

Minutes of the Budapest Meeting

held on January 24-25, 2005

(Summary of the discussions)

I. On how to deal with the country authorities:

- ◆ We need to get first their prior understanding of our activities and then a mandate from them to act. They should not to be perceived as our sponsors - otherwise the market participants may believe we are biased.
- ◆ We need to be able to call the senior officials (Governor of Central Bank, Minister of Finance) to solve problems with more junior representatives of the authorities.
- ◆ We need to be able to say to third party or market players the local authorities endorse our activity and we are in a position to organize meetings at a time convenient to them.
- ◆ To achieve the above, we have to package our initiatives into something large, to demonstrate importance for the country. Other tools to make an impression will be our former positions, the personal connections, moral stature of the members of the Advisory Board, our abilities to assist them meet their obligations toward international organizations, success stories recorded in other countries.
- ◆ We should be able to get their acceptance as a moral authority, but problem arises on how moral authority could be perceived.
- ◆ We should be careful when introducing ourselves to the authorities by emphasizing our relative independence (not working on behalf of/or imposed by the WB or any other sponsors).
- ◆ We could explain our role as matching funds and issues with solutions. The authorities will be delighted if they get in hand a solution (project/program) worked out by the Convergence experts.

II. On how to deal with international organizations:

1. The EU

The natural partner appears to be the Enlargement Directorate (Others can be Markt and EcFin). Our discussion with them will aim at:

- ◆ Identifying the commitments of each country in the Western Balkans and where do they stand against them
- ◆ Offering our cooperation to get their support.

2. The EBRD

The Banking Group (Kurt Geiger) may be reluctant to support, as they appear to have other priorities. Other contacts will be placed with Fabrizio Saccomanni, Maria-Luisa Cicognani.

The Legal Transition Group (Nussbaum) responsible for drafting legal and regulatory proposals could perhaps be the most suitable counterpart. They may be very supportive because of our ability to be an objective broker, connecting authorities with market participants. We should invite them to collaborate with us and, in exchange, they could ask us to get involved in their projects.

The EBRD seems to be flooded with donor money, so it is vital to mobilize their support.

3. The WB

The Convergence seems to enjoy strong support from Vice-President Katsu, the former Slovenian Country Director (Roger Grawe) and respective WB country managers.

Our strategy with the WB should aim at arousing more interest within the WB in order to get a potentially stronger financial support (e.g. through the so-called DGF window).

More uneven may be the support within the Regional Financial Sector Group. As a result of several countries in the area joining the EU and eventually graduating, they have problems of excess capacity and they may perceive us as taking more business from them. We have to give them the message that on the contrary, we may generate additional business for them and help them disburse on on-going programs. We need to get a map of their programs with lending and non-lending institutions in the region.

We have to exercise caution of not being kept hostage of the WB Country Manager/Rep., because they might try to influence us in the priority-setting and decision-making process. We must not become their prisoners; otherwise we may be veto-ed by them in those of our activities where they disagree, so we may not be able to deliver on something we promised we would.

We shall proceed with a visit in Washington in early April to meet key WB persons responsible for the region to argue how important we are to them.

4. The IMF

We can address relations with the IMF through a formal meeting with their Country Rep. covering issues such as: our mission, goals, way of operation and potential collaboration with the IMF on achieving the country's objectives, while maintaining our independence.

We need to get a favorable attitude from the IMF residents in our countries of operations, but not get subordinated to the IMF.

During the meetings with the IMF and the WB we can pinpoint our role as convergence in assisting them to resolve several country issues identified from IMF and WB, but yet unsolved/pending by the authorities. Our help in these matters could result in funds release for the country. Simultaneously, for issues identified from our internal sources at the base level (deep-rooted issues, not detected by IMF and WB), we can assist them to set these issues as conditions.

5. The large foreign banks

Still debating on the best approach (see Bulgaria). Suranyi said that we may need a success story to persuade them to accept us as a strong player.

III. On how to act:

- ◆ To try and identify issues IFIs could not deal with, and help package them into projects.
- ◆ Create a balanced approach on goal-setting. If we set too many objectives and default in some of them, we would be blamed for being unsuccessful. Conversely, if we put few objectives, our name will disappear in the market. Nobody or just a few could acknowledge our role.
- ◆ Have many proposals to diversify the range of our activities, so that if we get stuck on some, we can still point out to other activities on which we are successful.

