Transcript: World Bank Group President David Malpass's Conversation with the Lowy Institute

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Speakers:

David Malpass, World Bank Group President

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MR. DAYANT: Hello and welcome to Lowy Institute Conversations, the podcast in which Lowy Institute researchers and some of the world's leading experts delve into the big issues in international affairs. My name is Alexandre Dayant, and I am a research fellow here at the Institute. Today, I will be speaking with one of the most influential figures on the world stage, Mr. David Malpass, the President of the World Bank Group. Mr. Malpass was nominated by President Donald Trump in 2019 to hold the position, and previously served as Undersecretary for International Affairs at the US Treasury. He was also Deputy Assistant Treasury Secretary under Ronald Reagan, then Deputy Assistant Secretary of State under George H. W. Bush. Now leading the world's largest development organization, Mr. Malpass faces the complexity of maneuvering such an important entity during a once in a lifetime global pandemic. Clearly, it's not an easy job. In this episode, we will be discussing the bank's COVID-19 response and the long road to recovery, but we will also touch on a few of the hurdles the institution has faced throughout the pandemic, and how it plans to overcome them. Mr. Malpass, thank you very much for taking the time out of your busy schedule to have a chat.

MR. MALPASS: Good to be with you, Alexandre.

MR. DAYANT: Alright, well let's just tread into it. First, I would like to start by asking you about the World Bank's COVID-19 response. A major challenge the world faces today is dealing with the global pandemic and its broader impacts, such as the deepening of economic inequalities, or vaccine access. How is the Bank addressing the current crisis, and what can we expect in terms of dealing with the pandemic's broader impact?

MR. MALPASS: Thanks. The Bank is used to dealing with crises in terms of – for example, if there's a cyclone that hits, there's some of that. Also, from its very foundations, it was set up to participate in Reconstruction and Development. So, what we wanted to do when COVID-19, when the pandemic hit, was to have health programs that were available in a lot of countries. The reason for that was because everyone needed some basis for personal protective equipment for example, as they as they worked in the hospital setting, and that became actually hard. They were in short supply. What we did was set up programs – actual financing operations. You know what the World Bank does is both grants and very low interest rate loans, and then somewhat more, slightly higher loans for the countries that have higher incomes. We set up 112 programs that were directly at healthcare. And then as the as the prospect of vaccines

came into view, we added to the amounts that were available so that countries could purchase vaccines as well. We've been working for example, in Philippines and Bangladesh, making funding available for them to make the co-payments on vaccines or the actual payments, and also to apply the vaccines - to put shots in arms. The World Bank carries it from the starting point to the end point wherever possible.

MR DAYANT: Yeah, well – that's very good. I'd like to actually follow up on the vaccines, if I may. As you mentioned in October last year, the World Bank approved \$12 billion for developing countries to finance the purchase and distribution of COVID-19 vaccines, tests, and treatments for their citizens, as you mentioned. But the Bank [audio distortion] details for how these funds should be used, and imposed particularly stringent vaccine standards. In fact, the World Bank's criteria are even more demanding than the standards applied by Covax, the global initiative to ensure equitable vaccine access. Now, I understand the Bank needs to ensure vaccines are safe and effective before approving the procurement. But many people would say there is no basis for the Bank to be more stringent than Covax. Do you think this policy should be revised?

MR. MALPASS: It was revised actually in the last few weeks but let me give you the background. In October when the when the World Bank Board originally considered the vaccination program, it was farsighted, because the vaccines hadn't been invented, and there wasn't really a knowledge of how the standards would be set. It was clear that we want the vaccines to be safe wherever they're administered around the world. So, that was the reason for that standard, and it was discussed by the Board, and it was made in a way that was that was permissive, meaning many different regulators were possible to meet this standard. Over late 2020 - late in the year - WHO still had not approved any of the of the vaccines, and so it was good that the World Bank had a standard that could be met by the countries, and we were able to begin vaccination operations as early as those became available. That was the goal. We also had the flexibility within our program approvals to waive some of the criteria where in those cases where a country was buying vaccines that were considered safe within the within the global structure and we're still doing that. We've formally adjusted the standards to meet the current conditions, and I think it's been a very workable system for the Bank. Importantly - more importantly - than for the Bank, is for the developing countries that were able to have financing for safe vaccines. That's where we stand now, and we want to get as many people vaccinated as we can in countries around the world. We hope to have 50 countries with actual financing operations by mid-year. That would amount to \$4 billion. It's a giant program. It's one of the only ones that has actual money behind it, because the cash is available to the countries right away when they can get access to supplies. That remains a big, big challenge.

