

Confronting the Economic and Financial Challenges of Covid-19: A Conversation with World Bank Group President David Malpass

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Transcript

MR RUNDE: I'm Dan Runde, the William A. Schreyer Chair at CSIS. Thanks for joining us. We are having a conversation with David Malpass, the president of the World Bank Group. We are going to be talking about confronting the economic and financial challenges of COVID-19.

The COVID-19 pandemic has markedly disrupted the global economic system and daily life, sending countries into various degrees of economic recession. The pandemic has also exacerbated poverty rates and global inequality. Half of low-income countries were already in economic turmoil and at high risk of debt distress before the pandemic, only to be overwhelmed by the economic contraction caused by both the pandemic and the health measures used to contain the virus, such as lockdowns, limits on movements, etc.

The international community and the United States will have to take concrete actions to help low-income countries manage the economic consequences of the pandemic and provide assistance with debt relief in order to prevent future impediments to development efforts and further financial and economic distress.

I'm so grateful to have David Malpass here, who is doing a great job leading the World Bank Group and is taking these issues by the horns. I really appreciate, David, you being with us. Can you talk a little bit about the World Bank's efforts, start--well, let's start with vaccines, because I think we're not going to get out of the health crisis until we deal with--and certainly the economic crisis--until we deal with the health crisis. And in some ways, we're in an economically induced--it's a health-induced coma, if you will, that only will be solved when we have vaccines. Can you talk a little bit how the World Bank is--what its efforts are around COVID-19 vaccines, David?

MR. MALPASS: Hi, Dan, and hi, CSIS. Good to see you. If we go back to April or March when the pandemic hit, what the World Bank did was a fast-track process so countries could get things like masks to people. As we went past mid-year, it became

clear vaccines were going to be possible, and there needed to be a system to get those to people.

So, in the past four weeks we begun to implement a \$12 billion-dollar package that would enable vaccination systems for countries that otherwise wouldn't have access; that was the goal. That might cover health care providers and people that are vulnerable, such as older people and people with co-morbidities. Those systems are now being worked on, and I want to bring you up to date.

After the package went through the Board, what we're doing now is an assessment of the countries and their ability to deliver vaccines. That will show weak points in their systems. That might mean that they don't have enough healthcare people that can actually do vaccinations, or they might not have a cold chain. There are many necessary elements. This process also gets the countries to think about what they want to do, how do they want to do it, and how are they going to choose who is most vulnerable and needs the vaccination first. We're in that process. We hope to have 100 countries done soon. We're completing those assessments.

Then, using the fast-track approach that was set up in April, we'll be bringing operations to the Board. I wanted to give you the background because it's a lot of money and we hope it might be able to vaccinate up to a billion people who wouldn't otherwise have access. As you've seen in the press, the advanced countries are doing it differently in terms of buying access. A critical part of our approach is that it's holistic; it goes through the range of activities that countries need to do, and it also is based on the individual needs of each country. We have a unique program with each country as far as how they want to buy the vaccines, how they want to deliver the vaccines, and with the standards that the World Bank can supply.

Because the World Bank had been very involved in vaccinations over the years, and even over the decades—whether polio, measles, or Ebola—the personnel understand the systems, and the countries can work with the World Bank on it. The goal here is to have systems up and running, with a direct purchase that goes from the country maybe to the manufacturers. Some of it might go through COVAX, but the critical thing is quickly getting the vaccines to the people that are most in need in countries that otherwise wouldn't have access.

MR RUNDE: This is going to be an enormous logistical challenge. There's going to be an enormous planning challenge. These are the sorts of things the World Bank is quite good at: working with Ministries of Health, thinking about logistical issues and planning, in addition to helping with the financing of vaccines, as you said. Some of these vaccines require a minus 70 degree Fahrenheit temperature, and it's quite difficult to do that even in the United Kingdom or in the United States. We have not created such a thing even in this country or in the United Kingdom where they're beta testing and have all those issues or looking at, do you have the right kinds of folks to actually inject the shot. All the complexities of doing this cannot be underestimated so obviously the World Bank's a really important partner in all of that whole chain, if you will, from making the vaccine to getting it jabbed into our arms.

