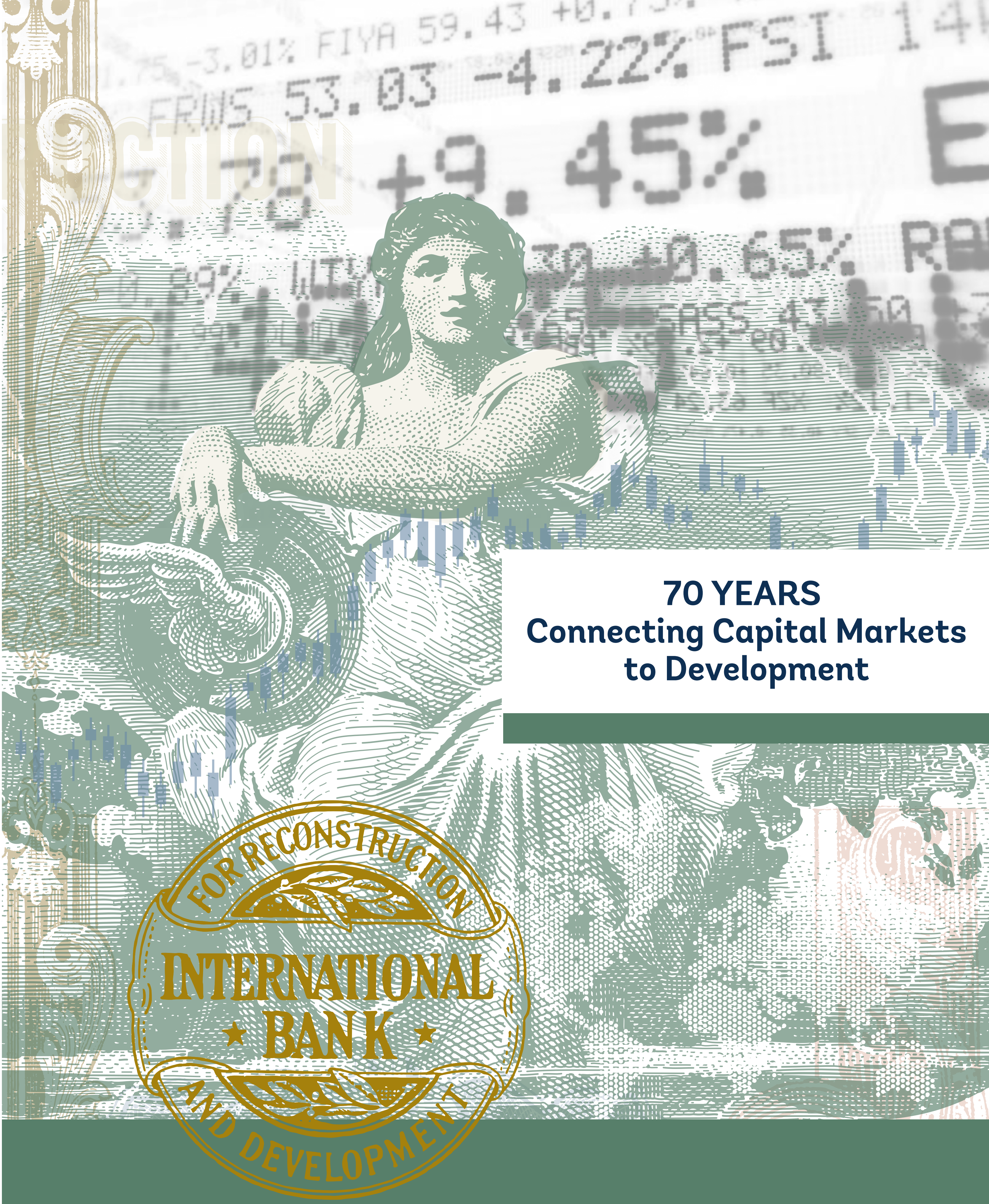

70 YEARS
Connecting Capital Markets to Development

THE WORLD BANK
Treasury | IBRD • IDA

70 YEARS
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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 counterfeit 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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Trading Floor of the New York Stock Exchange
Photo © Airgeadais / Flickr

"End Poverty" display at the World Bank Main Complex Atrium
Photo © Jane Manahan / World Bank

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#IDA

Group of happy African children, East Africa
Photo © Bartosz Hadyniak / iStock

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

World Bank Group President, Jim Yong Kim (center) talks with Syrian refugees, Abdel Hakim Barash (middle left), Sundos (bottom left), Lama (bottom center) and Khaled (bottom right) at the Jordan Health Aid Society Clinic in the Zaatari refuggee camp in Jordan, located 10 km east of Mafraq, Jordan on June 04, 2014. Photo © Dominic Chavez / World Bank

Students wash their hands before eating prepared meal at the Hope Kindergarten Elementary School in Tarbarr Community in Buchanan City, Liberia on June 25, 2016. Photo © Dominic Chavez / World Bank

REFLECTIONS FROM WORLD BANK CHIEF EXECUTIVE OFFICER

Kristalina Georgieva

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.

October 19, 2017. On End Poverty Day 2017, World Bank CEO Kristalina Georgieva joins staff to place the final piece on the #EndPovertyMosaic in the atrium of the World Bank Headquarters in Washington, D.C. Photo © Simone D. McCourtie / World Bank

Kindergarten students from Bertolt Brecht School walk through the Plaza de Armas in Lima, Peru on June 28, 2013. Photo © Dominic Chavez / World Bank

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.

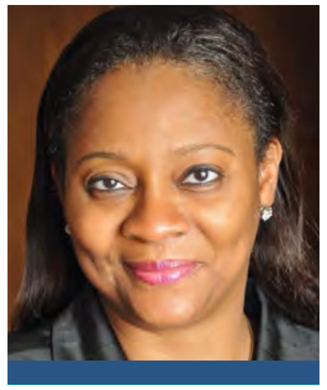
We are grateful to everyone who has joined us on this 70-year journey, and I am sure we will see even more streams of innovation as we continue working to deliver sustainable financing for the future.

Former World Bank Group President, James D. Wolfenson (center) at the World Bank Treasury Annual Meetings' reception with current World Bank Treasurer, Arunma Oteh (left) and World Bank Group Managing Director and Chief Financial Officer, Joaquim Levy (right), 2017. Photo © World Bank Treasury

Children playing together in a village in Sa Pa, Lao Cai Province, Vietnam. September 11, 2017. Photo © quangpraha / iStock

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 $7.2 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.

World Bank Treasurer, Arunma Oteh on a mission visit to "Community Based Disaster Risk Management Project" in Kanchipuram District, India. Photo © World Bank Treasury

Bretton Woods, New Hampshire, 1946.
Photo © World Bank Archives

PROLOGUE

Bretton Woods—Genesis of the World Bank

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.

Chairmen of Delegations attending the United Nations Monetary and Financial Conference (Bretton Woods, New Hampshire), July 1–22, 1944.
Photo © International Monetary Fund

"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."

