



David Malpass
President

May 27, 2020

The Honorable Bernie Sanders
United States Senator
332 Dirksen Building
Washington, DC 20510

The Honorable Ilhan Omar
United States Representative
1517 Longworth HOB
Washington, DC 20515

Dear Senator Sanders, Representative Omar, and Members of Parliament,

Thank you for your letter on May 13 regarding ways that the World Bank Group (WBG) can help the world's poorest countries, specifically through debt relief. I firmly share your concern about the desperate situation of the world's poorest countries. The COVID-19 pandemic and the economic shutdown in advanced economies have disrupted billions of lives in the developing world and jeopardized decades of development progress.

For that reason, I was among the first to call for a debt moratorium for the International Development Association (IDA) countries, along with Kristalina Georgieva, the Managing Director of the IMF. We strongly welcomed the prompt support of G20 countries for an official bilateral debt service suspension, which included G20 endorsement for comparable treatment by commercial creditors. I have been vocal in stating that all official bilateral creditors should participate; that commercial creditors should also participate on comparable terms and not exploit the debt relief of others; and that much more is needed, including longer term debt service relief and, in many cases, permanent and significant debt reduction.

The WBG is taking fast, broad action. We have emergency health operations approved and up and running in over 100 developing countries. Building on this, we are undertaking new support programs with the goals of helping poor countries overcome the pandemic and reclaim focus on growth and sustainable development. I championed this effort, which will provide additional financial resources for the world's poorest countries during this difficult time.

As you state in your letter, these steps won't be enough. In addition to facing a severe health crisis, the world faces a deep global recession and unprecedented societal impacts. We estimate that the pandemic and economic shutdown in advanced economies could push as many as 60 million people into extreme poverty in 2020, increasing the number of the world's population living on less than \$1.90 per day toward 700 million people and causing the global poverty rate to rise for the first time since 1998, when the Asian Financial Crisis hit. The pandemic has forced school closures in 191 countries, affecting 1.5 billion students. Reduced incomes for migrant workers will lower remittance flows back to home countries, while migrant labor shortages in the agriculture sector of advanced economies pose food supply risks. The wide spillover from the pandemic and the shutdown in advanced economies hits the poor and

vulnerable – women, children, elderly, and healthcare workers – hardest, making the inequality problem even worse. Rather than bailing out elite banks and corporations, we need to get cash directly into the hands of poor people.

The WBG is working to mitigate the impact of COVID-19 by helping countries boost health spending, strengthen social safety nets, maintain both public services and a private sector that creates jobs, and counter financial disruptions. The WBG could deploy as much as \$160 billion by June 2021, including the frontloading of \$51 billion worth of grants and highly concessional resources from IDA's 19th replenishment (IDA19), which concluded in December 2019. The other multilateral development banks (MDBs) have committed to adding another \$80 billion to the MDB response, bring the total to \$240 billion.

IDA, our fund for the world's poorest countries, aims to reduce poverty by providing highly concessional loans and grants for programs that boost economic growth, reduce inequalities, and improve people's living conditions. IDA already provides payment relief by automatically adjusting the terms of its assistance to grant terms when countries face difficulties in servicing their external debt, including payment difficulties due to a major crisis. Half of IDA countries already receive at least half – if not all – of their IDA resources on grant terms, which carry no repayments at all.

The massive scale and depth of the COVID-19 pandemic has already rendered the record-breaking \$82 billion IDA19 replenishment – including \$53 billion for Africa – too small to fully support crisis-hit countries facing much steeper financing needs and fewer viable options for concessional financing. As you rightly noted, overcoming the COVID-19 pandemic crisis can only happen when the pandemic ends for everyone. International cooperation will be essential to further support the poorest countries to save lives, preserve hard-won development gains, invest in the future and protect both local and global public health. If the crisis deepens and countries find they can effectively use the existing IDA resources and the benefits of the related co-financing and debt moratorium, it may make sense for donors and the World Bank to explore a supplemental IDA replenishment.

Alongside debt relief and scaled up financing for the poorest, I have also led the charge in calling for greater transparency of government debt and investment. The World Bank and other international financial institutions (IFIs) are committed to working with countries on their transparency to support greater investment and growth. This is vital to ensuring accountability. Transparency is key to developing reliable estimates of debt sustainability and will bring in new high-quality investment. As discussed during the week of the World Bank's Spring Meetings (including meetings of the G7, G20, IMFC, and Development Committee), it's important that transparency extend to all government financial commitments, including debt-like instruments. To take one example, for some countries, the commitments to current and former government employees are one of the largest financial commitments but are not disclosed. Full transparency of the required payment stream (including the projected future outlays of public pension funds as is done with the U.S. Social Security system) is a critical step in assessing debt sustainability.

I'd like to raise an area where our perspectives may differ. In your letter, you requested "extensive debt forgiveness for IDA countries by all major IFIs." I do not believe that the wholesale cancellation of IFI claims on IDA countries would be the right action at this time. We've explored this approach and concluded the World Bank and MDBs can best support the

world's poorest countries by maximizing the net flow of new resources on grant or highly concessional terms. According to analysis undertaken jointly by the Chief Risk Officers of 10 MDBs, led by the World Bank, even a debt service suspension would have a much larger negative impact than the short-term gain from the suspension of payments. Participating in payment suspension would come at a time when IDA needs to be able to mobilize as many resources as possible and to do so at the lowest possible cost. Dependable access to global capital markets is vital and would be undercut by the proposed moratorium on repayments. Furthermore, the potential negative impact on the assessment of MDB credit risk would not be contained to IDA but might affect the whole MDB asset class and could translate into an increase in funding cost and pricing.

Many Civil Society Organizations – from Save the Children to ONE Campaign – have argued that any debt relief provided by the World Bank would need to be fully offset by new cash contributions from donor countries. I agree with them. Anything that weakens IDA would harm the poor, not help them. I'd be pleased to discuss this matter further with you.

In my role as president of the World Bank Group, I'm committed to seeking much better outcomes for people in developing countries, especially the poor. You can count on my leadership – and I'll welcome your support and continued engagement – as we continue to assess how we can best help and protect the poorest and most vulnerable populations in the world's poorest countries.

Sincerely,

A handwritten signature in black ink that reads "David Malpass". The signature is written in a cursive, flowing style with a large initial "D".

David Malpass