CHAPTER 2

First Bond
The World Bank made extensive preparations to market its inaugural bond throughout the spring of 1947.

To support the sales campaign, it set up a small office in the Federal Reserve building in New York, NY, where staff were supplemented by volunteers from several of the leading banks and capital markets dealers to focus on marketing the World Bank to prospective investors on Wall Street and around the United States. Several groups of investors and brokers were invited to visit the World Bank in Washington, D.C. to talk with senior staff.

The bond offering was lead managed by Morgan Stanley—marking the start of its long-standing relationship with the World Bank. Both institutions were delighted by their newly forged relationship. For the World Bank, the link to Morgan Stanley meant access to a deep reservoir of institutional knowledge and expertise in the capital markets and myriad connections in international finance. For Morgan Stanley, the World Bank was a prestigious new client. The firm took great pride in being able to describe itself as the banker to the World Bank. In selling the World Bank to initially skeptical U.S. investors, Morgan Stanley—together with First Boston (a predecessor of Credit Suisse), which was chosen as part of the team to market the bond—organized syndicates of underwriters and put on road shows in 18 cities to attract interest from investors and securities dealers.

“Morgan Stanley was established in 1935, and when the World Bank was created a decade later, our firm had the privilege of leading the World Bank’s inaugural 1947 bond issuance that this anniversary celebrates. We are proud to have been part of the launch of the World Bank’s critical mission. More than 70 years since first raising capital, the World Bank remains a powerful force for global prosperity through its innovative financing programs, technical assistance and project support.”

James Gorman, Chairman and CEO, Morgan Stanley
As it marketed its first issue, the World Bank had to deal with U.S. federal and state regulations prescribing the eligible investments for banks, savings and loans, and other institutional investors that were extremely restrictive. These restrictions stemmed from concerns about the credit worthiness of foreign securities due to the many defaults on such securities during the interwar years.

One major milestone in the marketing of the first issue was reached when the World Bank received an opinion from the U.S. Attorney General that the United States was fully liable for its share of callable capital irrespective of failures to pay by other governments. This opinion was instrumental in convincing investors of the financial integrity and strength of the World Bank's capital structure, combining paid-in and callable capital. "Most states had restrictions that permitted the various investments in the U.S.-issued securities and usually Canadian government securities and municipal securities to some degree, but no other foreign obligations were permitted," recalled Robert Cavanaugh, who had joined the World Bank in 1947 and was Treasurer from 1959 to 1968. "It is hard now to comprehend how difficult it was initially to make investors, regulatory bodies and legislatures understand how essentially sound an institution we are," wrote E. F. Dunstan, the World Bank's Director of Marketing at the time.

McCloy oversaw an intensive campaign between March and July of 1947 to expand the list of eligible investments under U.S. federal and state laws to include World Bank bonds. While this campaign succeeded in the end to ensure a sufficient market for the World Bank’s first issue in July 1947, it would need to continue for several more years to ensure a...
A Culture of Excellence

World Bank employees often describe their work as that of international civil servants. For those who join the World Bank Treasury, one of the major attractions of their job is to combine economic and financial expertise with the overall mission of the World Bank to link capital markets with promoting development across the world.

Over the past 70 years, guided by a distinguished line of World Bank Treasurers and credited with developing a string of firsts in innovative bond issues, the World Bank Treasury has forged a unique culture that still binds current and former colleagues. “Because we didn’t have that whole bonus culture that permeated Wall Street, there was fantastic collegiality,” recalled Liaquat Ahamed, who worked for the World Bank Treasury from 1984 to 1988 and went on to write the Pulitzer Prize-winning book The Lords of Finance.

“The World Bank Treasury is an amazing institution and they have a huge brand that a lot of young people are attracted to,” said Sanjiv Kumar, a Senior Manager of Investment at the World Bank Treasury. “And a lot of young people who get out of undergrad or maybe more relevant graduate school, they are really motivated to do something good for the world. The World Bank is something they have always looked up to.”

We knew the World Bank was at the forefront of finance and it was very creative,” added Dr. Yves Balcer, who was a Senior Manager of Investment at the World Bank Treasury.

Current and former staff of the World Bank Treasury still get together regularly to reminisce and talk about their experiences—evidence of the close lifelong bond many of them formed while working there. “Everyone I worked with at the World Bank Treasury is still a friend,” said Ahamed.

“The World Bank staff represents the ‘gold standard’ of capital markets professionals. Today, the flexibility of the World Bank’s funding program has allowed the ability to structure and distribute bonds to meet the demands of institutional and retail investors in multiple currencies, while delivering a security that carries a triple-A credit rating.”

Gerald A. Rizzieri, President and Chief Executive Officer, Mizuho Securities USA
That it was not initially given the highest triple-A ratings can be explained by a number of factors: it was an entirely new type of institution with an untested business model; it suffered from negative perceptions in the United States about foreign sovereign creditworthiness due to the multiple sovereign defaults that occurred both before and during World War II; and for the first several years of its existence, only the United States portion of the World Bank's capital was freely deployable.

Just under a year after its inaugural issue, the World Bank accelerated its marketing efforts and was placed with the Bank for International Settlements, headquartered in Basel, Switzerland. The Swiss Franc proceeds were then on-lent to the United States government. The World Bank's capital was freely deployable.

During World War II; and for the first several years of its existence, only the United States portion of the World Bank's capital was freely deployable. Additional evidence of strong U.S. government support for the new institution was that the World Bank's outstanding U.S. dollar bonds were listed on the Mexican Stock Exchange in 1950, and that the Central Bank of Mexico had authorized foreign and domestic banks in the country to use part of their foreign exchange reserves to invest in the World Bank's bonds.

