



**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)



**SEVENTY-SEVENTH MEETING**  
**WASHINGTON, DC – APRIL 13, 2008**

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**Statement by**

**Mr. Mario Draghi**  
**Governor of the Bank of Italy**

**On behalf of Albania, Greece, Italy, Malta, Portugal,  
San Marino and Timor Leste**

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**Constituency of  
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Today, at the Millennium Development Goals halfway point, we are called to evaluate the progress achieved so far in the Monterrey agenda and whether its goals can be reached seven years from now in 2015. Major advances have taken place, but the pace has been uneven across regions and groups of countries, with East Asia faring generally better. The new threat of financial- and commodity-market instability poses additional risks to the pursuit of inclusive growth and economic integration.

**The role of the World Bank Group: need for a new vision**

A solid and better integrated World Bank Group has a key role to play in the global aid architecture. The record pledges for the IDA-15 replenishment provide a concrete sign of donor commitment to the Bank's mandate and to its growing relevance in the current global environment. All the donor countries in our constituency made a considerable financial effort to contribute to this result. Italy, despite its tight budget constraints, has not only retained its historical share of IDA contributions but, has also obtained parliamentary approval for repayment to the Multilateral Debt Relief Initiative (MDRI) over the whole 40-year period. Greece is among the donors with the largest increase in their share with a pledge for a 100 percent increase from the previous replenishment. Portugal retained its share of IDA and reconfirmed its previous commitment to repay its share in the MDRI over the whole period.

President Zoellick's six strategic themes provide a new articulation of the Bank's mission, which resonates well with the Bank's many stakeholders, and should now be used to prioritize choices and establish a clear link between resources and operational objectives. These themes add an important element of novelty, focusing on global public goods, such as climate change or knowledge creation. We view the protection of global public goods as a third potential added pillar of the WBG strategy, in addition to investment climate and social inclusiveness, one from which the WBG may draw additional solidity and coherence in the pursuit of its mission.

*The different challenges of Low Income, Fragile and Middle Income Countries*

We welcome the decision to address the development challenges of these groups of countries as three separate items of the six strategic priorities. In the Low Income Countries, where the achievement of the Millennium Development Goals is more challenging, IDA is now endowed with the appropriate policies and resources to increase the effectiveness of its actions at the country level, and should lead the donor coordination efforts, in line with the principles of the Paris Declaration on harmonization.

In turn, the needs of Fragile States represent one of the biggest challenges of our times as the case of Timor-Leste (one of our constituency countries) highlights. The Bank should promote analysis and research to better understand the dynamics of fragility and conflict. Likewise, it needs to learn how to improve its actions in partnership with other stakeholders, including the private sector, and ensure a stronger and more effective field presence

The Bank should also retain a strong role in Middle Income Countries, which are home to 70 percent of the poor living on less than two dollars a day, by intensifying its efforts to be more competitive. In this regard, we applaud the important measures recently been taken to broaden the menu of existing financial instruments, to reduce their costs and speed their delivery. Only a new and more effective demand-oriented approach can reverse the declining trend of the IBRD loan portfolio, which new favorable lending conditions have so far been unable to stop.

#### *Protecting the “global commons”*

We view the protection of “global commons” as *the* new emerging responsibility for the WBG. Indeed, the link between climate change and economic development has been documented with growing clarity, showing how climate changes will affect disproportionately the poorest countries. Arguably the most demanding challenge, climate is not the only global public good (GPG) that if neglected might have detrimental effects on development and poverty. GPGs span from knowledge dissemination to prevention of communicable diseases, from regional economic integration to marine fisheries. Italy has been an active supporter of the GPGs agenda promoting pioneering facilities in the area of communicable diseases, such as the International Financing Facility for Immunization (IFFI) and the Advance Market Commitment (AMC) for vaccines.

