



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)



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Statement by

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I. Introduction

It is heartening to see the progress that has been made in the five months since the last Development Committee meeting. In two respects in gaining a deeper understanding of the multifaceted and complex challenges that the Summits of Doha, Monterrey, Johannesburg and Rome have laid before the international community; in taking concrete steps towards addressing them. The Bank and the Fund should continue to follow this pragmatic, incremental approach towards achieving the Millennium Development Goals (MDGs) in full partnership with the other players involved.

II. Supporting sound policies with adequate and appropriate financing

Key to achieving the MDGs is a partnership between developed and developing countries based on their mutual responsibilities. Last spring we asked the Bank to prepare a report on progress made so far in developing countries with sound policies toward achieving the MDGs and on the impact of aid in such an environment. The analysis shows in quite a stark manner that even countries with relatively good policies need a sharp acceleration of the reform process—leading to faster economic growth and accompanied by more aid—in order to achieve most of the MDGs. If these countries stay the course, a good number is likely to meet income poverty and education goals, but only a handful will reach health and environment targets. The child and maternal mortality targets will not be achieved almost universally in the sample. Prospects are particularly daunting in some of the Sub-Saharan African countries. From these findings on the good performers, one can easily infer the dimensions of the task ahead for the totality of developing countries. This is a sharp reminder, to both developed and developing countries, of the need to strengthen their reciprocal commitments. At the same time, we can draw some comfort from the fact that progress depends largely on our choices.

There is no doubt that a substantial increase in aid is needed to achieve the MDGs. Following Monterrey, several commitments—totaling US\$16 billion of new aid resources—have been made. Three countries in my constituency, Italy, Portugal and Greece, aim at reaching a level of ODA equivalent to 0.33 percent of GDP by 2006. These are substantial commitments, particularly at a time when national budget are severely constrained. We must focus on delivering on them.

It is likely that additional resources will be needed beyond 2006, although we encourage the Bank to continue refining its assessments of resource needs at the country level to provide us with more reliable estimates for the post-2006 period. Estimates should factor in domestic resource mobilization, private capital flows, changes in the trade environment and gains from increased aid effectiveness. We need in particular to explore innovative mechanisms to mobilize resources from the private sector through appropriate incentives.

With respect to aid effectiveness, we are fully supportive of efforts to align aid resources more closely with country priorities and processes and to harmonize donors' requirements and practices along the lines set forth in the *Rome Declaration*. When adequate financial

management systems and medium term expenditure frameworks exist, it should be possible to link aid flows to a country's budget cycle. Financing of recurrent costs must remain, however, very selective and limited to those countries where the appropriate conditions are shown to be present.

Future analysis of appropriate levels of external financing should assess very carefully issues of debt sustainability. With respect to broad debt relief and prospects for debt sustainability, the **HIPC** Initiative has achieved good results so far. But, there are still substantial challenges lying ahead. As we move forward, the fundamental issues of creditor participation and changes in the topping up methodology need to be addressed in an integrated manner. We could support proposals aimed at ensuring that additional debt relief benefits the HIPC's only, and not other creditors, provided these proposals go along with renewed efforts to involve as many creditors as possible.

III. Measuring and managing for results: the global monitoring exercise

We must continue monitoring the impact of our policy choices and actions so that we can steer our course in a timely manner when required. Demonstrating results is critical to obtain the necessary support for additional aid flows. We welcome the progress that the Bank, the Fund and other institutions have made in refining existing tools, identifying data gaps and sharpening interagency processes, coordination and cooperation with respect to monitoring. An area, however, where we would wish to see even more rapid progress is in the preparation of a time-bound action plan, with clear resource implications, for improving those development statistics, in particular social indicators, that would enable to track the MDGs more precisely.

