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ITALY

Giorgio Gomel, Temporary Alternate Governor

I greatly appreciate the opportunity to address the 39th Annual Meeting of the Board of Governors of the Asian Development Bank (ADB) on behalf of Italy. Let me express my thanks to our host, the Government of India, for its friendly hospitality. May I also take this opportunity to extend a warm welcome to Armenia and Brunei Darussalam as new members of ADB, and stress the importance of encouraging the accession of new members.

The Economic Situation in Developing Asia

In spite of sluggish growth in the major industrial economies and the softening global demand for information technology (IT) products, stronger-than-expected growth in Japan and the People's Republic of China (PRC) supported the expansion in Asia. Overall, the pace of GDP growth for emerging Asia eased from a peak of 8.4% in 2004 to 8.2% in 2005. Nevertheless it was still the fastest growing region in the world.

For 2006, improved prospects in the Euro area and Japan, as well as an upturn in global demand for IT products, bode well for emerging Asia and the region is expected to grow at almost 8%.

Finally, it is a great pleasure to acknowledge the impressive results recorded by our host country. India is indeed becoming a key engine for regional and global growth, underpinned by robust export performance as well as strong domestic demand. Recent growth is providing a golden opportunity to carry out the government's structural reform agenda.

Notwithstanding this positive outlook, there exist vulnerabilities which need to be addressed. A first source of risk stems from an uneven unwinding of global imbalances.

The US current account deficit is expected to reach a record 6.5% of GDP in 2006, with surpluses elsewhere, especially in the PRC and other Asian economies. Without appropriate policy actions, these imbalances are bound to adjust in a disorderly manner, triggering sharp and sudden movements in financial markets and hurting growth. Asia is expected to play a central role in managing the process. A smooth unwinding of imbalances will require achieving a better equilibrium between externally and domestically-led growth. In the short run, exchange rate appreciation will be required. Nonetheless, given regional interdependencies, concerns about losses of competitiveness will likely constrain further upward exchange rate movements. A coordinated approach to exchange rate adjustments within the region will, therefore, be necessary to alleviate such concerns.

Another source of vulnerability is the sharp increase in oil prices and the risk that they will climb even further, making inflationary pressures more difficult to manage. Action has been taken by many countries to reduce fuel subsidies, encourage conservation and develop alternative energy sources. Steps are needed to protect the most socially vulnerable.

Countries in the region have taken steps to reduce their vulnerabilities to sudden shifts in financial markets conditions. We strongly welcome, for example, the development of the Asian Bond Market initiative. First, it will increase resilience to external shocks by reducing reliance on foreign capital; second, it will improve financial integration and mobilise local savings for productive investments.

The last issue I would like to address regards the avian influenza pandemic which, although difficult to quantify, does represent a serious threat to global growth. Recent analysis suggests that a number of countries would be affected by the spread of the virus.

ADB's Mission

Notwithstanding overall growth, and the progress made by the Asia-Pacific region as a whole toward achieving the income MDGs, several countries are likely to be left behind. Even countries likely to meet the overall target still have sizable pockets of extreme poverty, while meeting the non-income MDG targets remains a challenge.

In fact, economic growth in Asia has come at the cost of increased inequality.

Against this background, ADB must remain firmly anchored to its vision of an Asia and Pacific region free from poverty and act as a catalyst for equitable development. All other strategic objectives must be pursued in ways that contribute to this goal. Pro-poor economic growth, inclusive social development, and good governance must indeed be the three, equally important, mutually reinforcing pillars upon which ADB builds its operations.

We are concerned that the weight seems tilted towards the first pillar. We are equally concerned that a somewhat "one-dimensional" notion of development prevails. True, economic growth is necessary to reduce poverty, but alone it is not sufficient. GDP takes no account of rising inequality, damage to people's health and the environment, social breakdown, and loss of cultural assets. We urge ADB to uphold, not only in words but also in deeds, a notion of sustainable and inclusive development and to remain focused on its mission to improve the quality of life of the millions in Asia who are being left behind.

Let me now touch upon a few specific issues in this connection.

