70 YEARS
Connecting Capital Markets to Development
The image on the cover, featuring the Greek goddess Aphrodite, is taken from an International Bank for Reconstruction and Development bond certificate. It is an example of “financial fine art” in the United States, where such intricately engraved bank notes and bond certificates became common in the 19th century. The more expertly executed an engraving, the harder it was to counterfeite a bank note or a bond certificate.

The International Bank for Reconstruction and Development seal depicted on the cover was adopted in 1946 by the Executive Directors of the World Bank and became the official seal of the institution.

The World Bank Group consists of the following five institutions:

- **International Bank for Reconstruction and Development (1944)**
  supports middle-income countries;

- **International Finance Corporation (1956)**
  supports private sector in developing countries;

- **International Development Association (1960)**
  supports lower-income countries;

- **International Centre for the Settlement of Investment Disputes (1966)**
  assists with conciliation and arbitration of international investment disputes;

- **Multilateral Investment Guarantee Agency (1988)**
  provides political risk insurance (guarantees) to investors and lenders.

The work of the World Bank Treasury in connecting capital markets to development is at the core of the development mission of the World Bank Group. The World Bank Treasury ensures the long-term financial sustainability of the International Bank for Reconstruction and Development and the International Development Association (which together constitute the World Bank), and that of other entities assigned by its shareholders. It uses capital markets to finance sustainable development, to meet the investment objectives of clients, and to provide advisory services.
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MESSAGE FROM
WORLD BANK GROUP
PRESIDENT

Jim Yong Kim
For more than 70 years, the World Bank Group has worked to promote economic opportunity and improve people’s lives, and five years ago, we set two ambitious goals: to end extreme poverty by 2030 and to boost shared prosperity among the poorest 40 percent around the globe.

To achieve these goals, we must help our client countries tackle multiple overlapping crises such as climate change, pandemics, natural disasters, fragility, conflict, and violence. We also need to help people prepare for an uncertain future where technology, innovation, automation, and global connectivity require us to find new drivers of economic growth.

We know we can only be successful in fulfilling our mission by leveraging every available resource and continuously looking for new ways to deploy financing, expertise, and innovation and make them work on behalf of the poor. This is why the World Bank Treasury has been at the heart of our institution for seven decades—bringing new ideas, creative approaches, and diverse sources of financing to help people lift themselves out of poverty.

In the following pages, you will read about World Bank Treasury’s 70-year history of driving financial innovation and pioneering new ways to raise funds from the capital markets: issuing its first bond in July 1947; inventing the formal swap in 1981—an instrument that’s widely used today to help manage risk; providing catastrophic bonds to insure countries against natural disasters; and initiating a global response to help countries like Jordan and Lebanon host growing numbers of refugees. Responding to the Ebola crisis, the World Bank Treasury team introduced the first-of-its-kind pandemic bond to get money to countries quickly and help prevent the disease from spreading.

More recently, in the Spring of 2018, the World Bank Treasury introduced the International Development Association (IDA)—the World Bank’s fund for the poorest countries—to the capital markets. IDA joined a select group of top-tier, supranational issuers with an inaugural bond that raised $1.5 billion from investors around the world. IDA’s entry into the global capital markets was historic: for the first time, the World Bank is able to leverage private sector capital to augment traditional donor funding for the poorest countries.

These are just a few examples of how the World Bank Treasury has helped the World Bank use every resource at our disposal to tackle the toughest challenges around the world. As we continue making progress towards our twin goals, the World Bank Treasury will continue to be a core part of the World Bank Group. It will ensure that we have the resources to work with our partners, investors, and clients to tackle crises, promote prosperity, and bring us closer to becoming the first generation in history to live in a world free of poverty.

I hope that you will find this book informative and inspiring as a celebration of the World Bank Treasury’s first 70 years, and as a preview of the achievements that will continue in the years and decades to come.

Jim Yong Kim
President
World Bank Group
Students wash their hands before eating prepared food at the Hope Kindergarten Elementary School in Tabbar Community in Buchanan City, Liberia on June 25, 2016. Photo © Dominic Chavez / World Bank

Kristalina Georgieva

REFLECTIONS FROM WORLD BANK CHIEF EXECUTIVE OFFICER
I remember well the first time I spoke with investors about World Bank bonds. It was in the early 2000s, and I was Director of the World Bank's Environment Department. At that time, there was a lot of public debate about whether development institutions should provide debt relief to borrowing countries, and this particular group of investors was paying close attention to the discussion. Rather than asking me about our financial statements or credit strength, the investors wanted to learn more about our governance and how we use funds raised in the market to finance development projects.

Over the years we have had many similar conversations with investors, and it is through this dialogue that the World Bank has shaped the evolution of capital markets as a source of finance for sustainable development. We changed how we partner with investors and other market participants by engaging them more deeply in our business model, objectives, values and operations. And we enhanced our communications around our sustainability practices—including the World Bank's Corporate Responsibility Program and launching our Sustainability Review—and this became a model for other issuers.

The credibility we established with investors paved the way for us to pioneer the rollout of green bonds in 2008, and it has provided the foundation for other World Bank Treasury innovations that allow investors to support sustainable development. It also catalyzed broader conversations around how to integrate broader environmental, social and governance criteria in fixed income investment decisions.

I am glad to have stayed connected with my World Bank Treasury colleagues since those conversations with investors many years ago. Today, I bring this information into conversations with government partners, as part of our suite of products that offers investors an opportunity to generate financial and social returns. This includes groundbreaking bonds and swaps that insure countries against financial losses from natural disasters, pandemics, and other shocks, as well as the core treasury functions that are fundamental for our financial sustainability.

The debut of IDA in the capital markets in April 2018 is the latest installment in our 70-year story of innovation and success in the capital markets. By harnessing capital markets for sustainable development—something we have done since our first bond issuance in 1947—we can raise the financing we need to ensure a better tomorrow for future generations.
PREFACE BY
WORLD BANK GROUP
MANAGING DIRECTOR AND
CHIEF FINANCIAL OFFICER

Joaquim Levy
When the World Bank Treasury recently celebrated the 70th anniversary of its first International Bank for Reconstruction and Development (IBRD) bond issuance back in 1947, it marked seven decades of pioneering innovative financial tools to tackle the world’s most difficult development challenges.

In this book, you will see how our World Bank Treasury has evolved while always remaining a trusted advisor to borrowing countries, a pioneer in financial market innovation, and a triple-A rated manager of the World Bank’s finances.

A major driver of financial sustainability, the World Bank Treasury has also been an agent of change and a catalyst for economic transformation. Its achievements would not have been possible without continuous support from our shareholders, investors, partners, and colleagues.

As we reflect on 70 years in the capital markets, we can see how the model we use for financing development has evolved, and with it the transformative role of capital in achieving our mission. This book chronicles our major milestones, key initiatives, and successful innovations. We also explore the events and individuals that have influenced the World Bank Treasury’s history.

The World Bank Treasury can be proud to have pioneered so many firsts: the first formal currency swap, in 1981; the first global bond, in 1989; the world’s first “plain vanilla” green bonds, in 2008; and just recently, the world’s first pandemic bonds. The list could go on and on.

These innovations have been transformative. In the decade since the World Bank began issuing green bonds, for example, the market has grown tremendously in size and diversity of assets. Green bonds are now issued across many issuer types and instruments including governments, utilities, agencies, corporations, and banks. And today, mainstream investors outside the green bond market also insist that their investments place greater emphasis on sustainability and environmental protection—and, more than ever, they seek opportunities for socially responsible investment.

Looking ahead, the World Bank Treasury’s work will be central to the World Bank’s leading role in the global effort to maximize finance for development. This book highlights how the World Bank Treasury pushes the frontiers of finance, leveraging its expertise, market access, and triple-A credit rating to support the World Bank’s agenda.

Just this year, the World Bank Treasury shepherded a highly successful initial bond issue by the International Development Association (IDA), bringing a new, triple-A rated supranational issuer to the capital markets and providing a new source of financing for our work with the poorest countries. IDA’s market entry alongside IBRD bolsters the resources to meet our mission of reducing poverty and inequality in a sustainable manner.

These accomplishments reflect strong leadership from our World Bank Treasurers and their formidable teams. As you read this book, I am sure that you will be impressed by how the development of capital markets has brought positive impact for low- and middle-income countries.

We are grateful to everyone who has joined us on this 70-year journey, and I am sure we will see even more streams of innovation as we continue working to deliver sustainable financing for the future.
INTRODUCTION BY
WORLD BANK TREASURER

Arunma Oteh
Since the creation of the World Bank during the Bretton Woods Conference in 1944, it has grown into one of the world’s most significant agents for global economic development and poverty alleviation.

Leveraging the international capital markets to channel funds from private and public investors around the world into sovereign development projects and programs, has been key to its business model. The generous support of member countries has been essential to the success of the World Bank’s work and is a vital cornerstone of its financial strength and triple-A credit rating. However, it is the money that has been entrusted to the World Bank for seven decades from thousands of capital market investors around the world that has driven its lending. This has not only allowed the World Bank to leverage its paid-in capital of $16 billion to provide sovereign lending totaling $635 billion but has also been instrumental to the economic development of many countries around the world. Indeed, the World Bank’s 70-year history in the capital markets presents a powerful evidence of how the capital markets can be a force for good in the world.

Since its first bond issuance on July 15, 1947, the World Bank’s history of public bond issuance has been uniquely intertwined with the history of the development of capital markets around the globe. At inception, after World War II, only the capital markets in the United States, had the depth and liquidity to support public issuance by the World Bank. By the 1950s, the Bank was accessing public capital markets in Europe. By the 1960s, it had expanded to the markets of the Middle East, to those of Asia and Latin America by the 1970s, and to African markets by the 1990s.

Since then, the World Bank has continued to expand its capital markets presence and has now issued in 63 currencies and reached investors in more than 75 countries. Innovation and meeting investor needs have always been hallmarks of its success with connecting capital markets to development. For example, in November 2008, we issued the first green bond in response to Nordic investor interest in directing their investments to climate related projects to manage risks. Ten years later, the green bond market has become an established market, attracting a broad range of issuers. It has also catalyzed sustainable investing including the development of thematic bond markets with principles such as impact reporting that promote transparency and accountability. The World Bank has also pioneered many other capital markets “firsts” including the first formal currency swap (1981), the first global bond (1989), the first fully integrated electronic bond (2000), the first Mulan bond (2016), the first pandemic bond (2017) and the first blockchain bond (2018).

While the longest standing issuer in the World Bank Group, the International Bank for Reconstruction and Development (IBRD) now raises about $50 billion annually, the newest issuer in the Group, the International Development Association (IDA), issued its first bond for $1.5 billion on April 17, 2018. This was transformative for development as IDA had historically relied on contributions from donor governments for its development assistance activities. The extraordinary success of this inaugural bond is also testimony to IDA’s investment proposition—the opportunity for investors to earn a reasonable return and at the same time positively impact society.

The work of the World Bank Treasury in leveraging the capital markets for development extends far beyond bond issuance. The World Bank Treasury manages about $200 billion of assets for the World Bank, other members of the World Bank Group and 65 external clients, including central banks, sovereign wealth funds, pension funds and other official institutions. It manages a $600 billion notional derivatives portfolio used entirely for hedging and other risk management purposes. In addition, we manage annual cash flows of $72 trillion in more than 140 currencies and through relationships with almost 400 banks around the world. The capital markets have also been important sources of knowledge for the training and advisory services that we offer our client countries in financial structuring, analytics, debt management and asset management.

In 2015, the international community adopted the United Nations Sustainable Development Goals (SDGs), a set of 17 interdependent economic, social and environmental goals to be achieved by 2030. The SDGs have become a roadmap for our work and are at the heart of what we do every day at the World Bank Treasury. This is because we believe that we must contribute to finding solutions to key development challenges, including meeting the aspirations of a growing global population, ending extreme poverty, and reducing inequality in ways that are environmentally and socially sustainable. At the World Bank Treasury, we use finance as the tool to tackle these challenges.

As we look to the future, World Bank Treasury will continue to innovate and to expand the possibilities for using international capital markets to support global development. We will continually expand our product offerings to meet investor needs, respond proactively to market developments and new technologies and collaborate with partners around the world, while always ensuring the financial strength and integrity of the World Bank.

We remain committed to harnessing the power of capital markets to create a more resilient, prosperous and equitable planet.
PROLOGUE

Bretton Woods—Genesis of the World Bank


Photo © World Bank Archives
On July 1, 1944, an extraordinary group of international finance experts gathered in Bretton Woods in the shadow of the White Mountains of New Hampshire to discuss the regulation of the international monetary system and a strategy to rebuild from the wreckage of World War II.

The meeting, orchestrated by the United States and the United Kingdom, included delegates from 44 countries and was convened while the war still raged and many of Europe’s greatest cities were in ruins. The old banking and commercial systems that had sustained the global economy were in shambles.

In the meeting, a new model was created to avoid a repeat of the mercantile debacles that flowed from the Treaty of Versailles after World War I. Many countries had retreated into protectionism, devaluing their currencies and erecting trade barriers in a futile attempt to avoid economic collapse in the Great Depression.

