



# SPI Adriatic

A “Better Regulation”– Based Financial Modernization Program



Prepared by:  
The World Bank’s Convergence Program  
Informal Brainstorming with DGMarkt and Other Stakeholders

Brussels  
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# Informal Brainstorming Participants

- DG Markt
- Regione Puglia
- Intesa SanPaolo
- Raiffeisen International
- Unicredit Group
- Generali
- SPI Romania
- Convergence Program

# Context

- Regione Puglia and World Bank's Convergence Program are considering launching "SPI Adriatic" to promote SEE financial sector modernization within the European Territorial Cooperation framework
  - Regional solutions to support entrepreneurship and innovation through "Better Regulation" policy design
    - Collaboration amongst financial authorities, market participants and civil society fosters local analytical capabilities
  - Based on successful SPI Romania model
- Imperative: full alignment with EU policies and programs and local needs.

# Informal Brainstorming Objectives

- To have an informal discussion on business needs and policy directions of financial sector modernization in EU candidate countries in South-East Europe
- To share experiences about policy dialogue with SEE financial authorities and policy outcomes
- To assess benefits and feasibility of an innovative public-private partnership to build growth-supporting SEE financial sectors.

# “Better Regulation”

## Fosters Public-Private Cooperation

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

Source: CEBS-CESR-CEIOPS Better Regulation Template

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

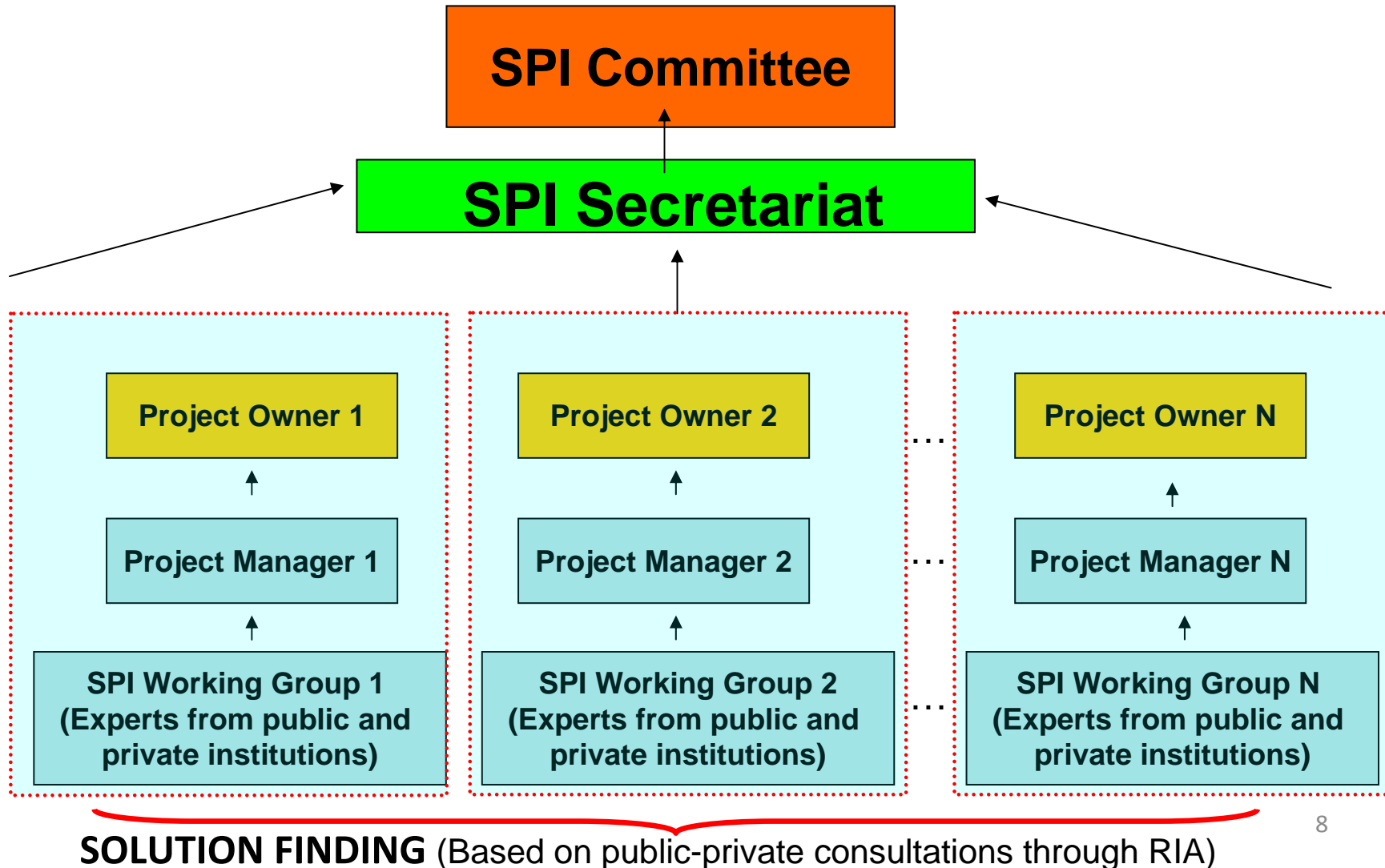
- Principle: the local community runs it!
  - Local public-private stakeholders decide priorities
    - With a formal structure and transparent processes to analyze issues
  - Market participants and consumers are policy analysis partners of the financial sector regulator
    - Problems and possible 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](http://www.spi-romania.eu)
  - New SPI countries: Albania, Adriatic Region, Bangladesh

