



Better Regulation:

Policy Design with Market Participants' Input

Romania's Special Project Initiative (SPI) Experience

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Public-Private Cooperation

The Conceptual Framework

“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, where intervention was judged to be necessary, it 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

“EU Better Regulation”

| Steps | Purpose |
|--|--|
| Scoping of problem | |
| 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”). |
| Analysis of impact | |
| 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 |
| Consultations | |
| 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 |
| Conclusion | |
| 11. Final Recommendations | Final report based on Cost Benefit Analysis and market feedback |

Public-Private Cooperation in Practice: The WB's Special Projects Initiative (SPI)

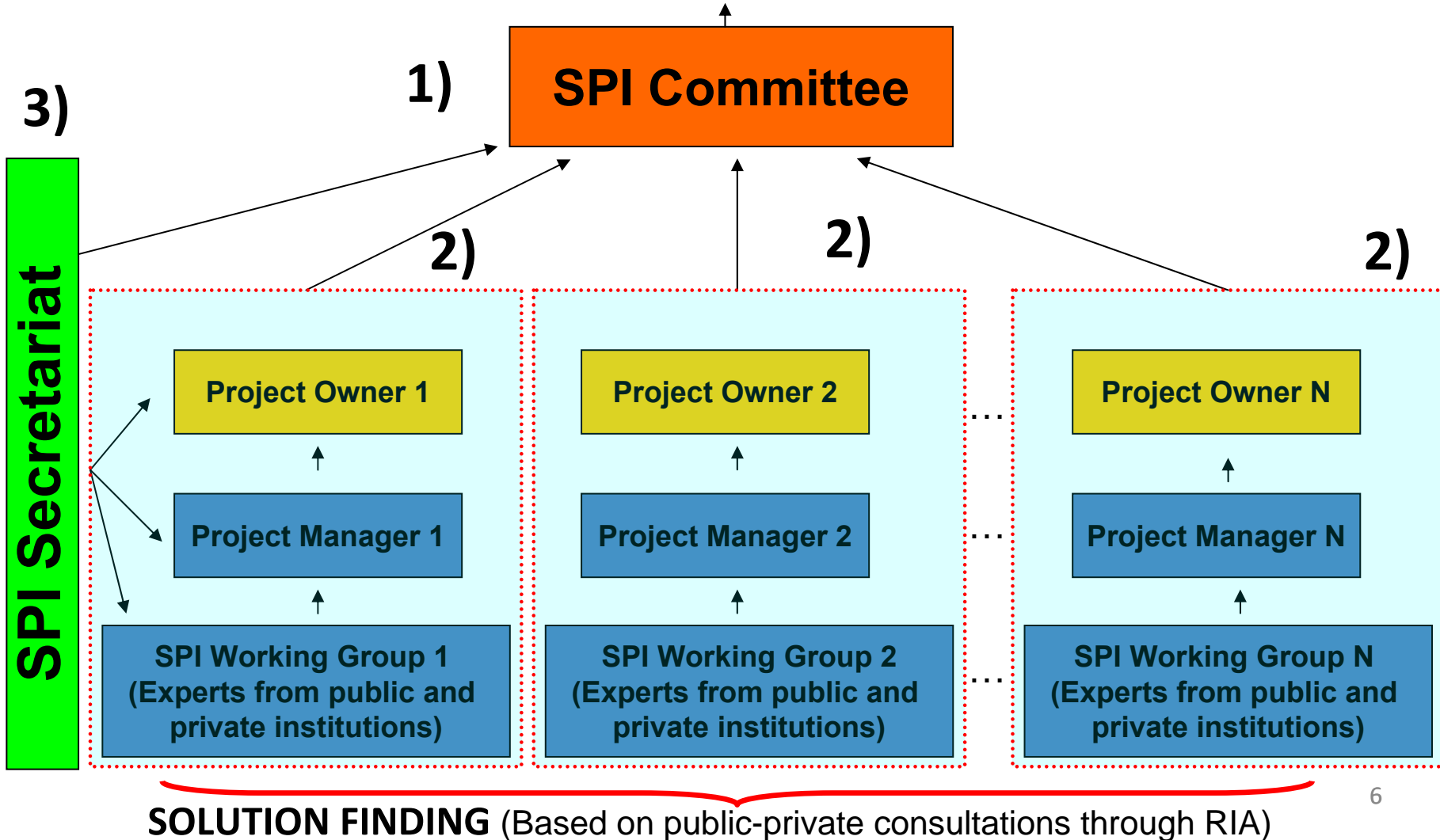
- Principle: the local community runs it!
 - Local public-private stakeholders decide priorities
 - Banks have a formal structure to address their concerns
 - Market participants and consumers are policy analysis partners of the financial sector regulator
 - Problems and possible solutions are studied together
 - Leverages domestic capabilities (academia, consultants)
 - Resources to process large modernization programs
 - Organizational and methodological support from World Bank's Convergence Program
- Proven successful in Romania
 - www.spi-romania.eu
 - New SPI countries: Albania, Adriatic Region

