



# Public-Private Financial Sector Modernization

The Convergence Program's Collaborative Analytical Platform

IFC AS Briefing  
Kiev

25 September 2008

Launched in July 2005 by the World Bank with support from Italy's Ministry of Economy and Finance, the Convergence Program promotes public-private financial sector modernization in South-East Europe.

Under a "BOT" concept (Build-Operate-Transfer), the Convergence Program helps authorities and market participants set up a partnership (SPI Platform) responsible for the preparation by local working teams of micro-regulatory reform proposals based on "Better Regulation".

The SPI Platform is a key financial sector modernization hub, coordinating local and international players.

The Convergence Program mandate is over when local stakeholders are ready to take operational and financial responsibility for the SPI Platform— typically after two years.

# The Convergence Program

- Set up by FSEVP in 2005
- Great pilot projects but no lasting impact
  - Albania, Croatia, Romania and regionally
- Early 2006: decision to promote SPI Platform
  - Time-to-first regulatory proposals: 12 months
  - Proven successful in Romania ([www.spi-romania.eu](http://www.spi-romania.eu))
  - New SPI countries: [www.spi-albania.eu](http://www.spi-albania.eu), Adriatic Region, Bangladesh (IFC-SEDF)...
- IFC SmartLessons #427 (<http://smartlessons.ifc.org/smartlessons/lesson.aspx?id=427>)
- Present focus: how to scale it up
- Closes end-2009 (\$3m total budget).

# 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 Convergence Program (SPI Technical Partner)
  - Operating on stage but behind the scene
    - No direct technical advice
- Local stakeholders are responsible for SPI sustainability



