Statement by Hon. Antonio Fazio
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Italy
I very much appreciate that, after a short postponement, we are able to hold this meeting, and I thank the Canadian authorities for taking the initiative to host it. The immediate needs of developing countries and the long term institutional problems concerning development assistance require the greatest attention after September 11. Developing countries face a 10 percent drop in the growth of demand for their exports as a result of one of the sharpest trade slumps in modern times. For the first time in a decade, net capital flows to emerging markets are set to turn negative in 2001. In many countries poverty will immediately and substantially rise. Worldwide progress in structural reforms and in the advancement of democracy is at risk. In this context, policy measures to revive growth should be accompanied by further trade liberalization, increased aid and new initiatives to improve aid effectiveness. The underlying causes of poverty - lack of education and health, vulnerability and bad governance - should be tackled aggressively.

*Impact of Recent Events on Developing Countries: World Bank Group Response*

*Responding to Immediate Needs*

The World Bank Group should make full use of the instruments at its disposal to fight poverty in low income countries, a growing social crisis in many middle income countries, and to meet post-conflict needs. Some of the sector priorities of the Institution should also be reassessed. Multilateral Development Banks (MDBs) will have to step up their involvement in areas such as financial abuse and money laundering and their role in post-conflict reconstruction.

Building upon its experience in other post conflict situations, the World Bank will have to play a crucial role in reconstruction efforts, together with other MDBs and UN agencies, such as UNDP or UNHCR. Also, at this juncture it is crucial that the IMF and the World Bank conform to their respective roles, with the former focusing on macroeconomic stability and the latter on reconstruction and development needs. A framework for cooperation of different institutions, donors and non government entities in Afghanistan’s post-conflict reconstruction effort should soon be defined. We broadly support the Bank’s suggested strategy – currently under discussion - that the reconstruction resources should be channelled through a Trust Fund. We look forward to the proposed Conference for Afghanistan’s Reconstruction tentatively scheduled for end-November.

Poorest countries particularly hit by the sharp deterioration of terms of trade should receive additional IDA resources. We support an early and substantial replenishment of IDA that would contribute to meet expected needs in poorest countries. We also urge the Bank to continually monitor the debt situation of poorest countries. Since last spring, the HIPC Initiative has continued to forge ahead, albeit at a slower pace. We recognize that now the task has become more challenging, as the countries that have not yet qualified are those emerging from conflict. It is a priority to bring those countries to the decision point as soon as preliminary conditions are met. As an exceptional measure, additional “top up” debt relief could be provided not to jeopardize the efforts of some countries to permanently exit from the debt trap.
IBRD will also have to step up its efforts. The current World Bank Group financial situation appears adequate to meet increased needs based on the outlook that the global economic slowdown will not be long-lasting. A more prolonged worldwide slowdown or a recession could require additional actions. IBRD’s lending capacity is currently limited by portfolio exposures due to previously issued long-term loans to many borrowers. It also faces significant concentration risks. The top ten borrowers account for over 65 percent of IBRD’s portfolio and in three countries with a large population of poor – accounting for 30 percent of the world’s poor living with less than 2 dollars per day - outstanding loans are close to the current single country exposure limit of $13.5 billion. If risks rise further, IBRD would become less able to provide a substantial volume of additional lending when it could be needed most. If necessary, we must stand ready to open discussions to increase the lending capacity of the IBRD either through a general capital increase or some other financial mechanism in response to a drastic worsening of global economic conditions. The leverage of additional loans that paid-in World Bank equity generates, with a ratio of 5 to 1, is higher than for any other international financial institution and represents an asset for the international community.

The private sector arm of the World Bank group can also play a crucial role at this very moment. At a time of increased perception of risk by foreign investors in emerging economies, IFC and MIGA should double their efforts to promote foreign and local direct investment in those countries. We recommend that the new private sector strategy of the World Bank Group emphasize ways for extending the reach of markets to help the poor obtain jobs and better incomes. It will also be crucial to assist countries in improving the investment climate. In this regard, we take stock of the excellent results achieved by the Foreign Investment Advisory Service so far, and we urge other donors to give their support to this successful program. The completion of the subscription of the capital increase of MIGA is also urgent.

Turning to the criteria to allocate the increased volume of lending, we continue to believe that the performance of the country, taking also into account its level of poverty, should be the key determinant of IDA and IBRD allocations. If we were guided by criteria other than good performance, we would undo most of the progress achieved in recent years by the World Bank Group in increasing the effectiveness of its operations. Whatever the size of an external shock, domestic conditions will ultimately determine the overall impact on borrowing countries’ economies. Long-term development trends are directly the result of economic fundamentals - savings, investment, population growth, and trade and productivity improvements.

