



convergence



A Public-Private Financial Sector Program
South-East Europe

First Semi-Annual Report

September 2005- February 2006

Washington, DC- Rome (Italy)
March 15, 2006

FOREWORD

I am pleased to report on the first semester of Convergence's activities.

Convergence was born out of the realization that financial sector development in South-East Europe would accelerate if coherent reform programs could be built around the regulatory fine-tuning and financial infrastructure development needs as seen by market participants. The mission of Convergence is to catalyze this essential public-private dialogue, while building the analytical capacity of market participants to responsibly identify, assess and communicate the policy reform needs as seen from their perspective.

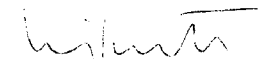
After a two-year gestation period, active pre-implementation work started in February 2005 leading to operational launch in September 2005. The Operations Unit, located at the World Bank Rome Office, started its activities on December 1, 2005.

We have concluded our first operational project – the overhaul of the financial policy compact of the Romanian Deposit Guarantee Fund, conducted in partnership with the Italian Deposit Insurance Fund. Consistent with Convergence's win-win public-private philosophy, the measure that the Romanian Government is slated to adopt in Spring 2006 contemplates both a 50% increase in the Fund's financial capacity and a reduction in the ex-ante annual premium paid by member banks. This policy measure has been amply discussed in a series of public-private technical seminars, press coverage, culminated in a Public Symposium chaired by the Governor of National Bank of Romania. This project demonstrates the consensus-building power of uncompromising analytical standards, coupled with partnership work and constant outreach.

We have also concluded the study of the governance and analytical activities of the Italian Banking Association. This study provides a useful reference point for the build-up of these activities in the civil society of the Convergence countries of operation.

*Building on these experiences, we have launched the Head of Special Projects (HSP) Initiative in Romania. Working under the auspices of a Convergence-sponsored high-level public-private steering committee, the HSP will become the focal point of analysis and discussion of market-building micro-reforms. **We believe the HSP Initiative will be an important instrument to fulfill the Convergence mandate.***

Supported by nothing else than the "soft power" tools of an "honest broker", Convergence is committed to helping authorities and market participants build better performing financial systems. The results of these first six months are encouraging: these countries are beginning to find the energy and skills to drive progress within their own society. I am grateful to my Management Group colleagues, partners and clients for their generous support at the beginning of our journey – and to the World Bank for embracing an innovative mode of stimulating financial sector development.



Luigi Passamonti
Founder and Head
"Convergence" Program
Washington DC, March 15, 2006

TABLE OF CONTENT

	<u>Page</u>
PROJECTS	7
Projects Completed Regional, Romania, Albania	
Projects under Implementation Regional, Croatia, Romania	
Projects in Preparation Croatia, Romania, Serbia	
Other Projects	
OTHER ACTIVITIES	18
Partnerships	
Communications	
Management Meetings	
MONTHLY CALENDAR CLIENT AND PARTNER ACTIVITIES	21
NEXT SEMESTER WORKPLAN	22
OVERALL IMPACT ASSESSMENT – GAP FROM EXPECTATIONS	22
BUDGET	23
Period Expenditures	
Next Period Projections	
Program Projections	
APPENDIX	
Governance and Organization	24
Distribution List	25
The Head of Special Projects Initiative	26
List of Working Documents Published	27

PROJECTS

A) Projects Completed

1) ABI Study

Start Date: April 2005

Countries: Regional

Project Goal: To learn about governance, funding, analytical and policy engagement activities of the Italian Banking Association as a benchmark for their counterparts in the Convergence countries of operation.

Contribution to Convergence's Objective: To provide a roadmap for the build-up of sustainable analytical capabilities in civil society.

Partnerships: Italian Banking Association and its British, German and Greek counterparts.

Public-Private Features: This study explores the mechanisms that enable the private sector to engage with authorities on financial sector development issues.

Public-Private Win-Win: Authorities and market participants draw symmetric benefits from a deeper policy dialogue based on stronger professional capabilities by bankers' associations. Designing a better regulation beneficial to the growth of the financial system as a whole delivers both public policy goals and private returns. Alignment of both elements can be a very powerful driver for financial sector development.

Activities Undertaken: The study was completed in December 2005 and distributed to local stakeholders in February 2006. Outreach seminars were organized in Zagreb and Bucharest with the participation of authorities, commercial banks and banking associations. An additional seminar is planned for early April in Tirana.

Completion Date: February 2006

Completion Event: Study completed and two outreach seminars delivered.

