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[How to weave in the "Convergence" approach"]

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- The Bank has always worked "upstream" with authorities to create an enabling environment for IFC investment activity
    - Helping restructure and privatize, or even liquidate, state-owned banks
    - Promoting the enactment of comprehensive banking laws
    - Building efficient payment systems
    - Also, helping strengthen banking supervision laws and procedures
    - Setting the stage for NBFI legislation
    - Helping strengthen capital market legislation and regulatory institutions
    - Our insurance work has long been complementary to your investment activities
    - Improving accounting and auditing practices

- But, as banking systems have been cleaned up and financial markets are slowly acquiring depth, the nature of our work has been changing.

- From doing "upstream" work solely with authorities on stability issues, the WB is shifting its attention "downstream" to helping countries reap the benefits of financial sector reform for the population at large – an area that the recent OED financial reform review has found as needing more attention.
    - This entails a much broader spectrum of work, essentially at the interface between policies and activities of financial institutions
        - We identify barriers, legal and regulatory, to broad and equitable access by the population to financial services.
        - We try to identify possible policy tools to favor such broader access – also in terms of general infrastructure to support SME and retail lending.
            - An important aspect of this work is developing measurement indicators of lack of access - broadly similar to what the "Doing Business" has done for the business activity in general.

- In this new approach, there are obviously great synergies between the WB policy and measurement work and the IFC's policy and institution-level capacity building work. As you may know, we have recently submitted a joint proposal for an "Access-To-Finance" collaborative program to an important European donor.

- This collaboration is very important for each of the two institutions. It helps the Bank have a "reality check" on its work – so that what we do stands a chance to deliver a market impact felt by financial institutions. And, for IFC, it broadens the ultimate impact of its interventions.

- I can only hope that, overtime, our teams will work increasingly together, building on and leveraging the broad expertise that the two institutions have assembled.

- Another area where joint work could help us reach more quickly a stronger impact is the one pioneered by a program, "Convergence", which I and another former IFC financial market specialist, LP, have launched in the World Bank.

- The basic principle behind "Convergence" is that market participants are best placed to identify the most binding regulatory constraints to their businesses – either existing or new. This is, actually, the very reason why IFC has always had a TA activity next to its mainstream investment activity. It was rightly decided, and I was a direct witness in many instances, that the institution-level perspective helps identify critical and relevant policy constraints to doing business.

- But what is new in the "Convergence" approach is the acknowledgement that market participant associations, if properly organized with strong technical staff and balanced governance arrangements, could become an important financial sector development institution, because of their ability to provide constant and reliable feedback on regulatory obstacles to regulators.
    - This is the role that market participant associations (which, together with consumer and other user associations, form the "civil society" of the financial sector) play in sophisticated financial markets.
        - Just read the numbers, range and depth of comments from "civil society" on regulatory initiatives either in the US or in the EU.

- This is not an un-chartered territory for a public institution. Jean-Claude Trichet, the President of the European Central Bank, recently said: "*Responsibility for promoting financial integration chiefly lies with financial institutions themselves which should exploit the framework promoted by public authorities. This is also dependent on the ability of the financial industry to coordinate its members effectively. We see the fostering of collective action on the part of the private sector to overcome possible coordination problems as a very important contribution by public authorities*".

- The culture of consulting with the wisdom of market participants is well embedded in the authorities of jurisdictions with the longest market-building tradition. Former Governor of Bank of England, Sir Eddie George, said: "*We recognized early on that where intervention was judged to be necessary – in the interest of market transparency or of prudential or behavioral conduct – 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 or unnecessarily obstruct market innovation*".

- Financial sector policy-making in advanced economies is driven by three fundamental principles: 1) open, 2) transparent and 3) evidence-based.

- Most developing and transition countries lag behind this good practice. Authorities do not consult openly. But also financial institutions do not know how to articulate a collective policy view.

- If market participants knew how to prepare a policy paper reflecting a general view of the industry that would be acceptable to the authorities, if they knew how to help the authorities achieve their policy objectives, if they knew how to work together to find collective solutions in terms of self-regulation, in terms of consumer protection, in terms of payment solutions, we would have a more active financial sector development debate in our client countries.

- It is obvious, therefore, that the strengthening of a balanced, well-researched and considered voice of market participants is the kind of systemic public policy intervention that an organization such as the World Bank Group should take on as part of its mission.

- A market participant association (and for this purpose, also a consumer association) could become an ideal recipient of World Bank Group technical assistance. It would allow us to

move from delivering projects on a discrete basis to a situation where we would have in many countries a wholesale platform capable, with the blessing of the authorities, to undertake many small-scale infrastructure projects in the interest of the industry with a systemic impact, with WBG support.

- When you look at the activities undertaken by reputable market participant associations, you see a large range of activities that could have been promoted with WBG assistance:
    - data gathering and analysis of product-by-product lending, of levels of customer retention and satisfaction
    - industry-wide cost benchmarking
    - maintenance of databases of loss-given-default situations necessary for Basel II
    - self-managed ombudsman schemes
    - definition of SME lending best practices
    - improvement of bankruptcy collection procedures
    - management of credit bureaus with a complementary product range and target market than public credit registries, etc.
        - These associations could become an important World Bank Group partner in promoting "access to finance", together with authorities.

- "Convergence" aims at stimulating this supply response for policy analysis and dialogue in seven pilot South-Eastern European countries. Through the projects we undertake, and one of our early projects is already in collaboration with IFC (on public-private credit bureaus), we want to show how an analytical approach can be instrumental in terms of consensus-building between authorities and market participants on policy fine-tuning needs.

- And in undertaking this work, with extensive use of local consultants, we want to help local analysts, whether they sit with the Central Bank, in a university, in a local consulting firm or in the local market participant association, to become capable and confident in using the power of analysis to promote advancement in their country's financial sector infrastructure.

- And by attaching a "Dollar value" to the regulatory changes analysed, with the Regulatory Impact Analysis technique, it is our hope that the local industry will find it eventually advantageous to build (or pay) for an independent analytical and technical capability in this area.

- Finally, under the "Convergence" banner operate several former Governors of the region who act as the "honest brokers" of the public-private dialogue. They embody the spirit of a World Bank Group approach to financial sector development: helping authorities understand the merit in a market view of development needs and, conversely, helping financial institutions appreciate the policy constraints authorities are under.

- If there is one activity that, from today, could be run in the joint Bank-IFC interest, this is "Convergence". The topics it deals with are, by definition, topics that any market participant association, and hence any IFC client, would want to be tackled to pursue ambitious business development strategies.

- "Convergence" is the financial sector response to the "Sustainable Development" challenge. IFC, together with the Bank, has a role to play to ensure that its clients act responsibly also in their industry association forum and vis-à-vis authorities and clients.

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