

Tackling the COVID-19 Pandemic of Inequality to Build a Green, Inclusive, & Resilient Recovery

Introduction

Thank you, Baroness Shafik. It's a pleasure to be here with you, a distinguished alumna of the World Bank Group, and other distinguished World Bank alumni at LSE including Lord Stern, our former Chief Economist. And thanks to the London School of Economics for hosting me virtually. Today, I will set the stage ahead of the World Bank and IMF Spring Meetings. This provides an opportunity to engage partners on urgent matters, including work on climate change, debt, and inequality, working toward a green, resilient, and inclusive recovery.

Let me begin by acknowledging the importance of the United Kingdom within the World Bank Group. The UK is the largest contributor to IDA. It is the IBRD's fifth-largest shareholder, and I enjoy strong relationships with Prime Minister Johnson, Secretary of State Raab, Chancellor of the Exchequer Sunak, Bank of England Governor Bailey, President of COP26 Alok Sharma, and members of Parliament, civil society, the private sector, academia, and media. Our office in London works to promote consensus around the international development agenda and build a platform for collaboration on shared priorities.

More than a year into the COVID-19 pandemic, the scale of the tragedy is unprecedented: 127 million infections, 2.8 million deaths, more than 100 million people pushed into extreme poverty, the equivalent of 250 million jobs lost, and a quarter-billion people driven into acute hunger. Besides its immediate harm, COVID-19 is leaving lasting "scars:" closed schools and physical stunting of children; collapsed businesses and lost jobs; the depletion of savings and assets; and debt overhangs that will depress investment and squeeze out urgent social spending.

COVID-19 descended on the poor like wildfire. It was layered on several slow-burning crises—rising conflict and violence, refugee camps, stagnant median incomes, reckless lending and poorly chosen debt contracts, and damage caused by climate change. Because these crises struck at different speeds, the natural tendency everywhere was to tackle them separately—one-at-a-time, without sufficient attention to cross-connections that might have enabled a more effective response.

The world is developing a better line of sight forward. Our collective responses to poverty, climate change, and inequality will be the defining choices of our age. It is time to move urgently toward opportunities and solutions that achieve sustainable and broad-based economic growth without harming climate, degrading the environment, or leaving hundreds of millions of families in poverty. We're calling our approach to these interlinked crises GRID—Green, Resilient, Inclusive Development.

In previous addresses, I've detailed some of the World Bank Group's actions in helping countries respond to the COVID-19 pandemic, tackle what I've called the "pandemic of inequality," and work toward recovery. These include new COVID-related emergency health programs in 112 countries, vaccination operations that we expect will reach \$4 billion of commitments available in 50 countries by mid-year, and a quick doubling of our trade and working capital finance to help fill the banking vacuum that hit private sectors. Despite

COVID-related work-from-home restrictions, the World Bank had record 65% growth in program delivery in 2020—an even bigger surge than the height of the global financial crisis response in 2009—and this elevated level of delivery is continuing in 2021. It's important that every commitment has the greatest possible development impact and robust operational policies and review processes. And we're building a culture of contestability, where we encourage our highly diverse, multi-disciplinary and globally experienced staff to challenge each other's perspectives and help to enhance the quality of operations, throughout both preparation and implementation.

External input is vital too, including from development professionals and schools such as yours. Each of our Country Partnership Frameworks is developed with citizen participation. We're working to help countries build "Country Platforms" to engage with a wider groups of development actors as they develop the programs we support. External experts frequently participate in the development of our projects and programs. And in the past year, we've taken significant steps to enhance the accountability mechanisms for both the World Bank, and for IFC and MIGA. It's worth mentioning that IFC has committed \$330 billion in long term finance from 1960-2021, and over half of this has been delivered just in the last 10 years.

I encourage each of you to read World Bank country programs, project documents, and our knowledge sharing to think about what works—and possibly what doesn't. Good development outcomes in countries are at the heart of the Bank's mission and activities. The challenge extends to every academic discipline, and we need faster progress across the board—in water, nutrition, education, health, infrastructure, electricity access, governance, regulation, taxation, connectivity, inclusion, tolerance, and a host of other critical issues.

