



# Public-Private Financial Sector Modernization

The World Bank's Convergence Program SPI Platform

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Luigi Passamonti, FPD

# 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”

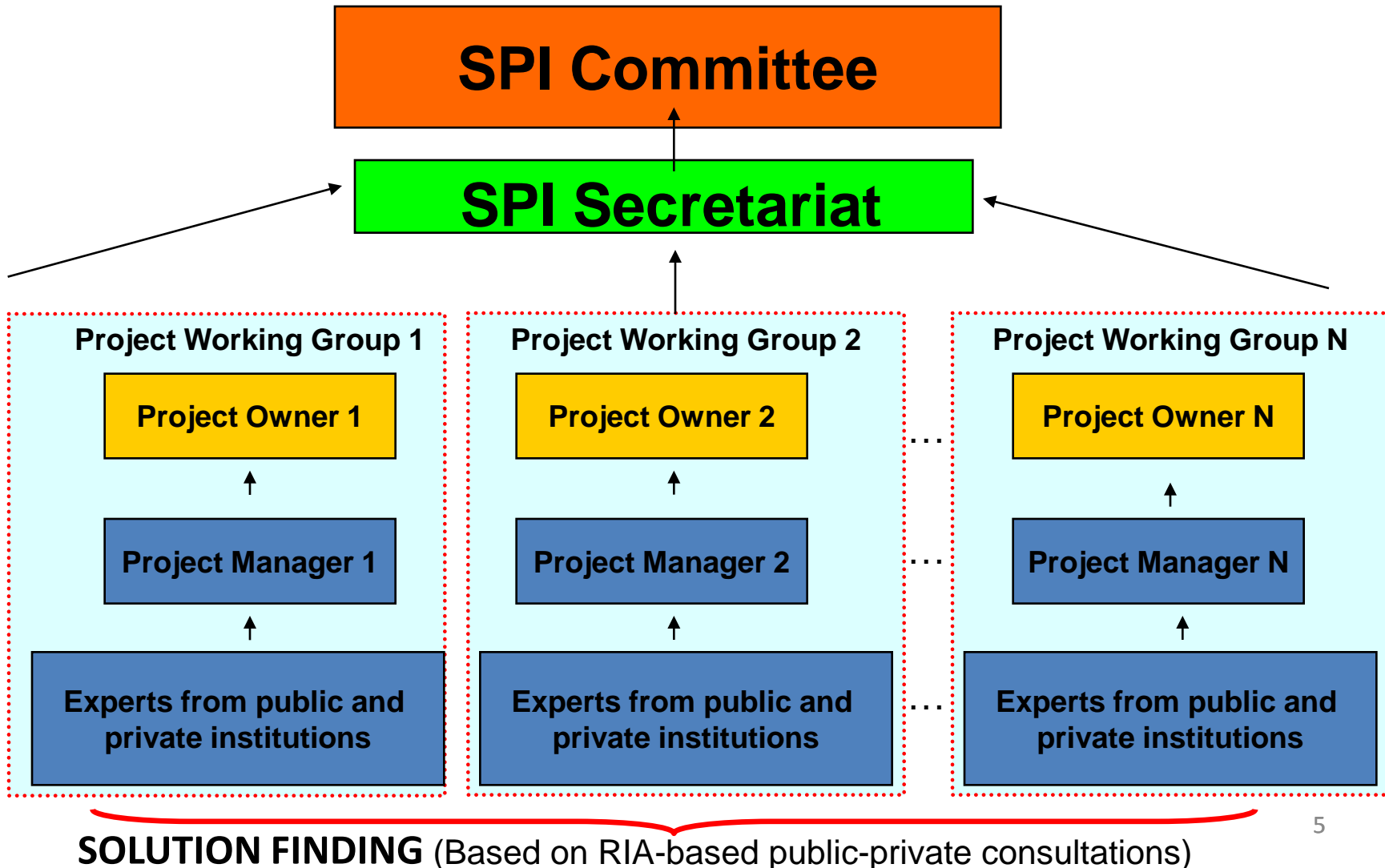
- Strong policy dialogue in advanced jurisdictions
  - UK FSA: 23 formal consultations in 2007 (18 in 2006)
  - 135 market submissions to EU Retail Policy Green Paper
    - Insightful “roadmap” to authorities for regulatory design
    - Large market response because authorities “listen”
- Market participants can take key self-regulatory actions
  - Patti Chiari (ABI), Deposit Insurance (BDB), STEP (ACI)
- If authorities are less committed to policy dialogue, market participants have weaker incentives to invest in knowledge, advocacy and also collective actions
  - Negative externalities
    - A large banking group has inventoried 273 untackled regulatory issues in Central Europe