MR. DAYANT: Yeah, no, you're right, and I think - it is clear to everyone, and I am pretty sure it's clear to all of our listeners that the World Bank is actually doing a lot more to solve, to help developing countries face the consequences of this crisis. And so, I'd like to ask you about, you know, like the disbursement speed of the World Bank, because in April last year, as you mentioned, the World Bank committed to providing more than \$100 million in financing by June 23, 2021, to help developing countries deal with the COVID-19 crisis. My first question here will be, do you think this will be enough for developing countries to meet the need? The need that they're facing in front of this, you know, massive economic contraction.

MR. MALPASS: No, clearly not. It is what the World Bank could commit to within the resources of the Bank, which are large but not large enough given the magnitude of the crisis. You know, we're working in a lot of small island states and also large island states like, Papa New Guinea, in Fiji, in Solomon, Marshall Islands. Each of those has its own challenges.

What we wanted to do was to create a large enough program, that it could do all that we could do at the time of the implementation. 160 billion is a large program and one that would meet a lot of the needs. That's what I was saying that the priority was in very quickly having a lot of programs, so that the need for personal protective equipment could be met. Of course, looking at how long the COVID crisis lasted, the world needs lots more money to be available for the countries in need.

We're looking at how to help India now. India has massive needs way beyond the potential of the World Bank alone. As we think about some of the development needs, to put it in context – the World Bank is often the biggest, by itself, of all the multilateral financing that's available. For example, that's the case on climate finance where the World Bank alone is more than all the rest combined, and yet still not nearly enough in the end to get the job done.

MR. DAYANT: Yeah, okay. That is very interesting. I mean we'll come back on how the Bank could increase its financing. But first, I'd like to follow up on this point of the \$160 billion of commitment that the Bank did in April last year. Some estimates show that the pace of disbursement of the Bank fall actually short of the headline targets, with \$79 billion projected to be disbursed by June this year, which to be fair is still a pretty fundamental amount. Could you tell us what is slowing down the Bank in providing those funds?

MR. MALPASS: Yeah, that figure is not quite right. The Bank committed to \$160 billion in commitments and that includes the IFC and MIGA, which are important parts of the Bank. IFC is the private sector arm that helps make private sector investments into countries, and MIGA is an insurance arm of the Bank. The 160 billion covered all of those and that was the commitments. You're using 79 billion, it's a disbursements number, which means the actual outflow and only for a portion of the Bank.

I'll just give you some other ways to think about it. Toward the \$160 billion commitment, we have committed through March \$108 billion. That's a very good completion rate, we still have three more months within the timeframe that was envisioned for the pandemic, which runs through the end of June. Then we'll be continuing this massive expansion of the Bank's efforts that have been going on. To put that in perspective, from the standpoint of the IBRD and IDA - the parts of the World Bank, not counting IFC and MIGA – their commitments in calendar year 2020 were up 65% from calendar year 2019. That's an apples-to-apples comparison showing how rapidly the Bank was able to really expand.

So, I don't think it's correct at all to say that the Bank's not keeping up with its targets. We are. And it's also not correct to think of it as less effort than could have been put forward. People are working from home, during a pandemic and the actual growth was 65% in calendar 2020, which is a massive expansion, a surge of resources and so I think it's been very forward leaning, it's been successful and very welcomed by the countries. We also, in our recent Spring Meeting, saw very strong support from the

shareholders. There were clear statements in the G20 and the Development Committee. There's something called the Development Committee that puts together all of the institutions around the world in thinking about development, and very strong statements of support for the World Bank's efforts. But I don't want to then go too lightly on your original point, that how do we get enough resources for countries that are poor and are hammered by the pandemic, so I think that's an appropriate question.

MR. DAYANT: Well, that's very good. My next question actually has to deal with this. Now, for our listeners, it is important to explain that at the World Bank, the International Development Association, the IDA, is the institution that offers concessional loans and grants to the world's poorest developing countries. IDA is funded largely by contributions from the governments of its richer member countries so Australia, France, and for instance, the United States will all contribute to some extent to the financing of IDA. But in the current context of negative economic growth, development partners have less money to spare. However, the developing world needs more support than ever, as you just mentioned, so how does the Bank plan to raise additional funding for the IDA?

MR. MALPASS: As the pandemic hit, we recognized that one thing we could do was – we had just completed a fundraising effort, it was in December of 2019 and it's hard to keep the numbers straight but it was called IDA19. That means the 19th three-year replenishment since the founding of IDA in 1960. All of that to say, it's a three-year cycle and we had just completed a cycle. Therefore, what we were able to do is frontload. We're working on this year an accelerated replenishment of IDA. It will be called IDA20 and we're at work on it now. The donors work very closely with the recipient countries through the fundraising process. We've completed the initial stages of that. The reception has been very favorable by all of the shareholders of the Bank. We're planning to have that done in December of this calendar year.

