Rules of engagement with country authorities for Convergence staff

The Convergence program is set up to serve as a think-tank for the authorities and market participants in the SEE countries on the formulation of financial sector wide policies and promote active participation of major stakeholders in the identification and implementation of such policies.

By means of the Convergence platform, public and private sector, industry and consumer associations are supposed to maintain a transparent and effective policy dialogue and formal and informal consultations on several issues pertaining to the development of financial sector in these countries.

Country authorities are important stakeholders for Convergence. They are at the same time counterparts in identifying issues to be addressed in order to improve the market environment, decision-makers and implementing agents for the measures suggested by Convergence, and beneficiaries of the results of those measures as representatives of the political leadership of the countries of operation.

Dealing with country authorities is not an easy task. Historical evolutions in those countries have left behind difficult governance and communication problems. A description of the main issues and challenges in dealing with country authorities is provided in the attachment to this paper.

Because of these issues, **dealing with country authorities should be done in the most tactful way**. The senior country advisors will contact the representatives of the main public institutions of the countries of operations at the inception of Convergence activities and explain to them what Convergence is and does. An explicit support for the Convergence activities should be sought.

Convergence shall not be a conflictual exercise, but one from which all the shareholders stand to gain. Therefore, whenever possible, Convergence staff shall try to directly involve those stakeholders, including country authorities, thus making Convergence a participative process. Hence**, in engaging with the authorities to meet its objectives, Convergence staff should strive to persuade the Government officials and heads of state agencies, supervisory bodies of the importance to build a constructive, open and transparent consultative mechanism for banking and financial issues among all constituencies**. This mechanism will help all the interested parties to provide their inputs and come to an agreement on the goals and implementation of concrete financial reforms and initiatives that will exert an influence on them. This will give the opportunity to the authorities to outline their objectives, share their views and demonstrate the commitment to work to the interest of the financial community in the country. This will also increase the chances that the proposals formulated by Convergence will ultimately be implemented.

In order to facilitate the policy decision-making process, Convergence team should provide its advice to the respective country authorities on the need to strengthen their capacity in terms of organizational structure, skill development, information gathering and analysis. Furthermore, there are not rare the cases when various Government departments, ministries or agencies do not coordinate or even communicate with each other, when initiatives or measures need to be taken. To improve interaction between different governmental or public agencies and between government, trade associations and business community, **Convergence may recommend establishing liaison coordinators/ officials in the line Ministries/public institutions so that to ensure proper coordination of consultative activities and communication of outcomes.**

To achieve success in the process of improving financial and regulatory process, Convergence staff should make sure to involve in the negotiations all the line Ministries, respective bodies, and various public regulators. In short, prior governmental commitment must be secured to make this kind of public-private partnership effective.

Given that Members of the Parliament in Convergence's countries of operation discuss and take national decisions in the financial sector legislative proposals, they represent another group of constituencies, and therefore another target group that should be approached and involved by Convergence staff in the dialogue. When selecting them, Convergence should try to preserve the balance between the participating parties in the Parliament and take discretionary steps, in order to receive inputs and reach the consensus of both representatives, those from the party in power, as well as the opposition. Otherwise, accusations on favoritism may be raised later creating obstacles when passing the regulations**. Convergence staff should not fall into the trap of political clashes between political parties to gain advantage before the voters or special target groups.**

When selecting partners from the authorities or various public institutions, Convergence staff should be careful in choosing:

- Civil servants with decision-making power, who are responsible for the specific policy/regulation issue.
- These officials should have a mandate from the top government official (Minister/Deputy Minister/Governor/Head of Agency) to act or engage in consultations on behalf of the institution.
- If Convergence fails to involve, for various reasons, the directly responsible civil servants as above, in order to avoid conflicting objectives or non-execution of decisions taken, a lower ranking official, who is knowledgeable on the issue, should be engaged.
- In general, Convergence staff can approach key representatives from public institutions and governmental departments, if they demonstrate a positive attitude, pro-active approach, accountability and dedication to contribute to the development of financial sector in their country; have ability to work in a team, be good listeners and digest criticism.