The SPI Platform (1)

- 1. SPI Committee:** ex-ante agreement on public-private priorities and push for prompt enactment of proposals
 - Central Bank, Ministry of Finance, Bank Association, Consumer Protection Agency, WBG (honest broker)
- 2. Working Groups:** to prepare solutions, based on their collective expertise, reaching public-private technical consensus
- 3. SPI Secretariat:** the “engine” of the structure
 - “Executive Project Manager”
 - 2-3 staff with consulting, banking and policy background
 - WBG organizational and technical support

The SPI Platform (2)

SOLUTION ENDORSEMENT AND ENACTMENT



Romania's 2007 Modernization Program

15 Projects

| | European Central Bank CRITERIA | | | | |
|---|---------------------------------------|--|--|---|------------------------------|
| Italian Banking Association 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. AML Law 2. Law on Goods Safety 3. Debit Instruments 4. Roland Berger Study 5. Banknotes for ATMs | |
| Industry reputation | | | 1. Ombudsman 2. Consumer education | | |
| Total | 2 | 3 | 3 | 6 | 1 |

SPI Romania 2007 – cost/benefit analysis

| Costs | Benefits for banks |
|--|--|
| EUR 390k •SPI Secretariat •Convergence Program •Experts | Cost savings - EUR 73 Mln. |
| | Additional loans – EUR 236 Mln. |
| | Improved reputation |
| | Public benefits |
| | Additional income to state budget |
| | Increased access of public to bank products and services |
| | Enhanced financial stability |



ROMANIA

CONVERGENCE FINANCIAL SECTOR MODERNIZATION

Public-Private Special Projects Initiative



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

Banks contribution to SPI Project Working Groups

| SPI ROMANIA 2007 PROJECTS | | | | | | | | | | | | | | | |
|---------------------------|-------------------------------------|-------------------|----------|---------------|----------|-------------------|----------------|-----------|--------------------|---------------|----------------------|-------------------------|--------------|---------------------|-----|
| BANKS | Positive credit information sharing | Debit instruments | AM L law | Rural lending | Bank LGs | IFRS provisioning | Stress testing | Ombudsman | Consumer education | Law on safety | MiFID Implementation | Mortgage Loans database | LGD database | Roland Berger study | CRA |
| RZB | XXX | | | XX | X | | | X | | | | X | X | XX | |
| RZB Loc. | X | | | | | X | | | | | | X | X | | |
| OTP | X | | X | | | | | X | | | | | | | |
| Bancpost | X | | X | X | | | | | | X | X | | | XX | X |
| BCR | | XX | X | | X | XX | X | X | | X | X | XX | XX | | XX |
| Alphabank | | XX | | | X | XX | | | | | X | X | X | | |
| BRD-GSG | | X | XX | | | X | | | | X | | | | XX | |
| CEC | | X | | | | | X | | | | | | | | X |
| Crediteurope | | | X | | | | | | | | | XX | XX | | |
| Unicredit | | | X | | X | X | | | X | XX | | X | X | | |
| RIB | | | | X | | | | | | | | | | | |
| ATE Bank | | | | | | X | | XX | | | X | | | | |
| ING | | | | | | | | | | | | | | | |
| Citibank | | | | | | | | | | | X | | | | |
| ABN AMRO | | | | | | | | | | | XX | | | | |
| HVB LOC. | | | | | | | | | X | | | | | | |