The Bretton Woods meeting, formally called the United Nations Monetary and Financial Conference, laid the foundations for a new financial world order with two institutional pillars: the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD), which later became known as the World Bank.

The IMF would ensure exchange-rate stability and assist countries in responding to balance of payments difficulties, while the World Bank would offer loans to countries for postwar reconstruction and development projects. The World Bank laid out in its articles of agreement the principles that have governed its borrowing in the capital markets and its loan-making for the last 70 years.

“History is being written today as we execute these documents and breathe the breath of life into the International Monetary Fund and the International Bank for Reconstruction and Development. We can be thankful that the history we are now writing is not another chapter in the almost endless chronicle of war and strife. Ours is a mission of peace—not just lip service to the ideals of peace—but action, concrete action, designed to establish the economic foundations of peace on the bedrock of genuine international cooperation.”

Fred Vinson, U.S. Secretary of the Treasury, Washington, D.C., December 27, 1945
“One of the great achievements of my predecessors in the World Bank Treasury was that, not only were they able to pull all of the pieces together to make those early bonds successful in the market, but they actually helped create infrastructures for markets that were usable by multiple borrowers around the globe. By linking capital markets to development through a constant stream of innovations, the World Bank has remained the driver of global development for the last 70 years.”

Three priorities guide the World Bank Group’s work to end poverty and boost prosperity for the poorest people: inclusive and sustainable economic growth, investment in human capital, and building resilience to global crises. The swept path out of poverty—a sustainable economic growth; investing in education, healthcare, water, sanitation, energy systems, and the capacity to recover from crises and natural disasters; all help populations continue their progress.

2010s

- **January 2010**: World Bank Group provides support to Haiti following an earthquake.
- **September 2010**: World Bank Group establishes a $25 million trust fund to strengthen institutions in the world’s poorest countries, known as Low Income Countries Under Stress (LICUS), that are characterized by very weak institutions and environments in which to use aid effectively.
- **February 2012**: Global Center on Conflict, Security, and Development opens in Nairobi, Kenya.
- **March 2012**: The World Bank Group lowers its loan cut-off single borrower limit of $13.5 billion was set institution has adopted since the previous improvement in the credit quality of the World Bank Group’s portfolio.
- **June 2012**: World Bank Group’s Independent Review Panel to review the work of the World Bank’s unit responsible for investigating fraud and corruption in Bank Group-supported operations, as well as allegations of staff misconduct. The panel’s recommendations.
- **September 2012**: World Bank Group establishes a $25 million trust fund to strengthen institutions in the world’s poorest countries, known as Low Income Countries Under Stress (LICUS), that are characterized by very weak institutions and environments in which to use aid effectively.
- **November 2012**: The World Bank Group cuts lending fees.

**2000s**

- **2004**: World Bank Group establishes a Global Center on Conflict, Security, and Development.
- **2005**: New global approach to fighting extreme poverty announced.
- **2006**: World Bank Group launches Climate Change Special Envoy for International Discussions.
- **2007**: Independent Review Panel on investigation of Department of Institutional Integrity.
- **2008**: World Bank Group launches Open Data Initiative.
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**2010s**

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- **2014**: World Bank Group’s Independent Review Panel to review the work of the World Bank’s unit responsible for investigating fraud and corruption in Bank Group-supported operations, as well as allegations of staff misconduct. The panel’s recommendations.

**2020s**

- **2020**: World Bank Group goes carbon neutral.

Since 1995, the World Bank Group has prioritized client engagement and social inclusion while expanding its approach to development by incorporating post-conflict reconstruction, climate change, and anti-corruption into its strategy. In the mid-1990s, the World Bank Group invested in a knowledge institution, emphasizing transparency and collaboration while opening up its vast stores of knowledge and information to the world.
By the 1970s, over 40% of people in developing countries lived in absolute poverty. To address this issue, the World Bank Group aimed to reach the poor directly by dramatically increasing investment in areas of sustainable and social development: education, gender, governance, health, sanitation, urban issues, and food production.
World Bank Group History (1944–1960)

In its first two decades, the World Bank worked to help its members in Europe and around the world build infrastructure for reconstruction and development. Bank loans helped nations build dams, electrical grids, irrigation systems, and roads. At the same time, the World Bank encouraged the role of private sector investment while providing resources for its poorer and less creditworthy members.

**1940s**
- Post-WWII Marseille, France
- World Bank staff start their first day of work on March 18, 1946.
- Eugene Meyer becomes first President of the World Bank Group.
- World Bank signs a memorandum of understanding with the U.S. Treasury, allowing for subsequent investment in the U.S. economy.
- The United States is admitted to the International Monetary Fund (IMF) and begins to participate in negotiations for settling claims arising from the expropriation of the Suez Canal Authority by both the United Kingdom and Egypt. World Bank President Eugene Black participates in negotiations for settling the claim.
- The International Finance Corporation (IFC) makes its first investment in Brazil: $2 million to help Siemens' Brazilian affiliate manufacture electrical equipment.
- IFIs begin to have a significant role in extending market-based capital to enterprises in developing countries.

**1950s**
- The World Bank enters the bond market with a $250 million offering. Considered a resounding success, the bonds are oversubscribed and sell at a premium over the public offering price. “The confidence which the United States have displayed in the Bank’s securities…will be a great encouragement to the directors and private and institutional investors of the United States,” says President John J. McCloy.
- In response to demand for investment by client countries, the World Bank enters the bond market in May 1957 with a bond issue for the purpose of buying agricultural machinery and irrigation equipment.
- The World Bank signs another loan to Chile for the purpose of increasing the production of timber.
- The International Development Association (IDA) is launched in response to calls by those member countries not deemed sufficiently creditworthy to borrow from the World Bank Group. Eligible countries receive loans, called “credits” in IDA parlance, on terms more favorable than those available from IBRD.
- The Indus Waters Treaty is signed in Pakistan and India in 1960. Beginning in 1952, the World Bank Group, led by President Eugene Black, provided mediation between the two countries. The Treaty resolves the culmination of over a decade of negotiations on issues of water use and new developmental uses.
- In response to demands from member countries, the World Bank establishes the Economic Development Institute (EDI) with the purpose of building programs and projects in developing countries. Initially, courses are general in nature and offered exclusively in Washington, D.C. Over time, more intensive courses on topics such as project preparation and development management are offered.
- On this same day, the Board of Governors adopts bylaws and bylaws for the International Bank for Reconstruction and Development. With the founding of IFC, the World Bank becomes known as the World Bank Group.
- The IBRD training program begins with a $250 million offering.
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- World Bank President Eugene R. Black becomes the first elected executive director, and chooses Washington, D.C., as the site for the bank’s first meeting.
- The World Bank signs an agreement for an Electric power project in Yugoslavia, 1951.
- World Bank signs an agreement with Siemens to manufacture electrical equipment.

**1960s**
- On this same day, the IBRD training program begins with a $250 million offering.
- World Bank President Eugene R. Black becomes the first elected executive director, and chooses Washington, D.C., as the site for the bank’s first meeting.
- At this inaugural meeting the board elects executive directors, and chooses Washington, D.C., as the site for the bank’s first meeting.
- The World Bank signs an agreement for an Electric power project in Yugoslavia, 1951.
- World Bank signs an agreement with Siemens to manufacture electrical equipment.
Normandy, France, June 1944. Villages and city in ruins after the bombing and fighting, World War II. Photo © MGPhoto/Alamy Stock Photo

CHAPTER 1

Birth of the World Bank
The initial task of the World Bank was to fund the reconstruction of countries affected by the war, but its work was soon dominated by the long-term objective of spurring development across the globe.

Given that Europe’s capital reserves had been so badly eroded, it was clear to those creating the World Bank that it would initially be dependent on funds from the United States. The United States had begun to establish its financial leadership, and the results of Bretton Woods codified this development. Both the new institutions—the International Monetary Fund and the World Bank—were built in its capital, Washington, D.C.

By the end of December 1945, the World Bank’s articles of agreement were approved by the members. The Governors, each representing their member state, met in Savannah, Georgia the following March to agree how the institution would run. It was initially envisioned at Bretton Woods that the World Bank would largely function by providing guarantees as opposed to loans. The United States stated its view clearly: “The most important function of the World Bank’s operations will be to guarantee loans in order that investors may have a reasonable assurance of safety in placing their funds abroad.”

The World Bank’s paid-in capital subscriptions were relatively small, amounting to only 20 percent of the World Bank’s total capital of $10 billion. The remaining 80 percent was provided in the form of callable capital, which was subject to call only if needed to meet the outstanding debt obligations of the World Bank. For each member, only a small portion of paid-in capital was payable in hard currency (in gold or in U.S. dollars), with the majority in the members’ own currencies.

The capital stock was divided into 100,000 shares. The World Bank apportioned these shares among the original 45 signatory countries of the articles of agreement according to each member’s relative weight in the global economy.

Under the World Bank’s articles of agreement, a member’s paid-in capital could be used for lending purposes only with the consent of that member. Initially, only the United States provided its consent, so, when the World Bank first opened, only the paid-in capital of the United States ($571.5 million) was fully available for lending.

Opening for Business

The World Bank opened its doors for business on June 25, 1946 in an office building a few blocks from the White House, at 1818 H Street NW in Washington, D.C. This remains the address of its headquarters, although it has been rebuilt and much expanded.

Eugene Meyer was the first World Bank President. In his distinguished career, Meyer also was the publisher of the Washington Post and Chairman of the Federal Reserve of the United States.

Dutchman Daniel Crena de Iongh, a member of his country’s delegation to the Bretton Woods conference, served as Treasurer from 1946 until 1952. He was methodical, patient, and cautious. Of the World Bank’s early strategy, he later said that “if the World Bank had hastened into the field, as some people wanted it to do, I think it would have started by being mistrusted by the money markets and it would have rushed to decisions, which afterwards would prove to be in the wrong.”

It was soon clear that requests for loans would outweigh requests for guarantees and that the World Bank would quickly come to depend on raising funds from private investors through the capital markets. Since only the United States had a deep and well-functioning capital market in those early years after the war, the World Bank’s fundraising efforts had to be in the United States. Much work was needed to establish confidence in the World Bank from a skeptical Wall Street, the support of which was crucial. Private investors in the United States were still scarred by heavy losses from foreign loan defaults during the 1930s and needed to be convinced that this new international bank was sound.
Crena de Jongh’s team at World Bank Treasury quickly addressed the sensitive technical issues that would establish the principles for the World Bank’s financial operations, such as the pricing terms for the World Bank’s loans. From the start, Crena de Jongh also established the principle of non-partisanship, ensuring all World Bank decisions were based on sound financial reasoning rather than national political influence.

John J. McCloy, a New York lawyer who had served as U.S. Assistant Secretary of War, became the World Bank President in March 1947. McCloy brought on board experienced bankers with strong links to Wall Street to prepare the first bond issue. Within two months of McCloy assuming the presidency in March 1947, the World Bank made its first loan. It was for $250 million to a French public corporation, Crédit National.

The rationale to make France the first order of business, over loan applications from Poland and Chile, was that: “France is vital to Western Europe because of her size and her productive capacity and the problem of her recovery cannot be divorced from the recovery of Western Europe as a whole.”

First Loan Agreement to Credit National. Photo © World Bank Archives

Paris initially applied for a loan of $500 million to finance the government’s reconstruction program, the Monnet Plan. The request for $106 million for equipment, $180 million for coal and petroleum products, and $214 million for raw materials. Under McCloy, the World Bank quickly agreed to fulfill half of the original request, saying it would consider a further loan later in the year if necessary. However, the World Bank applied stringent conditions. “It was not so much on account of France but on account of the fact that if once we made things easy for France, all other borrowers would ask for the same conditions,” said Crena de Jongh. Two months later it issued its first bond.

“Since its creation in the aftermath of World War II, the World Bank Group has been standing for trust, stability and creditworthiness in the capital markets.”

Martin Zielke, Chairman, Commerzbank

“It is likely, in my judgment, that the field of reconstruction from the consequences of war will mainly occupy the proposed World Bank in its early days. But as soon as possible, and with increasing emphasis as time goes on, there is a second primary duty laid upon it, namely to develop the resources and productive capacity of the world, with special reference to the less developed countries.”

John Maynard Keynes, British economist and one of the original architects of the World Bank, 1944 Bretton Woods Conference
70 Years of World Bank Treasurers
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.

“The World Bank 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 1986 and went on to write the Pulitzer Prize-winning book The Lords of Finance.

“It was just wonderful to work in an environment where you are not competing in relative terms. And the hierarchy was very flat, so you weren’t sitting there arguing about grades and promotions. It was a wonderful culture.” Ahamed said the highly diverse staff members were motivated more by the World Bank’s goals than by their salaries. “The basic idea was that someone who had a great idea on Wall Street could come to the World Bank Treasury and would get a hearing by people who understood that stuff very well. And you didn’t have to go through layers of bureaucracy. The World Bank Treasury had a way of cutting through all of the bureaucracy so it was very ‘unhierarchical,’ which allowed the department to respond to innovative ideas very quickly,” he said.

“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 from 1985 to 1992. “And a lot of young people who get out of undergraduate, 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.

Interviews done by Christopher Wilson in 2018: Liaquat Ahamed, Sanjiv Kumar and Dr. Yves Balcer.

“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.”

