



RIA-Based Public-Private Financial Sector Modernization

Romania's Special Project Initiative (SPI)

Banking Community Seminar
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World Bank

Public-Private Cooperation

The Conceptual Framework

“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, 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.”

“Convergence Program”:

Catalyzing Financial Sector Modernization

- A World Bank-Italy initiative to foster:
 - an analytical culture on financial policy matters
 - collaboration between authorities and market participants
- **Distinctive features:**
 - **market-friendliness**
sourcing micro-regulatory reform issues from both authorities and market participants;
 - **practical focus**
targeting regulatory changes that make a measurable difference on financial intermediation, via Regulatory Impact Assessment analyses;
 - **strong implementation orientation**
Success measure is regulatory changes enacted - not studies
 - **flexible partnership arrangements** with other institutions.
- **The operating instrument: SPI Platform**

The SPI Platform

- Principle: the local community runs it!
 - Local public-private stakeholders decide priorities
 - Market participants and consumers are policy analysis partners of the financial sector regulator
 - Leverages domestic capabilities (academia, consultants)
 - Uses international consultants only if needed
 - Resources and incentives to deal with large-scale modernization programs
 - Like in advanced markets
- Proven successful in Romania
 - www.spi-romania.eu
 - New SPI countries: Albania, Adriatic Region

The SPI Platform (2)

- **SPI Committee:** ex-ante agreement on public-private priorities and push for prompt enactment of proposals
 - Central Bank, Ministry of Finance, Bank Association, Consumer Protection Agency, WBG (honest broker)
- **Working Groups:** to prepare solutions, based on their collective expertise through public-private technical consensus
- **SPI Secretariat:** the “engine” of the structure
 - “Executive Project Manager”
 - 2-3 staff with consulting and policy background
 - WBG organizational and technical support

The SPI Platform (3)

SOLUTION ENDORSEMENT AND ENACTMENT

SPI Committee

SPI Secretariat

Project Owner 1

Project Manager 1

**SPI Working Group 1
(Experts from public and private institutions)**

Project Owner 2

Project Manager 2

**SPI Working Group 2
(Experts from public and private institutions)**

Project Owner N

Project Manager N

**SPI Working Group N
(Experts from public and private institutions)**

SOLUTION FINDING (Based on public-private consultations through RIA)

Romania's 2007 Modernization Program

15 Projects

	European Central Bank CRITERIA				
Italian Banking Association CRITERIA	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. AML Law 2. Law on Goods Safety 3. Debit Instruments 4. Roland Berger Study 5. Banknotes for ATMs	
Industry reputation			1. Ombudsman 2. Consumer education		
Total	2	3	3	6	1



SPI Romania has adopted the EU Better Regulation Approach

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 2007 – cost/benefit analysis

Costs	Benefits for banks
US\$ 600k •SPI Secretariat •Convergence Program •Experts	Cost savings - US\$ 100 M
	Additional loans – US\$ 350 M
	Improved reputation
	Public benefits
	Additional income to state budget
	Increased access of public to bank products and services
	Enhanced financial stability



