A Better Business Environment for Financial Intermediation

A Q&A Note
Based on the Convergence Program[1] Experience
February 2009

A. FINANCIAL MODERNIZATION DURING THE CRISIS

1. At the time of crisis, why is a better business environment for financial intermediation a priority? Could this not be considered a post-crisis priority?

Current liquidity, restructuring and solvency interventions in financial institutions worldwide suggest the existence of similar crisis management needs in industrialized and developing countries. Ongoing international coordination efforts of supervisory reform and tightening of prudential standards[2] confirm the perception of a single crisis management agenda straddling both industrialized and developing countries.

This notwithstanding, it is important to realize that different starting conditions call for a differentiated policy response to serve the long-term needs of developing countries.

The structural deleveraging of the financial sector will have a bigger impact on the structure and reach of financial intermediation[3] of developing countries, unless efficient regulatory adjustment processes are introduced that enable a more fluid matching of supply and demand of financial services, also through the roll-out of new products and services to serve unmet client needs.

An accelerated modernization of the business environment for financial intermediation is therefore an urgent policy priority, if developing countries want to de-couple from the eventual adverse impact of tighter prudential standards and higher risk aversion.

B. ESSENCE OF FINANCIAL MODERNIZATION

2. What does financial modernization mean?

"*Financial modernization refers to the process of financial innovation and organizational improvements in the financial system that reduces asymmetric information, increases the completeness of markets, increases opportunities for agents to engage in financial transactions through contracts, reduces transaction costs and increases competition*", said Gertrude Tumpel-Gugerell, a European Central Bank Executive Board Member.

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[1] Launched in 2005 by the World Bank with support from Italy's Ministry of Economy and Finance, the Convergence Program has tested innovative techniques to promote financial sector modernization.
[2] Financial Stability Forum, "*Report on Enhancing Market and Institutional Resilience-Follow-up on implementation*", October 2008; Group of Thirty, "*Financial Reform: A Framework for Financial Stability*", January 2009
[3] World Economic Forum, "*The Future of the Global Financial System - A Near-Term Outlook and Long-Term Scenarios*", January 2009

Financial modernization[4] is therefore the process to adapt the legal and regulatory framework to address market failures and hence improve market outcomes[5].

3. How does financial modernization relate to financial stability?

The most important conceptual difference[6] between the market efficiency and the prudential approaches is that the former aims at creating a secure legal and regulatory environment for matching demand and supply of financial services, whereas the latter focuses on the mitigation of financial intermediation risks to the fiscal authorities (and regulating market conduct with unsophisticated investors).

4. How do authorities pursue financial modernization?

Authorities find it more difficult to pursue financial modernization than financial stability for several important reasons.

First, market efficiency work is penalized by a conceptual framework that is less established than the one adopted for prudential issues (e.g., international standards and codes). The European Central Bank criteria recalled above provide a useful path, as the extensive empirical work on market failures done in the European Union.

Second, execution of market efficiency work is more complex than prudential work because of the large number of "lower value" market structure and legal framework aspects affecting efficiency[7]. Market efficiency work requires a strong programmatic approach and robust implementation mechanism capable to mobilize large-scale resources over a protracted period of time. The experience of the Financial Sector Action Plan[8] in the European Union is an example of a programmatic approach that involves large groups of authorities and experts over a multi-year time horizon.

Third, as financial modernization programs involve governmental and parliamentary initiatives – beyond the specific regulatory authority of Central Banks in the context of their financial stability mandate, this work requires much stronger coordination among various authorities in charge. Not always is the Central Bank willing or comfortable to play a central coordinating role.

Fourth, market efficiency needs to be anchored in how markets actually work, placing large value on collaboration and feedback mechanisms with the financial community.

[4] P.Hartmann, F.Heider, E.Papaioannou and M. Lo Duca, "The role of financial markets and innovation in productivity and growth in Europe", ECB Occasional Paper 72, September 2007
[5] A primer on market failures: Oxera, "When markets fail: lessons for policy makers", November 2008
[6] Lucas Papademos, "Price stability, financial stability and efficiency, and monetary policy", 7 July 2006
[7] As an indication of the number of market efficiency issues as seen by market participants, the Italian Banking Association is involved in several hundreds of market efficiency issues affecting their members.
[8] The EU FSAP provided for 42 major legal initiatives to be undertaken in the 1999-2004 period.

5. Can you elaborate on the need for collaboration with market participants?

Twenty years of overcoming complex market failures have convinced the European Union[9] that an open and inclusive[10] market consultation process is vital to design what are called "incentive-compatible" regulations[11].