ROMANIA

CONVERGENCE FINANCIAL SECTOR MODERNIZATION

Public-Private Special Projects Initiative

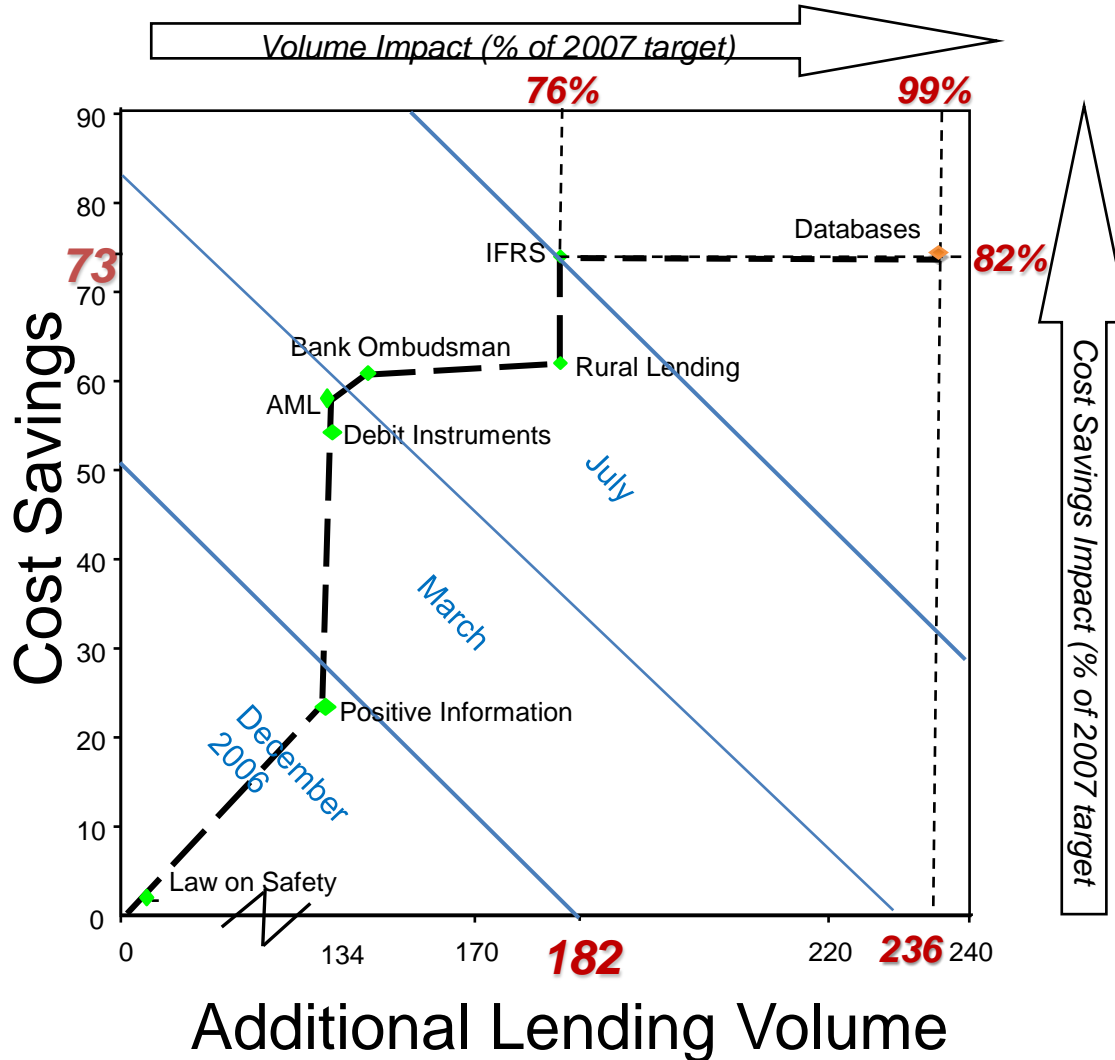


# Romania's 2007 Modernization Program

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 300k
- SPI Secretariat
  - Convergence Program
  - Experts

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



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**
- **Algorithmics**
- **Bearing Point**
- **Financial Ombudsman Service, UK**