ROMANIA

CONVERGENCE FINANCIAL SECTOR MODERNIZATION

Public-Private Special Projects Initiative



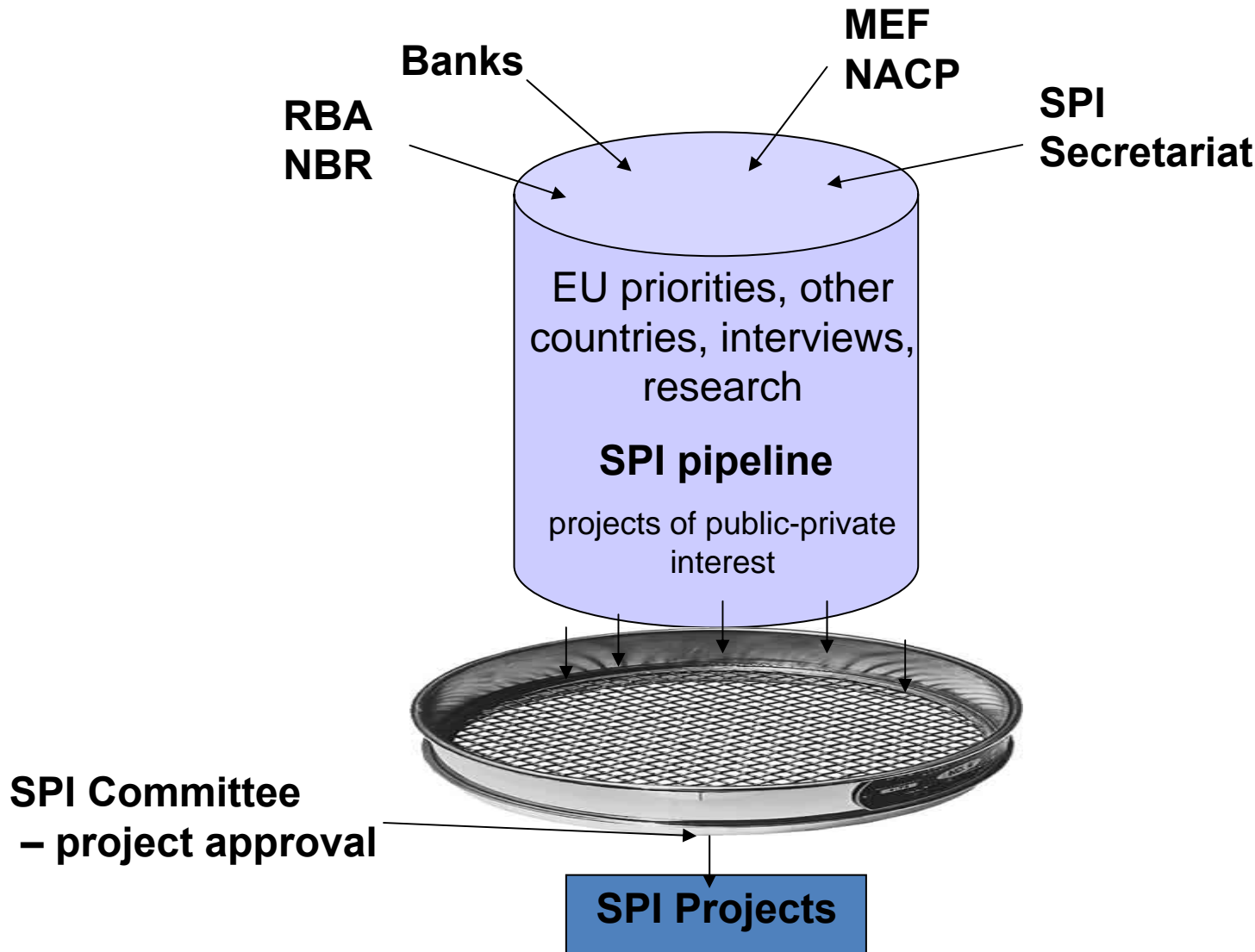
SPI Romania Partners

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

Banks contribution to SPI Project Working Groups

SPI ROMANIA 2007 PROJECTS															
BANKS	Positive credit information sharing	Debit instruments	AML law	Rural lending	Bank LGs	IFRS provisioning	Stress testing	Ombudsman	Consumer education	Law on safety	MiFID Implementation	Mortgage Loans database	LGD database	Roland Berger study	CRA
RZB	XXX			XX	X			X				X	X	XX	
RZB Loc.	X					X						X	X		
OTP	X		X					X							
Bancpost	X		X	X						X	X			XX	X
BCR		XX	X		X	XX	X	X		X	X	XX	XX		XX
Alphabank		XX			X	XX					X	X	X		
BRD-GSG		X	XX			X				X				XX	
CEC		X					X								X
Crediteurope			X									XX	XX		
Unicredit			X		X	X			X	XX		X	X		
RIB				X											
ATE Bank						X		XX			X				
ING															
Citibank											X				
ABN AMRO											XX				
HVB LOC.									X						

1. Issue identification and selection



2. Solution searching

Central Bank (NBR)
Banking Ass. (RBA)
Ministry of Finance
Consumer Protect.
Other stakeholders

- Experts for PWG
- Support for data collection and consultations
- RIA findings validation

