

A Concept For
An EBRD-World Bank Joint-Venture
With EU and Italy's Support

WB-IMF Annual Meetings
Dubai, September 2003

Convergence

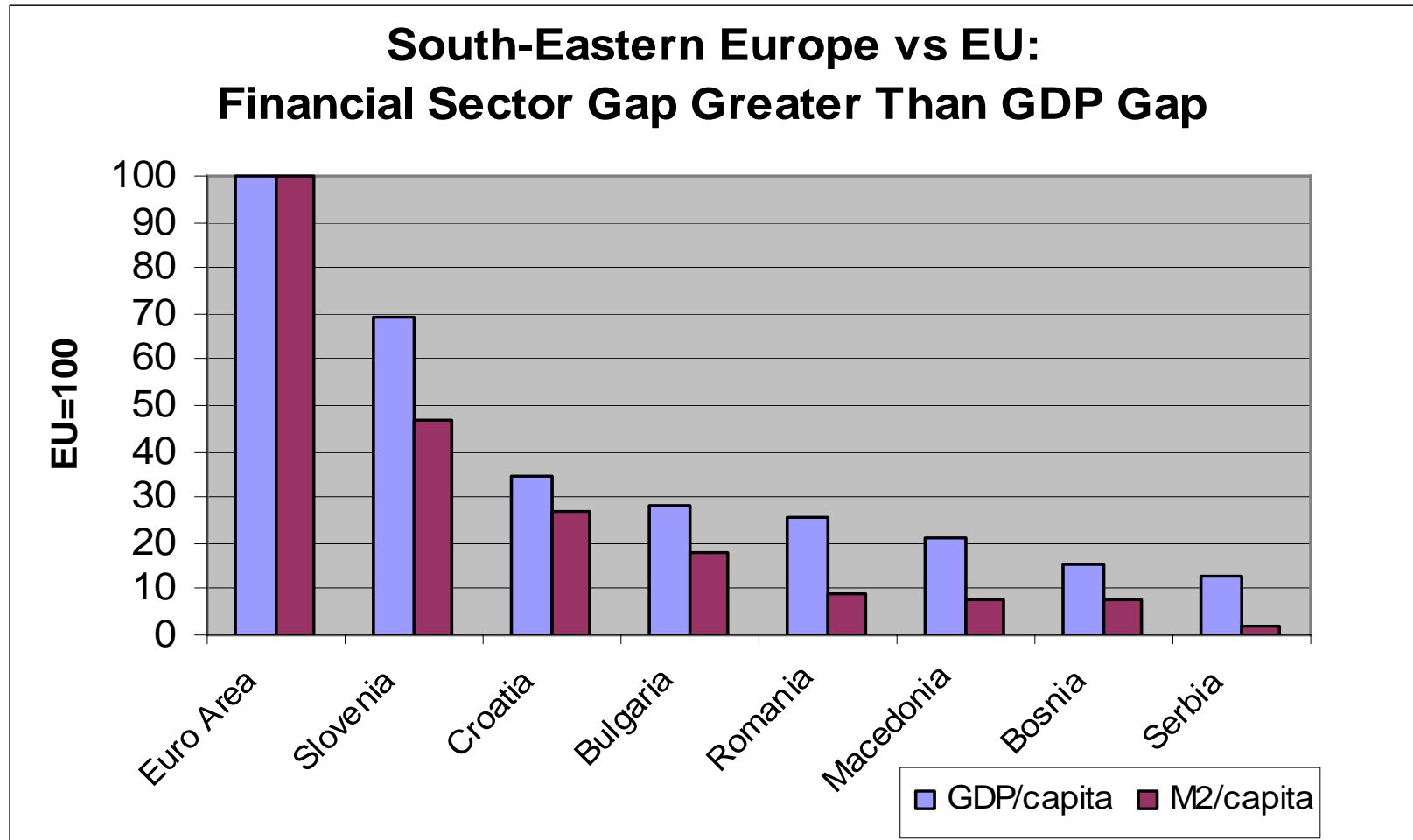
Supporting Financial Sector Reform

South-Eastern Europe

Bulgaria, Romania

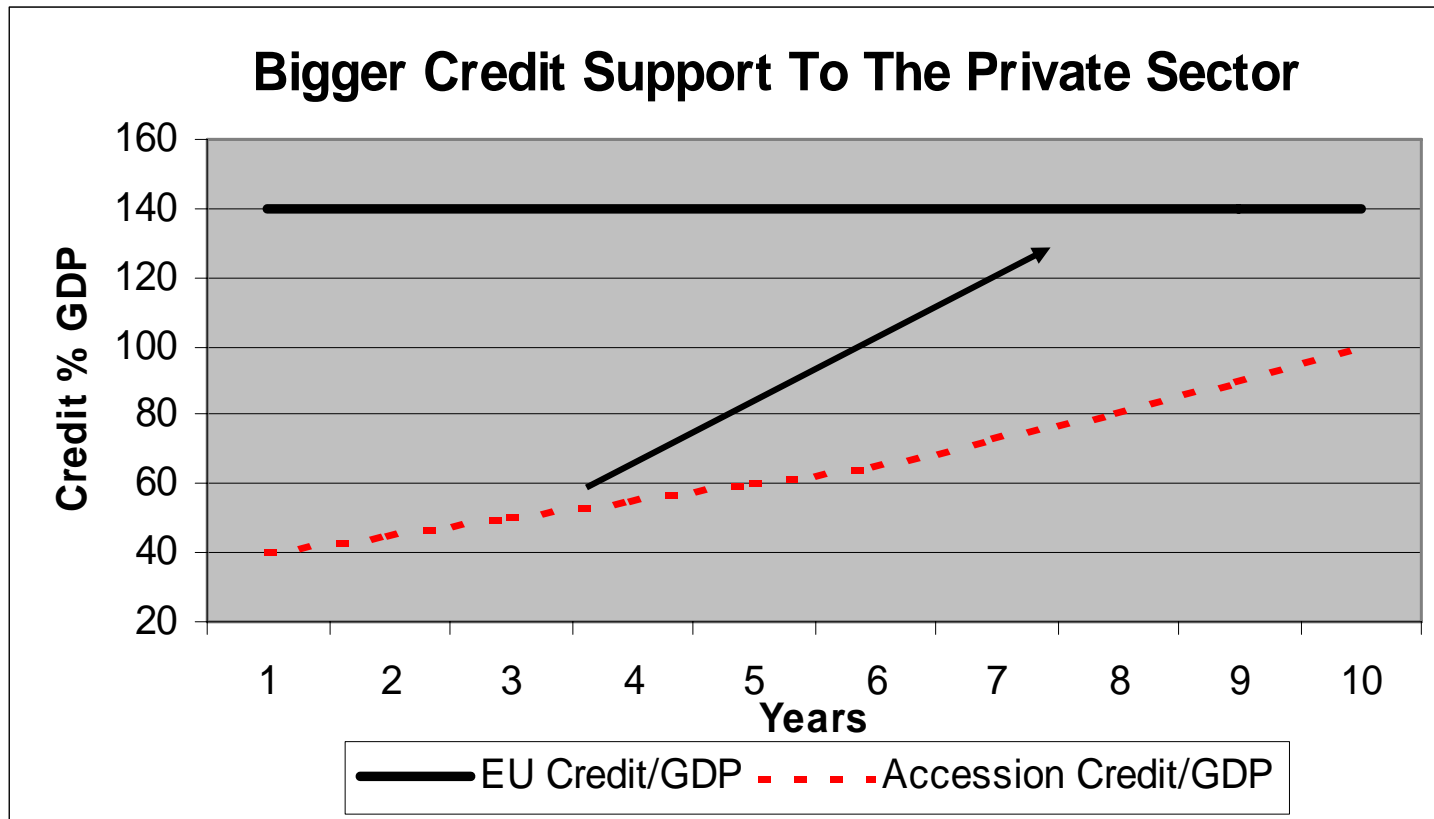
Albania, Bosnia-H, Croatia, Macedonia, Serbia and Montenegro

The Context



Financial sector is key contributor to economic growth

The Vision



“The traditional role of the financial sector in underpinning investment and realizing growth potential through its intermediation and governance functions is still very limited in most EU accession countries”.

Eugenio Domingo Solans, ECB Executive Board Member

The Obstacles

- World Bank/IMF FSAPs and EBRD discussions with market participants highlight several “teething” problems:
 - Collateral registration and foreclosure procedures
 - Credit bureaux
 - “Business-unfriendly” bank supervision regulations
 - Deposit insurance arrangements
 - VAT issues
 - Ineffective securities market regulations
 - Interface between bank and securities market regulations
 - Harmonization of EU accession requirements in local legislation

Result: Finance Does Not Flow Efficiently – Especially to SMEs

What To Do? A Useful Benchmark: EU Single Financial Market Development



Vision

“The EU has no divine right to the benefits of an integrated financial market. It has to capture those benefits. The primary beneficiaries will be European SMEs. All actors, governments, regulators, market participants and consumers will need to adapt their positions in order to move forward”.