# The World Bank's Convergence Program

- Set up in 2005 to foster public-private financial sector policy dialogue in South-East Europe
  - Public-private coordination failures hamper modernization
    - Promoting transparent and robust dialogue framework
    - Building up market analytical and policy design skills
- Has adopted EU policy design tools
  - “Better Regulation” key to deal with reform agenda
- Operational instrument: SPI Platform
  - Time-to-launch: 6 months
  - Time-to-first regulatory proposals: 12 months
- Proven successful in Romania
  - [www.spi-romania.eu](http://www.spi-romania.eu)
  - New SPI countries: Albania, Adriatic Region, Bangladesh..

# The SPI Platform (1)

## SOLUTION ENDORSEMENT AND ENACTMENT



# The SPI Platform (2)

## 1. SPI Committee sets reform program

- Central Bank, Banking Association, Ministry of Finance, Consumer Protection Agency, Convergence Program
  - 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
- Convergence Program’s technical support
  - Catalytic, enabler, “honest broker”, dialogue gap filler...

## 3. Working Groups prepare analytical solutions

- Official and banking experts work side-by-side

# The SPI Platform Principles

- The local community runs it!
  - Public-private stakeholders decide priorities
    - With a formal structure and processes to analyze issues
  - Market participants and consumers are policy analysis partners of the financial sector regulator
    - Problems and possible solutions are studied together
  - Leverages domestic capabilities (academia, consultants)
    - Resources to process large modernization programs
  - Organizational and methodological support from World Bank's Convergence Program
    - Operating on stage but behind the scene