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The World Bank was given an AA rating by Fitch Ratings and an A by Standard & Poor’s. At the time, Moody’s was not yet rating financial institutions.

The inaugural issue, sold only in the United States, caught the attention of the financial press and Wall Street. The issue was reported to have been six times over-subscribed, and the bonds immediately started trading at a premium, according to the World Bank’s 1948 annual report. The New York Times praised the way the offering was handled, saying: “The rates indicated that the World Bank officials had gauged their offering terms with shrewd precision. The judgment and high efficiency displayed in the transaction have gained immense prestige for the World Bank.”

On June 15, 1947, the World Bank, with everything finally in place, announced a $250 million bond issue with a $100 million 10-year tranche at 2 ¼ percent and a $150 million 25-year tranche at 3 percent. The World Bank sent invitation telexes to more than 2,600 securities dealers across the United States, and about 1,700 of them participated in the offering—more than twice the number of dealers than had participated in any other securities offering at the time.

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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 a master marketer of bonds. “I think he has a broader grasp of the world bond markets and the 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.

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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 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.

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. “I think he has a broader grasp of the world bond markets and the 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.

The bonds were placed through a syndicate of 137 dealers, led by Halsey, Stuart and Co. (a predecessor of Wells Fargo) and First National Bank of Chicago (one of the predecessor banks to JP Morgan Chase Bank).

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 (one of the predecessors of Deutsche Bank), Lazard, Morgan Grenfell (one of the predecessors of Société Générale), Lagard, 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.

The World Bank’s annual report published in 1950 stated that while the largest investor base was still in the United States, the “World Bank is also giving increasing attention to the development of markets for the World Bank’s obligations outside the United States.” It noted 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.

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The World Bank accelerated its marketing efforts and in 1950 launched its second public offering, with $100 million 2 percent bonds issued on January 25. It was the first World Bank bond to be rated by Moody’s—a-rated single A—and the proceeds were used to redeem the 10-year tranche of the inaugural 1947 bonds that had been issued at a higher interest rate. The bonds were placed through a syndicate of 137 dealers, led by Halsey, Stuart and Co. (a predecessor of Wells Fargo) and First National Bank of Chicago (one of the predecessor banks to JP Morgan Chase Bank).

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“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 were 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 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.”

Over the second decade of the World Bank’s history, however, the bonds outstanding increased by 72 percent, from $1.9 billion at the end of 1958 to $3.29 billion at the end of 1968.

The World Bank’s investor base became increasingly international. By the end of 1960, most World Bank bondholders—53 percent, were outside the United States. Robert Covenough, who was the Treasurer through most of the 1960s, noted that the World Bank generally paid higher interest rates abroad than in the United States. “We’re willing to pay a little more to borrow abroad merely to keep the various markets open, and we’re willing to pay something for the fact that we are an international organization, and this is a step in broadening the understanding of the World Bank by borrowing in these various markets,” he said. Covenough added that part of the reason for selling bonds abroad was that the World Bank wanted to make loans in those foreign currencies.

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

Frédéric Oudéa, Chief Executive Officer, Société Générale
Children work in their classrooms in El Renacimiento school, in Villa Nueva, Guatemala. Photo © Maria Fleischmann / World Bank

CHAPTER 3

The World Bank in Expansion Mode
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

A Cambodian farmer Men Leng, 40, gets her first harvest in Prey Thom village, Reaksmei Sameakki Commune, Aoral district in Kampong Speu Province. Leng is one of 400 landless and land-poor families who received a social land concession from the government under the associated LASED project, funded by JGDF through the World Bank and implemented by Life with Dignity (LWD). Photo © Chor Sokunthea / World Bank.

"In my view, the fundamental case for development assistance is the 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.”

The previous Treasurer, Robert Cavanaugh, believed and, thus, be able to repay our bonds. “17 Rotberg areas such as health and education.

The extent, McNamara and Rotberg were building on the unrealized ambition of the previous President, George D. Woods, to make the World Bank more responsive to the needs of developing countries, especially in view of the large number of African nations joining the World Bank during the first half of the 1960s. The new leadership changed the look and feel of the institution as they steered more loans toward what 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 re-pay our bonds” 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 non-traditional sources such as cooperative savings banks. “18 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,” explained Rotberg.

“In Japan, we went to trust banks; then we went to insurance companies; then we went to what are called the regional 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.”

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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.”

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 securitites.

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 Hirokazu 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."24

Former World Bank Treasurer Jessica Einhorn explained the importance of the Japanese relationship. 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.”

William Mansfield, President and CEO, MUFG Securities Americas Inc.

at that time for the World Bank: “It is not that the Japanese invested in our bonds—we had investors all over the world—it was that the Japanese gave us so much access to their capital market, preferential access, until capital markets really opened.”

Over the past two decades, the World Bank has been one of the largest issuers of Uridashi bonds (bonds issued overseas and sold to Japanese retail investors). Because of the extraordinarily low Japanese yen interest rates during this period, Japanese investors were attracted to Uridashi bonds denominated in higher-yielding currencies. The currencies that have been popular with Uridashi investors have fluctuated over time and have included (among others) U.S. dollars, Australian dollars, New Zealand dollars, South African rands, and Brazilian real.

The World Bank has also been an active issuer of structured notes in Japan. These structures have permitted Japanese investors to take views on a variety of economic variables, such as equity index levels, foreign exchange and interest rates, and the slope of the yield curve. Moreover, Japan has been a very active market for the World Bank’s sustainable development product innovations, such as the creation of the World Supporter Fund and carbon emission reduction linked bonds (described in Chapter 7). “The Japanese structured note market has been an important source of funding for the World Bank for decades and has also been the launching pad for some of our most innovative structures—from carbon emission rights linked bonds to dual currency structures to equity linked notes,” said Michael Bennett, Head of Derivatives and Structured Finance in the World Bank Treasury.

In addition to becoming an important market for World Bank bonds over the past five decades, Japan also became the World Bank’s fifth-largest shareholder in 1970 and its second largest in 1984 (a position it retains today) as well as one of the largest contributors to International Development Association. Japan therefore, has a truly special place in the history of mobilizing resources for the World Bank. Andrea Dore, Treasury’s Head of Funding, noted, “Japan is a very important market for the World Bank bonds. From Hokkaido in the north to Okinawa in the south, one can find investors—institutional and retail—who support the World Bank’s mission and recognize the high quality and safety of World Bank bonds through their investments.”
Treating People Right

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.”

François Pérol, former Chief Executive Officer, Groupe BPCE

“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.”
CHAPTER 4

Pioneering Swaps
Pioneering new ways to raise funds, the World Bank’s Treasury entered into the world’s first formal currency swap agreement in 1981, with U.S. technology giant IBM as its counterpart.

Driving this momentous innovation was that, at the time, interest rates in Swiss francs and Deutsche marks were much lower than in U.S. dollars. The World Bank faced significant demand from its borrowers in those currencies. However, both the Swiss and German governments limited the amount of borrowing the World Bank could do in their currencies, and by August 1981, the World Bank had reached these limits. IBM had already accessed large amounts of those currencies and wanted to increase its U.S. dollar holdings. In a transaction arranged by Salomon Brothers (which later became part of Citi), IBM swapped its borrowed Swiss francs and Deutsche marks for the World Bank’s U.S. dollars.

The volume of the World Bank’s currency swap transactions grew quickly. In financial year 1982, the aggregate notional of all swap transactions entered into by the World Bank was $758 million and by 1983 it had increased to $1.73 billion. “The World Bank built up a staff around swaps. Within a matter of months, we were doing swaps that no one had ever heard of before. It took three months to get Board approval on the first one,” Eugene Rotberg said, adding the board was initially worried it would lead to derivative products that could not be regulated and would be too complicated. Currency swaps opened a new era in funding the World Bank around the world but also converting the liability to a different currency more appropriate to risk management. For example, in 1983, the World Bank issued its first European currency unit bond, a $43 million equivalent ten-year issue. The “availability of swap opportunities was an important consideration in the decision” to issue in European currencies, the World Bank said in its 1985 annual report.

In a further innovation two years later, the World Bank executed its first interest rate swap in which it received fixed rate U.S. dollars and paid floating rate dollars based on the three-month World Bank Treasury bill rate. By the end of 1985, the aggregate notional of all swap transactions entered into by the World Bank was $5.15 billion. As of the end of the World Bank’s 2018 fiscal year, with swaps now used three times: by increasing access to nominal low-cost borrowing, and by broadening the World Bank’s investor base through borrowing in a development of numerous new markets than otherwise would have been possible.

Rotberg’s openness to new ideas was the key to the extraordinary creativeness in the World Bank’s fundraising at this time. Ken Lay, who joined the World Bank in 1982 and became Treasurer in 2006, said, “Everyone who has taken up that job after Rotberg has recognized that it was their main obligation to maintain and further develop that atmosphere.”

Structured Bonds

During the 1980s, the World Bank’s borrowing program was marked by increasing sophistication, including the development of numerous new structured bond types such as long-dated zero-coupon issues. A zero-coupon bond pays no interest until maturity. Long-dated zero-coupon bonds are popular with investors that have long-dated liabilities, such as pension funds and insurance companies, because they are long-duration assets that have no coupon reinvestment risk. The World Bank executed 30-year zero-coupon issues in Swiss francs and Deutsche marks. As explained in the 1986 annual report, the World Bank’s use of swaps allowed it to convert anomalies in the yield curve to ‘synthesize’ a conventional 30-year bond issue by executing a 15-year issue and a series of zero-coupon bonds maturing in 16 to 30 years.

Over the decade from 1978 to 1988 the amount of IBRD’s bonds outstanding rose by over 250 percent from $22.6 billion to $79.8 billion. The World Bank continued to expand to new markets, and in 1988, it issued in its 25th currency, New Zealand dollars. The 75 million New Zealand dollar ($45.5 million equivalent at that time) five-year issue was launched in the so-called Eurokiwi offshore market. As of early August 2018, World Bank Treasury had issued in 63 currencies over its history, averaging 25 annually, and a total amount of debt outstanding of $205 billion.

The dollar’s decline in mid-1985 had led some within the World Bank to believe that demand for dollar-based securities from non-dollar-based investors in Europe and Japan would also decline. To address this, the World Bank launched a program called Continuously Offered Longer-Term Securities, or COLTS, for the U.S. market, with the investor free to choose any maturity to within a 3- to 30-year period.
The COLTS program, with sales limited to North American investors, was an innovative attempt to adapt the structural features of the short-term commercial paper market to the long-term bond market. It gave the World Bank the flexibility to direct demand to particular maturities it preferred at specific times by offering the preferred maturities.

The World Bank’s 1986 annual report said that COLTS was established as a $500 million program “sold through agents and tailored to fit buyers’ maturity and cash-flow requirements.” The initial placement agents for the COLTS program were Goldman Sachs, Merrill Lynch, Lehman Brothers, and Salomon Brothers. The following year those firms were joined by Morgan Stanley and First Boston (a predecessor of Credit Suisse). Later, those dealers were joined by a number of smaller, regional dealers all across the United States. While COLTS was entirely focused on the U.S. market, it was soon joined by another innovation by World Bank Treasury that had a worldwide focus—global bonds.

“ANZ Bank is proud to be a trusted partner of the World Bank, having supported many of its impressive achievements in the Kangaroo and Kauri markets. This is a partnership that goes well beyond the parties directly involved, inspiring development, innovation and confidence in these markets more broadly, whilst contributing to the World Bank’s commendable mission of eradicating poverty and inequality through sustainable economic development.”

Shayne Collins, Managing Director Markets, ANZ (Australia and New Zealand Banking Group Limited)
CHAPTER 5
Global Bonds

Solar power panels and windmills. Photo © city hunter / Shutterstock
By the mid-1980s, some staff at the World Bank Treasury had come to believe that structural impediments in the fixed income securities market were hindering the efforts of the World Bank to achieve the quality of yields that its size and financial condition warranted.

One issue was a difference in the World Bank’s cost of financing in the Eurobonds market compared with the significantly higher cost in the market for Yankee bonds—foreign bonds denominated in U.S. dollars and issued in the United States by foreign banks and corporations.

“We had become convinced by 1985 or 1986 that we were paying too much to do Yankees and still not getting broad U.S. placement. We had to work out how to develop a real market franchise,” Ken Lay, the World Bank’s Treasurer from 2006 to 2010 and the mastermind behind the global bond and many other Treasury innovations of his time, said in a 2004 interview with the International Financing Review. COLTS gave us continuous U.S. presence; in one year we did $1 billion in more than 1,000 tickets,” said Lay. “That gave us the basis for a global approach to begin eliminating the pricing disparity between U.S. and European markets.”

Under Treasurer Eugene Rotberg’s supervision, Lay and other World Bank experts began to design a product to address these disparities and came up with a novel method of distributing and trading a new kind of security that came to be known as the “global bond.” International Bank for Reconstruction and Development (IBRD) capital markets experts spent about two years analyzing the concept and examining the complex technical barriers that could potentially have blocked such a global financial instrument. One problem they encountered was initial skepticism among underwriters because of the varied conditions and underwriting fees in different geographical areas and markets. Other obstacles included different systems of organization of investment dealers’ businesses and, most importantly, the incompatibility of securities clearance and settlement systems across the various markets.