MR. MALPASS: Exactly right. Add to that that different countries are at very different stages in terms of which parts of the system they have, what's within the capabilities. We use consultants for some of it; staff on the ground.

One of the things I did when coming into the Bank--and it was going on already, and we've pushed it forward--is the alignment of staff to be closer to the clients. Starting in 2019, we began to put more emphasis on the country office driving the program. That's a recognition that there's so much difference between each country, even if they border each other. They may have a quite different system of government, different personnel, different challenges. What we want to be as an institution is very focused on good development outcomes for each country, and with the country programs that drive that.

We draw on the global knowledge of the Bank. For example, in the area of vaccinations, there are assessments going on country-by-country, driven by the country team, but working very closely with the health experts. Kind of an expert group that may reside in Washington or in Europe, but are in daily contact with the country programs themselves.

MR RUNDE: One of the other things that I said earlier was that this is like we're in an induced coma, economically and financially, and the inequality gap between poor and developed countries continues to widen, and median incomes in the developing world haven't been rising, especially compared to advanced economies. The COVID makes this even more complicated. What can be done about that?

MR. MALPASS: This is a big challenge, and it's a challenge for the economic profession and the finance profession. After the 2008 crisis and into 2010, 2011 and 2012, began this process where central banks buy assets, largely bonds starting with government bonds, but now all sorts of corporate bonds and municipal bonds and mortgages and so on. What that does is it adds to the price or the value of assets that are largely owned by people with higher incomes. So the stimulus programs are adding to that common inequality, the rise in assets and wealth of people that already had assets.

One of the big challenges for the world is: how do you create systems where people that are poor can build assets? An asset should be broadly construed. It might be their small house, but it might be education. You know, it turns out that one of the most valuable assets that people have is education, and the second is an actual job. If you're employed that's very much like an asset. Creating more of that for the poor is a critical challenge. Frankly, it hasn't been happening for much of the developing world. This year, we see poverty actually going up, which is very disappointing. The first time in 20 years that has happened, meaning more people going actually in reverse. Trying to turn that around is the biggest challenge. We can recognize -- everyone lives on the same planet and has to move forward. That is vital and it has to be done through cooperation. Once you've established that, then how do you do that in say Nigeria? How do you do that in South Africa, in Kenya, Ethiopia, in South Asia and Latin America, and around the world? With the same urgency around the world, to see people going forward in each of these countries.

The way we're tackling this at the World Bank is: one, we just talked about vaccination. That's going to be important. For the advanced economies to reopen is vital because

they provide a lot of the markets and the income growth that's needed for the poorest countries through remittances, exports and so on. But in the countries themselves: how do they create a system that allows people to adjust to the post-pandemic world? That's really what we're occupied with.

MR RUNDE: Well I think that's excellent. And I do think we've got this emergency and you're confronting the issue with vaccines but then we've got these economic and financial effects but also there is some questions about what are the kinds of policies that governments need to enact? I'm all in favor of the direction that you're describing about creating assets, creating opportunity.

I was struck when I worked at the World Bank Group—we don't appreciate this in the United States and Washington—how important and how influential the World Bank is, the regional development banks are, some of these specialized UN agencies. They have a special kind of influence. They have convening power, and you have expertise, you have research. Yes, you have money. And you have also got the ability to have trusted relationships with these governments. Could you talk a little bit about the kinds of conversations you're having with your shareholders who are also your partners in developing countries, about the kinds of policies they need to go in this direction that you're describing?

MR. MALPASS: There's some limits to what people can talk about because it becomes sensitive in the countries. As you talk about shortcomings in a given country's program that makes it harder for them, maybe politically to actually make the changes. I'll talk a little bit generally and maybe we can do some countries. The dialogue is somewhat unique to each country. There are some general principles. Let's talk about those first.

