

# Convergence Romania Financial Sector Modernization

## Special Projects Initiative Public-Private Steering Committee



## The SPI 2008 Program

### Proposed Organizational Arrangements and Main Activities

#### Summary

As discussed in the March and April SPI Committee meetings, Romanian stakeholders will take over responsibility for operating the SPI Program, at the conclusion of the incubation by the World Bank's Convergence Program which supported it with an important managerial and financial commitment over a two-and-half year period.

SPI Committee members are prepared to take the necessary measures to assure the continuation and expansion of the SPI Program, which has proven to be a successful mechanism to process the modernization needs of the Romanian financial sector in close collaboration between authorities, market participants and representatives of the consumer protection agency. SPI Committee members have identified the Romanian Banking Institute as a suitable entity to support administratively the SPI Program.

The Association of Romanian Banks and National Bank of Romania SPI Committee members will seek the approval of their respective decision-making bodies to have their respective institutions' annual contribution to the Romanian Banking Institute budget increased to cover the operational costs of the SPI Program for calendar year 2008.

The rest of the note describes the main features of the new proposed SPI Program organizational arrangements and provides the principles for the 2008 activities.

#### Governance

The SPI Committee will continue to be responsible for direction, content, activities, results and public outreach of the SPI Program, assisted by an SPI Coordination Team to replace Convergence's management support role. The SPI Coordination Team will consist of two representatives, each appointed by National Bank of Romania and Romanian Banking Association, assisted by an RBI administrative staff (details below).

Based on Recommendation #1 of the Škreb report, Convergence will prepare an SPI Program website by June 2007 to increase domestic ownership and awareness of its successes and future potential.

Based on Recommendation #3 of the Škreb report, Convergence will prepare an expanded update of the Operating Guidelines document approved on September 14, 2006 for SPI Committee adoption by July 2007 to reflect the new proposed governance arrangements.

#### Proposed 2008 Activities

Although the build-up of the 2008 activities will take place between June and September (as done in 2006 for the 2007 activities), we could anticipate that the 15-20 projects that

will be launched in late 2007 will have three dimensions: (1) each will have important public and private gains, as measured through Regulatory Impact Assessment techniques, to motivate authorities and market participants to join forces in their preparation; (2) each will fit the strategic directions set by the EU Commission to build a single financial market; and (3) taken in aggregate, they will be equally distributed across the following segments: (a) new product development; (b) cost efficiencies; and (c) better industry-consumer relationships. Given the closer alignment with EU priorities, it is anticipated that a greater proportion of 2008 projects will involve market-based intermediation issues (e.g., capital markets, asset management and insurance) than it was the case in 2007.

### Financial Considerations

The total annual cost of the SPI Program is estimated indicatively as follows:

<b>SPI Romania Indicative Budget</b>				
Euro'000	FY07	2008		
	Projected	Base	High	
SPI Secretariat	64	90	125	
Foreign Experts	58	120	150	
Convergence Program	187	150	150	
<b>Total</b>	<b>309</b>	<b>360</b>	<b>425</b>	

The “SPI Secretariat” line covers the expenses of the two staff presently on board. The increase in the base budget covers the cost of a dedicated executive secretary whose services are now provided from the Convergence Rome Office and a preliminary estimation of the employer cost to preserve the present net compensation level.

The “Foreign Experts” line represents the professional fees and travel expenses of the experts that provide an intensive but time-limited professional support to local Project Working Groups. The budget amount, spread over 15-20 projects, represents an extraordinarily cost-efficient mode of utilization of specialist expertise.

The “Convergence Program” line represents the professional fees and travel expenses of the Convergence Program Head in relation to his management and technical support of the SPI Program during the transition phase to full Romanian operational responsibility.

The proposed Euro 400 thousand budget, spread over 15-20 projects, is equivalent to about Euro 25 thousand per project. As a comparison, the 2007 SPI Program will be generating approximately Euro 100 million in lower annual costs for the banking sector. A detailed budget in the range indicated above will be prepared in conjunction with the 2008 business plan.

### Convergence Program

In addition to continuing its operational and financial responsibility for the SPI Program throughout 2007, Convergence will take the necessary steps to ensure an orderly transition of responsibilities for SPI Program activities to Romanian stakeholders.

To ensure a smooth transfer of responsibility for SPI Program activities to Romanian stakeholders, Convergence will be available in 2008 to provide managerial and technical

support for a transition period to be determined under a fee-based advisory contract to be entered with the SPI Program/RBI. The proceeds of the advisory contract will flow back to replenish the Convergence Program Italian Trust Fund account, the instrument that has financed most of the Convergence Program's activities to-date. For predictability's sake, it is expected that this 2008 advisory contract will be executed by July 2007.

### **SPI Secretariat**

The two current SPI Secretariat staff will be contracted by RBI as from January 1, 2008, in an appropriate technical form, preserving their compensation package at the time of transfer, job titles and responsibilities. They will be supported by a full-time executive secretary, possibly combining the RBI administrative duties mentioned earlier. For predictability's sake, RBI should issue an engagement commitment letter by July 2007.

Based on Recommendation #4 of the Škreb report, Convergence will prepare a SPI Secretariat professional development plan and management oversight guidelines for the SPI Committee and SPI Coordination Team.

### **SPI Coordination Team**

Its functions will include managerial oversight over SPI Secretariat activities and responsibility to support the SPI Committee in following-up on the enactment progress of analytical recommendations endorsed by the SPI Committee. It will interface with Convergence throughout the transition period, starting from May 15.

