



Draft June 6, 2007

# Convergence Program

## Recent Activities and Prospects

### Summary for Informal Discussion

Ministry of Economy and Finance

Rome, June 15, 2007

# Summary

- Achievements
  - Romania Program is now institutionalized
    - Operated and funded by local stakeholders in 2008
- Next Steps
  - Leveraging and replicating Romania success
    - In South-East Europe

# Context

- WB and MEF launched the Convergence Program in 2005 to test an innovative approach to help modernize South-East European financial sectors:
  - Objectives
    - Market development issues (as opposed to prudential issues)
      - 3 dimensions: New products, Cost efficiencies, Industry reputation
  - Methods
    - Public-private issue identification, analysis & consensus-building
    - Use of impact assessment analytics
    - Building knowledge partnerships
    - Strong enactment focus.
  - Success
    - Undefined.

# Stock-Taking

- The Convergence Program has demonstrated feasibility and financial sustainability of a new systemic approach to promote country-level financial sector modernization
  - Convening power of a multilateral organization
  - Honest broker credibility to public and private stakeholders
  - Strategic perspective and micro-regulatory focus
  - Hands-on skill-building of local players
  - Small start-up investment
    - €300k/country over 18 months
  - Local stakeholder initial and ongoing commitment key
  - World Bank Group discussions for model replication
    - In the region and elsewhere

# Today's Agenda

- Progress in last six months
- Activity plan for next six months
- Next steps

# FY07: The Core Strategy

- To rally local public-private stakeholders behind a “*Country Financial Sector Modernization Program*”
  - The Special Projects Initiative (SPI) Program
- SPI set-up
  - High Level Public-Private Committee that decides reform studies to undertake and endorses recommendations
    - Convergence membership as “honest broker”
  - Technical Secretariat that coordinates working group activities and prepares recommendation for SPI Committee
    - Local staff paid by Convergence
    - Convergence management, methodological and analytical support
- Rolled-out in Romania
  - Promoted in Albania, Croatia and Serbia

# Convergence Romania Financial Sector Modernization

Special Projects Initiative Public-Private Steering Committee



Started: September 2006

- 15 public-private working groups assembled (100+ members)
- 3 law proposals now in Parliament
  - Law on safety , Debit instrument processing , AML Law improvements
- 2 self-regulatory solutions adopted
  - Positive information sharing for credit bureau, Bank Ombudsman
- Well advancing projects
  - Rural lending instruments, IFRS Provisioning, Consumer Financial Education
- 6 technical seminars delivered
- Annual Cost: €400k (<€30k/project)
  - Estimated Impact: €230m (Loans); €110m (Equity relief); €100m (Costs).
- New mandates
  - MiFID, Consultations on EU Green Paper on Retail Financial Services
- Regulatory Impact Assessment Capacity-Building Program
  - Prime Minister's Office, NBR, Securities, Insurance, Pension Fund Agencies
  - Germany, Ireland, UK, Convergence and FIAS experts

# Convergence Romania Financial Sector Modernization

Special Projects Initiative Public-Private Steering Committee



## Future directions

- Higher transparency: [www.spi-romania.eu](http://www.spi-romania.eu) active end-June 2007
- WB and Italian financing ends June 30 and December 31, 2007 respectively
- National Bank of Romania and Association of Romanian Banks cover 100% of Program costs, starting in 2008
  - Through Romanian Banking Institute or new *ad hoc* entity
  - Convergence Program assistance during transition phase
    - Fees flowing back to Italian Trust Fund in 2008
- 2008 Program priorities:
  - Closer alignment with EU Single Financial Market Agenda
    - More non-banking issues (capital markets and insurance)
  - Stronger emphasis on new product development
    - Other themes: cost efficiencies and better industry reputation
  - Closer links with Legislature
    - SPI Committee membership for Chairperson of Parliament Economic Commissions

# The Independent Evaluations

- *“Romania and its financial sector need SPI in their quest to speed up financial sector modernization.”*

-Škreb Report

(former Croatian National Bank Governor)

- *“This public-private approach, with strong involvement of local powers and creation of a solid skilled team, seems to be a good approach, highly efficient and transferable.”*

- Bazzan Report

(former World Bank Executive Resources Manager)

# Other Regional Results

- Croatia: Draft securitization law goes to Parliament this summer
  - Long, iterative international public-private technical discussions
    - European Securitization Forum, EBRD and KfW
- Regional Financial Sector RIA Capacity Building Program
  - September 12-14, c/o Center of Excellence in Finance – Ljubljana
  - Audience: SEE Financial Sector authorities
  - Core methodology: Impact Assessment Guidelines for EU Level 3 Committees
  - Instructors: EU Commission, CEBS, Ireland, Italy, UK, Convergence, FIAS + Denmark/Netherlands
  - Platform to build evidence-based and consultative regulatory making capabilities for future Country SPI Programs
  - [www.cef-see.org](http://www.cef-see.org)

# July-December 2007 Plan

- **Priorities:**
  1. **SPI Romania transition to local ownership**
    - Most important Convergence success measure
      - » Based on Škreb and Bazzan Institutional and Management Skills Evaluations
    - Preparation of broader-based 2008 Program
  2. **Building and sharing value from Regional Financial Sector RIA Capacity-Building Program**
    - FIAS to help build up local RIA teams
    - Strengthening European partnerships

# January-April 2008 Plan

- Winding down of Trust Fund activities
  - No new commitments
  - Disbursement cut-off date: April 30, 2008
  - Expected surplus funds: €700+ thousand
- SPI Romania Program continues under local operational and financial responsibility.

# Next Steps

- Concept: Investment of available funds (€700k) to achieve broader Program impact in South-East Europe
  - A regional SPI network around Romania hub
    - Leveraging significant capacity-building investment
  - No WB operational involvement
    - Responsibility delegated to local institutions
    - Access to WBG professional resources as needed
  - Co-financed by Italian Trust Fund and local stakeholders
  - New cut-off disbursement date: December 31, 2009
- 1<sup>st</sup> Phase: Analysis of business model options for discussion in October 2007
  - Supported and validated by Sounding Board
    - Prof. Masciandaro (Chairman), Marko Škreb (Rapporteur), Marko Vojlć (CEO, KBC Hungary) and IFC SME/PEP-SE staff.

# Funding Status

- MEF Trust Fund details:
  - Signed: July 14, 2005
  - Disbursement cut-off date: April 30, 2008
  - Amount: €1,500 thousand
  - Total disbursements to-date: €615 thousand
  - Total projected disbursements<sup>1/</sup>: €800 thousand
  - WB co-investment<sup>2/</sup>: €950 thousand
- Status report discussed on December 15, 2006 has additional details.

1/ To April 30, 2008

2/ Including €425k pre-launch expenses.