoritmics
- Bearing Point
- Financial Ombudsman Service, UK
- Goodwood Financial Consulting



ROMANIA

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Public-Private Special Projects Initiative



Romania's 2007 Modernization Program

Italian Banking Association	FINANCIAL SECTOR MODERNIZATION CRITERIA	European Central Bank				
		Asymmetric information	Completeness of the market	Increased opportunities to engage in financial transactions	Reduced transaction costs	Increased competition
	Business development	Positive credit information sharing	1. Rural lending 2. Credit Rating Agencies	Law on bank guarantees	Loss-Given-Default Database	Mortgage Loan Database
	Industry competitiveness	Stress testing	MiFID implementation		1. Prudential IFRS 2. Debit Instruments E-Settlement 3. AML Law 4. Law on Safety	
	Industry reputation			1. Ombudsman 2. Consumer education		
Total	2	3	3	5	1	

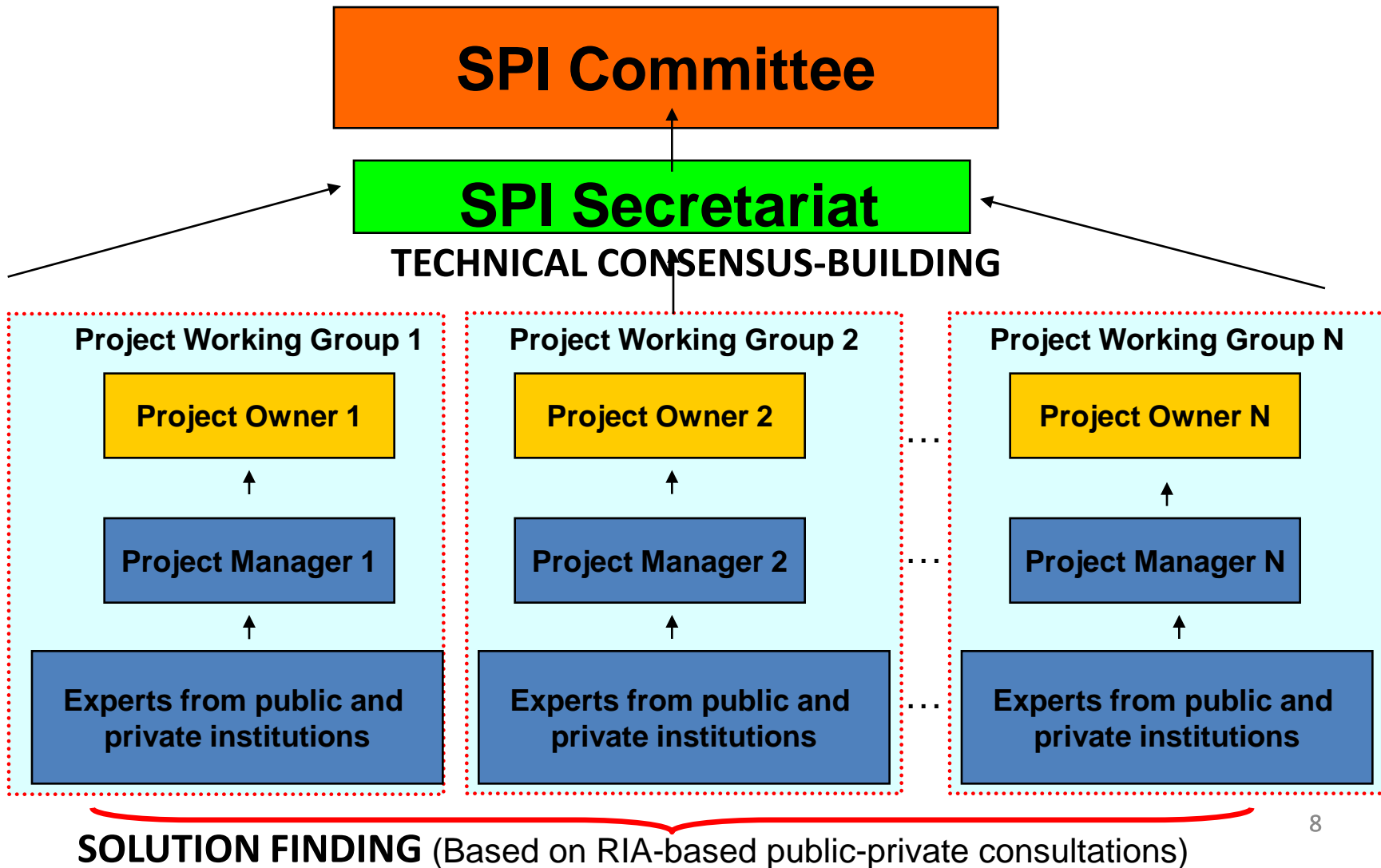
BOLD BLUE: NBR Proposals; **BOLD RED:** RBA Proposals; Black: Other Proposals