2) Romanian Deposit Guarantee Fund

Start Date: May 2005

Country: Romania

Project Goal: To make an assessment of the size of the Romanian Deposit Guarantee Fund (RDGF) in order to formulate a view on its annual premium policy.

Contribution to Convergence's Objectives: To demonstrate the power of analytics to design a solution that would meet both public goals and private incentives, in absence of a formal internationally accepted methodology.

Partnerships: Italian Deposit Insurance Fund (FITD).

Activities Undertaken: Along with FITD we have undertaken this assessment taking into consideration the following aspects: i) the latest developments in the Romanian banking sector, ii) the international practice, in particular EU guidelines, iii) the need to maintain a well-funded guarantee scheme to preserve the confidence of depositors. The report has benefited from a peer review opinion by Dr. Marko Škreb, former Governor of the Croatian National Bank.

Public-Private Features: We have constantly apprised the Romanian Banking Association (RBA) of the analytical findings of our assessment. We have sought their concurrence on the feasibility of the stand-by facility to supplement the DGF financial resources. We have encouraged the RBA to communicate this availability directly to the National Bank of Romania, building the sense of public-private ownership of the viability of the deposit insurance scheme.

Public-Private Win-Win: The authorities (and depositors) can count on a bigger RDGF size. The private sector benefits from lower annual premium.

Completion Date: Spring 2006

Completion Event: Promulgation of a legislative measure by Romania's Government, proposed by the National Bank of Romania.

Main Future Activities: We will assist the RDGF in implementing the FITD bank risk rating and the overall pricing methodology. We will also design a follow-up engagement to facilitate market monitoring of bank risk ratings.

3) Italy-Albania Remittances Corridor

Start Date: December 2005

Country: Albania

Project Goal: Building on a general study of the main institutional factors affecting the flow of Albanian remittances from Italy, we wanted to make action plan proposals for discussion and preliminary endorsement among policymakers and market participants attending a Conference in Bari. Based on a broad impact assessment of the potential benefits of higher bank intermediation of remittances, our goal was to indicate a range of actions where authorities and banking industry (Italian and Albanian ones) could find common incentives to intervene.

Contribution to Convergence's Objectives: Triggering an action plan within the Italy-Albania corridor helps Convergence both experiment a coordinated public-private dialogue across two countries and establish a presence in Albania.

Partnerships: World Bank Financial Integrity Group.

Public-Private Features: We have based our recommendation to increase the volume of bank-intermediated remittances by identifying both the financial incentives that Albanian and Italian banks have in deepening their involvement in this business and the main obstacles that they face. We have designed the preliminary action proposals around activities that would build on these incentives, therefore "bailing-in" the banks as solution providers.

Public-Private Win-Win: Authorities (because of public good reasons) and the banking industry (financial incentives) share the objective of increasing the bank-intermediated volume of the remittances flows.

Activities Undertaken: For the conference in Bari, we have prepared a background note and a presentation aimed at stressing the economics of the market for remittances and possible actions which could be undertaken.

Estimated Completion Date: March 2006

Completion Event: Bari Conference March 4th.

Main Future Activities: To prepare a more detailed action plan as follow-up to the conference.

B) Projects Under Implementation

1) Cross-border supervision

Start Date: May 2005

Countries: Regional

Project Goal: To gather information on host-home relationships on regulatory and supervision issues and on bank head office-host supervisory reporting requirements for international banks with a view to increase their mutual consistency, streamline possible overlaps and reduce unnecessary burdens.

Contribution to Convergence's Objectives: To encourage greater regional cooperation through increased host-host coordination to improve host-home collaboration along the CEBS guidelines; to help promote more proportionate reporting standards for international banking groups active in the region; to explore the possibility for Convergence to act as informal Secretariat to a new regional host supervisor group.

Partnerships: Regional supervisors; international banks and their local subsidiaries; home supervisors (Austria and Italy).

Public-Private Features: This study addresses regulatory issues that have a bearing both on stability issues and on the efficiency of banking intermediation. The analytical contributions by market participants are an important component of the material that will be discussed with regional host supervisors.

Public-Private Win-Win: Better coordination between home and host supervision including through standardized reporting, based on contributions from the industry, would both improve financial stability and contribute towards lower cost of doing business for market participants.

Activities Undertaken: Designed and collected detailed questionnaire to several host supervisors; designed and started collecting reporting data from local subsidiaries of international banks; designed principles for a regional seminar with host and home supervisors and international strategy consultants providing information on risk management systems of international banks.

