



# Public-Private Financial Sector Modernization

The World Bank's Convergence Program SPI Platform

Central Bank of San Marino

Financial Community Seminar

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# San Marino Context

- “Country business model” discussions
  - Updating financial sector’s competitive advantage
    1. *“Which financial needs can the San Marino financial center best serve going forward?”*
    2. *“What could be done to help match San Marino’s financial services offering with the demand?”*
  - Strategic framework and strong execution platform are key to success
    - “Inexorability” of eventual impact mobilizes broad energies over the medium-term

# Evolving Financial Systems

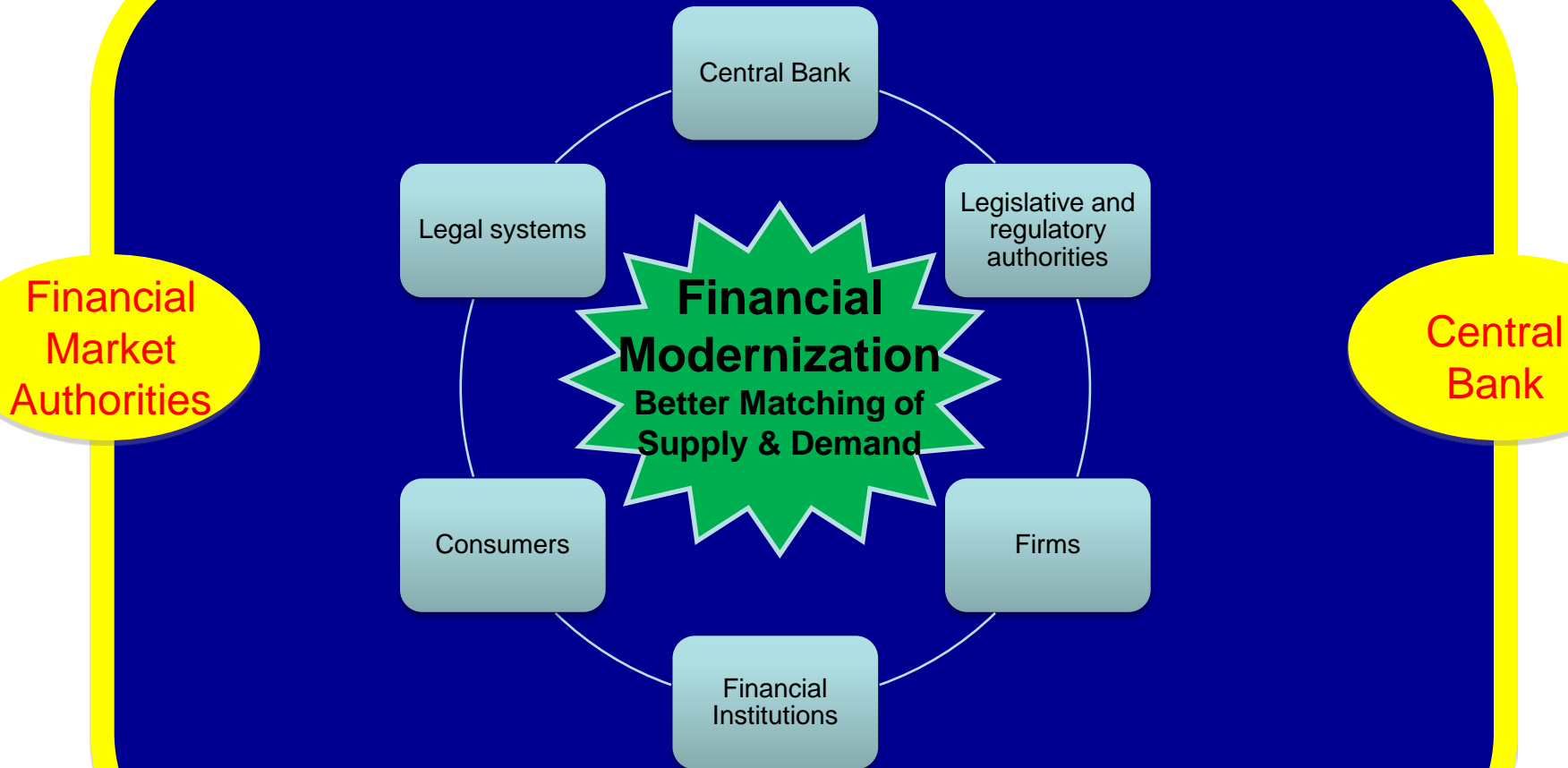
## The EU Single Financial Market Example

