



CHAPTER 9

Investing in the Future



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

A woman fetching water in the artesian well in Pakistan. Artesian wells have greatly improved the quality of life in the village. Photo © Caroline Sugman / World Bank



The United Nations Sustainable Development Goals (SDG) icons

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,”⁶³ 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.”⁶⁴

With its globally recognized brand, triple-A rating and reputation for financial rectitude across international capital markets, the World Bank bonds



The government's National School Meal Program, supported by the World Bank, has been providing free lunches to students from poor, rural provinces in Laos. Oudomxay province, Lao PDR. Photo © Bart Verweij / World Bank

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 globals, 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.⁶⁵

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 through 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



Neelaab, a second-grader and her classmates, under the Education Quality Improvement Program in Afghanistan on May 11, 2015. Photo © ABBAS Fargami / Rumi Consultancy / World Bank

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. We now have a more holistic approach, aiming to incorporate all relevant and material environmental, social and governance issues that may affect the relative value of our investments. Our recently revised ESG policy also aspires to pursue the long-term sustainability of the businesses where we are invested and also the systems and societies in which they operate and where their revenues come from,” said Jordan. “We want to help investors understand the relationship with development and sustainability and we are trying to get to the point where we have specific, measurable data that will inform other market participants. Investors usually look at the

World Bank as the reference point for development data—economic growth and social data,” said Jordan.

“After careful review of the PRI, we decided that implementing the principles put forth by this pioneering organization is a natural step for us in the evolution of our responsible investment and ESG practices,”⁶⁶ said John Gandolfo, Chief Investment Officer of the World Bank Pension Plan.

“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,”⁶⁷ Oteh said.

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.

“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

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,”⁶⁸ 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.”⁶⁹

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.



Blockchain network concept. Photo © monsiti / iStock

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 blockchain bond](#). 34 years after it issued its 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 180,000 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