Gary Perlin, World Bank Treasurer, 1996–1998

1944

1944 BIRTH OF THE WORLD BANK

1946 BANK BEGINS OPERATIONS IN JUNE

1947

1947 FIRST BOND ($250 MM)

1948 FIRST ISSUE OUTSIDE U.S. (SWISS PRIVATE PLACEMENT)

1949 SEC EXEMPTION FOR WORLD BANK BONDS

1950

1951 FIRST PUBLIC OFFERING OUTSIDE U.S. (UNITED KINGDOM)

1957 FIRST CENTRAL BANK PLACEMENT (SWITZERLAND)

1959 WORLD BANK ACHIEVES TRIPLE-A RATINGS

1960

1968 ISSUE IN 10TH CURRENCY (KUWAITI DINAR)

1968 FIRST PUBLIC OFFERING IN MIDDLE EAST (KUWAIT)

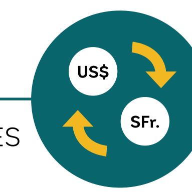
1970

1971 FIRST PUBLIC OFFERING IN ASIA (JAPAN)

1974 ISSUE IN 15TH CURRENCY (VENEZUELAN BOLIVAR)

1974 FIRST PUBLIC OFFERING IN LATIN AMERICA (VENEZUELA)

1980



1981 WORLD BANK EXECUTES FIRST FORMAL CURRENCY SWAP

1985 WORLD BANK CREATES "SHOGUN BONDS" IN JAPAN

1988 ISSUE IN 25TH CURRENCY

1989 WORLD BANK CREATES "GLOBAL BONDS"

1990

1998 FIRST ISSUE IN EUROS

2000

2000 FIRST "E-BOND"

2005 "SUSTAINABLE DEVELOPMENT" DEPOSIT WITH LA POSTE IN FRANCE

2008 FIRST "GREEN BOND"

2009 ISSUE IN 50TH CURRENCY (NIGERIAN NAIRA)

2010

2014 FIRST "CAT" BOND

2016 FIRST "MULAN" BOND

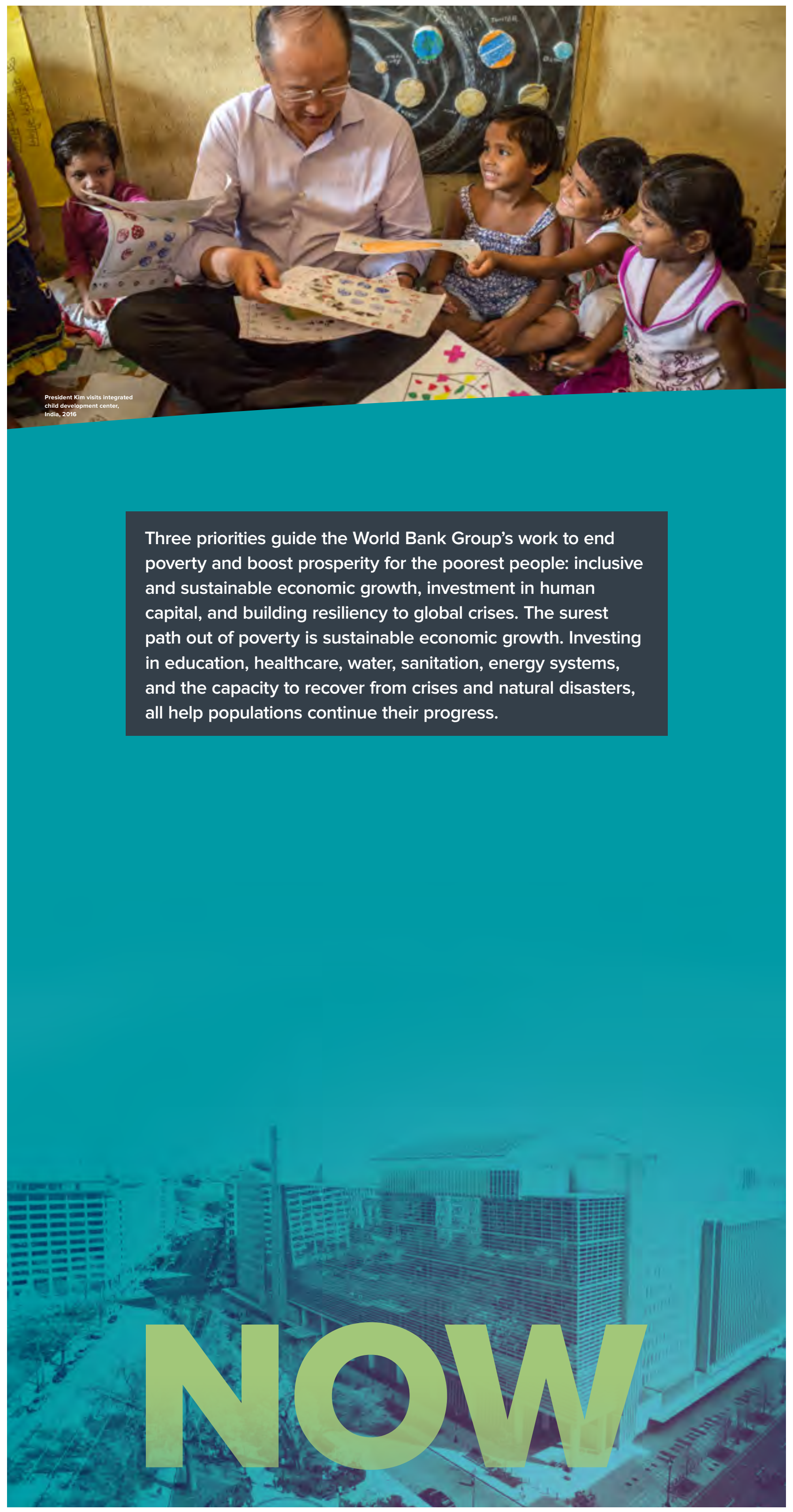
2017

2017 FIRST "SDG-LINKED" BOND

2017 FIRST "PANDEMIC" BOND

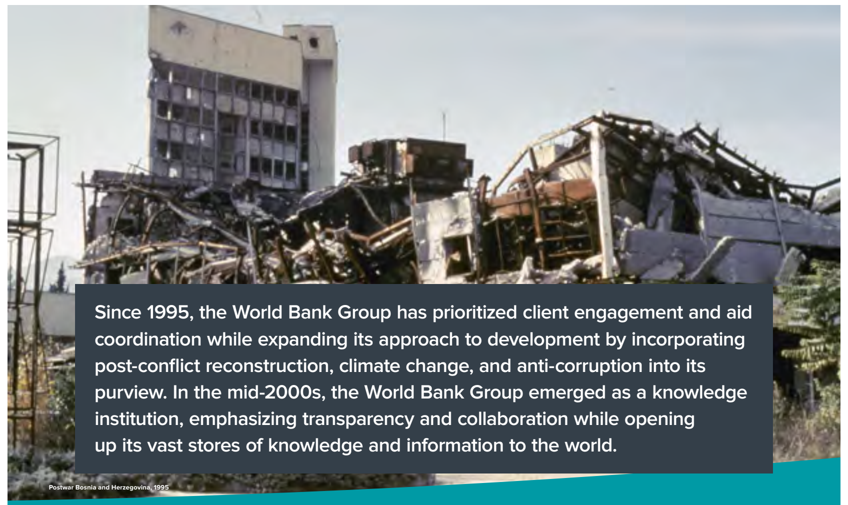
PANDEMIC EMERGENCY FINANCING FACILITY

World Bank Group History (2004–2018)



World Bank Group History (1983–2003)

President Wolfensohn meets with debt relief advocates in Nigeria, 1999



Since 1995, the World Bank Group has prioritized client engagement and aid coordination while expanding its approach to development by incorporating post-conflict reconstruction, climate change, and anti-corruption into its purview. In the mid-2000s, the World Bank Group emerged as a knowledge institution, emphasizing transparency and collaboration while opening up its vast stores of knowledge and information to the world.

Postwar Bosnia and Herzegovina, 1995

2000s

DECEMBER — World Bank Group begins its annual Community Connections charity campaign

FEBRUARY 2003

World Bank Group approves first Programmatic Adjustment Loan

The $150 million Programmatic Adjustment Loan for the Republic of Bulgaria focuses on sustaining structural reforms, establishing a market business environment, strengthening the financial sector, improving public sector governance, and investing in human capital by promoting social programs.

JULY

Commercial banks adopt IFC model for Equator Principles

IFC's Performance Standards on Environmental and Social Sustainability become globally recognized as good practice in dealing with environmental and social risk management.

NOVEMBER

Master Derivatives Agreement results in first swap transaction

The government of Bulgaria and the World Bank Group sign a Master Derivatives Agreement (MDA), which allows the government of Bulgaria to use a range of hedging products linked to existing Bank Group loans to assist Bulgaria in reducing its currency and interest rate risks. These hedging products include currency swaps; interest rate swaps; caps and collars; and, on a case-by-case basis, commodity swaps.

JUNE 2002

World Bank Group appoints Disability Advisor

World Bank Group appoints Judith E. Heumann as its first Disability and Development Advisor. The appointment serves as a vital step in bringing marginalized populations into the mainstream of development by highlighting the importance of disability in Bank Group discussions with client countries and in its country-based analytical work and policy development.

MARCH 2000

International Financial Institution Advisory Commission releases its report

Authorized by the U.S. Congress in November 1998, the International Financial Institution Advisory Commission (also known as the Meltzer Commission) provides recommendations on U.S. policy toward the Bretton Woods institutions and other multilateral institutions. The report is highly critical of the World Bank Group and International Monetary Fund and recommends they be radically reduced and restructured.

APRIL

President Wolfensohn welcomes Jubilee 2000 debt relief rally

MARCH 1999

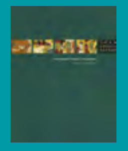
Executive Directors endorse Comprehensive Development Framework

The Comprehensive Development Framework (CDF) addresses the lack of inclusion in the development process by those most in need and at risk. The CDF focuses on four interrelated principles and objectives to be pursued at the country level: a long-term vision and strategy, enhanced country ownership of development goals and actions, more strategic partnership among stakeholders, and accountability for development results.

SEPTEMBER

World Bank Group launches new HIV/AIDS strategic plan

World Bank Group launches a strategy detailed in the publication, *Intensifying Action Against HIV/AIDS in Africa: Responding to a Development Crisis*. The strategy warns that the AIDS crisis may undo the development achievements of the previous 30 years in Africa. The Bank Group was an early participant in the international fight against HIV/AIDS, investing in health projects with HIV/AIDS components as early as 1987 and funding its first freestanding AIDS project in Zaire in 1989.



DECEMBER 1998

IFC emphasizes sustainability

IFC adopts new environmental and social review procedures and safeguard policies.

APRIL 1997

Strategic Compact funding approved

The Strategic Compact consists of a number of initiatives aimed to clarify the objectives of the World Bank Group and address issues of accountability. Its goals include improving responsiveness to client needs, developing a broader range of products and services, shifting resources to the front line, further decentralizing Bank Group activities, rebuilding staff expertise and technical capacity, and better sharing of global knowledge on development with clients and partners.

OCTOBER 1996

Heavily Indebted Poor Countries initiative approved

World Bank Group and the International Monetary Fund jointly approve the Heavily Indebted Poor Countries Debt Initiative, a comprehensive approach to relieve the high external debt burdens of some of the poorest nations. The initiative, which will be further expanded and enhanced in 1999, represents a major innovation in development finance.

MARCH 1995

James D. Wolfensohn becomes World Bank Group President

Republic of Korea becomes first to progress from concessional borrower to IBRD graduate

As a result of rapid economic development over three decades, South Korea first progresses from an International Development Association (IDA) recipient to an IDA donor and then graduates from International Bank for Reconstruction and Development eligibility. This transition marks the first time a member achieves both of these feats.

Public transportation, Latvia, 1993

1990s

50 years 1994

World Bank Group celebrates its 50th anniversary

World Bank Group commemorates its 50th anniversary amidst protests from environmentalists, human rights advocates, and some competing aid groups. With a renewed focus on its clients and greater engagement with non-governmental organizations and civil society, the World Bank Group embarks on a campaign of promoting broad-based economic growth, investing more in human development programs, increasing diversity, and protecting the environment.