# The SPI Platform (1)

- 1. SPI Committee:** ex-ante agreement on public-private priorities and commitment to prompt enactment of proposals
  - Central Bank, Bank Association, Ministry of Finance, 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)

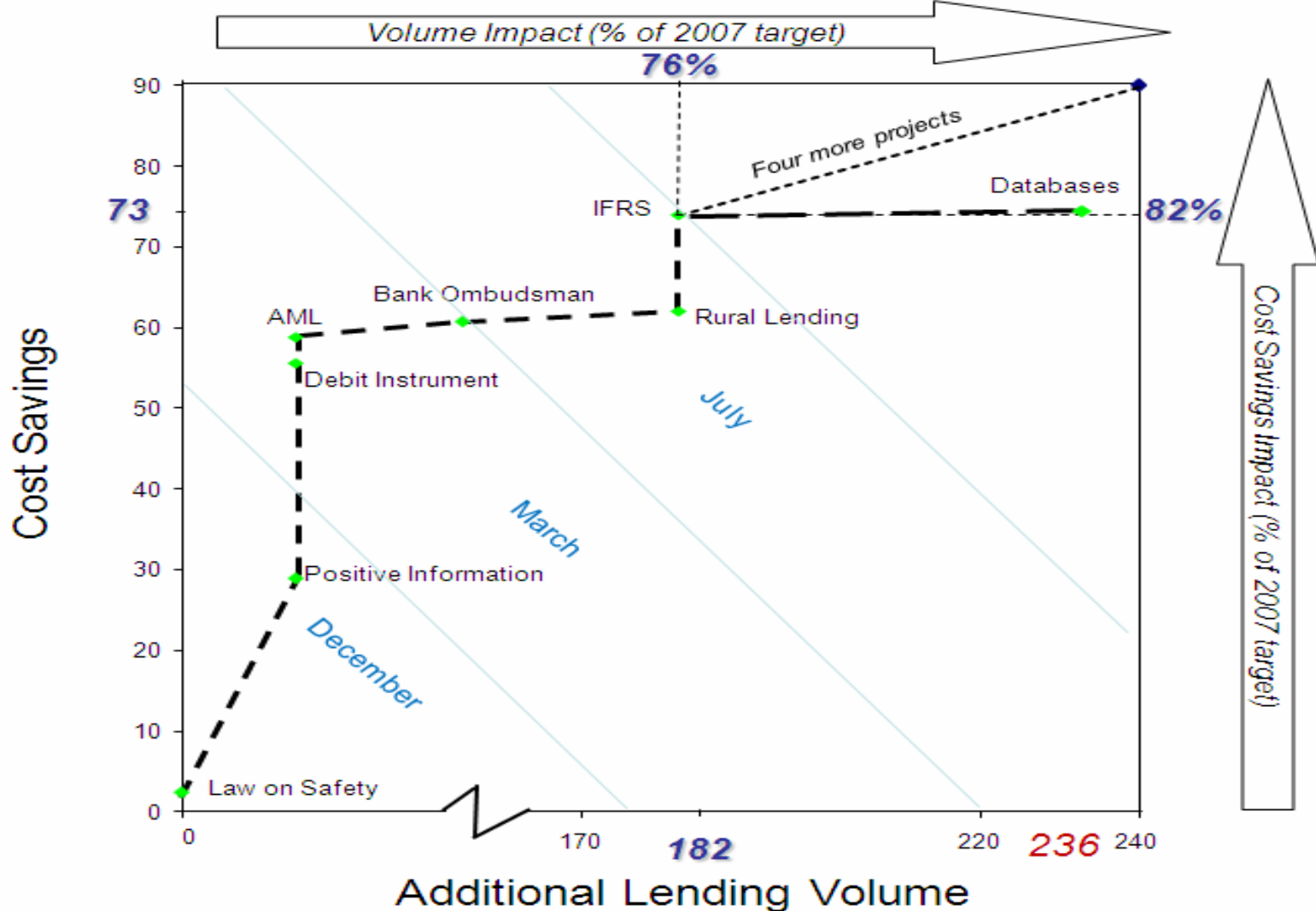
## SOLUTION ENDORSEMENT AND ENACTMENT



# The SPI Impact

## Romania 2007 Outcomes

Financial Impact of Finalized SPI Romania 2007 Projects (Mln, EUR)