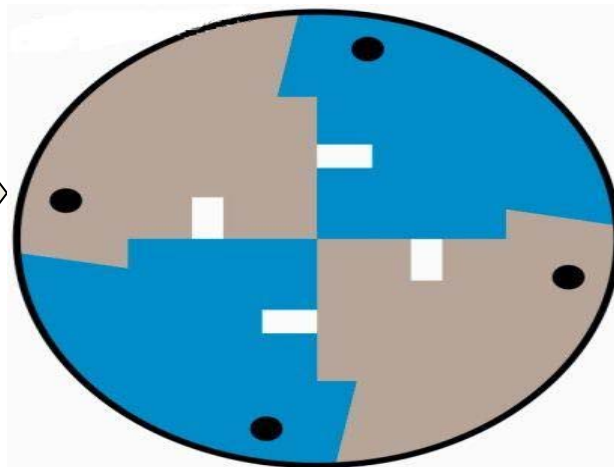
SPI Secretariat

- Identifies the needed expertise
- Searches for solutions in international experience /EU legislation
- Identifies the needs for international/local consultants
- Arranges for the consultants' support
- Prepares documents for discussions
- Drafts RIA questionnaire (as part of the RIA)
- Collects data and performs RIA calculations
- Organizes seminars and other supporting events
- Collects feedback from SPI stakeholders
- Collects and aggregates individual contributions
- Prepares documents presenting the solutions

3. Consensus building

RBA

- Banks review solutions
- Provide input on disputed issues
- **RBA Board endorsement for final recommendation**



NBR

- Revises proposed solutions
- Provides input on disputed issue
- **NBR Board endorsement for final recommendation**

SPI Secretariat

- Looks for international benchmarking
- Performs RIA in order to facilitate best choice
- Asks for independent opinions on disputed issues
- Provides ideas for reaching solutions acceptable to all parties

4. Solution enactment



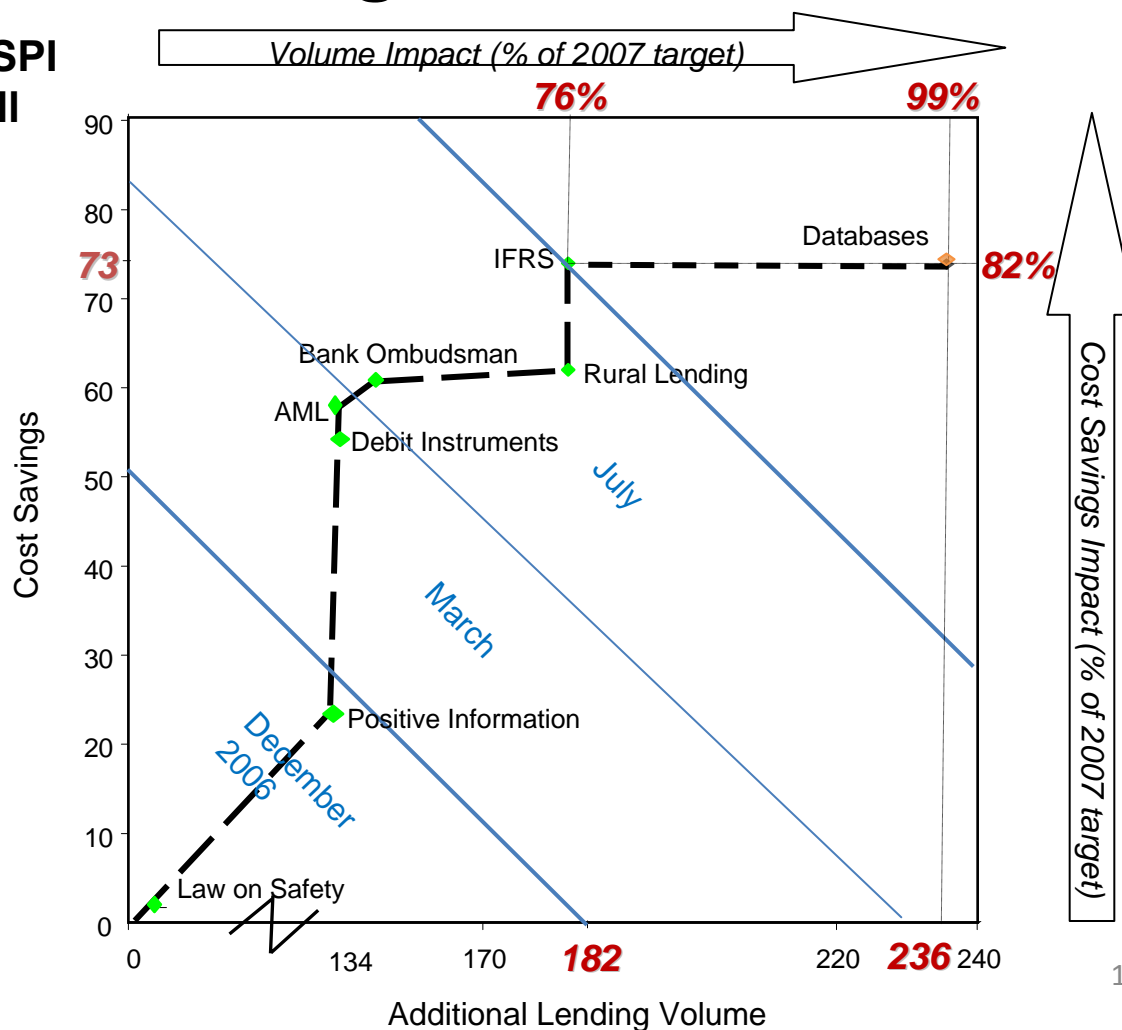
NBR, RBA and SPI Secretariat coordinate actions in respect of full range of SPI projects