DECEMBER — Gay, Lesbian, and Bisexual Employees of the World Bank Group (GLOBE) forms

FEBRUARY — World Bank Group implements a no-smoking policy in all buildings

SEPTEMBER 1993

Board of Executive Directors creates Independent Inspection Panel

The Board of Directors establishes the World Bank Group Inspection Panel to conduct independent investigations of projects to determine whether the Bank Group is following its operational policies and procedures. The panel is created in response to increasing concerns with the accountability and transparency of operations, prompted by mounting criticism from non-governmental organizations and echoed by influential circles in certain member countries.

1992

Post-Soviet states join World Bank Group

As a result of the dissolution of the Soviet Union in December 1991, the post-Soviet states that emerge as new countries seek membership in the institutions of the World Bank Group over the next several years.

JUNE

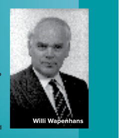
Independent review of Sardar Sarovar project published

In response to major criticism of the Indian Sardar Sarovar dam project in the areas of resettlement and environment, the World Bank Group requests an independent review. The resulting report, known as the Morse Study, finds that both the Indian government and the World Bank Group are responsible for the project's failures. At the request of the Indian government, the Bank Group will cancel the remainder of the loan in 1993.

NOVEMBER

Independent task force submits Wapenhans Report to the Executive Directors

President Preston requests an independent review of operations in response to criticism that operations are not adhering to required policies and procedures. The Wapenhans Report, named after task force lead Willi Wapenhans, finds that the drive to approve as many loans as possible is harming portfolio quality. The report recommends policy and practice changes, including an increase in stakeholder engagement during the design and implementation phases and the creation of an independent inspection panel.



Willi Wapenhans

1991

Lewis T. Preston becomes World Bank Group President

NOVEMBER 1990

Global Environment Facility launches

The Global Environment Facility (GEF), jointly administered by the World Bank Group, United Nations Development Programme, and United Nations Environment Programme, begins as a three-year pilot project that provides grants for activities to protect the global environment. Investments initially take place in four areas of global interest: international waters; biodiversity; climate change; and, under the terms outlined in the Montreal Protocol, the ozone layer.

The Bank Group initially undertakes the chairmanship of GEF, but in 1994 participating governments will agree to restructure GEF and replenish its core fund, making it a permanent institution separate from the Bank Group.

Girls at computers, Brazil, 1988

SEPTEMBER 1989

MARCH — Renovation of World Bank Group headquarters begins

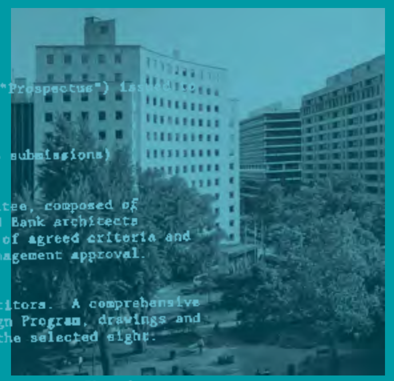
World Bank Group offers first global bond

IN COMPLEX REHABILITATION PROJECT

ARCHITECTURAL/ENGINEERING DESIGN COMPETITION

A Brief Summary of Key Dates (March - November 1989)

March 16, 1989
Board approval of the Project



APRIL 1988

World Bank Group establishes Multilateral Investment Guarantee Agency (MIGA)

MIGA begins operations after more than 25 years of work on the part of World Bank Group staff to establish an agency to promote equity investment and other forms of foreign direct investment in developing countries by private investors. MIGA offers investment guarantees to investors, provides advice and technical assistance to governments of developing countries, and facilitates consultation between member governments and the international business community.

1986

Barber Conable becomes World Bank Group President

JANUARY 1985

World Bank Group grants World Food Programme $5 million

JANUARY 1983

"B-loans" introduced

The "B-loan" is a new cofinancing approach that links part of commercial bank capital flows to the operations of the World Bank Group. This helps borrowers mobilize commercial bank finance for investments on better terms and conditions than would be possible without the Bank Group's involvement.

FEBRUARY

***World Debt Tables* made public for first time**

World Bank Group History (1962–1982)

Hydroelectric dam project, Sri Lanka, 1982

Anne Krueger becomes first female Vice President

SEPTEMBER 1982

IDA in Retrospect published

President Clausen commissions the study, *IDA in Retrospect*, to garner support for the International Development Agency (IDA), whose existence is threatened by budget constraints and adverse economic conditions. The study seeks to present an objective analysis of IDA's accomplishments during its first 20 years, describing both successes and failures, while arguing for continued support from member nations.

A. W. Clausen becomes World Bank Group President

1981

IFC coins phrase "emerging markets"

IFC introduces the term "emerging markets," changing the financial world's perception of developing countries and defining a new asset class.

MARCH 1980

Brandt Commission releases report

President McNamara forms the Independent Commission on International Development Issues, or Brandt Commission, led by Chairman Willy Brandt, to make recommendations on ways to break through the perceived political impasse in North-South negotiations on global development. The report suggests a number of pragmatic proposals to reduce economic disparities between wealthy and developing countries and examines international issues such as food and agricultural development, aid, energy, trade, international monetary and financial reform, and global negotiations.

World Bank Group approves first Structural Adjustment Loan

Structural Adjustment Loans (SALs) reduce the medium-term account deficits of a borrowing country while supporting adjustment programs, which include specific policy changes designed to strengthen a country's balance of payments. Turkey receives the first SAL for $200 million to reduce inflation, increase foreign exchange earnings, and improve domestic resource mobilization in the public and private sectors.

JULY 1979

World Bank Group establishes Administrative Tribunal

emerging markets

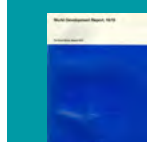
APPROVAL
CLEARANCE
COMMENT
FOR ACTION
INFORMATION
INITIAL
NOTE AND FILE
NOTE AND RETURN
NOTE AND SEND ON
PER OUR CONVERSATION
PER YOUR REQUEST
PREPARE REPLY
RECOMMENDATION
SIGNATURE
URGENT
REMARKS: For discussion at the Division Chiefs' Meeting on Monday, July 26.
FROM: Lourdes
ROOM NO.
EXTENSION.

Village affected by river blindness in Upper Volta (Burkina Faso), 1974

AUGUST 1978

First *World Development Report* published

The *World Development Report*, an annual publication authored by staff from across the institution, provides external audiences with comprehensive assessments of topical global development issues. The first report identifies "a number of fundamental problems confronting the developing countries and [explores] their relationship to the underlying trends in the international economy."



JANUARY 1977

Women in Development adviser named

Gloria Scott becomes the first Adviser on Women in Development, whose role promotes an understanding of key gender-related issues and ways to address them in operational work.

JULY 1975

"Third Window" financing approved

The Intermediate Financing Facility, or "Third Window" financing, provides development assistance to eligible countries on terms between those of the International Bank for Reconstruction and Development and the International Development Association. The new financing becomes effective in December 1975 after pledges of $100 million to the Interest Subsidy Fund are received.

Staff Association

FEBRUARY 1972

World Bank Group Staff Association created

MAY 1973

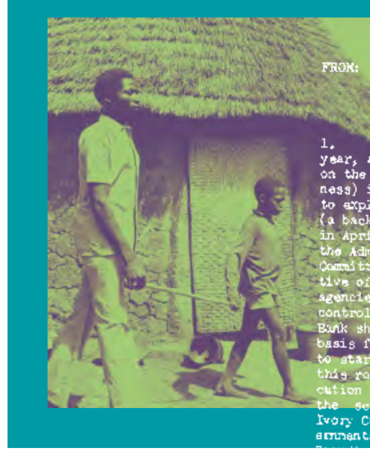
World Bank Group joins efforts to fight river blindness

After visiting Upper Volta (now Burkina Faso) in 1972 and seeing first-hand the devastation brought on by the disease onchocerciasis (also known as river blindness), President McNamara proposes a multidonor program to control the disease in Western Africa. Together with the Food and Agriculture Organization, the United Nations Development Programme, and the World Health Organization, the Bank Group launches the Onchocerciasis Control Programme (OCP), assuming responsibility for fund raising, donor coordination, and fund administration. The OCP will prove to be one of the most effective cofinancing operations.

SEPTEMBER

President McNamara delivers historic Nairobi speech

In his speech to the Board of Governors at the 1973 Annual General Meeting in Nairobi, Kenya, President McNamara describes how 800 million people live in "absolute poverty" and warns that official development assistance is inadequate. He proposes a strategy for rural development with an emphasis on productivity of small holder agriculture. In the five years immediately following this speech, Bank Group financing of development efforts will increase by over 40%.



April 16, 1973

FROM: The President

Control of Onchocerciasis in Western Africa

1. The Executive Directors will recall that in March of last year, after returning from a visit to Western Africa, I reported on the efforts being made to control onchocerciasis (riverblindness) in the Volta river basin and adjoining areas and proposed to explore the possibility of Bank Group support for these efforts (a background note on onchocerciasis is attached). Subsequently, in April 1972, I met with the Directors General of WHO and FAO and the Administrator of UNDP, and we agreed to set up a Steering Committee for Onchocerciasis Control, consisting of a representative of each of the four agencies, to coordinate action by these agencies in the planning and implementation of an onchocerciasis control program. The Steering Committee has recommended that the Bank should take the lead in mobilizing funds on an international basis for financing the first phase of the program, which is due to start early in 1974, and I propose that the Bank should assume this role. Primary responsibility for the organization and execution of the program will remain with WHO, working in concert with the seven African governments concerned, namely Dahomey, Ghana, Ivory Coast, Mali, Niger, Togo and Upper Volta. Six of these governments, together with France, are members of the Organisation de

By the 1970s, over 40% of people in developing countries lived in absolute poverty. In response, the World Bank Group aimed to reach the poor directly by dramatically increasing investment and turning its attention to new areas of sustainable and social development: education, gender, governance, health, sanitation, urban issues, and food production.

