



Public-Private Partnership For Financial Modernization

The Convergence Program Experience in South-East Europe

“Le Relazioni Istituzionali delle Imprese in Europa”

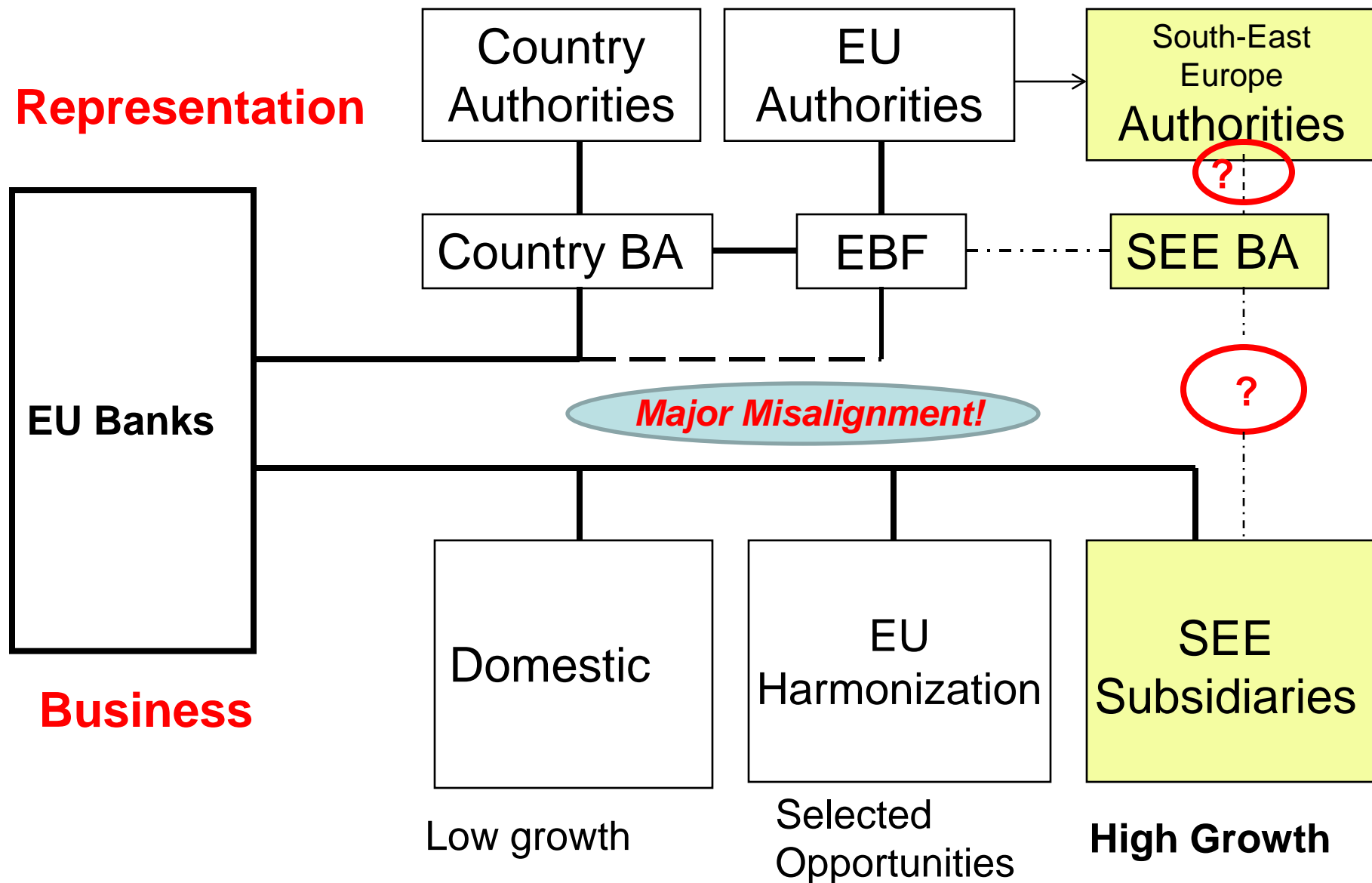
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Rome 20 November 2009

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Head, Convergence Program, World Bank

