

Reversing the Inequality Pandemic: Speech by World Bank Group President David Malpass

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Introduction

Thank you, Jens. And thanks to Frankfurt School and the Bundesbank for hosting me virtually. I look forward to engaging with you and taking questions from students, who will be future business leaders in a post-COVID world. I'm here to set the stage ahead of the IMF and World Bank Group's Annual Meetings, which will focus primarily on COVID and debt, and will also engage partners in urgent discussions on human capital, climate change, and digital development.

Before I begin, I would be remiss not to mention that this is the first time that the positioning speech for the World Bank Group Annual Meetings is being held in continental Europe. Germany is a major anchor for the World Bank Group and the rest of Europe; it is IBRD's fourth largest shareholder, and the fourth largest contributor to IDA, and Chancellor Merkel has always been a strong supporter of World Bank Group priorities, including tackling debt and COVID, as well as action on global public goods. I understand that these priorities are also the focus of Germany's EU Presidency, which runs through the end of 2020.

As Jens said, the COVID-19 pandemic is a crisis like no other. Its toll has been massive and people in the poorest countries are likely to suffer the most and the longest. The pandemic has taken lives and disrupted livelihoods in every corner of the globe. It has knocked more economies into simultaneous recession than at any time since 1870. And it could lead to the first wave of a lost decade burdened by weak growth, a collapse in many health and education systems, and excessive debt.

The pandemic has already changed our world decisively and forced upon the world a painful transformation. It has changed *everything*: the way we work, the extent to which we travel, and the manner in which we communicate, teach, and learn. It has rapidly elevated some industries—especially the technology sector—while pushing others toward obsolescence.

Our approach has been comprehensive—focused on saving lives, protecting the poor and vulnerable, ensuring sustainable business growth, and rebuilding in better ways. Today, I'm going to focus on four urgent aspects of this work: first, the need to redouble efforts to alleviate **poverty and inequality**; second, the associated **loss of human capital** and what must be done to restore it; third, the urgent need to help the poorest countries make their government debt more transparent and permanently reduce their **debt burdens**, two necessary steps to attract effective investment; and finally, how we can cooperate to facilitate the changes needed for an **inclusive and resilient recovery**.

Topic 1: Poverty and Inequality

First, on poverty and inequality, COVID-19 has dealt an unprecedented setback to the worldwide effort to end extreme poverty, raise median incomes and create shared prosperity.

Jens has referred to the World Bank's new poverty projections, which suggest that by 2021 an additional 110 to 150 million people will have fallen into extreme poverty, living on less than \$1.90 per day. This means that the pandemic and global recession may push over 1.4% of the world's population into extreme poverty.

The current crisis is a sharp contrast from the recession of 2008, which focused much of its damage on financial assets and hit advanced economies harder than developing countries. This time, the economic downturn is broader, much deeper, and has hit informal sector workers and the poor, especially women and children, harder than those with higher incomes or assets.

One reason for the differential impact is the advanced economies' sweeping expansion of government spending programs. Rich countries have had the resources to protect their citizens to an extent many developing countries have not. Another is central bank asset purchases. The scale of such purchases is unprecedented and has successfully propped up global financial markets. This benefits the well-to-do and those with guaranteed pensions, especially in the rich world, but it is not clear, either in textbook theory or in practice, how 0% interest rates and ever-expanding government asset and liability balances will translate into new jobs, profitable small businesses, or rising median income—key steps in reversing inequality.

Poorer economies have fewer macro-economic tools and stabilizers and suffer from weaker health care systems and social safety nets. For them, there are no fast ways to reverse the sudden reduction in their sales to consumers in advanced economies or the almost overnight collapse in tourism and remittances from family members working abroad. It's clear that sustainable recoveries will require growth that benefits all people—and not just those in positions of power. In an interconnected world, where people are more informed than ever before, this pandemic of inequality—with rising poverty and declining median incomes—will increasingly be a threat to the maintenance of social order and political stability, and even to the defense of democracy.

Topic 2: Human Capital

Second, on human capital, developing countries were making significant progress before COVID-19—and, notably, starting to close gender gaps. Human capital is what drives sustainable economic growth and poverty reduction. It consists of the knowledge, skills, and quality of health that people gain over their lives. It is associated with higher earnings for people, higher income for countries, and stronger cohesion in societies.