# The SPI Impact

## Romania 2008 Plans

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

Legend: Focus projects Projects Other potential projects

# A second operation: SPI Albania

- Local stakeholder commitment: 9 January 2008
- Public Launch: 19 January 2008
- 1<sup>st</sup> SPI Committee Meeting: 27 March 2008
- SPI Secretariat in place: 1<sup>st</sup> May 2008
- 1<sup>st</sup> SPI Project completed: October 2008

# SPI Albania Program Overview

	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
<b>Business development</b>	<b>1. Improve corporate/consumer lending</b> <b>2. Developing scoring card system for individuals</b>	<b>3. Strengthening the stock exchange</b> <b>4. Facilitating leasing transactions</b> <b>5. Securitization</b> <b>6. Strengthening the AAB</b> <b>27. Designing regulation on consumer credit</b>	<b>7. Facilitating agricultural lending</b> <b>8. Facilitating lending to tourism</b> <b>9. Lending to municipalities</b> <b>10. Increasing mortgage loans</b> <b>11. Facilitating structural lending</b> <b>12. Improving the lending environment</b> <b>13. Facilitate lending to PPPs</b> <b>29. Regulation on foreign open positions</b>	<b>14. Strengthening bank staff</b>	
<b>Industry competitiveness</b>	<b>15. Improving credit risk in consumer lending</b> <b>16. Better credit risk management</b> <b>17. Improving KYC policies</b>	<b>28. Banks corporate governance and requirements for their administrators</b>	<b>18. Facilitating expansion of banks activities</b> <b>30. Revising capital adequacy ratio</b>	<b>19. Reducing cash transactions</b> <b>20. Improving auction procedures for buildings</b> <b>21. Optimize Anti-Money Laundering reporting</b> <b>22. Improving write-off of bad debts</b> <b>23. Account stopping</b> <b>31. Reviewing guidelines on banks' conservation and liquidation</b> <b>32. Rationalizing reporting to BoA</b> <b>33. Harmonizing accounting policies</b>	
<b>Industry reputation</b>	<b>34. Improving access to basic banking products</b>	<b>24. Financial ombudsman</b>			<b>25. Regulating bank communications of "effective" interest rate (EIR) offered to customers</b> <b>26. Consumer financial education</b> <b>35. Enhancing financial consumer's protection</b>
	6	7	10	9	3

**BOLD BLUE:** BOA Proposals; **BOLD RED:** AAB Proposals; Black: other proposals

# Beyond SPI Albania



REPUBLIC OF ALBANIA  
BANK OF ALBANIA  
GOVERNOR



ALBANIAN ASSOCIATION OF BANKS  
CHAIRMAN

No. 154 ref

Tirana, January 9<sup>th</sup>, 2008

Mr. Biagio Bossone  
Convergence Program  
c/o World Bank Rome Office

Dear Mr. Bossone,

We refer to our discussions about the need to accelerate financial sector modernization in Albania through the establishment of a dedicated structure that would promote stronger collaboration between authorities and market participants to find workable solutions, based on comprehensive analyses and international experience.

We believe that the SPI Albania public-private structure that you have described could stimulate financial sector modernization. We will work with the Convergence Program to establish it and make it operational with the greatest diligence.


Consistent with Bank of Albania's long-standing commitment to promoting regional collaboration, we believe that SPI Albania should be designed with an objective to support the creation of similar units in our neighboring countries. Bank of Albania will do its best to facilitate contacts with relevant authorities in neighboring countries to have a coordinated development of structures that promote convergence of banking standards and practices towards those of the more advanced EU countries. The Albanian Association of Banks will work with its sister associations in a coordinated fashion.

We strongly support the Convergence Program's desire to seek EU institutional and funding support as presently available under a project managed by Regione Puglia.

We consider this proposed approach, which places significant importance on collaboration among country and regional stakeholders, to be the most appropriate one to support Albania's modernization needs at this stage of its development.