Dialogue Gap In Key Growth Market



Dialogue Gap: Analysis

- Fragmented communication channels for banks with host authorities in South-East Europe
 1. Banking association dialogue with authorities weak
 - Sub-optimal analytical capabilities to represent member needs
 - Banking association governance influenced by interface between local and international interests (from multiple countries)
 2. Difficulty to manage Network regulatory operations
 - Regulatory affairs has strong HQ orientation
 - International operations require Network “multi-HQ” focus
 - » Local banks have limited familiarity with regulatory advocacy opportunities
 - Yet, Network regulatory affairs could be powerful Network management tool

Dialogue Gap: Costs

- Dialogue gap creates large opportunity losses
 - SEE Region offers significant financial modernization opportunities
 - New laws and regulations for local business development
 - » create new markets/products,
 - » clarify contracts,
 - » improve information,
 - » cut back red tape
 - Clearer rules to allow level-playing field for group operations
 - Significant Network economic impact
 - 5-country 15%-market share: €[225]million/year (5-year NPV)
 - Using ABI's Impact Assessment techniques

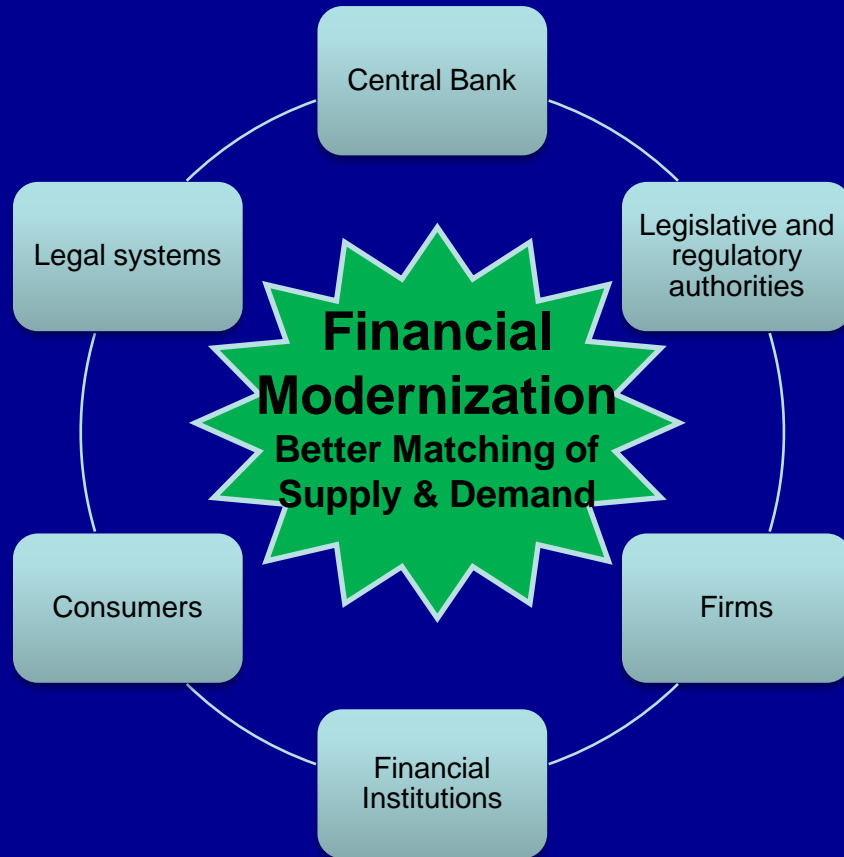
The Counterfactual: Home Market

- In home markets, banks have well-established communication channels with authorities
 - Through Banking Associations
 - Elaborate governance rules ensure banking associations consider member needs accurately
 - Advanced analytical capacity allow banking associations to present member needs credibly to authorities
 - Established dialogue between authorities and banking associations facilitate identification of win-win solutions
 - With direct contacts
 - Facilitated by geographical proximity and multiple interaction opportunities, also informal
- These channels create large efficiency gains for banks
 - €[XY]million/% of market share/year (Large EU market - 10-year NPV)

The Authorities Challenge

Financial Stability
Governance, Risk Management, Capital and Liquidity

Financial
Market
Authorities



Central
Bank

The Convergence Program

www.convergence-see.eu

Launched in 2005 by the World Bank with support from Italy's Ministry of Economy and Finance, the **Convergence Program** promotes **financial sector modernization** in South-East Europe through public-private sector cooperation.