Governance and Corruption

Improving governance and fighting corruption is the third pillar of the poverty reduction strategy and one of the areas in which international organizations such as ADB can add significant value. There is no doubt that poor governance and corruption have high development costs, and that it is the poor who pay the highest price. ADB's engagement in this realm must go beyond individual projects and be part of a comprehensive approach, in cooperation with the other multilateral development banks (MDBs) and development partners. In this regard we welcome the work that regional banks and the World Bank are doing toward the development of a uniform Framework for Preventing and Combating Fraud and Corruption. In this area, we believe that the principle of zero tolerance on corruption should not result into a zero-action attitude, as its effects would be only damaging for the recipient country. This being said, I would like to stress the importance of distinguishing between improving governance and fighting corruption, the latter being one aspect of the former, although a significant one.

We will be closely monitoring how ADB plans to implement its policies on governance and anti-corruption, how it will coordinate and harmonize its efforts with other MDBs, and finally, how all this will impact on the Asia and Pacific region in terms of development effectiveness.

Environment Issues

As Asia is growing rapidly, environment issues are becoming major and urgent challenges. In this respect, promoting energy efficiency and renewable energy is an utmost concern. We support ADB's initiative for the creation of an Asia-Pacific Carbon Fund, as it will contribute to the objectives of the Kyoto Protocol. We invite ADB to work in partnership with other international organizations, such as the World Bank, to avoid duplication and to take advantage of possible synergies. At the same time, the carbon market initiative should complement ADB's other business operations, in particular those addressing energy efficiency and clean, renewable energy.

ADB's Role in Natural Disasters

We would like to acknowledge and commend the prompt response and the leadership of ADB's management and staff in the aftermath of the South Asia earthquake, the rising emergency of the avian influenza, as well as after the tsunami at the end of 2004. At the same time, we need to reflect on the role of all MDBs vis-à-vis other organizations that have a specific comparative advantage in emergency relief. Close cooperation with other institutions and agencies is paramount in this area.

The proliferation of dedicated funds to respond to the recurrent calamities in the region is not exempt from problems, and net income transfers should not be continually resorted to. We call on ADB to review its Disaster and Emergency Assistance Policy and to aim at establishing a general instrument through which funds can be channeled effectively and expeditiously.

Harmonization and Donor Coordination

Let me move to our responsibilities as shareholders and donors. By now it may sound like a broken record, but we cannot stress enough the need, on our side, to work hard to increase harmonization and coordination of policies and practices in order to enhance the effectiveness of aid flows. In this regard, as much as we can strive towards delivering on the Monterrey commitment of increasing overseas development assistance (ODA), it is a fact that resources will never match the growing needs of the poor if we adopt a mere quantitative approach. Aid quality, as well as selectivity of areas of intervention is indeed key to achieving solid development results.

This being said, I would like to stress that Italy is making every effort to deliver on its commitments. In 2005 Italy has increased its level of ODA (0.29% of gross national income [GNI], almost double that in the previous year.) We will make further efforts to continue along this path. In addition, as part of the G-8, Italy has promoted the debt relief initiative. We are also playing an active role in the field of innovative financial mechanisms, which we consider to be important instruments to increase aid flows to meet the Millennium Development Goals (MDGs). With a contribution of €504 million, Italy is one of the founding members of the International Finance Facility for Immunization (IFFIm). Finally, Italy is actively working on the launch of a pilot advanced market commitment scheme to support research and development of vaccines for diseases which affect the poorest countries.

ADB's Future Directions

Last year in Istanbul President Kuroda declared that ADB must change. We shared and supported his vision. Since then, progress has been made on a number of fronts. But we still have not seen the much needed bold move forward and we miss a clear plan on how management intends to translate good intentions into actions.

Implementation is at the core of ADB's problems. We believe that organizational and managerial weaknesses must be addressed as a matter of priority and that a change in mindset and culture is needed to make ADB genuinely responsive, relevant, and results-oriented.

We call on President Kuroda to take firm leadership on these issues and to engage all ADB shareholders through the Board of Directors in an open and transparent debate.

We are only 9 years away from the MDG deadline and the challenges ahead are numerous, but we are confident that ADB will live up to its mission of contributing to the defeat of poverty in Asia.