- **Goodwood Financial Consulting**

# 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**

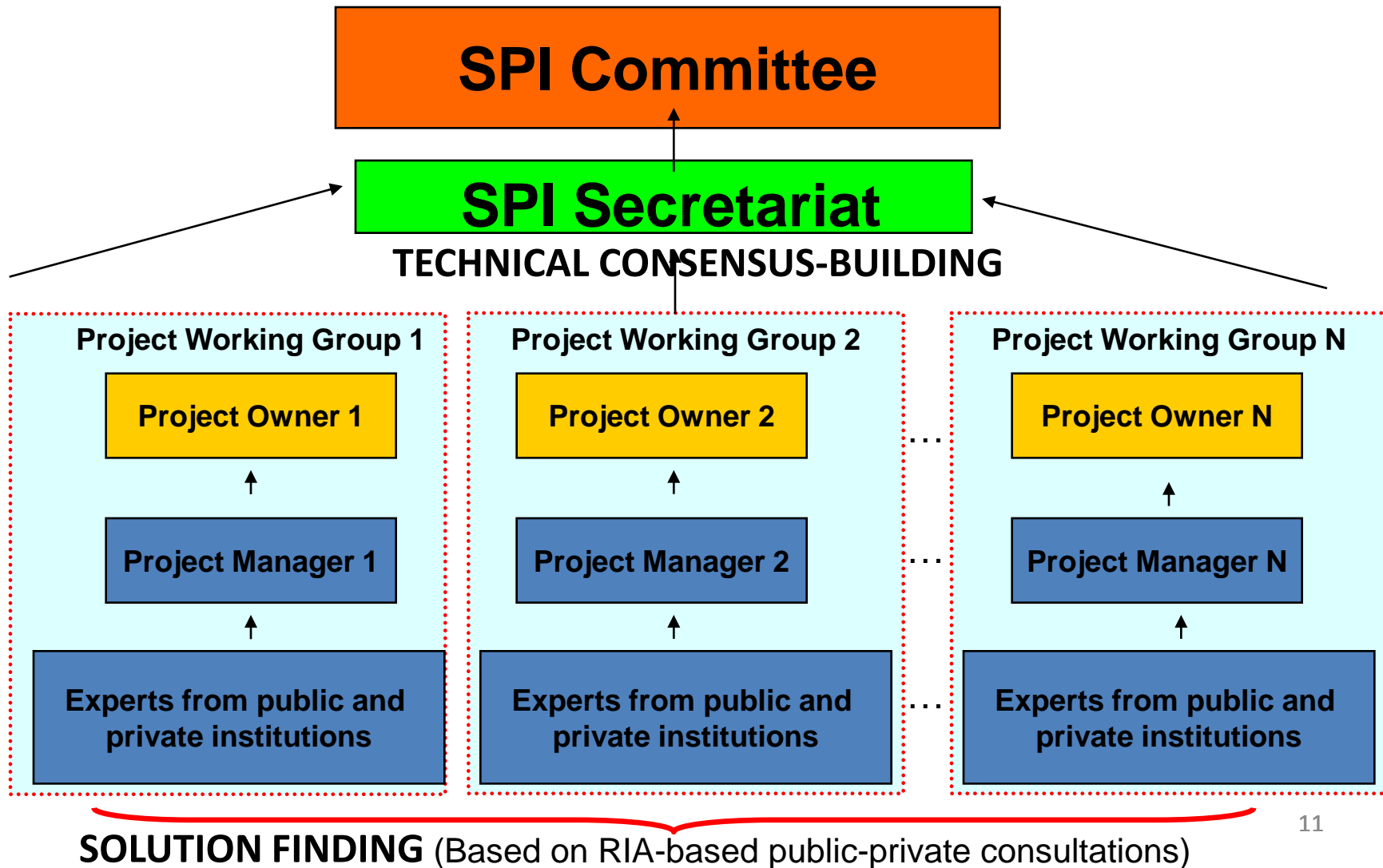
- It could be the main promoter of the initiative
  - SPI projects below the authorities' priority radar screen
- Member of SPI Committee
- Main responsibilities:
  - Covers cost of SPI Secretariat activities;
  - Proposes some SPI projects and provides leadership;
  - Provides members to all PWGs;
  - 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.