ROMANIA

CONVERGENCE FINANCIAL SECTOR MODERNIZATION

Public-Private Special Projects Initiative

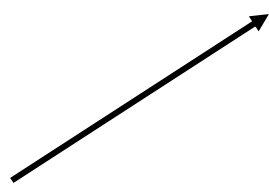
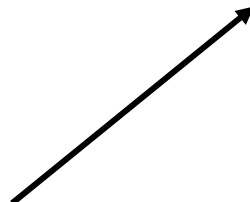


The 2008 Romania Modernization Program

| European Central Bank CRITERIA | | | | | |
|--------------------------------------|---|--|---|--|--|
| Italian Banking Association CRITERIA | Asymmetric information | Completeness of the market | Increased opportunities to engage in financial transactions | Reduced transaction costs | Increased competition |
| Business development | | <ul style="list-style-type: none"> 1. Increasing bank lending under PPPs 5. Modernizing T-bill regulatory framework 11. T-bills OTC market organization 12. Environmental Lending 23. Promoting refinancing through securitization 24. BSE Listing T-bills | <ul style="list-style-type: none"> 2. Co-financing with EU structural funds 3. Standard repo transactions 4. Development of Interbank Direct Debit 25. Securing down payments made by individuals for real estate projects 26. Supporting thermal rehabilitation of houses 27. Developing lending to municipalities | | |
| Industry competitiveness | <ul style="list-style-type: none"> 28. Database for risk rating the corporate clients 29. Centralized database for AML purposes | | <ul style="list-style-type: none"> 17. Electronic employment register and services 19. Loan-loss & Mortgage Loan Databases (2007) 20. Law on bank letters of guarantee (2007) 22. Improving access to and availability of the basic banking products | <ul style="list-style-type: none"> 6. Reviewing bad debts recovery procedures 14. Improving account stopping regulation 15. Reducing the paper-based documents 16. Centralized tax roll 21. The banks' future contributions to RDGF | <ul style="list-style-type: none"> 13. Various EU – related payment initiatives |
| Industry reputation | <ul style="list-style-type: none"> 30. Better information on saving products | <ul style="list-style-type: none"> 7. Bank ethics code 8. Expanding banking mediator 31. Ombudsman knowledge transfer | <ul style="list-style-type: none"> 9. Basic bank products info 10. Basic bank products Advice 32. Enhancing corporate social responsibility in the banking industry | <ul style="list-style-type: none"> 18. Improving NACP –RBA cooperation framework for consumer protection 33. Improving the quality of the education and professional training in the banking field | <ul style="list-style-type: none"> 34. Enhancing financial consumer's protection 35. Responsible borrowing |
| | 3 | 9 | 13 | 7 | 3 |