SPI Secretariat

- Prepares the law / regulations enactment packages
- Prepares SPI Committee letters to the legislative initiator or to the NBR Board for NBR regulations
- Provides detailed description of RIA to the legislative initiator or to the NBR Board
- Follows up with the legislative initiator
- Notifies NBR on the initiation of the public consultation process
- Sends SPI Secretariat submission under the public consultation process
- Arranges and/or attends the meetings with institutions involved in the enactment process
- Prepares other documents as required by the legislative initiator

5. Monitoring Results

Financial Impact of Finalized SPI Projects (Mln, EUR) – First Full Year



The 2008 Program Tackles A Large Modernization Front

		European Central Bank CRITERIA			
Italian Banking Association CRITERIA	Asymmetric information	Completeness of the market	Increased opportunities to engage in financial transactions	Reduced transaction costs	Increased competition
Business development		<ul style="list-style-type: none"> 1. Increasing bank lending under PPPs 5. Modernizing T-bill regulatory framework 11. T-bills OTC market organization 12. Environmental Lending 23. Promoting refinancing through securitization 24. BSE Listing T-bills 	<ul style="list-style-type: none"> 2. Co-financing with EU structural funds 3. Standard repo transactions 4. Development of Interbank Direct Debit 25. Securing down payments made by individuals for real estate projects 26. Supporting thermal rehabilitation of houses 27. Developing lending to municipalities 		
Industry competitiveness	<ul style="list-style-type: none"> 28. Database for risk rating the corporate clients 29. Centralized database for AML purposes 		<ul style="list-style-type: none"> 17. Electronic employment register and services 19. Loan-loss & Mortgage Loan Databases (2007) 20. Law on bank letters of guarantee (2007) 22. Improving access to and availability of the basic banking products 	<ul style="list-style-type: none"> 6. Reviewing bad debts recovery procedures 14. Improving account stopping regulation 15. Reducing the paper-based documents 16. Centralized tax roll 21. The banks' future contributions to RDGF 	<ul style="list-style-type: none"> 13. Various EU – related payment initiatives
Industry reputation	<ul style="list-style-type: none"> 30. Better information on saving products 	<ul style="list-style-type: none"> 7. Bank ethics code 8. Expanding banking mediator 31. Ombudsman knowledge transfer 	<ul style="list-style-type: none"> 9. Basic bank products info 10. Basic bank products Advice 32. Enhancing corporate social responsibility in the banking industry 	<ul style="list-style-type: none"> 18. Improving NACP –RBA cooperation framework for consumer protection 33. Improving the quality of the education and professional training in the banking field 	<ul style="list-style-type: none"> 34. Enhancing financial consumer's protection 35. Responsible borrowing
	3	9	13	7	3

Legend: Focus projects Projects Other potential projects

SPI Bangladesh - Questions

- Do public-private coordination failures hold back financial sector modernization?
- Does the marketplace have the expertise to design “incremental” new reforms?
- Can the banking sector organize itself on self-regulatory solutions?
- Do authorities wish quickly to enact changes that meet public-private technical consensus?
- Can a small technical secretariat catalyze existing expertise to show early results?
- Is there a role for a “honest broker” to ensure this work is done properly?

SPI Bangladesh - Implementation

1. Setting-up the SPI Committee

- Agreement on Operating Guidelines
 - Modernization program with feasible and practical focus
 - Mobilize local public-private working groups
 - Strong enactment discipline

2. Appointment of SPI Secretariat

- Selection procedures and management support

3. Program build-up through broad consultations

- Banks, authorities and “general public good”

4. Regulatory Impact Assessment Workshops

- To learn public-private analytical methodologies