- ◆ Always act as impartial brokers, trying to identify the points of view of every group on the market and to present them to the others in a professional and objective way, preferably through the voices of local experts, so that in the future the market players will be led to engage themselves such experts. The costs of experts could be initially paid from us and later be borne by the interested parties (associations, authorities, etc.)
- ◆ Try to bring the implementation force from outside the countries to inside the countries.
- ◆ In the longer term, the capability of the Country Advisor will be measured also by his ability to generate projects for which others will pay.
- ◆ Try to create public awareness in respective countries on Convergence issues through open dialogue, debates, lectures, speeches, round tables.
- ◆ We should not spend the money only with the design and project implementation, but we should also contribute to smoothing out the process of dialogue on hot issues and regulatory framework between authorities and associations. There are tens of experts in the Balkan countries and we should convince the authorities to implement their recommendations. Same stands for persuading the authorities to channel funds for studies/surveys to help the country in the financial area.
- ◆ We should encourage third parties to get advice from us, but before that we should make ourselves important. That requires Convergence to become in the medium to long-term a focal point in addressing and intermediating to resolve financial issues in respective countries.

IV. On the project evolution and staffing

After completing the preparatory stage, the three of us will become Country Advisors, covering two countries each (Cimi and I) and one country (Luigi). Other persons will be considered to cover the other 2-3 countries. Preferred countries were discussed for Cimi and I. We both expressed openness, and eventually I mentioned as preferences Albania, Bulgaria, Serbia and Croatia. Cimi has chosen Romania, Montenegro, Macedonia.

An Operation Manager has been identified, to become available from October 1. She is a Slovene with working experience in the WB, and her responsibilities will be mainly to hire the consultants, pay them, arrange the meetings, in other words, taking care of most of the logistics of the activity (I think we never discussed who the Project Manager will be, as I naturally assumed it will be Luigi).

For the position of Chairman of the Advisory Group, several names have been discussed. The one thought most suitable was Mr. Tommaso Padoa-Schioppa. A plan to contact him was agreed.

One member of the Advisory Group will be Lajos Bokros. Another one could be Giuseppe Zadra, the Managing Director of the Italian Banking Association.

Two more junior, but brilliant people will be identified by Cimi and I to perform more simple tasks in the preparatory stage, allowing the Country Advisors to concentrate on the crucial part of the job, and then to become country managers. Eventually, there will be country managers in every country of operation.

The project may start in summer, once the preparatory work is completed and the Italian financing is obtained.

V. Next steps (to do list)

1. Conference call February 2. Possibly a conference call every week to keep each-other informed and to fine-tune our insights.
2. Prepare a draft letter of invitation from Mr. Isarescu to Mr. Padoa-Schioppa to join the Advisory Committee as Chairman (Mihai - by February 7).
3. Prepare a 1-2 page document about the issues and challenges of Convergence in engaging the local authorities (Cimi and Mihai - by February 7).
4. Prepare a short summary of the discussions in Budapest (Cimi and Mihai - by February 7).
5. Prepare a tentative monthly or annual ? program for a Country Advisor (Cimi and Mihai - by February 7).
6. Prepare 2 sets of goals for the Convergence, for internal and external use, respectively (Luigi, Cimi and Mihai - by February 7).
7. Meeting in Rome with Lorenzo Bini Smaghi.
 - Discuss our program
 - Implement in our countries what is advanced in Italy, explain to him where do we stand and what he suggests. This is more than a courtesy visit.
 - To discuss with Mr. Padoa Schioppa for Advisory Board Member or Chairman.
8. Prepare a list of questions and issues to be addressed during the trip to Rome and London (Cimi and Mihai - by February 7).
9. Identify a "brilliant young person" to get involved as a part-time support local staff in the initial stages of the Convergence and to be later full-time engaged in supporting the activity of the country advisors for Albania and Romania, as well as for Cimi and Mihai when present in their countries (Cimi and Mihai - the sooner the better).
10. All of the above will be prepared individually, to stimulate debate and new ideas.
11. Prepare a two-three page summary of the findings after the discussions with the IBA covering these topics: what is a successful bankers' association, what's key to their success, their organizations, policy tools, etc. (Cimi and Mihai, while in Rome).
12. Finalize the draft letter Isarescu - Padoa-Schioppa (Luigi and Mihai, while in Rome).
13. Prepare a Convergence brochure for use in presenting the project to the officials in the future countries of operations and other stakeholders (Cimi and Mihai together - timing to be determined).
 - ◆ What is the convergence project?
 - ◆ Several examples of what is good and what is bad in the country
 - ◆ Mission, goals, values
 - ◆ Governing principles focusing on independence, moral authority, transparency, etc.
14. Provide information on the procedures used by the WB for project identification, as well as for selection of consultants and execution procedures, to be used as model for the first duty under the TORs (Luigi).
15. Provide information the WB supported programs in the countries of operation (Luigi).
16. Provide information about the duties of Advisory Groups set-up under WB financed programs, to be used as a model for the fourth duty under the TOR (Luigi).