



A WORLD BANK PUBLIC-PRIVATE FINANCIAL SECTOR PROGRAMME

Supported by a Grant From Italy's Ministry of Economy and Finance

In collaboration with:
**CENTER OF EXCELLENCE IN FINANCE
LJUBLJANA, SLOVENIA**



GOVERNING PRINCIPLES

1. “Honest Broker”

Convergence conducts its activities in the most rigorously neutral way possible: it will provide the authorities with a set of recommendations that would meet both their policy objectives and market development needs. This demonstrative “honest broker” approach will create incentives for market participants to build up and strengthen authoritative trade associations that would operate within the dialogue framework that “Convergence” will have contributed to promote.

2. Independence

Convergence officials should perform their duties without being involved or interfering in any political affairs and governance issues in their countries of operation. Thanks to its professional expertise, moral stature and authority, Convergence is committed to establishing itself as a unique, fully independent and indispensable entity where all the constituencies: authorities, trade associations, financial institutions, consumers regularly call on its unbiased expertise to enable them to properly assess specific financial issues.

3. Professionalism

Convergence staff will ensure to provide the stakeholders/clients with the most effective and highly specialized professional service. Convergence will contribute in a consultative capacity with its high level of expertise to regulatory issues, by facilitating the process of the formulation of legislative proposals and pinpointing options to solving specific micro-structural issues in the financial markets.

4. Effectiveness and efficiency

Convergence decision-making and operational processes will be grounded on solid analysis and arguments aiming at pursuing effectiveness in fund management and cost-efficient options for its sponsors and clients. To ensure adequate accomplishment of its objectives, Convergence shall put in place control systems and performance measures.

5. Integrity

Convergence is committed to defend the interests of all its stakeholders by observing principles of good governance and fulfilling the highest standards of integrity in its staff professional and ethical conduct. Convergence officials will also abide by the laws of each country of operation.

6. Objectivity

Convergence staff and its hired consultants in carrying out their duties shall try to avoid any engagement in business, financial or professional activity that is in direct or indirect conflict with the proper performance of their assignments and could create any unfair advantage or benefit for any third parties.

7. Openness and clarity of information

Convergence shall conduct its activity based upon openness, reciprocity and trust. Any information exchanged among the stakeholders shall always be honest, accurate and complete. The advice, recommendations and proposals of service it provides will take into account market needs identified through an open dialogue and mutual understanding.

8. Discretion and confidentiality

Convergence officials' duty of discretion implies that they always handle any personal and financial information provided by banks, associations or authorities with the utmost confidentiality.



FOREWORD

Be you an association, a consumer, a central banker, a business executive, a banker or a civil servant working on financial sector issues, you will always find in us a reliable and trustworthy partner, an unwearied listener, a devoted and enthusiastic ally. Coming from countries of South-Eastern Europe, we share your values and have built a deep-rooted understanding and acceptance of people's mentality and culture in the region in the areas of policy-making and business. Convergence will have to contend with mitigating the pressure between the uniqueness of each country's institutions in terms of political, ethnical, socio-cultural aspects and the conspicuous need for better governance and synchronization with international standards and norms. We have been through many professional challenges in our respective countries and Convergence is our next, big, regional challenge. Our long, multi-faceted and diverse experiences in the financial public and private sector and our achievements throughout our careers have sharpened our farsightedness and common sense and given us the confidence to make Convergence a unique and leading program in strengthening the financial market of the South-Eastern Europe. We pledge objectivity, professionalism, independence and integrity – and a sincere passion to continue our engagement in public life to serve the peoples of South-East Europe from this new platform.

Mihai Bogza

Prof. Dr. Shkelqim Cani

Vice Governor, National Bank of Romania ('98-'04); Chairman, Romanian Deposit Insurance Fund ('98-03); President, Romanian Eximbank ('97-'98); Deputy CEO, Pater Bank ('96-'97); General Director, Ministry of Finance ('91-96).