The SPI Platform Principles

- Public-private local stakeholders decide program
 - Focus: market-building regulatory improvements requiring large coordination efforts outside core mandate of a single authority
 - Prior unanimous agreement required for all actions
- Banks and consumers are analytical partners
 - Transparent analytical processes (EU Better Regulation)
- Leverages domestic capabilities
 - International consultants where needed
- Organizational and methodological support from World Bank's Convergence Program (SPI Technical Partner)
 - Operating on stage but behind the scene
 - No direct technical advice

The SPI Platform

SOLUTION ENDORSEMENT AND ENACTMENT



SPI PARTNERS

- **CENTRAL BANK/Ministry of Finance/
Financial Market Authority**
 - It may be an official co-promoter of the initiative
 - SPI projects complement high-level reforms
 - Member of SPI Committee
 - Main responsibilities:
 - Proposes some SPI projects and provides leadership;
 - Provides members to all PWGs;
 - Supports PWG activities with access to data;
 - Empowers its SPI Committee member to endorse SPI documents;
 - Takes actions for enactment of regulatory proposals endorsed by SPI Committee.

SPI PARTNERS (2)

- **BANKING ASSOCIATION**

- It could be the main promoter of the initiative
 - SPI projects below the authorities' priority radar screen
- Member of SPI Committee
- Main responsibilities:
 - Covers cost of SPI Secretariat activities;
 - Proposes some SPI projects and provides leadership;
 - Provides members to all PWGs;
 - Supports PWGs activities with access to data;
 - Empowers its Chairman to endorse SPI documents;
 - Takes actions for enactment of regulatory proposals endorsed by SPI Committee.

SPI PARTNERS (3)

- **SPI Technical Partner** [CONVERGENCE PROGRAM]
 - It can support the promoters launch the partnership, if invited
 - Non-voting member of SPI Committee
 - Main responsibilities:
 - Recruits SPI Secretariat staff;
 - Develops operating procedures in line with EU Better Regulation guidelines;
 - Under time-bound mandate, manages day-to-day activities of SPI Secretariat;
 - Formulates proposals on projects to be undertaken based on international experience;
 - Mobilizes international expertise to support PWG work;
 - Supports SPI institutional development.

SPI Platform Roles

1. SPI Committee sets reform program

- Central Bank, Banking Association, Ministry of Finance, Consumer Protection Agency, SPI Technical Partner
 - Industry can also propose issues of interest
 - Analytical work starts if authorities do not object
 - Authorities agree to act on proposed WG solutions

2. SPI Secretariat is the “engine” of the platform

- “Executive Project Manager”
- 2-3 staff with banking, consulting and policy background
- Close liaison with Central Bank and Banking Association
- SPI Technical Partner’s support
 - Catalytic, enabler, “honest broker”, dialogue gap filler...

