

# Statement from Secretary of the Treasury Janet L. Yellen on the World Bank Development Committee



October 11, 2023

The United States extends its deepest condolences to the people of Morocco and Libya, who have lost loved ones and now face the devastating impacts of once-in-a-century earthquake and floods. We stand by the governments of Morocco and Libya as they take steps to recover from the destruction these disasters have wrought.

As we gather for these Annual Meetings – for the first time in 50 years on the African continent – we are aware of two realities. On the one hand, the global economy remains in a better place than many predicted, with growth outperforming expectations, and annual headline inflation falling in many of the major economies, including the United States. At the same time, the global economy faces significant uncertainty. Major shocks emanating from global challenges—the economic disruption from COVID-19; catastrophic, climate change-driven extreme weather events; and fragility and conflict in all parts of the world—have eroded development gains and disproportionately impacted the poorest and most vulnerable people and countries. Russia’s illegal and unjustifiable war of aggression against Ukraine has caused a tragic loss of life, destruction of property, and has exacerbated global economic challenges by destabilizing energy and food prices. We call on Russia to swiftly end this unjust war, which would help to rapidly reverse some of these trends and set the global economy on a more positive trajectory. The compounding effects of these shocks have taken a terrible toll in terms of lives lost and livelihoods disrupted, and contributed to rising extreme poverty, hunger, and slower economic growth. Further, their impacts have been more severe across emerging markets and developing countries, often in those countries that are already burdened by heightened debt vulnerabilities and have the least fiscal space to respond.

We have undertaken important efforts over the last year to evolve the multilateral development banks (MDBs), starting with the World Bank, to better address global challenges, particularly climate change, pandemics, and fragility and conflict. Addressing such challenges is in the national interest of all countries; mitigates risks to our collective

economic outlook; and is integral to achieving poverty reduction and sustainable, inclusive, and resilient development.

The United States is not alone in this undertaking. Beginning with the Development Committee last year at the Annual Meetings, there has been a broad coalition calling for bold and urgent evolution reforms. In the G20, the Paris Summit for a New Global Financing Pact, the Africa Climate Summit, and the Sustainable Development Goals (SDGs) Summit, the international community has also loudly and collectively voiced the importance of MDB evolution. Through these fora we have all recognized that addressing global challenges and achieving poverty reduction and inclusive economic growth are mutually reinforcing, and we must all work together to build an MDB system better equipped to respond.

In the past year, shareholders and World Bank Management have worked together to advance the reforms that will enable the Bank to evolve to bring 21<sup>st</sup> century solutions to 21<sup>st</sup> century challenges. We have updated the Bank's vision and mission to reflect that addressing global challenges is a core part of reducing poverty and boosting shared prosperity. The Bank's updated operational model will integrate global challenges through refocused diagnostics, enhanced country engagement, and greater support to sub-national entities. It will also deliver a concessionality framework that will enable greater support to address global challenges. Reforms to the IBRD financial model endorsed in the spring will yield around \$50 billion in additional lending capacity over the next 10 years, with more possible in the near term given the establishment of the Portfolio Guarantee Platform and work to issue hybrid capital to interested shareholders. This is just one part of the initial \$200 billion in additional financial capacity we expect to achieve over the next decade across the MDB system through the G20 MDB Capital Adequacy Framework (CAF) Review recommendations that have been adopted or are under consideration. The energy behind the evolution work has sparked similar efforts at the regional development banks, which together with the World Bank, will make the entire system deliver better.

