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In recent months the issue of how to reduce poverty in the developing world has gained growing attention. I am pleased to see substantial progress in each of the items that were discussed in Prague: the HIPC initiative, the PRSP process, global public goods, trade. This meeting of the Development Committee offers an opportunity to further advance that agenda and focus on urgent actions.

The issue of the fight against poverty is also playing a central role in current G7 discussions. Multilateral Development Banks (MDBs) are critical for the achievement of the International Development Goals. To ensure that the MDBs are fully equipped to face the challenges they are called upon, G7 countries started last year discussions on MDB reform. The focus of these discussions is on coordination, internal governance, pricing issues, global public goods, financial sector reform and good governance. We are pleased to see that many of these items will be discussed at this meeting of the Development Committee.

**Eradicating Poverty in Low-Income Countries**

The debt reduction Initiative is creating the conditions for a permanent exit from the debt trap. We commend the Fund and the Bank for their effort to bring as many countries as possible to their decision point while preserving the strength and the quality of the Initiative. The assistance already committed is considerable.

We are also encouraged by the new climate being generated by the Initiative, and the complementary PRSP process, particularly in African countries. I am referring to the more extensive participation of civil society in the definition of the reform program aimed at poverty reduction, and to the consultative processes that have been initiated, which may ultimately lead to a more solid and long lasting support for the poverty reduction agenda. Coordination among donors is also improving, creating the conditions for enhanced aid effectiveness. However, more needs to be done in this key area. The PRSP and the CDF frameworks are important contributions to better prioritize and coordinate interventions. It is time now to concentrate on implementation and on outcomes. Countries must strengthen their ability to effectively track poverty expenditures and their capacity to build and manage public resources must be reinforced. Developing comprehensive information and data on poverty is also crucial. Efforts to better understand the nature and determinants of poverty should not be spared.

Looking to the future the first challenge is to ensure that all eligible countries can benefit from debt relief. This will not be an easy task. Most of these countries are or have been affected by conflicts. An active and early engagement in post-conflict situations by the Bretton Woods Institutions is crucial to consolidate peace but will require strong assurances about the peaceful solution of the conflict. Enhanced collaboration with UN agencies will be essential in this context. Bretton Woods Institutions should support post-conflict countries through a comprehensive strategy that encompasses concessional finance, debt relief, and technical assistance. We thus support the mobilization of additional resources through a new technical assistance fund for the IMF and an enhanced Post-conflict Fund for the World Bank, which may leverage additional donor resources. To ensure that all the elements of the initiative – most notably the fight against poverty – are in place, a rigorous application of the HIPC framework must be ensured. Essential conditions have to be in place, such as a reduction in military
expenditures, a clear schedule for demobilization, and full transparency in the management of public expenditures.

The second major challenge is to ensure the long-run sustainability of debt for those countries that have already reached their decision point. Additional bilateral support will be important and has already been committed.

We should acknowledge that debt relief is a necessary but not sufficient condition to achieve long-term debt sustainability. Debt relief will not by itself deliver sustained growth and poverty reduction. The HIPC countries themselves, through their sustained commitment to reform, must play a key role in ensuring the success of this Initiative. Countries need to create a better environment for private sector led growth. Enhancing macroeconomic management, strengthening governance, forceful implementation of structural reforms, and promotion of social inclusion are some of the key challenges facing these governments. Investments in health and education are crucial. A sound fiscal policy stance will play a decisive role in this context. Improving debt management capabilities will also be instrumental.

The Italian Government has also proposed to increase the ratio of debt cancellation also in favor of non-HIPC IDA-only countries with a satisfactory policy implementation record, from 67 per cent to 90 per cent or more. Italy has already committed itself to cancel 100 per cent. This measure will enable these countries to receive greater relief targeted on poverty reduction programs. Italy calls upon all bilateral creditors to move in this direction.

**Liberalizing Market Access**

We too must look beyond debt relief and help redress those factors that have contributed to the debt build-up in the past. A key area of action is trade. The World Bank has estimated that an elimination of tariffs and other types of protection against the exports of the poorest countries would increase their exports by about 14 per cent and raise GDP by over 1 per cent. The impact on some countries would be significantly larger than the amount of aid they currently receive. Trade diversion from other developing countries would be very limited. The overall costs to the industrial countries would be negligible.

Removing trade barriers would give the poorest countries the best opportunity to benefit from globalisation. We can reduce the poor countries’ dependency on aid only by facilitating the production of goods that can be sold to the outside world.

The EU “everything but arms initiative,” granting free market access to virtually all exports from least-developed countries, is an important step in this direction. All industrial countries should join it to maximize the benefits of this initiative. It is time to head toward a new multilateral trade round, under the WTO. This is a difficult challenge, indeed. Fresh commitments are necessary to revitalize the whole process.