I'm going to focus today on three of the most pressing challenges – climate, debt, and inequality. But first allow me to give you some of the background and context.

The World Bank was created with the IMF in 1944 before World War II was over. The first goal for the Bank was post-war reconstruction and development, and the first arm of the World Bank Group was IBRD, the International Bank for Reconstruction and Development. Today, it's made up of 189 member countries, or shareholders, and operates somewhat like a non-profit bank, making floating and fixed rate loans to governments for development purposes, for example to support expenditures on clean water, climate, or education.

A second important arm of the Bank is IDA, the International Development Association, which started in 1960 explicitly to help the world's poorest countries. IDA aims to reduce poverty by providing grants and very long-term, zero-rate or near-zero-rate loans. In the fiscal year ending June 30, 2020, IDA made commitments for 305 projects totaling \$30 billion, of which 26% was provided on grant terms. Since its inception, IDA has provided about \$450 billion for investments in 114 countries. It is an effective way for donors to provide highly concessional financing to poorer nations. Due to the severity of the pandemic, IDA was able to accelerate its financing commitments dramatically in 2020, and I'm happy to say our shareholders have agreed to an early replenishment of IDA in order to continue current elevated levels of assistance to the poorest countries. We're working to conclude an

ambitious IDA20 replenishment by December, with the support of major contributors including the UK.

The WBG is the largest of the multilateral development banks, making over \$100 billion in grants and loans over the last year and raising nearly \$100 billion in global bond markets. In addition to IBRD and IDA, we have an important arm to support the private sector, IFC, and a guarantee agency to support investment in developing countries, MIGA.

During my tenure as President, we've made several important changes at the WBG to make our work as effective as possible. I'd like to mention the realignment that was completed last June. It increases management accountability and brings staff closer to clients and country programs. The realignment created a greater focus on country-level impact, supported by more operationally relevant and policy-focused knowledge programs and research. The organizational goal is to apply the Bank's global knowledge in client countries to achieve development outcomes that will be transformational and scalable. At the country-level, we are focusing more on countries afflicted by fragility, conflict, and violence. We have expanded our presence and our delivery in these FCV countries, which will be critical in our work to support refugees, reduce migration and violence, and help countries and regions stabilize. In the next few years, these steps will lead to a smaller footprint in Washington and a growing majority of our globally and locally recruited staff in developing countries.

Topic 1: Climate

Now let me turn to climate, one of my three focus topics today. I know climate is on all our minds, and perhaps particularly in the UK as the hosts of COP26 in Glasgow this November. The World Bank is actively supporting developing countries to achieve significant progress on the climate agenda through the lens that investing in climate offers development opportunities.

The World Bank Group is the biggest provider of climate finance to the developing world. My first year as President saw the biggest climate investments in our history—and investments in my second year are on track to be bigger still. We've set an ambitious new target of 35% for climate investments on average over the next five years—meaning that 35% of the financing within our investments as a whole is supporting developing country climate benefits. To give you a sense of the scale of the ambition, over the previous 5 years the World Bank Group climate finance was 26% of a significantly smaller amount of lending.

Our climate financing will be used toward “mitigation” efforts, to reduce Greenhouse Gas emissions and their impacts; and for “adaptation” efforts, to help countries prepare for negative climate effects. We've set a second important target in that regard. Of our total climate finance over the next five years, at least 50% on average will be for adaptation. I'd expect the share of adaptation to be particularly large in the IDA countries, which currently account for just 4% of global emissions, even as many of them suffer life-threatening climate change impacts.

In addition to these high targets for financing, we are working to achieve the most impact in terms of results—actual improvements in the trajectory of greenhouse gas emissions and lives and livelihoods saved through adaptation. To help this effort, we're moving to integrate

climate into all our country diagnostics and country strategies. Over the next year, we plan to complete up to 25 Country Climate and Development Reports. We'll aim to include in this first wave those developing countries with the largest carbon emissions and those with the greatest climate-vulnerabilities. We're also working to improve results-measurement to help make sure that our financing and strategies deliver impact.