At the same time we cannot refrain from addressing the issue of how to support very poor countries that might not have made adequate progress towards sound policies. In these cases, World Bank’s assistance, which could include an important component of technical assistance, should be specifically targeted to those citizens, groups, and sectors most directly affected by the crisis. Also, this targeted aid should be channeled as much as feasible through NGOs, civil society organizations, and local communities.
Accelerating the Reform Agenda

Beyond the immediate requirements, these events make it even more crucial to enhance aid effectiveness and accelerate MDB reform efforts. The World Bank is called not only to step up its activities, but also to further enhance its effectiveness. We reiterate the need to move forward in the implementation of the recommendations concerning MDBs stressed by the G7 at their latest Meeting in Genova. To play a crucial role in combating poverty and supporting equitable and sustainable economic development, MDBs should concentrate on core social and human investment - in particular health and education, and on enhancing productivity growth. Selectivity, accountability, transparency, and focus on results are key principles. We reaffirm that the MDBs should accelerate on-going reforms to strengthen coordination, good governance in borrower countries, pricing issues, global public goods and financial sector reform. We also reaffirm the importance of continuing the effort to improve the World Bank’s internal organisation and its operational effectiveness.

In this context, we strongly support the harmonization process and believe that full political commitment by recipient countries and all development partners, including bilateral donors, is crucial for speedy and successful implementation of the highest appropriate standards. Harmonization issues and specific follow-up actions in this area should be given much greater prominence within the Comprehensive Development Framework and in the Bank’s Country Assistance Strategies. The Development Committee could highlight the importance of the harmonization process by proposing that a high level meeting be scheduled during the winter of 2002 with the involvement of bilateral and multilateral donors and the recipient countries. Such a meeting would help mobilize support towards the common goal and provide the occasion for reviewing the progress made and laying the foundations for further work.

There is an urgent need for a more systematic approach to fighting money laundering and financing of terrorist activities. The World Bank can greatly help in assisting countries build their capacity in the overall area of financial abuse. Central to this effort should be the Financial Sector Assessment Program, and we welcome this program’s expansion to include a standard anti-money laundering methodology. Follow-up should include technical assistance and training programs, particularly for those countries with the greatest need to upgrade their legal, judicial, and financial supervisory standards. We stress the need for the Bank to continue working with borrowers to strengthen due diligence on country procurement and financial management systems to fight money laundering and terrorist financing.

In the area of Global Public Goods we recommend a further effort to identify priority actions and realistic steps to enhance coordination and resource mobilization. Last July, at the G7 meeting in Genova an agreement was reached to launch a Global Fund to fight HIV/AIDS, Tuberculosis and Malaria. Italy has already committed 200 million dollars to the Global Fund to fight HIV/AIDS, Tuberculosis and Malaria. The extent of human suffering caused by these diseases calls for a rapid implementation of the agreement reached. The momentum generated by the commitment of US$1.3 billion should not be lost and the commitment to complete the work by year-end should be kept. We look forward to
a clear definition of the governance structure, with a focus on quality and speed, and on ways to anchor programs supported by the Trust Fund in countries' overall development goals. The Fund should leverage the efforts of international organizations and multilateral and bilateral donors already active in this area. The World Bank could provide a unique contribution by offering its expertise in institution building, in designing programs that include health initiatives within broader sustainable country development schemes.

We attach great importance to accelerating progress towards Education for All (EFA). We appreciate global efforts towards worldwide EFA and look forward to the discussion on this issue at the next meeting of the Development Committee. Given education’s strong complementarity to poverty reduction, increased emphasis on universal primary education should be given in the Bank’s analytical and sector work.

Finally, promoting access to trade is a key complement to aid. Open trade and investment drive global growth and poverty reduction. We welcome the agreement reached in Doha and reiterate our strong support to the new round of trade talks to enhance market access for developing countries. A number of industrialized countries, such as the E.U. with its “Everything but Arms” initiative, have already adopted measures to allow immediate access to their markets for developing countries goods. To fully take advantage of these opportunities it is also important for developing economies to further liberalize their own markets. The World Bank should continue rewarding liberalizing countries with capacity building support and policy advice.