Since the outbreak, however, more than 1.6 billion children in developing countries have been out of school because of COVID-19, implying a potential loss of as much as \$10 trillion in lifetime earnings for these students. Gender-based violence is on the rise, and child mortality is also likely to increase in coming years: our early estimates suggest a potential increase of up to 45% in child mortality because of health-service shortfalls and reductions in access to food.

These setbacks imply a long-term hit to productivity, income growth and social cohesion—which is why we’re doing everything we can to bolster health and education in developing countries. In the area of health, the World Bank Group worked with our Board in March to establish a fast-track COVID response that has delivered emergency support to 111 countries so far. Most projects are now in advanced stages of disbursement for the purchase of COVID-related health supplies, such as masks and emergency room equipment.

Our goal was to take broad, fast action early and to provide large net positive flows to the world’s poorest countries. We are making good progress toward our announced 15-month target of \$160 billion in surge financing, much of it to the poorest countries and to private sectors for trade finance and working capital. Over \$50 billion of that support takes the form of grants or low-rate, long-maturity loans, providing key resources to maintain or expand health care systems and social safety nets. Both are likely to play a key near-term role in survival and health for millions of families.

We are also taking action to help developing countries with COVID vaccines and therapeutics. I announced last week that, by extending and expanding our fast-track approach to address the COVID emergency, we plan to make available up to \$12 billion to countries for the purchase and deployment of COVID-19 vaccines once the vaccines have been approved by multiple stringent regulatory agencies around the world. This additional financing will be to low- and middle-income developing countries that don’t have adequate access and will help them alter the course of the pandemic for their people. The approach draws on the World Bank’s significant expertise in supporting public health and vaccination programs and will signal to markets that developing countries will have multiple ways to purchase approved vaccines and will have significant purchasing power.

Our private sector arm—the International Finance Corporation, or IFC—is also investing heavily in vaccine manufacturers through its \$4 billion Global Health Platform. The aim is to encourage ramped-up production of COVID-19 vaccines and therapeutics in advanced and developing economies alike—and to ensure that emerging markets gain access to available doses. IFC is also working with the vaccine partnership—CEPI—to map COVID-19 vaccine manufacturing capacity, focusing especially on potential bottlenecks.

To mitigate the impact of the pandemic on education, the Bank is working to help countries reopen primary and secondary schools safely and quickly. Out of school, children tend to backslide in their educational skills; and for children in the poorest countries, physical attendance in school is an important source of food and security, not just the reading and math that provide a critical ladder out of poverty. The Bank is working in 65 countries to implement remote-learning strategies, combining online resources with radio, TV, and social networks, and printed materials for the most vulnerable. We are also partnering with UNICEF and UNESCO on school-reopening frameworks.

In Nigeria, for example, we provided \$500 million in new funding for the Adolescent Girls Initiative for Learning and Empowerment (AGILE), which aims to improve secondary education opportunities among girls. The project is expected to benefit more than 6 million girls, using TV, radio, and remote-learning tools.

Topic 3: Debt Burdens

My third urgent topic is debt. A combination of factors has led to a wave of excessive debt in countries where there is no margin for error. Global financial markets are dominated by low interest rates, creating a reach-for-yield fervor that invites excess. This is reinforced by an imbalance in the global debt system that puts sovereign debt in a unique category that favors creditors over the people in the borrowing country—there's not a sovereign bankruptcy process that allows for partial payment and reduction of claims. As a result, people, even the world's poorest and most destitute, are required to pay their government's debts as long as creditors pursue claims—even so-called “vulture” creditors who acquire the distressed claims on secondary markets, exploit litigation, penalty interest clauses and court judgments to ratchet up the value of the claims, and use attachment of assets and payments to enforce debt service. In the worst cases, it's the modern equivalent of debtor's prison.

Further, the political incentive and opportunity for government officials to borrow heavily has increased. Their careers benefit from the availability of long-maturity debt because the repayment cycle is often well after the political cycle. This undermines accountability for debt, making transparency much more important than in the past.

An added factor in the current wave of debt is the rapid growth of new official lenders, especially several of China's well-capitalized creditors. They've expanded their portfolios dramatically and are not fully participating in the debt rescheduling processes that were developed to soften previous waves of debt.

