Driving Growth from the Ground Up: Speech by

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Development That Delivers

Thank you so much Dr. Fortier for introducing me. It’s a pleasure to be in Montreal at McGill University. Thank you also to Dean of Arts Antonia Maioni. It’s been a very interesting day at McGill and I’m looking forward to the Q&A with the Dean of Management, Isabelle Bajeux-Besnainou.

For nearly 200 years, McGill has embodied the spirit of innovation. The list of pioneers who’ve graced these halls is impressive, from Ernest Rutherford, the father of nuclear physics; to Brenda Milner, one of the most important neuroscientists of the 20th century; to John Humphrey, who helped draft the Universal Declaration of Human Rights. This school has too many famous graduates to name--and a long track record of generating ideas that make a difference.

Today, I’d like to speak with you about the urgency of growth in developing countries and my worry that the combination of extended weakness in Europe’s economy and in developing-country investment is weighing heavily on the outlook for the rapidly-growing populations in several developing countries. I’ll discuss several World Bank Group activities that may help--there’ll be much more focus on these at the Bank-Fund annual meetings in Washington starting in a week.

Let me begin by telling a story about a development innovation that sets free the poor and improves their lives. Many more liberalizations are needed, and in aggregate they
have the power to improve hundreds of millions of lives. I’m going to tell the story backwards--it ends in Nairobi, Kenya. Officials at the central bank were monitoring money transfers made over mobile phones when they noticed a suspiciously large spike in transactions every morning around 3 a.m. At first they thought it might be a sign of money laundering or other wrongdoing--someone trying to hide transactions in the middle of the night.

The reality was a pleasant surprise. Regulators discovered the spike was caused by micro-loans being taken out by individual Kenyans, many of them women selling produce at the local market. Every morning, these women were taking out micro-loans so they could buy goods such as vegetables. After many hours of hard work, they would sell the vegetables at the market. Later in the evening, they would repay the loans.

**Digital Cash Transfers**

Across Kenya, mobile money has been taking off. M-Pesa is a service that allows people, some with the most basic cell phones, to transfer funds simply by sending a text. Now, 96 percent of households outside Nairobi use M-Pesa. It’s given households a chance to transact and save without some of the historical costs and risks of cash and the banking establishment. The M-Pesa system helped small businesses, especially women entrepreneurs, gain access to funds. It’s transformational in terms of the ability of women to participate in the economy and society--with cash, physical possession is nine-tenths of the law, but with a gender-neutral digital system, women have more control of their budgets. And it has spawned a famously constructive environment for start-ups in greater Nairobi, including developers of applications for M-Pesa users.

I’ve told you the end of the story--millions of people using a system that empowers them. The story began years ago with entrepreneurial ingenuity helped by sound regulatory policy. A critical early step was for the central bank to allow the entry by a mobile-phone provider into the financial sector. Entrepreneurs were able to spark a new industry that’s
delivering real benefits to people. It’s the kind of liberalization process we need to unleash across the developing world.

The World Bank Group played a key role at several points in Kenya’s creation of a robust mobile banking system. This type of development outcome directly addresses our two goals--to end extreme poverty and achieve broad-based growth that boosts shared prosperity. Poverty reduction has made great strides in many countries, yet 700 million people still live in extreme poverty. That’s about one in 12 people on the planet. Many of them live in fragile and conflict-torn places where institutions may not exist to deliver benefits to those in need.

I think digital cash programs may be able to help--both the transaction-focused systems like Kenya’s and the electronic cash-transfer programs being set up elsewhere. We’re almost at the point of having secure systems that would allow poor people to electronically receive remittances, foreign aid, and social safety-net payments as well as their earnings, and then be allowed to save and transact freely. That would be revolutionary because it allows people the freedom and opportunity they need to improve their living conditions. Once more countries enable these technologies, the innovation may turn out to be as big an advance in development policy as the ones that allowed people to move from a barter economy to a market economy.

### Creating Broad-Based Growth

In order to make progress on broad-based growth and poverty alleviation, we need to be ready to shake up the world--because we live in a particularly challenging time for development.