Governor, Bank of Albania ('97-'04); Member of Parliament and of the High Parliamentary Commission of Economy, Finance & Banking ('91-'96); Deputy Prime Minister ('91); Head of Credit Dept and then CEO of National Commercial Bank of Albania ('90-'91); Director, Bank of Albania ('85-'90).

I. MISSION

"Convergence" is an innovative program aiming at invigorating financial sector intermediation in South-Eastern Europe, and accelerating its process of EU integration, by helping financial authorities benefit from the views and the participation of market participants in regulatory fine-tuning – as currently practiced in sophisticated financial markets.

The ultimate mission of Convergence is to stimulate the build-up of analytical capabilities in financial economics, banking and finance and legal and regulatory matters within the civil society of its countries of operations and to foster an open, collaborative and responsible dialogue between regulatory authorities and market participants.



II. WHY CONVERGENCE?

Convergence was born out of the perception that the business environment for financial intermediation was still in need of major improvement in South-East European countries, despite major reforms undertaken by authorities. Significant progress toward restructuring their respective banking sectors, by privatising state-owned banks, harmonizing legislation with the European Union, establishing modern support institutions such as deposit insurance funds and credit registries and improving prudential supervision was not enough to allow banks and financial intermediaries to operate according to practices prevailing in Western Europe.

To gain a better understanding of the issues which were deemed serious enough to hinder rapid and sustainable growth of the banking system, EBRD and World Bank started meeting with a number of major international banks active in the region. From these consultations emerged an awareness that many issues proved hard to tackle, many of them being common to several countries. For instance:

- Delays in establishing credit bureaus
- Unfavorable tax treatment of securities
- High contributions to deposit insurance funds
- Drastic measures to slow down credit growth for fear of macro-economic imbalances
- Shallow inter-bank markets
- Restructuring of non-performing credit exposures
- Excessive costs of regulations, including, but not limited, to those associated with minimum reserve requirements.

III. THE MISSING LINK: PUBLIC-PRIVATE DIALOGUE

A genuine lack of understanding of business issues by regulators can explain the persistence of obstacles to financial intermediation. Also, the programs supported by International Financial Institutions did only partially contribute to address micro-structural problems, as they focused mainly on macro-stabilisation and on corrective prudential issues.

But it was soon recognized that an impediment to promoting the necessary adjustments in the business climate was the absence of a structured relationship between authorities and market participants. While it is true that market participants are not accustomed to base their assessment of perceived market-unfriendly regulations on a thorough and rigorous analysis of relevant facts, it is also known that authorities in the South-Eastern European countries are not used to sourcing suggestions to improve financial sector intermediation from market participants. The practice widely followed in developed economies where authoritative trade associations exist and market consultations are a must for policy-making are notably absent in the region. This lack of depth in policy dialogue slows down the development of financial products and activities that would better support the needs of the economy at large. It leaves banks and other financial intermediaries without a reliable channel of communication with financial authorities. And it deprives the authorities of a vital problem-discovery channel represented by market realities.

Hence the "Convergence" name: to encourage convergence of views among stakeholders, because the outcome will be beneficial for all of them; to promote convergence of good banking practices across the region; to strive for convergence to EU membership as a long-term objective made possible by a well-functioning financial system.



IV. CONVERGENCE'S PROPOSITION

The "Convergence" program will help address this market failure with **two main instruments**:

- The **first instrument** is to apply rigorous analytical techniques, drawing on regulatory impact assessment norms, to explore policy fine-tuning options of selected micro-structural issues that are hampering financial sector development or could accelerate it.
- The **second instrument** is to help authorities and market participants structure the most appropriate framework for consultations given the country's conditions and financial sector development needs.

