

**Description of Activities and Expenditures under the Trust Fund for South-East Europe Public-Private Financial Sector Dialogue (“Convergence”)**

1. Description of Activities

The Program will help financial sector authorities of seven South-East European<sup>1</sup> countries start incorporating considerations of market development issues in the regulatory fine-tuning work that is necessary to promote real convergence of their economies with the EU. In advanced economies, “business-friendly” issues are routinely taken into consideration in the legal and regulatory process owing to the existence of large analytical capabilities in financial economics, banking and finance and legal and regulatory matters within their civil societies in the context of ongoing close consultations between authorities and market participants. In the region, these capabilities are significantly under-developed.

“Convergence” will thus contribute to the promotion of public-private consultation fora by undertaking analytical activities conducted in open consultation with market participants’ associations and other civil society organizations. The activities will be largely focused on the identification of micro-structural regulatory issues that hamper financial sector intermediation. They will quantify the estimated impact on financial market size of their successful change through reliance on “regulatory impact assessment” analyses, and propose possible ways to effect these changes with market participants’ inputs.

“Convergence” will be implemented by a small team consisting of the World Bank Program Director and other consultants, preferably former Central Bank Governors and Ministers that command considerable standing and recognition within the region’s official and business communities. The team will connect senior country authorities and market participants through a mix of technical activities such as policy notes, outreach activities to build public awareness about financial sector reform, seminars and workshops and in-country capacity building prepared by financial sector experts.

The work, which will be carried out in close coordination with IFC, EBRD, the EU Commission and, where necessary, the European Central Bank, aims at fostering regional collaboration and harmonization among financial sector authorities.

The Trust Fund will pursue these development objectives by funding the following activities:

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<sup>1</sup> The countries are: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Macedonia, Romania, Serbia and Montenegro.

- Hiring of financial experts in areas pertaining to financial sector development policy options;
- Hiring of financial experts to build local financial and legal analytical capabilities;
- Organization of outreach activities to build public awareness about financial sector reform;
- Organization of seminars and workshops and other training activities;
- Hiring of several country senior advisors who will build public-private ownership of technical recommendations prepared by the technical experts referred to earlier.

2. Categories of Expenditure

The Contribution funds will be used to finance the following categories of expenditure: Consultant Fees (Short- and Extended-Term), Contractual Services, Staff Costs (Salary and Benefits) without Indirects, Travel Expenses, and Media and Workshop Costs.

Trust Fund Objectives and Activities

35. \* Summarize the Trust Fund development objectives

This South-East Europe Public-Private Financial Sector Dialogue Program ("Convergence") will contribute to the emergence of public-private consultation fora on financial sector development issues in the South-Eastern European region. Such fora could greatly enhance financial sector development and thus accelerate growth if they will start basing their deliberations on rigorous quantification of the expected increase in financial intermediation volumes, pursuant to "regulatory impact assessment" techniques that Convergence will help promote.

36. \* Key performance indicators

The activities will be assessed in terms of their contribution to the development objective as stated in para 35. Projects undertaken as part of this program will need to lead to (a) increased understanding of financial sector policy micro-issues by both public authorities and market participant communities; (b) preparation of proposed policy changes, supported by an estimated impact on increasing financial sector intermediation; (c) successful promulgation of regulatory changes as recommended through this process; (d) requests for follow-up activities responding to the findings of policy analysis, outreach activities and seminars; (e) increased regional liaison and coordination in regulatory development to prepare for eventual EU membership.

37. \* Strategic context (CAS, Strategy Paper etc.)

The functional strategic context is provided by the PSD Investment Climate strategy (SECM2004-0400 as well as the regional strategic context provided by the February 2004 Regional Framework Paper for World Bank Group activities in South Eastern Europe (SECM2004-0131). The regional strategy places a high importance on private sector development and SME support through effective financial intermediation which will benefit from the participatory approach supported through the proposed approach and activities. The output of the fora would also inform individual CASs and future financial sector lending and analytical work to identify reforms that would increase the efficiency and market-friendliness of financial intermediation in the respective countries of the region.

38. \* Describe major risks vis-a-vis realization of TF development objectives (e.g. institutional, political, economic, technical) and indicate what measures are being taken into mitigate the risks

Institution-building work in the Balkans has its own specific challenges that have been well documented. To mitigate against performance failure risks, experts/advisors would be selected based on their critical expertise of local regulatory/market situations and professional and personal standing within the countries of operations. The work would also be carried out in close coordination with IFC, EBRD, the ECA region and the European Commission. Program-specific risks include (a) the intrinsic difficulty to establish an ongoing constructive and responsible dialogue between authorities and market participants, (b) the possible lack of coordinated engagement of market participants through legitimately representative associations; (c) the lack of available data to document the market size impact of proposed regulatory changes. The standing and experience of experts/advisors (especially those entrusted with high-level dialogue/liason tasks) will mitigate the former two risks. The micro-economists that will be engaged to conduct the regulatory impact assessment activities will need to demonstrate familiarity with building adequate data collection capabilities for micro-structural issues.