Main Future Activities: To prepare two discussion papers and to finalize preparation for regional seminar.

Estimated Completion Date: Summer 2006 [tentative].

Completion Event: Regional seminar (Ljubljana).

2) Croatia Securitization

Start Date: January 2006

Country: Croatia

Project Goal: To prepare a draft securitization law that will be consistent with EU principles.

Contribution to Convergence's Objectives: This project contributes to the build-up of the public-private dialogue as the Croatian Ministry of Finance (Convergence's counterpart) has encouraged the banking industry to lead the assessment of the legal requirements for securitization transactions.

Partnerships: EBRD, ABI, [KfW], [Banca d'Italia]

Public-Private Features: The project design, endorsed by Croatian authorities, is based on an industry working group that assesses the legal gaps that need to be addressed in the Croatian legislation to implement securitization transactions in Croatia. This bottom-up approach is meant to identify the operational obstacles that would prevent securitization from the point of view of those that have the strongest financial incentives to implement it.

Public-Private Win-Win: A well designed securitization law would increase the financial deepening of the Croatian financial market. It would also benefit market participants because of the added business flexibility that this financial tool would give them.

Activities Undertaken: The Croatian Banking Association has established a Securitization Working Group in order to assess the regulatory features to be addressed. On behalf of Convergence, Irakli Managazde (EBRD Senior Policy Advisor and acting as Convergence Country Senior Advisor) is reporting to the State Secretary in the Ministry of Finance in order to keep the Public side aligned (and aware of) with steps undertaken by the Private side.

Main Future Activities: To assist both the Securitization Working Group and the Authorities in providing them with international advice and background to conduct the legislative assessment and drafting process in a proper way.

Estimated Completion Date: Late 2006

Completion Event: To have the securitization law drafted and passed.

3) Tirana Regional Seminar on Financial Policies of Deposit Insurance Funds

Start Date: January 2006

Project Goal: to improve financial management policies and practices in deposit insurance schemes in SEE countries and expert level communication between SEE deposit insurers.

Countries: Regional.

Contribution to Convergence's Objectives: To disseminate the lessons of experience of the Romanian Deposit Insurance Fund project on a regional basis.

Partnerships: EFDI, FITD, EBRD, Bank of Albania, Albanian Deposit Insurance Agency.

Activities Undertaken: Received the willingness by the Bank of Albania to host and to take part in organizing the Seminar. A draft program of the seminar has been prepared and shared with the Italian Deposit Guarantee Fund (FITD).

Public-Private Features: The attendees to the seminar will be also representatives of market participants in the region so as to build their awareness of risk and financial policy issues of deposit insurance funds.

Public-Private Win-Win: To achieve an optimal combination of right-sizing both the deposit guarantee funds and the annual bank contributions.

Main Future Activities: To organize the seminar with the Albanian Deposit Insurance Agency.

Estimated Completion Date: May 2006

Completion Event: Regional seminar.

4) Head of Special Projects Initiative

Start Date: February 2006

Countries: Romania and [Albania]

Project Goal: To build the "infrastructure" for a public-private approach to identifying, assessing and acting on micro-regulatory reforms.

Contribution to Convergence's Objectives: To get organized in a more leveraged and efficient way so as to enable more countries to tackle micro-regulatory changes mobilizing domestic resources and incentives.

Partnerships: National Bank of Romania, Ministry of Public Finance, Romanian Banking Association, ABI and other EU banking associations.

Activities Undertaken: In Romania, the National Bank of Romania, the Ministry of Public Finance and the Romanian Banking Association have all agreed to take part in the Steering Committee.

Public-Private Features: The foundation of the initiative is the creation of a public-private steering committee where authorities and market participants will identify micro-regulatory issues that would improve financial intermediation to be analyzed by a Head of Special Project expert in collaboration with industry working groups.

Public-Private Win-Win: To put in place micro-regulatory projects which are beneficial to both Authorities and the banking industry.

Main Future Activities: In Romania, we are starting the HSP selection process. We will also take necessary measures to help the manage effectively its workprogram. In Albania, we will give a presentation of the HSP initiative to the Authorities and to the banking community.

Estimated Completion Date: December 2007

Completion Event: Ideally, the completion event should be the announcement by each Bankers' Association to make the HSP a permanent position.

C) Projects in preparation

1) Regional public-private credit bureau policy review

Countries: Croatia and Romania; possibly Albania.

Project Goal: To help the countries achieve a more efficient set up of public-private information sharing.