When it comes to identifying market failures and design remedial solutions, the practitioner's eyes and experience are essential. They must inform policy options. But they should not prevail over policy choices. Hence it is important for countries to establish a robust and sustainable public-private cooperation framework. A recent McKinsey Quarterly article[12] is an authoritative call for a responsible dialogue between corporations and authorities in response to the crisis.

6. Does a financial modernization program include prudential issues?

It is important to acknowledge that market efficiency work, although conceptually distinct from core prudential work[13], may well involve, amongst others, prudential considerations that require full involvement of financial authorities.

However, as well established work processes exist for the formulation of prudential regulations, financial authorities do not always have strong incentives to bring core prudential issues under a participatory financial modernization program. This notwithstanding, financial authorities may wish to avail themselves of the programmatic thrust of a financial modernization program (and related consultative-based implementation arrangements) to accelerate prudential work.

7. Improving financial intermediation efficiency seems to be a worthy cause, but how can this be executed in countries with weaker institutional environment?

The World Bank's Convergence Program has designed an effective and cost-efficient operating methodology (the SPI Platform) to process regulatory intervention needs to address market failures, as part of a large modernization program (10-15 projects annually).

The next section illustrates how to launch and process a financial modernization program.

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[9] http://ec.europa.eu/civil_society/consultations/index_en.htm

[10] The European Commission has promoted the creation of FIN-USE, a panel of experts mandated to represent the views of consumers and SMEs in market consultations, and pays for its operations.

[11] The UK can be considered the EU Better Regulation leader (http://www.berr.gov.uk/whatwedo/bre/index.html)

[12] McKinsey Quarterly, "Managing regulations in a new area", December 2008

[13] Core prudential regulations refer to governance, risk management, capital and liquidity requirements.

C. HOW TO LAUNCH A FINANCIAL MODERNIZATION PROGRAM

8. You mentioned the SPI Platform as the instrument to carry out a financial modernization program. Could you please explain its governance and work processes?

The SPI Platform is based on the principle that the local community must be capable to execute projects with its own expertise, involving international consultants only if needed to fill well-identified knowledge gaps. This discipline builds capacity for sustainable reform and enactment focus. Before I explain how working groups operate, I will provide the SPI Platform governance context.

The SPI Platform is designed for the local public-private community to identify a common modernization program, based on needs and priorities expressed by their members. Some of the priorities may well arise from prior World Bank/IMF interventions, in so far as they have become an expression of local needs and priorities. The SPI Committee, which is the SPI governing body[14], settles on a program after broad consultations with local and international stakeholders gather and sift these needs. Projects are selected that have demonstrable strong public and private gains (based on a preliminary impact assessment) and that can reach a conclusion in three months because a-priori they do not seem to present unresolved policy considerations.

The SPI Committee then asks the SPI Secretariat (with staff hired temporarily by the Convergence Program) to launch implementation. A local leader (either a Central Bank director or a bank CEO) appointed by the SPI Committee takes leadership for project implementation. He or she assembles a public-private working group. The SPI Secretariat prepares a detailed project Terms of Reference and successive analyses as requested by the working group. An essential feature of project analysis is quantification of project outcome in terms of cost efficiencies, lending volume growth or other relevant indicators using Regulatory Impact Assessment techniques. Typically a conclusion with a recommendation is reached after four to five meetings occurring over a three month period. The rule is that the project leader sends a recommendation to the SPI Committee only when the working group has reached consensus. After SPI Committee endorsement and transmission of the recommendation to the enacting authority, the SPI Secretariat helps project leadership monitor the enactment process and organize, if necessary, advocacy activities.

In summary, the SPI Platform has three components: a) a policy setting body (the SPI Committee); b) the operational engine (SPI Secretariat); and c) the brain (the Project Working Groups).

[14] The SPI Committee consists of high-level representatives of the Central Bank, Ministry of Finance, Banking Association and Consumer Protection Agency.

9. Who could sponsor the launch of an SPI Platform?

While the undertaking of the SPI Platform initiative probably could never have happened without initial World Bank involvement, its quick success and modest budget requirements make it an instrument that other institutions could sponsor.

First, one could expect that in many countries local stakeholders, led by a particularly visionary institution, may wish to drum up support for a comprehensive financial modernization program.