Under a "BOT" concept (Build-Operate-Transfer), the Convergence Program helps authorities and market participants set up and operate a partnership (**SPI Platform**), whose governance, organization and "Better Regulation" analytical methods enable the pursuit of a broad-based modernization program largely executed by local public-private teams.

It is intended that local stakeholders take operational and financial responsibility for the **SPI Platform** after a two-year Convergence Program involvement.

The Convergence Program has been active in Albania, Bulgaria, Croatia and Romania. It has ongoing discussions in Moldova and Serbia. Its mandate, renewed in December 2007, ends in early 2010.

Governance: The SPI Platform

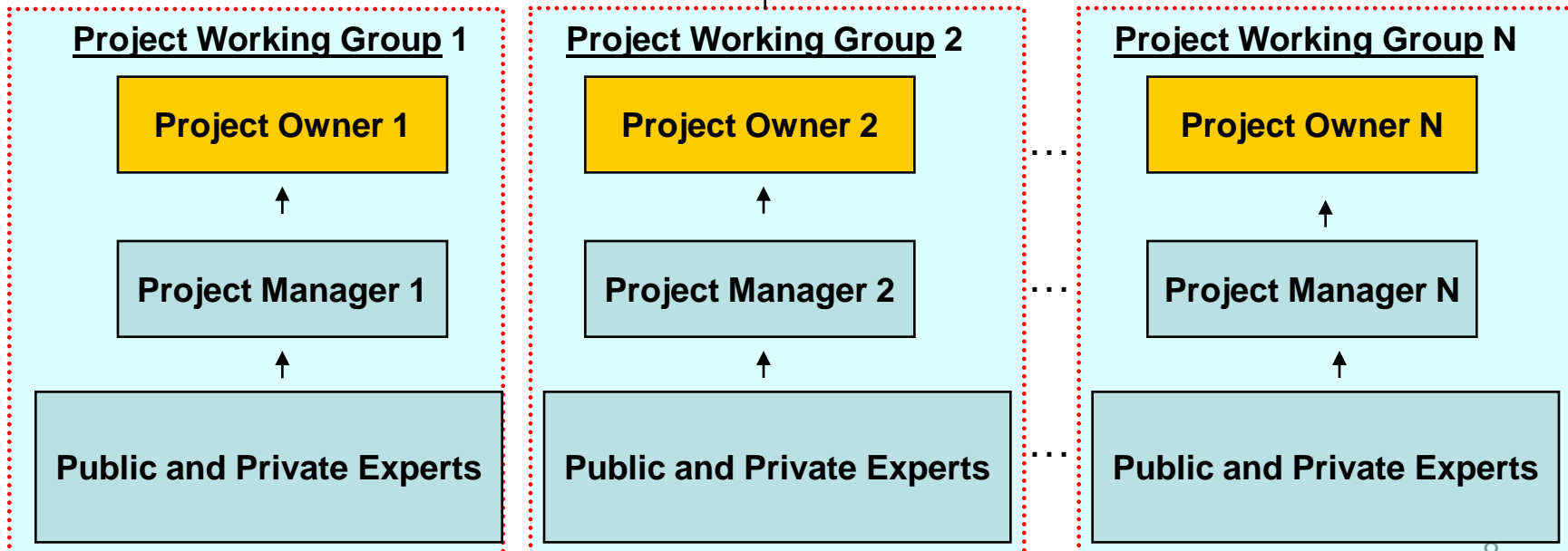
1) PROGRAM SETTING, SOLUTION ENDORSEMENT AND ENACTMENT MONITORING



2) PROJECT MANAGEMENT AND CONSENSUS-BUILDING



3) SOLUTION FINDING (Through RIA-based public-private consultations)



SPI Albania Organizational Chart

SPI Committee

PROGRAM SETTING, SOLUTION ENDORSEMENT AND ENACTMENT SUPPORT

Mr. Fatos Ibrahim, First Deputy Governor, Bank of Albania
 Mr. Nezir Haldedaj, General Treasury Director, Ministry of Finance
 Ms. Anila Jani, Market Surveillance Director, Ministry of Economy, Trade and Energy