Livestock development program, Paraguay, 1969

CGIAR

MAY 1971

Consultative Group on International Agricultural Research (CGIAR) convenes

Co-sponsored by the World Bank Group, the Food and Agriculture Organization, and the United Nations Development Programme, CGIAR serves as an informal association of more than 40 public and private donors supporting a network of international agricultural research centers. The Bank Group provides CGIAR with funding and offices as well as a rotating Vice President to serve as CGIAR chairman.

SEPTEMBER 1970

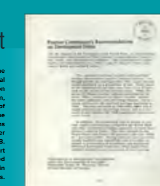
Operations Evaluation Unit established

President McNamara establishes the Operations Evaluation Unit to build a system that would measure the organization's accomplishments and project effectiveness and contribute to improved performance on the ground. The unit initially reports to the Programming and Budgeting Department and consists of just five staff members. In 1975, the unit will gain independence when it begins reporting directly to the Executive Directors.

SEPTEMBER 1969

Pearson Commission submits *Partners in Development* report

President McNamara forms the Commission on International Development, or the Pearson Commission as it becomes known, to review the previous 20 years of development assistance, assess the results, and make recommendations for the future. Led by former Canadian Prime Minister Lester B. Pearson, the commission's report makes a strong case for continued and increased investment in developing countries.



Robert S. McNamara becomes World Bank Group President

1968

1970s

1967 class of Junior Professionals

OCTOBER 1966

International Centre on the Settlement of Investment Disputes (ICSID) created

In response to an increasing number of requests for the World Bank Group to serve as mediator between investors and governments, ICSID is designed to act as an impartial international tribunal to encourage foreign private investment by resolving disputes through conciliation and/or arbitration.

JUNE 1964

IDA's first replenishment becomes effective

IDA is funded primarily by periodic replenishments by its wealthier members. The first IDA replenishment provides $753 million for credits to be disbursed over the next four years.

George D. Woods becomes World Bank Group President

1963

Eighteen newly independent African countries join the World Bank Group

JUNE 1962

World Bank Group launches Junior Professionals Recruitment and Development Program

World Bank Group launches the Junior Professionals Recruitment and Development Program to attract young, exceptionally bright, and highly educated professionals from all over the world to join its fight against poverty. The program represents a major shift in the Bank Group's recruitment process, which up until 1962 only included recruitment of mid-career professionals.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
ROUTING SLIP
Date 6/20/60
NAME
ROOM NO.

World Bank Group History (1944–1960)

Timeline of the World Bank Group at the World Bank Group Visitor Center in Washington, D.C. Art by Will Kemp / World Bank. Text & timeline by World Bank Group Archives

Normandy, France, June 1944. Villages and city in ruins after the bombing and fighting, World War II. Photo © MGPhoto76 / 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."[1]

(top and right) The World Bank and IMF Boards of Governors meet at the Oglethorpe Hotel in Savannah, Georgia, from March 1–18, 1946. Photo © Internationl Monetary Fund / Flickr

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.

Eugene Meyer
1st World Bank President
Photo © World Bank Archives

John J. McCloy
2nd World Bank President
Photo © World Bank Archives

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 have proved to be in the wrong."[2]

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.

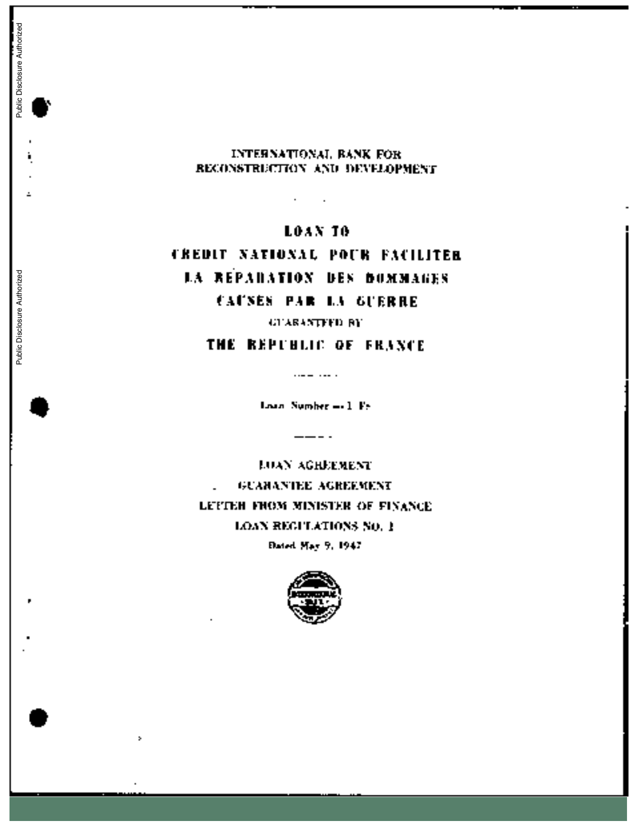
Entrance to World Bank and International Monetary Fund headquarters when first opened, June 25, 1946, at 1818 H Street. Photo © World Bank Archives

Daniel Crena de Iongh
1st World Bank Treasurer
1946–1952
Photo © World Bank Archives

Crena de Iongh'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 Iongh 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."[3]



INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

LOAN TO
CREDIT NATIONAL POUR FACILITER
LA REPARATION DES DOMMAGES
CAUSES PAR LA GUERRE
GUARANTEED BY
THE REPUBLIC OF FRANCE

Loan Number 1 Fr

LOAN AGREEMENT
GUARANTEE AGREEMENT
LETTER FROM MINISTER OF FINANCE
LOAN REGULATIONS No. 1
Dated May 9, 1947

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 Iongh.[4] Two months later it issued its first bond.

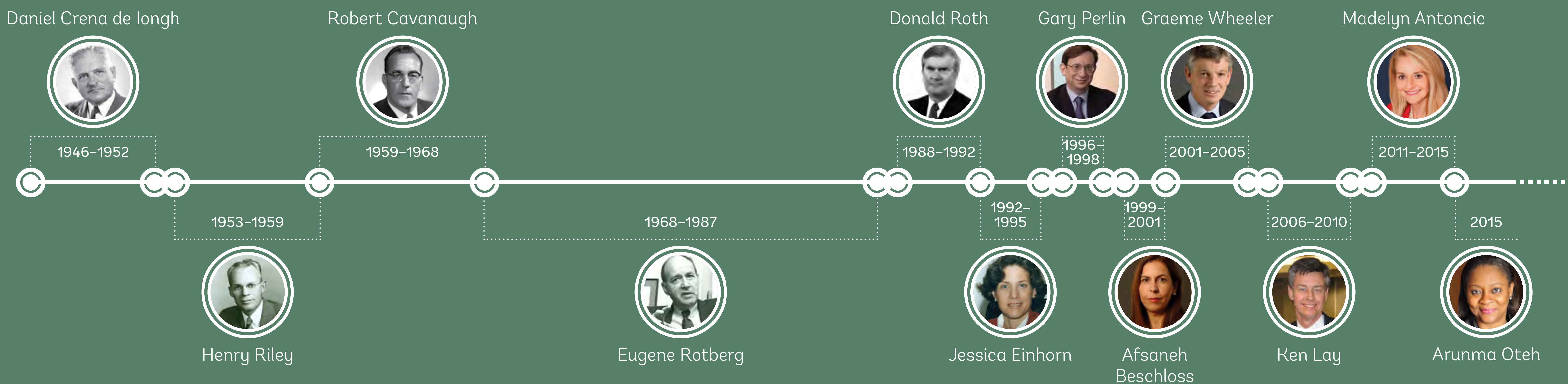
"Since its creation in the aftermath of World War II, the World Bank Group has been standing for trust, stability and creditworthiness in the capital markets."

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



Stock market indicator and financial data view from LED.
Photo © phongphan5922 / iStock

CHAPTER 2

First Bond

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

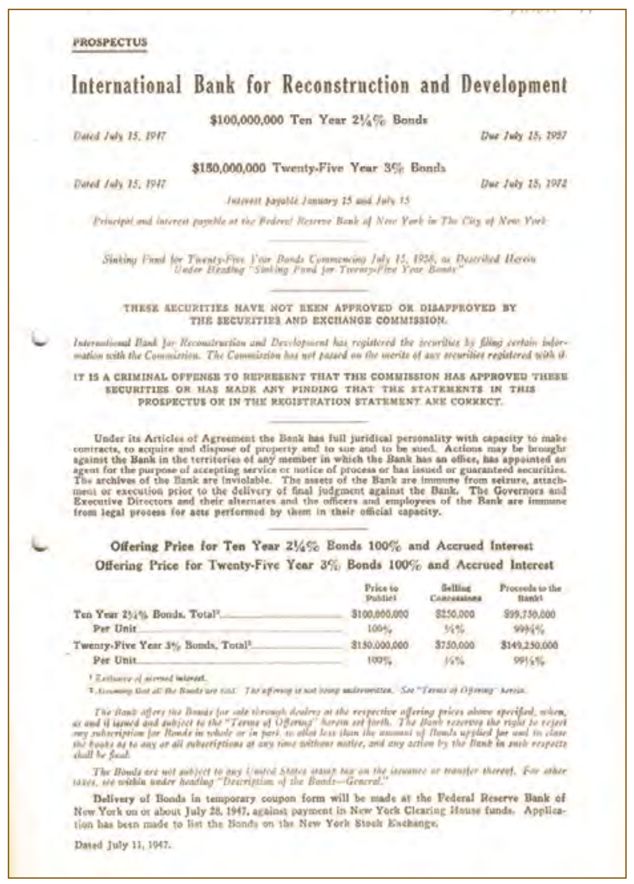
To support the sales campaign, it set up a small office in the Federal Reserve building in New York, NY, where staff were supplemented by volunteers from several of the leading banks and capital markets dealers to focus on marketing the World Bank to prospective investors on Wall Street and around the 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.[5] 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.

