

## CONVERSATIONS WITH MIKE MILKEN



**David Malpass**

President, World Bank Group

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**Mike Milken:** David, thank you for joining us today.

**David Malpass:** Happy to be with you, Michael.

**You took over in February of 2019 as the president of the World Bank, and over the decades you and I have discussed how we finance companies, how we finance countries, the challenges of emerging nations, poor nations. What is the mission of the World Bank?**

It used to be the International Bank for Reconstruction and Development after World War II, to rebuild big infrastructure projects. The World Bank Group still does some of that, but the broader mission is the actual well-being of people around the world in developing countries. And we measure that by poverty reduction, poverty alleviation, which is a high priority, and also shared prosperity; that means everyone in an economy moving up, especially people at the bottom moving up. So that's our goal. But the living standards are broadly conceived so that it easily includes health, education, the environment, climate, all of the things that humanity thinks of as important for people. We want that to go up in the poorest countries. That's a hard challenge, of course.

**I think the mission is something you've believed in, and I believed in. [Something] I had drilled into me by my father at a very young age is there won't be a great future for my**

grandchildren unless everyone has this great future. And in many ways you've taken on that responsibility. One of my favorite books was a book called Factfulness. And I remember being at a Giving Pledge meeting when the facts were being presented and it was amazing to me how the world had changed: 1 billion people moved out of extreme poverty. When we could get per capita income up to \$2,000 a year, you saw traumatic drops in birth rates, increases in opportunity for women. But today in the depths of economic challenges brought on by this pandemic, this amazing movement of upward is under challenge. Talk to us about some of the challenges these poor nations have, and how you as the president of the World Bank had tried to have tried to lead the bank in responding to them.

We just put out new data on poverty; there's an actual measurement process. And every two years the bank updates that. So the data on the extreme poverty shows that it's increased for the first time in 20 years. It was the number of people in extreme poverty as measured by \$1.90 per day for the person. But there were still 700 million or so in extreme poverty; that's going up it looks like by 150 million people as a result of COVID. There's a combination of things doing that. One is the income of people, or the GDP, is going down for these countries as part of the recession that pushes a lot of people under the poverty line.

But then in addition, remittances coming from their family abroad, working across borders, has dried up; it's gone down substantially. Some of the countries have devalued their currency, so the actual income that a person has in meaningful terms has gone down. And a critical factor is the widespread shutdowns of their own economies. And then it's not just poverty, but as you mentioned, this very important growth path work when median income goes above a certain level, you start having better and better social activities and health activities, violence goes down, and health improves. And those are both reversing along with poverty.

So we've got a big problem going on right now. Our goal has been to shorten the time to an actual recovery to where this can start going back up again. I wanted to do this in April by emphasizing the importance of fast, broad action; unless everyone is making progress then the world really is going backwards.

We've ended up with new health programs that would allow personal protective equipment, masks to be financed by the World Bank, into 111 countries. And the disbursements have been quick in that the countries are accessing the money and buying

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the equipment. So that's been a very successful concept of our response. And the bigger part of the response over the next year, and then really over the next five years, is how do you really help countries get bigger private sectors, more jobs, including jobs for women and education for girls. These are all, I think, critical in making the advances.

**You've touched base briefly, David, on the enormous response the World Bank has made in the health area to COVID-19, PPP and others. Let's talk about education, and how you see it and the potential loss of trillions of dollars of future income with so many children maybe not going in school today.**

So Michael, over the last three or five years, the World Bank established what is called the Human Capital Index to try to quantify some of these concepts. And one key one, and the basis of it, is called the Learning Poverty Index. It's the basic idea that a critical dynamic for development is for, by age 10 both boys and girls, to be able to read a simple story within their native language. The problem is the percentages are not very

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high, and that means that the child falls farther and farther behind the world as the years go by. So there's a big effort to try to lift that through better literacy programs, better teachers, better access to schools.