Mr. Libero Catalano, Chairman, Association of Albanian Banks
 Mr. Keler Gjika, Deputy Chairman, Financial Supervisory Authority
 Mr. Luigi Passamonti, Head of Convergence Program, The World Bank

Mr. Pierfrancesco Gaggi, Italian Banking Association

Prof. Dr. Adrian Civici, Rector, European University of Tirana

SPI Secretariat

TECHNICAL CONSENSUS-BUILDING

Mrs. Ramona Bratu, Head, SPI Regional Operations Director

Mrs. Anuela Ristani, Director of Operations

Mrs. Endrita Xhaferaj, Director Financial

Mrs. Evis Gjebrea, Consultant

Modernization Program and Analytics

SPI Project Working Groups

REGULATORY IMPACT ASSESSMENT-BASED SOLUTION FINDING

Improving Auction Procedures for Immovable Collateral under Foreclosure

Project Owner
Seyhan Pencapligil, BKT

Project Manager
Veronika Prifti, BKT

Co- Project Manager
Rudina Goristi, BoA

Andin Jakova; Arta Taipi; Alban Mehmeti; Erion Lena; Andon Daka; Ermal Dobi; Rudina Ziu; Dorina Mehmeti, IF; Petrit Qarri, MoJ; Mirela Behluli, Appraisers' Association; Kimmo Vikman, Euralius

The Impact of the Banking Regulations on the IFRS Implementation

Project Owner
Indrit Banka, BoA

Project Manager
Miranda Ramaj, BoA

Co- Project Manager
Armand Muharremi, PB

Merita Musliu, Eralda Gurga; Andin Jakova, Zinaida Cako; Florian Dervishi; Albana Halvaxhiu; Ilda Markollari; Elvira Tartari, Adela Leka; Rezarta Kocollari; Julia Manushi; Skender Emini; Adela Xhemali, Silvana Osmani, Ilir Pustina, BoA; Arben Zace, MoF; Kledi Kodra, PWC; Romira Hoxha, KPMG; Nuriona Sokoli, Deloitte; Lyela Rama, AMF; Lirola Kerri, NAC; Teit Gjini, Ernst & Young

Reducing Cash Transactions

Project Owner
Oliver Whittle, RZB

Project Manager
Robert Wright, RZB

Co- Project Manager
Elivir Golemi, BoA

Jonida Vaso; Elma Qendra; Mirela Pekmezi; Griselda Cela; Liliana Nanaj; Suela Totokoci; Amalia Zerri; Kamelia Paskalli; Anila Celiku, Vodafone; Arben Zace, Ministry of Finance

Reviewing the Capital Adequacy Regulation

Project Owner
Indrit Banka, BoA

Project Manager
Miranda Ramaj, BoA

Co- Project Manager
Adela Xhemali, ISBP

Admir Ramadani; Adela Leka ; Brunilda Jacovi; Entela Gjyzari; Alma Dhamo; Altin Koci; Plator Ulqinaku; Majlinda Gjato; Elsa Peca, Persefoni Pepa; Merita Musliu; Dimitrios Kakaunis, Artiola Agalliu; Sokol Pellumbi; Rajmond Povaci, Aleko Polo; Emirra Curri, BoA

Consumer Financial Education

Project Owner
Anila Jani, METE

Project Managers
Ina Kraja, BoA
Mamica Dhano, METE

Co- Project Managers
Lyela Rama, AMF
Brunilda Kostare, AAB

Islam Cani, ACA; Ardita Dragusha; Jaan Canaj; Sonila Metohu, MinFin; Pajtim Melani, CAO; Monika Kocaqi (Women's Association)

Enhancing Banks' Liquidity Risk Management

Project Owner
Indrit Banka, BoA

Project Manager
Miranda Ramaj, BoA

Co- Project Manager
Enkelejda Bargjo, Tirana Bank

Donata Totokoci, Persefoni Pepa; Artiola Agalliu; Altin Shalla; Christian Canacaris, Rigel Kristo; Altin Koci; Jola Dima; Eralda Gurga, Gresa Panajoti; Miranda Kacani; Elvira Jaze, Admir Ramadani; Erjon Tace; Niko Kotanika