# The SPI Platform

## SOLUTION ENDORSEMENT AND ENACTMENT



# SPI Platform Roles

## 1. SPI Committee sets modernization 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).

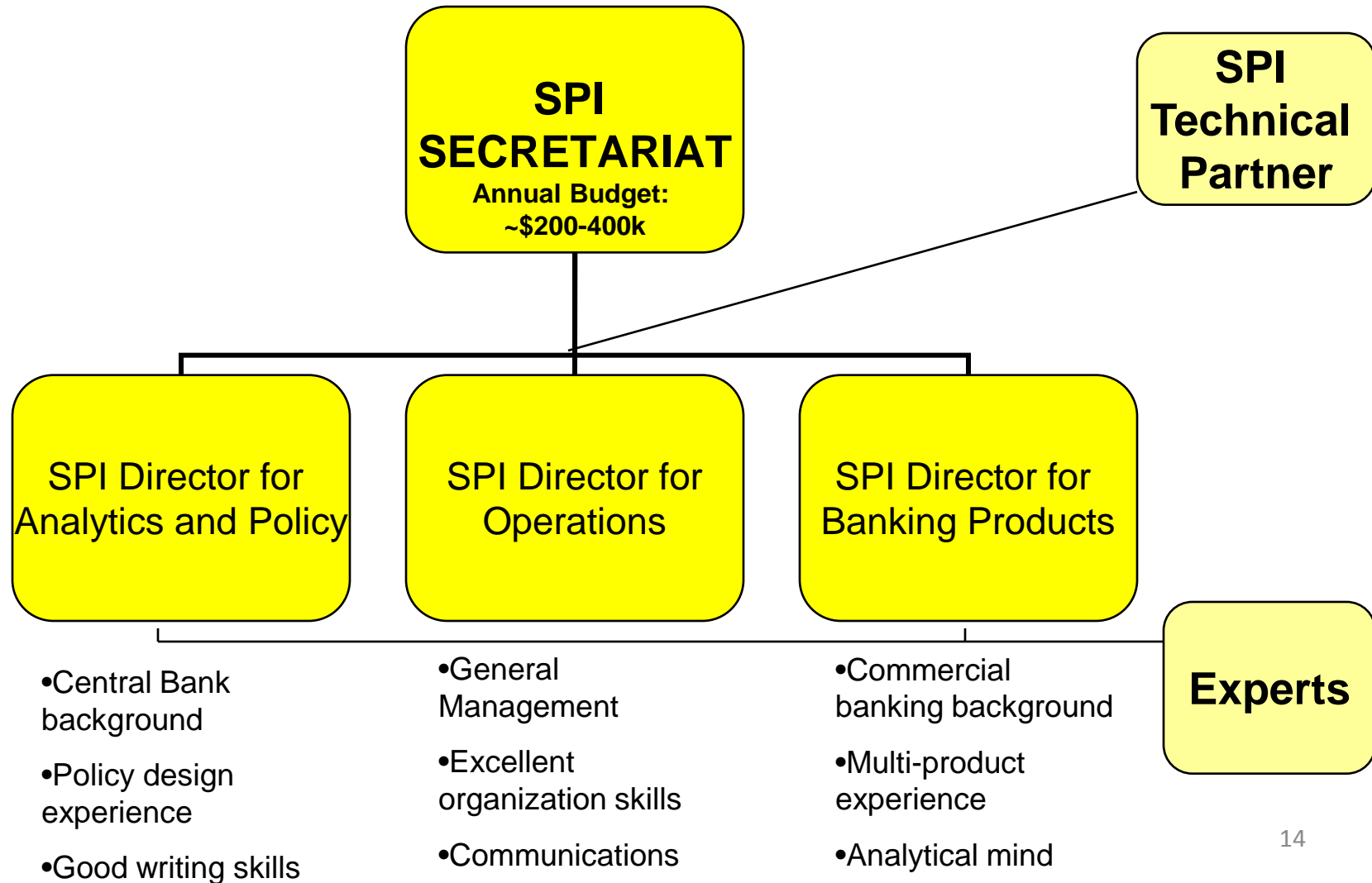
- **Main responsibilities**

- 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

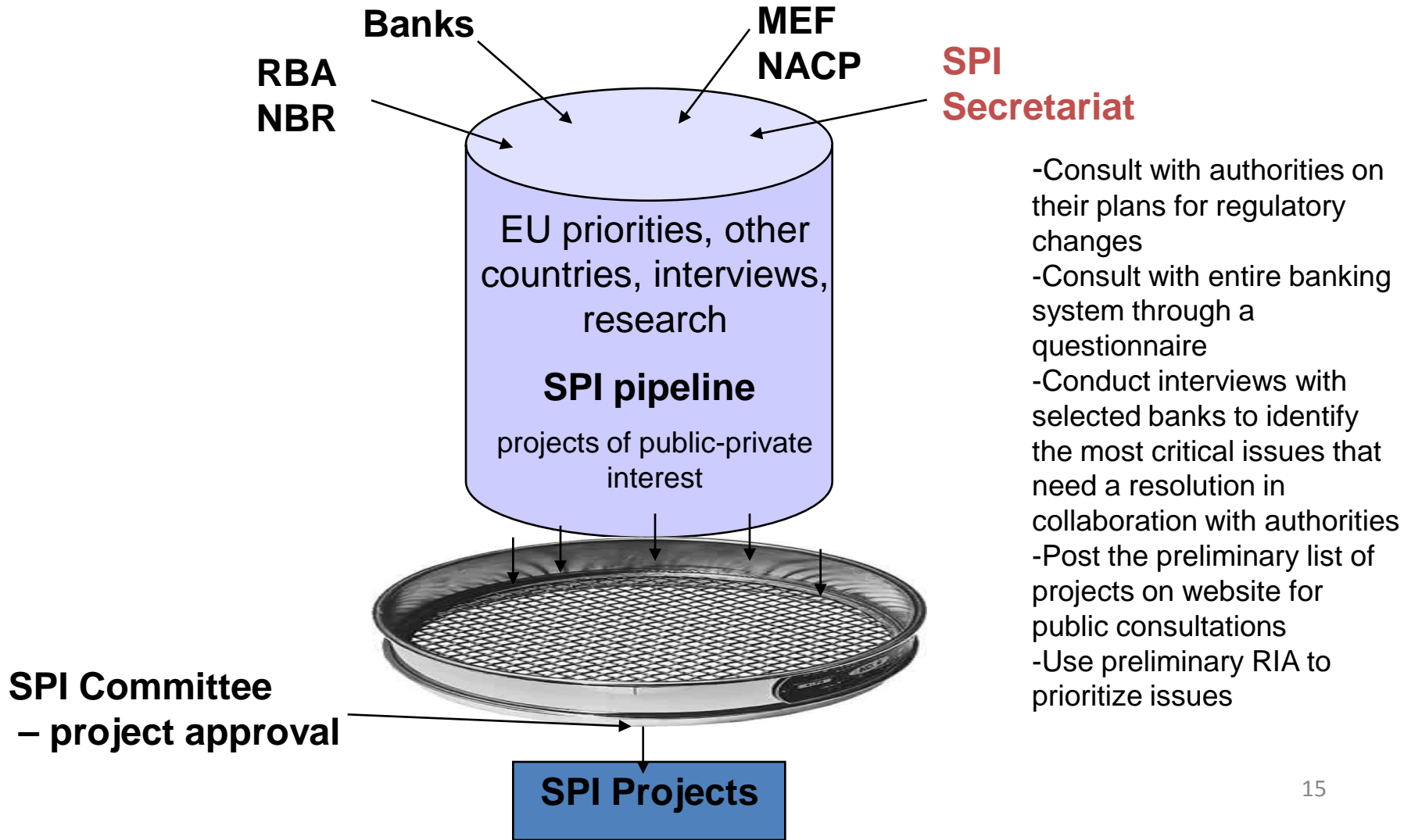