Japan has very nicely agreed to host the final session in December, in Japan. They're a major donor, as is the US. China is a sizable donor. The European countries are sizable. The UK has been historically one of the biggest donors. They're facing budget constraints but still are making, as they did last week, very positive statements about IDA. I wish Australia could be, I think, a bigger contributor to IDA. That is because many of the benefits of IDA go to poor countries and also to small island states. So, it's very much in the interest of Australia to be active, a more active participant in this IDA process. Australia obviously has its own development needs and strategic needs in the area, but I'll make the pitch that IDA is a good platform for countries to put their resources together, because then you get an efficiency gain because you can combine different resources and focus it on countries, and there's lots of input from the donor countries. That means those countries that are putting in money have quite a bit to say in the various priorities that are done through IDA.

MR. DAYANT: Well look, I'll make sure the Australian government will listen to it.

[Laughter]

MR. MALPASS: You know they've been strong supporter. Prime Minister Morrison has been strongly supportive of the development end of addressing poverty around the world, and addressing the needs of small island states, and so I welcome that completely. This goes more into that. And this is an argument that we make with

countries around the world that if you put your money together in a platform like the IDA platform, and then, if that platform can listen to the needs of the developing countries and of the donor countries, that might be a good process, or what we argue, that is a good process for countries to really actively participate in.

MR. DAYANT: Yeah, I agree totally. Just to follow up quickly on this question. It looks like you know like the IDA has limited resources, and so due to these limited resources you have limitation on the loans that you can provide to developing countries. But do you think that the World Bank should expand its balance sheets even further and lend more to developing countries due to the risk of losing its Triple A bond rating?

MR. MALPASS: The World Bank Group, including IDA that we've been discussing, has a unique ability to raise funding through the global bond markets. In that way the donor countries put money in and then it's leveraged through that process. For example, over the last 12 months, or on a 12 month basis, we'll be borrowing nearly \$100 billion from global markets and we add that to what the countries have put in, and also in the case of IDA, the World Bank (IBRD) puts substantial funds into IDA itself. You can think of it almost like a dividend, or a transfer of resources from the interest that's being paid on loans to fund the poorest countries. The sources of funding for IDA include grants, the contributions from wealthier countries and those are very welcome. And those form the core. I really want to make a pitch or an encouragement to people to realize that money is not free, and the best form of participation by the world in IDA is through actual contributions because those can then get the most leverage, and they also allow us to make the very highly concessional loans to the poorest countries. If what you're doing is borrowing from the global bond markets, then you have to lend that money out. And that means that even the poorest countries have to be repaying it, and it's a better system to have you be able to actually make grants, and very low interest rate loans to these countries, so that they don't have such a repayment burn.

One of the challenges we're facing right now is there's been so much lending over the last 10 years. You know there's a reach for yield in global capital markets, and a lot of times that lending, including the lending from China, has a high interest rate on it. One of the challenges that countries are dealing with is how do you pay a high interest rate on a previous loan when global interest rates are very low now. How do you reconcile those two things, so that's one of the challenges that we've been working on.

MR. DAYANT: Yeah, I understand that and it actually does – very good that you're touching the topic of debt burden because I wanted to talk actually about debt relief, if that's okay. At the last Spring Meeting of the World Bank and the IMF earlier this month, G20 finance ministers agreed to extend that payment suspension for an additional six months for up to 73 developing countries. This is an initiative that started in May last year and has delivered more than \$5 billion in relief for more than 40 eligible countries. That standstill concerns bilateral creditors and is recommended for private creditors as well, even if not compulsory, but in some parts of the world like in the Pacific, for instance, multilateral creditors represent the lion's share of the debt burden. So, do you think we should extend the debt standstill to multilateral creditors, like the World Bank or the Asian Development Bank, and how could we get a better system for dealing with debt relief going forward.

MR. MALPASS: I don't think we should do what you're describing there. One problem is, if the World Bank itself participates in reducing the amount of debts, remember those were already low interest rate loans, or very low interest rate loans in cases of the poorest countries. If you reduce those, then you undercut the ability of the institution to borrow in capital markets because their balance sheet begins to shrink. That would actually undercut the ability of multilateral institutions to aid and benefit the poor countries. I think it's a better approach to look at debt relief as it was described by the G20 as a Framework, where there would be burden sharing among the various official bilateral creditors and commercial creditors. If we apply that for example to the lending going into Africa, the World Bank provides a very positive net flow, meaning that while there's some repayments on the previous debt, there is much more of a positive flow going in. So, it more than makes up for the interest payments, whereas for the other creditors there's huge flows going out from the people of the of the country.