Finance for Development Conference

We appreciate the engagement of the World Bank in the process leading to the Finance for Development Conference. We should not miss the opportunity offered by this Conference to make ODA more effective and to advance the mobilization of resources towards the attainment of the Millennium Development Goals. An important result already achieved is the emerging consensus on a set of broad policy recommendations. First, that development assistance should be grounded in sound policies and good governance in the recipient countries. Second, that country owned development and poverty reduction strategies should provide the basis for effective deployment of resources. Third, that establishing a stable and enabling environment for domestic as well as foreign investments is crucial for ensuring sustainable growth. Fourth, that promoting access to trade is a key complement to development assistance. Fifth, that the additional resources to be devoted to the attainment of the Millennium Development Goals should be complemented by an effort to make aid more effective.

Let me first address the problem of resources. The attainment of the Development Goals calls for the mobilization of additional resources. Donors’ generated assistance should adequately reflect these needs. However, we also need to explore new and innovative ways to finance development and reconstruction needs. While there seems to be an emerging consensus that schemes such as the Tobin tax are impracticable, we should continue to explore alternative mechanisms based on voluntary contributions, which could be supported and encouraged by fiscal incentives. We recommend that the Bretton Woods Institutions further analyze these issues. We are also confident that improved aid
effectiveness, in addition to leveraging better results with scarce aid funds, will also ease taxpayers concerns on the deployment and impact of their contributions.

The Conference will also address the broader issue of how to ensure better coherence among policies, programs, and operations of all the international institutions involved in development activities. The need for better coordination is highest in the area of Global Public Goods but is crucial also in other aspects of development activities. Areas of overlap and duplications between mandates of different international institutions presently coexist with institutional gaps. The Bank, responding to requests made by recipient countries or by the shareholders, has developed important programs, in Health, Education, Post Conflict reconstruction, where other UN agencies are also present, often in position of leadership. While the role of the Bank as a lending, development institution is clearly separate from those of other agencies, often cooperation and coordination are difficult. Where necessary, bilateral agreements through memoranda of understanding (MOUs) should be signed and regularly monitored to regulate joint activities as well as the exchange of information, knowledge and technical know-how. This will be particularly important as proposals will develop to add a grant-making component in areas such as health, education, and post-conflict, to the traditional Bank’s activities as a lending institution.

At the same time, there are areas such as the environment or, until recently, money laundering for which there are still important institutional gaps in the international environment. Better coordination and filling of institutional gaps can be achieved without creating new institutions or “umbrella bodies”. We need to concentrate on improving the existing institutions, ensuring adequate and equitable representation of all the participating countries, strengthening their transparency and accountability and ensuring better inter-institutional coordination.

Progress has been made on all these fronts by the World Bank in recent years. A renewed Development Committee could also play a useful role in this respect. The Development Committee was created to provide an overview of the development process and to specifically address the broad questions of the transfer of resources to developing countries. As the issues of development will acquire increasing importance in the coming years, we need to consider whether the current procedures and practices of the Development Committee are appropriate to the challenges we will face. In the past, the Committee has been most useful when it has induced actions by the governing bodies of the Bretton Woods institutions on poverty alleviation policies and broader development programs, such as the HIPC initiative, trade and development issues, or the harmonization of policies and procedures. In other occasions, our meetings did not fully meet the expectations of the development community. And we can be sure that these expectations will further rise in the future. I am confident that the new Chairman of the Committee, together with the new Secretary, whom we are pleased to welcome, will address these issues and come up with some proposals, to be considered possibly at the next meeting. These proposals could address procedural aspects, such as whether to anticipate the definition of the agenda and broaden the discussion around it, or to improve the process of preparation of the press release, and reconsider for instance whether it wouldn’t be better to finalize it after the meetings and not before, as is the current prevailing practice. Reform proposals could also address more complex and far-reaching issues, such as whether to enlarge the
participation to other members that are partners of Bretton Woods institutions in development programs, and how to better coordinate the activities of the Committee with those of the G20 or IMFC, or other fora.

On the inter-institutional relationships, progress has been made in recent years in the dialogue between ECOSOC and the Bretton Woods Institutions. The meetings of the coordinating committee of the heads of United Nations Agencies (ACC) have also been fruitful. Further progress can be made in these collaborations. Issues to be addressed should include how to better allocate responsibilities among institutions, exercise oversight on the consistency of the activities of these institutions with their mandates, and set a common agenda in the area of development. A jointly agreed mechanism of monitoring of forms of collaboration should also be established.