Once a critical mass of SPI Platforms is active worldwide, the need for outside catalytic intervention subsides. It is conceivable that authorities and market participants may agree to undertake a modernization program by creating a small joint secretariat and pooling their respective expertise in working groups without outside catalytic intervention. In some case they may independently appoint a professional firm to operate the secretariat on their behalf.

As the concept spreads, one could imagine several catalytic interventions. Regional International Financial Institutions or strong bilateral donors (e.g., DFiD) could sponsor the establishment of SPI Platforms. USAID gave indications that the SPI Platform could be an attractive institution to support as they unwind country programs.

Informal soundings with Ernst & Young suggest that they may be interested in operating an SPI Platform for a limited period of time. Other partnerships could be forged with other professional consultants (e.g., McKinsey[15]) or with the recently-launched International Centre for Financial Regulation, a public-private thank based in London.

Also the European Banking Federation has started engaging with the European Commission to explore the possibility to jointly sponsor SPI Platforms in Eastern Europe, drawing on the methodology and systems set up by the Convergence Program. The instrument could be either a dedicated technical assistance vehicle or a partnership with an IFI (EBRD or World Bank).

A critical aspect is the quality of the SPI Platform manager. Public and private donors need to be convinced that a multi-project Secretariat can deliver. Usually donors have concerns on effectiveness and governance of more complex (and in-principle more efficient) program management structures.

10. How do you characterize the sponsor's involvement in this initiative?

The SPI Platform sponsor is positioned as a facilitator of local capacity building, given its temporary support role to the local SPI Platform.

[15] McKinsey Quarterly has recently published an article on how to structure constructive engagement between corporations and regulators.

11. How do you see this work organized? And how much budget would it require?

First, it is important to realize that the Convergence Program BOT cycle comprises three distinct phases: 1) promotion and launch; 2) operations; 3) transfer to local ownership. The cost to launch and operate an SPI Platform for two years is estimated to be about $500 thousand, based on a program of minimum three SPI Platforms. Each SPI Platform would complete about ten reform projects annually with an aggregate $200 million first-year RIA economic value. Average project cost is $25 thousand.

Annex

A. CONVERGENCE PROGRAM'S ORIGIN AND OPERATING PRINCIPLES

1. The Convergence Program's mandate is to promote public-private financial sector modernization in South-East Europe. Why did you start this Program?

I started thinking about this Program in mid 2002 when I discovered the regulatory projects of the Italian Banking Association (ABI). A new world beckoned: ABI engages with authorities on several hundreds of issues (and manages to resolve 60 to 80 of them annually) that mostly escape the attention of financial authorities in developing countries (and of their advisors such as the World Bank).

I was intrigued by the large number of issues involved in market efficiency, the need for diverse technical knowledge, the focus on implementation practicalities and the level of energy required to implement a large ongoing reform program (it may consists of 15-30 projects annually). This agenda looked promising because it reflected an important reality outside World Bank reach.

I immediately realized the potential for a large expansion of World Bank activities if reform programs could include issues proposed by market participants and consumers. Looking at the range and volume of regulatory advocacy activities pursued by ABI in its relatively sophisticated market (and at the many consultants and experts advising them), I got a sense that this market segment in our client countries would offer virtually unlimited engagement opportunities to the World Bank Group for many years to come – regardless of exceptional interventions needs such as those for the Asia crisis and Eastern Europe transition work.

2. But banking associations are not influential as their peers in advanced countries to create this reform agenda. Will this "advisory" market ever develop?

It is true that market participants are not active protagonist of financial sector reform in most developing countries.

The main problem is absence of an organized dialogue between financial authorities and market participants through which the latter can communicate reform priorities meeting market development needs to the former.

This absence of dialogue is a powerful deterrent to the build-up of analytical capacity in the private sector and civil society that would contribute ideas, analyses and possible solutions to market-based financial sector reform.

However, it is important to realize that market-based financial sector reform is not held back by lack of dialogue itself, but by two institutional constraints whose impact is exacerbated by lack of dialogue.

First, financial authorities have limited capacity to address reform needs other those related to core stability and prudential concerns. I will discuss the differences between these activities later. One major difference is that market development needs entail a large number of regulatory interventions, often coordinated amongst various institutions.

Second, financial authorities have scant knowledge of technicalities of banking products and services and the intricacies of banking organizational constraints. This affects their ability to appreciate the usefulness and impact of possible regulatory action – and also the quality of regulation if and when issued.

One does not need to be a visionary[16] to realize the powerful impact that a catalytic intervention could have to overcome institutional constraints that hold back market development through the creation of a governance framework under which public-private analytical capacity could be mobilized to process a large volume of regulatory changes.