– *Alexandre Lamfalussy*

Method

“Consult, beforehand, in an open, transparent and systematic way with market participants and end-users (issuers and consumers). Where necessary, open hearings should be held. A summary of the consultation process undertaken should be made available when the final proposal is made”.

– *The Lamfalussy Wise Men Report*

Instrument

“The EU Commission establishes an independent advisory group, CESR, for the preparation of draft implementing measures. Before transmitting its opinion to the Commission, CESR shall consult extensively and at an early stage with market participants, consumers and end-users in an open and transparent matter.”

– *EU Commission Decision on Lamfalussy Process*

Public-Private Cooperation

The Conceptual Framework

- “It is crucial to be aware that market-led progress does require co-operation among economic (public and private) agents. The driver of co-operation should be, as much as possible, moved by the private sector, i.e. by an enlightened perception of the private interest. But 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, Executive Board Member, European Central Bank

- “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 – in the interest of market transparency or of prudential or behavioral conduct – 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 which could either frustrate the purpose of the intervention or unnecessarily obstruct market innovation. 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, Governor, Bank of England

EBRD and World Bank Can Help Authorities Engage With Market Participants

International
Institutions

To help national authorities
organize private sector dialogue

Creating appropriate space and comfort
through a dedicated structure

→ “*Convergence*”

To provide strategic perspectives

To support dialogue with knowledge
sharing and training resources

Helping consensus-building among market
participants and with authorities

To act as an honest broker between
the parties when necessary

Providing independent technical opinions

Private Sector

To engage with authorities
constructively

With a public good focus

To identify issues of concern

Biggest market growth impact

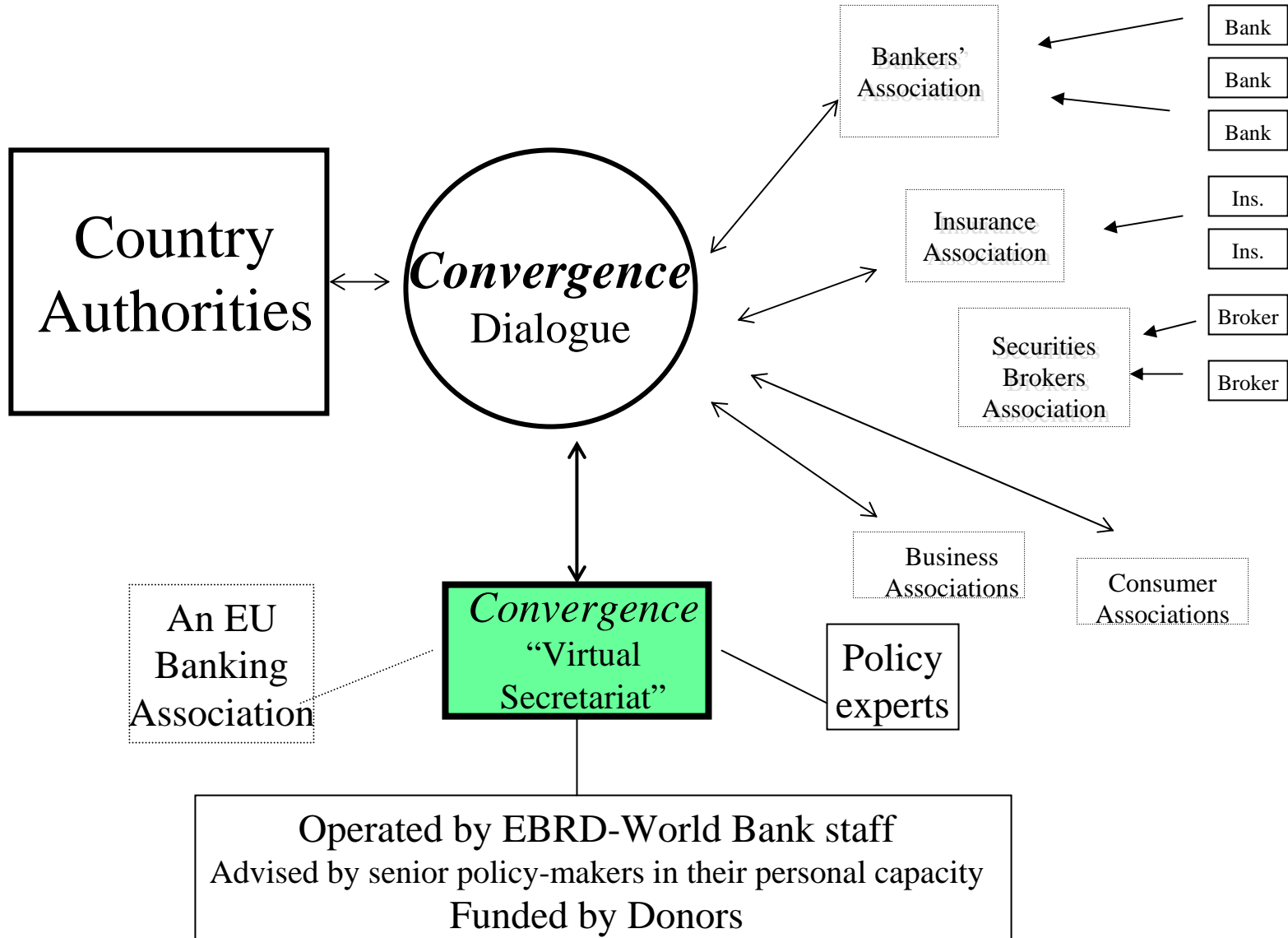
Likely to lead to early
government action