ROMANIA

CONVERGENCE FINANCIAL SECTOR MODERNIZATION

Public-Private Special Projects Initiative

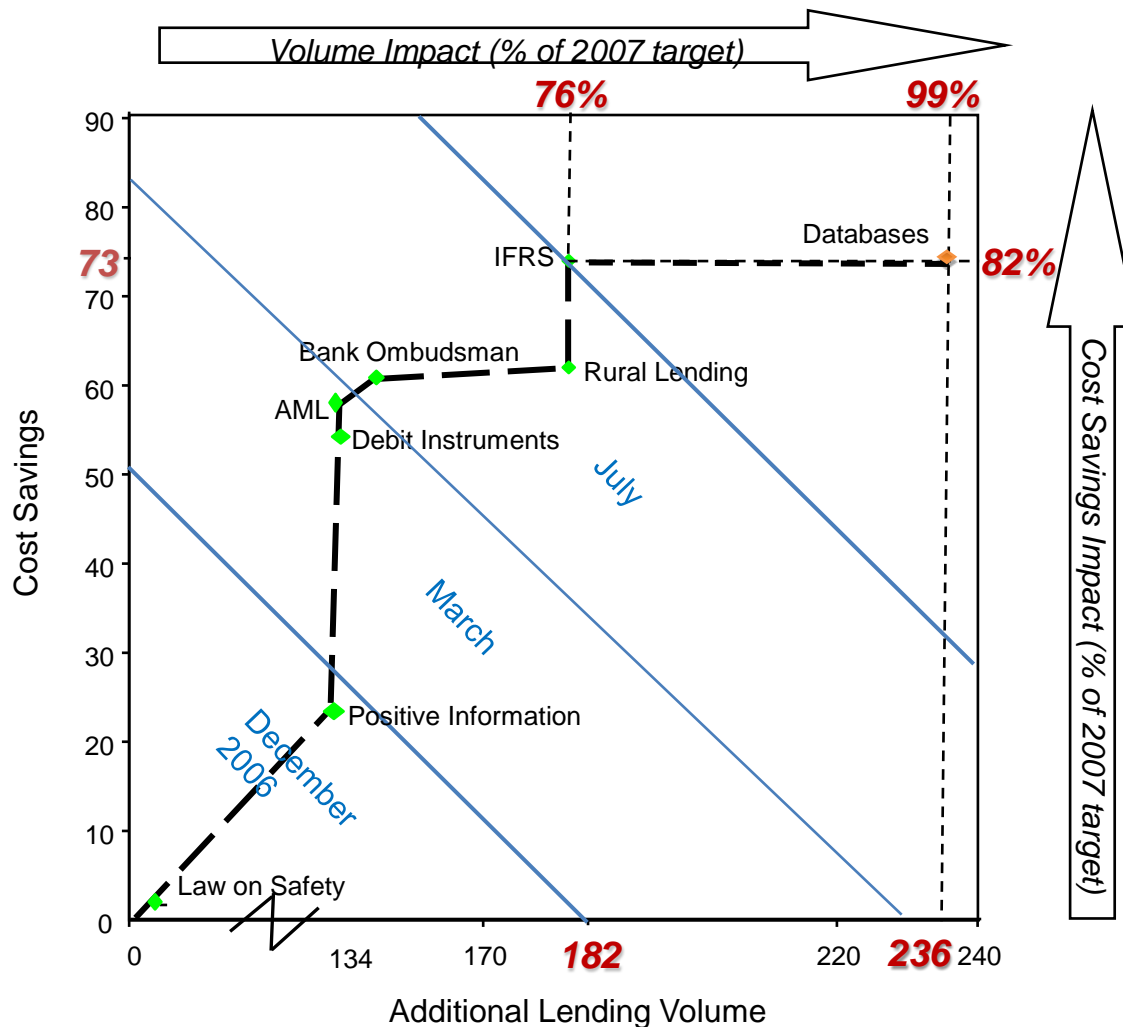


# Romania's 2007 Modernization Program

Italian Banking Association	European Central Bank					
	FINANCIAL SECTOR MODERNIZATION CRITERIA	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		
<b>Total</b>	2	3	3	5	1	

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

# SPI Romania 2007 – Benefits and Costs



**Costs**  
**EUR 390k**

- SPI Secretariat
- Convergence Program
- Experts

SPI Romania's 2008 costs:  
60%-40% Central Bank-Banking Association

# The SPI Secretariat Practices

## EU *Better Regulation*

Steps	Purpose
<b>Scoping of problem</b>	
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”).

<b>Analysis of impact</b>	
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
<b>Consultations</b>	
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
<b>Conclusion</b>	
11. Final Recommendations	Final report based on Cost Benefit Analysis and market feedback

# SPI Romania Partners

- National Bank of Romania
- Romanian Banking Association
- 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
- 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
- Algorithmics
- Bearing Point
- Financial Ombudsman Service, UK
- Goodwood Financial Consulting

# SPI Builds A Strong Partnership

	Central Bank	Banking Association	SPI Secretariat
<b>Issue Identification</b>	Proposes issues where market technical input is useful	Proposes issues that hamper business development or create inefficiencies	Supports building Public-private program
<b>Solution Searching</b>	Provides experts	Provides experts	Make project working groups (PWG) produce concrete results in short time
<b>Consensus- Building</b>	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
<b>Enactment Promotion and Monitoring</b>	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 official analytical capacity
    - To support decision-making
    - It also facilitates coordination among several actors
- If properly supported, SPI platform can process a large modernization program very efficiently
  - 10-15 additional key projects/year
  - Operating Cost: 0.5% of annual gains for banking sector
- Banking association influence leapfrogs
  - It acquires “right of initiative”
  - Many more issues to handle... and results to show...