These accomplishments are significant. But our work is far from done. It is crucial that the World Bank robustly implement the evolution reforms that have been adopted, complete work on those currently underway—like the concessionality framework and measures to increase speed and agility—and begin work on reforms that have not yet been taken up. Specifically, we urge the World Bank to establish incentives for staff to incorporate addressing global challenges into country engagement, and fully implement the recommendations of the G20 MDB CAF Report, including the recommendation to incorporate a prudent share of callable

capital in the Bank's capital adequacy framework. We also call on the World Bank to implement private capital mobilization (PCM) reforms that include incentives for staff to mobilize private capital rather than use own-account financing, ambitious portfolio-wide mobilization targets, clear reporting on results, and improved quality and accessibility of data in the Global Emerging Markets Risk Database. The World Bank – and other MDBs – should develop scalable platforms to increase private investment, including securitization platforms, and they should scale and better utilize guarantees, insurance, local currency lending, and other de-risking tools to crowd-in investors. We look forward to ideas from President Banga's new Private Sector Innovation Lab on how all parts of the World Bank can step up efforts in these areas.

Taken together, these reforms across vision and mission; the operating model; and financial capacity will build a better bank that delivers both more finance *and* greater impact. And a strong and effective World Bank that is open and eager to partner with others is vital to having a strong and effective IFI system.

In support of the evolution agenda, President Biden requested funding from Congress to contribute to the new Portfolio Guarantee Platform and the Global Public Goods (GPG) Fund. This funding would unlock roughly \$25 billion in new IBRD lending capacity, the terms of which could be bought down with the GPG Fund contribution to incentivize investments that address priority global challenges. Evolution will not succeed, however, without sufficient attention to the immediate needs of the poorest and most vulnerable countries, that endure the harshest impact of global challenges and are least equipped to cope with them. This is why President Biden also requested \$1 billion for IDA's Enhanced Crisis Response Window (CRW+). We appreciate those who have joined us in boosting the concessional finance capacity of the World Bank and invite others to do the same.

As the largest contributor to IDA-20, protecting the resources that go to these countries is a top priority of the United States. This is why we strongly support efforts by IDA management to responsibly boost IDA's capacity using existing resources, in addition to our own potential contribution to the CRW+, and we look forward to a successful IDA-21 replenishment next year.

We welcome the efforts of the World Bank and other MDBs to drive food system transformation and strengthen food security through medium and long-term investment, policy reforms, and technical assistance, including through the *IFI Action Plan to Address Food Insecurity* launched last year. Coordination plays a key role, and we are actively working with

the MDBs to institutionalize the coherent approach fostered by the Action Plan, and applying lessons learned to future work.

Building resilience to shocks arising from global challenges is critical, which is why we must press forward with policies to mitigate and adapt to climate change. The World Bank and other MDBs are key providers of public climate finance, mobilizers of private finance towards emissions mitigation and climate change adaptation, and supporters of innovative financing tools that accelerate the transition to net zero emissions and reduce reliance on fossil fuels. The World Bank should screen all projects for cost-effective climate benefits, particularly to build resilience and adapt to the effects of climate change. It is also critical that climate finance be targeted efficiently, and we urge alignment of global financial flows with the goals of the Paris Agreement and investment standards that incorporate transparency and accountability. World Bank Country Climate and Development reports should serve a standard-setting function, helping countries advance their climate agendas by informing the design of the International Financial Institutions' projects and programs, including specific and ambitious reforms for the country to implement. Mobilizing the private sector is also instrumental to achieve progress towards our collective climate ambition. The Just Energy Transition Partnerships (JETPs) are a promising model for mobilizing and aligning public, private, and philanthropic capital for the energy infrastructure and social investments needed to accelerate the transition towards a cleaner energy future in ways that benefit all communities.

We recognize that the climate finance architecture is complex and developing countries can struggle to access available financing. While an important source of financing, including much needed concessional financing, the climate finance architecture is not optimized to help countries access finance easily or to deliver finance at scale where the need is greatest or where the impact will be highest. This is why the United States, working closely with partners, including the incoming G20 and G7 presidencies, is initiating an effort to review the climate finance architecture, with the goal of improving the efficiency and effectiveness of the system. As an implementing entity and host to some of the largest climate investment funds, the World Bank has an important role to play. We call on the World Bank to assess how it can do a better job in helping countries access climate finance and help them to blend concessional resources from the specialized climate and environment funds with the Bank's own resources. By partnering with others, the World Bank strengthens the overall architecture.