Federal Reserve Building in New York. Photo © Library of Congress

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

James Gorman, Chairman and CEO, Morgan Stanley



PROSPECTUS

International Bank for Reconstruction and Development

$100,000,000 Ten Year 2¼% Bonds

Dated July 15, 1947 Due July 15, 1957

$150,000,000 Twenty-Five Year 3% Bonds

Dated July 15, 1947 Due July 15, 1972

Interest payable January 15 and July 15

Principal and interest payable at the Federal Reserve Bank of New York in The City of New York

Sinking Fund for Twenty-Five Year Bonds Commencing July 15, 1958, as Described Herein Under Heading "Sinking Fund for Twenty-Five Year Bonds"

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION.

International Bank for Reconstruction and Development has registered the securities by filing certain information with the Commission. The Commission has not passed on the merits of any securities registered with it.

IT IS A CRIMINAL OFFENSE TO REPRESENT THAT THE COMMISSION HAS APPROVED THESE SECURITIES OR HAS MADE ANY FINDING THAT THE STATEMENTS IN THIS PROSPECTUS OR IN THE REGISTRATION STATEMENT ARE CORRECT.

Under its Articles of Agreement the Bank has full juridical personality with capacity to make contracts, to acquire and dispose of property and to sue and to be sued. Actions may be brought against the Bank in the territories of any member in which the Bank has an office, has appointed an agent for the purpose of accepting service or notice of process or has issued or guaranteed securities. The archives of the Bank are inviolable. The assets of the Bank are immune from seizure, attachment or execution prior to the delivery of final judgment against the Bank. The Governors and Executive Directors and their alternates and the officers and employees of the Bank are immune from legal process for acts performed by them in their official capacity.

Offering Price for Ten Year 2¼% Bonds 100% and Accrued Interest

Offering Price for Twenty-Five Year 3% Bonds 100% and Accrued Interest

	Price to Public[1]	Selling Concessions	Proceeds to the Bank[1]
Ten Year 2¼% Bonds, Total[2]	$100,000,000	$250,000	$99,750,000
Per Unit	100%	¼%	99¾%
Twenty-Five Year 3% Bonds, Total[2]	$150,000,000	$750,000	$149,250,000
Per Unit	100%	½%	99½%

[1] Exclusive of accrued interest.

[2] Assuming that all the Bonds are sold. The offering is not being underwritten. See "Terms of Offering" herein.

The Bank offers the Bonds for sale through dealers at the respective offering prices above specified, when, as and if issued and subject to the "Terms of Offering" herein set forth. The Bank reserves the right to reject any subscription for Bonds in whole or in part, to allot less than the amount of Bonds applied for and to close the books as to any or all subscriptions at any time without notice, and any action by the Bank in such respects shall be final.

The Bonds are not subject to any United States stamp tax on the issuance or transfer thereof. For other taxes, see within under heading "Description of the Bonds—General."

Delivery of Bonds in temporary coupon form will be made at the Federal Reserve Bank of New York on or about July 28, 1947, against payment in New York Clearing House funds. Application has been made to list the Bonds on the New York Stock Exchange.

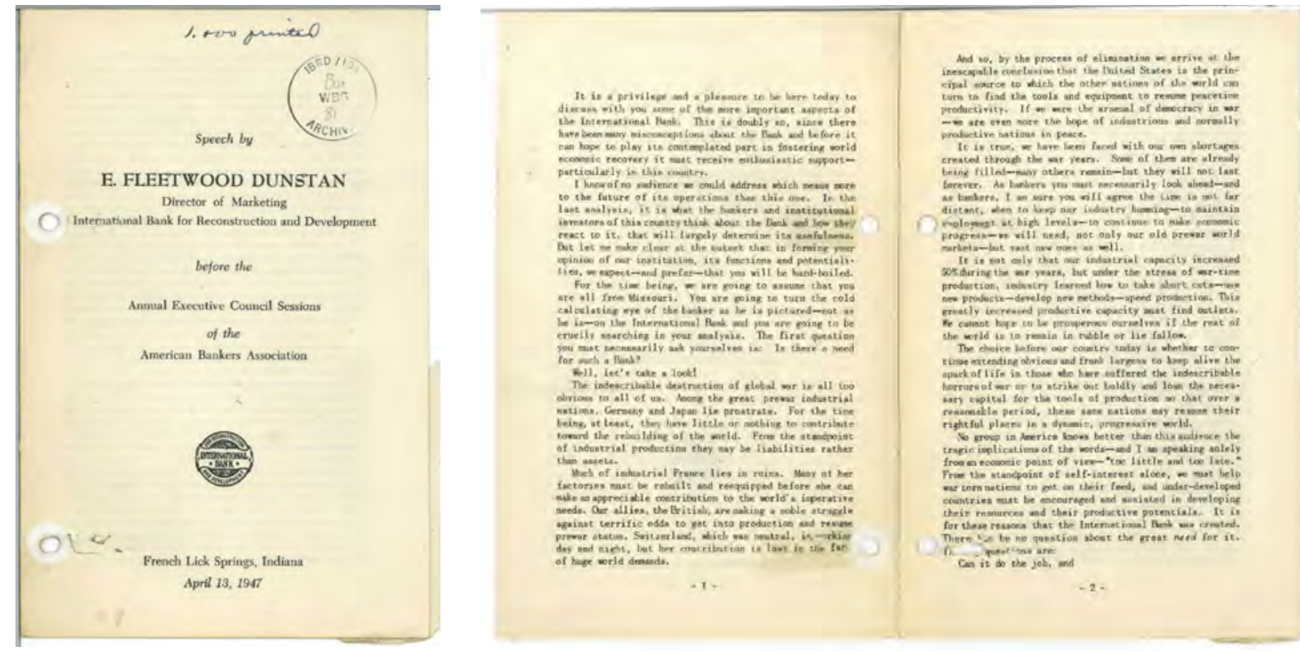
Dated July 11, 1947.

Cover of the first World Bank bond prospectus, June 11, 1947. Photo © World Bank Archives

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,"[6] 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.[7]

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



1,000 printed

Speech by

E. FLEETWOOD DUNSTAN

Director of Marketing

International Bank for Reconstruction and Development

before the

Annual Executive Council Sessions

of the

American Bankers Association

French Lick Springs, Indiana

April 13, 1947

Pages from a speech by E. F. Dunstan to the American Bankers Association, French Lick Springs, Indiana, April 13, 1947. Photo © World Bank Archives

"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."

E. F. Dunstan, IBRD Director of Marketing at the time of the first bond issue

A Culture of Excellence

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

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

"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 this 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."

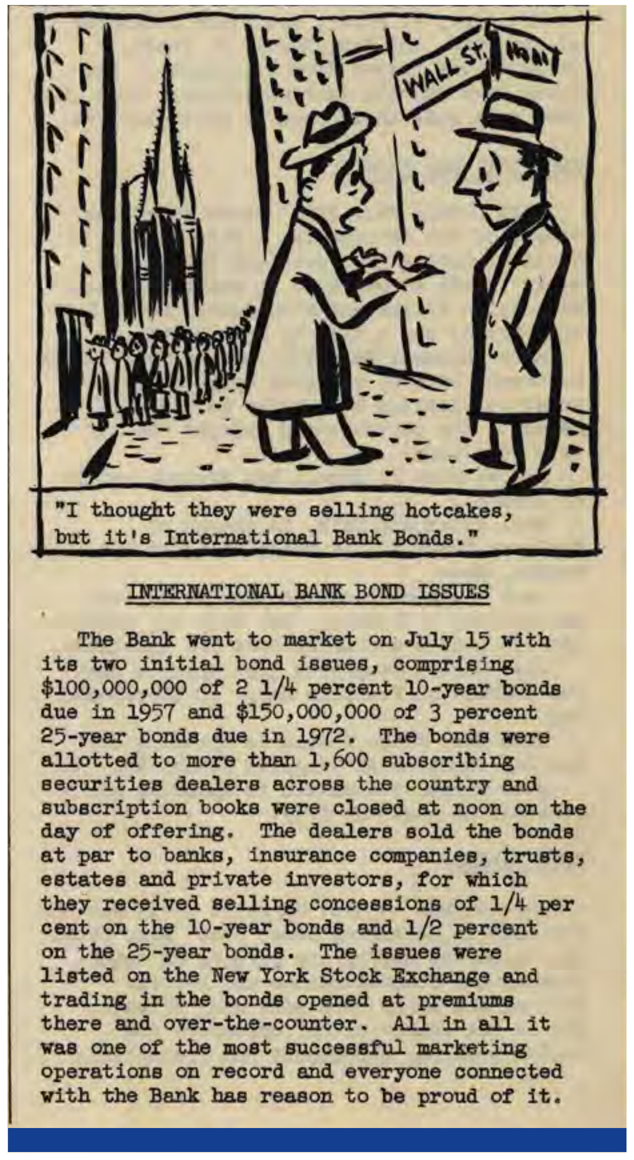
Gerald A. Rizzieri, President and Chief Executive Officer, Mizuho Securities USA

robust market in the United States for World Bank bonds. By September 1948, for example, the World Bank reported that its bonds were listed as eligible investment for national banks in 41 states (and in Washington, D.C.), for savings banks in 22 states (and in Washington, D.C.), for insurance companies in 32 states, and for trust funds in 28 states (and in Washington, D.C.).

