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-SIXTH 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

Global activity has gained momentum. Growth is better than expected in advanced economies and recovery is spreading out in emerging ones. In this benign global financial environment, capital flows through specialized funds to emerging countries have turned positive, in both equity and bonds. Sovereign spreads narrowed and equity valuations have increased; the volatility of exchange rates has remained rather compressed, despite sudden temporary spikes driven by geopolitical tensions. The pickup in global trade and the recovery of commodity prices have strengthened the cyclical position of many emerging economies, particularly in Asia. Overall, signs of greater resilience and increased stability are quite widespread.

Still, there are elements of concern. In recent years debt levels have been rising in some emerging economies, including large economies where the corporate sector is highly leveraged, and therefore vulnerable to increases of interest rate. Public debts have risen across all regions, particularly in some countries in Africa and in the Middle East. These countries may now face the need to use the fiscal lever more prudently. It is important that the Bank assist them in their efforts to redefine spending priorities, while protecting the poorest and focusing on the quality of public expenditure and taxation. The inclusion of automatic stabilizers in its policy dialogue on public finance would help governments to be even better equipped to counteract the business cycle and protect the poorer.

Despite the improvement in economic activity, productivity growth remains generally anemic. It is therefore essential to focus on the long run and to boost potential output. The accumulation of human capital is one of the crucial factors to accomplish this.

Human capital accumulation

We welcome the World Development Report (WDR) 2018, *Learning to Realize Education's Promise*. Indeed, as Benjamin Franklin famously wrote, "An investment in knowledge pays the best interest".

The importance of human capital accumulation for durable economic development has been corroborated by ample empirical evidence which shows that investing in education may provide crucial benefits both to individuals and societies at large. It allows individuals to promote employment, earnings, health, and poverty reduction. It allows societies to introduce more efficient production methods, spur innovation, strengthen institutions, and foster social cohesion.

However, despite the dramatic expansion of schooling over the past 50 years in most low- and middle-income countries, learning outcomes in basic education are worryingly low. Hundreds of millions of children reach young adulthood without even the most basic life skills. Even if they attend school, many leave without these skills. Within countries, learning outcomes are almost always far worse for the disadvantaged. Furthermore, as documented by the 2013 OECD's Programme for the International Assessment of Adult Competencies, many countries – even advanced ones – face a very serious deficit of "functional literacy and numeracy".

This is particularly challenging in the current context. Disruptive changes in technology require different skills: critical thinking, aptitude for problem-solving, creativity and acceptance of innovation, the ability to communicate effectively, and openness to cooperation and group work. In a fast-changing environment, the most valuable skills are not necessarily the most specialized ones, but rather those that are fungible, and allow workers to adjust flexibly to changes and acquire new skills as needed. Learning how to learn is probably the most valuable competence.

Public policies have a crucial role to play in supporting investment in human capital. It is imperative to continue investing in knowledge and schools, starting with foundational skills, while preserving the internal coherence of education systems. Escaping from low-learning traps requires all the stakeholders. Aligning the incentives of families, teachers, and policy makers will not be easy, but it is key. We recognize the need of a proper metric focused on learning outcomes, comparable over time and across countries and, within countries, across schools. It may be crucially instrumental in building the necessary coalition of stakeholders for reforms.

Maximizing development impact

In previous meetings, we have already argued that governments alone cannot finance the Sustainable Development Goals (SDGs). This difficult task requires scaling up coordination among all multilateral actors, building on their respective missions and expertise.

Improving cooperation among Multilateral Development Banks (MDBs) is a relevant balance sheet optimization measure we should further pursue. In a constrained resources environment, an appropriate division of roles among MDBs – achievable by applying a more stringent selectivity – allows a greater focus on development impact.

As suggested in the WDR 2013 on Jobs, it is the private sector's task to create economically and socially sustainable jobs, and the governments' responsibility to provide a stable macroeconomic environment, an investment friendly business climate, a solid rule of law, and balanced labor market regulations. Policies and interventions will need to be tailored to each country's conditions, based on the diagnosis of the constraints to job creation. We believe that an effective implementation of the "cascade approach" may help to address one of the most pressing problems for many policy makers around the world, fostering the World Bank Group mission of eradicating poverty and boosting prosperity.

We look forward to the implementation of the window created in IDA18 to leverage IFC and MIGA to promote private sector development in IDA-only countries. It will help mitigate investment risk and enhance commercial viability. It is especially vital paying attention to Fragile and Conflict Situations.

Financial sustainability

We recognize the progress made on financial sustainability at the WBG and congratulate Management for the results. According to this year's budget documents, in fiscal year 2018 the Group will achieve the savings targets of the expenditure review and the IBRD will also cover administrative costs with business revenues.

We call for constant commitment on this front, and encourage Management to both continue fostering efficiency in resource utilization and strengthen budget discipline, including through the ongoing review of the staff compensation system.

The scale of needs identified in the Forward Look exercise requires using a set of levers to sustain the core profitability and boost reserve retention for future lending. The adoption of the new income-contingent rule for income support of both IBRD and IFC to IDA18 is an important step in that direction.

A comprehensive discussion of capital adequacy cannot avoid revisiting the loan pricing mechanism. An efficient allocation of scarce resources argues for higher rates on loans, at least for segments or instruments that are in the highest demand, while maintaining IBRD loan terms substantially below market rates. This will allow the Bank to continued covering of direct and indirect costs of lending – including expected loan losses – and to sustain capital accumulation for future needs.