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-NINTH MEETING
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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

Over the past months the global macroeconomic outlook has deteriorated substantially, partly due to temporary factors. The global slowdown has been accentuated by widespread uncertainty, which is also linked to the risk of trade dispute escalations, hurting investor and consumer confidence in many regions, especially in Europe and China. A range of triggers beyond the current tensions could spark further deterioration in risk sentiment. This would result in adverse growth implications, especially given the high levels of public and private debt.

Over the past twenty-five years, open markets have contributed to a dramatic fall in global poverty. However, progress has been uneven, and there are indications that the picture may be changing in some areas. In Sub-Saharan Africa, as well as in fragile and conflict-affected situations, the total number of poor is on the rise. This on its own is of great concern and could further amplify the risk of a mass exodus from those areas. In many countries, the bottom 40 percent of the population has been progressively left behind. It is therefore imperative to intensify the promotion of economic growth, while at the same time ensuring that the poorest reap the benefits.

Two measures appear crucial to eradicating extreme poverty. First, emerging economies that need it most should adopt appropriate redistributive policies. Second, the international community should step up the effort to ensure that resources sent to poorer countries are invested in the most effective way, to promote investment in high quality infrastructure and to tackle conditions of marginalization, often linked to poor health and education. Encouraging the build-up of institutions to limit the phenomenon of exploitation – still too widespread in these countries – would buoy economic development and make it more inclusive.

Disruptive technologies

Technological progress and globalization can provide important development opportunities for all countries. In the short to medium term work displacement is a risk and may well exacerbate income inequality.

In several developing economies – including in Africa – there is growing evidence that information technologies can create jobs by raising the productivity of existing firms and encouraging the entry of new ones. We should remain vigilant about the consequences of such changes for the economies at large: disruptive technologies may not be socially sustainable if the fruits of progress only benefit the few; they may also not be economically sustainable, if worker displacement reduces aggregate demand.

Global enterprises at the frontier of technological innovation – including the so-called “Big Tech” – are in the best position to exploit economic integration by taking advantage of access to very large markets. They can cut prices through investments in technology, benefitting from economies of scale, as well as across-country differences in the cost of labor for given skills. The ability to produce at lower prices could indeed benefit consumers, but if “dominant positions” emerge, there is the further risk that cost reductions may not be fully translated into prices.

Another competitive advantage of “Big Tech” companies is the huge amount of personal information they possess. This poses delicate problems of security, management, and data processing that go beyond the mere protection of privacy. The level of cybersecurity should be strongly prioritized. The risk of payment service interruptions, large-scale financial fraud, and widespread and prolonged breaks in the supply of electricity may have worse consequences than those of the “traditional” crises that originate in the economic system. The complexity and global nature of these issues makes any attempt at unilateral regulation bound to fail.

An answer to these challenges that would consist of slowing technological developments, or reintroducing barriers to economic integration – a tendency that seems to be gaining ground dramatically in recent years – would amount to a huge waste of opportunities. Goods and services that can improve our living standards would only come with severe delays and at much higher costs. On the contrary, we should strive to build and properly manage the necessary institutions to govern these risks effectively and make the most of the great opportunities offered by technological progress.

Implementing the commitments of sustainable development

We are encouraged by the advances in the implementation of the “Forward Look” and the commitments agreed upon with the Capital Package for the IBRD and IFC. The narrative underpinning the request for additional capital is predicated on the need to foster development by creating markets in the world’s most challenging arenas. Therefore, we look forward to the approval of the resolutions for the IFC, so that a complete implementation of the package may be achieved through leveraging private sector resources.

The recent focus on IBRD and IFC capital needs should not diminish the crucial role that IDA and MIGA are expected to play in the pursuit of the Sustainable Development Goals. We encourage IDA to take advantage of its financial capacity and build on the lessons learned from the Private Sector Window to promote better World Bank Group solutions for the poorest countries. We also expect that – in response to the call of the G20 Eminent Persons Group – MIGA will take stock of the guarantee and de-risking facilities put in place by the Multilateral Development Banks and will explore options to enhance coordination and cooperation with these institutions.

We support the roadmap for review of the system governing IDA voting power and the aim of presenting a paper to the Governors at the next Annual Meetings. We back the principle that the voting rights system should ensure protection for IDA recipients, while providing adequate incentive for new and existing donors to contribute.

We commend the World Bank Group's commitment to achieving further budget efficiencies, after the successful implementation of the expenditure review. With the increasing costs of doing business, further efforts will be necessary to prevent recurring to IBRD capital in order to cover administrative expenses in excess of revenues. The financial sustainability of the IBRD's business model is essential to ensure solid income generation which will bear future needs.

We are concerned that a large part of the projected savings may come from increased average project size. We urge Management to ensure that this will not jeopardize the agreed-upon shift of resources towards the poorest and most fragile contexts.

We support a more selective engagement with clients in the upper income range and expect that intervention in these countries will be focused on strengthening policies and institutions. A continuous engagement of the IFC in these countries will facilitate an orderly graduation process from IBRD lending and a more systematic reliance on market mechanisms to pursue each country's development strategy.