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.

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."[8]

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.



"I thought they were selling hotcakes, but it's International Bank Bonds."

INTERNATIONAL BANK BOND ISSUES

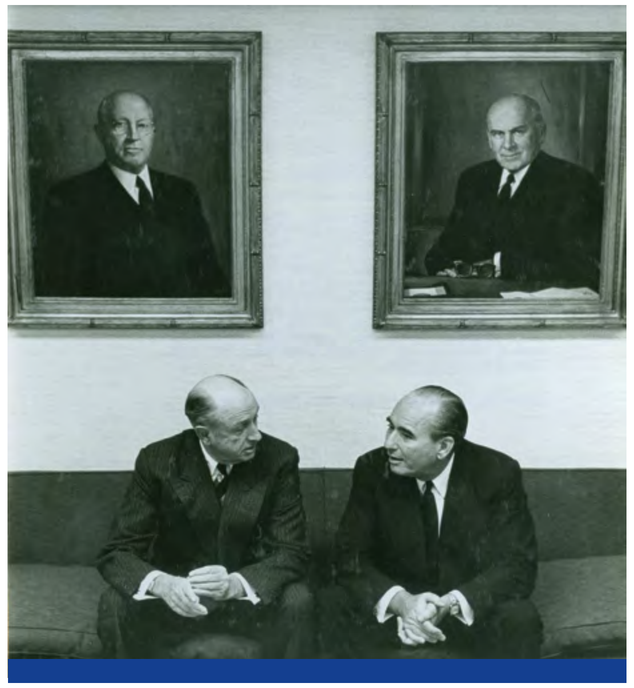
The Bank went to market on July 15 with its two initial bond issues, comprising $100,000,000 of 2 1/4 percent 10-year bonds due in 1957 and $150,000,000 of 3 percent 25-year bonds due in 1972. The bonds were allotted to more than 1,600 subscribing securities dealers across the country and subscription books were closed at noon on the day of offering. The dealers sold the bonds at par to banks, insurance companies, trusts, estates and private investors, for which they received selling concessions of 1/4 per cent on the 10-year bonds and 1/2 percent on the 25-year bonds. The issues were listed on the New York Stock Exchange and trading in the bonds opened at premiums there and over-the-counter. All in all it was one of the most successful marketing operations on record and everyone connected with the Bank has reason to be proud of it.

Source: *International Bank Notes*, Volume 1, No. 7. July 25, 1947

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 Treasury in 1948 announced its first non-US dollar issue. This was a private placement for 17 million Swiss francs, the equivalent at the time of $4 million. The bonds had a final maturity of six years and were placed with the Bank for International Settlements, headquartered in Basel, Switzerland. The Swiss franc proceeds were then on-lent to the Netherlands. The following year, the International Bank for Reconstruction and Development bonds were made "exempt securities" in the United States by the Securities and Exchange Commission, which meant they were not subject to ordinary registration and reporting requirements. This exemption was additional evidence of strong U.S. government support for the new institution.

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—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 138 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).



Nov. 21, 1962: The two portraits in the background are (left) Eugene Meyer, first president of the World Bank, and (right) John J. McCloy, second president of the World Bank. Seated, Eugene R. Black, third president of the World Bank, speaking with George D. Woods, fourth president of the World Bank. Photo © World Bank Archives

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."[9] 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.

McCloy was appointed U.S. High Commissioner for Germany in September 1949 and was succeeded as World Bank President by Eugene R. Black, a former Chase National Bank executive who had joined the World Bank in 1947 as Executive Director. Black, who served as President in 1949, for 13 of the first 25 years of his World Bank's life, injected fresh energy and was a master marketer of bonds. "I think he has a broader grasp of the world bond markets and the world capital markets than anybody I've ever seen," said Cavanaugh, who worked with Black for several years as Treasurer.[10]

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

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

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 Barings (a predecessor of ING), Hambros (one of the predecessors of Société Générale), Lazard, Morgan Grenfell (one of the predecessors of Deutsche Bank), Rothschilds and Shroeders (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.

Henry Riley, who took over as Treasurer from Crena de Iongh in 1953, set out the World Bank's priorities in a speech on November 12 that year: "The World Bank's purpose is to make loans and we do that with three purposes in mind: to increase the production of useful goods, to promote a growing and better-balanced world trade and to raise standards of living in our member countries."[11] 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.

Henry Riley
2nd World Bank Treasurer
1953–1959
Photo © World Bank Archives

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 140 million Swiss francs.

These early forays into global bond markets heralded, and helped create, a new era of diversity of funding in the financial markets. "I think those early issues by the World Bank are enormously important not just in the history of the World Bank but really in the history of the global capital markets themselves," said Gary Perlin, who was Treasurer in 1996.[12]

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

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

In the early 1960s, the U.S. economy's worsening balance of payments made it increasingly difficult for the World Bank to obtain U.S. Treasury consent for dollar borrowings. As a result, between 1962 and 1965, the World Bank issued no long-dated public offerings in the U.S. market. In any case, George D. Woods, a former Chair of the Board of The First Boston Corporation who took over as World Bank President in 1963, believed that the World Bank was carrying excessive liquidity at the beginning of its term and curtailed borrowing for several years. In 1963, redemptions exceeded new issuances, and in 1964 the World Bank issued no debt at all. According to the World Bank's 1963 annual report: "The World Bank was in a liquid position and had no need to raise new money."[13] 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 Cavanaugh, 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,"[14] he said. Cavanaugh added that part of the reason for selling bonds abroad was that the World Bank wanted to make loans in those foreign currencies.

Signing of the loan and credit agreements on March 28, 1967, with (from left to right) The Honorable Daniel Masuke, Minister of Planning and Economic Affairs of Cameroon; Mr. George D. Woods, President of the World Bank and IDA; and Mr. V.E. Mukete, Chairman of the Board of CAMDEV Cameroon. Photo © Edwin G. Huffman / World Bank and IDA

Jeep plant in Sao Paolo, Brazil. Photo © World Bank Archives

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

> ***"While pursuing its mission to eradicate poverty, the World Bank Treasury's contribution to development of international capital markets has been unparalleled."***
>
> Frédéric Oudéa, Chief Executive Officer, Société Générale

Children work in their classroom 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.[15] 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.

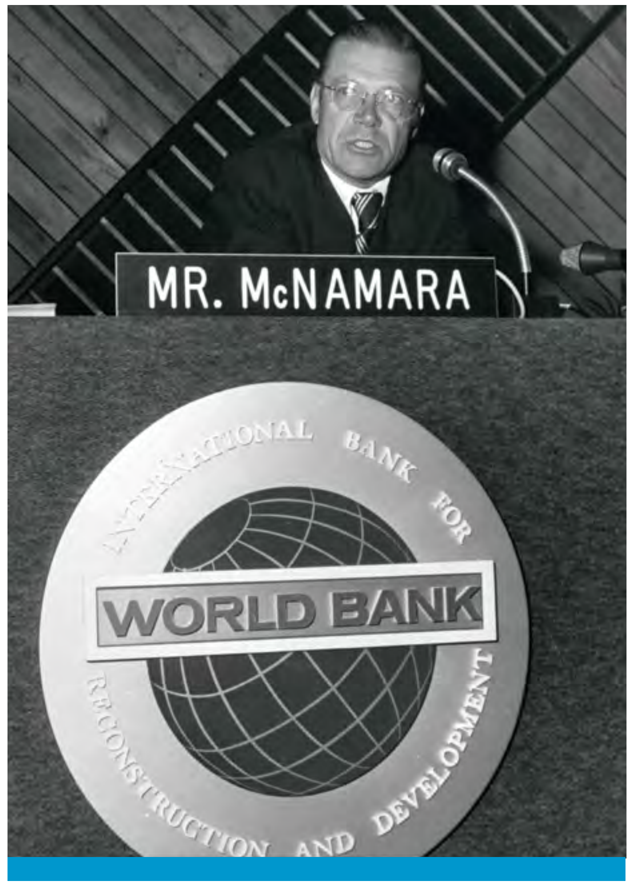
He posited that the fundamental case for development assistance was a moral one. "The whole of human history has recognized the principle—at least in the abstract—that the rich and the powerful have a moral obligation to assist the poor and the weak," he said. The World Bank's objective was nothing less than to end poverty McNamara said.[16]

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 JSDF 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."

Robert McNamara, World Bank President, 1968–1981



World Bank meeting in Nairobi, Kenya, 1973, Robert McNamara World Bank President. Photo © Camerapix, Keystone Pictures USA / ZUMAPRESS.com / Alamy Live News

Robert McNamara
World Bank President
1968–1981
Photo © World Bank Archives

Robert Cavanaugh
World Bank Treasurer
1959–1968
Photo © World Bank Archives

Eugene Rotberg
World Bank Treasurer
1968–1987
Photo © World Bank Archives

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 repay our bonds."[17] Rotberg noted, however, that "over time, the financial community came to accept the fact that lending to governments not supported by cash flow was okay, if it contributed to growth. They came to understand why we shifted to education, population, health, and later (as I believe these were precursors) to structural lending."[18]

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

Rotberg was happy to shake things up. "There are traditional ways to borrow and there are untraditional ways to borrow. If you borrow in untraditional ways, you may end up upsetting people who you've grown up with, and people don't do things like that. I didn't have that problem. I eagerly sought out new sources of funds,"[19] he said.