The main principles governing the Convergence activities should be clearly explained and, most notably, pursued by the Convergence staff, in particular those referring to independence, objectivity, honest broker. At the same time, **it is crucial for Convergence staff to be seen as free from any conflict of interest, otherwise they may be perceived by authorities and market participants as being biased in their judgments and actions.**

From this point of view, engagement with country authorities shall be conducted in accordance with the following rules:

1. Convergence staff may not accept any instructions from any government or other authorities.

2. Convergence staff may not accept any remuneration from governments or other authorities in connection with their activities with the Convergence.

3. Public statements in connection with Convergence activities may only be made by the Program Director, the Senior Country Advisors and the members of the Advisory Board.

4. When on assignments with Convergence, staff is not allowed to fill any position in the government, parliament, presidency or other structures of the public authority. A staff member, who states or otherwise evidences by conduct to become a candidate for or to accept an appointment to national public office shall resign from the service of Convergence.

5. Convergence staff may not enter into any contractual arrangement of any sort with market participants to safeguard their independence and objectivity.

6. Convergence staff will not seek or require any gift or other offerings in kind from country authorities, with the exception of gifts of reasonably inexpensive nature.

7. As an honest and neutral broker, Convergence staff will have to ascertain that it will not favor or facilitate through its work, those Government officials that would try to use preferential schemes to the benefit of certain third parties they are involved with, or have elicited bribes.

Attachment

Issues and challenges when engaging local authorities

Authorities in the Balkan countries have often been blamed for the delays in reforming their economies. Part of this poor performance may be attributed to the slow pace of assimilation of the advice offered within the various foreign financed technical assistance programs. While things appeared to improve over the recent years, as testified by the better economic environment, it is likely that the Convergence may still face many challenges when engaging local authorities, which will need a lot of patience and diplomatic skills to overcome. A few of those are listed below.

1. Insufficient understanding of the issues. Many of the policymakers in the countries may now have acquired the technical knowledge needed to understand complex economic issues. However, some others have not. Besides, local authorities tend to believe that their own transition problems are unique, and anyhow different from the textbook cases prepared for classical market economies. Therefore, solutions to those problems may be difficult to advocate and not easily accepted by local officials, even when they appear obvious to outsiders.

2. Suspicious attitudes. The Balkans area has been ravaged by war in the recent years. This may have left many locals with a deep distrust about the real reasons behind foreign advice and consequently with little appetite to follow it. Even in the countries untouched by war, such attitudes may occasionally be encountered, particularly among the officials with a communist background.

3. Vested interests. Sometimes the negative attitude of officials towards adopting certain much needed measures may be motivated by vested interests (privatisation with local political friends rather than strong strategic foreign investors is a very widespread example). Such attitudes could obviously not be changed even by best quality advice.

4. Authoritarian management style. The former communist regimes have been secretive and not particularly known to encourage open debates, such as those promoted by the Convergence. This approach may not have entirely disappeared, especially when authorities have to listen to what they perceive as lesser counterparts. Advice from IFIs or the EU may be taken, but suggestions from banks or consumers will certainly be less welcome.

5. Lack of implementation consistency. Complex reform measures, involving several entities, have always proved difficult to implement in the countries of the area. This difficulty seems to be caused by the weak coordination capacity among various players with opposing views, frequent changes in the staff and decision makers assigned to a project, as well as the existence of different opinions even inside the same institution, all combined with low accountability.

6. Fatigue with technical assistance. Many donors have volunteered to offer advice to the countries of operation. This has created sometimes overcrowding and overlapping to the point that the local authorities were overwhelmed and could not handle anymore in an efficient way the various programs.

7. Focus on short-term results. Local politicians tend to concentrate only on projects which bring immediate results, unless they bring other categories of rewards - such as disbursements from IFIs loans or progress in the negotiations with the EU. A mechanism such as that promoted by the Convergence, promising to bring results in the longer term, may simply not constitute a priority for some of them.

8. Perception that changes are not needed. The indicators of the banking systems in many of the Balkan countries are now showing a significant improvement. This may have brought the feeling that no consultations are needed with the market participants, since the authorities have already proven their capability to do what was best for the sector.