

CONVERSATIONS WITH MIKE MILKEN



Jingdong Hua

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Group

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Mike Milken: Jingdong, thank you for joining us today.

Jingdong Hua: Mike, it's a pleasure to see you doing well and all the great work you are doing, especially your portal on the COVID-19 virus on Africa, which is very much needed.

I know that is near and dear to your heart. We've built this friendship over the years trying to figure out how we can create financial experts in emerging countries around the world. I'm so honored we were able to launch the IFC-Milken Institute Capital Markets Scholars program. I had a chance to visit with them from more than 40 countries in South Africa in February.

Before we go any farther, you've left the IFC and joined the parent company, the

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This interview has been lightly edited for clarity and readability.

World Bank. The World Bank's mission is to reduce poverty by providing loans and grants to the poorest countries for the purpose of pursuing capital projects. You have 189 members that are countries, and on an annual basis you process and transact \$7 trillion. This is a huge responsibility without all the other issues that have arisen this year. How have you responded to it? How does it fit in within the World Bank's mission?

Let me just say the IFC-Milken Institute program would not have been possible without your generous support, and together, I think we are nurturing future talents for the world in building sustainable financial systems so countries can stand on their own. So

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great to have you as a champion and a big supporter on that.

I'm very proud to be a member of the World Bank, because it is in times of crisis I think we have unique contribution, especially to the most vulnerable countries. Our long-term goal is poverty eradication. The other is what we call Build Shared Prosperity, because

it's not good enough to lift people out of poverty because they are very vulnerable to fall back, given any crisis, including the current one. We need to make sure the bottom 40% of the world's population are lifted far away from poverty so they share the fruits of the moment. Of course, with COVID-19 we are facing an unprecedented crisis. The World Bank just published its latest economic forecast. It's very uncertain depending on how we can contain and mitigate the pandemic, but the best-case scenario is that the global economy could shrink by 5.2% in 2020 before rebounding. Now in the downside scenario of a prolonged shutdown, world output could contract by almost 8%. Think about it. That's about the combined GDP of France, Italy and Spain. But, what's more worrying is for us is that the recession is hitting developing countries really hard. We are projecting negative growth for over 150 countries in 2020. That really is unprecedented. Nearly 80% of the world's informal economy workers – 1.6 billion people – have lost their jobs due to the lockdown, of which of our 740 million are women in informal employment. So these are really unprecedented crisis.

I would say in a very strategic sense, while we do a great job when market is going well, when we do a pro-cyclical job, that is when private-sector investors themselves are interested in going into developing country, we play a catalytic role. It is in this crisis, when floated poor countries have stopped, we're stepping up. So just to share very quickly: The World Bank in early March, very quickly through our president David Malpass working with the board, has tasked us in the next 15 months to deploy \$160

billion of assistance to fight the health, social, economic fallout of COVID-19. Let me give you a couple of very concrete examples.

Ethiopia is a big country with a hundred million people in Africa. They are doing a great job trying to build their economy, lifting their own people. But of course this hitting them really, really hard. We are giving Ethiopia about \$80 million to support the purchase of diagnostic equipment and an education campaign. Another country, which is exactly the same size in population, Bangladesh, we are giving \$100 million, including test kits and laboratories to scale up so that they can be well prepared. In Haiti, very much a vulnerable country, we are providing \$20 million to provide testing equipment and PPE equipment.

Overall, Mike, we have now approved 150 projects in over a hundred countries. This is truly unprecedented in terms of speed, because nobody else is investing in these countries, right? Regular revenue a country relies on, whether it's tourism, commodity revenue, or even remittances – you know, every year remittance to developing countries is over half-a-trillion dollars – our estimate is that it will drop by over 20%. That's \$100 billion less going to the country just when they need it. That's why the World Bank Group is really stepping up.

