DEVELOPMENT COMMITTEE
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Boards of Governors of the Bank and the Fund
on the
Transfer of Real Resources to Developing Countries)

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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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The global business cycle remains very weak. Geopolitical tensions, combined with the sharp decline in international trade recorded in the last few quarters, weigh on firms' confidence and on investment. Employment and wage growth continue to support incomes, mainly thanks to the resilience of services, but manufacturing is particularly sluggish. If the latter proves to be persistent, it will inevitably reverberate across the other sectors of the economy.

The main risk to the global outlook once again derives from commercial tensions. Besides the already visible effects of the escalation of tariffs, quantitative restrictions can also have a significant global impact, particularly if accompanied by dislocation of value chains. The introduction of export restrictions in some countries may lead to trade diversion or import substitution, with efficiency losses.

After many years of success in the fight against extreme poverty, a substantial and persistent global slowdown may reverse this trend; we are already seeing the rise of poverty in several of the poorest countries. Indeed, poverty risks becoming more entrenched and harder to root out. Business as usual will not be enough. An effective cooperation among all development partners, both bilateral and multilateral, is essential to strengthen the policy dialogue and catalyze the development of the private sector.

The battle against extreme poverty needs to be fought in Sub-Saharan Africa and fragile and conflict-affected settings. Because of Sub-Saharan Africa's slower rates of growth, problems caused by conflict and weak institutions, and a lack of success in channeling growth into poverty reduction, transformational change is needed in those areas. To reach the World Bank Group's (WBG) goal of bringing extreme poverty below 3 percent by 2030, the world's poorest countries will likely need to grow at a rate far surpassing historical experience. Moreover, this growth must be highly inclusive, reaching every country. The upcoming strategy for Fragility Conflict and Violence will be a litmus test of WBG engagement in the most challenging environment.

Several countries, particularly in Africa, are experiencing a severe deterioration in both domestic and external debt, which may undermine their progress in economic and social development. We welcome the review of the Non-Concessional Borrowing Policy which highlights the weaknesses of current policies and identifies relevant areas for improvement. We expect that the forthcoming Sustainable Debt Financing Policy will be inspired by a rigorous rule-based but non-punitive approach whose underlying principles we fully endorse.

We welcome the World Development Report 2020, "Trading for Development in the Age of the Global Value Chains (GVCs)." It is well balanced in identifying the sources of the potential threat posed by protectionism. GVCs are indeed more powerful in supporting growth than standard trade and, notwithstanding the diffusion of labor-saving technologies, can continue to boost growth.

The Report rightly recognizes that with rapid technological change and increasingly complex production arrangements, broad-based structural policies—e.g., skill formation and other policies designed to ensure participation in GVCs—provide the highest payoff in enhancing countries' competitiveness in international markets.

A country's openness—to trade as well as international investments—tends to magnify the benefits of supply-side policies. The success of such a country will then depend even more on its endowment of "immobile factors of production," such as the quality of infrastructures, the bureaucratic and legal context, the efficiency of the financial system, and human capital.

Old-fashioned protectionist policies are short-sighted and, at best, ineffective in preserving comparative advantages. They represent the wrong answer to a legitimate demand for political action from those who have suffered the most from the negative consequences of structural transformations.

To tackle these critical issues it is necessary to share the gains of economic integration. In particular, it is indispensable to reinforce the adjustment mechanisms and redistribution policies that can reduce the social burden of structural transformations, especially among the most disadvantaged. These include policies that favor labor mobility, while ensuring an adequate social safety net, along with income support for displaced workers that does not discourage labor market participation and foster poverty traps.

To address beyond-the-border challenges to GVC participation, as well as enhance support for regional integration, the WBG should devote more attention to trade policy. For instance, helping countries maximize the benefits of the African continental free trade agreement would be a step in the right direction. In view of economies' increased synchronization, the World Bank may also want to consider multi-country interventions. The Western Balkans trade and transport facilitation project is a promising example of how to address issues that are common within a region.

We are encouraged that countries are responding to the Human Capital Project with concrete action, taking steps to build consensus and awareness, coordinate across sectors, improve measurement, and adopt reforms. It is also encouraging that some countries are trying to achieve better results with a more efficient allocation of existing levels of spending.

We strongly support the effort to provide a finer disaggregation of the Human Capital Index (HCI), which may help in designing more informed policy solutions. A national aggregate HCI value can mask significant disparities in outcomes within a country—across regions, socioeconomic groups, gender.

It is equally critical to take steps to improve measurement, as a lack of reliable data risks jeopardizing the index's credibility.

The Jobs and Economic Transformation agenda is of key importance in supporting governments to undertake policy reforms that will incentivize the private sector to invest and generate jobs. To this end we need to focus on reforms that can catalyze a shift from informal to formal employment and that can induce productivity-enhancing practices and processes, within and across sectors and firms. The emphasis on "creating and connecting to markets" and "building capabilities and connecting workers to jobs" is particularly relevant to heightening job creation in IDA countries, where the largest labor force growth will take place in the coming years.

As rightly stated in the background paper, different models are needed for different countries because of disparities in endowments, exposure to external factors, and varying development stages. The challenge will be how to make those models operational, building on country platforms that include all development partners.

As the largest global concessional donor, IDA has a unique role to play in tackling the root causes of poverty and deprivation and promoting inclusive, sustainable, and balanced development. The upcoming IDA replenishment must be supported and we hope that a larger group of countries will consider participating, so that IDA will have adequate resources to fulfil its mission. We favor the confirmation of IDA-18 special themes and the focus on new cross-cutting areas. To address the fundamental determinants of fragility, we support a stronger engagement of IDA in regional programs, including those for Sahel, Horn of Africa, and Lake Chad. We are also confident that the WBG will incorporate a thorough analysis of causes and consequences of migratory pressures in its Strategic Country Diagnostics for these areas.

We support the review of IDA's voting rights and its guiding principles. The IDA Executive Board must define the scope of the review clearly, to ensure an efficient process. This is a prerequisite for its success.

Implementing the commitments of the capital package and of IDA replenishment will require a renewed effort, particularly because of the difficulties of doing business in those contexts. Therefore, it is important to strengthen the WBG institutions' accountability mechanisms to maximize development impact.

We are cognizant that scaling up these commitments requires adequate budgetary resources. Nonetheless, to preserve the recently achieved financial sustainability of all the WBG institutions, operational efficiency must be enhanced. This includes a balanced business model of presence in the field. Solid income generation is critical if the WBG is to bear future needs.