The World Bank’s approach in designing the global bond was to incorporate in a single instrument, features that major market participants valued in fixed income securities. For Euromarket investors, this meant structuring the issue to ensure active trading on London Eurobond desks, settlement through one of the two main European clearing houses of the time, Euroclear and Cedel, and the same tax treatment as the World Bank’s tried and tested Euro-dollar bonds. The concept of the global bond was that it would simultaneously settle in multiple clearing systems around the world. In its 1990 annual report, the World Bank said it had devised the format “to permit the full range of international and domestic demand to be reflected in a world price for securities by eliminating...”
The World Bank Group and its International Bank for Reconstruction and Development (IBRD) play a crucial role in fighting poverty around the globe. We at Deutsche Bank, feel honored to have contributed to this important mission through a trusted partnership with the World Bank that has grown over more than 25 years.

We look back proudly to joint achievements that mark developmental milestones in the global capital markets. Together, we issued the world’s first ever global bond in September 1989.

Christian Sewing, Chief Executive Officer, Deutsche Bank AG
In the early 1980s, McDonald’s was looking to accelerate the expansion of its fast-food empire around the world and needed sterling for capital investments in property and equipment in Britain, one of its target countries.

While McDonald’s had little trouble raising dollars in the United States, where it was treated effectively as a triple-A rated company, differences in its credit rating overseas would mean a big penalty if it sought to access UK pounds directly through a UK bond issue.

“We knew the business would work in England,” recalled Suzanne Bishopric, who was McDonald’s Director of Financial Markets at the time, so she searched around for alternative ways to raise the overseas currency.

She learned from bankers at Morgan Stanley, who worked closely with the World Bank, of the relatively new international currency swap transactions that the World Bank Treasury had pioneered as a way to access foreign currencies which were either unavailable or could only be acquired at a high cost.

“The World Bank Treasury came up with a very creative product,” said Bishopric, who went on to become Treasurer of the United Nations and then Managing Partner at Global Sovereign Advisors in New York. “I thought, if the World Bank does it, it has a seal of approval.”

McDonald’s was the first prominent company to copy the World Bank model and secured a rate that was “almost two points lower using a swap than if we had gone to the market to issue a sterling bond,” Bishopric said. She still keeps the brass “tombstone” recording the deal for the 15,000,000 United Kingdom pound sterling, 10-year “parallel loan” arranged by Morgan Stanley and BNP Paribas, dated April 21, 1983.

Simple “plain vanilla” swaps, like the McDonald’s first sterling swap, and more complex versions like interest rate swaps, quickly became the norm in international financing.

Suzanne Bishopric, Interview with David Storey, April 19, 2018.
Finance.” The daughter of Jewish refugees from Europe who had settled in New York City, Einhorn embraced the antipoverty mission instilled in the World Bank during the McNamara and Rotberg years. She believed it was crucial to link development to capital markets because only those markets could provide the volume of funds needed to impact development.

In 1995, World Bank Treasury issued its third Deutsche mark global bond and introduced another innovative approach to promote liquidity in the secondary market. It was a 3 billion Deutsche mark ($21.7 billion equivalent) ten-year issue. The World Bank required a core group of underwriters to agree to be ongoing market makers in the repo (‘repo’) market for the bonds and postrepo rates on electronic screens, a first for the Deutsche mark market.

Throughout its history, the World Bank had issued various types of structured bonds—primarily callable and zero-coupon bonds. However, structured notes began to provide a significant percentage of the World Bank’s total funding in the mid-1990s. In 1996, the World Bank issued $2.4 billion of structured notes, or 22 percent of the annual funding program. In the following year, it was $2.9 billion, or 19 percent of the annual funding program.

Einhorn was succeeded in 1996 by Gary Perlin, a World Bank veteran who oversaw its involvement in dealing with a series of serious global development and market challenges, as well as revamping the World Bank’s financial products line and its capital and liquidity management policies. “In the mid-to late-1990s, it was one emerging market crisis after another and there was a bit of spontaneous combustion and a little bit of contagion from one market to the next.” Perlin remarked in his interview for the ‘World Bank Treasurers Perspective Series,’ one of the initiatives in commemorating the 70th anniversary of connecting capital markets to development.

World Bank Treasury’s engagement included arranging an emergency loan for South Korea at a time when it was close to exhausting its reserves. Perlin recalled the extraordinary circumstances of the arrangement. “The Central Bank of Korea was very rapidly coming down to its last reserves and I do recall on one snow day in Washington, D.C. in December of 1997, almost Christmas, in the morning, the World Bank Board of Directors approved a new financial product that would become available to all borrowers on certain conditions; in the afternoon, they approved the first of those loans—to Korea for $3 billion dollars—and before the United States Federal Reserve wire closed that afternoon, World Bank Treasury wired $3 billion dollars to the account of Korea.”

Like other World Bank beneficiaries before it, such as postwar Japan, South Korea emerged from its crisis as an economic power—growing into the world’s 11th largest economy—and became an important contributor to the International Development Association, the World Bank arm that helps the world’s poorest countries. “I think that’s where the World Bank often is at its best. It’s not just in a crisis, but its standing by its clients and its borrowers to make sure that they rebuild the foundation that allows them to emerge from the crisis stronger than when they went in.” Perlin said.

As the 20th century closed, World Bank Treasury continued to broaden its currency diversification through new bond issues. In 1997, it set a record for new currency issuances in a single year, with four—the Slovak koruna, Philippine peso, Korean won, and Polish zloty. This record has been matched only once, in 2009, with first-time issuances that year in Singapore dollars, Nigerian naira, Ghanaian cedi, and Botswana pula. In August 1998, four months before the introduction into general circulation of the euro as the European Union’s single currency, the World Bank issued a $500 million euro 4 percent seven-year bond.

“Being cognizant of the World Bank’s developmental mandate, we are proud to be a leading underwriter of the World Bank bonds in emerging market currencies.”

Bharat Masrani, Group President and Chief Executive Officer, TD Bank Group
CHAPTER 6

E-Banking and Advisory Services
With the dawn of the millennium, the World Bank Treasury issued its first fully integrated electronic bond (E-bond) and moved into a new domain, capturing the spirit of the new world of electronic connectivity.

The $3 billion issue in January 2000 was the first bond to be offered for investors globally via internet platforms, and this was revolutionary. Goldman Sachs was the sole book runner among a nine-dealer syndicate, all of which had an electronic capability. George Richardson, who was formerly Goldman’s Head of Supranational Debt Capital Markets client coverage and currently the Director of World Bank Treasury’s Capital Markets Department, recalls, “The World Bank’s objective was to issue the first front-to-back, fully electronic bond. This included orders being placed via websites, confirmation and allocation of orders by syndicate managers on internal extensions of these same websites, automatic feeding to settlement systems and electronic secondary trading. The initiative pushed many envelopes, especially with Y2K preparations taking up most IT departments’ focus. Yet, it was done. Very successfully too, creating new and lasting features in the market and refreshing the World Bank’s brand as a trailblazer and market leader.”

The syndicate included retail-oriented brokers Charles Schwab and Paine Webber, and the distribution involved 570 tickets, with the smallest being a $1,000 order placed through Schwab’s online platform. Until then, this breakthrough security had been available only to institutional investors, but now mid-size and retail investors could access the information on a transparent, worldwide platform.

The E-bonds were at the time the most cutting-edge financial products on offer, and the notes surpassed expectations. By 8 a.m. Washington, D.C. time on Thursday, January 20, the order book had exceeded $5 billion—of which $1.7 billion in orders came via the internet. “The World Bank Treasury was both entrepreneurial and innovative—able to work with the Street and with technology firms in coming up with the idea of the first E-bond. It was very successful,” noted Afsaneh Beschloss, the World Bank Treasurer from 1999 to 2001.

“By that point we obviously didn’t have smart phones, but Internet use was increasing,” Beschloss said. Iranian-born, with experience working with J.P. Morgan in London and New York, she had a variety of roles at the World Bank before being appointed Treasurer in 1999. She was known for her innovative approach to capital markets and played a key role in the creation of capacity building and asset management services for asset managers in developing countries that were the prime focus of her successor as Treasurer, Graeme Wheeler.

According to Beschloss during her tenure as Treasurer, “Whatever new tools became available, we were early adopters. Back then, it seemed quite complicated getting all the information from the various investors to see how they were lining up to buy our bonds and using that information to price the bonds competitively. Technology helped us to reduce our borrowing costs more than others.” Although widely deemed a success, the pioneering E-Bond had been seen in some financial circles as ahead of its time. “Few thought that the time was ripe,” Beschloss told a Euromoney conference in London six months after the successful issue.

She emphasized World Bank Treasury’s commitment to continued development of its products along with rapidly evolving technology and said the E-bond epitomized the “democratization of bond purchases” by making it available to small investors. They could trade instantly on the Internet with all the relevant information available on the issue and watch the World Bank road show on their screens. World Bank Treasury called the E-bond “integrated,” which meant offering the bond online to the back end of trading on the secondary markets. “Such a bond had never been issued before, and we had the objective of being the first issuer of such a transaction to the market,” noted Beschloss.

Throughout the decade, the World Bank continued to innovate in the emerging field of electronic trading. It became the first issuer to develop its own electronic swaps trading platform, called “E-swaps,” which allowed the World Bank to run electronic auctions to select swap counterparties for individual transactions.

“The World Bank Treasury was both entrepreneurial and innovative — able to work with the street and with technology firms in coming up with the idea of the first E-bond. It was very successful.”

Afsaneh Beschloss, World Bank Treasurer, 1999–2001
Advisory Services

From 2001 to 2005, Graeme Wheeler, a New Zealander, served as the World Bank's Treasurer. He was the first non-U.S. citizen to hold the position since Dutchman Daniel Crena de Jongh (the first Treasurer, whose tenure ended in 1952). Before taking over the position, Wheeler had focused on building the foundations of three key advisory services offered by the Bank—in banking and risk management, in debt management, and in asset management—and he continued to foster those services as Treasurer.

Wheeler took a special interest in expanding the World Bank's toolkit of advisory services. This included the Reserves Advisory and Management Program (RAMP), which offers technical assistance and capacity building to help countries manage their central bank reserves, sovereign wealth funds, and national pension funds. The toolkit also expanded to include the Government Debt and Risk Management (GDRM) program, providing technical advisory services in those areas to middle-income countries that are home to 75 percent of the world's poor.

RAMP provided a particularly vivid example of the strength of the World Bank's character as an international cooperative. As World Bank member countries emerged from the crises of the 1990s, many began building their central bank reserves. Some were accumulating sovereign wealth funds or moving to fund their social welfare systems and establishing substantial reserves to do so. All received regular reports on the World Bank’s management of its own reserves and pension assets.

Not surprisingly, member countries began asking if the World Bank could help them build their own capacity in this area. With strong support from Treasurer Graeme Wheeler, World Bank Treasury responded. By 2000, a team led by Jennifer Johnson-Calari and Wendy Mendes in the Investment Management Department was working with a number of central banks to upgrade their reserve management capacity. It was evident that there was much more the World Bank could do, but it lacked the funding. Without a budget increase from the World Bank, World Bank Treasury could not afford to expand this area of its business.

Ken Lay, who had just returned as Deputy Treasurer after six years as a country and sector Director in other areas of the World Bank’s operations, realized that there was a long-standing business model in the financial markets that could solve the problem. He proposed that the World Bank offer asset management services for the central banks and sovereign wealth funds for a modest fee, consistent with private-sector asset managers’ fees for high-grade fixed income portfolio management. He calculated that economies of scale would enable the fees to cover both incremental asset management expenses as well as the cost of providing capacity-building advisory services and covering the costs that clients incurred in sending team members to participate in highly collaborative training programs.

World Bank Treasury took this idea to World Bank Management and the Board, and by mid-2001, both had approved. World Bank Treasury began managing reserves for its first three RAMP clients. Wheeler’s strong support enabled RAMP to grow rapidly.

“Nomura is particularly proud to have been involved in a number of important transactions together with IBRD, including the first public offering in Asia in 1971, the inaugural Global bond in 1989, and the first Yen Global in 1992. After 70 years, IBRD is still innovating. Our work on the inaugural landmark transaction for the International Development Association will remain a highlight of our partnership.”

Koji Nagai, President and Group CEO, Nomura Holdings, Inc.

““The World Bank Treasury is a pioneer in using capital market products to meet the needs of clients. It is a center of excellence in providing advice to clients and managing the World Bank’s own portfolios. Such innovation and excellence are recognized around the world—thanks to the tremendously talented and dedicated World Bank Treasury colleagues.”

Graeme Wheeler, World Bank Treasurer, 2001–2005
This menu of investment offerings allowed clients to achieve returns consistent with their risk profiles and objectives and to construct portfolios that they may not have the technical capacity to manage on their own. “We could do what the International Monetary Fund (IMF) could not do. The IMF didn’t manage money,” Calari-Johnson said in an interview. She goes on to say, “The IMF could give high-level advice, but they couldn’t talk about building a risk system. And the private sector could manage assets, but it was highly conflicted in giving technical assistance. So that was the niche that we operated in.”41 The initiative included internships at the World Bank Treasury and technical workshops in Washington, D.C., and in Paris.