# Implementation Considerations

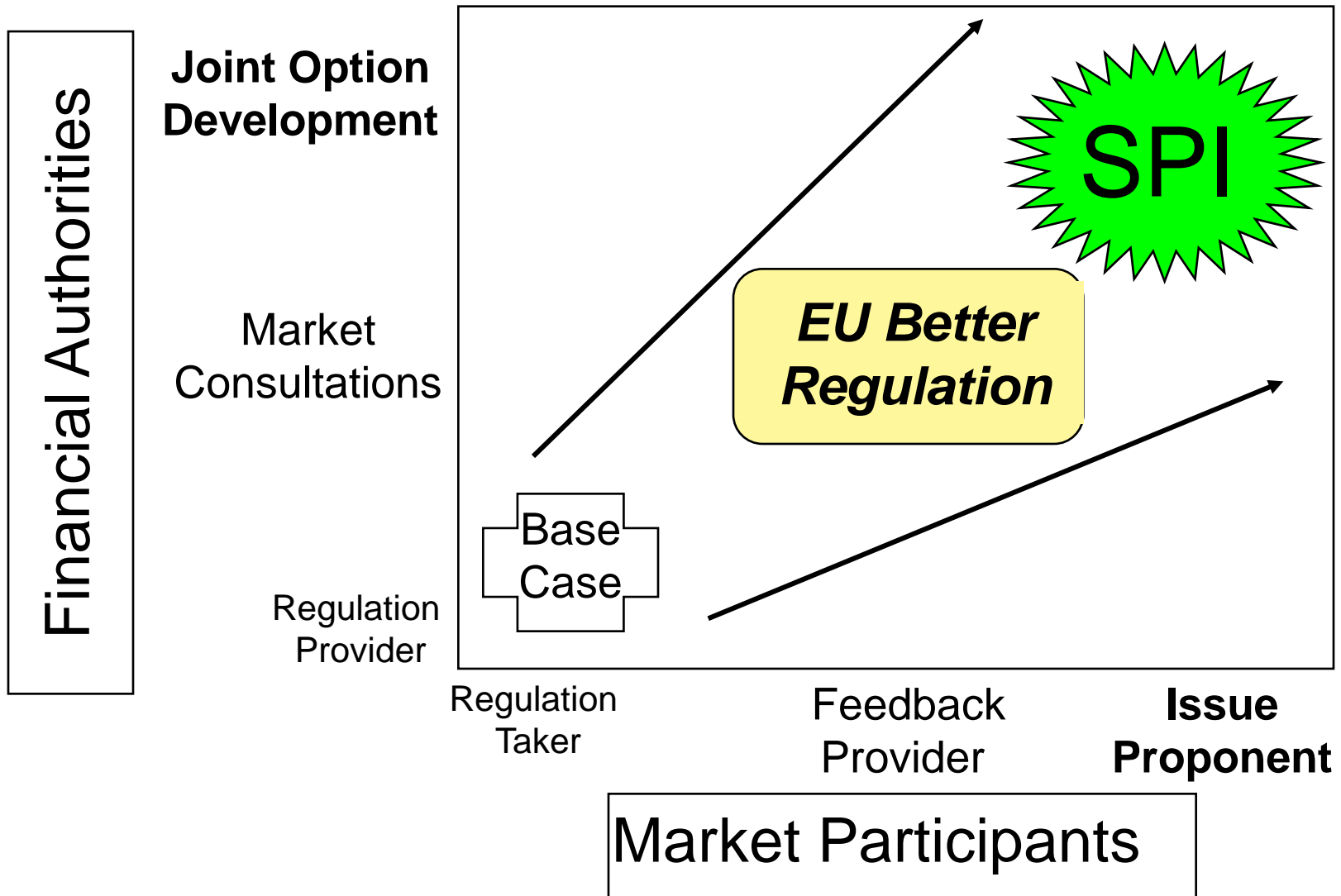
- Public-private partnership must be designed to achieve results quickly
  - Need to open a broad front and to mobilize large resources to become credible
- SPI Secretariat key
  - Operational, analytical and banking sector skills
    - Discipline, motivation, consensus-building, outreach
- Local stakeholders
  - They must own the process
    - operational responsibilities and cost sharing
- Donors' role
  - Catalytic, enabler, “honest broker”, invisible gap filler
    - Essential to help build the local “infrastructure”