Legend: Focus projects Projects Other potential projects

Our Plan: SPI Adriatic



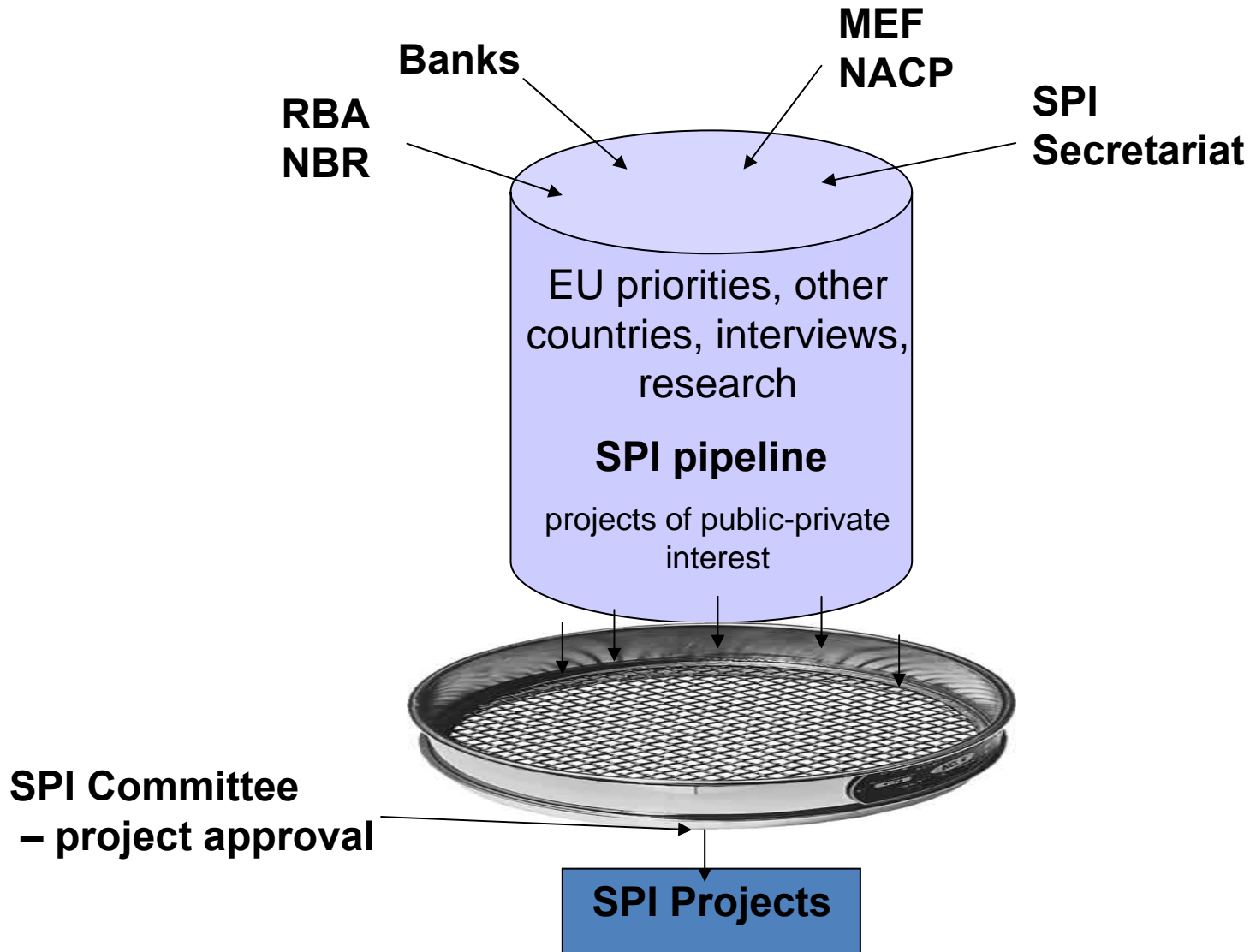
| Adriatic |
|------------|
| Albania |
| Montenegro |
| Kosovo? |
| Macedonia? |
| Serbia? |

SPI Overall Assessment

- Financial sector modernization requires a robust public-private partnership
- Partnership needs to be grounded on evidence-based dialogue
 - The EU Better Regulation Template is ideal road map
- Banking Associations should invest in stronger analytical capabilities
 - To prepare world-class policy papers that authorities can take into account
- SPI structure ideal because it aligns public-private forces on issues of common interest
 - EBRD/WBG could be invited to play “honest broker” role