The unmet demand for dialogue should not be exaggerated, though. Banks, which can be more comfortable in controlled market environments with limited innovation, are often satisfied with individual "lobbying" access to address specific business problems. But with foreign entry and financial sector liberalization, competitive forces are on the rise. Banks increasingly require, as observed in Eastern Europe, effectives modes of collective representation, as bilateral "lobbying" is proving inadequate to address structural issues.

3. Why did you believe that a catalytic intervention could have been successful in creating this advisory market?

The catalytic intervention needs to show the win-win public-private benefits of adopting this procedure – and, above all, should be capable to deliver it in practice. Words are not sufficient. A further complication is the need to design a procedure that the local stakeholders will eventually be able to operate on their own, in the absence of the catalytic operator.

Authorities and market participants may be interested in this approach because of the large gains available to each of them. For the former, it means extending and improving the regulatory reach. For the latter, it means the ability to pursue additional business opportunities. For both of them, it means also getting to know each other objectives and incentives better. In no country can authorities neglect how the market operates and, conversely, market participants cannot lastingly disregard policy objectives and priorities in their pursuit of their business plans.

Regulatory design practices of sophisticated markets and the irrepressible diffusion of product innovations are real incentives for authorities and market participants in developing countries to find a workable procedure to address market development needs.

4. Why did you think that it was a legitimate World Bank mandate to undertake this catalytic intervention?

Financial intermediation inefficiencies arising from coordination failure between authorities and market participants (and among market participants themselves) have important economic and social consequences (mainly absence of, lack of access to and high cost of suitable financial products).

The "do-nothing" option that is, to leave authorities and market participants organize themselves overtime, did not give assurances of eventual success. The experience of the European

[16] The main hurdle in forming this vision is the lack of visibility of the activities and work methodologies of banking associations in sophisticated jurisdictions. The Convergence Program sponsored a study of ABI's activities (http://www.spi-romania.eu/admin/filemanager/files/abi_study_final_draft_18_1_2006_def1.pdf).

Commission-led "Better Regulation" effort[17] was too recent to have become an internationally accepted best practice that countries would strive to adopt autonomously because of enlightened self-interest. Official intervention seemed therefore justified[18], also supported by statements of authoritative European financial policy makers[19].

The centrality of financial sector development in the World Bank's growth-enhancing and poverty reduction mandate justified its own intervention in this new segment. If successful, the World Bank intervention would have had a global pay-off in terms of demonstrating the feasibility to promote a new institution that can sustainably process a market efficiency reform agenda left unattended because of a coordination failure[20].

5. How did you define the boundaries of the World Bank's intervention?

The internal skepticism that I faced as I was designing the Program prompted me to define the World Bank's intervention very carefully. First, I abandoned the initial intention to support the strengthening of banking associations, shifting the focus to building the interface between banking associations and authorities. Second, I operated under a new brand name, Convergence Program, that signaled a somewhat arms' length relationship to the World Bank. Third, I built the initial core team around former senior central bankers that had undisputed professional visibility and recognition in the region. Fourth, I defined World Bank operational involvement as time-bound, with the necessity to quickly reach local sustainability as a key success factor of the Program.

6. Why did it take you so long to move from identification of the opportunity in late 2002, as you said, to program launch which happened only in mid-2005?

In response to the feedback received in the first internal review meeting in spring 2003, I decided to continue to explore the feasibility of the approach with broad consultations and public speaking engagements. This careful sounding period took another year. A further delay was caused by the donor's legitimate request to involve European Commission and EBRD in the project. All in all, a two-year gestation period was really necessary to understand the complexity of the situation and the need for a very disciplined and structured approach.

In retrospect, this careful planning was a major factor in the Program's quick success after its launch -- without major setbacks. And it allowed the Program to proceed at record speed in its implementation: 1) nine months from beginning of the analytics to law enactment in the first pilot project; 2) six months to launch SPI Romania; 3) twelve months from floating SPI Albania concept to first law enacted.

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[17] Regulatory interventions by the European Commission and EU financial regulators follow a well-defined protocol of market failure analysis, comparison of policy options in open consultation with affected stakeholders (http://ec.europa.eu/civil_society/consultation_standards/index_en.htm).