A key part of our climate action is to support countries with their Nationally Determined Contributions, or NDCs, and long-term low carbon development plans. Countries have widely varying approaches, and we want to help them integrate climate and development as effectively as possible, including through fiscal policy and plans for sustainable growth. For some countries, carbon taxation will be an effective way to help guide capital and respond to the distributive impact of the response to climate change. Every year, G20 countries alone put tens of billions of dollars into subsidizing high carbon industries. If these billions could instead be used to fund a "just transition," just think how much faster we could progress toward a low-carbon, net-zero world.

Green growth will involve several key systemic transformations—for example, in energy, food systems, manufacturing, transportation and urban infrastructure. Each transformation is complicated, but these sectors account for 90% of GHG emissions, so they are the key to GHG reduction. One of the most challenging and important transformations is for countries to achieve a just transition from coal to affordable, reliable, and sustainable energy. The Bank can help countries with this, but it is complicated for a number of reasons including: economic dependence on coal, worker displacement as the transition occurs, the cost of new infrastructure and writing off many large, recent investments, and the importance of identifying ways to provide rapid growth in affordable, reliable and year-round base load to replace coal in the national grids of developing countries facing energy poverty. The world needs to make further technological breakthroughs before we can achieve a zero-carbon world.

Climate presents several big challenges and opportunities for economics, finance, and development. I'd like to mention several and encourage public discussion. First, how does the world help poorer countries make large investments in global public goods such as their reduction in coal usage? Should the costs be shared worldwide? If so, how? Second, how can national incentives be aligned and financed to help people transition to greener fuels and jobs, for example using carbon and gasoline taxes? Third, can an effective carbon credit market be created that allows greenhouse gas emissions for some while paying for reductions elsewhere—not just certificates of notional carbon reduction but actual measurable and sustainable decarbonization? Fourth, how can we properly measure the full life-cycle costs and benefits of various climate policy choices? Fifth, how can people in poorer countries best make the necessary but expensive adaptations to climate change and how can they best prepare for future pandemics and natural disasters – knowing that preparation is much better than after-the-fact disaster relief? And lastly, how can the necessary progress on global public goods be best integrated with development and the necessary reductions in poverty and increases in shared prosperity?

These are key questions and challenges at the core of combatting climate change. The Bank is addressing these challenges in our analytical work in low- and middle-income countries, and in our rapidly expanding climate operations.

Topic 2: Debt

I also want to comment on the debt situation facing poorer countries. At the outset, let me mention the progress that is occurring in Sudan, one of the most heavily indebted and poorest countries in Africa. Sudan already bears scars from decades of conflict. And its people face deep peril from climate change: food security depends on rainfall, especially in rural areas, which are home to 65% of population. Sudan has made strong economic progress, including the unification of its exchange rate. That is a key ingredient in a country's recipe toward stabilization, price stability, and productive and equitable resource allocation. In addition to these and other policy reforms, the Republic of Sudan has cleared its arrears to IDA, with help from the United States Government, enabling its full re-engagement with the World Bank Group after nearly three decades, and paving the way for the country to access nearly \$2 billion in IDA grants for poverty reduction and sustainable economic recovery.

By clearing its arrears and working with the IMF, Sudan has also completed a key step for receiving comprehensive external debt relief under the Heavily Indebted Poor Country (HIPC) Initiative. I've talked about Sudan at length because this is such a breakthrough at a time when Sudan needs the world's help to support its development progress. Countries like Sudan – crushed by a burden of over \$50 billion of external debt – can't tackle poverty and respond to the climate emergency until the world finds better ways to tackle unsustainable debt.

While some progress on debt is underway, many of the poorer countries are coping with record debt burdens. Even before the pandemic, the World Bank report on [*Global Waves of Debt*](#)—which studied the causes and consequences of the four waves of debt accumulation that the global economy has experienced over the past fifty years—found that half of all low-income countries were already in debt distress or at a high risk of it. The pandemic has only exacerbated the debt burden on people, many of whom would be poor even without having to pay the interest and principle on their governments' debt.

Every day, high debt-service payments are diverting scarce resources that could be used for urgent needs: for health, education, nutrition – and also climate action.