The 5 SPI Secretariat Functions

1. Issue identification and selection



2. Solution searching

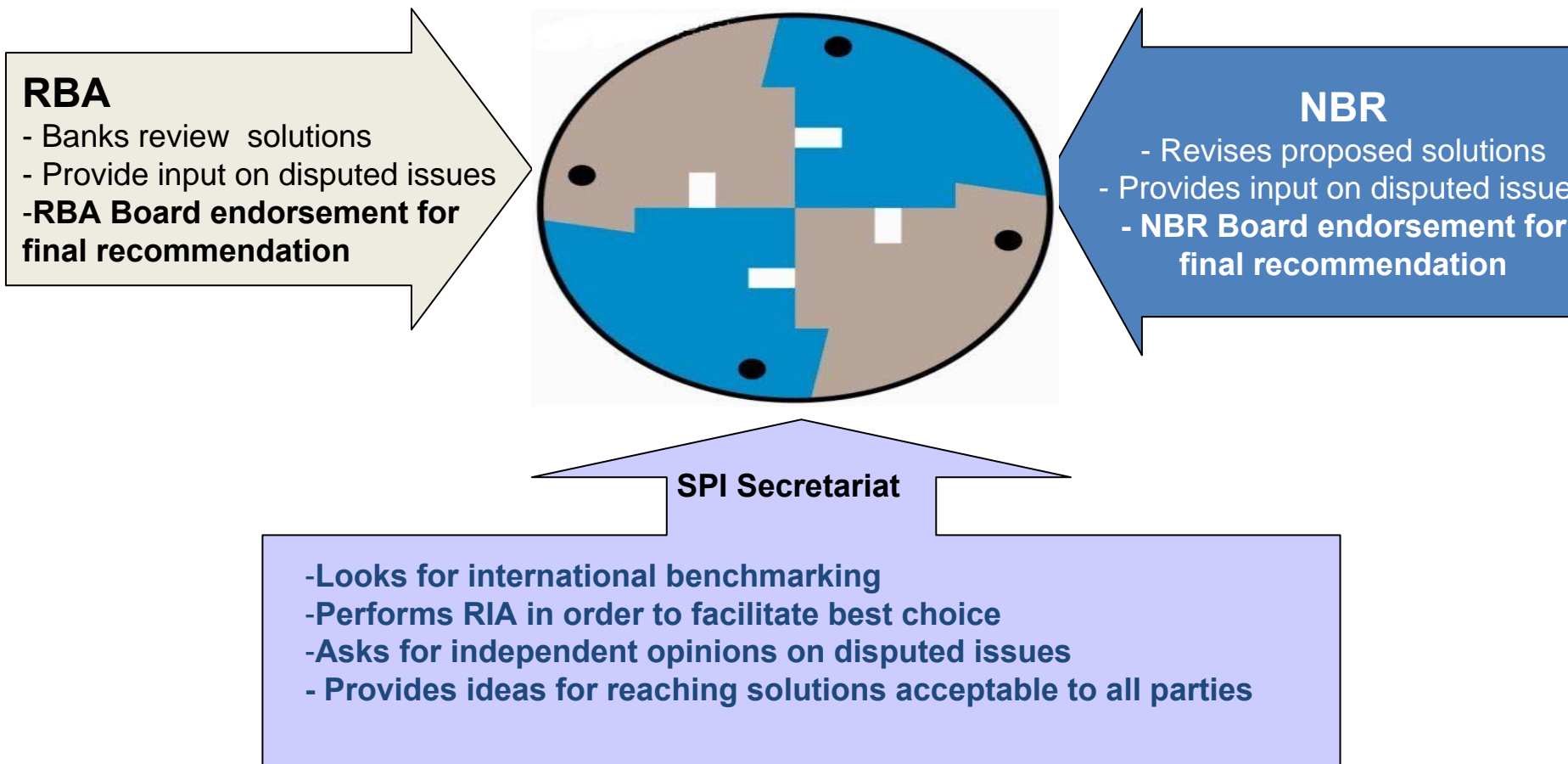
Central Bank (NBR)
 Banking Ass. (RBA)
 Ministry of Finance
 Consumer Protect.
 Other stakeholders

