



**DEVELOPMENT COMMITTEE**  
(Joint Ministerial Committee  
of the  
Boards of Governors of the Bank and the Fund  
on the  
Transfer of Real Resources to Developing Countries)



**NINETY-FIRST MEETING**  
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**Statement by**  
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**Constituency of Albania, Greece, Italy, Malta, Portugal,**  
**San Marino and Timor-Leste**

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**1. Introduction**

The theme chosen for this year's Spring Meetings is timely and compelling. It is timely, as the forthcoming announcement of the new Sustainable Development Goals calls for a thorough discussion of how to meet investment needs. It is compelling, as it requires an answer to a time-honored question in development economics: why doesn't capital flow towards poor countries? We welcome the long-term view taken by the Discussion Note submitted to the Development Committee and the joint effort of all institutions that contributed to it.

**2. Financing for development**

Considerable progress has been made in reducing extreme poverty and boosting shared prosperity, but it is uneven and many poor countries lag behind. We cannot rest. Over one billion people still live in extreme poverty. Too many, especially in Africa, still suffer from lack of access to water, school and basic health services. This is unacceptable.

For this formidable task even doubling the size of the World Bank would lead us nowhere close to satisfying financing needs.

Financial deepening can be instrumental to broadening economic development only if it allows greater diversification of risk and makes finance accessible to larger numbers of countries and firms. This was not always the case in the decade before the financial crisis, when both the size of the financial system and its role and pervasiveness in the economy increased dramatically. This process has slowed only slightly with the crisis. The enormous amount of global liquidity has flowed towards capital-poor countries only to a limited extent. Indeed, domestic savings have been channeled from developing countries into financial markets of advanced economies.

Differences in fundamentals that affect the production structure of the economy certainly contribute to explaining the reason for these flows. However, there is evidence pointing to market failures as an important category in explaining the limited capital flows towards countries where the return to capital is high. Institutional quality may facilitate capital flows into developing economies. Inclusive institutions that enforce property rights, create a level playing field, and encourage investment in physical and human capital are critical to fostering sustainable and balanced economic growth.

The World Bank Group (WBG) has a crucial role to play in this framework. Achieving its goals requires knowledge and practical solutions, which are scarce resources. The Bank should be the hub of knowledge, able to mobilize its own expertise and information to provide the development solutions most suited to each client's needs.

At the same time, it must catalyze both public and private resources, at both international and domestic levels, to finance those needs. In particular, the Bank should keep its unique role in making finance available where no other financial institution can: in the poorest countries and in fragile and conflict-affected areas.

There is little doubt that the private sector is an unparalleled engine of growth and development. If private agents are allowed to operate in a competitive environment, they are spurred by entrepreneurial spirit to combine labor, capital and other inputs to produce goods and services that they expect to sell on the market, thereby creating jobs and generating income. Nevertheless, in order to operate efficiently a competitive market requires public policy to establish a set of rules and institutions that address market imperfections and externalities. We strongly encourage the World Bank Group to work closely with governments to create an environment which will unlock private sector potential.

The pragmatic experience of the IFC should be more and better leveraged, putting it at the front of the Bank's engagement with the private sector. The IFC has successfully supported the private sector in many developing countries by continuously scouting for new ideas and new entrepreneurs, helping them to tap business opportunities and develop their business plans.

The Development Committee paper rightly notes that, so far, the contribution that domestic resource mobilization and an effective use of public expenditure can bring to the development agenda has not been sufficiently explored. In many developing countries there are enough domestic resources to take action immediately. Incentives should be thus realigned so as to make these resources available to stimulate development in those countries where they are actually generated.

### **3. A changing World Bank**

We are encouraged by the first steps of the new organizational structure of the World Bank. Further progress towards a more efficient Bank, one more able to respond quickly to clients' needs, could be expected as a result of the current process. Increasing the effectiveness of the World Bank is of the utmost importance. In order to provide tailored solutions to clients it is necessary to tap into the synergies of the organizations of the WBG without jeopardizing their respective comparative advantages.

A prolonged period of low interest rates is putting pressure on the financial prospects of the IBRD. As the increase in the prices of its financial products and the implementation of the expenditure review will become evident only in the next few years, the Bank risks not being able to increase its reserves for the second year in a row. This requires close monitoring.

We expect that, starting from 2018, the Bank's costs will be covered by its business revenues so that all profits from the equity management strategy will add to the future lending capacity. To this end, a rigorous implementation of the expenditure review is essential. Going forward, we also expect additional mechanisms that will guarantee efficient spending, even in situations of buoyant revenues. This is crucial for the Bank to grow and keep pace with the growing financing needs of development.