One is that as we're talking about economic development, and you have to talk about money. The exchange rate becomes important in countries. Some countries are still using dual exchange rates meaning one group of people gets foreign exchange at one price, and then other people get it at a different price. That creates a huge amount of inequality within a country. That's a starting point to try to have a unified exchange rate where there's not preferential treatment to one group or another. Many countries are doing it properly in that regard. Mexico has a market-based exchange rate that allows a long yield curve and that allows capital formation. There are other problems in Mexico and challenges, but it looks like that part of it works. The G20 recognizes exchange rates in the communique. There's a specific provision that's been in all of the communiqués since October 2017 saying that stable currencies are important to growth and investment. You've seen around the world relative stability in the major currencies since that point. It's a principle of growth. I don't want to belabor it but I think it's key, and we do have some big developing countries who aren't doing that and I think it holds them back a lot, so we work on that.

Trade of course is very important for all countries. A starting point is trade between towns, but also trade across borders. It is one of the biggest enabling factors for economic development. Countries have understood that and have made progress but there's still a lot of borders, sometimes people call it 'thick borders', where you can't get your truck across the border, or women can't cross the border with trade goods. That's a blockage you can explicitly address and bring down. One that we've tried to work on but not made progress: Nigeria has a big tariff against Benin, its neighbor, on rice. So this

holds up the price of rice in Nigeria, but it means the farmers in Benin are not able to access markets, and that causes friction in other areas. It's done through, in this case, a very high tariff that is a blockage to trade.

You could go around the world and say, 'can we make progress?' We've made some progress, though it's a difficult region, in the Horn of Africa. Kenya and Rwanda are making progress and that allows trade liberalization in those areas. You can look in Central America. There's a trade agreement between Honduras and Guatemala that is operating that has harmonized the way the bill of lading goes across, and that that allows people to trade goods, and that creates value because of specialization. At the core, that's so important that people be able to do what they're better at, and then their neighbor can do what their neighbor is better at, and that creates value rapidly.

Another is the issue of vested interests. If we look at the agriculture sector around the world, it is very important for development because people grow food, and that's the starting point for economic development, but the markets are controlled in many areas.

For example, fertilizer markets are controlled because a big maker of fertilizer doesn't want other entrants into that market. They may not have—and they usually don't have—the right fertilizer or the best fertilizer for the farmer, so that is also bad for the climate and runoff, meaning you put the wrong fertilizer on and the rainfall washes the fertilizer into the ocean and it's bad for the environment, for the climate, and for the economy. If you can fix that, that's good.

In Kenya, we've had some success with a voucher program, so the farmer rather than going to a state-owned warehouse to buy controlled fertilizer, can use a voucher to buy fertilizer that is appropriate for the seeds that they're using and the humidity of their soil. It's going to be different than in other parts of the country. In Ukraine, we have had some success in trying to get them to allow fertilizer in from their neighbors to the west, because they've been used to buying fertilizer from their neighbors to the east and that becomes an important issue in raising the yields in Ukraine. In Pakistan and India these issues are both very important. In agriculture in general, there are subsidies for the wrong crops that might use too much water, and therefore end up being very bad for the climate and for the sharing of resources within a country. The advanced economies are notorious on this, you know, and it's been hard to get them to break out, and if they can't do it, how does a very poor country do that where the agricultural interests have political control? How do you break through that? Those are some of the challenges. I named some countries but every country around the world has its own unique problems that are that are actually substantial in blocking how they can develop.

MR RUNDE: Do you think that COVID, because of the disruption in some ways it's throwing all the chess pieces up in the air, does it create an opportunity to take on some of those challenges that were there before COVID, if you will?

MR. MALPASS: We have tried to do that and there was actually a process with our Board in May that we called the Approach Paper: how do you approach this pandemic? We looked for some principles but they've been hard to push forward. One was we really want to get cash or other kinds of support to the poor, so that's a social safety net. We wanted to amplify the social safety nets around the world, and that that has been a challenge. We've been able to expand, but there are obstacles -- either technology or in

many cases the registry of who gets the benefits has been hard to maintain and so there's not a distribution system even if you want to give money or food to the poor. There's not a way to target it, and to actually get it to the people that need it most.