To put this all in perspective, you know the Debt Service Suspension Initiative that was done in 2020, as you mentioned, saved \$5 billion for the countries. In the same period of time for the same countries, the World Bank alone made \$7 billion of grants, meaning, more benefits straight from one institution than the debt savings. The reason for that was because the private sector creditors didn't participate in that suspension initiative. They continued taking their full payments. And in most cases, the China Development Bank, which is one of the biggest creditors also took its payments from the countries, even the poorest countries. We face this real challenge: as the World Bank is putting money into the countries even grants into countries, more than that is going out to the creditors. That's the challenge that we've been working on through my calls for debt reduction for the poorest countries.

MR. DAYANT: Great. Well, that's a good segment to my next question actually. I'd like to ask you about the relevance of the World Bank, if I may. The context for development financing has changed remarkably over the last few decades. On one side, you have new players such as private businesses and emerging donors like China, that all offer capital and expertise for developing countries. So, the room of development financing is getting crowded. And on the other side, while the World Bank is having a huge impact on small economies, it seems that the scale necessary to help middle-income countries such as India that you mentioned earlier, Brazil or Nigeria is far too big for the Bank to have the similar impact. In this context, could you comment on the relevance of the World Bank? How has its role evolved over time and what can we expect in the future?

MR. MALPASS: Yeah, that's good and a really challenging question. The Bank, as you know, was founded in 1944 when World War II was still ongoing, and the idea was to help primarily Europe at that time rebuild from the war. It was foreseeing the end of the war and saying how do we rebuild, how do we get enough capital started, and very quickly. It broadened to other countries, you know, the first loan was to France, but I think the second loan may have been to Chile and then onward. There was a broadening of the role both in terms of whether it was straight infrastructure projects or it broadened to include things like education and health that were recognized as being core things that a country needs to do in order to actually develop.

And then IDA came on stream in 1960 and created support for the poorest countries, and that extended into the anti-poverty goals that were done by Jim Wolfensohn, an Australian, and with great impact in terms of how the Bank considered its purpose. We

have a very clear mission now that includes poverty alleviation, as well as shared prosperity which is the idea of rising living standards for people of all income levels in their countries. The Bank has changed its style of operation over the years. It's now more decentralized, meaning we have a bigger portion and we're trying to even go further, of our staff in the developing countries themselves, outside of the Washington DC headquarters of the Bank.

We also work in fragile states, I mentioned earlier the work in the Small Island States. You are right to say, okay, that makes sense because you can have an impact on the smaller states, how do you have a broader impact? That goes to the climate issues that the Bank is working on. Marine plastics in China is an important part of our work in China. We're still lending in China, obviously a big developing country. Our biggest program is in India also one that you mentioned. The Bank has relevance in those countries by identifying priorities, working with the countries on things that the Bank can add expertise and global knowledge into the mix.

China has been appreciative of the Bank's work because the Bank can help identify how to deal with global public goods. This is one of the biggest challenges facing China and India too. How do you put enough money into something where a lot of the benefit will go to the rest of the world? In the case of India, as it does, it works to reduce the amount of coal that it is using. That has benefits for the rest of the world. And so how do you finance that, what's the fair way to proceed.

I want to conclude and come back to Jim Wolfensohn. I was very sorry at his death last year, and his wife Elaine's death. He was a very important Australian to the course that the Bank ran. We had a memorial service and welcomed the work that he had done on the World Bank's direction.

MR. DAYANT: Well, look, if you want to talk about Sir James Wolfensohn, we can have a quick question on him. As you mentioned, he was the only Australian-born President of the World Bank, and he recently passed away, as you mentioned. See Wolfensohn's big push was on getting the World Bank to tackle corruption in a bolder way. Do you think the Bank has been successful in pivoting in that direction?

MR. MALPASS: Also, a very good question. You know, corruption takes lots of different forms in the world and it's very hard to change the directions. There are different efforts and I'll mention a couple. The OECD has an anti-corruption standard, and it would be good if more countries joined that standard. Because you need to start from some set of principles of that you've agreed on, of what is corruption in a given country. Even the US has a challenge because lobbying is an accepted practice. It's very expensive, and it changes the direction of the way governance is done. So that's a challenge.