Since the outbreak of COVID, the World Bank has been the largest provider of net transfers to IDA and least-developed countries. From April to December 2020, our net transfers to these countries alone were close to \$17 billion, of which \$5.8 billion were on grant terms, and our new commitments were almost \$30 billion. But much more is needed.

The G20 Debt Service Suspension Initiative (DSSI)—which I and IMF Managing Director Kristalina Georgieva called for almost exactly one year ago—has helped. It has enabled 43 countries to postpone around \$5.7 billion in debt-service payments between May and December of last year, with further savings of up to \$7.3 billion expected between then and its current end-date of June.

Yet so far, the relief has been less than anticipated because not all creditors participated. Large non-Paris Club bilateral creditors have only partially participated in the DSSI and, most troubling of all, bondholders and other private creditors have continued to collect full repayments throughout the crisis.

The recent DSSI experience shows that commercial creditors won't comply with calls for "voluntary participation" in debt relief initiatives. As the implementation of the Common Framework commences, G20 countries need to instruct and create incentives for all their public bilateral creditors to participate in debt relief efforts, including national policy banks. They also need to forcefully encourage the private creditors under their jurisdiction to participate fully in sovereign debt relief efforts for low-income countries.

There are specific measures that should be considered by G7 countries to encourage more participation. To give just one example, sovereign immunity laws might be amended to include immunity from attachment by commercial creditors who refuse to participate in a Common Framework treatment in which their Government is participating.

I believe the DSSI should be extended one more time—by six months, through the end of 2021 as many countries are still battling COVID and facing a liquidity squeeze. But it's also time to encourage overindebted countries to adopt a debt strategy that allows them to achieve a moderate debt position. Debt sustainability needs to achieve more than just short-term solvency—the ability to not default, while providing only minimal social and economic priorities. History tells us that countries with no way out of overhanging burdens of debt don't grow and don't achieve lasting reductions in poverty. The G20 Common Framework for Debt Treatments—which goes beyond the DSSI—can make an important difference here.

Interest-rate reductions could play a big role in some of the debt restructurings to be done under the Common Framework. Some countries are paying interest rates of 6 or 7% on their official bilateral debt—and that simply cannot be justified in today's conditions. Over the past two decades, high-income advanced economies have benefited from an extraordinary decline in both short- and long-term interest rates—these have dropped to nearly zero from a range of 4 to 6%. Shouldn't the poorest countries also benefit from this "low for long" decline? Negotiating longer maturity loans could also help.

Through the Common Framework and the DSSI, we can identify unsustainable debt where it exists and help restructure it to moderate levels. For countries with high risk of debt distress, but still sustainable debt levels, we should consider reprofiling it—by extending maturities, for example. But all of this will require more participation than we have seen so far from the private sector, and some official bilateral creditors.

As in the climate area, the economic and finance challenges surrounding debt are huge and worthy of your attention and public discussion. First, what are the tradeoffs between assistance during liquidity crises for near-term debt payments versus longer-term support for sustainability that allows the people to make progress against poverty? For which countries is it appropriate to delay principle and interest payments but without reducing the stock of debt or the interest rates on it? For which countries should the total debt burden be reduced given 'low for long' outlook? Second, how can accountability be achieved given the difference in time horizons of those signing debt and investment contracts and those that bear the burden? For example, how can a system of contracts work when it is strongly in the interest of government officials to accept stringent contract terms for debt even though the long-term payments will be difficult? Third, how should the international financial system operate when there is no bankruptcy process for sovereign debt? How can the system resolve the glaring imbalance between creditors, who have the power and the responsibility to fully enforce

contracts; and debtor countries, who are often poorer and have less capacity to resolve disagreements?

Clearly, transparency is going to be a key part of the solution to these problems. The resistance to debt transparency is intense. Airtight nondisclosure agreements often protect contracts, leaving their terms – and sometimes even their existence – secret. Some contracts include almost the reverse of a collective action clause – a clause requiring debtors to exempt the creditor from any comparable treatment, where debt restructuring, for example with the Paris Club, is agreed. In debt, as in so many areas, sunlight is truly the best remedy. Given our long-track record in helping countries to address their debt problems, the Bank, together with the Fund, will continue to engage and support countries in their efforts to achieve a moderate debt position.