ROMANIA

CONVERGENCE FINANCIAL SECTOR MODERNIZATION

Public-Private Special Projects Initiative



Romania's 2007 Modernization Program

Italian Banking Association	FINANCIAL SECTOR MODERNIZATION CRITERIA	European Central Bank				
		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. Prudential IFRS 2. Debit Instruments E-Settlement 3. AML Law 4. Law on Safety	
	Industry reputation			1. Ombudsman 2. Consumer education		
	Total	2	3	3	5	1

BOLD BLUE: NBR Proposals; **BOLD RED:** RBA Proposals; Black: Other Proposals

SPI Albania 2008 Potential Projects

ALBANIA

ADRIATIC



Italian Banking Association

European Central Bank

FINANCIAL SECTOR MODERNIZATION CRITERIA	European Central Bank				
	Asymmetric information	Completeness of the market	Increased opportunities to engage in financial transactions	Reduced transaction costs	Increased competition
Business development	1. Corporate /consumer lending	3. Stock exchange 4. Leasing transactions 5. Securitization 6. AAB Strengthening 27. Consumer credit	7. Agricultural lending 8. Lending to tourism 9. Lending to municipalities 10. Mortgage loans 11. Structural lending 12. Lending environment 13. Lending to PPPs 29. FX open positions	14. Strengthening bank staff 20. Auction procedures for buildings 2. Scoring card system for individuals	
Industry competitiveness	IFRS 15. Credit risk in consumer lending 16. Better credit risk management 17. KYC policies	30. Revising capital adequacy ratio 28. Corporate governance and requirements for their administrators	18. Expansion of banks activities	19. Reducing cash transactions 21. AML reporting 22. Write-off of bad debts 23. Account stopping 31. Reviewing guidelines on banks' liquidation 32. BoA reporting 33. Harmonizing accounting policies	
Industry reputation	34. Improving access to basic banking products	24. Financial ombudsman			25. "Effective" interest rate (EIR) 26. Consumer financial education 35. Enhancing financial consumer's protection
Total	6	8	9	10	3 11

BOLD BLUE: BOA Proposals; **BOLD RED**: AAB Proposals; Black: Other Proposals

Work Method: EU “Better Regulation”

Policy Design 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

SPI Romania Has Mobilized > 120 Experts

- **National Bank of Romania**
- **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**
- **Romanian Banking Association**
- **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**
- **Algitmics**
- **Bearing Point**
- **Financial Ombudsman Service, UK**
- **Goodwood Financial Consulting**

