Remarks by Secretary of the Treasury Janet L. Yellen on Multilateral Development Bank Evolution in Ben Guerir, Morocco

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As Prepared for Delivery

Thank you for the introduction, and hello everyone. I'm glad to have the chance to visit UM6P. The World Bank is funding construction of the university's newest branch. And the beautiful campus we're at now reflects dedication to both achieving environmental sustainability and driving educational outcomes. It's a perfect symbol of what I'll be speaking about today.

A key goal of multilateral engagement is to lift up the poorest and most vulnerable. To create the conditions so that all people can live prosperous and peaceful lives for generations to come.

There has been some progress on the Sustainable Development Goals over the past decades, such as a substantial decrease in child mortality. But progress on too many other targets has been slow, stalled, or even reversed. This is in part due to global challenges that no country can solve on its own. Last year's floods in Pakistan affected more than 30 million people and caused economic damage of over $30 billion, or around one-tenth of Pakistan's GDP. The drought in Somalia killed more than 40,000 people and over 3 million livestock. Shocks like these often hit hardest countries and people who have less resources to prepare or to rebuild. And they pose risks to all our economies and to the future we seek.

The good news is that we have tools at our disposal to not only course correct but also to realize new opportunities. The multilateral development banks, the International Monetary Fund, and the debt architecture, as well as private sector and domestic resources that can be mobilized, comprise a powerful international architecture. This architecture has changed over time to meet new challenges. And it must change again to meet the urgent global challenges of our time.

That's why, during last year's Annual Meetings, I called for the evolution of the multilateral development banks. At this one-year mark, we can see the tremendous progress we've made.

We've aligned around a common vision and formed a broad coalition to demand the reforms that are needed. Evolution is now high on the G20's agenda, and the Indonesian and Indian presidencies have played key roles. We've heard the clarion calls of leaders from Prime Minister Mottley of Barbados to President Ruto of Kenya. And at the World Bank itself, we have a new President, Ajay Banga, who has already begun turning this vision into action.

While we started with a focus on the World Bank, we're also bringing this agenda to the regional development banks. We're positioning the International Monetary Fund to continue fulfilling its own critical mandate. And we're pushing to make the debt architecture work better and faster.

In my remarks today, I'll reflect on what we've accomplished in just one year and on what we need to do to keep the momentum going. I'll also highlight the concrete differences these changes will make, for emerging markets and developing countries, and for all of us.

I. MULTILATERAL DEVELOPMENT BANKS

Mission

The World Bank was formed in the aftermath of World War II. Its initial focus was on supporting recovery from the war, which is why its first loan was to France. But it expanded its mission, lending, and geographic reach. And in 2013, it formalized a new mission in the Twin Goals: to end extreme poverty and boost shared prosperity.

A decade later, the global challenges of climate change, pandemics, and fragility and conflict threaten the achievement of these Twin Goals. So, addressing these challenges needs to be an integral part of the work of development institutions. And change starts with mission. This week in Marrakech, the World Bank Board of Governors will endorse a new vision to "end poverty on a livable planet." This vision reflects a broader consensus. Last month at the inaugural Africa Climate Summit, for example, African leaders committed to integrating climate agendas into national plans "to assure their full potential to support sustainable development is realized." It's become common sense that addressing climate change and other global challenges is key to achieving development.

Operational Model

To have impact, a new vision must drive new actions. Here, too, we've made progress. The World Bank is putting in place operational changes so that it can better address global challenges.

To combat climate change, the World Bank is improving the analytics and diagnostic tools that guide its work. Enhanced country climate and development reports will link climate change and development priorities, positioning governments and development partners to design projects that both maximize development results and increase climate resilience and adaptation. An expanded crisis response toolkit will include tools such as access to enhanced catastrophe insurance to enable responding to disasters. And there will be broader changes to integrate climate across the World Bank's operations. This is just common sense. An agricultural project that is not designed to withstand climate-related shocks and longer-term stresses—like droughts, shortened seasons, and erratic weather patterns—will fall short of reaching its intended outcomes. But a project with drought-resilient crops and more efficient water use will lead to increased yields, improving livelihoods and keeping populations food secure.