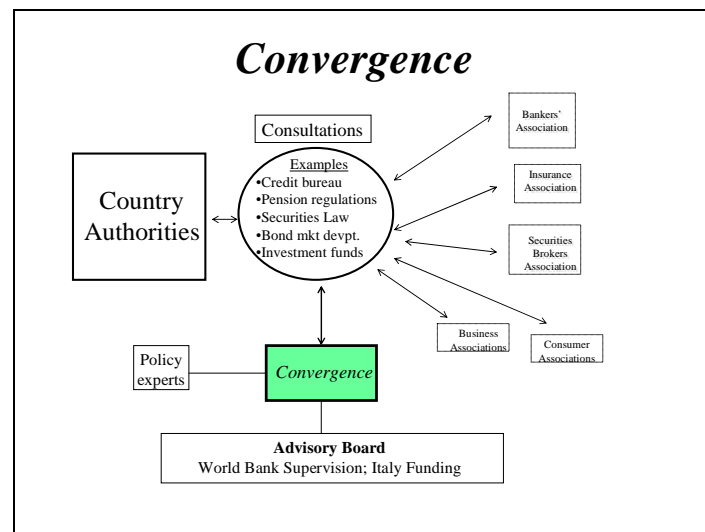
The program will operate in seven South-Eastern European countries:

- ◆ **ALBANIA,**
- ◆ **BOSNIA AND HERZEGOVINA,**
- ◆ **BULGARIA,**
- ◆ **CROATIA,**
- ◆ **MACEDONIA,**
- ◆ **ROMANIA,**
- ◆ **SERBIA AND MONTENEGRO.**

V. A RANGE OF ACTIVITIES...

Convergence aims to promote the emergence of a single in-country focal point for financial sector development and bi-partisan cooperation between authorities and market participants to enact business-friendly financial sector regulations and protect financial stability through better bank governance. Convergence will achieve its purpose by performing the following activities:

- ◆ **Conduct studies and research** to identify innovative solutions to market inefficiencies and to respond to financial market development needs, based on analytical techniques, including regulatory impact assessment norms.
- ◆ Build an **effective and transparent public-private dialogue** among all constituencies by forging financial industry consensus and ensuring that their views are taken into account by authorities when policy and legislation is designed and determined.
- ◆ **Serve as an in-country channel of expertise and information** in all financial service issues of the region.
- ◆ **Engage** with local authorities and international and European institutions in the area of financial services legislation and other issues.
- ◆ Provide an **educational and networking platform** for FIs and financial sector regulators of the region (through seminars, conferences, publication) to:
 - keep them abreast of regulatory, financial market development and corporate governance issues,
 - share the findings of Convergence research and studies.





VI. WITH MANY STAKEHOLDERS...

The program should focus on serving *as a focal point* for parliament, ministries, central bank, financial intermediaries, associations, businesses, consumers, media and general public in all financial issues. Convergence will consult with key stakeholders throughout development and implementation of this program. Its success will depend upon the orchestrated and sustained efforts of all these stakeholders.

VII. ...EACH WITH DIFFERENT OBJECTIVES

To live up to its mission, the Convergence will have to prove itself as a particularly useful project for all the stakeholders. Below are presented the benefits the stakeholders can expect to draw from the project. Delivering on them will constitute the objectives of the Convergence.