To take a first step toward debt relief for the poorest countries, at the World Bank's Spring Meetings in March, I, along with Kristalina Georgieva of the IMF, proposed a moratorium on debt payments by the poorest countries. It was partly a response to COVID and the need for countries to have fiscal space, and also a recognition that a debt crisis was underway for the poorest countries. With endorsement by the G20, G7 and Paris Club, the Debt Service Suspension Initiative, or DSSI, took effect on May 1. It enabled a fast and coordinated response to provide additional fiscal space for the poorest countries in the world. As of mid-September, 43 countries were benefiting from an estimated \$5 billion in debt-service suspension from official bilateral creditors, complementing the scaled-up emergency financing provided by the World Bank and IMF. The DSSI has also enabled us to make significant progress on debt transparency, which will help borrowing countries and their creditors make more informed borrowing and investment decisions. This year's edition of the World Bank's International Debt Statistics, to be released next Monday, October 12, will provide more detailed and more disaggregated data on sovereign debt than ever before in its nearly 70-year history.

Many more steps are needed on debt relief. One avenue is to broaden and extend the current debt initiative so that there is time to work out a more permanent solution. The World Bank and the IMF have called on the G20 to extend the DSSI's relief through the end of 2021, and we are highlighting the need for G20 governments to urge the participation of all their private and bilateral public sector creditors in the DSSI. Private creditors and non-participating bilateral creditors should not be allowed to free-ride on the debt relief of others, and at the expense of the world's poor.

Debt service suspension is an important stopgap, but it is not enough. First, too many of the creditors are not participating, leaving the debt relief too shallow to meet the fiscal

needs of the inequality pandemic around us. Second, debt payments are simply being deferred, not reduced. It doesn't produce light at the end of the debt tunnel. This is particularly apparent in today's low-for-long financing environment. The normal time value of money simply isn't working, so the creditors' offer of a deferral of payments with a compounding of interest often means that the burden of debt goes up with time, not down. The historical use of net present value equations in debt restructurings has to be scrutinized for fairness to the people in the debtor countries.

The risk is that it will take years or decades for the poorest countries to convince creditors to reduce their debt burdens enough to help restart growth and investment. Given the depth of the pandemic, I believe we need to move with urgency to provide a meaningful reduction in the stock of debt for countries in debt distress. Under the current system, however, each country, no matter how poor, may have to fight it out with each creditor. Creditors are usually better financed with the highest paid lawyers representing them, often in U.S. and UK courts that make debt restructurings difficult. It is surely possible that these countries—two of the biggest contributors to development—can do more to reconcile their public policies toward the poorest countries and their laws protecting the rights of creditors to demand repayments from these countries.

Several steps are needed. First, as I mentioned, full participation in the moratorium by all official bilateral and commercial creditors, to buy time. Second, full transparency of the terms of the existing and new debt and debt-like commitments of the governments of the poorest countries. Both creditors and debtors should embrace this transparency, but neither has done enough in this regard. Third, using this fuller transparency, we need a careful analysis of a country's long-term debt sustainability to identify sovereign debt levels that would be sustainable and consistent with growth and poverty reduction. This degree of transparency and analysis would also be strongly beneficial for the public commitments of developed countries, such as outlay projections for public pension funds. Fourth, we need new tools to push forward with the reduction of the stock of debt for the poorest countries. The World Bank and IMF are proposing to the Development Committee a joint action plan by the end of 2020 for debt reduction for IDA countries in unsustainable debt situations.

Looking more broadly, since the arrival of COVID-19, the challenge of high debt burdens has expanded to endanger the solvency of many businesses. The Bank for International Settlements has estimated that 50% of businesses do not have enough cash to pay their debt-servicing costs over the coming year.

Rising corporate debt distress has the potential to put otherwise viable firms out of business, exacerbating job losses, depressing entrepreneurship, and slowing growth prospects well into the future. The World Bank and IFC are both working with our client countries to address this issue, helping them bolster and improve insolvency frameworks while shoring up the working capital of systemically important businesses.