# SPI SECRETARIAT

## THE ENGINE OF THE PLATFORM



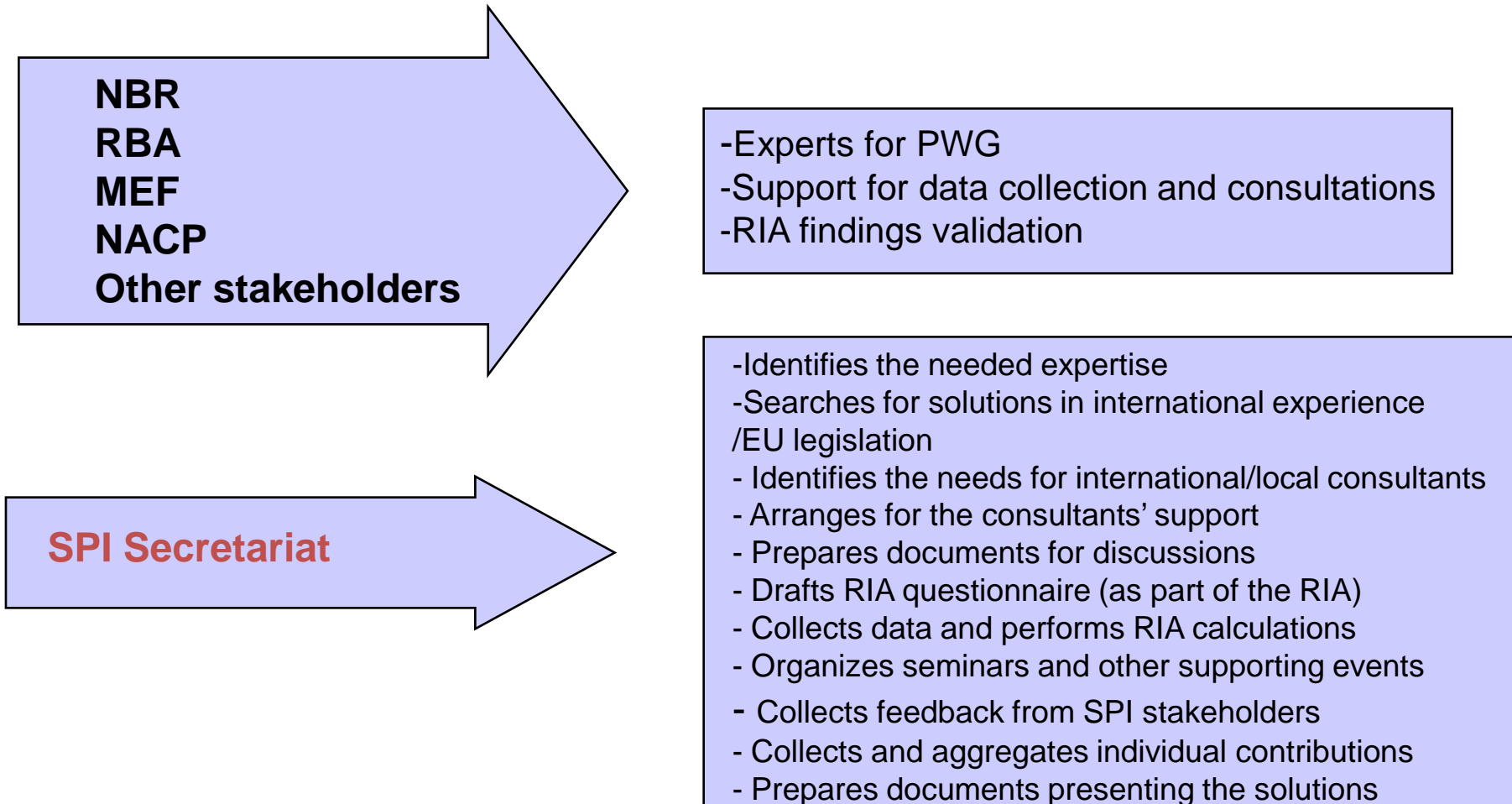
# SPI Secretariat Responsibilities

## 1. Issue identification and selection



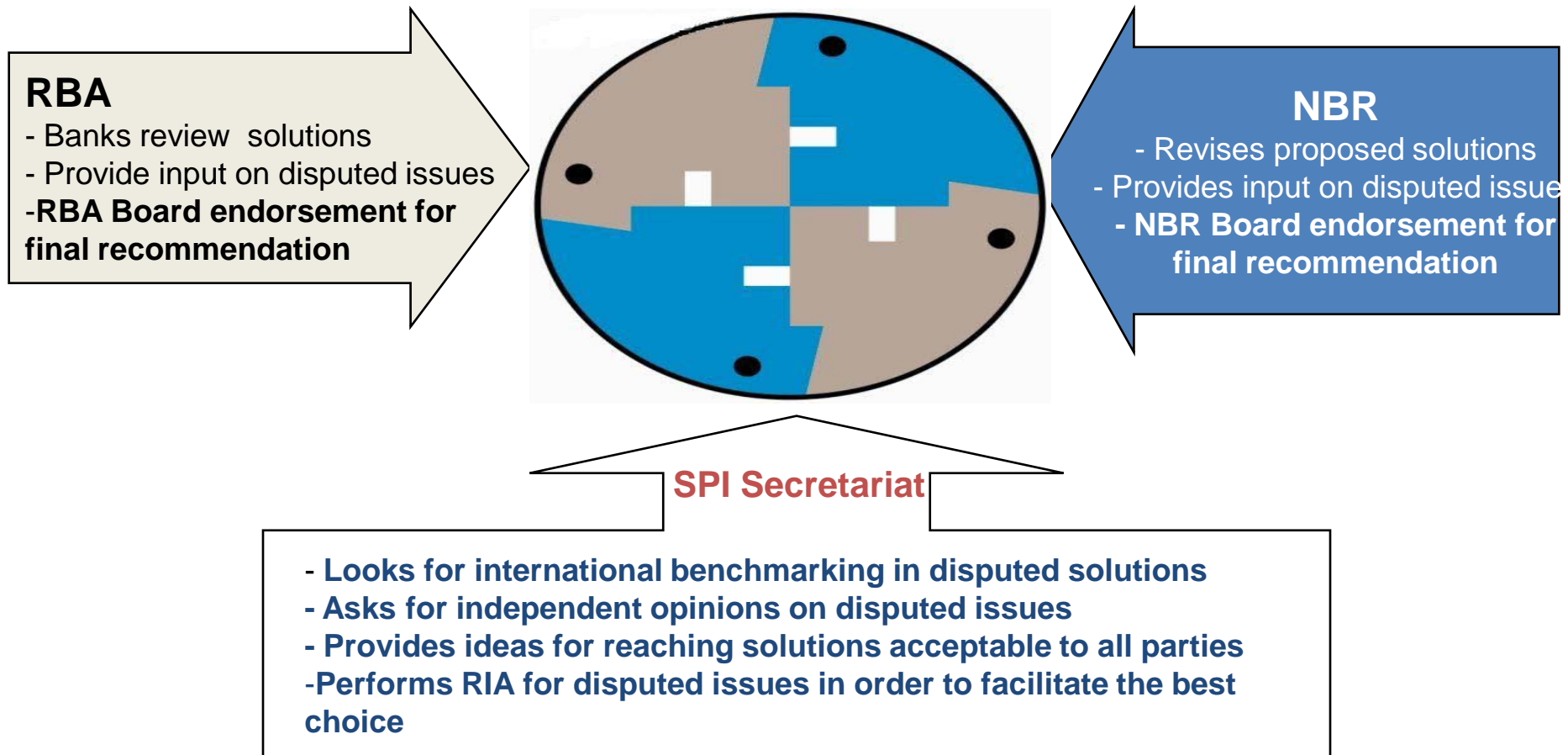
# SPI Secretariat Responsibilities (2)

## 2. Solution searching



# SPI Secretariat Responsibilities (3)

## 3. Consensus building



# SPI Secretariat Uses “Better Regulation”

Policy Design 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 Document	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 Secretariat Responsibilities (4)

## 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

# SPI SECRETARIAT

## 10 GOLDEN RULES FOR CONSENSUS - BUILDING

- Gaining PWG confidence through a very good preparation of project papers and PWG meetings
- Maintaining a neutral position in PWG meetings
- Focusing PWG discussions
- Accurate minutes of PWG meetings
- Keeping a clear track on disputed issues
- Asking each party's arguments on disputed issues
- Looking for international experience for disputed issues
- Asking for third parties' opinions on disputed issues
- Searching for middle-way solutions
- Asking for PWG approval on documents, particularly for SPI Committee recommendations.