As work progresses towards preparation of the first global monitoring report to this Committee next spring, I would like to stress three points. First, the monitoring exercise should always keep in sight its central purpose, which is to reinforce country and institutional accountabilities and identify priorities towards achieving the MDGs. To provide the basis for a substantive discussion by the Ministers, next spring global monitoring report should have a sharp analytical and strategic focus on the link between the policy choices of the various partners and results vis-à-vis the MDGs. Second, I would underscore the importance of maintaining the whole monitoring exercise cost effective and efficient by avoiding proliferation of technical instruments and duplication of efforts across agencies. The approach to monitoring must be kept balanced. There is clearly a trade off between the reliance on increasingly sophisticated tools, on the one hand, and the need to provide quick feedback in real time in order to influence key decision-making processes, on the other hand. Finally, we welcome that—in response to our request at the last meeting—the Report will be covering actions by IFIs and issues of policy coherence and coordination across them. As stressed in the past, this is an area where discussions in the Development Committee can substantially contribute to the resolution of outstanding issues.

IV. **Enhancing the voice of developing and transition countries in the Bretton Woods Institutions**

We appreciate the efforts that the Board of the Bank and the Fund have been making to take the issue of Voice forward. Voice should not be seen narrowly as a “developing or transition country issue.” It concerns, in a fundamental way, the legitimacy of these institutions and their ability to carry out their mandates effectively. Therefore, it is critical that further progress be made. In the Fund, discussions should continue in the context of the framework of the thirteenth quota review. We fully endorse the broader understanding of Voice emerging from Bank’s discussions that, while recognizing the importance of issues of capital structure and voting, emphasizes other critical and complementary dimensions.

We underscore that country ownership of operational programs is a key dimension of Voice. In this respect, the **PRSP** approach has been gaining widespread support and is providing, overall, a comprehensive framework both for the articulation of a country’s own development priorities and strategy and for the alignment of donors resources behind these. However, PRSPs must be further strengthened in several respects. First, by building stronger analytical and implementation capacity at the country level. Second, by improving the quality of data that policy-makers rely on in their formulation, implementation and monitoring. Third, by linking them more closely with the domestic budgetary process. Finally, within the Bank, by supporting them and other key operational processes such as Country Assistance Strategies through further decentralization of responsibilities to country offices and enhanced staff diversity. We encourage Bank management to implement the concrete commitments that already exist in these areas and to fill gaps promptly where necessary. We also recognize the important steps that are being taken to increase the capacity of EDs offices, with a particular focus on developing and transition countries, and look forward to their implementation.

On IDA governance and voting, we encourage the Bank to do further work and to present us with some specific options and their implications at our next meeting. On IBRD capital and voting, it is important to keep the discussion open. The Board of the Bank could further explore whether a broad consensus could be reached on measures to ameliorate the representation of the poorest countries without a change in the *Articles of Agreement*. Other steps to enhance the effectiveness of constituency operations could also be explored. Even though times may not be ripe now for a selective capital increase, this issue would need to undergo periodic review. This is critical to ensure that the link between the relative economic status of members and their voting power be maintained in the face of changing economic realities.

V. **Trade**

It is clear that the current multilateral trade system will continue to work effectively only if each party is able to transcend their immediate national interest and look at net gains in terms of the overall package. Here the Bank can play an important role in two respects. First, it can encourage the shift from *myopic* to *enlightened* self interest by helping to quantify the long-term benefit that would result from a successful round of multilateral trade negotiations. Second, as gains from previous agreements still need to be fully realized by developing countries, the Bank

should continue to assist in the enhancement of trade-related capacities. In this context, we welcome the trade-related initiative unveiled by the Bank in Cancun.

Indeed, in order to take fully advantage of trade as an engine for growth, developed and developing countries must adopt a balanced mix of actions aimed at achieving greater effectiveness on both the supply and the demand side of the trade equation. New concessions on tariffs, which are the desired outcome of the Doha round of multilateral negotiations, need to be coupled with actions by developing countries to improve their trade-related infrastructure and their capacity for trade. Through its renewed emphasis on infrastructure development, the Bank can play a key role in this respect.