Topic 4: Fostering an Inclusive and Resilient Recovery

My fourth topic is on fostering an inclusive and resilient recovery. COVID-19 has demonstrated—with deadly effect—that national borders offer little protection against some calamities. It has underscored the deep connections between economic systems, human health, and global well-being. It has concentrated our minds on building systems

that will better protect all countries the next time, especially our poorest and most vulnerable citizens.

It is critical that countries work toward their climate and environmental goals. A high priority for the world is to lower the carbon emissions from electricity generation, meaning the termination of new coal- and oil-dependent power generation projects and the wind-down of existing high-carbon generators. Many of the largest emitters—in the developing world but, I must say, also in the developed world—are still not making sufficient progress in this area.

Amid the pandemic, the World Bank Group has remained the largest multilateral financier of climate action. Over the last five years, we have provided \$83 billion in climate-related investments. Our work has helped 120 million people in over 50 countries gain access to weather data and early-warning systems crucial to saving lives in disasters. We have added a total of 34 gigawatts of renewable energy into grids to help communities, businesses and economies thrive. I'm happy to say that, in Fiscal Year 2020, my first full year as President, the World Bank Group made more climate-related investments than at any time in its history.

We intend to step up that work over the next five years. We are helping countries put an economic value on biodiversity—including forests, land, and water resources—so they can better manage these natural assets. We are helping them assess how climate risks affect women and others who are already vulnerable.

We are also working with governments to eliminate or redirect environmentally harmful fuel subsidies and to reduce trade barriers for food and medical supplies. Global progress in this area, however, has remained slow. COVID-19 spending packages could have a decisive effect on promoting more low-carbon energy sources and facilitating a stronger, more resilient recovery.

And on the economy itself, recognizing the severity of the downturn and the likely longevity, a key step in a sustainable recovery will be for economies and people to allow change and embrace it. Countries will need to allow capital, labor, skills, and innovation to shift to a different, post-COVID business environment. This puts a premium on workers and businesses using their skills and innovations in new ways in a commercial environment that is likely to rely more on electronic connections than travel and handshakes.

To speed recovery, countries will need to find a better balance between, on the one hand, maintaining core public and private sector businesses and, on the other, recognizing that many businesses won't survive the downturn. In many cases, support efforts will be more effective if they aid families rather than propping up pre-COVID business structures.

The business environment needs change and improvement to build a faster, more sustainable recovery. A key part of this process of change is for the ownership and repurposing of distressed assets to be resolved as quickly as possible. This will likely entail a combination of faster bankruptcy proceedings, new legal avenues for settling small claims, and other out-of-court alternatives such as arbitration. These are important building blocks for effective contracts and capital allocation, but only a few developing countries have them in place. The severity of the downturn makes the prompt

streamlining and transparency of commercial law as vital for recovery as the availability of new debt and equity capital.

None of these steps will be enough, and the reality is that aid, even from the most generous donors, can't make ends meet. Just to reverse COVID's likely increase in extreme poverty in 2020 would require \$70 billion per year (\$2 per day times 100 million people). That's well beyond the World Bank Group's financial capacity or any of the development agencies. My view is that sustainable solutions can only come by embracing change—through innovation, new uses for existing assets, workers and job skills, a reset on excessive debt burdens, and governance systems that create a stable rule of law while also embracing change.

Conclusion

In conclusion, I raised the urgency of addressing poverty, inequality, human capital, debt reduction, climate change, and economic adaptability as elements in ensuring a resilient recovery. This once-in-a-century crisis has demonstrated why history doesn't exactly repeat itself—because humankind *does* learn from its mistakes. The pandemic so far has not triggered the devastating side effects of earlier crashes—neither hyperinflation, nor deflation, nor widespread famine. Even though the loss of income and the inequality of the impact have been worse than in most past crises, the global economic response, so far, has been much bigger than we might have expected at the start of this crisis.

The development response will need to be extended and intensified, both in terms of the health emergency and the efforts to help countries find effective support systems and recovery plans. Greater cooperation will enable us to share knowledge and develop and apply effective solutions far more swiftly. It will enable innovators to develop a vaccine that beats the virus and restores people's confidence in the future. Working through all channels, my hope—and my belief—is that we can shorten the downturn and build a strong foundation for a more durable model of prosperity—one that can lift all countries and all people.

Thank you very much.