# Implementation: 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
15 May	SPI Secretariat in place
10 June	First SPI Committee meeting Approved SPI Albania 2008 activity program 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

# The SPI Value Proposition



# The Convergence Program's Role

1. Public-private partnership promotion
2. Dialogue governance and methodology
3. SPI Secretariat recruitment and training
4. Management support to SPI Secretariat
5. Access to good practices and experts
6. Honest broker in technical discussions
7. Facilitation of SPI Committee discussions
8. Catalytic role to make partnership a success.

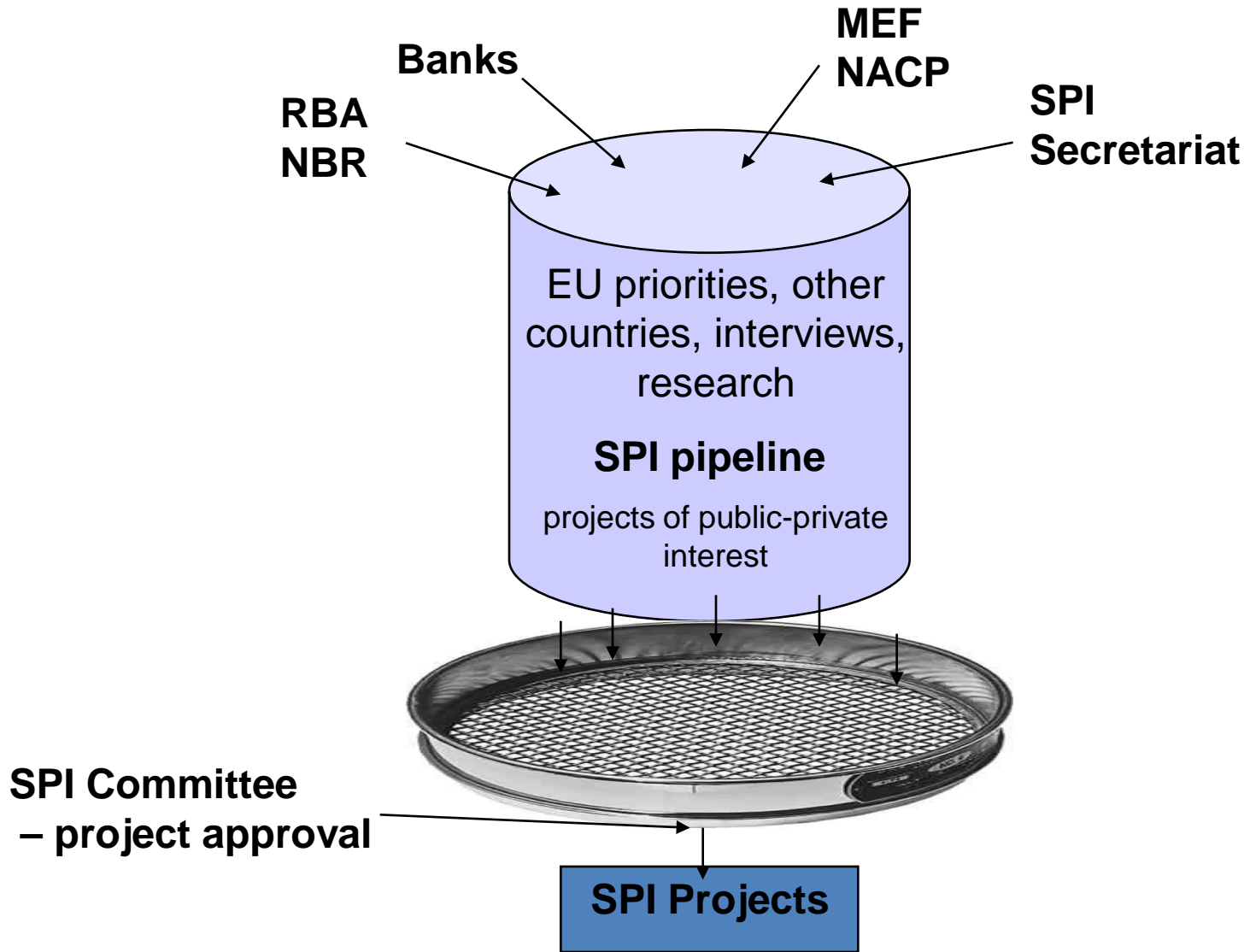
# Issues For Discussion

- SPI platform helps deliver downstream outcomes on WB policy advice
  - Offers programmatic framework for IFC's A2F activities
- SPI platform offers entry point for continued WBG influence in third generation reforms
  - Enabler of local dialogue without direct policy advice
  - Opportunity to come up with win-win compromises
    - Room for specific technical advice
  - Strong implementation focus
- Mobilizing large local resources, SPI platform can provide sustainable implementation support
  - Fostering analytics and technical dialogue
  - Facilitating donor coordination and support?

## Annex

# The 5 SPI Secretariat Functions

# 1. Issue identification and selection



## 2. Solution searching

**Central Bank (NBR)**  
**Banking Ass. (RBA)**  
**Ministry of Finance**  
**Consumer Protect.**  
**Other stakeholders**

- Experts for PWG
- Support for data collection and consultations
- RIA findings validation

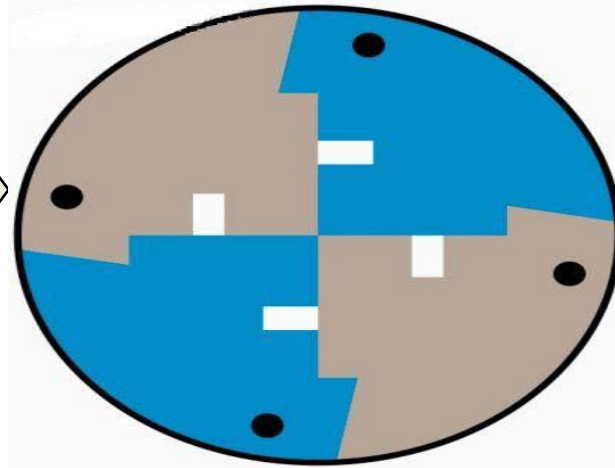
**SPI Secretariat**

- Identifies the needed expertise
- Searches for solutions in international experience /EU legislation