*“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.”*

-Gertrude Tumpel-Gugerell, European Central Bank Executive Board Member

# The Financial Modernization Challenge

**Financial Stability**  
Governance, Risk Management, Capital and Liquidity



# The Financial Modernization Challenge

## Illustrative Comparative Dimensions

### **Financial Stability**

- Authority vested in a small number of institutions
- “Risk prevention” focus
- Regulation and supervision mutually reinforcing
- Core sovereignty responsibility
- Codified best practice (intern.al standards & codes)
- “Super-equivalency” approach
- Public consultations improve regulatory quality

### **Financial Modernization**

- Authority dispersed across many institutions
- “Enabling” focus
- Limited implementation monitoring feedback from real economy
- Users’ advocacy needed
- Slowly emerging conceptual framework
- Close institutional coordination
- Participatory work needed to capture efficiency gains

# Financial Modernization: Public-Private Interaction

- “Responsibility for promoting financial integration chiefly lies with financial institutions themselves which should exploit the framework promoted by public authorities. This is also dependent on the ability of the financial industry to coordinate its members effectively. We see the fostering of collective action on the part of the private sector to overcome possible coordination problems as a very important contribution by public authorities”. **Jean-Claude Trichet, ECB President**

- “We cannot be blind to the fact that the necessary co-operation among private market participants does not materialize, unless public authorities play an important role in promoting it”.

**Tommaso Padoa-Schioppa, Former ECB Executive Board Member**

# The Convergence Program

[www.convergence-see.eu](http://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