<p>Authorities</p> <p>To assist in outlining a working agenda for financial sector reforms in order to increase the efficiency and market-friendliness of financial intermediation.</p> <p>To contribute in improving the shape of country's regulatory and legislative framework through encouraging dialogue and developing a culture of partnership in the area of financial services, accelerating the convergence toward international standards.</p> <p>To tackle the issues of inflexible market structures, legal and supervisory barriers and administrative difficulties in the financial markets of the region.</p> <p>To communicate the financial industry's views with Government, Financial Services Authorities, the press, international donors in order to help improve the decision-making process and enhance its transparency.</p> <p>To help in safeguarding financial stability in the Balkans and reduce risks by means of better bank governance, financial reporting and stronger bank surveillance.</p> <ul style="list-style-type: none">· To help ensure that the governments, as well as regulators, act to promote a regulatory environment allowing investors to be less exposed to arbitrary decisions and deliver efficiently and freely their services to customers in the region.	<p>General Public and Consumers</p> <ul style="list-style-type: none">· To promote an effective public-private sector dialogue on financial sector issues in the Balkans in order to ensure more transparency on convergence, through public awareness. The aim is to fill information gaps, clear up misunderstandings and promote a relationship of trust between banks and general public.· To help promote an understanding of the banking industry to the general public, all levels of governments, international bodies, interest groups, business and the media through a wide range of activities including consultations, reports, submissions, speeches, publications, regular debates with all the market actors.· To enhance consumers and businesses financial literacy enabling them to make informed decisions, through coordination with media, interest groups, trade associations, banking system and legislators.· To help expanding finance to underserved market segments: retail consumers can benefit from new and cheaper banking solutions and SME-s from increased credits.
<p>Associations</p> <ul style="list-style-type: none">· To help increase the number and strengthen the quality and authority of the existing trade associations through their involvement in the dialogue with local authorities and regulators, assist them organize themselves, by providing them with successful international models;· To give them a voice to protect their interests in relation with the authorities.	
<p>International</p> <ul style="list-style-type: none">· To stir interest, work closely and coordinate with international organizations to channel funds in programs aiming at developing financial intermediaries and infrastructure in the region, searching synergies through networking practices and accelerate disbursement on existing projects.· To help them design new projects, by supplying useful information on what the financial market really needs.· To promote the process of convergence of the countries of operation with international standards and the EU.	<p>Financial Intermediaries (FIs)</p> <ul style="list-style-type: none">· To promote the enforcement of rules, good practices and international codes and the development of industry standards and conventions with the purpose of enhancing the efficiency and soundness of the financial system. To promote healthy competition that benefits both FIs and consumers.· To help FIs: i) increase their volume of activity by tackling new products and services, as a more level playing field is established and roadblocks on certain activities are jointly identified and then removed; ii) increase the predictability of their activity, by reducing the fear of future losses due to unexpected, arbitrary and ultimately detrimental measures taken by the authorities.· To influence in FIs stepping up their efforts in increasing the transparency on corporate governance issues and include them as part of their regulatory framework.· To enhance participatory mechanisms, especially to connect the new foreign bank investors to the local institutional context under conditions of transparency and predictability.