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We were in South Africa at our medical conference in February, we were quite concerned about the infrastructure in emerging countries around the world – Latin America, the Caribbean, Central America, sub-Saharan Africa, parts of Asia – if this virus started to spread. I think the World Bank has really stepped in here to provide a source of capital for these countries. And the World Bank has a good record of being repaid. Many years ago, I hired a number of people from the World Bank to come to work with me in the 1970s, particularly in the 1980s, who had a really strong understanding of which governments had long-term payoffs and which didn't.

Many of these countries have serious issues, as do the developing nations, with hurricanes, tornadoes and with pandemics we've been faced with over the past couple of decades. How do you protect yourself against medical risks, particularly from pandemics and viruses? Let's start with this pandemic and then we'll go to natural disasters. What have you done so people could buy insurance or protect themselves with risk?

We are a AAA-rated bond issuer. When our president wanted us to scale up, the first thing we do is we turn to capital market for quick funding. Just to give you a demonstration, since March when we launched this COVID-19 response, the World Bank Treasury has issued about \$23 billion of bonds for the IBRD [International Bank for Reconstruction and Development] with our largest-ever single bond, a five-year \$8

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billion U.S. bond issued with almost 200 investors. For that, I have to thank the global capital market and the trust in the World Bank.

When you think about it, Mike, I don't think a lot of people appreciate that the World Bank has 189 shareholders. It's a banking entity. They have given us over the past 70-odd years, \$17 billion of what we call paid-in-capital. We have some standby capital where it's the ultimate guarantees of bond investor, but we never want to touch them.

Leveraging that \$17 billion paid-in-capital, the World Bank treasury by the

end of this calendar year would have issued over \$1 trillion of bonds, of which about 80%, \$800 billion, has gone to direct investment in supporting health care reform, building infrastructure, renewable energy, and addressing the global goods. Meanwhile, we have grown – although we are not profit oriented, we make a small positive margin that's required for a AAA entity.

These triple AAAs are an endangered species. The United States is no longer AAA, so the World Bank actually has a higher rating than the United States.

We primarily issue in dollars. We issue at a Treasury-plus; that's because it's a sovereign currency. So just to come back to finish this story, the shareholders paid-in-capital has been put to good use, leveraged many times while we also build up retained earnings. That \$17 billion has grown to be \$45 billion. Actually, it would have been more if we had not contributed part of the retained earnings to the IDA [International Development Association] window so that the poorest countries can also benefit. This banking model works because leveraging capital from a small capital base with a gearing ratio, you can tap the vast savings of the global savings.

And you mentioned something very important, that is natural catastrophes. With climate change, we have seen increased vulnerability. For example, people look at Asia as a center of global growth. But Asia also receives a large portion of natural disasters. I was in Singapore before the COVID virus when the World Bank issued the first Cat Bond [Catastrophic Bond] for the Philippines government. The idea is that you can't offload the cost of rebuilding after a natural disaster to financial markets. Financial markets like it because it is an uncorrelated asset class with the rest of fixed income ... as long as we can use parametric, rigorous data analysis, and fortunately for natural disasters, we have collected about a hundred years of solid data. So, there is very robust underpinning of the structure. We also have issued a Cat Bond for Mexico and for the Pacific Alliance, which is Mexico, Columbia, Peru, and Chile.

We believe this is important asset class; think about it: when a natural disaster hits, even if a government would have traditional insurance, it probably takes five years before the insurance can do the assessment and have the money dispersed. But a parametric Cat Bond will disperse within an extremely short period of time, and you don't have to overburden your national budget, which I'm sure at a time of a natural disaster is already overburdened. So I think this is a global innovation. We are working with countries and would like to do more of this.

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When it comes to pandemic, we did issue a pandemic bond three years ago. I'm very happy to share that recently that

bond was triggered because the coronavirus was one of the many pathogens that was included in the pandemic bond. Almost \$200 million was provided through this bond, and that actually goes to the most vulnerable 60-plus countries. However, we also learned lessons because this was the first-ever pandemic bond. Between us and global insurance companies, we hired the best medical professionals. We try to use data through Ebola. But this is a new field, so we certainly learned a lot of lessons from the first pandemic bond. As a treasurer of the World Bank, I do believe financial innovation will introduce new asset classes that ultimately will benefit client countries.