3. Working Groups prepare analytical solutions

- Official and banking experts work side-by-side

SPI COMMITTEE

- **Members**

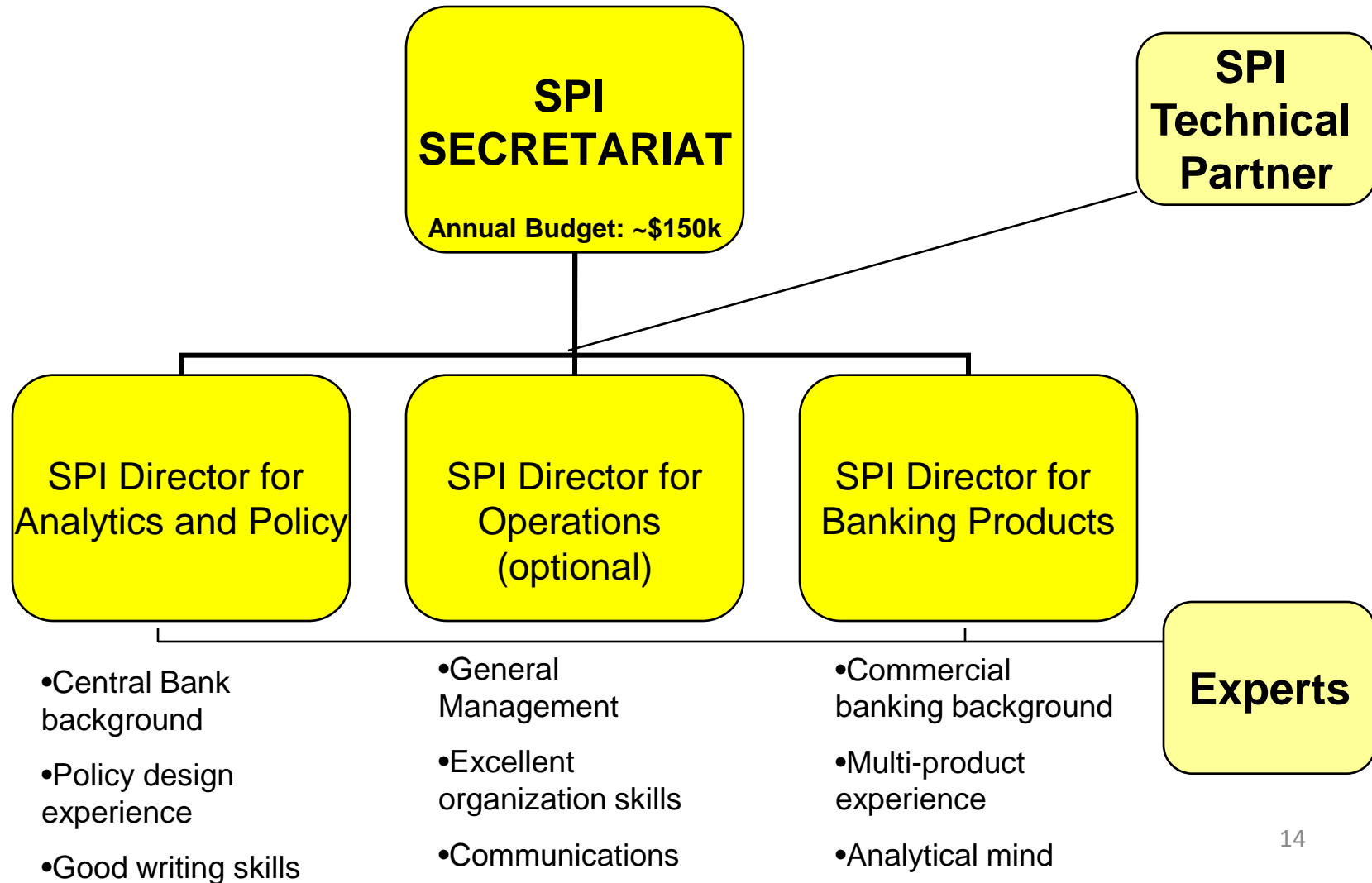
- Central Bank- Governor & Hosting Chairperson
- Banking Association - Chairman,
- Other authorities – Senior Officials,
- SPI Technical Partner (non voting).

- **Main responsibilities**

- Selecting the analytical projects to be undertaken;
- Monitoring and shaping work-in-progress;
- Endorsing SPI projects recommendations;
- Monitoring progress of enactment of regulatory proposals;
- Intervening for speedy enactment and implementation.

- **Meetings** - quarterly

SPI SECRETARIAT



SPI Secretariat Practices

EU *Better Regulation*

Policy Design Steps	Purpose
Scoping of problem	
1. Problem identification	To understand if a market/regulatory failure creates the case for regulatory intervention.
2. Definition of policy objectives	To identify the effects of the market /regulatory failure to the regulatory objectives.
3. Development of “do nothing option”	To identify and state the status quo.
4. Alternative policy options	To identify and state alternative policies (among them the “market solution”)
Analysis of impact	
5. Costs to users	To identify and state the costs borne by consumers
6. Benefits to users	To identify and state the benefits yielded by consumers
7. Costs to regulated firms and regulator	To identify and state the costs borne by regulator and regulated firms
8. Benefits to regulated firms and regulator	To identify and state the benefits yielded by regulator and regulated firms
Consultations	
9. Data Questionnaire	To collect market structure data to feed into cost and benefit analysis
10. Policy Options Questionnaire	To learn market participant opinions on various policy options
Conclusion	
11. Final Recommendations	Final report based on Cost Benefit Analysis and market feedback