Contribution to Convergence's Objectives: To raise awareness within selected SEE countries about the importance of information sharing in order to increase financial deepening and to identify public-private incentives, which can underpin a sustainable combination of credit registry/credit bureau.

Partnerships: IFC, [Italy's Privacy Authority], Nomisma and Crif.

Public-Private Features: To deal with the relative positioning of credit registry, whose main aim is to take care of financial stability and credit bureau aimed at promoting access to credit.

Public-Private Win-Win: A better designed set-up for information sharing would result in a stronger financial system from the Authorities' perspective and better lending opportunities for the banking industry.

Activities Undertaken: We have contacted and shared a tentative action plan with Crif and Nomisma. The General Secretary of Italy's Privacy Authority has showed willingness to go to Croatia and meet with the Ministry of Finance in order to make an assessment of the state of the art of the matter.

Estimated Completion Date: End 2006 (one country at least)

Completion Event: As an intermediate achievement, we aim at starting a fruitful dialogue in each country between authorities and market participants and then start an operational review of the country context. As final objective we envisage to overcome those hurdles (both regulatory and non-regulatory) so as to achieve a better set up wished by the authorities and market participants.

2) Serbia Mortgage Law Regulations

Countries: Serbia

Project Goal: To assist Serbian Authorities to secure the perspectives of market participants in the design of secondary regulations in parallel with the promulgation of a Mortgage Law, as requested under a World Bank Adjustment Loan.

Contribution to Convergence's Objectives: To establish the principle that the views of market participants on secondary regulations should inform the formulation of primary legislation – preferably before its enactment.

Partnerships: World Bank Europe and Central Asia Financial Sector Group, [ABI].

Public-Private Features: The effectiveness of the regulations is related to its ease of application in the context of banking operations. Authorities should explore with the banking community how regulations could be implemented in practice before promulgating them.

Public-Private Win-Win: An effective mortgage law framework establishes the right balance between ownership and creditors' rights. The strength of the latter is a powerful incentive for lending business.

Activities Undertaken: We have started collecting ABI's experience in assessing the effectiveness of Italian Mortgage regulations throughout their changes.

Estimated Completion Date: 2007

Completion Event: Enactment of appropriate mortgage secondary regulation.

D) Other projects

1) Albania Corporate Bond Law

Source: EBRD

Countries: Albania

Project Goal: The purpose of the proposed legal technical-cooperation project is to assist the Securities Exchange Commission in enhancing the corporate governance framework and in creating comprehensive and modern legislation on corporate and local government bonds.

Contribution to Convergence's Objectives: To promote market-based financing and deepen our collaboration with the EBRD.

Partnerships: EBRD

Public-Private Features: The Ministry of Finance is preparing new legislation on public debt and the Securities Exchange Commission is aiming to prepare a detailed regulation on bonds to be presented for discussion together with the "public debt" law in order to furnish the country with a coherent and harmonized legal framework. The presence of an active and efficient domestic capital market and, in particular, of the corporate bond market, would give corporations an alternative means of raising debt capital.

Public-Private Win-Win: The public benefit of having a capital market in place provide private enterprises with a potential tool for their growth as a channel for funding.

Activities Undertaken: We have proposed to EBRD to explore the feasibility (and constraints) of undertaking commercial paper transactions in Albania as a market test to calibrate the requirements for a Corporate Bond Law. No formal response yet from EBRD to our offer.

2) SEE Cost of Regulation Indicators

Source: Croatian Banking Association and Arhivanalitika, Zagreb (Croatia)

Countries: Regional

Project Goal: The Croatian Banking Association would like to promote, within the European Banking Federation, a regional study on costs of banking regulations, building on the methodology designed for a similar Croatian study.

Contribution to Convergence's Objectives: To put in place an analytical toolkit which could become commonly shared by the Authorities and market participants within the Convergence countries of operations as a common ground for further action.

Partnerships: International banks and Research Department of regional Central Banks.

Public-Private Features: Authorities can be interested in setting up valuable tools of analysis on how to assess the business environment according to a benchmarking approach vis-à-vis the other SEE countries.

Public-Private Win-Win: To collect information on the basis of shared and well grounded indicators is an important step for further effective micro-regulatory changes.

Activities Undertaken: We have indicated our commitment to co-fund this study.