Building consensus among
members

To organize working groups

Strategic result orientation

Convergence



What Will *Convergence* Do?

A Country-by-Country Approach

1st Step

It will help identify residual reform needs

- through a public-private brainstorming on financial sector development issues

➤ Authorities will establish a priority list

2nd Step

It will prepare background studies on reform options

➤ In full and open consultations with authorities, market participants and users' associations

3rd Step

It will deliver final recommendation to authorities

➤ Goal: To prepare reform measures at sustained pace and ready for smooth implementation

By using experts and organizing workshops

What Will *Convergence* Do?

A Practical Country Example

1. MoF/Central Bank convenes 1-day off-site financial sector development seminar with market participants and user's associations
 - *Convergence* makes an introductory presentation (e.g., based on FSAP or equivalent)
 - EU Commission invited to give a perspective
 - Authorities provide their vision/plan of future reforms
 - Market participants and users give their points of view of reforms needed
 - Open discussion and agreement on 2-3 topics where public action can yield quick results (facilitating financial intermediation)
 - MoF/Central Bank invites *Convergence* to prepare a recommendation for public action
 - Like ECOFIN mandate to Lamfalussy Wise Men Commission
 - Like EU Commission seeking CESR advice on new securities market regulations

What Will *Convergence* Do?

A Practical Country Example (2)

2. *Convergence* launches study of the issue
 - Agreement on scope, based on short concept note
 - With authorities, market participants and users
 - Hires local and international experts (paid with Trust Fund)
3. *Convergence* consults with authorities and market participants and users on draft report
 - Aims at reaching a consensus on feasible options for reform
 - Interaction with EU Commission, if necessary
4. *Convergence* prepares final recommendation for authorities
 - A text that meets public objectives and is endorsed by market participants and users
5. *Convergence* helps authorities review recommendation before final decision

Convergence

Expected Benefits

Governments

- The system may grow faster by drawing on the energy and building on the incentives of market participants
 - *Convergence* will help authorities to include market participants' views on policy options under consideration as well as assess their reactions to reform suggestions
- The system may also become more stable, as market participants may align more accurately their incentives to the goals of national authorities
- The system may grow more harmoniously as *Convergence* will help various financial sector authorities coordinate their policy actions with financial sector, business and consumer associations

Market Participants

- They may be able to accelerate their business expansion plans
 - The authorities' long-term plans are clearer to them
 - They have greater comfort that their regulatory risk concerns may be taken into constructive account going forward
- They may operate within a more efficient financial infrastructure
 - Achieved more quickly through effective co-operation among themselves and with authorities
- New entrants may join with new products and in new segments
 - A result of a good investment climate in the financial sector

Beyond Advice -- *Convergence* Will Help Authorities Implement Concrete Reforms

Conclusion

Convergence will help the countries (authorities and citizens) reap the public good benefits of the new ownership incentives that have changed the financial sector landscape in South-Eastern Europe.

If properly harnessed, these incentives will have a powerful effect on the pace and depth of financial sector development, accelerating economic growth and personal income convergence with the EU.

Convergence will catalyze these positive forces for quicker results and a lasting impact on societies.