Another thing that we tried to do was that oil prices had fallen substantially, so it was an opportune time to reduce the subsidies that many countries have for gasoline prices. In some countries, the industry gets a subsidized price for the oil that they use. That's bad for the climate and bad for the economy because it distorts markets. We're still working on all of these things but often the industries that would be affected through paying a fair price for the inputs object to it, and then that creates an obstacle, which is pretty hard to overcome.

During a pandemic or crisis like this, we really want to get money to the countries. That takes me to the debt crisis that has been a challenge because you can identify countries where the World Bank would put in resources but all of that would go to creditors, and none of it to the people. That's not a fair balance and we're trying to work on that.

MR RUNDE: David, if the global economic crisis is not treated, what consequences lie ahead, not only for development but also for regional and global financial systems? It seems to me that the economic and financial crises are interlinked and I worry that we're going to have a domino effect here of banking systems and other things in trouble, the longer we're in lockdown.

MR. MALPASS: This truly is a once in a century, or more than that, kind of crisis where people don't know what the consequences will be. It's a different crisis from previous ones in the inequality side of it. Because the advanced economies had a very powerful system to stimulate, that was transmitted through government programs, it meant that people that weren't in the government program, maybe informal workers for example, were left out of it.

One of the things we've seen in developing countries is remittances go down. People from poorer countries pass borders, maybe just to the neighboring countries where they can get a job. They used to send remittances back to their family. Those have fallen off a lot. There's a cash flow side of this that's been cut off now for a long time, and it can be intra-country: some countries that are big enough where people move to the city send money back home. That stopped because the informal jobs disappeared. Those are hard to measure. We do what we call a Pulse survey where there's actually phone calls to say, 'Is there someone in your family who doesn't have enough food?' Over time, if you do it the same way over and over again, you get very good data because you can see the change that's going on in countries. Those are still showing the pressure from poverty and in some cases, extreme poverty. That shows up in food insecurity that we're worried is going to get worse as we go through the next few months until the advanced economies can really pick up the pace.

Dan, one concern that I think people should have is that it was one thing to have to have a pandemic that lasted for three months or for six months. People could draw on the little savings that they had, and then hope to look beyond it. But we now get to the point that we're talking about a one year hiatus in economic activity, as the pandemic goes on, because it's going to take quite a bit of time for the vaccinations to take hold and the reopenings to occur. In the meantime, you have banks that had initially been

recording it as a non-payment of a loan, where the government changed the regulation so the bank didn't have to call it a non-performing loan. They could call it a 'COVID grace period'. By legislation you turned what was a bad loan into a grace period. Once that runs out, in reality it is a loan that is not going to be paid, and some of the banking systems will come under pressure from domestic debt.

Some people call it a K-shaped recovery where the more advanced countries can go up, but some of the poorer nations are still going down. I'm worried that that's still the situation that we're facing. Our goal is urgency for each country to find a path forward, and also for more resources to be available from the richer countries to the poorer countries.

MR RUNDE: You've been very outspoken through the G20 process, through a number of your op-eds, and through communiques to the G20 along with the Managing Director of the IMF, on debt burden relief and debt relief. Could you talk about: what are some specific steps that need to be taken by the international community, the United States, and your partner governments for the World Bank? What are the steps that need to be taken on this debt issue?

MR. MALPASS: We did a big report a year ago that there was a wave of excessive debt, and it noted where that debt came from. It's different from debt in the past. In the 1980s, or 1970s really, there was what was called petrodollar recycling. There had been a rise in real terms in oil prices, and that was accumulating and then that wealth creation was recycled in the form of bank loans, largely to Latin America but to others around the world. So that was one type of debt crisis.