McCloy was appointed U.S. High Commissioner for Germany in September 1949 and was succeeded as World Bank President by Eugene R. Black, a former Chase National Bank executive who had joined the World Bank in 1947 as Executive Director. Black, who served as President in 1949, for 13 of the first 25 years of his World Bank's life, injected fresh energy and was a master marketer of bonds. "I think he has a broader grasp of the world bond markets and the world capital markets than anybody I've ever seen," said Cavanaugh, who worked with Black for several years as Treasurer.

Black quickly realized that to raise sufficient funds to expand its lending operations, the World Bank had to act more broadly than simply tapping the American capital market and would have to obtain currencies other than dollars from its members. He started by convincing a number of member countries to release part of their paid-in capital in the World Bank and to open their markets for World Bank bonds. These additional funds in several currencies could then be used to pursue the World Bank's global development goals.

In May 1951, the World Bank announced its first non-U.S. dollar public offering issue, a 5 million-pound sterling bond. It was sold by a syndicate composed of Baring (a predecessor of ING), Hambros (one of the predecessors of Société Générale), Lazard, Morgan Grenfell (one of the predecessors of Deutsche Bank), Rothschilds and Schroders (which later became part of Citibank). The World Bank returned to the U.K. market again in 1954 and 1960, each time with the same syndicate.

"IBRD has built up an unparalleled track record of achievement in the capital markets — all in support of a universally critical mission of eradicating poverty and inequality through sustainable economic development. RBC is honored and proud to have enjoyed such a long relationship spanning much of IBRD’s history as evidenced by early landmarks such as the first Canadian dollar bond issue in 1952."

Doug McGregor, Chairman and CEO, RBC Capital Markets

Henry Riley, who took over as Treasurer from Crena de Jongh in 1953, set out the World Bank’s priorities in a speech on November 12 that year: “The World Bank’s purpose is to make loans and we do that with three purposes in mind: to increase the production of useful goods; to promote a growing and better-balanced world trade and to raise standards of living in our member countries.” By that time, seven years since it was established, the World Bank had already made loans totaling more than $1.7 billion in 31 different countries, focusing on infrastructure areas such as power generation, water supply, and agriculture.
In January 1957, the World Bank introduced another innovation when it borrowed funds for the first time from a central bank through a direct, private placement. A Swiss franc-denominated issue (for the equivalent of $47 million) was placed directly with the Swiss National Bank, Switzerland’s central bank. The same year West Germany’s Bundesbank purchased three direct placements in dollars and Deutsche marks for a total of approximately $145 million. By 1960, the World Bank had executed more than 10 direct placements with the Bundesbank, as West Germany rose quickly from the destruction of the war to become Europe’s economic powerhouse.

While the World Bank’s inaugural issue in 1947 had been sold entirely to U.S. investors, by 1951 the share of its bonds held by non-U.S. investors was 18 percent, by 1954 it had grown to 36 percent, and in 1957 it reached 47 percent. The trend continued: ten separate issues, including private placements and public offerings, were launched in Switzerland by the end of 1957, raising a total of $40 million Swiss francs.

These early forays into global bond markets heralded, and helped create, a new era of diversity of funding in the financial markets. “I think those early issues by the World Bank are enormously important not just in the history of the World Bank but really in the history of the global capital markets themselves,” said Gary Perlin, who was Treasurer in 1996.

Securing Triple-A Ratings and the Increase in its International Investor Base

Through the 1950s, the World Bank believed it merited higher ratings and urged the credit rating agencies—Standard & Poor’s, Moody’s and Fitch—to raise the World Bank’s ratings. In 1958, the agencies warned the World Bank that its ratings may be in jeopardy since the amount of its outstanding bonds was approaching the U.S. share of the callable capital. Largely in response to this concern, on September 15, 1959, the Board of Governors approved a capital increase that doubled the callable capital even though it did not include any additional paid-in capital. Later in September, each of the big three credit rating agencies upgraded the World Bank to triple-A, a move that rewarded years of work by World Bank management.

In the early 1960s, the U.S. economy’s worsening balance of payments made it increasingly difficult for the World Bank to obtain U.S. Treasury consent for dollar borrowings. As a result, between 1962 and 1965, the World Bank issued no long-dated public offerings in the U.S. market. In any case, George D. Woods, a former Chair of the Board of The First Boston Corporation who took over as World Bank President in 1963, believed that the World Bank was carrying excessive liquidity at the beginning of its term and curtailed borrowing for several years. In 1963, redemptions exceeded new issuances, and in 1964 the World Bank issued no debt at all. According to the World Bank’s 1963 annual report: “The World Bank was in a liquid position and had no need to raise new money.”

The growing oil wealth in the Gulf region created a new source of funds, and in 1968, the World Bank launched its first issue in the Middle East—a $15 million, 26-year direct placement to the Saudi Arabian Monetary Authority. This was followed by the first Middle Eastern public offering, a 15 million Kuwaiti dinar issue for approximately $42 million equivalent. Although initially intended to be a private placement to the Kuwait Fund for Arab Economic Development, the director of the Kuwait Fund requested that it be done as a public offering in the interest of developing the Kuwaiti capital market.

“While pursuing its mission to eradicate poverty, the World Bank Treasury’s contribution to development of international capital markets has been unparalleled.”

Frédéric Oudéa, Chief Executive Officer, Société Générale