SPI PROJECT WORKING GROUPS

- Project Management Team

- Project Owner – strategic management & oversight
 - Appointed by SPI Project sponsor
 - e.g. either Central Bank or Banking Association
 - Signs off final SPI Committee recommendations
- Project Manager/Deputy PM – chairs PWG meetings

- Project Working Group

- Composition: 6-10 representatives of public and private stakeholders, with specific expertise profiles.
- Responsibilities:
 - Attending the meetings;
 - Actively participating in the meetings;
 - Providing contributions (their institutions' experience, parts of documents);
 - Validation of RIA questionnaire;
 - Providing data/filling in questionnaires;
 - Validation of RIA findings;
 - Approval of position/policy documents;
 - Supporting enactment activities.

- Meetings

- About 3-4 over three months

SPI Builds A Strong Partnership

	Central Bank	Banking Association	SPI Secretariat
Issue Identification	Proposes issues where market technical input is useful	Proposes issues that hamper business development or create inefficiencies	Supports building public-private program
Solution Searching	Provides experts	Provides experts	Make project working groups (PWG) produce concrete results in short time
Consensus- Building	Monitors PWG emerging solutions and supports its PWG members	Monitors PWG emerging solutions and supports its PWG members	Looks for international benchmarks on disputed issues Analyzes feasibility, impact and implications of different options
Enactment Promotion and Monitoring	Acts on PWG recommendations	Monitors public actions and follows up if necessary	Supports analytical requirements for final decision-making

SPI Platform Impact

- It allows to address regulatory improvement needs that are important but not top priority for authorities
 - Mobilization of domestic multi-disciplinary expertise expands availability of analytical capacity
 - It also facilitates coordination among several actors
- If properly supported, it can process a large modernization program very efficiently
 - 10-15 additional key projects/year
 - Operating Cost: 0.5% of annual gains for banking sector

Launch Steps: The SPI Albania Example

January 2008	Bank of Albania and Association of Albanian Banks send Joint Commitment Letter to Convergence Program
January	SPI Romania Seminar in Tirana
Jan-Mar	Regulatory Impact Assessment Program
Feb-Mar	Consultations to build Activity Program SPI Secretariat recruitment
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15 May	SPI Secretariat starts working
10 June	First SPI Committee meeting Approved SPI Albania 2008 Activity Program (6 projects) Approved SPI Committee Operating Guidelines
19 June	4 Project Owners appointed
25 June	More than 50 Project Managers and Project Working Group members appointed
3-4 July	First PWG Meetings
October 2008	First expected regulatory proposals