Sincerely,

Ardian Fullani

  
Governor  
Bank of Albania

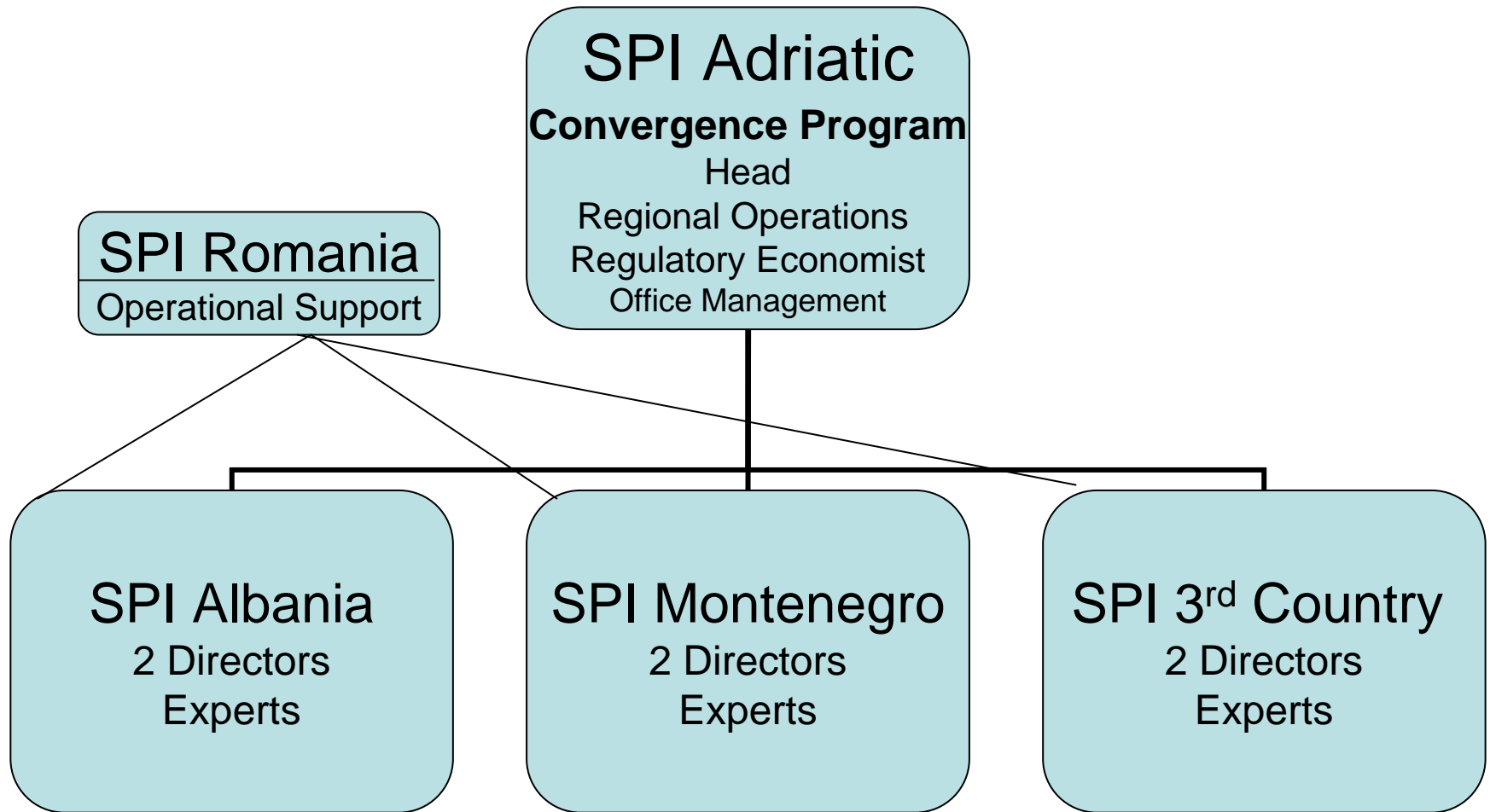
Edvin Libohova

  
Chairman  
Albanian Association of Banks

# The Objective: SPI Adriatic

- Many common modernization issues
  - Perimeter: Albania, Kosovo, Macedonia, Montenegro, Serbia
  - Target: harmonization with EU financial market norms and practices
- Strong desire for common solutions
  - Regional host supervisor collaboration
  - Strategic bank investors
- Country SPIs will form a network
  - Sharing expertise
  - Tackling regional infrastructure
  - SPI Romania already active technical assistance provider
- Substantial economies of scale
  - One country SPI: EUR30k/project
  - Three country SPI: <EUR20k/project
  - Five country SPI: very low cost

# SPI Adriatic Organization



# Issues For Discussion

1. Is “Better Regulation” an effective conceptual and operational framework to help integrate SEE into the Single Financial Market?
2. How large is the financial sector modernization agenda in South-East Europe?
  - Retail, corporate, investment services, insurance
3. Which are the most glaring product/market gaps?
4. How effective are market participants’ associations in setting a modernization agenda?
5. How useful could the SPI platform be to implement “Better Regulation” in SEE?
6. How could SPI Adriatic best align its regional and country programs to the EU Enlargement agenda?

# 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 for analytics
- SPI structure ideal: it aligns public-private partners on issues of common interest
  - “Honest broker” useful at the beginning to catalyze partnership and support analytics