- Identifies the needs for international/local consultants
- Arranges for the consultants' support
- Prepares documents for discussions
- Drafts RIA questionnaire (as part of the RIA)
- Collects data and performs RIA calculations
- Organizes seminars and other supporting events
- Collects feedback from SPI stakeholders
- Collects and aggregates individual contributions
- Prepares documents presenting the solutions

## 3. Consensus building

### RBA

- Banks review solutions
- Provide input on disputed issues
- **RBA Board endorsement for final recommendation**



### NBR

- Revises proposed solutions
- Provides input on disputed issue
- **NBR Board endorsement for final recommendation**

### SPI Secretariat

- Looks for international benchmarking
- Performs RIA in order to facilitate best choice
- Asks for independent opinions on disputed issues
- Provides ideas for reaching solutions acceptable to all parties

## 4. Solution enactment



**NBR, RBA and SPI Secretariat coordinate actions in respect of full range of SPI projects**

### **SPI Secretariat**

- Prepares the law / regulations enactment packages
- Prepares SPI Committee letters to the legislative initiator or to the NBR Board for NBR regulations
- Provides detailed description of RIA to the legislative initiator or to the NBR Board
- Follows up with the legislative initiator
- Notifies NBR on the initiation of the public consultation process
- Sends SPI Secretariat submission under the public consultation process
- Arranges and/or attends the meetings with institutions involved in the enactment process
- Prepares other documents as required by the legislative initiator

# 5. Monitoring Results

Financial Impact of Finalized SPI Projects (Mln, EUR) – First Full Year