SPI Albania Project Working Group Members

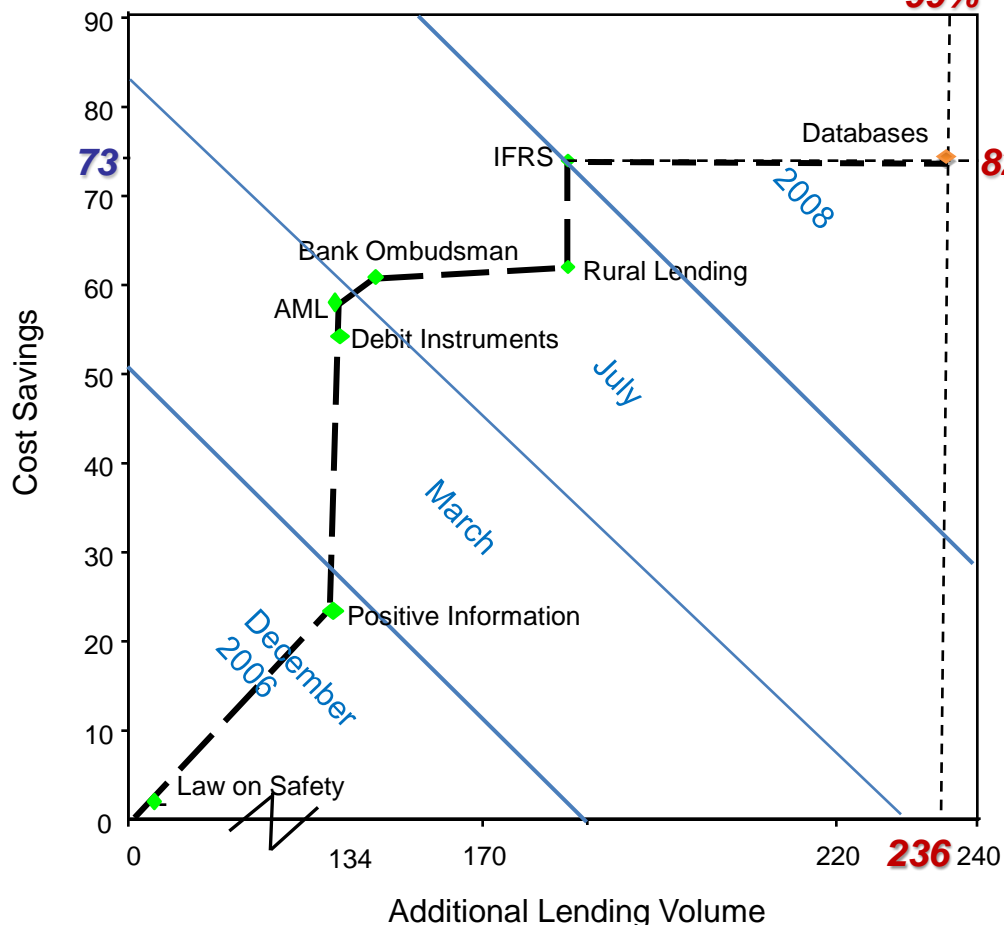
N	PROJECT	Project Management Group			Project Working Group
		Project Owner	Project Mgr	Deputy PM	
1.	Improving auction procedures for immovable collaterals under foreclosure	Seyhan Pencapligil BKT (G3)	Veronika Prifti BKT (G3)	Rudina Gorishti BoA	Andin Jakova - ICB (G1); Arta Taipi – UBA (G1); Alban Mehmeti-EB (G1); Erion Lena - AB (G2); Andon Daka - CB (G2); Ermal Dobi -TB (G3); Rudina Ziu - RB (G3); Dorina Mehmeti – IFC;Petrit Qarri – MoJ; Mirela Behluli - Appraisers' Association; Kimmo Vikman - EURALIUS
2.	The impact of the banking regulations on the IFRS implementation.	Indrit Banka BoA	Miranda Ramaj BoA	Armand Muharremi PB (G2)	Merita Musliu, Eralda Gurga -EB (G1); Zinaida Cako - ICB (G1); Florian Dervishi – FIB (G1); Albana Hallvaxhiu - PB (G2); Ilda Markollari - AB (G2); Elvira Tartari, Adela Leka – PCB (G2);Rezarta Kocollari – NBG (G2); Julia Manushi - RB (G3); Skender Emini - BKT (G3); Adela Xhemali, Silvana Osmani - ISPB (G3);Ilir Pustina – BoA; Arben Zace – MoF; Kledi Kodra – PWC;Romira Hoxha – KPMG; Nuriona Sokoli – Deloitte; Lyela Rama – AMF; Lirola Keri – NAC; Teit Gjini – Ernst &Young
3.	Reducing cash transactions	Oliver Whittle RB (G3)	Robert Wright RB (G3)	Elivar Golemi BoA	Jonida Vaso – UB (G1); Elird Qendro, Mirela Pekmezi – BIS (G1);Griselda Cela – CB (G2); Liliana Nanaj, Suela Totokoci – ISPB (G3) ;Amalia Zerri, Kamelia Paskali – AMC ; Anila Celiku – Vodafone;Arben Zace – Ministry of Finance
4.	Reviewing the Capital Adequacy Regulation	Indrit Banka BoA	Miranda Ramaj BoA	Adela Xhemali ISPB (G3)	Admir Ramadani - FIB (G1); Adela Leka - Pro Credit (G2); Brunilda Jacovi - NBG (G2); Entela Gjyzari - Banka Popullore (G2); Jola Dima - ISPB (G3); Altin Koci – ICB (G1); Plator Ulqinaku – UB (G1); Majlinda Gjata – RB (G3); Elsa Peca, Persefoni Pepa – PCB (G2) Merita Musliu – EB (G1); Dimitrios Kakaunis, Artiola Agalliu – AB (G2); Sokol Pellumbi – BKT (G3); Rajmond Povaci, Aleko Polo – TB (G3); Ermira Curri (BoA)
5.	Consumer Financial Education	Anila Jani METE	Ina Kraja (BoA) Mamica Dhamo (METE)	Lyela Rama (AMF) Brunilda Kostare (AAB)	Islam Cani (ACA); Altin Goxhaj (ZMK); Daniela Skendaj (QMKA); BKT; PCB; BT; Gentiana Hasko (PB); Sonila Metohu (Min Fin); Pajtim Melani (CAO); Monika Kocaqi (Women's Association)