Developing the commercial advisory services helped transform World Bank Treasury into a self-funding entity. Lay said later it was the achievement he was most proud of. “Because of RAMP, until I left World Bank Treasury in 2011, revenues more than doubled. It gave us the capacity to put money into some very innovative things,” he said. “It was an asset management company within the World Bank,” said Calari-Johnson, who was hired from the U.S. Federal Reserve to create the RAMP program. She said building capacity involved partner-to-partner cooperation between those foreign central banks participating in the program and World Bank Treasury staff.

“Goldman Sachs has been a proud partner of the World Bank, working together toward a shared vision of global growth driven by activity in the capital markets. This partnership has yielded over $40 billion of capital raised and a number of landmark transactions, including the first-ever fully integrated electronic bond in 2000.”

Lloyd Blankfein, Chairman and CEO, Goldman Sachs

Marcus Wallenberg, Chairman of the Board, SEB

“The organizations were unrecognizable at the end of a RAMP engagement,” she said. “Depending on the country, the financial and asset management systems could not have been more primitive and subject to abuse, not internally, but by Wall Street. And by the time we finished, they were as sophisticated as any asset manager on Wall Street. They were highly trained, highly professional and highly sophisticated consumers of the services.”44 Wheeler ended his term as Treasurer in 2005 and served as the Bank’s Managing Director for Operations until 2010. “The World Bank Treasury is a pioneer in using capital markets to meet the needs of clients, and a center of excellence in providing advice to clients and managing the World Bank’s own portfolios,” he said. “This innovation and excellence is recognized around the world, and achieved, thanks to the tremendously talented and dedicated World Bank Treasury colleagues.”45
The International Finance Facility for Immunisation

In 2006, the World Bank partnered with several of its member countries, as well as with GAVI, the Vaccine Alliance and Goldman Sachs, to create a new international organization called the International Finance Facility for Immunisation (IFFIm) to fund immunization of children in the world’s poorest countries. Its asset base consists of long-dated, legally binding pledges from nine governments: the United Kingdom, France, Italy, Norway, Australia, Spain, the Netherlands, Sweden, and South Africa. Based on the strength of these pledges, IFFIm borrows money in the international capital markets, which it then uses to fund immunization programs.

IFFIm, which was established as a charitable company in the United Kingdom, was designed as an entirely new type of organization. It has a volunteer Board of Directors but no staff. Instead, its work is outsourced to existing organizations. World Bank Treasury is one of those organizations, providing all types of financial services to IFFIm as its Treasury Manager, from arranging its capital markets issues to managing its liquidity.

From its inception in 2006 through mid-2018, IFFIm had disbursed $2.6 billion to support vaccine purchase and delivery programs to 71 different developing countries. Those funds have gone to combat a wide variety of diseases, including approximately $205 million for pneumococcal vaccine, $190 million for polio eradication and $140 million for measles mortality reduction.

IFFIm’s inaugural bond issue in 2006, lead managed by Goldman Sachs and Deutsche Bank, raised $1 billion. It required World Bank Treasury staff to engage in extensive marketing around the world to explain this new type of supranational issuer to investors. Since then, World Bank Treasury has arranged multiple issues for IFFIm across the globe, including in the Japanese, U.K., and Australian markets, as well as the sukuk market. In recognition of the ground-breaking nature of IFFIm’s use of the international capital markets, mtn-i magazine recognized IFFIm in 2013 as the ‘Socially Responsible Investing Innovation of the Decade.’

“Working together efficiently and with trust, we have executed transformative deals including Earthquake-linked capital notes, which positioned the World Bank as the largest sovereign risk insurance provider, and funding for the International Finance Facility for Immunisation (IFFIm), providing investors with an opportunity to support work that helps to protect millions of children in the world’s poorest countries against preventable diseases.”

James Forese, President of Citi and Head of Citi’s Institutional Clients Group, Citibank
Global Crisis Spurs Further Innovation

Lay, who succeeded Wheeler in 2006, believed that it was vital for World Bank Treasury to give its employees the chance to think outside the box, with the understanding that although some novel ideas may not succeed those that do, can have a huge impact on clients. Apart from generating and implementing imaginative transactions, Lay had the task of steering the World Bank through the global financial crisis, which almost brought down the world financial system.

The crisis began in 2007 with the implosion of the subprime mortgage-backed securities market in the United States, but its consequences rippled through international capital markets and the investment banking sector for years, causing a wave of public distrust in complex financial products. Ratings downgrades, sharp price declines, defaults, and disputes involving derivatives and highly structured investments as well as the collapse of investment bank Lehman Brothers all undermined confidence in the financial industry. Regulators sought ways to avert a repeat of the crisis, prompting closer scrutiny of financial transactions. Private capital flows to developing countries fell rapidly from a peak of around $1.2 trillion in 2007 to an estimated $363 billion in 2009, creating a substantial financing gap. Lay said: “We ultimately had to step up and produce a lot of crisis-related finance for our clients.”

The fact that the World Bank came through the crisis so well was “a testament to the long-standing conservative policies on both the funding and the asset side,” Lay said. “The markets were effectively shut down for many other issuers, yet we were able to go forward with transactions. On the back of ‘flight to quality’ demand from investors worldwide, we issued $44 billion in bonds in 2009, tripling the amount from the previous year, to respond to the strong surge in lending requests from our members. In our investment business, in 2008, we were reporting an 8 percent return for our clients when everybody in the markets had lost hugely.”

He said, one crucial factor behind the conservative financial stewardship was that the incentive structure under which the World Bank Treasury team operated had not been skewed toward excessive risk-taking, which would have kept the World Bank in highly exposed positions when vulnerabilities came to light. Team members in the Investment Management Department had concluded as early as late 2006, when yields on these assets were still high, that major risks were developing and had reduced exposure accordingly.

“Financial institutions like the World Bank are essential to the success of our global economy.”

Timothy J. Sloan, Chief Executive Officer and President, Wells Fargo

“On the road to fight poverty, the Folksam Group is very proud to be a travel companion to the World Bank. As an investor, Folksam has a long tradition of working for a sustainable world. The UN Sustainable Development Goals provide us with the star and the World Bank gives us a map to follow it.”

Jens Henriksson, President and CEO, Folksam Group
CHAPTER 7

Sustainability, Ethical Financing and Green Bonds
The World Bank has long embraced the concept of sustainability in its operations, adopting a concept that was at the heart of the United Nations Millennium Development Goals and has driven the overall development philosophy in the new century.

The World Bank based its work on three pillars of sustainable development—economic growth, environmental stewardship, and social inclusion—that can carry across all sectors of development, from cities facing rapid urbanization to agriculture, infrastructure, energy development and use, water availability, and transportation.

In keeping with this focus, the World Bank Treasury partnered in mid-2005 with France’s postal system, La Poste, to offer its customers a retail deposit backed by an International Bank for Reconstruction and Development (IBRD) bond. The communication around the sale of the deposit, which had a minimum investment size of 500 euro, focused on its purpose—to fund the sustainable development work of the World Bank. This was the first World Bank debt product marketed around social responsibility. The deposit had a five-year term and paid a fixed coupon that stepped up every six months. The bond was followed by a similar product in Germany the next year. World Bank Treasury partnered with Dresdner Bank to offer Euro-denominated bonds to retail investors. The two-year bonds paid a 3 7/20 percent coupon and were offered in lots of 1,000 euros. Communication again focused around the World Bank’s sustainable development mandate that investors were supporting through their investment.

In late 2007, the World Bank launched its first tranche of ECO3 Plus notes. The six-year, Euro-denominated notes paid an annual coupon of 3 percent, plus an additional amount linked to the performance of an equity index—Dutch bank ABN AMRO’s ECO Price Return Index—comprising stocks of companies engaged in alternative energy, water, and waste management projects, as well as the production of catalysts used to reduce environmental pollution.

The debt issue was accompanied by a communication campaign aimed at raising investor awareness and stimulating demand for socially responsible debt products. The notes were offered throughout ABN AMRO’s branch network in the Netherlands, Belgium, and Luxembourg, and additional tranches were offered in Switzerland and Germany. “Experience has shown us that investors are indeed interested in sustainability and green investments, but they also expect a good return,” Frans Kuijlaars, Senior Vice President and Head of Benelux Sales, ABN AMRO Markets, said at the time. “We believe that you should not have to give up return to make green investments.”

The same year, World Bank Treasury partnered with Nikko Asset Management to launch what was called

“Thanks to IBRD bond issues that the wider global community of institutional and retail investors have been allowed to participate in the work of sustainable development across the world, and thanks to innovative finance that IBRD has reached deeper and faster in its mandate, making capital contributions from member countries go furthest.”

Philippe Brassac, CEO and Chairman, Crédit Agricole
the “World Supporter Fund” in Japan. The fund, which was developed in close coordination with its initial distributor, Chiba Bank, was the first investment trust composed entirely of IBRD bonds denominated in a variety of emerging market currencies. “The World Supporter Fund provide retail investors a unique opportunity to invest directly in a diversified, liquid and professionally managed multi-currency fund without having to take on the credit risk or worry about the management of the currency allocation,” said World Bank Treasury’s Head of Funding, Andrea Dore. The currencies in which the bonds were denominated included the Brazilian real, Hungarian forint, Indian rupee, Mexican peso, Turkish lira, Russian ruble, and South African rand, as well as the US dollar and the euro.

Three years later, the World Bank again partnered with Nikko Asset Management to launch an investment trust composed of IBRD Green bonds. The fund again highlighted the World Bank’s mission to promote sustainable development and eliminate extreme poverty.

In 2008, the World Bank issued in the Japanese market its first aptly named “Cool Bonds,” or CO2-linked bonds, which were tied to a United Nations-approved program aimed at reducing carbon emissions. Payments on the $25 million bonds were linked to Certified Emissions Reduction credits (CERs) issued under the Clean Development Mechanism, a trading scheme that allowed countries to invest in clean energy projects in mostly developing countries. Holders of CERs could either sell them for profit or use them to meet emissions targets under the Kyoto Protocol. The five-year bonds, lead managed by Daiwa Securities SMBC, initially paid a coupon of 3 percent before switching to a coupon linked to the future performance of CER market prices and the actual-versus-estimated delivery of CERs generated by a hydropower plant in China’s Guizhou province. A second Cool Bond issue later that year was underwritten by Mitsubishi UFJ Securities and linked to a bio-energy project in Malaysia.

The same year, the World Bank partnered with Westpac to issue a four-year bond in the New Zealand market that focused attention on the World Bank’s development mandate. Like the earlier issues with La Poste in France and Dresdner in Germany, the bond was marketed to investors based on both the economic and social returns of the issue.

Green Bonds

World Bank Treasury began to respond to growing investor concerns about climate change and the damaging impact of greenhouse gas emissions as well as investor interest in ethical finance for development goals and the alleviation of poverty. In 2008, the World Bank launched the Strategic Framework for Development and Climate Change to help stimulate and coordinate public and private sector activity to combat global warming, and that year the IBRD issued the first labeled green bond.

Like all World Bank debt products, the bonds funded projects that were designed to improve local economies and alleviate poverty. But the proceeds of these bonds were specifically dedicated to tackling climate change problems in developing countries, which often were hit the hardest by the effects of a warming planet and rising seas.

“The growth in demand for green bonds is a testament to IBRD’s innovation and creativity in the market since issuing the first green bond in 2008. These milestone transactions—and many over the years—reflect the World Bank’s broader leadership in leveraging the capital markets to create impact where it makes the greatest difference, all the while setting the highest standards for execution and transparency.”

John M. Flint, Group Chief Executive, HSBC
The first green bond was a 2.325 billion Swedish kronor 3½ percent six-year issue, lead managed by Sweden’s SEB (Svenska titelbolaget AB). It was designed in response to specific desire by a group of Scandinavian pension funds to support the World Bank’s efforts in climate change mitigation and adaptation. The projects offered by the World Bank were those supporting the transition to low-carbon and climate-resilient development and growth in client countries.

Examples of the World Bank’s eligible mitigation projects for green funding included solar and wind installations and funds for new technologies that permit significant reductions in greenhouse gas emissions and greater efficiency in transportation, including switching fuel. Adaptation criteria included protection against flooding, reforestation and watershed management, and implementation of stress-resistant agricultural systems. The green bond program was the first to introduce an external assessment of the green bond framework and effectiveness of the eligibility criteria toward lowering assessment of the green bond framework and the projects’ impact on climate. This so-called second opinion, in IBRD’s case given by Norway’s climate change think tank CICERO, created a precedent that the green bond market has enshrined and that continues to act as a valuable resource for investors. The program also set a precedent in transparency, with dedicated, annual reporting on how the bond proceeds were used.

Many investors understood that such “ethical” financial market products could simultaneously achieve respectable returns and focus on having a positive impact on society. Led by the World Bank and other multilateral institutions, the market for Green Bonds grew from a niche market to a mainstream source of finance. The World Bank issued its first structured Green Bonds, known as Green Growth Bonds, in July 2015. This involved a 50 million euro 10-year issue linked to the performance of the Ethical Europe Equity Index, composed of companies that were selected based on the sustainability of their businesses. BNP Paribas structured and lead managed the issue. Additional tranches of Green Growth Bonds were issued in Asia and the United States, for an aggregate amount of more than $500 million.