Topic 3: Inequality

I've discussed climate and debt in some detail and some of the economic challenges they present. I'd like to close with a discussion of inequality. As I said at the outset, our response to poverty, climate change, and inequality will be defining choices of our age. Inequality is most apparent in the direct effects of COVID, that hits informal workers and the vulnerable the most; and in the unequal access to vaccines for developing countries. It is also worsening due to the focus of fiscal and monetary stimulus on support for the formal sector and selected assets at the expense of debt owed by future generations. That problem is most applicable to advanced economies, but a similar effect hits the indebted people in the developing countries because sovereign debts and debt rollovers have their biggest positive impact on those signing the contracts – creditors and debtors – whereas the burden of the debt often falls on the poor.

I spoke at length about [*Reversing the Inequality Pandemic*](#) in October 2020 ahead of our Annual Meetings last year. I explained the work that we are doing to address the challenges posed by inequality, including our financial support through COVID-related emergency health programs and cash transfer programs.

These inequalities raise a third set of economic challenges I'd like to raise to your attention. First, what's the fastest, most effective path to better vaccine distribution? It's important for the vaccination process to start in more countries because vaccinations will take many months due to constraints in delivery capacity. The World Bank will have arranged vaccine financing for 50 developing countries by mid-year, but the supply issues are unresolved. Second, as I discussed in the climate section, how does the world finance the necessary investments in global public goods by poorer countries? Third, is there any pathway to developing countries for the massive fiscal stimulus and run-up in national debt being applied by the advanced economies? On the one hand, greater demand in the advanced economies will help create markets. But on the other hand, the loss of investments, skills and schooling during the pandemic has been catastrophic. The data is clear that poorer countries are not making the gains in living standards that were expected pre-crisis and are falling further behind. And, fourth, because the asset purchases by advanced economies are so large, long-term and selective, can the purchases be spread out more fairly to improve global capital allocation, benefit smaller businesses and new entrants, and allow borrowers needing short-term financing to have more access?

Conclusion

Let me conclude with this: COVID-19 has brought us to a crossroads. In our policy choices, as we look to the future, we can avoid errors of the past. To repair the damage, we will need integrated, long-run strategies that emphasize green, resilient, and inclusive development. This must be aligned with the need for policies that help countries increase literacy, reduce stunting and malnutrition, ensure clean water and energy access, and provide better health care. We must help countries improve their readiness for future pandemics. We need to help them accelerate the development and adoption of digital technologies. We need to work to improve and expand local supply chains and strengthen biodiversity and ecosystems.

There's an important role for both the public and the private sector in all of this. Governments can help to lay the foundations, ensuring financing of health and education and investing in core public goods and basic infrastructure. Governments can also do much to clear the way by enacting appropriate legislation and creating space for the private sector wherever possible. They should enact policy reforms to spur private investment—including FDI. They should help financial institutions resolve non-performing loans as quickly as possible. Private investment will be key in addressing climate change challenges, debt issues, and inequality – each of which require innovation, which the private sector can bring. The private sector also needs to accept corporate responsibility – whether that's applying robust environmental and social standards, paying taxes, or playing its part in debt resolution. Government and the private sector will need to cooperate in many sectors such as energy, considering joint public-private initiatives with fair burden sharing and good governance.

As I've emphasized during this address, cooperation between academics, development practitioners and policy makers also has a key role to play. The world faces overwhelming challenges. In some cases, the answers are clear, and the challenge is to communicate these clearly to policy makers. In other cases, academics – including those at LSE – can help to break new ground, in tackling the unanswered questions – and in doing so help to invent a greener, more resilient, and inclusive model of prosperity for the 21st century. The World Bank Group can be a key champion in helping to address climate change, debt, and inequality bringing to the table public and private sector solutions, as well as the unique combination of analytics, financial support, and convening power.

Today, we have a historic opportunity to change course—to improve development outcomes for countries, to overcome the rising dangers of climate change, systemic inequality, social instability, and conflict. In our efforts to rebuild, we can generate a recovery that ensures a broad and lasting rise in prosperity especially for the poorest and most marginalized. It's an opportunity we cannot afford to pass up.

Thank you.

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