Statement by

Mr. Mario Draghi
Governor of the Bank of Italy

On behalf of Albania, Greece, Italy, Malta, Portugal, San Marino and Timor Leste
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The World Bank beyond the crisis

As we convene for the 2010 Spring Meetings, the world economy has begun recovering the output losses suffered in 2008-2009. According to the latest IMF’s World Economic Outlook, after a 0.6 percent contraction in 2009, world output growth is expected to recover in 2010 and 2011, respectively, at 4.2 and 4.3 percent. Developing and emerging economies, in particular, are anticipated to grow by 6.1 and 6.4 percent this year.

The Bretton Woods Institutions contributed unprecedented amounts of resources to the goal of mitigating the impact of the crisis. Coordination and appropriate division of labor among multilateral institutions remain of the essence, as economies seek to recover lost employment and achieve sustainable and inclusive growth.

We commend the World Bank Group (WBG) for its swift crisis response and for identifying clear strategic priorities in its aftermath: provide opportunities for the poorest, address climate change and other global challenges, strengthen governance and crisis preparedness. These priorities need now be translated into a selective business plan based on the Group’s comparative advantages and able to ensure the highest development and poverty-reduction impact.

Strategic framework and reform agenda

Achieving the cross-cutting goal of reducing poverty requires differentiated approaches to specific categories of clients and willingness to rebalance resource allocation. Low income and fragile countries’ specific vulnerabilities call for adequate safety nets and for institutions able to expand access to basic services. For middle income countries, there is need for a more targeted poverty alleviation strategy, one that tackles institutional and policy constraints through higher value-added knowledge products and that addresses the remaining infrastructure gap. Finally, a clearer graduation policy must be defined, linking countries’ access to IDA and IBRD resources to indicators of economic development and access to capital markets.

Climate change, probably the greatest challenge of our time, must figure prominently in a World Bank Group agenda that identifies global public goods as one of its new strategic pillars. The threat that climate change poses to the poorest and most vulnerable cannot be exaggerated. We reiterate our call for the Bank to deploy its skills and to convene public and private actors in pursuit of vigorous, environment-friendly growth in client countries, looking beyond 2012, when the Kyoto protocol will expire.

We view climate change, and more generally the global public goods agenda, as effectively reinforcing and complementing the World Bank Group agenda for social inclusion and for private sector development. The Group is making significant strides in supporting the development of infrastructure needed for private sector growth. As the deadline for achieving the Millennium Development Goals
draws nearer, it is time to make an additional, targeted effort on the health and education agenda. For social development we must now start looking – and acting - beyond 2015.

Scarce resources and comparative advantage call for selective interventions, vis a vis other multilateral financial institutions, based on whether the Bank has the critical mass of human and financial capital to achieve a meaningful scale of engagement. Coordination with the IMF in responding to future crises is particularly important.

Current reforms must link strategic priorities to corporate planning, ensuring accountability and laying the foundation for results-informed budgeting. The introduction and refinement of Corporate Scorecards across the World Bank Group and the consolidation of key decisions affecting Bank’s budgets, revenues, and net income are innovations of great importance.

The “voice” of the new 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 stated by the Development Committee in Istanbul, these principles should be enacted by way of a dynamic formula, able to ensure, over time, an equitable voting power adjustment mechanism.

As agreed in Istanbul, we have achieved a transfer of over 3 percent voting shares to DTCs. However, the complexity of the approach and its departure from the principles of economic weight and development contribution do not make it suitable for future shareholding reviews.

Looking ahead, we welcome the proposed commitment to arrive at a new formula that links voting shares to economic weight more closely and avoids introducing disincentives to countries’ graduation and distortions in the governance of our Institution.

While today’s proposed arrangement is far from optimal we are prepared to join the emerging consensus. We recognize the valuable effort done by all parties to move ahead, with the effective support from Management. Moreover, we believe this is a dynamic process whose individual steps are of less importance than our long term goal: a World Bank that remains fully legitimate vis a vis its diverse stakeholders and financially solid for generations to come.

A financially sustainable institution

The forceful WBG countercyclical crisis response has largely eroded the capital available for new lending post-crisis. With its largest clients having regained regular access to capital markets, IBRD lending programs must become more selective and target operations that ensure the highest development impact. The current capital increase should enable IBRD to resume financing long term social and structural investments that lie beyond markets’ reach.

The new capital must be put to work into a sustainable business model that ensures solid income generation. Capital cannot be deployed to cover administrative expenses in excess of revenues. Coverage of direct and indirect costs of lending, including expected loan losses, can be achieved while maintaining IBRD loan terms substantially below market rates, as shareholders will continue to waive all payout rights.

Adherence to sound principles of cost coverage will be facilitated by synchronous decisions on budget and pricing. Furthermore, financial sustainability argues for higher rates on loans that tie up the Bank’s
capital for longer periods of time. Such charges will help prevent scarce long term funds from being diverted to operations that are better served by shorter term loans.

We remain of the view that the needs of the poorest and most vulnerable are a senior claim on IBRD income, as well as on possible future excess capital. Accordingly, we favor the establishment of an income allocation framework that explicitly sets out such principles, within prudential boundaries and with adequate consideration of preservation of the real value of IBRD’s capital over time.

With these goals in mind, we are prepared to support the capital increase as part of a package of sound and balanced financial policy measures, bringing to fruition the discussions that have taken place over the last year. If we are to be responsible vis-à-vis future generations, we must leave to them a WBG strong enough to take on the challenge of poverty eradication over the decades to come.