In the decade since the inaugural issue of its plain vanilla green bond in 2008, IBRD has already issued $11 billion equivalent in such bonds through more than 140 transactions in 19 currencies. Green bonds have been issued by government utilities, international agencies, corporations, and banks. Outside the green bond market, the World Bank has also seen market participants take an active role in insisting that their investments have a greater focus on sustainability and protecting the environment.

In 2016, the World Bank issued its first green Shogun bond, a $100 million issue lead managed by Mitsubishi UFJ Morgan Stanley Securities and sold to Japan Post Insurance Company. As of 2017, the green bond market represented less than 1 percent of the overall fixed income, but it acts as a powerful catalyst to create more sustainable capital markets. “Green bonds have catalyzed an evolution in the bond markets toward more transparency around the use of proceeds,” said Heike Reichelt, World Bank Treasury’s Head of Investor Relations and New Products. “Investors are still looking for liquid products with competitive risk-adjusted returns, but we see that investor behavior is changing as more investors are also interested in putting their money to work for projects that have a positive measurable impact on society.”

World Bank Treasury has been engaging with investors and other issuers to create harmonized frameworks that help provide the type of impact information that investors are looking for. The World Bank’s first Green Bond Impact Report that was shared with investors for comment in 2014 and published in 2015 has been recognized by the market as a standard and model for impact reporting.

Beyond Green

The year 2015 was a watershed moment for development. First, in July 2015, global leaders agreed that we needed to move from billions to trillions in terms of the funding that is available for development. In September 2015, the Sustainable Development Goals (SDGs) were agreed upon. And in December 2015, the Paris Agreement on climate change was signed.

Arunma Oteh, who took over as World Bank Treasurer in 2015, carried forward the torch for sustainable and responsible investment opportunities, making sustainability her mission and a key focus across World Bank Treasury. For decades, the World Bank incorporated environmental, social, and governance (ESG) principles into its operations and decision-making and ownership practices, arguing that that approach yielded better results and helped build a more sustainable world and more resilient global financial system.

“The World Bank’s mission of eliminating poverty and inequality in a sustainable manner helps connect investors with projects that help them do good and
do well, while investing in our bonds which are triple-A. In fact in many cases you make better returns with companies that give special attention to environmental, social issues and governance,” said Oteh. Her goal was “to move from the successes that had been achieved with green bonds to something much broader and to replicate that success with sustainability.”

In March 2017, the World Bank announced the first-ever bonds explicitly linked to achieving the United Nation’s SDGs. The bonds, arranged by BNP Paribas and made available throughout the year to private investors in Belgium, Italy, and Switzerland, directly linked returns to the stock market performance of companies in the Solactive Sustainable Development Goals World Indices. The index includes 50 companies that are recognized industry leaders in environmentally and socially sustainable issues or that dedicate at least 20 percent of their activities to sustainable products.

In October 2017, the World Bank Group announced a strategic partnership with Japan’s Government Pension Investment Fund, the world’s largest pension fund worth about $1.37 trillion, aimed at expanding markets for sustainable investing. The two parties agreed to set up a joint research program to explore ways to integrate sustainability considerations into fixed-income portfolios. Potential areas of research include benchmarks, guidelines, rating methodologies, disclosure frameworks, reporting templates, and risk correlation for incorporating ESG considerations into fixed-income portfolios, including for sovereigns and sustainable bond markets. The World Bank Group’s own pension assets, managed by World Bank Treasury in accordance with ESG principles, are valued at $24.7 billion. The World Bank’s drive to respond to increased investor demand for products that highlighted sustainability was reflected in two issues in 2018. In January, the World Bank issued a 1 billion Canadian dollar benchmark transaction anchored by Canadian ESG investor Addenda Capital to raise awareness on the role of women’s empowerment in building sustainable societies. In February, it issued a private placement for the Swedish insurer, Folksam, to raise awareness for the four SDGs that Folksam chose to guide their investments: good health and well-being, gender equality, responsible consumption and production, and climate action.

Catastrophe Bonds

Natural disasters (such as hurricanes, earthquakes, and tsunamis) and other types of extreme weather events (such as droughts and floods) put lives at risk and threaten economic stability and growth in many member countries of the World Bank. Since the mid-1990s, catastrophe bonds (commonly called “cat bonds”) have become an increasingly popular way for entities to obtain insurance coverage above and beyond what is available to them in the conventional insurance market. Investors receive coupons that replicate insurance premiums, and if an insured event occurs, the investors lose some, or all, of their principal, with that money being paid to the sponsor as an insurance payout. World Bank Treasury created a number of instruments to make this market available to the World Bank’s members.

Since 2007, World Bank Treasury has steadily developed its capabilities in partnering with members to proactively transfer a portion of their natural disaster risk to the insurance and capital markets. World Bank Treasury’s early transactions in this area were a series of swaps it intermediated for the Caribbean Catastrophe Risk Insurance Facility, a multicounty risk pool set up for the Caribbean region. In total, these swaps provided more than $200 million of insurance coverage against earthquakes and hurricanes to the risk pool.

Building from these early catastrophe swap transactions, World Bank Treasury expanded into the catastrophe bond market. Its first foray was in 2008 with the establishment of the MultiCat Program, a catastrophe bond issuance platform that gave governments and other entities in the World Bank’s member countries access to international capital markets to insure themselves against the risk of natural disasters. The program requires a member country to establish a special purpose vehicle issuer of a catastrophe bond, with World Bank Treasury acting as arranger of such a bond issue. Since then, the MultiCat Program has issued more than 20 bonds, raising over $1 billion of insurance coverage against natural disasters.

Mexico became the first country to use the MultiCat Program in 2014, issuing a $250 million three-year catastrophe bond divided into three tranches, covering earthquakes and Atlantic and Pacific hurricanes. Mexico returned to the program again in 2015 to roll over the 2009 transaction. The partnership between Mexico and the World Bank, under its MultiCat Program, has allowed us to efficiently transfer a pool of catastrophe risk—earthquake and hurricane—to the market for the first time, and we are very satisfied with the results achieved,” said Alejandro Werner, Mexico’s Vice Minister of Finance, at the time.

In 2014, World Bank Treasury followed up the success of the MultiCat Program by creating the Capital-at-Risk Notes program, under which the World Bank could issue catastrophe bonds on behalf of other entities as part of its own funding program, eliminating the need to establish a special purpose issuer. This innovation streamlined the issuance process and opened the door to a significant increase in activity.

When we issue a cat bond for the benefit of one of our member countries, we are acting as an insurer for that country against certain prescribed natural disasters. However, the World Bank does not retain that insurance risk. Rather, we hedge ourselves by obtaining mirroring insurance from the capital markets in the form of a bond issue. So, at one time and through one instrument, we’re providing valuable insurance to our member country and we’re getting good funding from the market,” said Michael Bennett, Head of Derivatives and Structured Finance at World Bank Treasury.

The first catastrophe bond issued in 2014 under the Capital-at-Risk Notes program was a 330 million three-year issue linked to earthquake and hurricane risks in 16 Caribbean countries, lead managed by GC Securities, with Swiss Re and Munich Re acting as advisors. At the same time as the issuance, the World Bank entered a swap that mirrored the terms of the bond with the Caribbean Catastrophe Risk Insurance Facility. The proceeds of the bond were kept on the World Bank’s balance sheet. If a natural disaster of the magnitude specified in the bond contract occurred, the World Bank would pass the proceeds to the Caribbean Catastrophe Risk Insurance Facility through the swap. If no such disaster occurred, investors would receive the principal when the bond matured.
Madelyn Antoncic, an economist imbued with a strong sense of risk management from her time at Goldman Sachs, Barclays Capital, and Lehman Brothers, promoted such ingenious solutions to development finance problems during her time as World Bank Treasurer from 2011 to 2015. In 2013, World Bank Treasury structured and executed a complex $450 million transaction with Uruguay’s National Administration of Power Plants and Electrical Transmissions (UTE), the state-owned hydroelectric power company, under which the company was insured for 18 months against drought and high oil prices that had caused major financial problems for the company in the past. “In 2012, Uruguay had a pretty significant drought and at that time they were close to 85 percent hydroelectric power generated. So, they had to raise prices for the consumers, they had to raise debt, they had to have a deficit in their budget. So, we ended up doing this transaction which was in swap form,” Antoncic said.

The World Bank’s work on insurance transactions and the development of the Capital-at-Risk Notes program, she said, was “one of the things that I’m really most proud of because this really set the groundwork for being able to hedge against and mitigate the risk of any type of event.”

By mid-2018, World Bank Treasury had delivered $3.9 billion in catastrophe risk transactions for both IBRD and IDA clients. Almost $2 billion were executed from July 1, 2017 to mid-2018, highlighting the increasing desire of countries to take advantage of this useful instrument for protection against natural disasters. Under Oteh’s leadership, the suite of offerings expanded to cover more risks, more countries, and various instruments, including local currency swaps. These transactions included a $360 million three-year cat bond issued in 2017 that provided protection to Mexico against losses from major earthquakes and hurricanes (the $150 million earthquake tranche of which was triggered in full by an earthquake that occurred just a few months after issuance), a 2017 catastrophe risk insurance transaction in the local currency with an aggregate coverage of the Philippine peso equivalent of $206 million against losses from major typhoons and earthquakes to 25 participating local provinces in that country; as well as the largest sovereign catastrophe risk transaction ever executed, a $1.36 billion joint cat bond issue for the countries of the Pacific Alliance (Chile, Colombia, Mexico, and Peru) issued in early 2018. “We are leveraging Mexico’s leadership in developing risk insurance mechanisms against natural disasters and the World Bank’s innovative use of private sector instruments to transfer risk to the capital markets,” said Oteh.
Pandemic Bonds

In 2015, with Oteh as Treasurer, World Bank Treasury turned its attention to another catastrophic threat that disproportionately affected developing nations—pandemics. The 2014 Ebola outbreak was first reported to the World Health Organization in March, but it was not until October of that year that sizable amounts of international aid money were put to work to contain it. The scale of the Ebola outbreak, in which more than 11,000 people died, was such that some $7 billion ended up being committed by donor countries. If even a fraction of that had been available more quickly, it might have been possible to mitigate the crisis. The delayed response was a wake-up call to international institutions like the World Bank, which led the way in seeking a solution in the capital markets to one of the greatest threats facing developing nations.

According to Oteh, "The Ebola crisis, no doubt, resulted in more lives and higher economic losses than would have been the case, had the world moved more quickly to tackle the crisis. In response, the World Bank focused on developing relevant innovative solutions including leveraging the insurance and capital markets to create a standby facility that would ensure quicker action in future."55

The World Bank, supported by Japan, Germany and the World Health Organization, developed the Pandemic Emergency Financing Facility (PEF), a quick-disbursing financing mechanism designed to provide a surge of funds to enable a rapid response to a large-scale disease outbreak. On June 28, 2017, the World Bank issued the first set of bond transactions...

The bonds, together with derivatives, transferred an aggregate of $425 million of pandemic risk for three years to more than 30 capital markets and insurer investors. The transaction was structured and lead managed by Swiss Re and Munich Re, with GC Securities acting as co-manager.

The bonds and derivatives provided coverage for outbreaks of six different viruses, including pandemic influenza, filovirus (including Ebola), and the coronavirus, which is linked to severe acute respiratory syndrome (SARS). It was the first time that World Bank bonds were used to finance efforts against infectious diseases and the first time that pandemic risk in low-income countries was transferred to the capital markets. The establishment of the PEF was driven from the top of the institution by the World Bank Group’s President, Jim Yong Kim, a physician who worked in the public health field in developing countries for many years.

Kim personally priced and closed the pandemic bonds from World Bank Treasury’s trading floor. “With this new facility, we have taken a momentous step that has the potential to save millions of lives and entire economies from one of the greatest systemic threats we face,” Kim said. He further stated, “We are moving away from the cycle of panic and neglect that has characterized so much of our approach to pandemics. We are leveraging our capital market expertise, our deep understanding of the health sector, our experience overcoming development challenges, and our strong relationships with donors and the insurance industry to serve the world’s poorest people.” According to Kim, “This creates an entirely new market for pandemic risk insurance.”

Furthermore, Oteh noted, “This transaction was oversubscribed. Investors are very excited about this asset class. Insurance companies are very excited about this asset class, so we do think we’ve created a market where we are going to see many more future deals.”

“Together, we have ventured into the frontier markets of Africa via synthetic notes, tapped the local currency markets in the Middle East and Asia, accessed the Islamic bond markets, and marketed partially-guaranteed emerging markets debt. The World Bank’s ‘cascade approach’ is crucial to meeting the trillions of dollars of infrastructure finance required to achieve the United Nations Sustainable Development Goals.”

Bill Winters, Group Chief Executive, Standard Chartered
“Markets can and do act as enablers of socioeconomic development. Since our first bond transaction in July 1947, we have continued to leverage the capital markets to address key development challenges.”

Arunma Oteh, World Bank Treasurer
Mulan Bond

China has had one of the fastest sustained growth rates of any major economy in history, and it became the largest contributor to world economic growth in the years after the 2008 global financial crisis. China became the third-largest shareholder in the World Bank after the United States and Japan and an important contributor to International Development Association.

