Ignazio Visco: Creating job, eradicating poverty and achieving sustainable prosperity

Statement by Mr Ignazio Visco, Governor of the Bank of Italy, on behalf of the Constituency representing Albania, Greece, Italy, Malta, Portugal, San Marino and Timor-Leste, to the Development Committee, Tokyo, 13 October 2012.

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1. Creating jobs for development: a challenge for all countries

According to the ILO's latest estimates for 2012, the global number of unemployed is 200 million, about 30 million more than in 2007. At the same time, the share of the working age population with a job declined to an estimated 60.3 per cent in 2012 from 61.2 per cent in 2007. This scenario is projected to remain mostly unchanged in the coming years and can even turn out to be optimistic should some of the downward risks materialize.

Thus, the World Development Report (WDR) 2013 on jobs recently published and its companion paper "*Creating jobs for development: policy directions from the 2013 World Development Report on Jobs*" are timely in addressing one of the most pressing problems for many policy makers around the world. They also offer an opportunity to refocus the attention of the Bank on its original mandate of eradicating poverty and boosting prosperity. Jobs and especially good jobs, are the main avenue to achieve both goals.

As the WDR 2013 states, it is for the private sector to create economically and socially sustainable jobs, and for the government to provide a stable macroeconomic environment, an investment friendly business climate, a solid rule of law and a balanced labor market regulation. Policies and interventions will need to be tailored to each country's initial conditions, based on the diagnosis of the constraints to job creation.

2. The Knowledge Bank: implications for the business model

The strategy that aims at eradicating absolute poverty in poor countries and achieving sustainable and inclusive prosperity in middle income countries deserves support.

Financial resources need to be directed with priority towards countries that do not have access to the market at a reasonable cost. On the contrary, about 50 per cent of the overall IBRD exposure is currently to countries with per capita income above 2,900 US dollars, and 30 per cent is to countries that can borrow from the market at a spread of no more than 150 basis points over the corresponding US Treasury.

Redirecting financial resources to the least developed countries cannot imply that the WBG ceases to serve Middle Income Countries. The WBG needs to define a new engagement strategy with MICs based on the second pillar of the mandate: boosting prosperity. Achieving this goal requires knowledge and practical solutions, which are somewhat scarce. The WBG should provide what these countries cannot find on the market. The Knowledge Bank should be an active knowledge manager able to mobilize its own expertise, know-how and information to provide tailored solutions to the specific problems of each single client.

The development of a full scale business line of knowledge production and management is to be encouraged, provided that it is based on three principles: knowledge products need to be of the highest quality; they have to respond to countries' needs and demands, rather than being supply driven; they need to be provided on a cost recovery basis and contribute to sustaining the income generating capacity of the WBG. This market test would ensure that the knowledge products have value added for the MICs.

This strategy would free up enough IBRD lending capacity to meet the needs of the poorer members of the institution, without reducing revenues. However, the income generating capacity of WBG depends also on keeping costs under control.

Increasing the efficiency of the World Bank through the current modernization process is of the upmost importance. In the medium term, it is necessary to reassess whether the current structure of WBG based on four organizations, IBRD, IDA, IFC, MIGA, is still the best suited to serve the clients of the 21st century, or whether it is a legacy of the past that needs to be reorganized in a more efficient fashion. While searching for an answer, one can achieve valuable efficiency gains and cost savings by merging across institutions back office functions such as treasury, controller, risk management, human resources, information technology, general services, external relations, and unifying the country offices.

Making the most out of scarce resources by redesigning a very lean and efficient organization is a moral obligation to taxpayers and, more importantly, to the 1.3 billion of poor people around the globe.