

## **Ignazio Visco: New global challenges and the global economy**

Statement by Mr Ignazio Visco, Governor of the Bank of Italy and Governor of the Constituency of Albania, Greece, Italy, Malta, Portugal, San Marino and Timor-Leste, to the Development Committee, Lima, 11 October 2015.

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### **1. Adjusting to new global challenges**

The recent approval of the Sustainable Development Goals comes at a challenging moment for the global economy. The important development successes since 2000 should not make us complacent. Poverty has fallen substantially, but it is deep and concentrated. Furthermore, growth is losing steam in some developing economies while in others economic activity is heavily affected by the downturn in commodity prices. More importantly, growth alone will not be sufficient to reach the deepest pockets of poverty and boost shared prosperity.

We welcome the emphasis of the Global Monitoring Report (GMR) on the non-income dimensions of development, which do not always correlate well with poverty measured by the money metric. A proper analysis of these dimensions is essential for eradicating poverty and increasing shared prosperity in a comprehensive way. The GMR also rightly points to demographics as a crucial factor in shaping the evolution of the global economy in the next fifteen years.

Key drivers of population dynamics are migration flows. Cooperative policies regulating migration between countries affected by demographic decline and those experiencing high population growth could ease regional aging pressures and smooth trends in population growth. In this context, the upheaval caused by conflict outbreaks has intensified the already strong trend to migrate and resettle brought on by often dramatic economic conditions and global and domestic shocks.

Dealing with the root causes of migration requires development policies that grant poor countries better market access for their products and transfer expertise and technological know-how to speed up development. On its own, however, foreign aid may not be sufficient. For it to be effective, it also requires coherent development programs. Large flows of foreign aid, for example, are unlikely to be helpful if they finance unproductive investments or delay needed structural reforms. On the contrary, when foreign aid complements domestic policy reforms in the recipient country it can ease the costs of adjustment, provide a catalyst for change, and thereby drive a sustainable improvement in the country's growth prospects.

### **2. Providing voice and vision to the new global economy**

In the context of the Bank's periodical shareholding reviews we recommit to reaching an agreement on a realignment mechanism based on a formula. This will ease the task of maintaining an equitable representation of shareholders over time and will strengthen the IBRD legitimacy as a global player. The formula should reflect global economic weights and the contributions to the Bank's development mission. Rewarding support to this mission is essential to building up adequate incentives for future contributions.

Any discussion of future resource needs to be preceded by a thorough conversation on the future positioning of the Bretton Woods institutions. A long-term vision of the role of multilateral financial institutions – and of the WBG in particular – needs to take into account the importance of engaging in the financing of global public goods and the benefits of cross-border integration. This requires the promotion of regional cooperation efforts. We should at the same time recognize that official development assistance represents only a small portion of global financial flows for development. The role of the WBG in enhancing the use of domestic resources – through technical assistance – should be intensified, and IFC and MIGA should

strengthen their efforts to catalyze private sector capital into development projects. The time is ripe for updating the IDA financing model.

### **3. A partner in climate change financing**

As we approach the COP21 meeting in Paris, where decisions need to be taken to step up international action on climate change, we envision an important role of the WBG as a key partner in both promoting the transition to a “greener” economy and alleviating the impact of climate change on developing countries.

This effort requires financial resources that largely exceed those available to development institutions and calls for combining limited public resources with larger private sources of capital. The WBG is strategically positioned to contribute to this effort.

The problem of climate change falls in the domain of global public goods and posits complex intergenerational questions. As a global financial organization, the World Bank is well-suited to address both these issues. Furthermore, as a multi sector development agency, the Bank should make use of its expertise in a broad array of policy areas to provide sound evidence that climate-smart projects are good development projects.

### **4. A sustainable development organization**

We welcome the substantial increase in WBG commitments. It is now time to deliver with an effective implementation of WBG projects. Large, transformative development solutions require a focus on results and appropriate fiduciary and safeguards policies to manage risks.

The IBRD should focus on financing long-term structural projects, even if the shift toward investment lending is likely to reduce the growth of the IBRD loan portfolio. This requires a set of strategic priorities fully shared by the institution at all levels and supported by robust analytical evidence.

A balanced structure of revenues and expenses will effectively protect capital from the vagaries of the economic cycle. The prolonged period of low interest rates continues to constrain the income of the IBRD and calls for a continuous monitoring of efficiency-enhancing measures. The objective of the full implementation of the new organizational structure should be efficiency. Efficiency must remain a guiding principle once financial sustainability is eventually achieved.

All these challenges call for strategic prioritization and joint action. Over the decades, the World Bank Group has consistently displayed a remarkable capacity to adapt to the changing external environment, redefining its mission over time and expanding its clientele and its tools. At this critical juncture we have no reason to doubt that it will once more rise to the level of the challenge.