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-THIRD MEETING
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Statement by

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Governor of the Bank of Italy

Constituency of Albania, Greece, Italy, Malta, Portugal,
San Marino and Timor-Leste

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Forced displacement

The Bank's role in crisis prevention – its preparedness and response capabilities relative to other international actors in this sphere – is an important topic in the discussion of the evolving role of global multilateral financial institutions.

The challenges posed by forced displacement, the topic of the background paper chosen for this year's Spring Meetings, should be addressed not only in terms of response, but also prevention and preparedness. We encourage the Bank to enhance its efforts to help countries mitigate fragility risks, which need to be assessed through Strategic Country Diagnostics and Country Partnership Frameworks.

To effectively address forced displacement, the World Bank Group must rely on its comparative advantage, mainly its capacity to bring development expertise, knowledge and methods. Integration of displaced workers into the labour market of host countries may be beneficial in the long term. But careful consideration will have to be given to the political economy dimensions of forced displacement crises, in order to accommodate the interests of displaced people and their host countries in development initiatives and resource allocation decisions.

Support to neighbour countries who host forced displacement should be well grounded within a comprehensive approach, drawing on Disaster Risk Management principles of prevention and preparedness and on lessons learnt from past experience.

We recognise that global financial resources to tackle crises responses remain constrained. In the longer term, we suggest moving towards a more proactive system of financing risk. In the shorter term, we welcome the intention to explore new approaches to leveraging, in particular engagement with the private sector.

The countercyclical role of the WBG

The WBG has promptly and effectively responded to the demand for emergency lending, always in a coordinated way with other multilateral institutions, especially during severe downturns. It should continue to do so in full coordination with other IFIs and according to its mandate. Nonetheless, as we already pointed out in October 2013, maintaining a countercyclical capacity has far-reaching implications for the Bank's business model. In particular, the Bank needs to keep an adequate buffer of unused financial reserves to be able to quickly intervene when need arises. The buffer is an implicit burden on the efficiency of the Bank and should be factored into loan prices. Prices need to include an insurance premium for the potential countercyclical lending.

The volatility in financial markets adds to the distress caused in many countries by commodities price retrenchment. At a time when the demand for IBRD loans is likely to increase, it is important that the Bank retain its role as a source of assistance in the allocation of limited financial resources to promote long-run sustainable growth while sheltering the poorest from the impact of present and future shocks. In view of this daunting task and given limited IBRD resources, the Bank should be wary of spreading these resources too thinly over too many objectives. A few select priorities should instead emerge from an active policy dialogue with borrowing countries.

Looking ahead

We welcome the effort to reach a shared understanding between the Board of Directors and Senior Management of the medium- to long-term role of the WBG. This understanding is essential to preparing the ground for the crucial decisions shareholders must make in such areas as voice, IDA replenishment, and financial capacity.

The *Forward Look* considers the Bank's ability to respond to the ambitious agenda of the 2030 sustainable development goals. The role of multilateral financial institutions remains to address market failures. Yet, the justification for financing relies on failures to implement the most appropriate policies rather than on capital market imperfections.

The real leverage of the World Bank is not primarily its financial capacity, but its ability to focus on policies for reducing extreme poverty and sharing prosperity and to be a knowledgeable and trusted source of advice on what works. To this end, it is essential for the Bank to identify sound examples of previous interventions to systematically assess, through data-driven and evidence-based analysis, their degree of success and to implement the lessons learnt.

Emerging global challenges require that the Bank recognise and clarify its role as a major actor in producing and protecting global public goods. This calls for a clearly articulated operational strategy that includes detailed assessments of the budget and of the implications for the Bank's balance sheet.

Financial sustainability and beyond

The financial strength of the Bank remains paramount, and we urge the Bank to continue to adhere to the highest standards of fiscal discipline to be able to address its clients' needs. This requires fully covering operational costs with business revenues – the first step of the agreed path toward financial sustainability – by July 2017. The Expenditure Review needs to remain fully on track, with efficiency reviews to keep expenditures streamlined over time. This is ever more essential, as for the third year in a row the IBRD will likely not be able to put any significant reserve toward its capital.

A stronger equity base, combined with a more efficient use of the Bank's capital, has already permitted a significant step-up of its lending capacity. However, it is important for the Bank to explore all possible options to optimize its balance sheet – while maintaining a prudent risk profile – before calling for a new capital increase.