Jingdong, you and I were in the room when the previous president of the World Bank, Jim Kim, told the audience at the Milken Institute Global Conference that he really never appreciated the role of capital markets and access to capital until he got to become head of the World Bank. He got to see the potential in the leverage of what occurred by providing financial capital, not just health and other things, to these parts

of the world. I think people underestimate during this COVID-19 time what an important role the financial markets have played to provide not only billions in capital for the World Bank, but for thousands of companies all over the world. The issuance of debt is actually at record levels and at the lowest interest rates ever, so increasingly more companies are going public today. And you've been able to tap that market. But you've brought your wisdom and creativity to other markets.

Mike, you are one of the foremost innovators in financial markets. I think as the World Bank, we can also say that we have done our share. For example, people don't know this, the World Bnk and IBM with the help of Salomon Brothers, entered the first cross-currency swap ever in 1981, between the Deutsche Mark and the U.S. dollar. Then over time, we actually invented the green bond. Two years ago, we issued the world's first blockchain bond. We do this innovation not for the sake of innovation, but to find new solutions.

Let's talk about the employees of the World Bank. They are throughout the world, but you're headquartered in Washington DC. What has happened during COVID-19? How have you operated over the last three months?

Mike, just like you and the financial world, we have all gone virtual. Actually the start of the pandemic in the United States coincided with the upcoming spring meeting of the World Bank. This is the IMF World Bank Group annual meeting where all finance

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ministers and central bank governors would come to D.C. to discuss very urgent development issues. That also has gone virtual. The technology really helped us go virtual through video conference software. Our global communication capability is a very robust bandwidth so that we can operate both on the operational side, but it's much more of a relief that the treasury of the World Bank

as a financial architecture is working very well. Otherwise I can't imagine how would we be able to deploy the actual financing to the countries. It is very much unique.

I'm very proud to be part of that effort, but also have to thank all of the investors who responded really well to the bonds we have issued since the onset. In a normal year, we would issue about \$50 billion, \$60 billion. I think year to date, we're already issued about \$70 billion, \$72 billion. So we are really scaling up our bond issuance program. This is a very robust technology infrastructure, and I wish sub-Saharan Africa would have similar

infrastructure because that would also enable them to better cope. Unfortunately, while United States and Europe are facing their problems, at least their central banks and governments have the tool kits to do the things they need to do. This is where we come in for all the countries that don't have those basic infrastructures.

Let's turn our attention to you and your family. You've probably had more meals with your children and your wife than any World Bank senior employee would have ever had since you're usually all over the world. How is your own family adjusting?

Thanks for asking. I have to say that looking at my two children, it's not only the epidemic, it's the social affairs that are providing challenges where it dominates our dinner conversation. I'm very, very happy to see the next generation care about social justice. Two years ago, my daughter actually spent a 10-week internship with a scholarship from her school in Rwanda, where she saw firsthand what a development gap is, but also what is possible. So she is certainly very much a champion for Rwanda.

I think it's a very unique experience for me, but I don't think it is unique across America, across many, many families because each family is having this conversation. I certainly hope this is a unique moment where we will have profound conversations, not only about our own lessons or our own challenges, but think about the future of humanity. I have traveled to over a hundred countries, and each country faces unique challenges. There are so many children and women that don't receive enough nutrition. There are a lot of urgent global issues that we deal with, but this lockdown sort of focuses our attention to give us the opportunity to have long conversations that otherwise would not have happened –the silver lining in a global challenge we face. I enjoyed every moment I have with my children.

Jingdong, I have enjoyed our conversations over the years. I think both of us have been dedicated to the issue that everyone on this planet should have a chance at the American dream, an opportunity to succeed based on their ability. I look forward to our continuing relationship; good health to you and your family.

Thank you. I wish you family and your Milken Institute colleagues are safe and healthy, and hopefully I'll see you very soon.