OTHER ACTIVITIES

A) PARTNERSHIPS

Center of Excellence in Finance (Ljubljana, Slovenia)

Our intention is to leverage the Center's strong reputation in the region to organize outreach and capacity building activities connected with Convergence's analytical activities. We have agreed to collaborate in the organization of the regional seminar on cross-border supervision. We will continue to look for other opportunities for collaboration to enhance our impact through policy and training seminars.

Convergence Group meetings

Together with the EBRD, Convergence has been attending the half-yearly meetings of this informal Group that consists of several bank strategic investors in Central and South-East Europe. Following a meeting in Brussels in April, the Warsaw November 2005 meeting, the eighth of the series, was also attended for the first time by an IMF representative. He mentioned that the IMF is very interested in being exposed to strategic issues as seen from the market participants' side. Convergence presented its Romania and Croatia projects. EBRD made a presentation on the implications of Basel II. The second part of the meeting consisted of country presentation by the respective "sponsor" banks. The report on weaknesses of Poland's securitization law was interesting. Finally, the Group discussed the need to improve banking reputation with respect to the customers and to increase the industry effectiveness in dealing with authorities.

EBRD

Collaboration continued on many fronts. EBRD participates in Convergence Management Meetings through Irakli Managadze (Senior Policy Advisor). We have developed a common understanding on deposit insurance financial policy issues (Sarajevo EFDI seminar). We have explored collaboration on a specific transaction (RDGF syndication). We have secured EBRD's leadership of a Convergence-funded assistance to the new Croatian securitization law. We will collaborate in delivering a regional seminar on deposit insurance financial policy issues.

IFC

Collaboration continued on structuring the regional credit bureau policy review. We have shared the ABI study and HSP Initiative documents, indicating relevance and usefulness for IFC mandate. We have proposed to WBG senior management to

consider Convergence as a pilot instrument for a Bank Group systematic approach to help public-private policy dialogue interaction. A next step could be to explore the appointment of an IFC staff member as Deputy Head of Convergence.

Italian Banking Association (ABI)

Riccardo Brogi joined on secondment from ABI to run the World Bank Rome Office Convergence Operations Unit. He will act as liaison officer with various ABI Departments. In the period under review, he was instrumental in organizing dialogue on legal assistance for the Croatia Securitization Project, preparation of the ABI Study Outreach and Follow-Up (governance and operational assessment). The ABI partnership will be essential for the execution of the HSP Initiative.

NFX

We have established an informal understanding that NFX, a public-private Dutch financial sector development agency, would mobilize Dutch banking experts to work on Convergence projects. We have approached them to identify a syndications expert who would help close the stand-by line of credit part of the new RDGF financial policies. We have discussed collaboration opportunities in the context of the Italy-Albania remittance corridor.

B) COMMUNICATIONS

Our Country Senior Advisor, Shkelqim Cani, delivered two interviews to the Romanian financial press in November and provided background information on a third article. We issued press releases in connection with ABI Study outreach in Zagreb and Bucharest. We held a press conference in the Italian Embassy in Bucharest. As a result, three articles were published by major Romanian economic media. We issued a press release for the Bari Remittances Conference. We have prepared a Convergence advocacy speech, based on a seminar delivered in Armenia.

C) MANAGEMENT MEETINGS

Bucharest (November 2005)

We talked first about the Convergence Group meeting in Warsaw which took place a few days before. It became increasingly obvious that, while a useful forum for informal discussion, this Group was finding it difficult to have a true impact on improving the dialogue situation in its various countries of interest. We observed that few actions seem to have started on the ground as a result of this Group's deliberations. We concluded that, more than ever, the Convergence analytical approach in support of local institutions could help deliver the "business climate"

improvements that the large investors are looking to secure. We decided to continue to attend these Group meetings because they are a useful source of cross-country information on "biting" regulatory issues while they offer Convergence a venue to brief senior head office management of the improvements that local authorities and market participants are committed to.

We dedicated considerable time to discussing the Securitization project with the project manager representing the Croatian Banking Association.

We then tackled the actions to be carried out in Romania with regard to the assistance to Romanian Deposit Guarantee Fund.

Finally, we discussed how to communicate the ABI study and which follow-up actions to undertake. We decided to organize outreach seminars in Croatia and Romania.

Rome (February 2006)

We met with a proposed consultant to discuss the Serbia Mortgage Law project. We agreed to go ahead according to the following criteria:

- considerations of the regulations which should be put in place in parallel with the law;
- the accompanying regulations should be such that to allow to finalise the law itself and facilitate further fine-tuning.

The proposed consultant would work closely with an ABI lawyer in order to produce a document reflecting the practical problems with mortgage regulations faced by Italian banks overtime.

