Statement by

The Honorable Mario Draghi
Governor of the Bank of Italy

Constituency of Albania, Greece, Italy, Malta, Portugal, San Marino and Timor-Leste
General Remarks

At the outset, I would like to welcome Minister Alberto Carrasquilla Barrera as the new Chairman of the Development Committee. Leadership—and with it, a sense of direction and purpose—is an indispensable factor at a time when many of the problems affecting our planet require a stronger engagement of developed and developing countries in a system of global governance. This Committee and its new leader have a crucial responsibility in defining the strategic directions along which we should strengthen global governance in the area of economic development. On behalf of this Chair, I wish Chairman Carrasquilla Barrera well in his new leadership role.

At the turn of the millennium, the response of the international community to the urgency of global poverty raised the hope that world leaders were taking real cognizance of the risk embedded in procrastinating action. There was the recognition of the moral imperative to relieve half of humanity from deprivation and of the fact that the very long-term integrity of a globalized world would ultimately depend on providing those in need with the opportunity to achieve a decent standard of living.

The United Nations’ Millennium Development Goals (MDGs), and the consensus around them were fundamental steps in that direction.

There has been progress since then, and there have also been important results in an increasing number of countries and across a larger number of objectives. Yet, progress is slow and unequal, and results still lag far behind targets. South Asia and Sub-Saharan Africa are off track on all of the goals. At current trends, almost no single MDG will be attained globally by the year 2015, as originally envisaged, with some countries even sliding backward.

Agenda Items for Discussion

The Global Monitoring Report (GMR) is essential to track progress in achieving the MDGs and to keep the MDG agenda focused on the right issues. We endorse the conclusions of the GMR 2006.

The Report is especially important to implement the principle of mutual accountability from all the actors involved in the MDG agenda, with respect to their commitments and implementation programs. In this regard, the emphasis on governance and fighting corruption is timely and appropriate. I appreciate the clear distinction made between the two issues, and the balanced approach adopted to investigate them. Clearly, there is a need to elaborate the analysis further, and in more detail, before useful policy implications can be drawn on an issue which is
multifaceted and difficult to subject to measurement. There is also a need to go beyond aggregate analysis and to be as specific as possible in the advice we give to governments. In particular, countries should be assisted to identify—and act on—governance problems which more directly affect their development programs.

To be clear, we welcome the work on improving the analysis of governance. However, we should avoid adding another fad in development practice. Most importantly, it is essential to achieve both goals of a stronger governance in developing countries and the fulfillment of aid and debt relief commitments by donors. Development assistance should be adapted to recipient countries’ governance characteristics. In particular, for instance, where favorable governance conditions prevail, direct budget aid could be a more appropriate option.

Strengthening governance must take place, when circumstances require it, in the context of the institutional reform programs that governments undertake as part of their overall development strategies. Such strategies should also increasingly focus on accelerating growth—which in turn is instrumental in making institutional reforms easier to implement. I will return to this issue later on.

While the GMR 2006 focuses on governance in developing countries, the donor community must also deliver on its side of the deal, especially with regard to aid effectiveness and quality. First, the lack of harmonization and coordination of donors’ policies and practices continues to be an enormous burden for, and a big drain on, many partner countries, especially those with the weakest capacity. Second, efforts should be redoubled by donors and aid agencies to put in place better feedback and accountability mechanisms to assess what works, what doesn’t and why, who is responsible for what, and which kind of incentives could help deliver better results.

It must be acknowledged that developed countries have been far from static on other important aspects of the compact. There have been significant new commitments to expand aid flows and to deepen debt relief. As a result, aid flows are increasing and the multilateral debt relief initiative, led by the governments of the G-8 countries, has been approved by the boards of the Bank and the Fund. Italy, on its side, in 2005 has increased its level of ODA to 0.29 percent of Gross National Income (GNI)—from 0.15 percent in the previous year—with a view to living up to the commitments made since Monterrey. Within the G-8 debt relief initiative, Italy has committed to provide financial support in addition to its aid commitments. Italy is also playing an active role in the field of the innovative financial mechanisms, which we consider important instruments to increase aid flows to meet the MDGs. With a contribution of 504 million euros, Italy is one of the founding members of the International Finance Facility for Immunization (IFFIm). We hope that IFFIm will become operational very soon and that other donor countries will join it. Italy is also actively working—along with other countries, the World Bank and the GAVI—on the launch of a pilot Advanced Market Commitment (AMC) scheme to support research and development of vaccines for diseases which affect the poorest countries.