China would be good if it could join the international standards. The US has a very powerful law called the Foreign Corrupt Practices Act, which provides strict limits on what corporations can do as they're operating in foreign countries, which changes the competitiveness mix. So, your question: is there corruption in countries that the World Bank works in? The answer is yes. And did Sir James Wolfensohn change the direction of that? Yes, and certainly in a positive way. But I think it's a problem that's far from being corrected.

MR. DAYANT: Now I'd like to talk quickly about climate change that you that you mentioned before. Pacific Island countries are among the most profoundly affected by climate change. And so climate adaptation is key to prevent and counter the negative effects of natural disasters. But what does this imply for the World Bank's investments? To what extent should the focus be shifting from physical infrastructure to investments in human capital?

MR. MALPASS: We need to invest in both, and human capital clearly is one of the most valuable investments that countries make, and that people make in their own lives. If they are able to get education, that's a giant valuable investment to them. We should encourage both of those.

One thing that I've tried to do—and pulling together some of the things we've talked about in the vaccine area, the debt area and the climate area, and the corruption area—transparency is a vital part of that. One of the things that makes it very hard to know what's being done is that it's hard to see what the contracts are showing. That's been true in the vaccine distribution problem, very hard to get knowledge of who's committed what to various players. That's true of course on the debt side. And on the climate side one of the challenges is the countries are interacting with the Paris Agreement with NDCs--nationally determined contributions--and those are voluntary, and so different countries have different intentions as far as fulfilling those, and they're also of greatly varying quality as far as what their impact would be on actual greenhouse gas emissions, for example.

Let me describe what the Bank is doing. We're trying to be very results-oriented, we interact with countries on their NDCs. We can finance various parts of what the countries are doing, and we'd like to see what the impact and the actual results would be in reducing greenhouse gas emissions. It doesn't make sense to just spend money. You want to spend money in ways that has an impact.

That's also true and very important in terms of adaptation, 50% of our climate financing we've committed to having go to adaptation for the poorest countries, for developing countries, in how they adapt to changing aspects of climate. That might mean drainage systems or people moving and living less in coastal and low-lying areas. And so to do that, you want to have the most impact for the money that's spent. That means not choosing projects that won't be very consequential. You should instead choose projects that are consequential for the country, and that requires some degree of transparency in the country's development plans. What do they actually plan to do over the next 10, 20 and 30 years, and how would they do that.

I come back to where I started. Transparency is one of the biggest challenges in development, because there are a lot of parts of the system that actually don't want to be transparent because there's something going on, on the side, or because they don't want people to inspect what's actually being bought and contracted for, those problems. We're trying to encourage transparency across the full range of development activities.

MR. DAYANT: Great. A quick question on Myanmar. What are the implications of the current unrest in Myanmar for an organization like the World Bank? How should you engage and balance support to the people of Myanmar, despite the current regime's behavior?

MR. MALPASS: It's a very difficult situation. We're very concerned about the people of Myanmar. We've put a hold on our disbursements. We have a sizable program in Myanmar that was working to try to create a rise in living standards, alleviate poverty and be fair to people across Myanmar.

We put a hold on our disbursements there. We're keeping a constant watch on the situation, and we've been a partner for some decades now, I'm sorry, for I guess a decade. In terms of the support that we've had for their efforts. And so we're committed to those goals so we're at a spot where we're on hold, watching the developments.

MR. DAYANT: And to finish, I'd like to come back on Sir James Wolfensohn, because you know I think it's appropriate as an Australian podcast and an Australian institution to talk about an Australian director of the World Bank. Sir Wolfensohn became a naturalized US citizen in 1980. When he reached the presidency of the World Bank in 1995, he became the ninth American to lead the institution. And today all presidents of the World Bank Group have been Americans. Do you think we can expect to have a non-American heading the World Bank anytime soon, and maybe an Australian?

MR. MALPASS: I don't want to make predictions about where that will go but certainly there can be very qualified people into the future for the institution. I think that's a priority, and how the world sorts out the various institutions and what's the priority of the world I think, what we need to do is maintain the priority of the World Bank on getting good outcomes for people in developing countries.

That's a little different than the governments of developing countries for the actual people in terms of poverty alleviation, the rise in living standards broadly conceived, how do people live in their countries and get a better life into the future. It's that optimism that I think the World Bank has to maintain. Whoever leads it, I'm pretty sure that will stay as the goal: getting good outcomes for people in developing countries, of all sizes.

MR. DAYANT: Very good answer. This is all what we have time for today, unfortunately. Mr. Malpass, thank you very much for your willingness to talk about these important topics. You certainly have a lot on your plate, so I do really appreciate your time and want to wish you all the very best.

MR. MALPASS: Super. Great to talk with you, Alexandre. And thanks. Bye.

This transcript has been edited for clarity.