To advance on our cross-border supervision study, we met with a consultant to discuss how to conceptualize the results of a questionnaire to be submitted to selected international banks operating in the region.

We then discussed about the state of the Securitization project in Croatia with our local representative to the Working Group. We decided to suggest the strengthening of the Securitization Working Group with support from international qualified advice to speed up the need assessment process. Prof. Maimeri, ABI's leading legal banking law counsel, joined our discussion to prepare the ground for ABI's involvement on the side of the Croatian Working Group, based on his prominent experience in drafting Italy's securitization law.

We also discussed with two experts how to organize the work to be done for the Bari Conference where Convergence was expected to propose an action plan on Italy-Albania remittances corridor.

Finally, we spent almost a day to organize the Head of Special Projects initiative in view of its launch in Romania and Croatia.

MONTHLY CALENDAR CLIENT AND PARTNER ACTIVITIES

Convergence Schedule of Client and Partner Activities		
September 2005		
20-22	RDGF First Seminar - Bucharest	LP, SC, VS, DO
October		
9-12	RDGF Brainstorming - Zagreb	LP, SC, VS, DO
10	Meeting with CEF - Ljubljana	SC
13-14	EFDI Annual Meeting - Warsaw	SC
13-15	Croatia Securitization ABI - Rome	LP, VS
25-26	Euro money Conference - Dubrovnik	MB, SC
November		
15	Convergence Group Meeting - Warsaw	MB, SC, RB
16-17	Preparation second RDGF Seminar - Zagreb	LP, VS, DO
18	RDGF Second Seminar - Bucharest	LP, SC, VS, RB
19-20	Convergence Management Meeting - Bucharest	LP, MB, SC, IM, RB, AB, VS
21	Meetings with RDGF & Romanian Banks - Bucharest	LP, SC, RB
22	Convergence Operations Unit, FITD & ABI - Rome	LP
23-25	Preparation third RDGF Seminar - Zagreb	LP, VS, DO
26-28	Cross-border supervision (CBS) & ABI study - Milan	LP, FB, PN, FC
December		
6	ABI Study - Milan	RB
8-9	EFDI Regional Seminar - Sarajevo	VS, DO
15-16	RDGF Third Seminar - Bucharest	SC, RB
19-22	Italy-Albania Corridor - Apulia	RB, Pub, FL
23	ABI Study - Milan	LP
January 2006		
3	RDGF Final Presentation Brainstorming - Milan	LP, SC, RB, VS
4	Croatia SWG - Zagreb	GBP
17-20	RDGF Final Presentation - Bucharest	SC, RB
21-22	Planning Session - Tunis	LP, RB
27	Croatia SWG - Zagreb	GBP
31	RDGF Syndication & CBS Follow-Up - Bucharest	RB
February		
2-5	Convergence Management Meeting - Rome	LP, MB, SC, IM, RB, AB, LS, GBP
20-23	ABI Study Outreach, CBS & HSP - Zagreb & Bucharest	SC, RB, FC
22	Croatia Securitization WG - Vienna	IM, GBP
28	EBRD Meetings - London	LP, IM

NEXT SEMESTER WORKPLAN

Convergence's most important objective for the next six-month period (March-August 2006) is to establish the institutional foundations for the public-private dialogue in Romania and Albania through the Head of Special Projects Initiative, including the mobilization of international experts that will assist the two local executives. The HSP will be the main vehicle for the fulfillment of the Convergence mandate.

It will be important, in the September 2006-February 2007 period, that this initiative handles a significant volume of micro regulatory analyses which would result in beneficial regulatory changes shortly afterwards. By significant volume, we mean about 4-6 proposed policy measures in each country.

Successful implementation of these policy measures in the last period of this Convergence funding round (that is March-December 2007) would enable public and private stakeholders to make informed decisions about ways and means to continue the HSP Initiative.

In addition, in the next period, Convergence will also focus on the regional dimension of its work by delivering the host supervision regional seminar and ensuring regional dissemination of the analytical and policy results of the successful Romanian Deposit Guarantee Fund project.

OVERALL IMPACT ASSESSMENT – GAP FROM EXPECTATIONS

We have realized the need for a multi-layered project management structure if Convergence is going to provide a visible demonstration effect of the impact of its micro-analytical public-private business model. Our project management ability was severely stretched by the challenge of delivering a readily-implementable product in the case of the Romanian DGF assignment. We were able to build our impact on the Albanian corridor study only after we concluded most of our Romanian work. Other projects (e.g., cross-border supervision) have not developed as fast as we would have wished. Project preparation also suffered (e.g. regional credit bureau review).