In January 2011, the World Bank joined other major international companies and institutions that were tapping into China’s growing capital, issuing its first bond denominated in renminbi in the Hong Kong market. The 500 million renminbi ($76 million equivalent) 2-year fixed rate note offered investors a semiannual coupon of 0.95 percent.

The World Bank’s former Global Head of Capital Markets, Doris Herrera-Pol, called it a “landmark transaction,” and said: “It is a privilege for us to have this opportunity that establishes the institution as a premier issuer in the fastest growing capital market in the world.”

The World Bank followed up in 2016 by issuing its first Mulan Bond in the Chinese domestic market under a 2 billion SDR (special drawing rights) program approved by the People’s Bank of China. The lead book runner of the 500 million SDR ($700 million equivalent) 0.49 percent three-year issue was the Industrial and Commercial Bank of China. Lead underwriters were China Construction Bank and China Development Bank.

The World Bank named the market “Mulan,” after a legendary female Chinese warrior, Hua Mulan, who took her aging father’s place in the army even though women were not allowed to fight at that time. She was very successful and highly regarded for her skills. The story of Mulan is globally recognized, and it highlights the issue of gender equality, one of the World Bank’s key strategic priorities and a key factor in achieving the World Bank’s twin goals.

“We are honored to support China in its efforts to internationalize its capital and currency markets through the launching of a SDR bond issue and the new Mulan market,” said World Bank Treasurer Arunma Oteh.
CHAPTER 8

First Bond Launched for IDA: Focus on the Poorest
On April 17, 2018, the World Bank Treasury launched the first bond for the International Development Association (IDA), the World Bank fund for the poorest countries, enabling a new, hybrid financial model that combines private sector funding to complement IDA’s traditional donor financing.

IDA joined a select group of top-tier supranational issuers with the inaugural bond that raised $1.5 billion from investors. The proceeds will support the financing of projects and programs in IDA-eligible member countries that advance the United Nations Sustainable Development Goals (SDGs), offering investors an efficient way to contribute to global development. The pricing was fixed at 19.6 basis points over the 5-year U.S. Treasury, which resulted in a reoffer yield of 2.889 percent and reoffer price of 99.357 percent for the bonds.

World Bank Treasurer, Arunma Oteh was delighted that investors welcomed the bond with great enthusiasm. “The quality of the order book—with orders originating from 110 investors in 30 countries—reflected IDA’s strong financial profile and the unique opportunity to directly contribute to IDA’s work toward the SDGs,” she said. In addition, World Bank Group President Jim Kim said: “As a borrower, IDA leverages its unrivaled capital position—the largest equity of any multilateral development bank—and decades of strong donor support, a solid track record of repayments, and prudent financial management.”

The new IDA model set the standard for others to emulate. It was also a concrete step toward maximizing finance for development, bringing the World Bank closer to achieving its goal of eradicating extreme poverty. “Investors globally had seized the unique opportunity to be the first to invest in IDA’s triple-A rated bond and make a positive impact in the lives of hundreds of millions of people around the globe,” said Oteh, adding: “It actually started when IDA was created in 1960 to focus on the poorest countries and contribute to them becoming the fastest-growing economies in the world. IDA’s mission remains compelling, and our donors are committed to IDA as evidenced through the successive replenishments that IDA has relied on since 1964. Still, there is much to be done for us to realize the SDGs and eradicate extreme poverty. Entering the capital markets is, however, an innovation that allows us to do so, as it expands IDA’s lending capacity by 50 percent.”

Global Capital No1551, April 20, 2018. Artist: Olly Copplestone
On the marketing and outreach process, before launching IDA into the capital markets, we first had to introduce IDA to investors, most of whom were unfamiliar. We spent months introducing IDA to prospective investors, highlighting its extraordinarily strong capital position of $160 billion dollars, its history of strong donor support, the strong track record of repayments by client countries, its prudent financial and operational management, and its strong governance and oversight. All of these efforts have yielded excellent fruit,” said Oteh.

The Director of World Bank Treasury’s Capital Markets Department, George Richardson, commented that IDA’s journey to the capital markets would continue long after the issuance of the inaugural bond. “As we grow IDA’s borrowing program, we will also work to maintain IDA’s strong financial condition, prudent financial management, and low operational risks. IDA will also continue to benefit from World Bank Treasury’s 70-year track record of innovation in connecting capital markets to development,” he said.

The target transaction size for IDA’s first bond was $1 billion dollars, but World Bank Treasury received orders of $4.6 billion dollars. Oteh highlighted the fact that IDA’s value proposition was particularly powerful because investors could earn a reasonable return while connecting to a noble purpose. “The success of this transaction is a phenomenal testimony to the work that has been done to position IDA by colleagues within and outside of World Bank Treasury,” said Oteh.

World Bank Treasury provides advisory services to IDA clients, implements IDA’s asset and liability management transactions, and acts as the custodian of IDA’s $30 billion dollars of liquidity—all of which are important factors in IDA’s triple-A rating. The historic IDA debut is evidence of the unique role that the World Bank Group plays in development, using innovation to tackle the most difficult challenges in the world and offering investors an efficient way to contribute to global development.
**Strong World Bank Franchise Positions IDA to Leverage Capital Markets for Development**

- **1947** - IBRD issues its first bond in the international capital markets
- **1951** - IBRD issues its first public offering in the U.K.
- **1968** - IBRD issues its first EUR denominated bond to mark the introduction of the euro
- **1990** - IBRD issues the world's first ever plain vanilla green bond
- **2000** - IBRD issues the first electronic bond (E-bond) offered globally through online platforms
- **2008** - IBRD issues first MDM multi-currency bond mutual fund
- **2009** - IBRD launches world’s first sovereign cat bond advisory program
- **2018** - IBRD issues first ever SDR denominated Mulan Bond (China)

**Key Events**:
- **1981** - IBRD executes the first ever swap (with IBM)
- **1985** - IBRD issues the world’s first ever global bond
- **1990** - IBRD issues first ever bond incentivizing private sector to reduce carbon emissions
- **2000** - IBRD issues first SDR denominated bond issued by a MDB
- **2005** - IBRD partners with the French postal system to offer the first bonds marketed as socially responsible
- **2006** - IFFIm launches its inaugural issue, a $1 billion, 5-year transaction
- **2008** - IFFIm launches its debut issue in the Japanese retail market, a 17 billion South African Rand Undershirt issue
- **2010** - IFFIm issues its first issue in Australia, a 400 million Australian dollar “vaccine” issue
- **2014** - IFFIm makes its debut in the sukuk market, raising $500 million with a 3-year “vaccine sukuk” that is named the Achievement in Transformational Finance for 20% by the Financial Times
“The debut of IDA in the global capital markets is historic. While it is a new bond issuer, IDA is an established institution, with a 60-year track record as the leading source of development finance and expertise for some of the fastest growing economies in the world. As a borrower, it leverages its unrivaled capital position—the largest equity of any multilateral development bank—and decades of strong donor support, a solid track record of repayments, and prudent financial management. Today’s bond issue will allow IDA to tap into the power of capital markets to tackle some of the world’s biggest challenges and help millions lift themselves out of poverty.”

Jim Yong Kim, President, World Bank Group

“With ethical impact investing now established as a key investor requirement, future IDA issuance is a game changer as it will attract further investor demand. The financial sector has a key role to play in channeling private capital towards sustainable initiatives with a positive impact. These bonds support the broader collective effort to achieve the United Nations Sustainable Development Goals (UN SDGs), and contribute towards IDA’s vitally important mission of ending extreme poverty and promoting shared prosperity. As a company that has integrated the UN SDGs into its corporate objectives, BNP Paribas is delighted to be involved with this historic transaction.”

Jean Lemierre, Chairman, BNP Paribas

“The investment fits well into our interest rate portfolio, and furthermore supports value creation from a broader perspective, which we consider to be very positive. IDA is also a credible player with extensive experience working in countries with major challenges. We see this as a way to promote and contribute to sustainable development.”

Lars-Göran Orrevall, Asset Management Manager, Skandia

“J.P. Morgan is honored to lead this debut bond issue and to support the International Development Association’s (IDA) mission to reduce poverty in the world’s poorest countries by financing programs that boost economic growth, reduce inequalities, and improve living conditions. Our collaboration with the World Bank Group on launching this transaction for IDA represents yet another milestone in the long-standing partnership J.P. Morgan shares with the World Bank.”

Jamie Dimon, Chairman and CEO, J.P. Morgan Chase

“IDA has been at the forefront of global efforts to end extreme poverty and build shared prosperity for 60 years. Today marks a momentous step towards realising that founding mission with IDA, once again, innovating on behalf of the countries which are most in need. The eventual impact of today’s inaugural bond will support countries to improve their own peoples’ access to water, education, healthcare and new road infrastructure. Given the scale of IDA’s future ambition, this is clearly the start of a new and exciting era for impact investing. Barclays is deeply proud to play its part.”

Jes Staley, Chief Executive Officer, Barclays Group

“We are very proud to be part of IDA’s first issue and look forward to be part of issues to come. With IDA entering the bond market, we now have an opportunity to source money, safeguarded by the high standards of the World Bank, to the countries where it is most needed.”

Jens Henriksson, President and CEO, Folksam Group

“We are delighted with the success of the inaugural bond of IDA, and welcome this very strong impact issuer in our investment universe. We truly appreciate its mandate and financial profile.”

Hassatou Diop N’Sele, Treasurer, African Development Bank Group
"We at KIC, participated actively in the inaugural issuance of IDA’s note. IDA’s mandate fits well with KIC’s emphasis on ESG investing, and the issue’s attractive pricing was the icing on the cake.”

Tae H. Park, Senior Managing Director, Global FICC Korean Investment Corporation (KIC)

"Congratulations to IDA and the World Bank team on the flawless execution of IDA’s inaugural bond issue and the highest profile new issuer event in recent times. Today’s successful issue will greatly increase IDA’s lending capacity to support the world’s 75 poorest countries. It is a welcome demonstration of how the global capital market can support sustainable social development in the world. Nomura is honored to have had the opportunity to support this important initiative.”

Koji Nagai, President and Group CEO, Nomura Holdings, Inc.

"IDA’s inaugural issue is a rare opportunity for private investors to direct funds towards some of the poorest and most fragile countries in the world. Under IDA 18, financing instruments are expanded to promote resilience, crisis preparedness, and assistance for refugees and their host communities. AIM is very pleased to support these critical initiatives through our investment.”

Stuart Kinnersley, Managing Partner, Affirmative IM (AIM)

"The IDA bond is exactly the kind of issuance long-term, responsible investors like APG want in the market. On behalf of our pension clients, like civil servants’ scheme ABP, we are looking to put a larger amount of capital to work toward sustainable social development. That makes this impactful, high-quality bond a strong fit for our global Developed Markets Debt portfolio. We are proud subscribers to IDA’s historic offering.”

Herman Slooijer, Managing Director Developed Markets Debt APG Asset Management

"The mission of IDA to support the most vulnerable populations in the world, is a goal that we share. The Praxis Impact Bond Fund, over the past 17 years, has worked hard to deliberately invest in projects and loans that reduce poverty in the global community. This new IDA bond is one more step in opening doors of economic opportunity to nations who need it most and we are happy to participate in their inaugural offering.”

Benjamin Bailey, Vice President of Investments, Praxis Mutual Funds

"IDA’s strong capital position, its history of strong donor support, the strong track record of repayments by client countries, its prudent financial and operational management, and its strong governance were instrumental to the success of its inaugural bond transaction. Investors also recognize that IDA is not only an outstanding triple-A credit, but also an opportunity to do good, while doing well!”

Arunma Oteh, World Bank Treasurer
March 2018
- Completion of legal documentation for IDA Debt Issuance Program
- Selection process for Lead Managers
- Due diligence for IDA’s Debt Issuance Program

February 2017–April 2018
Telling the story
- Preparing investor materials, videos, presentation, website and Q&A
- Contacting regulators
- Outreach to:
  - Banking community
  - Sales Forces
  - Central Banks
  - Bank investment portfolios
  - Pension Funds
  - Asset Managers
  - Other investors

2015
- Initial discussions to leverage IDA’s equity

August 2016
- Drafting of legal documentation for IDA Debt Issuance Program

September 2016
- AAA/Aaa rating by S&P and Moody’s

November 2016
- BIS assigns IDA’s risk weighting

December 2016
- IDA 18: record $75bn agreement on financing package

April 2018
- Public appointment of the Lead Managers
- Announcement of the Bond
- Collection of investor orders
- Closing the order book
- Pricing of the Bond
- Secondary market begins

January–December 2017
- System setup: trading, booking, settlement, delivery, payment, and reporting

January 2017–ongoing
- International Swaps and Derivatives Association (ISDAs) agreements with market counterparts

February 2017
- Treasury’s Road Map document for IDA to access the Capital Markets

April 2017
- IDA’s authorization to borrow from the Capital Markets
- IDA’s new risk management framework authorization and implementation

April 2017–February 2018
- IDA’s new risk management framework authorization and implementation

IDA BOND ISSUED!