"The more sources I could borrow from, the fewer problems there were. The idea was to always borrow when we did not need to, from people who had the money to lend," he said. In Germany, for example, the World Bank tapped into cooperative savings banks. "Traditionally, these institutions bought German government bonds, but we went to them directly and basically asked to borrow their excess savings. We offered them ten basis points more than government bonds. "Overnight we opened a brand-new market,"[20] Rotberg stated further.

"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."[21]

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"[22] explained Rotberg.

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

Jessica Einhorn, World Bank Treasurer, 1992–1995

The 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."[23]

Samurai Bond. Photo © World Bank Archives

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

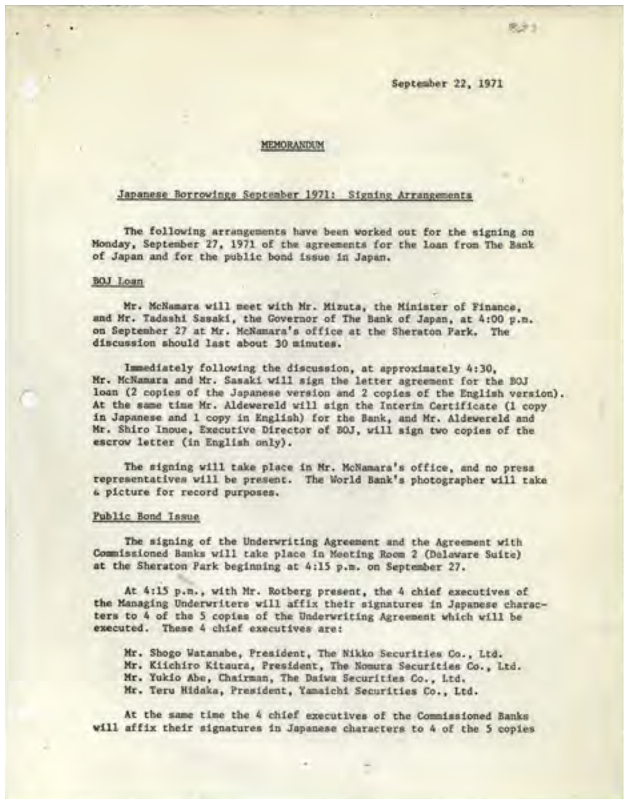
During the same period, the World Bank also regularly borrowed from Japanese commercial and trust banks in syndicated loan form. Syndicated loans were preferred by Japanese banks, because at that time they were prohibited from dealing in securities.

By the end of 1971, Japanese investors held 8 percent of the World Bank's outstanding debt (led by the Bank of Japan), while investors in the United States held 38 percent and those in Germany 27 percent. Japan was already a net creditor of the World Bank, with the amount of outstanding World Bank debt held by Japanese institutions and individuals exceeding the outstanding balance of World Bank loans to the country.

In 1985, following moves by the Japanese government to liberalize its capital markets and internationalize the Japanese yen, the World Bank issued its first "Shogun bond" (a foreign currency–denominated bond issued in the domestic Japanese market), a $300 million 10½ 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 Hiroyuki 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



September 22, 1971

MEMORANDUM

Japanese Borrowings September 1971: Signing Arrangements

The following arrangements have been worked out for the signing on Monday, September 27, 1971 of the agreements for the loan from The Bank of Japan and for the public bond issue in Japan.

BOJ Loan

Mr. McNamara will meet with Mr. Mizuta, the Minister of Finance, and Mr. Tadashi Sasaki, the Governor of The Bank of Japan, at 4:00 p.m. on September 27 at Mr. McNamara's office at the Sheraton Park. The discussion should last about 30 minutes.

Immediately following the discussion, at approximately 4:30, Mr. McNamara and Mr. Sasaki will sign the letter agreement for the BOJ loan (2 copies of the Japanese version and 2 copies of the English version). At the same time Mr. Aldewereld will sign the Interim Certificate (1 copy in Japanese and 1 copy in English) for the Bank, and Mr. Aldewereld and Mr. Shiro Inoue, Executive Director of BOJ, will sign two copies of the escrow letter (in English only).

The signing will take place in Mr. McNamara's office, and no press representatives will be present. The World Bank's photographer will take a picture for record purposes.

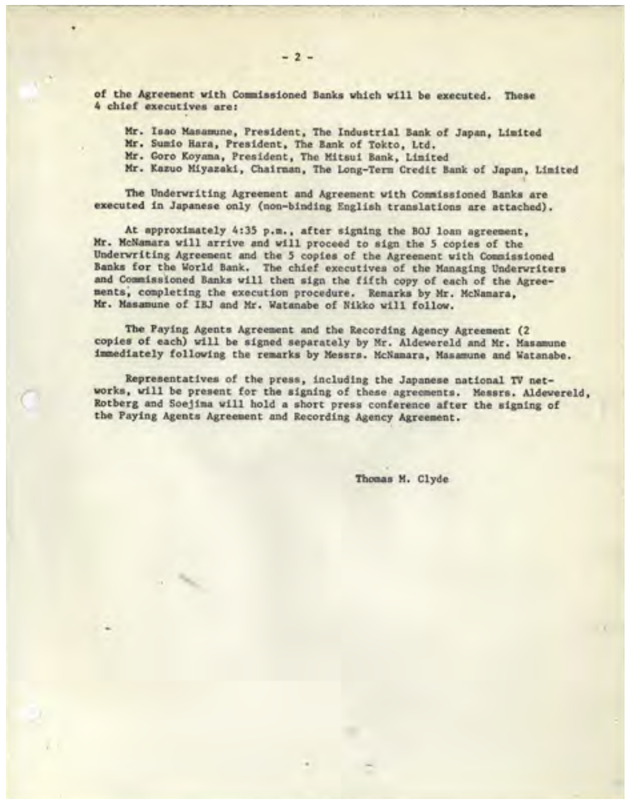
Public Bond Issue

The signing of the Underwriting Agreement and the Agreement with Commissioned Banks will take place in Meeting Room 2 (Delaware Suite) at the Sheraton Park beginning at 4:15 p.m. on September 27.

At 4:15 p.m., with Mr. Rotberg present, the 4 chief executives of the Managing Underwriters will affix their signatures in Japanese characters to 4 of the 5 copies of the Underwriting Agreement which will be executed. These 4 chief executives are:

Mr. Shogo Watanabe, President, The Nikko Securities Co., Ltd.
Mr. Kiichiro Kitaura, President, The Nomura Securities Co., Ltd.
Mr. Yukio Abe, Chairman, The Daiwa Securities Co., Ltd.
Mr. Teru Hidaka, President, Yamaichi Securities Co., Ltd.

At the same time the 4 chief executives of the Commissioned Banks will affix their signatures in Japanese characters to 4 of the 5 copies



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of the Agreement with Commissioned Banks which will be executed. These 4 chief executives are:

Mr. Isao Masamune, President, The Industrial Bank of Japan, Limited
Mr. Sumio Hara, President, The Bank of Tokto, Ltd.
Mr. Goro Koyama, President, The Mitsui Bank, Limited
Mr. Kazuo Miyazaki, Chairman, The Long-Term Credit Bank of Japan, Limited

The Underwriting Agreement and Agreement with Commissioned Banks are executed in Japanese only (non-binding English translations are attached).

At approximately 4:35 p.m., after signing the BOJ loan agreement, Mr. McNamara will arrive and will proceed to sign the 5 copies of the Underwriting Agreement and the 5 copies of the Agreement with Commissioned Banks for the World Bank. The chief executives of the Managing Underwriters and Commissioned Banks will then sign the fifth copy of each of the Agreements, completing the execution procedure. Remarks by Mr. McNamara, Mr. Masamune of IBJ and Mr. Watanabe of Nikko will follow.

The Paying Agents Agreement and the Recording Agency Agreement (2 copies of each) will be signed separately by Mr. Aldewereld and Mr. Masamune immediately following the remarks by Messrs. McNamara, Masamune and Watanabe.

Representatives of the press, including the Japanese national TV networks, will be present for the signing of these agreements. Messrs. Aldewereld, Rotberg and Soejima will hold a short press conference after the signing of the Paying Agents Agreement and Recording Agency Agreement.

