

**MDB Reform**  
**Statement of Minister Visco at the G7 Finance Ministers Meeting**  
**Washington, 28 April 2001**

The issue of economic and social development and the fight against poverty have a central role in current G7 discussions. There is a broad consensus that debt cancellation is only one of many elements in the fight against poverty. We need to go beyond, with concrete actions, aimed in particular at fostering productivity and economic growth. We have to recognize that the International Community is falling behind in meeting the commitments spelled out five years ago in terms of International Development Goals.

We believe that the Multilateral Development Banks should play a central role in the development process. Not everybody necessarily shares this view. This is the reason why we need to make sure that MDBs are fully equipped to face the challenges they are called upon. This is the reason why G7 Finance Ministers started last year to discuss MDB reform. The objective is to sharpen MDBs' focus on economic growth and poverty reduction, by introducing greater selectivity in the operational agenda and making MDB more efficient and accountable to shareholders and stakeholders at large.

Considerable work has been done by MDBs over the past few years to become more effective and result-oriented institutions. The challenges ahead require, however, further improvements in management and operational areas. Far from engaging in a mere intellectual exercise, the G7 Finance Ministers are committed to work, together with the other shareholders and MDBs' Management, to strengthen effectively these Institutions.

Since last year, we have made significant progress on the process and contents of MDB reform. An open and frank dialogue on the main issues of the reform has been initiated with MDBs' Management and the other shareholders with the purpose of making our exercise as transparent as possible.

A strong consensus is emerging on key principles of the reform process - such as selectivity and a greater attention to results and on specific recommendations. The G7 Finance Ministers are expected to conclude their work in the next two months. The final report will be finalized at the meeting in Rome (on 7 July) and submitted to the Heads of State and Government for the Genova Summit. I would like to give a broad picture of the contents of the reform by listing the areas on which the G7 is working, namely: coordination, internal governance, pricing issues, global public goods, financial sector reform and good governance. Improving coordination among the MDBs is a priority. Strengthening coordination among the MDBs is essential to achieve a more selective approach to development issues, while promoting greater complementarity and avoiding undue overlappings or duplication of efforts. Resources are scarce. As shareholders, we must ensure that there is no unnecessary duplication of efforts or unclear allocation of tasks. The Comprehensive Development Framework and the Poverty Reduction Strategy Papers are an important step towards a more effective coordination among MDBs, as well as donors at country level. In this respect we think that MDBs should go further by ensuring a greater coordination and consistency in their respective Country Strategies .

We consider the Memoranda of Understanding between the World Bank and the Regional Development Banks as a crucial tool to improve collaboration and efficiency at the institutional level. We note and welcome the progress made in this respect . We would expect that MDBs conduct periodic independent reviews of the effectiveness in the implementation of the Memoranda of Understanding. The goal would be to continuously identify areas for further improvement, particularly on issues of selectivity and comparative advantage and regularly update such Memoranda.

Closer coordination can also be achieved by pursuing harmonization, at the best and most appropriate standards, of the key operational policies and procedures, and procurement rules. We appreciate that this issue is on the agenda of the Development Committee. We encourage you and the Presidents of the other MDBs to prioritise and accelerate the harmonization process and periodically report about it at the Development Committee. Internal governance, accountability and transparency are crucial. Without the highest standards, it is impossible to face up to external criticisms and this would be detrimental to the ability of the MDBs to play a key role in the fight against poverty. Much has been achieved, but again, much can still be done. Let me give a few examples of what we have been discussing.

- First, a more "transparent" budget process - in which a strong link between resource allocation and institutional priorities is clearly established - is an effective tool to reinforce the MDB accountability vis a vis shareholders. We expect the World Bank to take into account this request in the forthcoming presentation of the 2002 budget.
- Second, a more open disclosure of information (policy documents and country assistance strategies) - which could possibly also be released in draft format. This can favour more meaningful consultations with various stakeholders and strengthen MDBs' credibility among the public at large. We invite the World Bank, which is currently defining its new disclosure policy, and the Regional Development Banks to go the furthest they can in the direction of greater openness.
- Third, the Strategic Compact. This was one of the most radical reforms that the World Bank has implemented. The internal assessment of the results achieved so far shows that several positive changes have been achieved, such as a strong commitment to poverty reduction as the Bank's overall objective and an improvement in the quality of the Bank's products and procedures. One of the key features of the Strategic Compact is the renewal of the World Bank's institutional capacity, which has implied changes in staffing and a redeployment of resources to front-line units. Building on this, the current debate on the Strategic Directions must clearly define the Bank's future priorities and approach, rigorously analysing trade-offs, and managing efficiently the resources needed to achieve the selected priorities. Other MDBs are also currently undertaking internal reorganisations. There is a lot they can learn from what has been achieved during the implementation of the Strategic Compact. We appreciate that an effort is under way at the World Bank to address the most critical aspects of the internal organisation and management structure. To address critical aspects of internal management structure and effectiveness, we welcome your continuing the internal evaluation of present weaknesses, in conjunction with the Executive Board.

Coming now to the main areas of activity of the MDBs, we seriously believe in the need to be more selective and address basic development priorities, given the scarcity of resources. As far as Global Public Goods are concerned, as we have already mentioned publicly, the World Bank should focus on Trade, Financial Stability, Environment, Fighting Infectious Diseases.

In defining priorities, a key sector of activity of the World Bank should be the development of an efficient public sector. Good governance is a rather broad concept, which entails several crucial areas (such as legal and judicial systems, just to mention some of them). However, there is a need to increase focus on public sector management and on the promotion and enforcement of safeguard and fiduciary policies, particularly at a time when the World Bank is considering new lending approaches, such as programmatic lending.

We welcome the on-going work of the World Bank in re-designing its role in Middle Income Countries, which are home to billions of poor. We think however that the approach proposed by the Bank needs to be further elaborated to deal with specific major issues such as accountability, institutional capacity and policy environment of the borrowers. Moreover, the World Bank should better specify the poverty focus of its strategy in the MICs and the role the Group can play in preventing and coping with financial and social instability. Greater selectivity is necessary with respect especially to the countries which have greater access to international financial markets.

As you well know, Mr. President, one of the main aspects of the G7 reform is the pricing review. Last year in Fukuoka the G7 Finance Ministers requested to all the MDBs a comprehensive review of the pricing policy. We have reiterated such a request on several other occasions, with the expectation that a differentiation of pricing could be explored. We insist that such a review be initiated now for both IBRD and IDA on a fast-track that would analyse the feasibility - and related financial implications - of a price differentiation, for borrowers, by instrument, development impact and stage of borrower development. Within IDA, pricing review could also involve the possible use of grants.

Mr. President, we are aware of the considerable work and efforts that you have personally made, over the past few years, to radically renew the World Bank. We also recognise your current endeavours in building up a more selective agenda through the definition of the "Future Directions for the World Bank". As I mentioned several times, resources are scarce and there are limits to budgetary adjustments. We thus intend to support you in selecting

the priorities of the World Bank and in increasing its efficiency and coordination with the other key players in the fight against poverty.