From IDA Bond Roadshows. Images © World Bank Treasury
CHAPTER 9
Investing in the Future
The World Bank Treasury | IBRD • IDA

In its 70-year history, the World Bank Treasury has had an unparalleled record of performance in the capital markets, innovating, educating, advising, and refining its issuance of sophisticated bonds to simultaneously achieve financial returns and make a positive impact on economic development.

While traditionally investors evaluated their success primarily by financial measures, the World Bank Treasury is pursuing a new approach of “sustainable and responsible investment” broadly and inexorably mixed into mainstream fixed income markets.

Interest in sustainable bond investment is growing everywhere—from issuers to underwriters, retail investors, governments, sovereign and pension funds, as well as wider business communities across the globe. The growing interest is guided by the United Nations Sustainable Development Goals (SDGs), a collection of 17 ambitious and interrelated goals established in 2015 to eliminate poverty by 2030 and promote shared prosperity, as well as the environmental, social and governance (ESG) principles that inform World Bank Treasury’s capital market activities.

In addition, the 2007 financial crisis was a wake-up call for governments, bankers, and the public and private investment communities, demonstrating that issues of good conduct and culture have a systemic importance and should be factored into the investment equation. Driven by a philosophy of “doing good and doing well,” the World Bank Treasury has issued a stream of pioneering bonds that show how funds can be raised from the capital markets for development in a way that can enhance the environmental and social footprint of investment portfolios, especially when accompanied by transparent reporting on the use of proceeds and issuance philosophy and approach of the issuer.

For example, the green bond, first launched by the World Bank Treasury and followed by other multilateral institutions, was once considered a niche, but interest is increasing as climate change takes center stage in the global agenda. Proceeds raised from these instruments are now routinely allocated to projects such as renewable energy, pollution prevention, and conservation on land and in the oceans, and issuers are reporting on the expected environmental results.

These and other landmark instruments first developed by the World Bank Treasury—from global bonds to interest rate and currency swaps, catastrophe bonds to pandemic bonds—are being followed by more innovations including bonds related to raising awareness and promoting gender equality, the SDGs, and other pressing development challenges, such as the need to build climate change resilience.

“We bring our unique vision of financing, knowledge and experience to promote sustainability and to tackle complex challenges such as climate, forced migration, pandemics and natural disasters,” World Bank Treasurer, Arunma Oteh told an investor round table on Sustainable Fixed Income Investing in Washington, D.C. in April 2018. Oteh further remarked, “All the World Bank projects and programs are intentionally designed to achieve a positive social impact and undergo a rigorous review as well as an internal approval process aimed at enabling equitable and sustainable economic growth.”

With its globally recognized brand, triple-A rating and reputation for financial rectitude across international capital markets, the World Bank bonds...
and transformative initiatives linking the financial and development spheres have been a guiding light for many players in the markets. “Clearly, in the areas of innovation and what it’s done, the World Bank Treasury has a track record like nobody else. When you talked globes, when you talked about new currency markets, new products, it has always led the charge. So, it’s definitely an altruistic success,” said Dan Shane—Managing Director of Morgan Stanley, one of the World Bank’s oldest partners—during an interview in London. “Others follow where you lead. So, you have an important role beyond your work as the leading development bank in the world. You have an important role in setting the example for others to follow in the capital markets,” Shane said.

Generational changes, ubiquitous social media, technological leaps, and the growing awareness of income inequality are now driving millennial investors—those born in the 1980s and 1990s—to embrace the idea of “impact investments.” This reflects a growing desire among investors to make a positive difference to society though their portfolios. This is one of the areas of capital market development being closely watched by the World Bank Treasury.

Impact investors typically invest only in projects or financial instruments where a precise beneficial impact can be measured. For example, the funding raised by a particular bond issue can be directly linked to a reduction in the carbon dioxide emitted by a factory or an increase in the number of girls educated in an African or Afghan village. “We see that this is changing as mainstream investors are looking for liquid products with competitive financial returns that also support measurable results that lead to positive impact,” said World Bank Treasury’s Heike Reichelt, Head of Investor Relations and New Products. She further added, “Corporates are also embracing the changing investor behavior by issuing labeled bonds that highlight specific projects and their expected positive outcomes. Transparency around the use of proceeds and expected results is key, so that investors have information about what they are supporting with their investments.”

The aim is to take a holistic approach to achieving a sustainable return on an investment, not only in financial terms but also in pursuit of goals that would benefit the wider society and the planet. The World Bank Treasury is exploring what it calls “active impact investments.” This involves a methodology to incorporate attractive returns—so that the broad socioeconomic goals are met, and the risk-return calculation is sufficiently alluring to make such investments attractive and expand the mainstream market. Consistent measures and ratings are still a work in progress, and World Bank Treasury experts are pursuing more and better data. The very fact that an ESG investor wants to have a positive impact will affect the strategy and pricing in a bond issue and the wider portfolio.

As an asset owner, the World Bank Group is actively pursuing integration of ESG into its own Post-Retirement Benefit Plan, which has around $26.8 billion under management and is a signatory to the Principles for Responsible Investment (PRI). “We began 12 years ago to integrate ESG and, of course, it has evolved,” said Marcelo Jordan, Senior Portfolio Manager for ESG of the World Bank Pension Plan.

Initially, ESG focused on mostly corporate governance. “As asset managers and asset owners, we have a duty to make responsible investment decisions that not only enhance our individual portfolio returns and better manage risk but also promote a sustainable financial system and society. The quality of our institution is what has driven our success and that, along with our financial condition and prudent management of the World Bank’s resources, coupled with the strong support of our shareholders, shows our financial strength,” said John Gandolfo, Chief Investment Officer of the World Bank Pension Plan.

Today, the World Bank Treasury is active in over 130 countries worldwide and makes an average of 1,700 payments with a value of $30 billion per business day.

Leveraging Technology

Today, the World Bank Treasury is active in over 130 countries worldwide and makes an average of 1,700 payments with a value of $30 billion per business day.
Such scale demands the highest quality, security, and resilience of our World Bank Treasury Operations. The World Bank Treasury continuously invests in financial technologies and services to sustain our capacity to safeguard our business, innovate on behalf of our clients, align with our development mission, and ensure alignment with global financial market standards.

Currently, the World Bank Treasury Operations is looking to leverage new technologies and services for asset management in areas such as reconciliation, payments, securities clearing, and settlements. “We are now looking to leverage the marketplace itself, using cloud-based solutions to satisfy technology needs,” said Gary Rice, Head of World Bank Treasury Investment Operations. “So, we’re really taking advantage of what’s in the marketplace to satisfy our needs, offering greater efficiencies, and automating many processes in order to better support the business.”

Behind the scenes, a robust infrastructure of systems and controls along with a well-established operational risk framework underpin the borrowing, lending, and investing activities of the World Bank Treasury. Our culture of continuous improvement, operational excellence, and resilience has enabled the World Bank Treasury Operations to sustain the rapid growth in these activities, support the remarkable sequence of world firsts in the capital markets from the first formal swap to the pandemic bond, to handling the impact of enormous planned changes such as the adoption of the euro in 1999 and unplanned events such as the turmoil of the financial crisis in 2007.

“**We are proud of the work we have done together to foster sustainable growth around the world and we look forward to continued innovative and sustainable collaboration with the World Bank.**”

Brian T. Moynihan, Chairman and Chief Executive Officer, Bank of America
Financial markets change rapidly in response to regulatory obligations, advancing technology, and market competition. Disruptive financial technologies, known as FinTech, are becoming a prominent new feature of this financial landscape, so the World Bank Treasury is working alongside the recently created World Bank Innovation Laboratory to drive learning and discovery in this area. In addition, collaboration with major banks, FinTech firms, and government agencies will help World Bank Treasury and our clients navigate and benefit from this new landscape in the future.

“The World Bank expects FinTech such as blockchain to drive innovation in securities markets and cross border payments in the coming years. We aim to be at the forefront of this innovation for our own business, and to use it and our global financial operations and market presence to advance the World Bank’s development agenda,” said Paul Snaith, Head of World Bank Treasury’s Capital Markets and Payments Operations.

Looking Forward

The products and services offered by the World Bank Treasury, as well as the markets in which it operates, have expanded dramatically over the past seven decades. From a world in 1947 where the World Bank could only issue bonds and invest in the United States, the World Bank Treasury is now active in markets and currencies across the globe. The services offered by the World Bank Treasury to our member countries now encompass a diverse range of activities, from asset management to sovereign debt management, to disaster risk management, that could not have been foreseen in 1947, and the volume of transactions processed daily—around $30 billion—would have been unimaginable 70 years ago.

Despite all these changes, the fundamental mission of the World Bank Treasury remains the same today as when the institution was created—to leverage the capital markets for economic development while safeguarding the financial integrity of the World Bank. The guiding principles under which the World Bank Treasury operates have stayed constant through those years. An unwavering dedication to risk management, a desire to push the boundaries of market and technological change, a willingness to innovate and to move first and a responsiveness to the needs of investors, counterparties and clients—these traits have been the hallmarks of the World Bank Treasury from the beginning.

While specific products change, the overarching themes of the World Bank Treasury work remains consistent. 10 years after its inaugural green bond issue, the World Bank Treasury expanded its range of sustainable bond offerings to include bonds focused on key development priorities such as gender, health, education and the “blue economy.” 18 years after issuing the world’s first fully electronic bond, the World Bank Treasury issued the world’s first floating rate note linked to Canadian Treasury bill rates, the World Bank Treasury issued its first floating rate note linked to the Secured Overnight Financing Rate (SOFR). 36 years after it entered into the first formal swap agreement, the World Bank Treasury executed swap transactions covering pandemic risk in the poorest countries in the world 70 years after issuing its first bond for $250 million for the International Bank for Reconstruction and Development, the World Bank Treasury issued the first bond for $1.5 billion for the International Development Association.

As we look to the future, the World Bank Treasury will continue to build on and pursue its 70-year old mission. Grateful for the legacy left by the immensely talented colleagues who came before us and highly motivated by the World Bank Group’s twin goals of ending extreme poverty and building shared prosperity in a sustainable manner, the World Bank Treasury will work to prove every working day—that capital markets can be used for good.

“Groundbreaking deals arranged by CastleOak—like the World Bank’s inaugural $1 billion Fed Funds floating rate note, and the first Zero Coupon Escrow Note—demonstrate the World Bank’s innovative and creative approach to funding sustainable development in parts of the world that need it the most, yet in many cases lack access to other funding sources.”

David R. Jones, President & Chief Executive Officer, CastleOak Securities

The tramway service between Rabat and Salé cities was opened on May 23, 2011. The total length of the dual-line tramway network is 19.5 km with 31 stops. The mass transit system is expected to bring many economic and social benefits. The average daily ridership on the tramway service is expected to be 150,000 a day. Photo © Arne Hoel / World Bank
“At the World Bank Treasury, we know that we stand on the shoulders of giants. It is for this reason, that our work everyday is informed by the collective legacy of our former World Bank Treasurers and colleagues.”

Arunma Oteh, World Bank Treasurer

2003
Emerging Market Magazine Best Multilateral Deal in a Regional Currency for the World Bank's first fully electronic auction and Emerging Market Magazine issuance in regional currencies, including Japanese Yen and Hungarian Forint

2006
KangaNews Kangaroo Issuer of the Year

2007
1st MTN Awards–Landmark Deal–USD50m Fixed-Rate Callable Notes due 2012

2010
Credit Suisse Supranational Bond of the Year for Treasury's US$5 billion global benchmark bond issued in May 2010

2011
KangaNews Kangaroo Issuer of the Year

2012
EuroWeek Award for the World Bank's $57 billion 3.5% global bond issued on October 5, 2012 as one of the 25 most influential deals over the last five years

2013
KangaNews Kangaroo Issuer of the Year

2014
KangaNews Kangaroo Supranational, Sovereign, and Agency Bond Deal of the Year for A$300 million 3.50% April 2019 Green Bond

2015
KangaNews Kauri Issuer of the Year

2016
SRI Capital Markets
• Most Innovative Green/SRI Bond Issuer
• Best Deal of the Year for Green Bonds Linked to Ethical Exclusions
• Structured Products Association

2017
Global Capital Annual Bond Award
• Most Impressive Sovereign Funding Team
• Most Impressive Sovereign Funding Team – Dollars
• Nomination for Most Impressive Funding Official

2018
Ceres and Trillium Asset Management Joan Divan Award for Building Sustainability into the Capital Markets

2019
Sovereign Award: Most Innovative Sovereign and Agency Bond Deal of the Year for A$850 million 2.60% September 2022

2020
Sovereign Award: Most Innovative Sovereign and Agency Bond Deal of the Year for A$850 million 2.60% September 2022

2021
Sovereign Award: Most Innovative Sovereign and Agency Bond Deal of the Year for A$850 million 2.60% September 2022

2022
Sovereign Award: Most Innovative Sovereign and Agency Bond Deal of the Year for A$850 million 2.60% September 2022
Acknowledgements

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Jane Monahan (Project Manager)
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Renée Loricah
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Stephanie Bassearen
Myra Gojo
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Endnotes


24 Interview with author Christopher Wilson, April 28, 2018.


27 "The total notional of currency and interest rate contracts per BIS data as of December 31, 2017. BIS data as of 12/31/17. https://www.bis.org/publ/hy1805.htm.