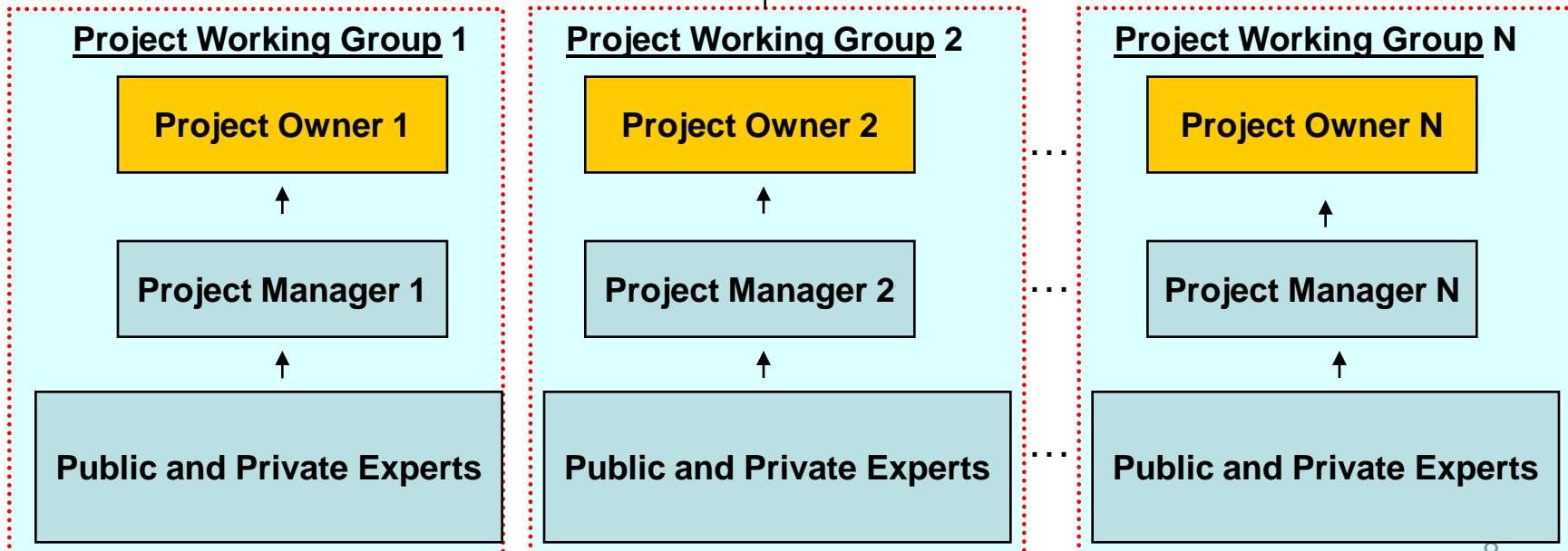
## 1) PROGRAM SETTING, SOLUTION ENDORSEMENT AND ENACTMENT MONITORING



## 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, IFC; 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 Hallvaxhiu; 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