We welcome the endorsement by the G7 countries of the concept of a pilot AMC and the continuation of the work for its launch in 2006.
As far as other members of our Constituency are concerned:

Portugal is joining the efforts of the international community to move forward on the achievement of the MDGs and the fight against poverty, through its commitment to the Multilateral Debt Relief Initiative (MDRI). Portugal shares the view that the initiative should be implemented without weakening the financial integrity of the institutions involved, namely IDA and the ADF.

Greece has shown a noticeable increase of official assistance to development, expanding its ODA flows in 2004 and 2005 by 13.3 per cent and by 11.4 per cent in constant prices, respectively. Overall, Greece, which acceded to OECD Development Assistance Committee in December 1999, has seen its ODA rise over the last few years from 0.17% of GNI in 2001 to 0.23% in 2005. Greece has also made a commitment to finance its IDA share of the MDRI, in support of debt cancellation.

Finally, Malta—in cooperation with the Bank—is leading a new initiative aimed to create a global network of small state economies through which states with specific policy or developmental needs may draw just-in-time assistance and aid from other small states possessing the required skills or resources. The network will also be used as a channel of ODA funds from developed to developing small states.

We support the Bank’s new evolving framework on clean energy in the context of assisting countries to adapt to climate changes, and I look forward to the framework eventually laying down the foundations for global participation to sustainable development. Yet, the Bank’s priority should remain to provide the poor with access to energy—one of the MDGs. The lessons learnt from two decades of Bank’s engagement in the infrastructure sector, recently discussed in the Bank, contain very important indications on how to articulate this policy goal effectively.

We would like the Bank to submit a broader work program, including a better definition of its role in this area, the analysis of opportunities to do more with existing financial instruments, cooperation with other players, and the demand and supply of assistance for client capacity building.

Other Items on the Agenda

Earlier on, I emphasized the need for renewed attention to the issue of economic growth. Recent important research, in which the Bank also participated, shows that grand reform schemes are not conducive to sustained acceleration of growth. The new findings call for redirecting policy strategies at more selective and country-specific reform programs, aimed at relieving binding constraints on growth, and for better sequencing the use of scarce political and administrative capital on institutional reforms.

We welcome the Bank’s evolving thinking on the use of fiscal policy to support growth and development, while preserving macroeconomic stability. It is important that the Bank and the Fund develop a consistent view on this issue, since their cooperation on the field is essential. The
The proposed approach, while it needs much more work to become operational, may break significant ground by emphasizing the importance of integrating fiscal policy management with considerations regarding the composition of public spending and the impact of individual spending programs on growth and development. The attention to the microeconomic and inter-temporal effects of fiscal policy, called on by the proposed approach, requires governments to have sufficient capacity in place to evaluate their spending programs ex ante with enough accuracy.

An important contribution to growth and poverty reduction would derive from granting developing country producers greater access to markets in rich countries and from developing countries lowering trade barriers among themselves. Even with a successful conclusion of the Doha round, many developing countries—especially the least developed ones—would not be in a position to benefit from broader trade opportunities, due to domestic structural impediments. A successful Doha Round needs a robust Aid for Trade agenda as an integral part to it. Aid should be directed to those countries that would be expected to lose from the round, not to compensate their losses from trade liberalization, but to enable them to gain from trade. It is essential that aid for trade programs be delivered and implemented effectively. Utmost care must be devoted to the governance structure of such programs.

Conclusion

Five years into the race to the MDGs, while progress is still dramatically slow, we may be at a beginning of a turning point in terms of commitments and action. And while, globally, the world lags much behind the targets it has selected for itself, some encouraging results have become visible. Much too little for complacency, or even for moderate satisfaction: only indications that our framework can work.