Children work in their classroom in El Renacimiento school, in Villa Nueva, Guatemala. Photo © Maria Fleischmann / World Bank.
The World Bank dramatically accelerated its activities and global presence under President Robert McNamara, who was appointed in 1968.

The focus shifted from building infrastructure to alleviating poverty. McNamara set out his philosophy and goals in a remarkable address to the Board of Governors in Nairobi on September 24, 1973. He reported that the World Bank had doubled its operations and nearly quadrupled net borrowing from 1969 to 1973 as compared with the previous five-year period.

He posited that the fundamental case for development assistance was a moral one. “The whole of human history has recognized the principle—at least in the abstract—that the rich and the powerful have a moral obligation to assist the poor and the weak,” he said. The World Bank’s objective was nothing less than to end poverty McNamara said.

The ambitious goal of tackling poverty and inequality head-on required a different order of investment and thus a rethink of the ways in which money could be raised. Eugene Rotberg, who became the World Bank’s longest-serving Treasurer from 1968 to 1987, was the man for the job. As the World Bank’s President ramped up loans, the Treasurer plunged into more innovative ways to raise money. To some
The previous Treasurer, Robert Cavanaugh, believed and, thus, be able to repay our bonds. “17 Rotberg governments not supported by cash flow was okay, if finance with innovations such as derivatives.

view of the large number of African nations joining ways to borrow. If you borrow in untraditional ways, why we shifted to education, population, health, and Rotberg called “non-cash flow generating projects” in areas such as health and education.

The previous Treasurer, Robert Cavanaugh, believed that this approach would be resisted by bond-holders who would not “feel that this is a field in which we could prudently hope to lend and get the money back and, thus, be able to repay our bonds.”17 Rotberg noted, however, that “over time, the financial community came to accept the fact that lending to governments not supported by cash flow was okay, if it contributed to growth. They came to understand why we shifted to education, population, health, and later (as I believe these were precursors) to structural lending.”

Rotberg’s energetic pursuit of ever-more sophisticated transactions heralded a revolution in development finance with innovations such as derivatives. Eventually, he was not only managing and investing over $20 billion in liquid assets in 20 different currencies, but also increased borrowing from $500 million to $10 billion a year. The amount of International Bank for Reconstruction and Development bonds outstanding increased by nearly 590%, from $3.29 billion at the end of 1968 to $22.6 billion at the end of 1978.

The World Bank tapped into cooperative savings banks. “In Japan, we went to trust banks; then we went to securities firms; then we went to the Bank of Japan,” he said. “In other words, we looked for pools of accumulated wealth and tried to connect them with the World Bank. I didn’t use traditional vehicles to approach them. We opened up ten discrete pockets of wealth in Germany, Switzerland, and Japan. That created an environment where they began to compete with each other.”

But never did the World Bank engage in any financial transaction with a country’s private sector without fully briefing the finance ministry or the central bank first. “You could not go into Switzerland or Germany and say, ‘I have an interesting new product here, if that product was something which was anathema to government policy. For example, in Germany they never liked floating rate instruments, because they believed that weakened the nation’s commitment to control inflation,”17 explained Rotberg.

The safety and liquidity in World Bank bonds also caught the attention of the official sector. The share of the World Bank’s debt placed with central banks and other official institutions reached a peak in the mid-1970s, representing 80 percent of the total funding program in financial year 1974 and 76 percent in 1975. While the Bundesbank and the Bank of Japan remained the largest lenders to the World Bank in those years, the World Bank also borrowed from the governments of Abu Dhabi, Iran, Libya, Nigeria, Oman, Saudi Arabia, and Venezuela, tapping into the high reserve levels of these petroleum exporting countries.

Japan’s Rise

The World Bank’s relationship with Japan, which went rapidly from being a borrower to a critical source of funds largely because of its booming exports, reflected the country’s remarkable economic recovery following its defeat in World War II. Between 1953 and 1966, the World Bank made 31 loans to Japan totaling $863 million. These loans funded important economic development projects across the country, among other things helping to rebuild Japan’s electrical power capacity and develop its transportation network, including construction of the Meishin and Tomei expressways and the first bullet train (shinkansen) line.

The World Bank’s final loan to Japan was signed in 1966, and by early 1970, the direction of the flow of capital between the Bank and Japan was reversed when the World Bank borrowed 72 billion Japanese yen (the equivalent of $200 million) from the Bank of Japan in two tranches. In making the deal, the Japanese central bank noted the World Bank’s huge contribution to the development of the Japanese economy and expressed a desire to “help the World Bank’s activities and thereby strengthen international monetary cooperation.”

“It’s crucial to link development to capital markets because only capital markets can provide the volumes of funds that are needed in order to have an impact on development.”