Global growth is slowing. In June, the World Bank Group forecast that the global economy in 2019 would grow at 2.6%, the slowest pace in three years. We now expect growth to be even weaker than that, hurt by Brexit, Europe’s recession and trade uncertainty. Moreover, in much of the developing world, investment growth is too sluggish for future
incomes to rise in a meaningful way. I’ve commented elsewhere about the tragedy of frozen capital—the current financial and regulatory system is producing over $15 trillion in bonds with zero or negative yields, benefiting elite bondholders and bond issuers but distorting capital flows away from growth.

Even with the global economy in a fragile position, I believe that strong policy frameworks and robust institutions would allow almost all developing countries to deliver broad-based growth that reduces poverty and allows shared prosperity.

To address this urgent challenge, we’re pushing hard with approaches tailored to a country’s and region’s unique circumstances. To oversimplify, we—meaning the World Bank, IFC and MIGA—work through country offices and country directors, with the support of technical and program experts, to help governments create improvements. To give you one example, trade facilitation is a critical part of many of our country programs because the economic benefits from commerce and trade are immense, and constructive policies—such as customs processing, tariff harmonization and standardized bills of lading—are achievable. On my trip to Ethiopia, a key business complaint was difficulty with delayed letters of credit. In Egypt, a major disincentive for investment was the time for goods to clear customs, which can reach as long as 16 days. Both are fixable.

This push for better country policies is strengthened by our ability to make loans and grants to governments and, when governments allow better private sector conditions, make investments in private-sector debt and equity.

We’re working cooperatively with countries and the development community to launch country platforms. The goal is to help countries prioritize their key development issues and get development financiers, including non-traditional donors and the private sector, engaged in the most constructive way. There continue to be many international groups setting up discussion groups on how to define, standardize, centralize and instruct country platforms, but the strong view of the World Bank Group is that it’s time to move forward. There’s been ample discussion, and the next step is to help countries organize in-country
meetings to prioritize their activities with major donors. We’re working on platforms with 11 countries so far. The outcomes will be tailored to the countries and their needs, and will be particularly focused on private-sector involvement and engagement.

Countries need to provide strong leadership to choose a path that works economically, socially and politically. It’s clear that the quality of policies and institutions plays a key role in explaining why some developing countries have been able to make the leap out of poverty, and others have been unable to advance. It’s also clear that development cannot be imposed from outside--country leadership and ownership matter.

The goal of our country programs and our cooperation with other donors is to have good development outcomes country by country and region by region. There are many measures of success--some of you are familiar with our Human Capital Index, which tracks country performance in health and education and tries to improve outcomes. Measuring results is an important step in creating good results. We’re very pleased to be able to launch a new approach to measure learning poverty at our Annual Meetings next week. It looks at the proportion of children aged 10 who have achieved functional literacy: the ability to read and understand a simple story.

At the heart of successful development is broad-based growth. It has been shown to be indispensable to poverty reduction and shared prosperity. A key measure of success in this area is to see people’s incomes rise. My preferred metric of shared prosperity is median per-capita income in dollar terms, but other measurements can work too. And we continue to keep a sharp focus on extreme poverty, defined as the number of people living on less than $1.90 a day.

It’s important that our work creates jobs and opportunities across different sectors of the economy and every segment of society. The urgency of this agenda cannot be overstated. The world’s labor force is estimated to grow by 620 million people from 2020 to 2035, with most of the growth in the poorest countries. Employment is the best safety net, and we’re working in many countries to address the obstacles to starting a business,
as well as to address labor-market demand and supply constraints and enhance opportunities for women and youth.

With global growth slowing, it’s paramount that countries carry out well-designed structural reforms to ignite domestic growth. No country in history has been able to sustain poverty reduction without economic growth. For the developing countries that have had the most success over the last decade at reducing poverty, growth in labor incomes accounted for more than half the reduction. To achieve these gains requires electricity and clean water, as well as progress on the rule of law, health, nutrition and education, the full inclusion of girls and women, full attention to the environment, climate and private-sector conditions, and improvements in the government’s spending, tax and infrastructure policies.

We’re ramping up investment to address climate change. In our last fiscal year, the World Bank Group committed $17.8 billion to climate-related investments, and we want to do more. In November, the World Bank Group announced a $200 billion five-year target to help countries address climate challenges, putting adaptation financing on a par with mitigation. In Fiscal Year 2019, 30 percent of our commitments had climate co-benefits, beating our 28 percent target. At the recent U.N. General Assembly meetings, I joined Germany in announcing PROGREEN, a fund that will address a range of climate and environmental problems.