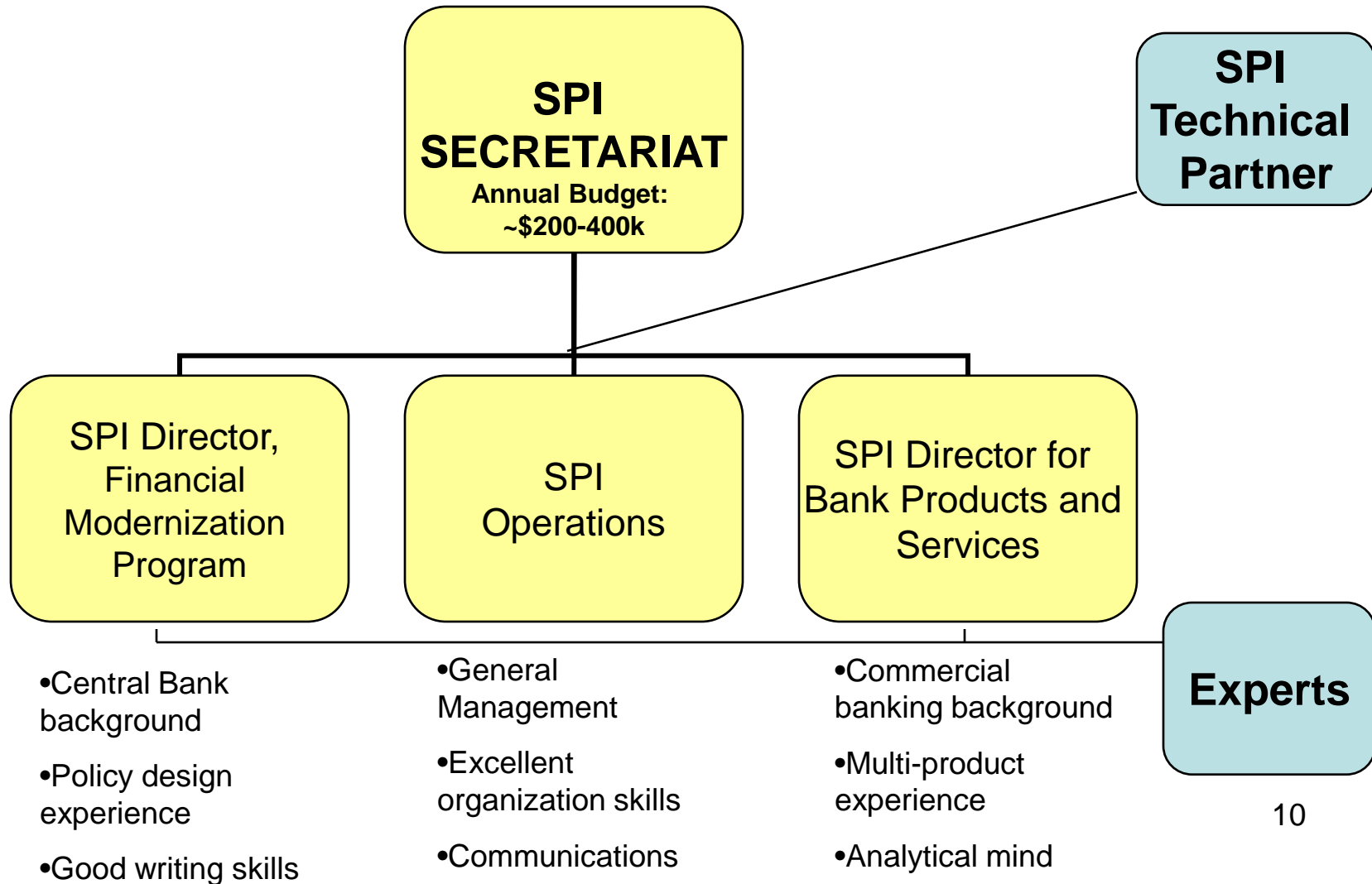
**Project Owner**  
Indrit Banka, BoA

**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*

# SPI Secretariat Set-Up



# Financial Modernization Opportunities

	<b>SOURCES OF MARKET EFFICIENCY GAINS</b>				
<b>ILLUSTRATIVE MARKET SEGMENTS</b>	<b>Decrease in asymmetric information</b>	<b>Completeness of the market</b>	<b>Increased opportunities to engage in financial transactions</b>	<b>Reduced transaction costs</b>	<b>Increased competition</b>
<b>Corporate Lending</b>					
<b>Retail Lending</b>					
<b>Savings Products</b>					
<b>Payment Services</b>					