This one, there were two new sources that developed in large size over the last ten or 15 years. One was the Euro bond market or the private sector investment that was funded by mutual funds, by hedge funds, that built on the idea that if you could have diversification in your portfolio, you can make a lot more loans. And so those loans went into even the poorest countries, and a range of developing countries. It looked like a good asset class, and the amount of money went up and it probably gave good returns. Also, China came on as a major lender. Our data that we put out in September or October called the IDS, the international debt statistics report, showed that of the official bilateral creditors--all the different credit agencies of the governments around the world--65% of that debt is owed to Chinese creditor agencies. And the second biggest is Japan with 15% and the other ones are smaller, that would be France and the U.K. and the United States and so on, even smaller than that. That gives you some sense of the shift. If you had done that same statistic ten or 15 years ago, it would have been completely the opposite where the G7 countries would have been the biggest creditors, so they could form as the Paris Club and reschedule debt. But China's not a member of the Paris Club.

One of the challenges that the G20 faced was how to get a broad effort to give debt relief to countries that were over-indebted. The initial step I called for with Kristalina Georgieva of the IMF in March was: let's stop collecting the payments for a while. That started but unfortunately the private sector creditors didn't want to do it, and they couldn't form as a group. There used to be a London Club that was where the private sector creditors would see that it was in their interest to have an organized process rather than a disorderly one. They didn't do that and still haven't. And that's been

frustrating. China has said that it was fully involved, but they didn't have a process to get all of their big creditors, individual agencies within China. There's one called China Development Bank and one called China Export Import Bank, and so on down the list. Creditors that are each individually very large. They didn't have a mechanism to work together, and take into account the new reality.

There's a couple of things going on in the world. One is that the pandemic hit, so the viability of various debt has to be reassessed. And then secondly, interest rates have gone down a lot. Some of the creditors are still charging a high interest rate, not reflecting the current reality. This gives a challenge. The G20 addressed that during the summer. Lots of meetings and a communique in October, with the Leader's summit, saying that they would have a common framework for addressing the debt. The challenge is to apply it in a way that really provides enough debt relief that the country can see light and the people in the country can see that there's a future for them in that country, that there's light at the end of the tunnel. That's the process that we're in now. Various countries are tackling this in various ways. The reality for the world is there needs to be more resources freed up for the poorest countries. They can't keep paying these high interest rates to creditors that are much, much better off than they are. There's got to be a fair burden sharing in terms of reducing the flow of resources and also the overhang of the debt. I think a critical thing for the creditors to understand is that it's going to create a better future for them as lenders if the poorer countries-- that's the bottom 75 countries in the world, these are IDA countries -- if they can get through the debt crisis, and then have more growth into the future. That's going to be better for everybody, including China and the private sector creditors. This is going to be an opportunity for future growth and future loans, and also future investment projects in these countries. But if there continues to be as much of an outflow, then the countries won't be able to get back on their feet.

MR RUNDE: I've had 500 zoom calls since March 15. I feel like I'm like Global Services on Zoom or Executive Platinum on Zoom. I had several big takeaways from all these conversations. One is that I think there are going to be tectonic shifts in global supply chains, some of the disruption is there are going to be shifts in global supply chains. So I'd love to talk a little bit about that. The other thing I want to talk about is e-government, e-commerce, distance learning. I think we had a conversation about this, I mentioned this to you when we saw each other, a couple months ago. There have been more e-commerce, e-government, distance learning and digital payments in the last 34 weeks than in the last 34 years. I think if you want to be part of modernity, you're going to need to have literacy, drinkable water, toilets, electricity, and then access to high-speed internet and publics are going to demand that. It's going to be provided through the state or through the private sector, through OECD countries or through non-OECD countries, but this digital demand is for digital transformation This is digital transformation. The experience of us doing this Zoom call is part of that. Could you talk about trade and the tectonic shifts and trade flows and how you see that? In my mind, agencies like the World Bank and advisors like the World Bank, are greasing the skids of some of that of that coming. And then the case of digital: Could you talk about how you're thinking about digital because it seems to be that shifts in trade and digital are some of the economic-related issues beyond debt and beyond the immediate emergency of COVID that I think are going to be some of the lasting changes because of the COVID crisis.