2007 SPI Romania Activity

Financial Impact of Finalized SPI Projects (€Mn) – First Full Year

Volume Impact (% of 2007 target) ➔ 99%



Cost Savings Impact (% of 2007 target)

Total number of projects: 14
(updated October 2008)



Self regulatory actions completed

1. Expansion of positive information sharing
2. Ombudsman
3. Mortgage loan servicing and loss given default databases
4. Consumer financial education
5. MiFID
6. Credit exposures stress testing techniques



Regulatory changes completed

7. E-processing of debit instruments
8. AML Law Amendments
9. Rural Lending



Regulatory changes underway

10. Law on goods safeguard, values and persons protection
11. IFRS loan loss provisioning



Proposals to be completed in 2008

12. Law on bank letters of guarantee
13. Roland Berger study



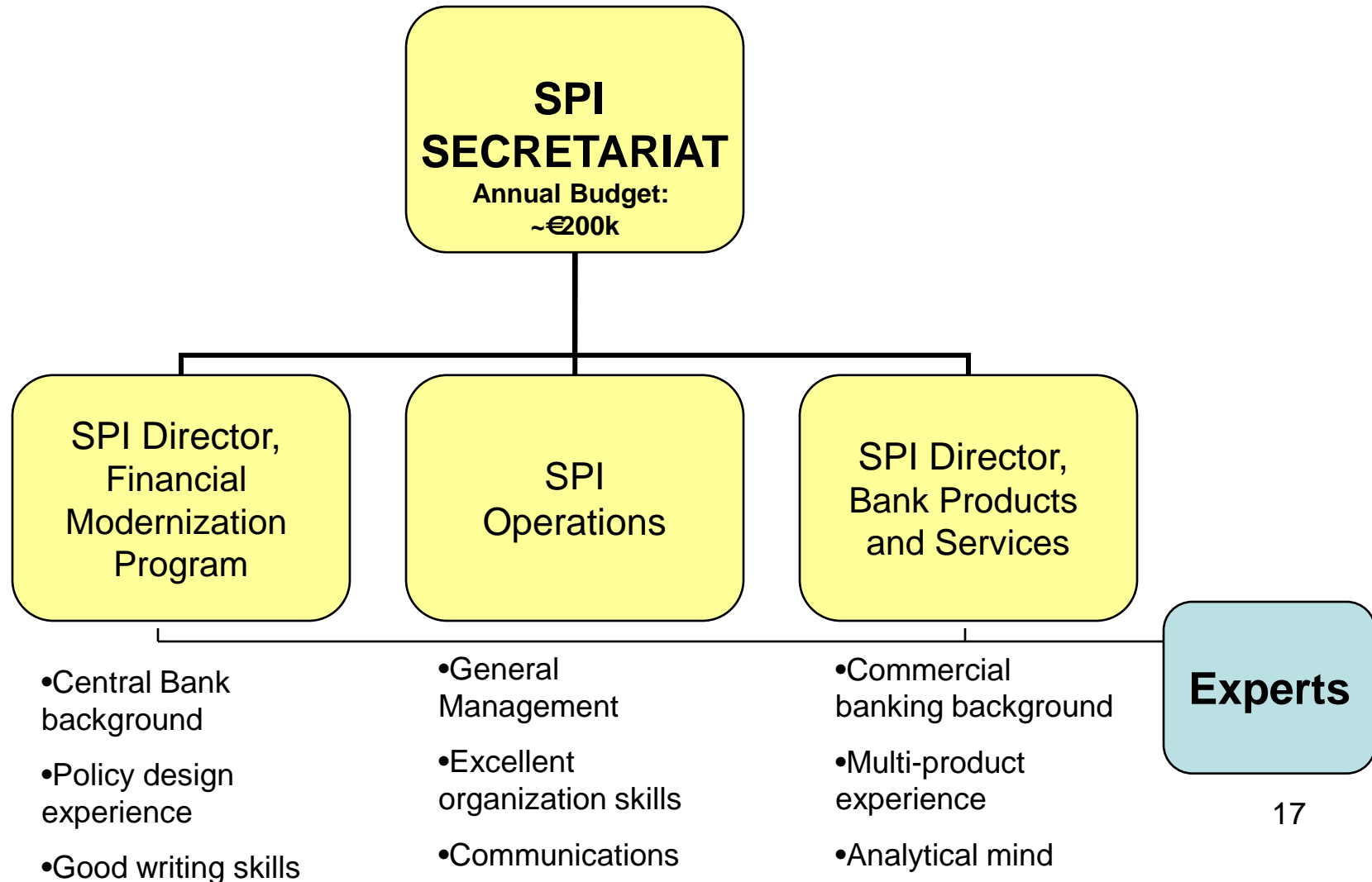
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14. Credit rating agencies