The World Bank will also provide more support for increasing resilience to global health emergencies. COVID-19 caused a shock to education globally. Support to strengthen digital infrastructure could enable a quick pivot to remote learning, keeping development targets on track even in the midst of crisis. These investments, too, are common sense.

And to address fragility and conflict, the World Bank will increase support through projects that improve access to basic services and livelihoods for refugee populations around conflict zones in ways that also benefit host populations, for example. Other projects will attack the root causes of conflict, such as youth unemployment. Again, this is common sense: the only way for the World Bank to meet its goals given the challenges we face.

Work has already started on principles for using concessional finance in a targeted way to provide more support for activities like these—ones that address global challenges. And the work ahead includes finalizing the framework for allocating these concessional resources.

We will also need to equip World Bank staff to deliver. This will require internal process improvements that increase agility and speed up decision-making without sacrificing quality, as well as cultural change to accelerate private sector mobilization and responsible risk-taking.

Financial Capacity

Delivering on this more complex agenda—one that does justice to the mutually reinforcing goals of achieving poverty reduction, driving economic growth, and tackling global challenges—requires boosting the World Bank's financial capacity.

We've already made significant progress. At the Spring Meetings, Governors endorsed reforms that will unlock $50 billion in additional financing capacity at the World Bank over the next decade. Two weeks ago, the Asian Development Bank updated its Capital Adequacy Framework. This will unlock $100 billion—meaning a 40% increase in its annual new commitments capacity. Across the system, these reforms and others under active consideration would mean a total of at least $200 billion in additional capacity.

We expect more progress very soon. This week, Governors will endorse a shareholder portfolio guarantee platform that gives shareholders a new way to contribute and they will lay the groundwork for the issuance of hybrid capital, a key measure to optimize balance sheets. The platform is part of the United States' proposal for shareholders to increase World Bank concessional financing capacity to address global challenges. President Biden has requested funding that would enable the World Bank to provide $27 billion for projects that address climate change, pandemics, and fragility, and to support immediate crisis response in the poorest countries. The G20 has committed to mobilizing more resources. And other countries are making announcements on how they will boost capacity as well.

But MDB financing alone will never suffice to achieve the Sustainable Development Goals. So, we also need to do much better to engage private capital and mobilize domestic resources. We need the MDBs to establish concrete private capital mobilization targets and incentives for staff to meet those targets. At the World Bank, lending, guarantee, and insurance instruments offered by IFC and MIGA need to be expanded and better utilized, and we need to find new ways to smartly manage foreign exchange risk. The World Bank should also invest more in project preparation and structuring and should release Global Emerging Markets data so that private investors can better understand the actual risk and opportunity of investing in these markets. And it should provide additional support to countries to put in place the right policies to grow healthy private sectors and local capital markets—and to increase domestic resource mobilization.

Looking ahead, we have asked MDB presidents to prioritize the major next step of incorporating a prudent share of callable capital—the commitment from shareholders to step in in extreme circumstances—into their capital adequacy frameworks. This will require commitment and effort from shareholders, MDB management, and credit rating agencies. But it is work well worth doing to expand the financial capacity of the entire MDB system.

Regional Development Banks

The regional development banks are also a crucial part of the evolution agenda. Regional development banks have unique expertise on the priorities and needs of the regions they serve. And they can work together with the World Bank and others as a system to increase impact.

We have exciting examples already. The World Bank and Inter-American Development Bank recently picked up the call for evolution and launched a partnership to work more closely together in Latin America and the Caribbean, including on joint work to strengthen resilience to natural disasters. The United States has led the call for a capital increase for IDB Invest’s renewed vision—IDB 2.0—predicated on an originate-to-share approach, which would mean bringing the private sector into investments earlier and more strategically. The African Development Bank is the first multilateral development bank to create a framework for hybrid capital and is pursuing its first transaction. And AfDB is also supporting Africa50’s recent launch of Africa’s first asset recycling program, designed to free up government funds for infrastructure investments by involving the private sector.