MR. MALPASS: Absolutely. On supply chains in general, clearly one of the things going on is that over the decades, the supply chains with China became non-diversified. One of the things the world is doing is a reasonable diversification, call it a shift, of supply chains. That may also mean that China has bigger supply chains with other countries. If you think about where efficiencies come, triangular trade is a really important part of that, so that gets a lot of attention. I think it needs to be different sector by sector. Some sectors, you don't want a diversified supply chain because there's a huge economy of scale from the volume that you produce. Other ones you want diversification. The world will gradually figure that out. It's expensive at first because there's all the shifts going on. That's one issue that becomes very important if you look at the countries around China. They're providing or offering substitutes for the old supply chain, and then they look for efficiencies in terms of how they do that.

My sense is that's going pretty well because it's decentralized. Each individual private sector company that was used to maybe a single source now looks for multiple sources. That's going to put a lot of emphasis on intellectual property, rule of law, WTO considerations, all of that going on the grand scale. In individual countries, it plays out because if you think about Mexico and the US they're sorting out with auto-parts where the most efficient way to do that is, and with Canada. Same in Europe with Brexit. I think we have to recognize huge shifts going on in the supply chains in order to find efficiency within the geopolitical system that we're in.

Your point is really good about e-government but I don't love that phrase. It is the idea of governments efficiently using digital information and internet capabilities. Even the poorest countries are finding they can get efficiencies from turnkey systems. They install them, and they save.

I'll make a plug for trade facilitation. One of the most important things for economic development is to quickly get things across borders. If you can email the bill of lading to the other side and they accept that email, then can check that off as far as the truck or the cargo coming through. Some countries are reducing what used to take ten days to ten hours. Where that happens, it's got huge economic efficiency gains. Oftentimes some computer system or digital process is at the core of making that happen faster. We need to help that. And you're right, you need high-speed internet but it's a spectrum of technology and one problem that still exists is that while some countries are talking about 5G or even 6G, some countries are still in 2G and 3G and they can't get to 4G because the laws don't allow the sharing of cell towers. In Nigeria, we're working on that and it's really important. There are a lot of people, a big nation that needs to move forward more quickly on 2G, 3G, 4G, and it is hampered by the way the backbone of the system is set up.

The point I want to make is that different parts of the world have quite different problems. Google is running fiber optics down West Africa that will allow landing spots that will really enhance speeds. But then, you need to have that landing spot allow some open access so that there can be competition of the independent service providers, the ISPs, as they connect. That means some kind of regulatory framework that's set up on the idea of competition. That will be very important because that side of Africa is underserved from the standpoint. We can hope for high-speed Internet access for everybody, but I would be happy to get incremental changes.

In the meantime, we should recognize that satellite technology will help. I think people will be talking about leap-frogging within the telecom space as new technologies open up. It's unclear how the world will go as far as fiber optics versus other kinds of techniques. What I think we need is regulatory environments that allow change to occur pretty rapidly.

MR RUNDE: Regulation is not going to get ahead of technology. Technology's going to be far faster, so we need that flexibility that you're describing.

MR. MALPASS: Yes and bottom line we could measure some of this. One thing I think is really important is high volume, very low cost digital transactions. If you come back to money, I said earlier, at some point—

MR RUNDE: You have got to talk about money.

MR. MALPASS: You have got to talk about money. Having costs for individual transactions that are tiny fractions of a cent. Because your goal is to have, even for a small, poor country, let's try to have 10 billion transactions going on at a tiny fraction of a cent. That means that poor people are getting access to money, which is very important. We haven't talked about social welfare and benefits, and climate.