But with COVID hitting, as many as a billion children are still out of school in the developing world alone. And the data shows pretty clearly that when children are out of school, they move backwards. So one of our priorities is to get kids back in school through

opening schools in a safe way. The food programs and nutrition programs, the vaccination programs, those are all driven at the school level, and so that becomes a high priority for what we're trying to do. We put out a big report on that and it estimated that the lost learning that's occurring now may cause those children to lose \$10 trillion in income over their lifetimes.

**I know David that you've been an outspoken advocate for debt relief this year. Talk to us for a few minutes about that.**

As I mentioned, income is going down and remittances are going down. As the world has hit into problems, there's a net flow to creditors, because most of the creditors stopped putting as much new money in and continue wanting to take out their payments. The World Bank is an exception where we maintain a very large net-positive flow to the countries, but for other creditors that's a challenge. With interest rates as low as they are right now, it doesn't do a lot for the country to just delay the payment.

What we did in late March with Kristalina Georgieva at the IMF [International Monetary Fund] was propose that there'd be a moratorium for the debt payments, given the severity of the pandemic. The G20 endorsed that and implemented that on May 1 that they'd be allowed to not make the payments, and instead devote those payments to healthcare and education in their own countries. But unfortunately, the private-sector predators decided not to participate, and some of the large official creditors decided to only partially participate. And the magnitude, the many billions of dollars that are being taken out of the poorest countries in order to repay or to maintain a debt service to creditors.

One other thing I'll mention to you, Michael, is in general, the debt situation for the poorest countries, I think, has become quite problematic. The governments of the countries are often part of the elite and benefit from getting more debt, but the people of the country are left with the repayments over a cycle. So in many ways you can think of it as a triangle where the creditors are on one side, the government contractors of debt are on a second, and then the people of the country are on the third point of the triangle. And they all have quite different interests in the current mix.

What the World Bank has been trying to do, and we're working hard at it, is to make clear for the world that there needs to be transparency in both the debt contracts and the investment contracts, especially in the poorest

countries. The bottom 75 countries deserve a very fair break for the people of those countries. So that's what we're trying to do, both in the legal systems and to get the creditors to reduce the dollar amount of the debts. That's critical in creating light at the end of the tunnel for the people in the country. The interest of the world should be in supporting the people of the poorest countries so that they can invest more in education in health, in climate and the environment – the things that make up a good living standard.

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**So, David, I think you've been unique in creating this concept that the citizens of the country, creditors and their political leaders might not be totally aligned. How do you reconcile this with 10-year debt, 20-year debt, 100-year debt, when most political leaders I'm assuming are focused on the next year rather than the long-term. And how do you deal with this issue from both the creditors standpoint and the political leaders in what's in the best interest for the people of the country?**

That's a great question and a big challenge. Within a democratic system, within a rule of law, the governments come and go, but the people stay and pay the debts that were incurred. And so one thing I think that's a high priority is the transparency of these debt

contracts. That hasn't been the case over the last 10 years; there has developed a set of contracts that have non-disclosure clauses with the government. So you can wonder about that right away. Why would there be a non-disclosure agreement, a tight agreement written by very careful lawyers between a creditor and the government of a poor country? That's a challenge.

And then also collateral is more common in these creditor relationships, and that's problematic because it takes away their resources for a long period of years. Some of the

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contracts are 30-year contracts where the people are supposed to work hard and produce in order to repay debt that was taken out at one moment in time when the debt was incurred. So I think the response of the world should be to really insist on transparency. This has been an uphill battle because of the triangle; a lot of parts of the international system are against transparency because someone wants an angle, a better part of the deal.

In U.S. law, there's a body of law that protects the debtors so that they have full information when they incur a debt and what the interest rate is. That process is

not available for the poorest countries. So we have an odd situation where desperately poor people in poor countries are protected less than borrowers in advanced economies.

And another thing is the contracts themselves need to be written in a way that's more balanced between the creditor and the debtor. Right now, the Euro bond contracts are heavily favoring the creditor, and the idea for that is then they'll lend more. But the problem for that is when the debtor gets into trouble, there's really no solution. It's very bad for the people of the country. There should be a fair contract established, so that's one principle that we're working on.