Hence, we took the decision to strengthen our in-country project management capabilities. The HSP will be assigned the responsibility for delivering higher project volume, in closer association with market players and authorities.

Overall, the results in Romania and Croatia confirm the validity of our approach. Incentive-based micro-analysis, openly shared with authorities and market participants, fills a gap of the present policy development toolkit in South-East Europe.

We will continue to pay painstaking attention to the quality of our work – and to its continuous sharing with interested parties (including the economic press) to calibrate its relevance and effectiveness.

BUDGET

The largest source of funding for Convergence activities is a Euro 1.5 million grant from the Italian Ministry of Economy. The second source of funding is the World Bank to support its part-time Program Leadership. A third source of funding is in-kind contributions from project partners. Convergence estimates the latter to represent about 20% of total project costs over the present funding horizon.

Convergence Budget		Prior Periods	Period Under Review	Future Period (estimate)	Till Project Completion
US\$	None	Sep 05-Feb 06	Mar 06-Aug 06	Sep 06-Dec 07	
Program Leadership		123,000	120,000	240,000	
Management Unit		99,000	130,000	330,000	
Analytical Projects		213,000	210,000	942,000	

In the micro-regulatory business, this resource envelope is commensurate with the analytical work needed to bring about an overall regulatory burden reduction of about EUR 100 million. Convergence will attempt to quantify the impact of its interventions using Regulatory Impact Analysis techniques.

Program Leadership activities have three main components: (a) determining the Convergence positioning in respect to authorities and market participants in every situation where an "honest broker" role can move an issue closer to resolution; (b) shaping and managing the range of international partnerships that are essential for Convergence's impact; (c) providing overall program leadership, including project design and execution issues.

The Management Unit activities reflect the organizational and relationship work that is needed to execute the various projects. It is accounted for mostly by the cost of the WB Rome Office Unit. It also includes the non-project specific cost of the members of the Management Group.

Project costs are professional fees and travel costs of experts that execute Convergence analytical assignments. Fifteen experts have worked for Convergence in the last period, of which seven from the Convergence countries of operations. Four of them are members of the Convergence Management Group.

The relative share of Program Leadership costs will decrease overtime as the overall program structure consolidates. We expect management costs to remain broadly flat, with their ratio to project costs to decrease overtime. Convergence will reach its full impact regime in 2007.

Governance and Organization

The "Convergence" Program is carried out under the overall leadership of its founder, Luigi Passamonti, Senior Advisor, Office of the Financial Sector Vice President, The World Bank.

The "Convergence" activities are decided and monitored by a four-person Management Group. In addition to Luigi Passamonti, the Management Group comprises of Mihai Bogza, Senior Advisor (Market Participants) and former Vice Governor of National Bank of Romania, Shkelqim Ceni, Country Senior Advisor and former Governor of Bank of Albania, and Irakli Managadze, EBRD Senior Policy Advisor and former Governor of Central Bank of Georgia. The Management Group meets on a bi-monthly basis for two days. Between meetings, there are constant consultations among Management Group members with regard to project management and client and partner relationship issues.

The Management Group wishes to place its future activities under the oversight of an Advisory Board comprising three or four senior outstanding individuals who have reached the career pinnacle in international finance or business and with a proven commitment to building a prosperous enlarged Europe.

An Operations Management Unit, located at the World Bank Rome Office, supports the daily activities. Its Head is Riccardo Brogi, a regulatory micro-economist on secondment from the Italian Banking Association.

"Convergence" reports to both the World Bank, which is the Program's administrator, and to the Italian Ministry of the Economy, which is the main funding partner.

"Convergence" also shares the details of its activities with clients and partners in the belief that transparency is a powerful tool to build effective partnerships.

Distribution List

This report is addressed to the following recipients:

- World Bank Group Management
- Italy's Ministry of Economy
- EBRD Financial Institutions Group
- South-East European Central Banks, Ministries of Finance and Bankers' Associations
- International banks active in South-East Europe
- EU Institutions
- Other European public and private institutions active in South-East Europe
- Project Partners
- Expert Partners
- International and Local Press

The Head of Special Projects Initiative

		
Head of Special Projects Convergence Program		
<i>Job Location:</i> Bucharest	In partnership with:	<i>Starting date of position:</i> June, 15 th 2006
Romanian Banking Association		National Bank of Romania

The "Convergence" Program, administered by The World Bank, has been set up to promote the build-up of analytical capabilities in financial economics, banking and finance and legal and regulatory matters within the civil society of its seven countries of operations in South East Europe, including Romania.