**Sound Rule of Law, Debt Transparency**

The private sector plays a pivotal role in growth and jobs. Led by the International Finance Corporation, our private-sector arm, we’re working to create stronger private sectors that will create profitable opportunities for investors and many more job opportunities. This requires a clear analysis and understanding of a country’s laws and regulations and a path of reforms or catalytic investments that will expand the private sector.
One of the toughest barriers is this: there needs to be a sound rule of law that provides a level playing field so that the private sector is allowed to compete fairly with state-owned enterprises, the military and the government itself. For many countries, this means opening up their closed and protected markets, allowing prices to be determined by market forces, and liberalizing capital flows. The payoff is that countries that make this step attract more investment, both foreign and domestic, and can generate growth that benefits a broader part of the population.

Another big obstacle to investment is the amount of a country’s sovereign and SOE debt and the lack of transparency surrounding the debt. When used wisely, debt can be a good way to finance growth. Yet public debt in emerging markets and low-income countries has risen to levels not seen since the 1980s, and too much of that debt isn’t transparent. When countries are transparent, they typically enjoy higher credit ratings, lower borrowing costs and better ability to attract foreign direct investment. Transparency also helps enhance public accountability and reduce risk of corruption. But we’ve found that less than half of the countries we’ve reviewed meet minimum requirements for debt recording, monitoring and reporting. Lenders need to be more transparent, eliminating confidentiality clauses in their lending to sovereign borrowers.

It is also critical to have transparency, sustainability and effectiveness in public spending. The World Bank Group conducts public expenditure reviews to understand gaps in service delivery relating to resource allocation decisions and process-related bottlenecks. These diagnostics help countries develop more effective and transparent budget allocations, including in specific sectors such as health care, education or infrastructure. Our development policy financing, which disburses against impactful prior policy reforms, will increasingly play a role in encouraging more transparent and sustainable borrowing practices as well as more effective and efficient public spending, so that citizens can see their government’s obligations and the use of proceeds.

**Staying Focused on the Mission**
In all these efforts, we work hard to cooperate with international development partners. There’s been a degree of progress in this regard, although I have to say sometimes this cooperation involves too many development conferences and international working groups. Our main focus is on the practical in-country approaches and actions that we’ve discussed today. My goal is to put direct priority on alleviating poverty and boosting shared prosperity.

As the World Bank Group does every three years, we’re currently inviting the nineteenth replenishment of the International Development Association, our fund for the world’s poorest countries. Working with our shareholders, we’re staying focused on the mission of ending extreme poverty and boosting shared prosperity in a sustainable manner. The new replenishment directs a greater share of our funding toward people in the world’s poorest countries, as well as those in fragile and conflict-affected situations. We’re adding to investment in projects that benefit the climate and promote gender inclusion. We’re becoming more efficient in how we use our resources.

Canada has for many years been an influential voice in IDA and among our shareholders. With a strong replenishment of IDA, we’ll be even better positioned to achieve goals we share and help those most in need.

I want to close with an anecdote about one of McGill’s most famous thinkers. As I mentioned earlier, Ernest Rutherford is known as the founder of nuclear physics. He conducted many ground-breaking experiments here at McGill. But before he made his name, he grew up poor on a farm.

Young Ernest had a voracious mind. He read any books he could find, and he took apart clocks for fun. One day, he tried to build a small cannon using a brass tube and some gunpowder. When he lit the fuse, the cannon exploded into pieces. In other words, one of the first experiments by one of the greatest scientists of the 20th century blew up.
Fortunately, Ernest Rutherford was stubborn. He never gave up. He kept at his work until he developed a new model of the atom, changing the way we think about matter itself. In that spirit, I’ve tried diligently to counteract the tendency of the Annual Meetings to expand to fill all available space but I recognize the strength of inertia. We’ll have several big meetings in Washington DC next week, but I hope to keep the focus very much on helping countries allow their people more opportunities to improve their living conditions.

At the World Bank Group, we won’t give up on our goal of reducing extreme poverty. We’re more focused than ever on Nelson Mandela’s call to “set people free” from the “prison of poverty.” I hope today’s examples give you a glimpse of what we are doing on the ground, and I look forward to the hundreds of fresh ideas many of you will bring to this important work in the years to come.

Thank you.