SPI Albania 2008 Potential Projects



European Central Bank

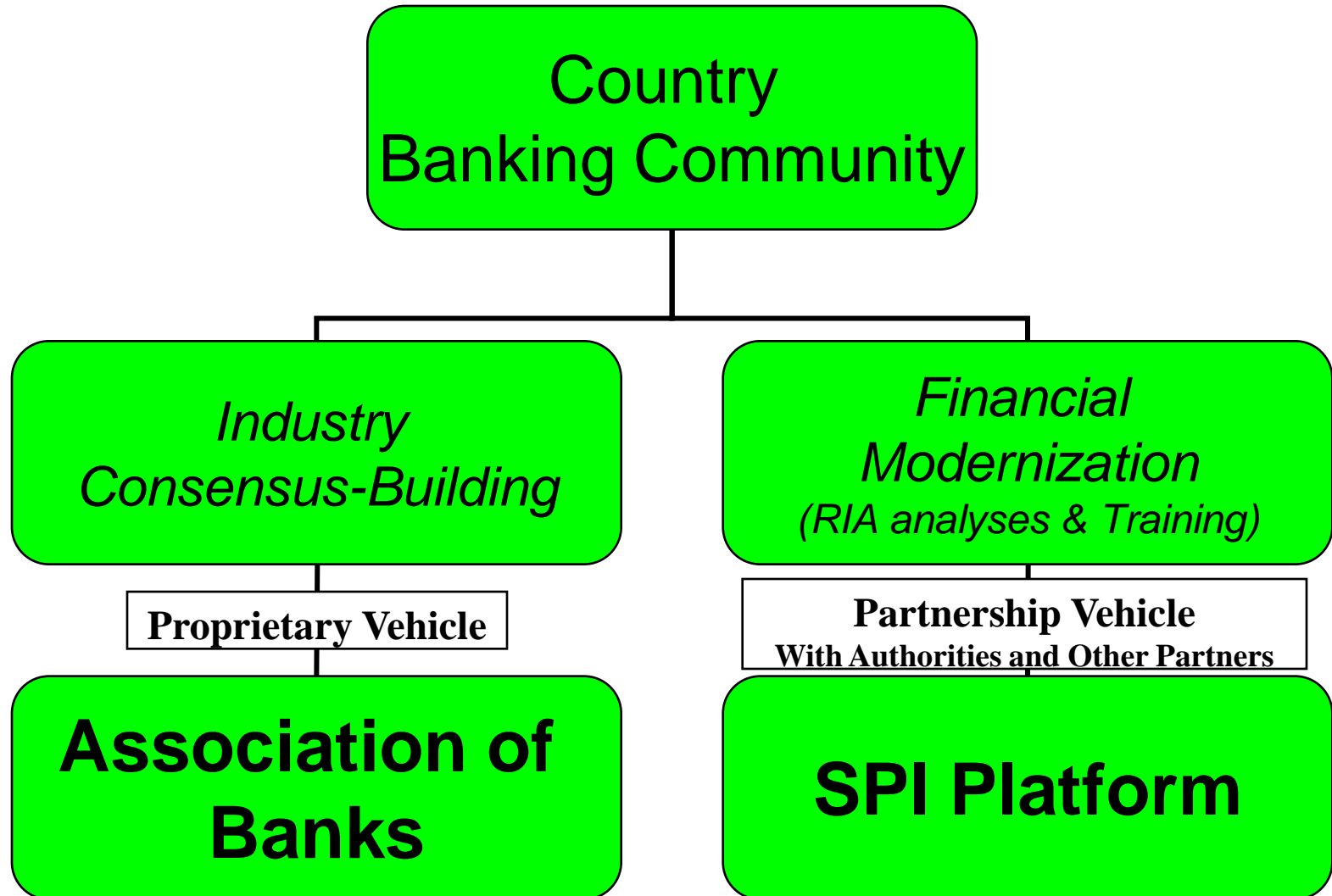
Italian Banking Association

FINANCIAL SECTOR MODERNIZATION CRITERIA	European Central Bank					
	Asymmetric information	Completeness of the market	Increased opportunities to engage in financial transactions	Reduced transaction costs	Increased competition	
Business development	1. Corporate /consumer lending	3. Stock exchange 4. Leasing transactions 5. Securitization 6. AAB Strengthening 27. Consumer credit	7. Agricultural lending 8. Lending to tourism 9. Lending to municipalities 10. Mortgage loans 11. Structural lending 12. Lending environment 13. Lending to PPPs 29. FX open positions	14. Strengthening bank staff 20. Auction procedures for buildings 2. Scoring card system for individuals		
Industry competitiveness	IFRS 15. Credit risk in consumer lending 16. Better credit risk management 17. KYC policies	30. Revising capital adequacy ratio 28. Corporate governance and requirements for their administrators	18. Expansion of banks activities	19. Reducing cash transactions 21. AML reporting 22. Write-off of bad debts 23. Account stopping 31. Reviewing guidelines on banks' liquidation 32. BoA reporting 33. Harmonizing accounting policies		
Industry reputation	34. Improving access to basic banking products	24. Financial ombudsman			25. "Effective" interest rate (EIR) 26. Consumer financial education 35. Enhancing financial consumer's protection	
Total	6	8	9	10	3	

BOLD BLUE: BOA Proposals; **BOLD RED:** AAB Proposals; Black: Other Proposals 20

SPI SUSTAINABILITY

A Framework



SPI Moldova

Suggested Steps

1. Discussions among potential SPI Moldova partners
2. Main SPI Moldova sponsor identifies a) two-year funding package for SPI Secretariat and b) possible SPI Technical Partners
3. SPI Moldova partners invite Convergence Program (CP) to help with launch arrangements
4. Possible CP role (through June 2009)
 1. To help structure agreement with SPI Technical Partner
 2. To select and recruit SPI Secretariat
 3. To prepare proposed SPI modernization program
 4. To organize SPI governance and operational procedures
 5. To support initial SPI operations.