MR RUNDE: Let's spend a minute on social welfare and benefits because I think as you move up the development curve, David, countries need more sophisticated and well thought through social safety nets. It's part of it's part of modernity. Even some of the world's poorest countries have social safety nets, a lot of them designed in partnership with the World Bank Group or regional development banks like the Inter American Development Bank or others. So how are social safety nets being impacted, because we need social safety nets: how they're being impacted by COVID? How are you thinking about social safety nets in this context or in the digital context?

MR. MALPASS: They are important and they are one aspect of how do you raise people's true living standards from a broad sense, meaning nutrition, meaning health, meaning climate awareness. There's a range. I mentioned this earlier, and I don't have too much to add. Social safety nets, where you can deliver either money or in-kind benefits to people, are really important in this system. It's been hard to expand them in COVID because the people to do the expansion are maybe not available, or the technology wasn't there that could add to it. We've been able to add money in Brazil, we've been able to add money in Jordan. Pakistan is coming on with a stronger system, one where women can get access and keep amounts of money. This is very important in terms of the family's choices on education and on food. You know, one of the best things is if the woman controls it, not the man, unfortunately. Finding a system where that can happen is good.

I want to come back to the broader issue that, as countries get more freed up fiscal space, they have choices on how they can spend it. We're monitoring that as part of the DSSI, the Debt Service Suspension Initiative, that started in April. We need to find ways that, as governments have more money, there's a connection between the people having more benefit and a better living standard. You can think about what's going on now as countries seek to meet their NDCs under the Paris agreement.

MR RUNDE: These were the goals that each country set on the Paris Agreement where each country got to set their own goal on carbon reduction.

MR. MALPASS: Yes, NDCs, the nationally determined contribution. The countries decided on them but it was kind of a political process in countries where vested interests had some say in it. Aligning that in a way that succeeds, or that achieves what you're trying to get -- which is maybe a reduction in greenhouse gas gases, let's say -- if that were at the core of an NDC, then how do you do that in a way that's consistent with development in the country and that maximizes the impact that you're going to have? Those are challenges as the gearing up occurs for more action on climate, so we're looking for ways to have that connection between social progress for the country, economic progress and climate progress all can come together.

MR RUNDE: We have got several questions from the audience I wanted to share with you, David. One is: debt relief sounds like an enormous task. How will the global financial community handle large scale write-offs?

MR. MALPASS: "Write-offs" is a loaded term. If you think about it, if you've got a loan that's earning 7 percent at a time when Europe has a lot of negative interest rates and if you've got some choice in the instruments, you might be able to have a much lower interest rate, and not call it a write-off. Call it debt relief, debt reduction. You know, after the Latin debt crisis of the 1980s, there was the Brady Plan that had a menu of options.

MR RUNDE: Yes.

MR. MALPASS: There were different ways to provide the relief. Different creditors chose different ways. For the private sector creditors, there may end up being a different solution for syndicated loans, bank loans, than for Eurobond kinds of debt reduction. One challenge is how do you avoid the litigation, the extensive litigation, that has been associated with Eurobond restructurings?

Ecuador went through a restructuring earlier in the year, just a few months ago, really, and some creditors stood apart from it and didn't participate. So, a challenge is how do you bring together most of the big creditors into a group.

And then, a different group is the official creditors. The good news there is they have a lot of debt owed from even the poorest countries, but they, in general, have pretty strong balance sheets. It's a different kind of crisis from some of the ones in the past, in that the banking systems of the advanced economies and China are stronger than in the past, and the government agencies are under less direct pressure because the fiscal stimulus is so large. There's not a single answer. There's kind of a case-by-case approach going on right now.

We've seen Zambia fall into default. There's a specific question of what can be done there. Angola and Ecuador and some other countries have looked for ways to do debt restructuring, and they find different pathways to get to the endpoint, which is enough debt relief that you can call it sustainable at the end of the process.

What I think we should try to avoid is the idea of doing a little bit, and then having to do it over again. It's very costly to the people of the country to live through one of these

restructurings, because the government takes control, takes resources from people in order to make it work. I think the goal of the world should be to try to have a deep enough debt relief early in the process that the country can begin growing into the future.