Large Number of  
Regulatory Change  
Opportunities



ROMANIA

CONVERGENCE FINANCIAL SECTOR MODERNIZATION

Public-Private Special Projects Initiative



# Romania's 2007 Modernization Program

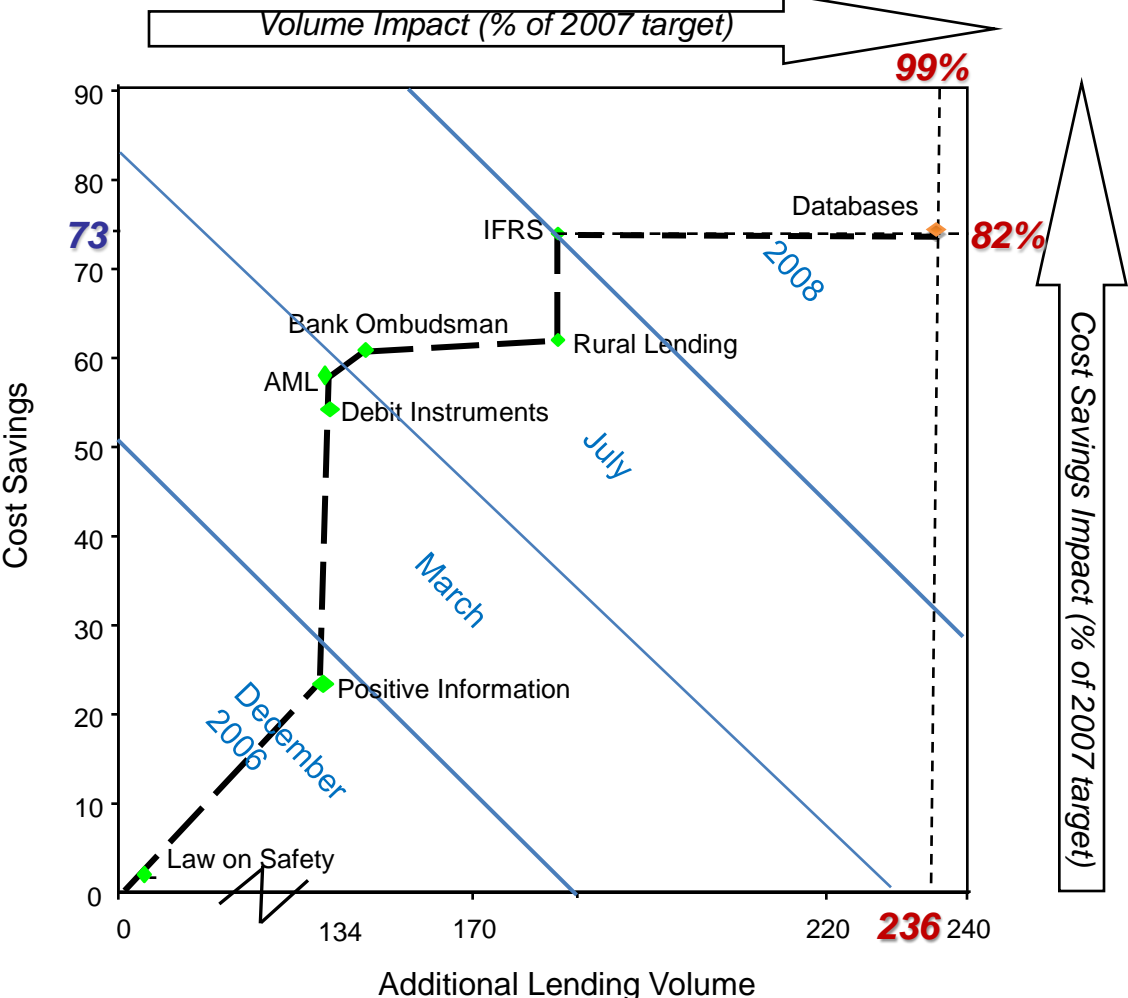
Italian Banking Association	FINANCIAL SECTOR MODERNIZATION CRITERIA	European Central Bank				
		Asymmetric information	Completeness of the market	Increased opportunities to engage in financial transactions	Reduced transaction costs	Increased competition
	Business development	Positive credit information 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		
	<b>Total</b>	2	3	3	5	1

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



# 2007 SPI Romania Activity

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



**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



**Abandoned**

14. Credit rating agencies

# Work Method: EU “Better Regulation”

Policy Design 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

# 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	<b>Seyhan Pencapligil</b> BKT (G3)	<b>Veronika Prifti</b> BKT (G3)	<b>Rudina Gorishti</b> 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.	<b>Indrit Banka</b> BoA	<b>Miranda Ramaj</b> BoA	<b>Armand Muharremi</b> 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	<b>Oliver Whittle</b> RB (G3)	<b>Robert Wright</b> RB (G3)	<b>Elivar Golemi</b> 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	<b>Indrit Banka</b> BoA	<b>Miranda Ramaj</b> BoA	<b>Adela Xhemali</b> 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	<b>Anila Jani</b> METE	<b>Ina Kraja</b> (BoA) <b>Mamica Dhamo</b> (METE)	<b>Lyela Rama</b> (AMF) <b>Brunilda Kostare</b> (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)



# 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

# SPI San Marino

- 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

# Four Main Launch Phases

1. Consensus-building among potential “SPI Committee” members
  - Mandate and scope of initiative
2. Setting up of 2-person SPI Secretariat
  - Target: Proposed Financial Modernization Program for SPI Committee approval (3 months from start)
3. Project Working Group Formation
  - Target: First batch of 4-6 reform proposals for SPI Committee approval (6 months from start)
4. SPI Committee enactment support
  - Target: First enactments (12 months from start)