And then also related to that is the relationship that the developing countries have with China is very important. China's become a very large creditor. In fact, our recent data showed that China was 65% of the official bi-lateral creditors. So that becomes a special situation that needs to be addressed in order to allow the countries to move forward. Our ultimate goal throughout this is for the people of the poor countries to be able to get ahead.

**David, as you and I both looked at the 1970s and 1980s, much of the capital going into the poor countries should have gone in as equity instead of debt, as you then privatize**

**many of these companies as a way of paying off the debt. How do you see the challenges for capitalism, not only what we faced prior to this year, but with COVID-19?**

I don't know that I would characterize it as the problem of capitalism, but the implementation of market systems. It has been very hard. And I ended one of the speeches last week with a phrase that 'we want to find a durable model of prosperity that can really survive.' And that means a balanced rule of law that protects the disadvantaged within an economy. It's small business relative to monopoly power that is frequent within the economies. So if you define capitalism as big corporations taking all the profit to keep wages down, we really need to shake that up and make it a more fair market system that will work for all of the people within a country.

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I do think one thing that's hard to do now in the midst of COVID is the type of stimulus being used in advanced economies is not available to the poor countries. China reported growth numbers in its third quarter, and the U.S., Europe, Japan are beginning to see signs of a strong recovery on the other side of COVID. But that's not so much happening for the developing countries. As central banks in the advanced economies buy assets, they're buying the assets that are generally owned by relatively wealthy people. So it contributes and adds to the inequality of this.

Another thing I'll mention is the lack of transparency even in the advanced economies. There's a giant amount of money in public pension funds, but they have exceptions to a lot of the disclosure rules. For example, they don't disclose the outlay projections that have been promised to retirees. And so that means that you're in a creditor/debtor situation where the taxpayer is the third part of the triangle.

You've got someone owning a municipal bond, you've got someone issuing the municipal bond. And then at the third leg of the triangle you've got a taxpayer that's ending up with the burden of that over their lifetime. It's not a fair balance for the people that are ending up with the obligation. So it's very similar to what's faced by the poorest countries; the people end up with the burden of the debt and the solution, I think, is really full transparency of those obligations.

**David, I'd like to come back to human capital and this issue of education. This amazing thing that's occurred in the past couple of decades of rising out of poverty, education, particularly for girls, what can we do to coordinate with the World Bank?**

Education is applicable to all countries, but it turns out the education system is specific to given countries and we need to improve them one by one. So the World Bank is able

to work in the Democratic Republic of Congo in a different way than in Nigeria. And that's fundamental to getting progress; we're talking hundreds of millions of people with their lives and their children at stake in this differentiation. The World Bank has a global view; we know that growth has to be broadly conceived for these countries, but it's very individualistic in terms of how these can achieve it.

I would say, finding partnerships local level is the critical way for civil society organizations, for charitable organizations, to be engaged. At the national level, this means support for programs that actually work for the people of a given country and some hard-headed evaluation that is done by each nation as they contribute to the global

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effort. They should be asking, how does this taxpayer money contribute to a positive development in individual countries, whether in Africa, in Asia and Latin America, around the developing world? Because not all of the programs are that successful, even at the World Bank there are programs that are not really contributing to country development.

So I'm focused very, very much on finding programs that work and then scaling them up. I'll give you an example: fertilizer is expensive to produce from the standpoint of money and also of the environment, and then it's poorly

used by a lot of countries. If you can improve the usage of fertilizer, you get a better crop yield and you can really help millions of people within a country. But finding a way to do that, it's very individual because the vested interests want you to use their fertilizer, which may be the wrong fertilizer for the farmer. So finding a way to connect the best interest of the farmer with their crops -that needs to be done country by country, very aggressively, which we're trying to do.

**Well, David, that I want to thank you for your leadership as President of the World Bank, but also thank you for your lifelong passion for making sure we create the most opportunities for those in the poorest countries with the greatest challenges. Thank you for joining us.**

Thank you, Michael.

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