Based on Recommendation #5 of the Škreb report, Convergence will prepare for the SPI Committee a recommendation for enactment monitoring activities to be conducted by the SPI Coordination Team with support from SPI Secretariat.

### **Budget and Administrative Support**

The SPI Committee will decide the annual SPI Program budget and its members will follow up through their respective institutions for the RBI governing body to execute it.

The SPI Committee will have full and undivided spending authority over the annual budget that will be made available in a dedicated RBI bank account. It will authorize an RBI administrative staff to execute the contractual documentation and financial transactions and related reporting requirements in connection with the SPI Program activities in modalities to be spelled out in the expanded Operating Guidelines.

Convergence will prepare the 2008 SPI Program budget for SPI Committee consideration and adoption in July 2007. The 2008 budget envelope will be jointly covered by the ARB and NBR additional contributions to the RBI 2008 budget.

Based on Recommendation #2 of the Škreb report, the RBI administrative staff will be responsible for establishing the appropriate contacts with local institutions to explore additional sources of funding support, under guidance by and oversight of the SPI Coordination Team.

### **SPI Members Immediate Actions**

As discussed in the SPI Committee meeting of April 27, 2007, the ARB and NBR SPI Committee members will be responsible for securing their institutions' approval to enable the RBI to perform the duties outlined in the proposal.

Following this step, the ARB and NBR SPI Committee members will appoint each their representative in the SPI Coordination Team.

The SPI Coordination Team will be expected to negotiate with RBI the terms of its proposed administrative support to the SPI Program.

For predictability's sake, Convergence suggests that RBI confirms its agreement to SPI Committee members by no later than June 30, 2007 and be in a position to issue the commitment letters in relation to 2008 SPI Secretariat engagement arrangements and Convergence advisory contract by no later than the end of July 2007.

May 7, 2007

## **The SPI 2008 Program Proposed Action Plan**

- April 27: SPI Committee discussion of this concept note
- May 10: SPI Committee decision document completed
- May 31: ARB and NBR approve increased RBI budget contribution  
ARB and NBR appoint SPI Coordination Team members  
SPI Secretariat professional development plan completed and discussed with SPI Committee members
- June 1: SPI Coordination Team starts RBI discussions
- June 15: SPI website operational
- June 30: RBI agreement-in-principle reached  
Convergence submits SPI Program 2008 budget and updated SPI Program Operating Guidelines
- July 15: SPI Committee Meeting:
  - Approval of RBI agreement
  - 2008 SPI Budget and Operating Guidelines approval
- July 31: RBI commitment letters issued to SPI Secretariat and Convergence
- September 30: SPI Secretariat and Convergence RBI contracts signed effective January 1, 2008
- October 1: Convergence-SPI Coordination Team start operational collaboration
- November 30: RBI SPI Program administrative procedures completed and agreed
- January 1, 2008: RBI SPI Secretariat and Convergence contracts effective  
RBI administrative staff assigned to SPI Secretariat  
SPI Coordination Team in charge of SPI Program operational oversight.

## **The SPI 2008 Program Background**

In the spring of 2006, National Bank of Romania, Romanian Banking Association and Ministry of Public Finance launch a financial sector modernization program (the Special Projects Initiative or SPI Program) with support from the Convergence Program (administered by the World Bank). The National Authority for Consumer Protection joins the partnership in December 2006. The program is placed under the oversight of a five-person high-level committee and orchestrated by a two-person secretariat, supported by the Convergence Program (Washington and Rome).

The novelty of the program lies in its strong practical focus evidenced by four aspects: (a) ex-ante agreement among public and private stakeholders on issues needing reform, (b) quantification of the economic impact of the proposed changes for each stakeholder, (c) extensive analytical and consensus-building discussions within public-private working groups supported by expert advice if necessary and (d) ongoing focus on enactment.

Since its operational launch in September 2006, the SPI Program has dealt with fifteen projects. Under its aegis, several important issues have been successfully addressed such as credit information sharing, amendments to the anti-money laundering law, electronic settlement of debit payment instruments, and creation of a bank ombudsman<sup>1</sup>. The SPI Program is starting to have an impact on the modernization dynamics in Romania: in the October 1-April 15 period, it has mobilized more than 100 banking professionals in 40 project working group meetings; and more than 200 participants attended 5 technical seminars. In parallel, the Convergence Program is delivering a structured Regulatory Impact Assessment program to enhance the evidence-based regulatory design capabilities of the Romanian regulatory community (part of the EU better regulation approach).

In March 2007, the former Governor of the Croatian National Bank issues his independent assessment of the activities of the SPI Program (the Škreb Report). He concludes: *“The SPI Program has a great potential for financial sector modernization in Romania. To materialize the potential, stakeholders in Romania have to: first, realize the present and future benefits of the SPI model; second, understand the possible downside risks to the sustainability of the project; and, third, manage the risks. A sustainable SPI model with net benefits for the economy is doable, but without additional efforts its success is not automatically guaranteed. It is up to the Romanian stakeholders to decide how they want to proceed.”*

After considering the Škreb Report, SPI Committee members ask the Convergence Program to prepare a proposal for transferring administrative responsibility for SPI Program activities to the Romanian Banking Institute as from January 2008. SPI Program costs will continue to be fully covered by the Convergence Program through the end of 2007, bringing the Convergence Program’s total investment in the SPI Romania program to close to \$1 million over two and half years.

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<sup>1</sup> To these projects should be added the RDGF new financial policy project, executed by the Convergence Program in the May 2005-March 2006 period immediately preceding the setting up of the SPI Program.