It is in this context that we see an urgent need to assist developing countries to cope with the effects of foreseeable climate change, whether mitigating current trends of carbon emissions or adapting their economies to changes that are already taking place. Renewable energy and energy efficiency are among the key elements in moving toward low carbon economies. The Bank should work closely with other development partners, particularly in the private sector, to help countries meet their energy needs and adapt to climate change. The growing number of initiatives in this domain requires a clear division of tasks among the many stakeholders. We encourage the Bank to capitalize on its multi-year experience in administering more than \$2bn worth of Carbon Trust Funds (CTFs) funded by European Union member countries under the pioneering European mechanism for carbon emission trading (ETS).

#### *The managerial challenge: reforming existing lending policies*

The decline in the Bank's lending portfolio over recent years appears at odds with the challenges posed by the broadening wedge between poor and rich countries and by the enormous transition costs to a low carbon economy. It suggests a decoupling between the WBG's broadening mission and the demand for its lending services, which would appear even more pronounced if the loan portfolio were evaluated in real terms, given its purchasing power in borrowing countries.

We are confident that the reform of existing lending policies undertaken by President Zoellick, coupled with his reformulation of the WBG strategy, will bring the demand for Bank loans and guarantees to the level warranted by development needs left unaddressed by market forces. Development is a risky business and we believe that the WBG should not shy away from undertaking the level of risk implicit in its mission. Effectively realizing the development potential of the WBG capital remains a constant challenge for management. Success in this endeavor needs to be combined with the following set of actions: a further pursuit of decentralization, a more responsive and transparent budget process, a cost effective provision of advisory and lending services, and a capacity to adapt them to the changing needs of client countries.

#### **Rising commodity prices: a new threat to poverty reduction**

We appreciate President Zoellick responsiveness to fast changing circumstances in agricultural and commodity prices. Higher and more volatile prices in the primary sector put an additional constraint on the development process and have a dramatic impact on poverty alleviation.

While the recent increase in prices provides commodity-exporting countries with a unique opportunity to accelerate the pace of reforms by diversifying the economy and strengthening fiscal sustainability, the poorest countries - particularly those in Sub-Saharan Africa – may now see their growth threatened by the surge in energy and food prices, which represent more than 70 percent of the consumption basket of the poor.

Indeed, recent increases in oil and food prices are interlinked, since high energy prices increase fertilizer and transport costs and stimulate bio-fuel production, putting additional pressure on food prices. These rapid increases in the cost of food hurt consumers in poorer countries even more, further widening the gap in the standard of living between rich and poor nations.

In this environment the problem of food security becomes considerably more serious for countries with large population shares close to subsistence level. We endorse President Zoellick's call to make the fight against hunger and malnutrition a global priority. In this regard, we encourage the Bank to foster agricultural productivity, working together with the FAO and IFAD. We believe that both the World Bank and the IMF should work together to soften the effects of price shocks on the poor by better targeting safety-net programs and carefully exploring appropriate forms of financial support.

### **Voice and Participation**

We are in favor of enhancing the voice and participation of Developing and Transition Countries. At this stage it is critical that all the shareholders reach a political consensus on all the aspects of Voice and Participation. In the wake of the IMF agreement we look forward to the definition of the Bank's own reform agenda.

### **Conclusion**

The achievement of the MDGs is definitely not easier today than it was when the goals were first endorsed. Bold and effective responses to the new challenges are required over the remaining years. The World Bank Group, as the largest multilateral development financial institution, has a strategic responsibility and a leading role to play in the pursuit of global and equitable development.

A new set of issues, global public goods, has become central to the development process; global concerns - such as climate change or communicable diseases - have identifiable costs on development. Finally, development goals are seriously undermined by unprecedented levels and volatility of food and commodity prices.

The challenges of this scenario vastly exceed the response capacity of a single institution. The WBG has been and should become an even stronger catalyst in the development arena. The Bank needs to build consensus around its priorities, operational policies and strategies. To be successful, this process requires shared objectives, a common long-term vision, and continuous interaction between Management and shareholders, including Parliaments and civil society organizations. We are confident that President Zoellick will successfully steer the institution at a time of great uncertainties.