

U.S. DEPARTMENT OF THE TREASURY

Remarks by Secretary of the Treasury Janet L. Yellen at the Center for Strategic and International Studies



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As prepared for delivery

Thank you for the introduction, Matt. I'm pleased to be here at CSIS with all of you.

Last fall, I issued an urgent call ahead of the World Bank and IMF Annual Meetings — for the evolution of the multilateral development bank system. My reasoning was simple: the world has changed, and we need these vital institutions to change along with it. In today's world, it's important that the MDBs make progress on their core mission of poverty reduction and inclusive economic growth. But it's also important that they take decisive action on global challenges like climate change, pandemics, and conflict and fragility. These goals are all essential, and they are closely linked.

Since the aftermath of the Second World War, the development banks have played a critical role in alleviating poverty and spurring economic development. They've done so successfully for a broad range of countries, including those facing persistent poverty and those recovering from disaster and conflict. Last month, I visited three countries in Africa. I saw first-hand the impact of these banks' direct financing of national development projects. Projects like these have connected millions to electricity and clean water. They've helped farmers get more crops to market. And they've funded the construction of modern roads and bridges.

But even before the onset of the COVID pandemic, our tremendous progress on poverty reduction was beginning to lag. In today's world, sustained progress on poverty alleviation and economic development is simply not possible without addressing the global challenges that face us all. The COVID pandemic, for example, led to a rise in extreme poverty for the first time in over 20 years. In Zambia, smallholder farmers told me that extreme weather events like droughts and floods have dampened agricultural yields – exacerbating hunger and food insecurity. Many African leaders have noted to me the impacts of conflict on their economic growth. These effects are not just local to countries in conflict. They spill over to neighboring countries.

The costs and benefits of addressing global challenges are diffuse. They don't all accrue to a single country. The MDBs' core model involves countries borrowing to make specific investments aimed at addressing development constraints in their own countries. That model is insufficient to meet the moment. Such a model will always underinvest in addressing global challenges – since the benefits of investments in global challenges stretch far beyond the borders of the country where a given project takes place.

The costs of failing to address these global challenges may be spread across the world. Nevertheless, these costs have a serious impact on national and local realities. They are very real for the people who face them. Many times, these are the world's poorest and most vulnerable.

A. EVOLUTION AGENDA

That's why I – along with other shareholders – called for an evolution of the development banks last fall. It's time for these banks to address global challenges head on – with the urgency and scale that is required. We have begun the evolution of the World Bank. Next, we expect to take this agenda to the regional development banks.

Let me speak specifically about our work on the World Bank. We are focused on evolving its vision, incentives, operating model, and financial capacity.

First, the Bank needs to expand its vision to include addressing global challenges as an integral part of achieving its Twin Goals: poverty reduction and shared prosperity. Let me be clear: this does not mean shifting the Bank away from its traditional work. It means expanding the work of the Bank to better include addressing global challenges. These challenges are intertwined with alleviating poverty and supporting inclusive and sustainable development.

Second, the Bank must create the right incentives for countries to tackle global challenges. That includes lowering investment costs to make these types of projects more economically viable. My view is that since the global community benefits from these investments, the global community should help bear their cost.

For example, we are asking the Bank to identify concessional resources available to countries to tackle global challenges. These resources could incentivize the decommissioning of coal plants and protect displaced workers during a clean energy transition. They could enhance health systems to mitigate the spread of disease. Or they could support basic services for refugees and their host communities. The World Bank will also need to develop diagnostic

tools to help countries understand how global challenges affect their development. This will help guide project and financing decisions.

Third, the Bank must be bolder and more imaginative in its operational approach. For example, we know that sub-national entities can sometimes have greater expertise and willingness to implement innovative projects. What if we made it easier for cities to gain access to funding for climate-smart urban infrastructure? Operationally, we believe it's also important for the Bank to develop new measures of success – such as clear targets that reflect its efforts to address both traditional goals as well as global challenges.

Finally, the Bank must boost its financial capacity by responsibly stretching its existing financial resources. Last year's G20 report on the development banks' capital adequacy frameworks provides a solid blueprint for this exercise. The United States is strongly supportive of exploring and implementing a range of the report's recommendations – and doing so quickly. Promising ideas for exploration include increased securitization of private sector portfolios or piloting the issuance of subordinated debt instruments to boost headroom.

Just as important as additional financial capacity for the Bank is stronger mobilization of private capital and domestic resources. International public finance alone will come nowhere close to the level of financing needed to effectively tackle global challenges and achieve the Sustainable Development Goals. We expect the evolution agenda to reflect the importance of private financing and domestic resource mobilization.

B. PROGRESS AND THE ROAD AHEAD

We have made real progress over the past four months – as we've worked with the Bank and other partners. We have built a robust and growing coalition of borrower and non-borrowing countries that are pressing for the Bank to evolve. That includes my counterparts in Africa, who I saw last month. They share our desire to build a system that is more responsive to the challenges they face. We are coordinating closely with India as it makes MDB evolution a key priority of its G20 presidency. And the World Bank has produced an initial evolution roadmap – which it is now using as a guide for deeper discussions on specific reforms.

In the next few months, we expect to see ideas begin to be translated into action. We are pursuing a staged implementation of this evolution. Not all decisions are equally difficult – so let's make the more straightforward ones first. The first phase of implementation should begin by the World Bank and IMF Spring Meetings in April. Shareholders are already working to

coalesce around updates to the Bank's vision and mission. Management and the Board are in robust discussions about measures to boost financial headroom.

But we cannot stop there. Much remains to be done to evolve incentives, reform operational approaches, and increase financial capacity. We expect the World Bank to promptly implement a second phase of work. We are asking for additional reforms to be decided and implementation to begin by the World Bank and IMF Annual Meetings in October. That's the one-year mark from when this project began.

We know we can succeed. The world has gone through tremendous change in the nearly 80 years since the founding of the World Bank. The multilateral development bank system has responded to these changes by evolving. The system has broadened the scope of its work to include programming on human capital and good governance; expanded its set of instruments beyond project loans; increased its focus on policy and technical assistance; and delivered financial innovations.

The MDBs are a powerful pillar of a broader financial architecture that should be deployed to address 21st century development challenges. But this requires a 21st century strategy. The need is great. The world is asking us to do all we can to combat these complex and growing problems.

I am confident that we will be able to deliver.

Thank you. And I look forward to our conversation