Development Committee Statement of Secretary Mnuchin – April 2018

April 21, 2018

I am pleased to welcome fellow delegates to Washington, DC, for the Spring Meetings of the World Bank and the International Monetary Fund.

The broad-based strengthening of the global economy over the past year is a welcome—and long overdue—development. Heightened growth is helping to spur increased business investment, create much-needed private sector jobs, and expand economic opportunities for many around the world. The challenge now is to pursue prudent reforms that lay the foundation for strong growth and shared prosperity. All countries should comprehensively review their policies and regulatory frameworks to ensure that they promote investment, facilitate productive lending, encourage hiring in the private sector, and support growth of real median incomes. Broadly shared income growth is the best solution to poverty.

When I last addressed the Development Committee, I challenged World Bank management to craft a set of transformational reforms to put IBRD finances on a sustainable path while shifting resources to poorer borrowers and away from countries better able to finance their own development objectives. I want to recognize the progress that has been made in response to these appeals.

The World Bank Group Reform Agenda

First, I welcome the proposed framework to ensure the long-term financial discipline of the IBRD. The absence of a mechanism to govern lending levels has been a serious weakness of the IBRD's financial model. This financial accountability gap has enabled a cycle of excess lending and recurring requests for additional shareholder capital. A predictable framework that sets binding limits on annual lending, while reserving capacity for countercyclical lending, represents a critical step forward. This improvement should boost shareholder confidence that the IBRD will sustain its operations on organic capital accumulation alone, lend within its means, and preserve the ability to respond to regional or global economic shocks.

I am pleased that the IBRD proposes to significantly shift lending to poorer clients, both through a new income-based lending allocation target and the re-introduction of differentiated pricing. The latter will incentivize better-off, more creditworthy borrowers to seek market financing to meet their needs for development.

The commitment to more credibly implement the IBRD graduation policy signals a positive change in the way the World Bank intends to engage with its better-off clients. The United States has long maintained that the relationship between the World Bank and more creditworthy countries should mature over time, with the absolute level of borrowing declining as countries become better able to finance their own development objectives. The evolution of client engagement along these lines is consistent with the cooperative spirit of the World Bank, enhances potential for South-South learning, and frees resources for countries that don’t have sustainable access to private capital markets.

In addition, I appreciate that the Bank has agreed to contain wage growth through a cap, which has been growing at levels above what our taxpayers themselves earn and are willing to tolerate at a public institution. Similarly, the commitment by management to use an incentive-based approach to reward good performers and remove poor performers is long overdue. The United States feels strongly that the Board of Executive Directors must lead by example by restraining its own wage increases and cutting expenses.

Finally, acknowledging the ample amount of callable capital already on the IBRD’s balance sheet, we support the move toward a relatively smaller proportion of callable capital in this package compared to previous general capital increases. Given that the use of large amounts of callable capital is a legacy of the original IBRD articles of agreement, we are committed to a process to evaluate and study the use of callable capital with an eye toward modernizing the financial instruments in use at the IBRD.

These commitments are robust and will lead to a more accountable, impactful, and efficient IBRD. We will need time to engage in additional consultations with our budget authorities and Congress while resolutions are considered by Governors.

New Direction at the IFC

We understand the desire by IFC to raise new shareholder capital in support of additional private sector development in poor and fragile states. We welcome the vision embedded in “IFC 3.0,” its new strategy to maximize impact and to address the constraints to private sector development in order to attract increased private investment and create job growth. We are pleased that the IFC is now systematically vetting all operations to assess their potential for strong development impact while avoiding crowding out private investors. Going forward, we expect the IFC to take meaningful steps to further improve accountability and transparency and to limit its support for state-owned enterprises.

Shareholding Agreement

We welcome the agreement reached to adjust member state shareholding in the IBRD following the extensive work over the past two years. Effective governance requires that the institution's shareholding better reflects the changes in the global economy and the growing importance of new donors. The dynamic formula—on which the new shareholding is based—incorporates those principles. However, with increased shareholding rights come increased responsibilities. To build on the progress represented by the recent shareholder agreement, we expect countries benefiting most from the new shareholding arrangement to take on a greater share of the burden to help the poorest.

Emerging Risk: Low Income and High Debt

Rising debt levels in low-income countries threaten to generate significant economic and social instability and imperil hard-won development gains. Borrowers, international financial institutions, and other public and private creditors must collectively address these risks before they develop into full blown crises. We strongly support recent efforts of the World Bank and the IMF to better track these risks and improve transparency through the debt sustainability frameworks and urge the robust application of the IDA Non-Concessional Borrowing Policy and IMF Debt Limits Policy. In addition, more can be done to ensure a full and transparent accounting of public debt. We call on IMF and World Bank management to develop a joint "action plan" on debt transparency and sustainability to guide future work, ensure strong coordination between institutions, and boost visibility around these efforts. We also call on all countries, including emerging sovereign lenders, to fully disclose public borrowing, and on the World Bank and IMF to take steps to improve the collection and analysis of debt data with an aim to improve debt transparency and sustainability.

Gender

We welcome the implementation of the Women's Entrepreneurship Financing Initiative, including the first successful round of funding proposals approved, and commend President Kim for leading by example through his commitment to increase World Bank procurement from women-owned businesses.

Accountability

We ask the World Bank to do more in countries affected by fragility, conflict, and violence in an effort to stabilize countries before they become fragile or mitigate the impacts of conflict and violence. We must ensure that sufficient attention and resources are dedicated to address key project risks, including the risk of gender-based violence and violence against project-affected communities. The Bank's new environmental and social framework helps strengthen the overall safeguards regime and we look forward to its implementation later this year. We also look forward to the Board's review of the Inspection Panel's toolkit and a robust discussion with other shareholders on possible reforms, with a view towards agreeing on a package of measures before the 2018 Annual Meetings.