DEVELOPMENT COMMITTEE
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on the
Transfer of Real Resources to Developing Countries)

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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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Energy and Food Prices and Financial Turmoil

Today, the economies of both developed and developing nations are faced with high energy and food prices and financial distress, which are severely testing their resilience. Steady leadership, high-quality analysis, and bold answers are needed to overcome the many new challenges that now confront the development process.

The World Bank has acted quickly to respond to the emergency situation created in several developing countries as a result of rising food prices, demonstrating that it is indeed able to respond effectively and in a timely manner to rapidly evolving circumstances. However, more must be done. It is now important to strike the appropriate balance between alleviating short-term needs and longer term development goals and achieve an effective division of tasks in the international donor community.

The recent financial turmoil puts an extra premium on the role of both Bretton Woods institutions as providers of financial and advisory services, and as facilitators of international dialogue. As financial authorities worldwide contemplate how to reshape existing regulatory frameworks to prevent and contain financial instability, the Bank must retain its role as a source of assistance in the allocation of limited financial resources to infrastructure and to social safety nets to promote equitable growth.

Development and Climate Change: Two Complementary Economic Challenges

We welcome the new Strategic Framework on Development and Climate Change for the World Bank Group (WBG). The launch of this strategy is a positive step toward facilitating a more prominent role for the Bank in fighting climate change.

Climate change epitomizes the intricacy of development challenges in an increasingly interdependent world. Adaptation and mitigation of its effects entail not only substantial financial costs, but also inter-temporal and spatial tradeoffs in welfare distribution. Though the battle against climate change is often mistakenly viewed as being opposed to economic growth, it is, in fact, an economic and development issue in several respects.

- First, climate change will increasingly affect the availability and the relative prices of productive factors, such as land, food, and energy.

- Second, the impact on economic activity of unmitigated climate change and its budgetary implications are potentially significant for advanced, emerging, and developing countries alike.

- Finally, environmental protection offers an opportunity for growth, not an obstacle to development. This principle should underpin economic policies in advanced and developing countries, as well as development assistance, whether bilateral or multilateral.

The Role of the World Bank in Fighting Climate Change

As an international organization, the World Bank is well-positioned to face the challenges of combating the effects of climate change as they relate to “global public goods.” As a financial institution, it is well suited to address the intergenerational problems that climate change poses. Finally, as a multisectoral development agency, the Bank can make use of its expertise in many policy areas and engage clients in fruitful dialogue, providing an extensive menu of customized policy options.

We particularly welcome the emphasis placed by the Strategic Framework on market-based instruments and energy efficiency. In particular, well-functioning and more integrated carbon markets are not only cost-effective environmental tools, they also have the potential to foster a more cooperative stance by developing countries by providing new incentives for them to join mitigation efforts and support innovative technologies.

Both Italy and the European Union are leaders in pioneering market-based instruments to address climate change. The European Trading System, while still in its early stages and with ample scope for improvement, is the world’s first trading scheme in operation. Its success has provided a benchmark for the introduction of similar schemes worldwide. The Bank can contribute positively to the promotion of more liquid and integrated carbon markets and help clients reap the gains that will result from an increased demand for environmental protection.

As regards energy efficiency, we believe that policy dialogue has the potential to generate benefits for both industrialized and developing countries. The Bank traditionally has a comparative advantage in the area of energy sector reform as it can help clients pursue sustainable energy policies, establish sound regulatory systems that may mobilize additional private sector resources, and ease the financial challenges posed by climate change.

Enhancing Voice and Participation of Developing and Transition Countries

We welcome the proposed sequential approach to enhancing “Voice” within the World Bank Group. The proposal of a single package that envisages different milestones will accelerate the Voice reform process, a process that will add to the Bank’s legitimacy and credibility by increasing the representation of its poorest members. We also believe that the World Bank Group will benefit from early adoption of those measures that already meet with broad consensus among its membership.

With capital realignment being the most complex issue, we support the proposal to the Board to launch a more comprehensive shareholding structure review, setting the deadline at the 2011 Spring Meetings. We believe that the members’ relative shareholdings in IBRD should be based on the principle of relative weight in the world economy. In this vein, we also favor maintaining a link between the Bank’s shareholding and the outcome of negotiations on IMF quotas. Considering the specific mandate of the Bank, we think that contributions to IDA and Trust Funds cumulated over time should also be included in the criteria for realignment. Additionally, the underlying principle for introducing further criteria should be the preservation of the Bank’s financial soundness.

The definition of broader shareholding realignment should also provide stable guidance for future review of shareholder representation. A realignment plan addressing all these issues cannot be arrived at hastily; on the contrary, it must be the result of a thorough and comprehensive process.

Finally, fairness and widespread acceptability of the capital realignment plan, as well as the need for a virtuous corporate governance incentive structure, will require that the shareholdings of the most severely underrepresented members be adjusted consistently, irrespective of their classification as developed or developing countries.

Conclusion

Unprecedented challenges now face the world economy and require a renewed effort on the part of the Bank in the pursuit of its traditional development mission. These challenges also call for a sharper focus by the Bank, within its poverty reduction mandate, on the provision of global public goods.

- The current financial turmoil has only added to the distress caused by oil and commodities price increases. At a time when the demand for IBRD loans is likely to increase, it is important that the Bank remain focused on the provision of infrastructure—both social and physical—that can shelter the poorest of this world from the dramatic impact of present and future shocks. In view of this daunting task, IBRD resources are extremely limited, requiring that careful consideration be given to avoid spreading these resources too thinly over too many objectives. A few select priorities should instead emerge from an active policy dialogue with borrowing countries.

- Emerging global challenges require that the Bank recognize and clarify its role as a major actor in the protection of global public goods. This calls for a clearly framed and articulated operational strategy that includes detailed assessments of the budget and of the implications for the Bank's balance sheet of entering these new areas of business.

Confronting these unprecedented challenges requires an institution that enjoys strong governance and the full support of its membership. The Voice reform effort aims to ensure that both of these conditions are met. In this endeavor, the Bank, as a truly global institution, needs to reach out to all its members countries—borrowers and donors alike—ensuring equitable representation and a strong capital base. To achieve this goal, the Bank's governance structure must be aligned with its characterization as a global multilateral financial institution, reassuring capital markets that its commitments are backed by high-grade callable resources and that its products address development needs otherwise unmet.

Today, important steps are being taken to meet these conditions, and we trust President Zoellick to successfully steer the institution in the direction that the WBG's global membership has indicated and endorsed at this meeting.