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

The global economy is enjoying a moment of robust, synchronized growth. However, trade restrictions may cause an adverse global supply shock, which may be amplified by the pervasiveness of global value chains. This could be compounded by an adverse demand shock, given that the associated uncertainty could have a negative impact on decisions to invest and to consume. Overall, this would lead to a global output contraction.

Global public debt as a share of GDP has expanded substantially since the 2008 financial crisis, notwithstanding the debate about deleveraging. The increase has been particularly acute in emerging economies, including those vulnerable to interest rate increases. The World Bank should help these countries to use their budgetary lever to counteract the business cycle, focusing on the quality of public finance while protecting the poorest.

Despite all the relief efforts made by official creditors and traditional donors, debt sustainability is becoming a serious concern in many low-income countries that face higher liabilities and an increasingly complex creditor composition. This should prompt the WBG and the IMF to develop a comprehensive joint action plan which carefully considers limits in IDA countries' absorptive capacity, in order to avoid a further increase in debt vulnerabilities.

Strategic framework and reform agenda

Eradicating poverty and boosting shared prosperity requires differentiated approaches to specific categories of clients and a willingness to rebalance resource allocation. Low income and fragile countries' vulnerabilities call for adequate safety nets and for institutions which can expand access to basic services. Middle income countries need a more targeted poverty alleviation strategy, one that tackles institutional and policy constraints through higher value-added knowledge products, and which addresses the remaining infrastructure gap.

A clearer IBRD graduation strategy must be pursued, building on the country partnership frameworks agreed upon with borrowers. It should more directly link access to WBG resources to indicators of economic development, access to external finance, and the possibility of leveraging the private sector. Because many of its clients have regular access to capital markets, IBRD lending programs must become more selective and target operations that ensure the highest development impact. The capital increase under consideration should enable the IBRD to finance long-term investments that lie beyond markets' reach.

Improving clients' capacities to assess risks and strengthening their financial resilience is crucial to enhancing preparedness and readiness for natural disasters. Disseminating knowledge and lessons learned is also important to helping countries enhance their resilience. We remain convinced that these are the areas where the WBG's comparative advantages lie.

The IDA18 replenishment's renewed focus on fragile and conflict situations adds more challenges and calls for a more effective and integrated approach. To this end, working in partnership with other multilateral financial institutions and mobilizing the private sector is vital to meeting development and resilience challenges.

We reiterate our call for the WBG to deploy its skills and to convene public and private actors in pursuit of vigorous, environment-friendly growth in client countries. We view the climate change agenda, and that of global public goods in general, as effectively reinforcing and complementing goals for social inclusion and for private sector development. The Group is making significant efforts in supporting the development of infrastructure needed for private sector growth. It is time to make an additional, targeted effort on the human capital agenda. To this end, improving incentives to foster effective investments in health, education, and social development is essential.

The WBG's financing should continue to focus on long-term development goals, rather than short-term responses to temporary imbalances. This does not mean that the Bank and the IFC have no role to play in economic crises, but good division of labor requires avoiding overlap with IMF instruments. The creation of a new capital buffer for the IBRD should not undermine an efficient use of Bank resources, including those coming from the capital increase. It should not imply a *de facto* upward revision of the sufficiently prudent minimum Equity-to-Loan threshold of 20%.

Current reforms must link strategic priorities to corporate planning, ensuring accountability and laying the foundation for results-informed budgeting. Improving the governance of the Bank's lending projections, budget, and net income is crucial.

Financial sustainability

We are pleased that the IBRD's capital is no longer deployed to cover administrative expenses in excess of revenues. Its business model is now financially sustainable, as it ensures solid income generation to bear future needs. Coverage of direct and indirect costs of lending, including expected loan losses, is achieved while maintaining loan terms well below market rates.

Higher rates on loans that tie up the Bank's capital for longer periods of time will help prevent scarce long-term funds from being diverted to operations that are better served by shorter term loans.

The needs of the poorest and most vulnerable are the principal claim on IBRD resources. Accordingly, we favor the establishment of a framework that explicitly takes it into account, with adequate consideration of preservation of the real value of the IBRD's capital over time. Higher terms for clients with larger capacity will help accomplish the mission of supporting the neediest.

Financial sustainability does not ensure efficiency in resource utilization. We encourage Management to continue fostering efficiency and monitoring it by means of sound indicators.

The "voice" of the global economy

We remain committed to a shareholding review that fully reflects the changing reality of the global economy and strengthens the Bank's development mission, as agreed to at the 2015 Annual Meetings. The dynamic formula provides a necessary anchor to ensure, over time, adjustment towards an equitable voting power in the IBRD. We also look forward to a review of the IDA voting rights arrangements, which IDA Deputies agreed to discuss at the upcoming Mid-Term Review of IDA18.

Concerning the share allocation rule for the IBRD selective capital increase (SCI), we believe *ad hoc* solutions and arbitrary thresholds should be avoided as much as possible. We agree on the use of unallocated shares – as a one-off measure – to limit extreme cases of under-representation. This will reduce the need for additional SCIs in the future.

Today's proposed arrangement for the IBRD is far from optimal, as we will presumably need several SCIs to bring shareholding closer to the dynamic formula's outcome. As for the IFC, we recommend moving its shareholding towards that of the IBRD. Hence, we support the proposed SCI, in which shares are allocated to countries with IFC shareholding below their IBRD shareholding, after converting retained earnings into shares.

Although some concerns remain regarding the size of the capital package and its bias toward the general capital increase, we recognize that the overall outcome will further strengthen both the financial sustainability and the operational capacity of the IBRD and IFC. This will bring the discussions that have taken place since our Meeting in Lima to fruition.

With these goals in mind, we recognize that negotiations have been intense and complex, and represent a valuable effort by all parties, including Management. In the spirit of compromise, we are prepared to join the emerging consensus and to ensure the World Bank Group remain fully legitimate *vis-à-vis* its diverse stakeholders.