

Remarks by World Bank Group President David Malpass on Bretton Woods 75th Anniversary

July 16, 2019

World Bank Group President David Malpass

Paris, France

As Prepared for Delivery

We're here today to commemorate the 75th anniversary of the 1944 conference in Bretton Woods, New Hampshire. As you all know, the conference led to the creation of the International Bank for Reconstruction and Development, now the World Bank, of which I'm president.

I'd like to mention some key points in the World Bank's financial history and discuss some of the development challenges. Many more details are in my essay in the Bretton Woods 75 compendium.

When the Bretton Woods conference opened on the evening of July 1, 1944, battles raged across Europe and the Pacific. U.S. Treasury Secretary Henry Morgenthau, the chair of the conference, urged the delegates from 44 countries to create "a dynamic world economy, in which the people of every nation will be able to realize their potentialities in peace... to raise their own standards of living and enjoy, increasingly, the fruits of material progress."

The World Bank started operations in 1947, collecting capital subscriptions from shareholding countries and approving its first loan. That loan was a straightforward operation based on a short letter of application from France outlining France's reconstruction program. The World Bank issued its first bond in July 1947, and made a \$250 million loan to France for equipment and raw material purchases. That's, in today's dollars, \$2.85 billion, still one of the largest loans in the Bank's history.

Reconstruction remained one of the Bank's key activities. I was in Osaka, Japan for the G20 meetings in June and rode the bullet train to Tokyo. The World Bank helped finance it in the early 1960s in time for the 1964 Tokyo Olympics. Soon afterward, Japan was able to graduate from World Bank financing and quickly became a major

donor of the World Bank. We welcome that economic success and our partnership with Japan and other donors through the decades.

Another early activity of the Bank was development. The first paragraph of the Articles of Agreement states that one of the purposes of the Bank is “the encouragement of the development of productive facilities and resources in less-developed countries.” The Bank approved two sovereign loans to Chile in 1948 for equipment and agricultural machinery.

Still in the 1940s, the Bank recognized in its third annual report that part of its value was in analysis, “to help its members to analyze their development problems... mapping out the broad lines along which their development may be advanced most soundly and rapidly.”

Many of these lines of development need to come from the private sector. In 1956, the International Finance Corporation (IFC) opened for business with the difficult mission of investing only in private sector projects “where sufficient private sector capital is not available on reasonable terms.”

In 1960, the Bank’s shareholders created IDA, the International Development Association, to make grants and low-interest rate loans to the poorest countries. Since then, IDA has provided nearly \$400 billion in 113 countries, with donors replenishing its fund every three years. There’s been some success in terms of poverty reduction. Helped by the World Bank Group’s development assistance and funding, the number of people living in extreme poverty has declined by more than 1.1 billion. The poverty rate in 2018 was estimated at 8.6 percent. That’s thought to be the lowest global average rate in history, though it’s still much too high.

In a world that has gone through a great deal of turbulence since World War II, IDA’s three-year cycle of replenishing funds for the poorest countries has shown unusual stability and a clear sense of purpose. By the end of 2019 we hope to conclude discussions on IDA19, the 19th replenishment, with France, our host today, playing a strong leadership role in the replenishment process and in encouraging the development community’s focus on the Sahel.

The needs facing IDA and the world are great. More than 700 million people still live in extreme poverty. In sub-Saharan Africa, the numbers are growing, not declining, and

15 million new jobs would be needed every year to keep up with population growth there. Current economic growth rates will not be sufficient to achieve the ambitious goals that we all have for sustainable development.

Just as the World Bank and development policy evolved during the 75 years since the Bretton Woods conference, so too did development finance. The Bank pioneered the currency swap in 1981, swapping U.S. dollars for Swiss Francs and Deutschmarks with IBM. The original World Bank sovereign loan documents became much longer, with clauses regarding negative pledges and pari passus. Oil exporters borrowed heavily in the 1970s using commercial bank loans that were syndicated to hundreds of participants, creating very difficult debt restructurings in the 1980s. I worked for Treasury Secretary James Baker on the 1980s debt problems and then on the bond securitization process for Secretary Brady when I was the head of the Developing Nations and MDB part of Treasury in the Reagan Administration.

With Secretary Brady, I attended the World Bank and IMF annual meetings in Berlin in the fall of 1988 and noted the vital importance of the World Bank and other International Financial Institutions in the development of Eastern Europe after the fall of the Berlin Wall and the Soviet Union.

In 1989, the World Bank issued the first globally traded and settled bond. It eliminated pricing disparities between the United States and Europe, reducing the Bank's borrowing costs. The World Bank created its first electronic bond in 2000. It was the first bond offered globally on the Internet, allowing retail investors to invest in the Bank's development activities for the first time. Eight years later, the Bank issued the world's first Green Bond. For the first time, investors could directly support climate projects without incurring the project risk, helping change the way investors decide how to allocate their investments for a balance of risk, reward, and developmental impact. In 2018, the Bank and shareholders developed a capital increase package for both the IBRD and IFC. The IBRD portion encourages graduation and a differential pricing structure that will help shift resources toward borrowers that need it most. It develops a sustainable lending limit that can help the Bank's effectiveness. The IFC capital increase builds on the experience that a country's private sector environment and its

development plan, core early ideas in the Articles of Agreement of the World Bank, are critical to meeting the World Bank's mission of ending poverty and shared prosperity. Thus, the World Bank Group of 2019 has vastly more tools and approaches than in its early days. I've mentioned IBRD, IDA and IFC. There's also ICSID, the International Centre for Settlement of Investment Disputes, founded in 1966 and MIGA, the Multilateral Investment Guarantee Agency, founded in 1988 when I was at the U.S. Treasury Department the first time.

The World Bank Group also uses a variety of analytical tools and provides technical and advisory services that have helped countries make progress. One example is the annual Doing Business report, which rates countries on their business environment including contract law, start-up regulation, and taxation. Another example is the Bank's Women, Business and the Law report, a comprehensive global analysis of laws and regulations that affect women's ability to fully participate in the economy. We are now using the Human Capital Index, which was launched last year, to help quantify the importance of full health, successful learning, and job skills.

I'd like to turn now to a short look ahead. The focus of our work at the World Bank Group is based on strong country programs to improve living conditions — to drive growth, raise median incomes, create jobs, fully incorporate women and young people into economies, address environmental and climate challenges, and support a stronger, more stable economy for everyone.

Today, the pace of innovation is accelerating, and millions continue to escape poverty. But many parts of the world are more fragile than in recent decades, with more of the world's poor living in areas suffering from conflict, violence, and the effects of climate change. Strong leadership is needed to focus on liberty, safety, and creating an environment that fosters better opportunities — we urgently need countries to break through their obstacles in order to allow the lives of the poorest and most vulnerable to improve.

Secretary Morgenthau closed the consequential Bretton Woods conference in the mountains of New Hampshire on July 22, 1944, 75 years ago. The participants had actively debated, shaped, and agreed on a set of ideas and ideals that built a strong foundation for the World Bank Group and our many ongoing developmental needs.