Key SPI Platform Roles

- The vehicle: Project Working Groups
 - To discuss and agree on modernization options
 - Focus: practical legal/regulatory change proposals
- Two complementary engines:
 - SPI Committee
 - To define mandate and directions
 - To provide political impetus towards enactment
 - SPI Secretariat
 - To scope and analyze modernization options
 - Large-scale mobilization of available professional expertise

Main Engine: SPI Secretariat



Summary: SPI Platform Benefits

- Public-private governance with “Better Regulation” tools significantly extend country’s reform capacity
 - SPI Committee becomes country’s reform “champion”
 - Inter-agency coordination with intermediaries and users
 - Market participants feedback on efficiency opportunities
 - Screened by rigorous policy analysis and consultation techniques
 - A “Better Regulation” Technical Secretariat
 - Valuable project management expertise
 - Focus: Extract value from domestic public-private expertise
 - Best use of available expertise in the country
 - Reform teams strengthened with industry expertise
 - Authorities participate in fact-finding and analytical process
- Efficient processing of large modernization program
 - 10-15 key projects/year (€20k/project)
 - Operating costs: 0.5% of annual gains for banking sector
 - SPI Platform domestic sustainability is possible

Gains Are Large but Execution is Tricky

Lessons learnt from Albania, Croatia, Romania,....

- Twin Leadership
 - SPI Committee “leader”
 - Programmatic, collaborative and persistent
 - SPI Secretariat Head
 - Public-private perspective, self-starter, networker, consensus-builder, passionate but pragmatic
- Adequate Time Horizon
 - Strong early results focus needed, but institutional success cannot be called too early
- Constant Outreach
 - Financial community must appreciate results!

Can the Business Community Promote SPI Platforms and How?

Premises

- Market consultations are becoming accepted “rules of the game” for effective regulation
- In emerging markets, authorities face important constraints (a) size of technical staff and (b) detailed understanding of business operations
- Thus, moving beyond market consultations to participatory-analysis-with-consensus-building focus offers large win-win opportunities

Can the Business Community Promote SPI Platforms and How?

Main Principles

- Structured public-sector compatible approach
 - Multi-year programmatic approach
 - Robust and transparent governance
 - Public-private consensus with “golden share” on key issues for authorities
 - Emphasis on evidence-based analysis with strong international benchmarks
 - Public outreach to win and protect legitimacy
- Ex: European Banking Federation will become SPI Platform promoter in Eastern Europe!

Can the Business Community Promote SPI Platforms and How?

Main Steps

1. Confirm internal commitment to “strategic”, responsible and win-win advocacy activities
2. Package a *Public-Private Dialogue Compact*
3. Engage with main counterpart authorities
4. Commit to quick high-quality implementation
5. Keep strengthening “SPI Platform” as conduit to design win-win regulatory solutions
 - Bilateral advocacy channels left for other issues