II. INTERNATIONAL MONETARY FUND

Development banks are only one part of the international financial architecture, so we have also turned our attention to the IMF. Like the development banks, the IMF has undertaken reforms over decades, in its case to fulfill its mandate of overseeing the stability of the international monetary system. This moment demands additional change at the IMF as well.

Our efforts start with making sure the IMF has sufficient resources. An equiproportional increase in quotas will shore up the IMF’s finances, reducing its dependence on borrowed resources and allowing for larger lending packages within the set access limits and where appropriate. We also continue to call for more support for the Poverty Reduction and Growth Trust, the IMF’s concessional financing facility. The PRGT drastically increased its lending during the pandemic, deploying funds to meet urgent balance of payment needs. More recently, it has lent critical support to countries such as Ghana and Zambia that are undertaking reforms in the context of debt restructuring processes. Without additional funding, the PRGT will not be able to support continued high demand. The United States has already contributed to the PRGT subsidy account and has called on the IMF to utilize internal resources so that all members are supporting low-income countries. And we have asked Congress to authorize the United States to lend $21 billion to IMF Trust Funds that support low-income countries or help build resilience.

Beyond securing resources, we continue to believe the IMF should fulfill its core mission through providing sound policy advice, capacity development, and financing. Perhaps the most important work the IMF can undertake is to support a country to find sustainable macroeconomic footing through deploying a combination of these tools. For example, the IMF's capacity building efforts are helping drive increases in debt transparency. Like with investments in climate, these changes have impacts far beyond the country directly receiving support. They help channel private financial resources to meet global challenges and underpin global financial stability.

And alongside resources and fulfilling its core mission, we are exploring ways to directly increase the voice of emerging markets and developing countries in the IMF. We've proposed adding another Deputy Managing Director to have two deputies representing emerging markets and low-income countries, instead of one that represents both. And we are also beginning to engage with members on the potential of adding a third Executive Board chair representing sub-Saharan Africa. We also support a quota formula that better reflects the global economy, but change on this can only happen within an agreed-on framework based on shared principles.

III. DEBT ARCHITECTURE

I'll end by turning to the debt architecture. Public debt has been steadily rising for decades and the pandemic caused it to sharply spike. The portion of low-income countries in or at high risk of debt distress has doubled since 2015. This is inextricably linked to the challenges I've already discussed. Debt poses risks to development and financial sustainability. When Ghana sought an IMF program and debt treatment under the Common Framework last year, a shocking 47 percent of government revenues were going to service debt. These were funds that were unavailable to invest in preventing the next climate shock or strengthening health systems.

Over the past year, we've made progress on debt restructuring in particular cases. For example, Zambia reached a deal with foreign government creditors in June. But it took far too long to get there. The past year has also seen uptake of new creative solutions, such as climate-resilient debt clauses. These clauses pause debt repayments in the event of climate disaster. This means that when disaster hits, a borrower country will be able to spend much-needed funds on emergency response and recovery, exactly when such funds are most crucial. And investors will still get paid back, just on a later timeline. The World Bank will be piloting these clauses as part of its expanded crisis response toolkit.

Looking ahead, we need to continue efforts to quickly resolve debt distress in other cases. We also need to accelerate our broader work to advance reforms at the Global Sovereign Debt Roundtable. An architecture that allows debt distress to be resolved quickly and predictably will allow countries to restart growth, make investments that improve lives, and contribute to the global economy.

IV. CONCLUSION

We are not where we should be on the Sustainable Development Goals, and the global challenges we all face make achieving sustained progress even harder. But we have a pathway out: through making bold reforms to the international financial architecture and then using it fully. I'm proud of how much we've accomplished in one year. And I believe there will be even deeper collaboration and more widespread commitment as we continue this work, including as Brazil assumes the G20 presidency. But we know there is much more to be done.

The Annual Meetings have been held in Africa only once since 1947. That was 50 years ago, in 1973 in Nairobi. It was another moment of change in the world and for the World Bank. Here, on the African continent, one month after the African Union became a formal member of the G20, we are defining the course forward at another key moment. We need an international financial architecture that lives up to the promise of multilateral engagement. The past year has made me hopeful that we will jointly leverage the tools and shared political will we have to bring about a better world. Thank you.

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