

ITALY
FABRIZIO SACCOMANNI, Head of Delegation

I am delighted to address the 34th Annual Meeting of the Board of Governors of the Asian Development Bank (ADB) on behalf of Italy. May I take this opportunity to thank our hosts for convening us in this beautiful setting, and to thank the staff and Management of ADB for the excellent organizational arrangements. I am also very glad to welcome Turkmenistan as a new member of ADB.

Prospects for global growth are expected to weaken significantly in this year. The slowdown of the United States economy and the continuing stagnation in Japan is adding an additional source of concern. Despite a modest slowdown, growth continues to be relatively well sustained in the European area, whose performance is a factor of stability for the world economy. It is difficult to make firm forecasts about the depth and the length of the slowdown of the world economy, but there is no doubt that several countries in Asia will be negatively affected. Unfavorable public debt dynamics and high budget deficits in many Asian countries will constrain the ability of governments to use fiscal policy to support growth at a time when the external stimulus is being withdrawn. Restructuring efforts in the corporate sector of the Asian countries hit by the crisis, after a promising start, have lagged behind as a result of improved economic conditions. Now that these economies are slowing again, reforms should no longer be postponed. Indeed, until the structural problems in the corporate sector are fully resolved, the financial system will remain vulnerable. Political instability in some countries, moreover, carries the risk of further delays in the process.

In support of needed changes, there are several positive elements that should encourage authorities to press ahead with structural reforms, aimed at sustainable longrun growth. Allow me to single out a few of them:

- compared with three years ago, the region's macroeconomic fundamentals are in much better shape;
- international lending by G-10 banks to Asia continues to be a relevant source of financing, as a sign of trust in the region;
- net capital flows to Asia, particularly in the form of direct investment, are expected to continue at a sustained pace in 2001.

In this challenging environment, over the last two years ADB has worked intensively to sharpen the focus of its activity on poverty reduction and define a more comprehensive approach to cope with poverty. The long-term strategic framework (LTSF) is the last step of this process. We welcome this approach, with its country focus and its linkage with the achievement of the International Development Goals. However, having a good policy agenda is not enough, since its implementation is the most difficult task. It is therefore paramount that ADB verifies as soon as possible whether its instruments in terms of organizational structure, human and financial resources are appropriate and in line with the requirements of its operational agenda. In this regard, we welcome the assessments currently under way on ADB's present organization and

capital adequacy.

We welcome the successful conclusion of Asian Development Fund (ADF) VIII negotiations. ADF has an important role to play in the poorest countries of the region. In this perspective, we are convinced that the activity of ADB and ADF, focused on poverty reduction, must be guided by selectivity - to optimise the use of scarce resources - and quality of operations. This is the key to greater development effectiveness.

We are fully aware that poverty is a challenge also in ordinary capital resources (OCR) countries. In this respect, we welcome the debate recently started within ADB on the introduction of more favorable terms on OCR loans targeted to poverty. The process is at a very early stage. Policy guidelines and implementation modalities have to be carefully explored bearing in mind the need to develop clear and objective criteria for awarding special conditions and ensure equal and fair treatment among eligible borrowers. We welcome this exercise that goes in the direction of a pricing differentiation for middle-income countries. It is however fundamental to consider the related financial implications and ensure that the financial integrity of ADB be preserved, mostly in a time when ADB is continuing to rebuild its own reserves.

We acknowledge the continuous efforts made by ADB to strengthen its internal governance. The creation of the Development Effectiveness Committee is a remarkable achievement, laying the grounds for a greater partnership between Management and the Board. We also encourage ADB to set up a risk management unit, and to reinforce the inspection function so as to ensure its complete independence. The organizational review currently under way represents a great opportunity to make these important changes. In this context, due consideration should also be given to the strengthening of the existing compliance mechanisms, so as to ensure a stricter and independent assessment of project compliance with ADB's policies and procedures, prior to their presentation to the Board. Similarly, we regard as crucial the ex-post evaluation function to take stock of experience and increase focus on results.

ADB is certainly the most important international financial institution operating in the region. However it cannot cope with all the needs and requirements of its borrowers. It is therefore important for ADB to continuously improve its catalytic role as well as strengthen coordination and collaboration with the other multilateral institutions and bilateral agencies working in the region; in this context, it is also important to strengthen the linkage between ADB country strategies and PRSPs or CDF-type frameworks. Thus, we warmly welcome the forthcoming signature of a memorandum of understanding (MOU) between ADB and the World Bank. We consider this as a first step of a continuing process, involving periodic reviews of the effectiveness of the MOU. We expect it to identify the respective comparative advantages and existing or potential complementarities, and make the best use of them. We also think that there is a wide scope for improving collaboration between ADB and the European Bank for Reconstruction and Development (EBRD) in the less-advanced transition economies in Central Asia, where poverty is dramatically increasing also as a consequence of the transition process to the market economy. ADB could complement EBRD's activity, by

addressing the poverty and social issues of these countries with which EBRD itself cannot cope.

Italy, which is currently holding the G7 presidency, is coordinating an effort aimed at strengthening the multilateral development banks (MDBs). The ultimate objective of the G7 exercise is to render the MDBs more effective in the evolving global context, enabling them to equip themselves with the adequate structure and instruments required in order to fulfill their mandate more effectively while addressing new challenges. We are fostering a constructive and frank dialogue with MDBs and with the other shareholders on the main issues of the reform process, in order to create a climate of increased cooperation and confidence. I wish to take this opportunity to thank ADB's Management for their very active collaboration, and to reassure you all that, while addressing all MDBs, we are taking into account the unique characteristics of ADB, as well as its strengths and special focus on the region.

Mr. President, allow me to reiterate my country's appreciation for your outstanding leadership. Italy will continue to support ADB's activities in fostering the progress of developing member countries and in fighting poverty in the Region.