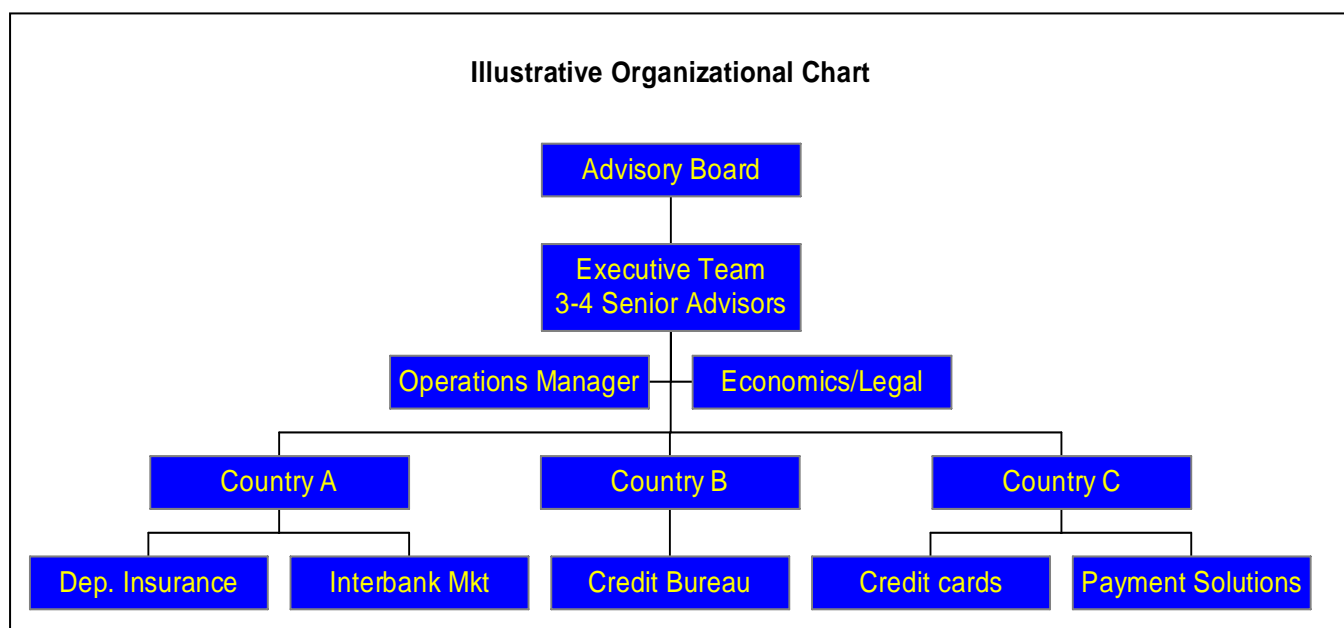


VIII. OUR ORGANIZATION

To gain the respect and meet the needs of its multiple stakeholders, Convergence will endeavor to mobilize significant professional resources throughout the region, and mold them into an agile and effective organization. We see ourselves as a think-tank, organized around a small core group of professionals, driven by intellectual excellence, moral integrity and collegiality. We are open to be joined by others whose past experiences make them natural partners of Convergence's dynamic and progressive vision. We will build a small internal capability in economic analysis and legal/regulatory matters. But our primary objective will be to assemble a network of professionals in our countries of operations, willing to work part-time on Convergence issues with the support of international experts whenever necessary. Under our oversight, they will be exposed to issues and situations where they act as trusted advisors of authorities, market participants and other stakeholders alike. They will become the professional cadre capable to contribute to policy-making from either a public sector or a business community angle in their own countries.

To enhance the independence, objectivity and rigor of Convergence work, we will seek to form an Advisory Board comprising three or four senior outstanding individuals who have reached the career pinnacle in international finance or business and with a proven commitment to building a prosperous enlarged Europe. The Advisory Board will support the Convergence executive team in three major aspects of its work: 1) to tackle the manifold challenges of building up a new institution on uncharted ground; 2) to ensure that advice on significant matters be as accurate and balanced as possible; and 3) to guide Convergence towards a sustainable future. Its independent and non-executive role will provide assurance that Convergence activities are conducted in the best interest of its present and future stakeholders.

Illustrative Organizational Chart





IX. OUR DEFINITION OF SUCCESS

When setting out on a new venture, it is important to have both a long-term vision and shorter-term objectives against which to measure progress.

We will select our activities to meet a four-step “dialogue-building” test:

- Is the proposed topic of material interest to both authorities and market participants?
- Are authorities willing to consider regulatory options based on analyses shaped by perspectives and comments by market participants – as recommended by “Convergence”?
- Does the analytical activity contribute to actionable recommendations supported by market participants? Over which timeframe?
- What economic impact do authorities and market participants assign to a properly implemented recommendation?

We will consider ourselves successful if “Convergence” prompts virtuous developments such as:

- Significant regulatory changes occur as a result of market consultations
- Time to enactment reduces as a result of better market “ownership” of reforms
- Regulatory changes have a measurable effect on increased market size
- Financial trade associations emerge with significant budget envelopes to retain independent expert advice for dialogue with authorities.

X. SPONSORS & PARTNERSHIPS

The Convergence program is executed under the auspices of the World Bank’s Financial Sector Vice-Presidency, with the contribution of an Italian Trust Fund pledged by Italy’s Minister of the Economy at the Venice Balkans Round Table in October 2003. It was discussed in the May 2003 meeting of the Governors’ Club of the Black Sea, Balkans and Central Asia and in the May 2004 meeting of the Supervisory Board of the Center of Excellence in Finance.

The World Bank will be entering into a grant agreement with the Ljubljana-based Center of Excellence in Finance (CEF) which will be providing logistical and administrative support to Convergence. The Center is a regional non-profit foundation established by the Government of the Republic of Slovenia, in Ljubljana. Its Supervisory Board consists of Ministers of Finance and Central Bank Governors of the region.

Additional financing to the program is expected from other donors. Collaboration efforts are underway with the EBRD, IFC, the Italian Bankers’ Association (ABI) and other potential donors.

XI. ADDRESS

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