Besides participating in an effort to further liberalize trade, developing countries should adequately strengthen their domestic capacity to take advantage of enhanced export opportunities. The World Bank could play a crucial role by offering technical assistance in key areas such as capacity building for trade-related infrastructures and services.
Another critical area for action is to improve the poorest countries’ access to and environment for private investment. Aid alone is not sufficient to achieve sustained growth: there is a need for a strong response by the private sector, both domestically and from outside. Countries that have been most successful in attracting private capital have also been the strongest growth performers.

We must help the poor countries to create the right environment to attract private investment. A coordinated action by international institutions such as the World Bank, the WTO and UNCTAD can support these countries’ efforts to adopt rules, standards and best practices in areas such as: rule of law, investor protection, property rights, accounting standards and corporate governance. Technical assistance is of extreme importance in this respect.

Sharpening the Poverty Focus in Middle Income Countries

The Bank Group has a crucial role to play in middle income countries, which are home to over 85 percent of the total world population living on less that $2 a day. Undoubtedly today middle income countries have a much wider access to foreign markets, but the access is still concentrated in a handful of countries and remains volatile. At times of crises, foreign capital needed for structural reforms and projects is scarce. The World Bank can play a crucial role not only by providing capital and stabilizing capital inflows but, more importantly, by promoting reforms and investments that facilitate access to foreign markets, private sector investment, and improvements in social conditions.

The proposed Bank’s strategy in MICs focuses on procedures to improve the policy dialogue with borrowing countries and on the availability of more flexible instruments. The former would be achieved through a Development Policy Review (DPR), a document prepared by the Bank which would systematically review social, structural, and sector policies. The proposed Letter of Development Strategy (LDS) prepared by the Government would present the country’s vision of development and would be the starting point for the Bank’s assistance strategy. The latter would be achieved through greater emphasis on program lending and the availability of a deferred drawdown option.

While acknowledging the efforts made by the World Bank to define its new strategy in the MICs, we think that further work is needed. World Bank presence in middle income countries should be very selective, especially in those countries that have access to capital markets. Interventions should be targeted to those sectors and areas that will have the most impact on the poverty alleviation goal. In this framework, the proposed Letter of Development Strategy and the DPR could be useful instruments if focused on the social, structural, and sectoral policies necessary to attack poverty and reduce inequality.

The policies at the center of the dialogue between the Bank Group and the MICs should be those aiming at accelerating growth as well as at ensuring that the most vulnerable sectors of society and the depressed areas/regions of countries will benefit from it. We would like to see a clear position of the Bank on its focus toward poverty reduction objectives. Within this framework, lending to sub-national entities should give priority to the poorest areas.
Nevertheless, we also recognize the dilemma posed by the increasing focus on performance-based lending – which might shift lending away from the poorest countries.

Turning to the issue of the instruments, we believe that project lending still plays a crucial role, especially in a number of infrastructure and social sectors where the private sector is reluctant to intervene.

The programmatic approach has certainly the merit of engaging borrowers in a discussion of the overall use of resources in a particular sector, rather than focusing only on a specific project. This approach would indeed contribute to a more strategic approach to development and should foster ownership and accountability. However, it is not suitable for all borrowers. This instrument should be used selectively. It should only be made available to the more mature reforming countries and those with the appropriate institutional framework and systems to ensure strong fiduciary standards.

The deferred drawdown option, as any “automatic” facility, creates moral hazard concerns. Once this option has been provided, authorities will obviously be under pressure to draw on it. A careful drafting of the conditions for a drawdown will be necessary. This will inevitably further restrict the range of possible beneficiaries. Also, we would like further details on the differences with IMF instruments, on expected pricing, and on potential demand.

Let me turn to the issue of the pricing policy. We would like additional work examining the potential for price differentiation, as currently there is one price applied to all countries and sectors. Specifically, we would like an analysis of the feasibility – and related financial implications - of a price differentiation by instrument, development impact and stage of borrower development. Also, there is a need to ensure consistency among MDB and IFIs on pricing policies for similar products. On the deferred drawdown option we think the pricing should reflect the higher risk embedded in it.

Crucial sectors for Bank Group involvement are those aimed at strengthening financial policies and public sector management in MICs. The World Bank should step up its effort to support financial sector reforms in middle income countries and indicate that every CAS should contain an analysis of the Financial Sector of the country. The ESW agenda should also include modalities to integrate ROSCs – including financial abuse standards - and FSAPs. The development of an efficient public sector should be a top priority. Good governance is a rather board concept, which entails several crucial areas such as legal and judicial systems, just to mention some of them. However, there is a need to increase focus on public sector management and on the promotion and enforcement of safeguard and fiduciary policies, particularly at the time when the World Bank is considering new lending approaches, such as programmatic lending.

**MDB Coordination and Harmonization**

Coordination among the MDBs ranks high on the agenda of the G7 countries’ discussions on their reform. Strengthening coordination among the MDBs is essential to achieve a more
selective approach to development issues, while promoting greater complementarity. We must ensure that there is no unnecessary duplication of efforts or unclear allocation of tasks. Closer coordination can also be achieved by pursuing harmonization, at the best and most appropriate standards, of the key operational policies and procedures, and procurement rules. We appreciate that this issue is on the agenda of the Development Committee. We encourage the Bank to prioritize and accelerate the harmonization process and periodically report about it at the Development Committee.