The Convergence Program is looking for a **Head of Special Projects (HSP)**. Operating under the aegis of a **Public-Private Steering Committee** composed of senior National Bank of Romania, Ministry of Public Finance, Romanian Banking Association and Convergence representatives, the HSP will coordinate analytical activities conducted by industry working groups set up by the Romanian Banking Association to identify possible regulatory changes to improve the effectiveness of financial intermediation in Romania in the perspective of EU membership.

I. Description of Core Responsibilities:

The HSP will report to the Convergence Country Senior Advisor (CSA) and be supported by Convergence Operations Manager (COM). In his/her day-to-day work, the HSP will liaise with the RBA President. He/she will have the following main responsibilities:

- To identify the most critical issues faced by the banking industry that need a resolution in collaboration with authorities and submit proposals for analytical studies to the Steering Committee; to assist the COM in designing, launching and executing a financial sector regulatory assessment.
- To prepare the ToR for each specific analytical assignment/technical proposal after reaching the agreement with the Steering Committee; to identify and make hiring proposals for international experts to COM and for local experts to the designated RBA official.
- To organize specific working group meetings and prepare/collect and distribute materials to group members.
- To manage the day-to-day project work, interfacing with local counterparts and ensuring that assignments are run on time and output is of adequate quality.

II. Requirements:

- MBA or Masters in Finance/Economics, or other relevant graduate degree
- Knowledge and experience of development work, multi-sectoral policies and Romanian financial sector (no less than 7 years).
- Excellent written and verbal communication skills; familiar with demand-driven and participatory approaches.
- Excellent communication and facilitator skills, able to address the institutional complexity and multi-disciplinary environment of the Project and to work under tight deadlines to meet objectives.
- Fluency in English and Romanian. Knowledge of Italian will be an asset.

III. Benefits: Compensation package will be competitive. The interested candidates can submit their CV-s with a cover letter sent by e-mail no later than March 31, 2006, at the e-mail address: hspnp@hotmail.com. Please note that only short-listed candidates will be accepted for an interview.

List of working documents published**ABI Study**

- *F. Cesarini*, "Has the Italian Banking Association (A.B.I.) contributed to Financial Sector Development in Italy?", December 2005.
- Presentation "How Has the Italian Banking Association Contributed to Financial System Development? Conclusions".

General Strategy

"Convergence: A Public-Private Financial Sector Programme", EFDI Annual Meeting, Warsaw, October 13-14, 2005

"Convergence: A Public-Private Financial Sector Programme", Euromoney 5th Regional Conference "Finance and Investment in SEE, Dubrovnik, October 25-26, 2005

"Various Project Status Reports", 8th Convergence Group Meeting, Warsaw, November 15, 2005

"Policies for Financial Sector Development: When and How to Build a Public-Private Partnership", February 2006.

Italy-Albania Remittances Corridor Study

- *G. Ferri and P. Di Biasi*, Background Note, March 2006.
- Presentation "How to Build an Action Plan?", March 2006.
- Presentation "Elements of an Action Plan", March 2006.

RDGF

- „Summary of Preliminary Findings", September 2005
- "Option Development Analytics", Technical Seminar, November 2005.
- "Equity and Debt Funding For Deposit Insurance Funds – An Application to Transition Economies", Presentation to the Regional EFDI Seminar, Sarajevo, December 2005
- "Summary (Analytical Background)", December 2005.
- "Summary (DGF Board De-Briefing)", January 2006.
- "Conclusions – Technical annex", January 2006.
- *M. Skreb*, "Opinion on "Presentation for DGF Board in Romania"", January 2006
- DGF Transcript, January 2006.
- "Summary of Findings and Conclusions", RDGF Symposium, March 2006.

CONTACT

Mr. Luigi Passamonti, Head of Convergence, is pleased to answer any question you may have on this Report. He can be contacted at lpassamonti@worldbank.org. His phone number is: +1-202-473-5776.

Mr. Riccardo Brogi, Convergence Operations Manager, is also available. He can be contacted at rbrogi@worldbank.org. His phone number is: +39-06-7771 0205.

Convergence Operations Management Unit

c/o World Bank Rome Office

Via Labicana 110

00184 Roma – ITALY

Fax: +39-06-70 96 046