MR RUNDE: Another question is about the role of China and its role in this debt. You've made some reference to it, especially in the context of Africa. Could you talk about how China has been operating as it relates to Africa in the context of debt relief?

MR. MALPASS: China, as it made immense progress, economically in the 1990s and into the 2000s, began looking for markets abroad and interaction abroad. One part of that was to get resources back to China for their industries. That maybe grew into what was originally called the One Belt, One Road system and now is the Belt and Road Initiative. That was a composite of many projects that China's various agencies were involved in, in other developing countries, and the financing for that. There were various contracts. One was the construction contracts themselves. And then, how were those financed? Oftentimes a Chinese financial institution would finance construction that was done by a Chinese construction company. What I've strongly encouraged is more transparency. If people can look at the contracts, they can understand better what the upside and what the pitfalls are from those contracts. If you can't see the contracts, you don't know what the purpose was, what the connections between the various participants are. In general, when a government gets into a contract, it should make that known to people so that they can understand better what the process was, how was the project selected, how were the financing agents selected.

We've encouraged the transparency, including in the oil market, including in the resource market. Some of the big players in commodities still don't make public the contracts they're entered into, and the way collateral is used. If a government that's going to be in office for two more years or for four years, which does happen around the world, enters into a contract that commits the country to delivering commodities for 10 years or 20 years, which does occur, the contract runs much longer than the political life of the country's system. There's an inherent conflict of interest or difference of position in that kind of relationship. I think it's really important that there be a lot of transparency in those contracts. We also think that collateral—that is where the country commits actual physical product or some control to go to the lender—those are not so appropriate for sovereign governments to get into. Why are they able to commit the people of the country for so many years? That's a challenge. We're trying to move to a system that is less reliant on collateral, and that is more transparent than what we have right now. That applies around Africa, your original question. But it's really global. I think it should be a principle of lending in these sovereign relationships, both to developing countries, to poor countries but including to more advanced economies, as well.

MR RUNDE: David, we're coming to the end of our time. I wanted to give you a chance to give any closing thoughts. Is there something that you're optimistic about in 2021? Because gosh almighty, the world is in such a mess. I'm so glad that you're at the helm of the World Bank; I'm so glad Kristalina is at the IMF; and I'm so glad we have the system of regional development banks to kind of help the system as a shock absorber. So, I'm very glad you're there, and I'm so glad the World Bank is doing what it's doing. Can you leave us on some positive note about what you're optimistic about in 2021?

MR. MALPASS: Maybe what we were just talking about. The world needs a lot of investment, and especially the poor countries need investment, in infrastructure, for example, in building things.

And so, the good news is there's a huge amount of savings in the advanced economies that's willing to go into investments at a very low interest rate. What an opportune time for the world to build lots and lots of things, and including climate-friendly transformations of agriculture systems, for example, and a host, a range of projects. I think those can be done if you have transparency at the core and then begin to standardize the contracts so that there's not so much fine print within the contract. Then investors will look at it and say, "Boy, if I can get that same kind of contract and see it in five different countries, I've diversified my risk, and I'm willing to put more money at a low yield."

I will give you the optimistic thought that long-term interest rates have never been so low at a time when the needs of the developing world have never been so great. We can work to get there. We have to have a debt relief process that bridges the two. Otherwise the chasm in between those is too deep. You can't get from one side to the other. Debt relief and then identify good quality projects and do it transparently, then the financing will materialize.

MR RUNDE: Okay, we have just got to stay alive through 2021, and if we can get through 2021, the next decade is about this challenge of financing infrastructure, both hard infrastructure and digital infrastructure. And you all will play a central role in that. The World Bank will play a central role in that. Thank you, David. Happy holidays. So happy to see you; it's great. I'm so glad you're at the helm. Thanks for taking time to be with us at CSIS. And please thank all your colleagues at the World Bank Group for all the important work that they do.

MR. MALPASS: Super, thanks, and hi to everybody, glad to be here.