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)

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Statement by

Ignazio Visco
Governor of the Bank of Italy

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

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Introduction

After years of weak growth, global activity has shown a slight strengthening since mid-2016, supported by both highly accommodative monetary conditions and expansionary fiscal measures such as those adopted in China and Japan. Looking ahead, a fiscal stimulus in the United States could provide further impetus to global economic activity. Financial market participants seem optimistic, but economic policy uncertainty remains high regarding the timing and content of any decisions on tax matters, financial regulation, and international trade relations.

A strong fiscal expansion in the US, in a context of near full employment, would risk pro-cyclical effects. In this case, the process of normalization of monetary conditions may be less gradual. The increase in interest rates could further affect the exchange rate of the dollar and reverberate on international markets. This would presumably have negative net effects on emerging economies, where companies have accumulated, even in recent years, new foreign currency denominated debt.

Since the beginning of the century, emerging countries have experienced a sustained and prolonged expansion, which has brought their share of world GDP to well over 50 percent and raised standards of living for large parts of the world population. For the first time in history the share of global population living below the international poverty line has now fallen below 10 per cent; it was 35 per cent in 1990. These successes may be jeopardized if the process of trade liberalization comes to a halt or even reverses course. New barriers to international transactions would slow the recovery in world trade and would call into question the predominant business model based on global value chains. Investment, innovation and productivity would, in turn, be negatively affected.

At the same time in advanced economies there is growing evidence of stagnating wages, job displacement and, more generally, within country inequality. This may hinder growth by feeding anxiety and opposition to trade openness and technical progress. It has been rightly suggested that feasible policies should facilitate adjustment by reducing costs on affected workers through flexible and adaptive education, job-training and job-matching programs.

A changing development finance landscape

The global development finance landscape has also dramatically changed. With ODA unlikely to increase, and limited fiscal space in many developing countries, governments alone cannot finance the Sustainable Development Goals (SDGs). Effective development solutions can only be achieved by fully harnessing the resources and innovation of the private sector, together with strategic goals for public investment, especially for infrastructure.

The process of attracting private capital to developing countries is hindered by high perceptions of risk, information gaps and limited regulatory and infrastructure capacity. Investors have difficulty valuing opportunities or pricing risk, and markets are fragmented. As a result, private capital does not flow at the scale needed to close development gaps.

The most effective solutions to development problems involve the complex interplay of private investment and public policy. In developing countries, the private sector can implement solutions that spur productivity, create jobs, and foster income growth. However, in order to thrive, it requires the capability to access market opportunities, as well as an environment that promotes an efficient allocation of resources. This process is fostered by sound macroeconomic policies, good regulation, trade openness, dynamic entrepreneurship and innovation, and sector-specific approaches to tackling market failures.

A better and stronger World Bank Group for all

The role of the World Bank Group (WBG) in attracting private sector financing into developing countries is therefore particularly important. However, achieving the ambitious SDGs by 2030 requires scaling up coordination among all multilateral actors, building on their respective missions and expertise.

To accomplish the SDGs, the Twin Goals and climate change agreements, we still believe that a better, stronger and more agile Bank and a refocused IFC are complementary and equally necessary. They can provide scale by creating markets and unlocking private capital to finance development and growth.

We recognize the progress made on reforms at the WBG as outlined in the Forward Look update. We encourage Management to deepen and widen these initiatives, staying engaged with all clients. At the same time, we must ensure that resources are strategically deployed to meet global and client needs and targeted to those countries that most need funding. Markets should be developed to broaden the reach and impact of private sector solutions. The WBG should continue to improve its effectiveness, its internal operational model, as well as strengthen its financial capacity.

We welcome the effort to step up cooperation on potential projects across the WBG and the systematic coordination of public, private and blended funding solutions under the Cascade approach. The creation of a window in IDA18 to leverage IFC and MIGA to promote private sector development in IDA-only countries will help mitigate investment risk and enhance commercial viability, paying special attention to Fragile Conflict Situations.

We trust that Management will continue to generate efficiencies in budget utilization. It is imperative to maintain momentum following the achievement of budget anchors and of the savings targets of the expenditure review. Budget discipline will allow the WBG to strengthen the equity base and realign spending with evolving priorities.