Jessica Einhorn, World Bank Treasurer, 1992–1995
The following year, the World Bank issued its first public bond to Japanese investors, an 11 billion Japanese yen (then equivalent to approximately $30 million) 10-year issue that paid a 7 ¾ percent coupon. The issue was managed by Nomura Securities, and the Industrial Bank of Japan (a predecessor of Mizuho) acted as the agent bank (commissioned company). That bond was one of the first "Samurai bonds" ever issued (a Japanese yen-denominated bond issued in the domestic Japanese market by a foreign issuer). The World Bank's inaugural Samurai bond helped to develop this new market and paved the way for the first sovereign Samurai bond (by Australia in 1979) and eventually the first corporate Samurai bond (by Sears in 1979). The World Bank would continue to be an active issuer of Samurai bonds for the rest of the 1970s and the first half of the 1980s (and still occasionally issues in that format on investor request).

During the same period, the World Bank also regularly borrowed from Japanese commercial and trust banks in syndicated loan form. Syndicated loans were preferred by Japanese banks, because at that time they were prohibited from dealing in securities. By the end of 1971, Japanese investors held 8 percent of the World Bank’s outstanding debt (led by the Bank of Japan), while investors in the United States held 38 percent and those in Germany 27 percent. Japan was already a net creditor of the World Bank, with the amount of outstanding World Bank debt held by Japanese institutions and individuals exceeding the outstanding balance of World Bank loans to the country.

In 1985, following moves by the Japanese government to liberalize its capital markets and internationalize the Japanese yen, the World Bank issued its first "Shogun bond" (a foreign currency-denominated bond issued in the domestic Japanese market), a $300 million 10 ½ percent ten-year issue. The transaction was lead managed by Nomura Securities, with Daiwa Securities acting as co-lead manager. This marked the beginning of the practice by World Bank Treasury of providing investment products denominated in a foreign currency to Japanese investors, which continues today.

In 1987, the World Bank further built on its history of innovations for the Japanese market when it issued its first “Daimyo bond” (a yen-denominated bond that settles in a European clearing system) lead managed by Daiwa Securities. Five years after that, the World Bank issued the world’s first Japanese yen-denominated global bond. “Japanese institutions learned a lot from the global approach of the World Bank,” said Hirogaki Tanaka, a Senior Financial Officer at World Bank Treasury in Tokyo during the 1990s. “So, the relationship with the World Bank was very important for them.”

Former World Bank Treasurer Jessica Einhorn explained the importance of the Japanese relationship:
“IBRD has been instrumental in facilitating and expanding the Uridashi market since its inception in the early 1990s. IBRD’s exceptional credit and name recognition helped broaden the product’s appeal to the retail investor. IBRD was one of the first in the structured Uridashi note market in the 1990s with their dual currency offerings, and as a result, MUFG sought IBRD’s help to meet investor needs via new yield enhanced structured Uridashi products.”
Eugene Rotberg, World Bank Treasurer from 1968 to 1987, explains the World Bank’s approach to markets in the expansionist 1970s which is still valid today:

“Identifying sources to borrow from isn’t that difficult. It’s how you treat the people who are lending you the money that’s difficult. The World Bank had the reputation of not bullying people, not driving a transaction down to the last penny so that the firm involved would lose money. We didn’t threaten to cut off our relationship with them if they didn’t do things our way.

“We didn’t try to squeeze every last penny out of every transaction for several reasons: 1) because sooner or later someone else will be as strong as the World Bank, 2) the World Bank may lose favor because of something that happened at the World Bank—the President may change; 3) markets could change, savings could disappear; and 4) the World Bank can’t raise ten, twelve billion dollars a year if people are always losing money when they deal with us, whether they are customers or intermediaries.”

“In other words, we understood that there was going to be some tough times ahead, and we wanted to create an environment where any money in the world seeking a haven could come to the World Bank. Creating that environment is difficult when you hire too aggressive financial people. I like to have people who have studied History, English, and Physics; people who understand there’s a complicated, vulnerable world out there.”

“The financial stuff we’ll teach you overnight. The subtler psychological ways to handle people in the world of finance are much more important. They don’t teach you that in business school. They just tell you to get everything you can. You don’t win that game very often, and when you do, you’re sure to lose it later. Even if you win consistently, you are not going to get the volumes.”

Transcript, interview with Eugene Rotberg on April 22, 1994 for the WBG History Program archived by the WBG Historian’s Office, Page 25. Online.

Treating People Right

“Over the years, the professionalism and utmost dedication of the World Bank Treasury team has allowed us to collaborate on innovative funding and hedging solutions that have supported IBRD in obtaining efficient funding and effective balance sheet management.”

François Pérol, former Chief Executive Officer, Groupe BPCE