The enormous infrastructure gap in developing countries and emerging markets continues to hold back economic growth, the delivery of basic services, and trade. We must do more to maximize the capabilities of the World Bank to support infrastructure development, including in the energy, transportation, health, digital, and critical minerals arenas. Doing so will require stepped up efforts on project preparation and structuring—including scaling up the Global Infrastructure Facility—increasing access to knowledge and data, and assisting the implementation of policy reforms to create a more inviting environment for private investment. The United States and its partners are proud to be focusing on significantly scaling up private capital mobilization to help close the infrastructure gap, including as a core component of the G7 Partnership for Global Infrastructure and Investment (PGI). Under PGI, the G7 is prioritizing strengthening supply chains, especially for critical minerals, with the creation of the Resilient and Inclusive Supply-chain Enhancement (RISE) Partnership.

Three years since the start of the COVID-19 pandemic it is evident that threats to global health can disrupt entire societies and the global economy. That is why the United States remains committed to improving regional and global health security, and our contribution to the Pandemic Fund will catalyze investments to fill critical gaps in pandemic preparedness and bolster overall health security. Recognizing the continuing risk of pandemic spillover, the World Bank should incorporate health-related risks and vulnerabilities, including an assessment for country pandemic prevention, preparedness, and response capacities, into its current work. The World Bank will also need to coordinate with partners and with other efforts underway to strengthen the global health architecture.

Over the last decade, violent conflict has spiked, causing immense human suffering, contributing to extreme poverty and to the significant displacement of people, while also stunting economic growth and absorbing a large share of national budgets. We need strong collective action to mitigate the widespread impact of greater fragility and forced displacement. The United States is committed to strengthening global resiliency and democratic renewal, and promoting peaceful, self-reliant nations that become strong economic and security partners capable of addressing shared challenges. As part of the evolution initiative, and learning from the mid-term review of the Strategy for Fragility, Conflict, and Violence, we welcome the World Bank integrating new diagnostics, incentives, and approaches into its operations that address the root causes and impacts of fragility, conflict, and violence to help build countries' resilience to potential fragility drivers within the

country and spillovers from neighboring countries. We urge the World Bank to redouble efforts to anchor and leverage strategic partnerships with peer institutions, civil society, and the private sector to strengthen its ability to respond with agility and impact in fragile contexts.

The United States strongly supports the 2030 Agenda for Sustainable Development and the bold action needed to address global challenges that threaten to set back progress on achieving the SDGs. The World Bank has made good progress with the Gender Strategy Update, and the Equality of Opportunity for Sexual Gender Minorities report, but it can do more to combat discriminatory laws and policies, along with their economic impacts, social and cultural norms around economic roles and responsibilities, and gender-based violence in its programming. These considerations should be front and center as the World Bank assesses business and investment climates worldwide through the B-Ready report.

Accountability and transparency in the multilateral institutions is essential for MDB projects to be successful, and for greater development impact and effectiveness. This is why the United States will continue to press for greater access to, and disclosure of, information; stronger environmental and social safeguards, and robust governance; a culture of learning and accountability; and transparent and competitive procurement practices that are consistent with sustainable development. We look forward to upcoming reviews that will bolster the World Bank's sustainability, environmental and social framework, and accountability mechanisms. The World Bank must continue to strengthen its approach to avoiding, reducing and mitigating harm in its projects. Finally, corruption disproportionately hurts the poorest, undermining the World Bank's ability to eliminate extreme poverty, boost shared prosperity, and build resilience. There must be a culture of compliance across all levels of the Bank.

As we work towards a better World Bank that is fit for 21<sup>st</sup> century challenges, we recognize the efforts undertaken by World Bank President Ajay Banga, senior management, and the thousands of staff who have tirelessly worked towards this goal. We are grateful for their energy, creativity, dedication, and collaborative spirit. They represent multilateralism at its best – collective work to meet the world's most critical needs and to meet the moment with great impact.

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