- 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



4. Solution enactment

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

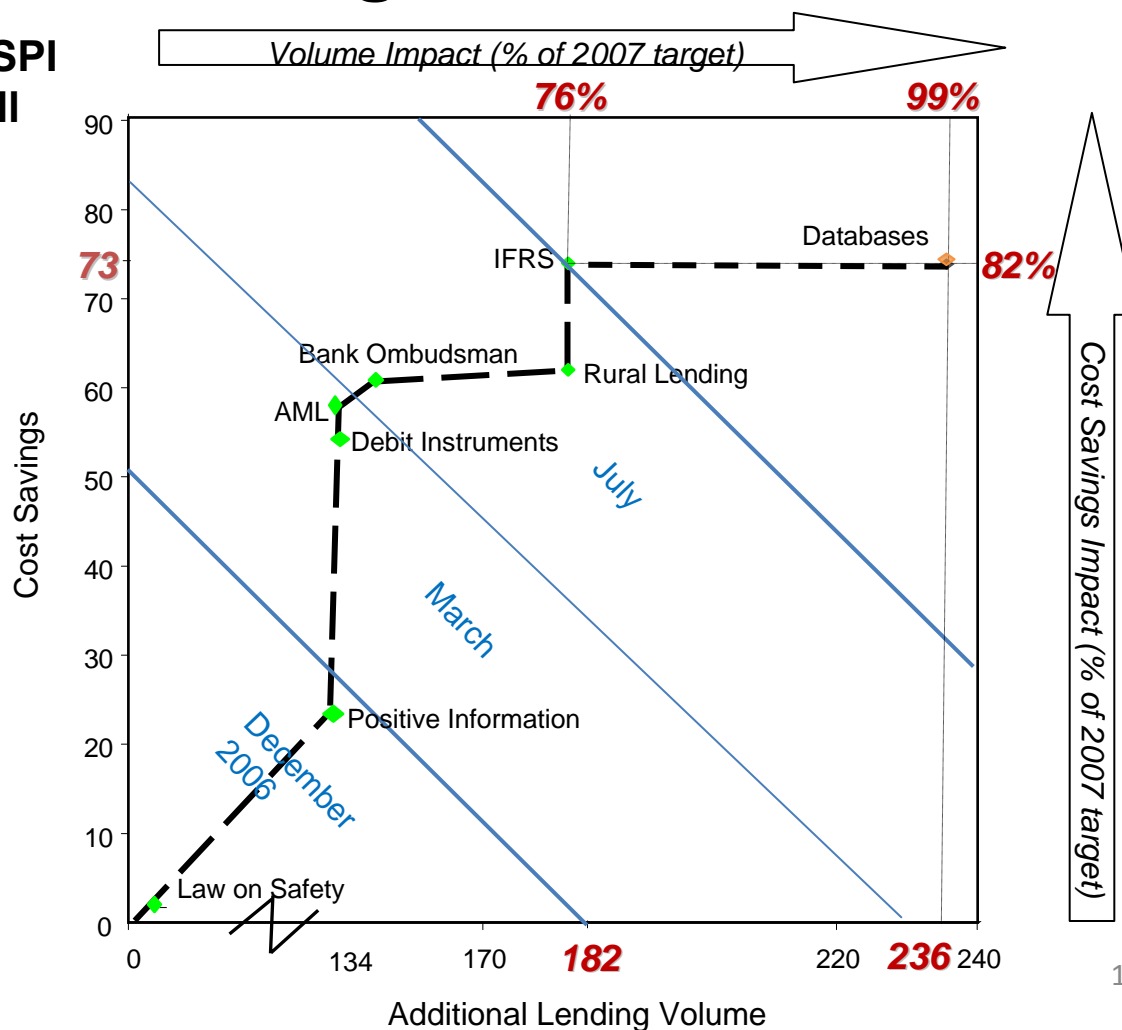


SPI Secretariat

- 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



For more information see

www.spi-romania.eu

Thank you!