[18] "Convergence-A World Bank Draft Proposal", Slide 17, March 2003 (http://www.spi-romania.eu/admin/filemanager/files/spilibrary/convergence___consultations.pdf))

[19] "*It is crucial to be aware that market-led progress requires cooperation among economic (public and private) agents. We cannot be blind to the fact that the necessary cooperation among private market participants does not materialize unless public authority play an important role in promoting it*.", Tommaso Padoa-Schioppa, former ECB Executive Board Member

[20] However important this intervention could have been, its prospects of success did not seem high, as witnessed by the difficulty to secure operational and funding support outside World Bank and Italy.

B. CONVERGENCE PROGRAM TRACK RECORD

1. How did you start operations?

Before starting with the first concrete projects, I spent about six months with a group of former senior central bankers of the region to define the rules of the game of a public-private approach[21] in the financial sector. The experience of my colleagues mattered a lot in calibrating the approach. Then, in the first year, we did three projects in Romania, Albania and Croatia with a specific angle to take into account the views of market participants in the preparation of the conclusions.

While broadly successful, these projects did not generate demand for more work along these lines. The missing element was an "institution" that would be capable to represent the public-private constituency on an ongoing basis. I had no choice but to significantly increase the stakes to avoid failure of the experiment.

Hence we developed the idea, in Romania, to promote the establishment of an ad-hoc institution, SPI Romania (SPI stands for Special Projects Initiative), that would be responsible for the processing of a large financial sector modernization program. Through SPI Romania, we could test the idea of executing a large modernization program as it would be done in London or Brussels. The idea was successful in terms of results obtained. The Romanian stakeholders decided to become financially and operationally responsible for this program about one year from its launch.

2. Too fast. While it is good to know that Romania appreciated this public-private approach, it would be important first to have an understanding of the projects undertaken. How do they relate to traditional World Bank Group advisory activities?

Well, the SPI Romania projects are at the same time similar and quite different. But I take this as a sign of "additionality" of the public-private approach. At the surface, the projects have names that resonate with our work: rural lending, payment system, credit bureau.

But, scratching a little bit, several differences emerges. First, each project has a specific objective which is to identify a specific feasible regulatory or legal change that would enable a better market outcome (or that would address a specific market failure). In this sense, these projects are much narrower and much simpler than typical World Bank projects which usually aim at a large scale policy/regulatory change. Given the scope of World Bank projects, none of them, taken individually, would probably merit World Bank attention. Second, most of them do not involve prudential measures as they are generally understood (i.e., normative acts in the exclusive jurisdiction of a financial regulator as captured, for instance, in the international standards and codes framework).

Also, the reports are written for an executive audience and in particular for the authority in charge of considering the enactment of the proposal. They reflect an analysis conducted by a group of local experts with an evident emphasis on establishing a common ground of understanding on implementation issues. So the projects are really complementary to typical World Bank outputs that are excellent in setting the broad context and short on implementation details.

[21] A longer explanation of the Convergence Program preparatory work can be found on questions 34-39.

3. Can you elaborate on how the SPI Romania program was assembled?

The SPI Secretariat prepared the proposed 2007 Program identifying public and private "drivers" for each of the 40 or so projects proposed by authorities and market participants and mapping them according to their expected prevailing impact on financial intermediation (i.e., more business volume, cost efficiencies and better industry client reputation). Among them, the SPI Committee identified 12 projects of highest priority.

For the 2008 Program the SPI Secretariat followed more closely the European Central Bank financial modernization taxonomy. They asked stakeholders to identify proposed regulatory changes that would address market failures in each of the five market inefficiencies typologies (i.e., asymmetry of information, market incompleteness, lack of legal contract to engage in financial transactions, cost inefficiencies and lack of competition). The ECB taxonomy proved very powerful to differentiate proposed projects and to prepare the analytical approach.

4. You mentioned also using Regulatory Impact Assessment techniques?

Yes, the Convergence Program helped the SPI Romania Secretariat and the Project Working Groups assess the economic impact on financial intermediation of the proposed regulatory changes. The results (expected first-year cost efficiencies close to $ 100 million and a multiple in additional lending opportunities) helped motivate the community to work hard to prepare the reform proposals. The Convergence Program assembled a local panel of financial experts to identify and validate the economic drivers of each regulatory change and the corresponding economic impact. It disseminated the RIA techniques in a large two-day public seminar.

5. What were the tangible results achieved[22]?

SPI Romania completed twelve analytical recommendations in one year[23]. Three culminated in four laws approved by Parliament and six in self-regulatory actions. With a total budget of less than $400 thousand (including expensive one-off Convergence Program support), SPI Romania enabled reforms with a first-year economic impact in excess of $100 million. After six months of activity, SPI Albania can muster two laws approved in Parliament.

