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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1. Introduction

Last year in Tokyo we agreed on the need for a comprehensive strategy for the World Bank Group (WBG) to sharpen its focus on its original mandate. The President deserves credit for presenting today the goals of the new strategy drawn up after extensive dialogue with shareholders and WBG staff.

Ending absolute poverty and promoting shared prosperity within a framework of environmental, social, and financial sustainability are meaningful goals for the WBG in today’s world.

We also welcome the proposed strong link between the strategy and the budget allocation process, which will improve the ability of the Bank to make the most of its means to reach its goals.

To develop the new strategy fully, its goals and its “building blocks” require some additional reflections.

2. The goals

2.1 Ending absolute poverty by 2030

Major progress has been made since 1990, when 43 per cent of the world population was in absolute poverty. The first millennium goal of halving the percentage of world population leaving in absolute poverty has been achieved five years ahead of time. However, according to the latest World Bank estimates, in 2010 there were still 1.2 billion people, or 21 per cent of the world population, living on 1.25 dollars a day or less. This is still an unacceptable level of deprivation for too large a share of humanity.

The WBG is proposing to eradicate poverty by reducing the extreme poverty rate to 3 per cent by 2030.

This is an ambitious global goal. The WBG cannot achieve it alone, but it can accelerate the path towards it. To ensure that no country is left behind, the WBG needs to articulate the goal at country level. This will minimize the risk that the Bank focuses only on large countries, shying away from realities where poverty reduction is harder to achieve. To this end, it might be worth complementing the 3 per cent global target with some indicators to capture how single countries will be progressing towards it.

2.2 Promoting shared prosperity

The second goal the Bank proposes is to foster and monitor the income growth rate of the poorest 40 per cent of the population. This proposal is a landmark change in the Bank’s thinking about development: for
the first time there is a clear recognition that a stable development path needs to incorporate some measure of inclusiveness. Proper indicators of shared prosperity should then be defined, one option being to compare the income growth of the bottom 40 per cent with that of the rest of the country’s population.

In many countries poverty reduction or even eradication could be achieved with internal resources and modest public finance interventions aimed at sharing the prosperity of the wealthiest. As recently pointed out by World Bank research, such action could require just a small tax increase for the top end of the income distribution.

2.3 Environmental, fiscal and social sustainability

We commend the Bank for clearly stating that ending extreme poverty and promoting shared prosperity require not only social inclusion, but also safeguarding the resources of our planet in the long-term, as well as limiting the debt burden on future generations.

It is important and urgent that the Bank commits to choosing a set of indicators to monitor the sustainability of the development process. Sustainable growth increases the wealth that one generation passes on to the next one, or at least it does not deplete it. Wealth accounts, which provide a framework to measure a country’s wealth including all types of assets (financial, human, and natural), can be a powerful tool.

The Bank should be fully engaged to develop a coherent system of wealth accounts, and stand ready to support countries with weak statistical capacity to implement them. It will take time to develop such a system, but in the meantime, some of the many important indicators the Bank publishes every year in the World Development Indicators could be adapted to monitor sustainability trends.

3. The Building Blocks

The building blocks of the new strategy are broad enough to encompass areas for Bank’s activities that have been developed in recent years and endorsed by the Development Committee over time: private sector development, job creation, gender equality as smart economics, disaster risk management, governance, voice and accountability. Going forward, it is important to harness this large body of experience in a coherent way to serve its overarching goals even better.

At the same time, the Bank’s scope of intervention cannot be unlimited. We therefore strongly welcome the proposed concept of “dynamic selectivity”, which is by far the most innovative among the building blocks of the new strategy. While the concept needs to be sharpened and better-defined at the operational level, it rightly states that use of resources needs to be optimized by clearly identifying the Bank’s comparative advantages in the realm of all possible development interventions.

In this context, the Bank needs to deliver more and improve its ability to align activities with goals. The Bank’s budget plan for the FY14-FY16 should be an opportunity to start experimenting with this new concept of “dynamic selectivity”. We would not be able to support any deviation from the budget discipline, agreed upon in 2006 and reaffirmed at the time of the last capital increase, as a result of the endorsement of the new strategy.

In the coming months, it will be pivotal for the Bank to consider where the resources needed for the new strategy can and should come from. The current income generation capacity is unable to maintain the existing real level of capital, even in the absence of a strong cost dynamics. The possible scenario of declining lending and persistently low interest rates questions the current business model. It calls for a
new approach to widen the revenue base of the Bank, or else, the budget discipline should be tightened further and a sharp reduction in the size of the budget would need to be considered.

The financial strength of the Bank remains paramount and we urge the Bank to continue to adhere to the highest standards of financial discipline, which should be part and parcel of the new strategy.