# 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

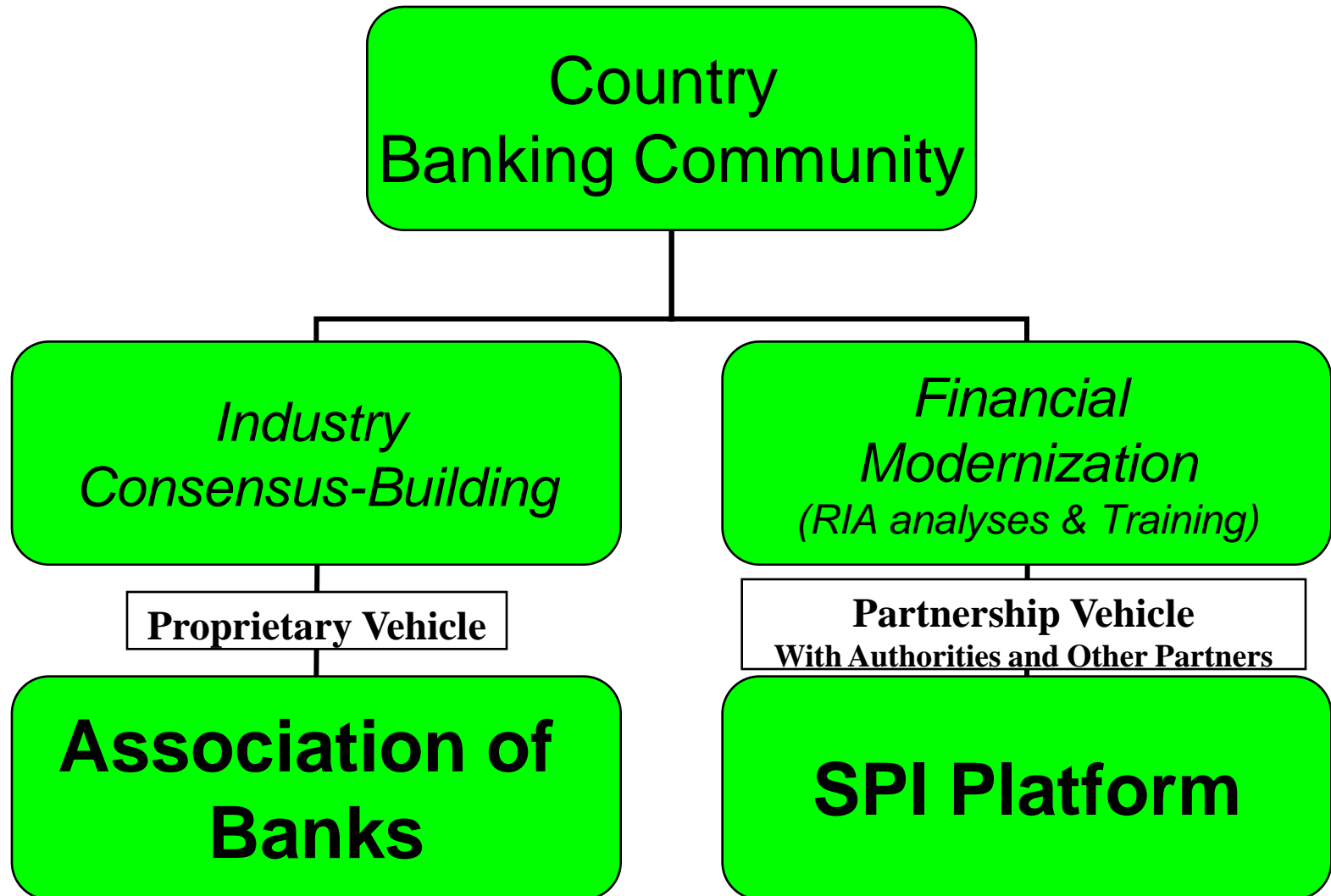
- About 3-4 over three months

# Launch Steps: The SPI Albania Example

January 2008	Bank of Albania and Association of Albanian Banks send Joint Commitment Letter to Convergence Program
January	Seminar with Albanian banking community
Jan-Mar	Regulatory Impact Assessment Program
Feb-Mar	SPI Modernization Program consultations
Feb-Mar	SPI Secretariat recruitment
<hr/>	
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 SUSTAINABILITY

## A Framework



# Issues For Discussion

- **SPI catalyzes financial sector modernization**
  - Agenda typically scattered among many local institutions and donors
    - Large goodwill for SPI promoter and initial technical partner
  - Can process 10-15 key projects/year (US\$30k/project)
    - Mobilizes local expertise with residual foreign involvement
  - Analytically-driven consensus-building under robust governance
  - Local banking community can finance it after initial donor support
- **SPI can help frame IFC's A2F activities**
  - It provides strong country ownership and implementation commitment
  - It generates demand for IFC A2F expertise in support of local experts
  - Overtime it becomes key local market-building institution
- **How to scale up SPI "BOT" work?**
  - Took off as FSEVP program; target end-point: a self-standing IFC unit
  - How to support its growth with equivalent institutional visibility?
    - IFC Partners - FIAS (BEE Public Private Dialogue), FM A2F and PEPs

# 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