**A Greater International Mobilization to Improve Health Conditions in Poor Countries**

Greater international efforts on global public goods are needed. Analyses of global needs and existing gaps in achieving the International Development Goals related to health clearly demonstrate that, based on the ongoing trends, the Goals will not be achieved. A far-reaching international mobilization is vital in order to press forward, and the Bank should put all its weight to make this case compellingly.

Much has been done by the international community on HIV/AIDS over the last year. We welcome the recent reduction in drug prices adopted by pharmaceutical companies. However, this is only one step in the fight against the devastating consequences of the disease. Many poor countries, where people live with less than 1 or 2 dollars a day, are unable to afford even the cheapest generic drugs. It is also worth going beyond the price reduction issue and see whether those products are appropriate for addressing the spread of HIV/AIDS in poor countries. Technology is evolving rapidly. We want to make sure that price reductions are applied to the products most useful for the specific problems of these countries. Also, drugs need to be delivered. We have to assist countries in strengthening their health system to ensure an effective use of the drugs.

An issue as complex and challenging as HIV/AIDS needs a multi-pronged response. One way for the Bank to address the issue of access for the poor in a comprehensive way, is the provision of technical assistance and policy advice to promote domestic regulation so to increase the availability of drugs without undermining the incentives for research in the pharmaceutics industry. It is also paramount not to lose the focus on prevention, in order to slow down and reverse infection rates, as well as on vaccines. At the same time, well functioning health systems are absolutely necessary and we should double our efforts here.

Stronger international cooperation is also necessary to reverse the current spread of all other infectious diseases in developing countries. Since none of those countries can fully guarantee the viability of its own health care system and services, there is a need for a global and focused action. Efforts should be doubled to increase resources devoted to the health and promoting synergies among the existing initiatives in this field. A global fund is an appropriate vehicle to leverage and catalyze public and private contributions to strengthen the health system in the developing countries. This Fund should promote sustainable health institutions and affordable access to drugs and treatments for the poor. We strongly believe that without a global action aimed at increasing investments in health infrastructure, designing appropriate delivering mechanisms and developing research for priority vaccines, the international development goals cannot be achieved.
The Italian Government proposes the creation of a special Trust Fund for health, located in the World Bank and managed in close coordination with other international institutions and bilateral donors. The resources – private and public – that will be mobilized through the Fund would be used to make pharmaceutical products affordable to these countries; to introduce widespread preventive and curative treatments, and to encourage the development of new vaccines to fight infectious diseases, in particular HIV/AIDS, malaria and TBC.

This initiative can succeed only through a widespread and strong support of the international community.

**Fostering Financial Stability and Combating Financial Abuse**

Another crucial global public good is the preservation of financial integrity and actions aimed at preventing misuse of technology. Combating money laundering being the most obvious example.

There is no doubt that money laundering, as well as other major forms of corruption can destabilize countries and put at stake the integrity and stability of the international financial system, and that developing countries are particularly exposed to these risks. We are, of course, aware of the high complexity of the problem, since several types of financial products and different kinds of intermediaries can be used for money laundering purposes.

Nevertheless, we believe that the Bank can play a very important role in combating financial abuse. These phenomena are pathological, if inevitable, features of the increasing complexity of financial systems and of the globalization of capital markets. They have serious negative implications for financial stability as well as for global output and are most detrimental to developing economies. Given their cross-border nature, only a coordinated international effort, involving both individual economies and international financial organizations, can prove effective against them.

We therefore strongly welcome the Bank’s and the Fund’s recognition of the FATF’s 40 Recommendations as the international standard in the field. Such standards have already been endorsed by more than 130 countries and territories around the world. We believe that they should be added to the list of codes and standards that are considered central to the operational work of these two institutions.

We look forward to the methodology that the Bretton Woods Institutions intend to develop to delineate more clearly the focus of their work on anti-money laundering and to clarify how this work would relate to the work of other groups. The assessment of the implementation of the 40 Recommendations should eventually follow the same scheme that is envisaged for the other codes and standards, i.e. a ROSC module. In this regard it is crucial to stress that the 40 recommendations were conceived by FATF as a unified whole and, therefore, the assessment process would also be most effective if it encompassed all 40 Recommendations.
The Bank and the Fund have the possibility to consolidate their expertise and to use relevant tools to make a considerable contribution in this area. This role should obviously not be one of a law enforcement agency, but it should imply collaboration with other agencies, including those involved in law enforcement efforts, as well as, of course, with member countries.

On what the Bank should do, we think the most important activities would be those aimed at capacity-building, at fostering better legal systems, and at promoting public awareness. This is a strict complementary job with respect to the work that the Bank does in the financial sector, as well as in areas like anti-corruption that have become some of the most important areas of our activities. We think, in particular that also the FSAPs could be used as a useful vehicle for assessing the compliance with the supervisory rules for combating money laundering.