An equally meaningful intangible result is the large mobilization of local institutions and experts to execute the program. In Romania they were 33 and more than 120 respectively. In Albania, they were 33 and 60 respectively.

6. Has SPI Albania introduced new practices compared to SPI Romania?

Following interactions with EU financial regulators in several working seminars, the Convergence Program helped SPI Albania staff to adopt a formal "Better Regulation" template for its analytical work. Project analysis starts with project scoping, continues with cost and benefit assessment followed by validation of policy options through market consultations to conclude with a policy recommendation[24].

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[22] www.spi-romania.eu and www.spi-albania.eu
[23] Details: http://www.spi-romania.eu/admin/filemanager/files/spi_romania_2007_achievements.pdf
[24] The EU Better Regulation template is visualized: http://www.spi-albania.eu/en/2008-program/

7. Were any prudential projects handled as part of the SPI Romania and Albania?

The SPI Platform creates a safe space for the authorities to experiment "Better Regulation" on issues they decide to have analyzed with structured feedback from market participants. The National Bank of Romania asked SPI Romania to prepare the plan to adopt IFRS for loan loss provisions. Bank of Albania asked SPI Albania to help prepare the plan for IFRS adoption for financial statements, to update capital adequacy regulation with operational risks and to review the liquidity management regulations. In each of these instances, the SPI project used RIA-based cost-benefit considerations.

8. What are the benefits for financial authorities of a public-private partnership for financial modernization?

Financial authorities are of course large beneficiaries of this partnership. As shown in Romania, Albania and also in Croatia (for the securitization law), authorities receive a well-documented proposal, vetted by an experienced group of local experts supported by international experts when required, that greatly facilitates their subsequent enactment activities. It is like out-sourcing to an accredited institution part of the pre-enactment due diligence.

Substantially, this is how regulations are prepared in sophisticated jurisdictions[25]. After issuing a concept paper with options for regulatory intervention, authorities aggregate the structured feedback received from the consultation process to prepare a draft regulation – with most of the analytical evidence and option comparison being embedded in the consultation feedback.

The foregoing regards regulatory initiatives originated from the authorities themselves. However, the Convergence Program's SPI Platform creates also a safe space for consideration of regulatory changes proposed by market participants. In this regard, the SPI Platform allows authorities to greatly increase their regulatory intervention span into areas and issues that are below their priority radar screen and beyond their technical expertise and, through the working group structure, have very large scaling-up possibilities to achieve mass impact.

9. What have the benefits been for the banking community?

Well, with the public-private partnership the banking community leapfrogs its influence on the market efficiency agenda. First, it enjoys the benefits, usually available only in the most advanced financial jurisdictions, of having a structured consultative dialogue with authorities. Second, because of the SPI Platform governance design, it acquires an unprecedented right of initiative (subject to the authorities' non-objection) to initiate the assessment of regulatory initiatives that are important to them. Third, they receive support from a world-class analytical platform that draws on World Bank Group project management and analysis methodologies, integrated by Better Regulation techniques. Fourth, all these benefits accrue without the protracted market participant association governance overhaul that is usually necessary to transform lobbying clubs into effective and trust-worthy dialogue partners of the authorities.

[25] This is the case notably in the UK and the European Union. Bank of England, European Central Bank, Fed New York and Bank of Japan also host permanent practitioners' panels to discuss market development needs (www.fmlc.org; www.efmlg.org; www.ny.frb.org/fmlg/; www.flb.gr.jp/epage/ehome.htm).

10. And for civil society?

By design, the SPI Platform includes representatives of the consumer protection agency. They participate in the shaping of the financial sector modernization program and in running its projects. In Romania, the agency played a large role in shaping the creation of the Bank Ombudsman and in the design of retail payment features, as well as on the formulation of a consumer financial education strategy. Consumer protection agency participation in SPI projects helps strengthen the retail perspective in financial reform (e.g. financial literacy) and encourages banks to adopt more client-friendly policies.

In Albania, we have reached out to the academic community (with a Memorandum of Understanding with a large University). We want to create opportunities for members of the academic community to participate part-time in project analytical activities and also for students to gain practical experience running surveys.

11. How do you know you have achieved your Program objective?

The Convergence Program objective is reached when the local community is confident and capable to continue under its own responsibility the operations launched by the Convergence Program. Romania reached this stage in early 2008. Albania will reach it in late 2009.

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