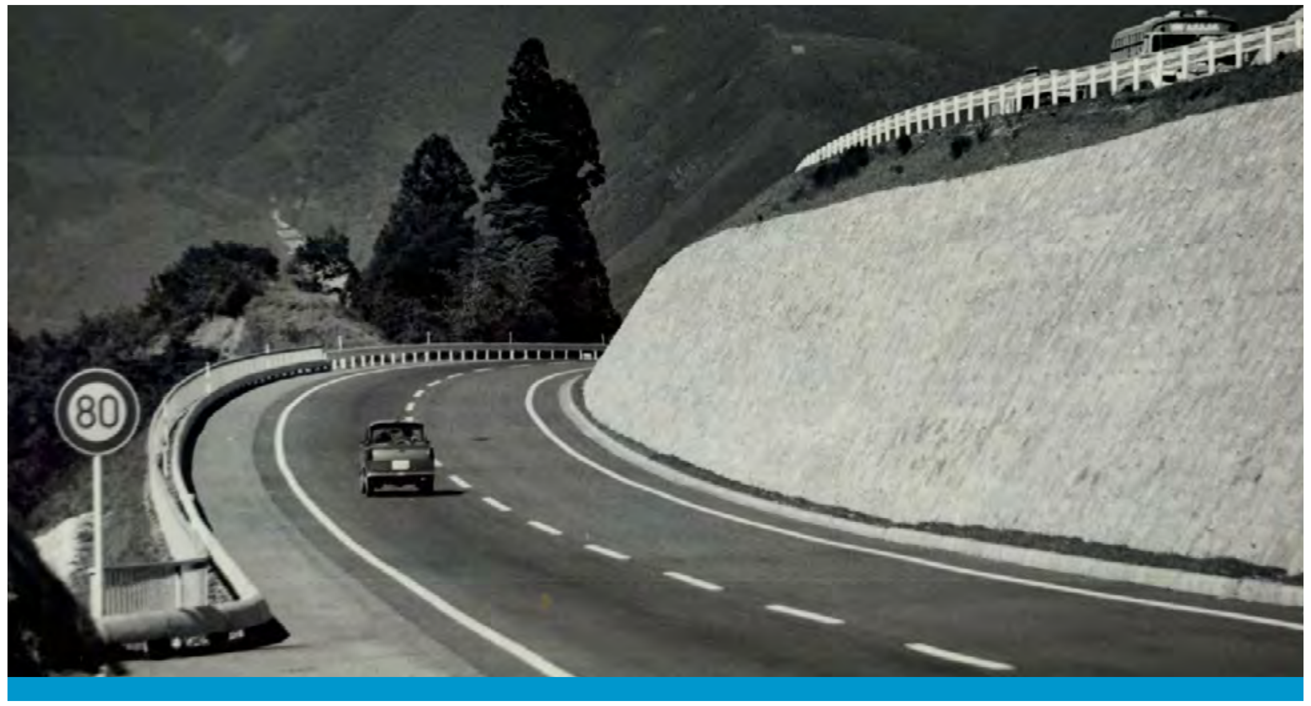
Thomas M. Clyde

Japanese Borrowings September 1971: Signing Agreements. Photo © World Bank Archives

A World Bank loan of $80 million in 1961 helped finance the new Tokaido Shinkansen (bullet train line) in Japan. Photo © World Bank Group

"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.



A view of the expressway between Kyoto and Hikono, part of the Tokyo-Kobe Expressway. The World Bank made several loans to the Nihon Doro Kodan (Japan Highway Public Corporation) to help finance the construction of the 335-mile toll express highway between Tokyo and Kobe. Photo © United Nations / World Bank Archives

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."

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

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

François Pérol, former Chief Executive Officer, Groupe BPCE

Various international currency. Photo © Wara1982 / Shutterstock

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.

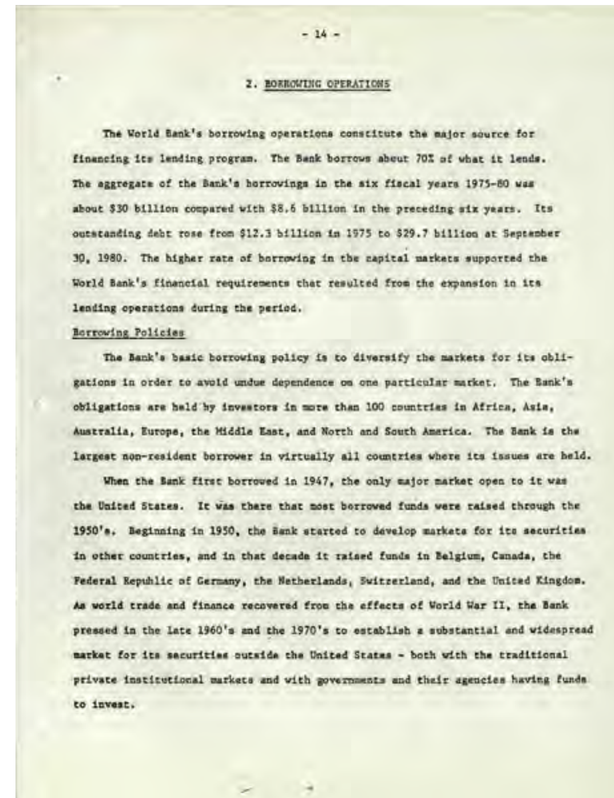
Driving this momentous innovation was that, at the time, interest rates in Swiss francs and Deutsche marks were almost half of U.S. dollar interest rates, so the World Bank faced significant demand from its borrowers in those currencies. However, both the Swiss and German governments limited the amount of borrowing the World Bank could do in their currencies, and by August 1981, the World Bank had reached those limits. IBM had already accessed large amounts of those currencies and was looking 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 currency swap transactions was $758 million and by 1983 it had increased to $1.73 billion. "The World Bank built 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,"[25] 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 diversification, but, this time, with risk management built-in. These swaps allowed for tapping markets 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"[26] to issue in European currency units, the World Bank said in its 1985 annual report.

In a further innovation two years later, the World Bank executed its first interest rate swaps 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 more broadly but exclusively to eliminate currency and interest rate risk on the International Bank for Reconstruction and Development (IBRD) balance sheet, that number had grown to $600 billion. A remarkable amount but dwarfed by the $514 trillion[27] notional of the currency and interest rate swap market that World Bank Treasury helped create.

In its 1985 annual report, the World Bank said the use of swaps lowered the World Bank's cost of funds in three ways: by increasing access to nominal low-cost currencies, by allowing the World Bank to access currencies at a lower cost than through direct market



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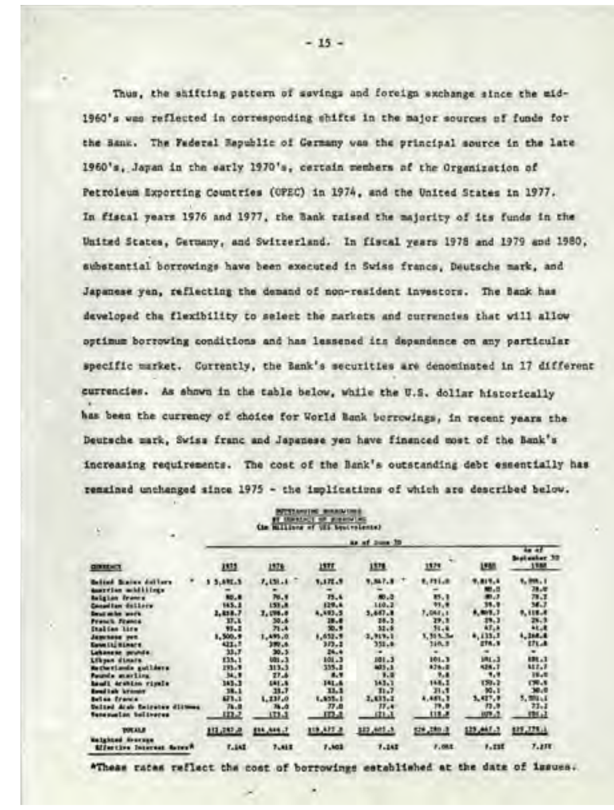
2. BORROWING OPERATIONS

The World Bank's borrowing operations constitute the major source for financing its lending program. The Bank borrows about 70% of what it lends. The aggregate of the Bank's borrowings in the six fiscal years 1975-80 was about $30 billion compared with $8.6 billion in the preceding six years. Its outstanding debt rose from $12.3 billion in 1975 to $29.7 billion at September 30, 1980. The higher rate of borrowing in the capital markets supported the World Bank's financial requirements that resulted from the expansion in its lending operations during the period.

Borrowing Policies

The Bank's basic borrowing policy is to diversify the markets for its obligations in order to avoid undue dependence on one particular market. The Bank's obligations are held by investors in more than 100 countries in Africa, Asia, Australia, Europe, the Middle East, and North and South America. The Bank is the largest non-resident borrower in virtually all countries where its issues are held.

When the Bank first borrowed in 1947, the only major market open to it was the United States. It was there that most borrowed funds were raised through the 1950's. Beginning in 1950, the Bank started to develop markets for its securities in other countries, and in that decade it raised funds in Belgium, Canada, the Federal Republic of Germany, the Netherlands, Switzerland, and the United Kingdom. As world trade and finance recovered from the effects of World War II, the Bank pressed in the late 1960's and the 1970's to establish a substantial and widespread market for its securities outside the United States - both with the traditional private institutional markets and with governments and their agencies having funds to invest.



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Thus, the shifting pattern of savings and foreign exchange since the mid-1960's was reflected in corresponding shifts in the major sources of funds for the Bank. The Federal Republic of Germany was the principal source in the late 1960's, Japan in the early 1970's, certain members of the Organization of Petroleum Exporting Countries (OPEC) in 1974, and the United States in 1977. In fiscal years 1976 and 1977, the Bank raised the majority of its funds in the United States, Germany, and Switzerland. In fiscal years 1978 and 1979 and 1980, substantial borrowings have been executed in Swiss francs, Deutsche mark, and Japanese yen, reflecting the demand of non-resident investors. The Bank has developed the flexibility to select the markets and currencies that will allow optimum borrowing conditions and has lessened its dependence on any particular specific market. Currently, the Bank's securities are denominated in 17 different currencies. As shown in the table below, while the U.S. dollar historically has been the currency of choice for World Bank borrowings, in recent years the Deutsche mark, Swiss franc and Japanese yen have financed most of the Bank's increasing requirements. The cost of the Bank's outstanding debt essentially has remained unchanged since 1975 - the implications of which are described below.

*These rates reflect the cost of borrowings established at the date of issues.

Extract from "The World Bank: A Financial Appraisal", by Eugene Rotberg, Vice President and Treasurer; January 1981.
Photo © World Bank Archives

borrowing, and by broadening the World Bank's investor base through borrowing in a wider range of 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."[28]

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 "took advantage of 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."[29]

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.

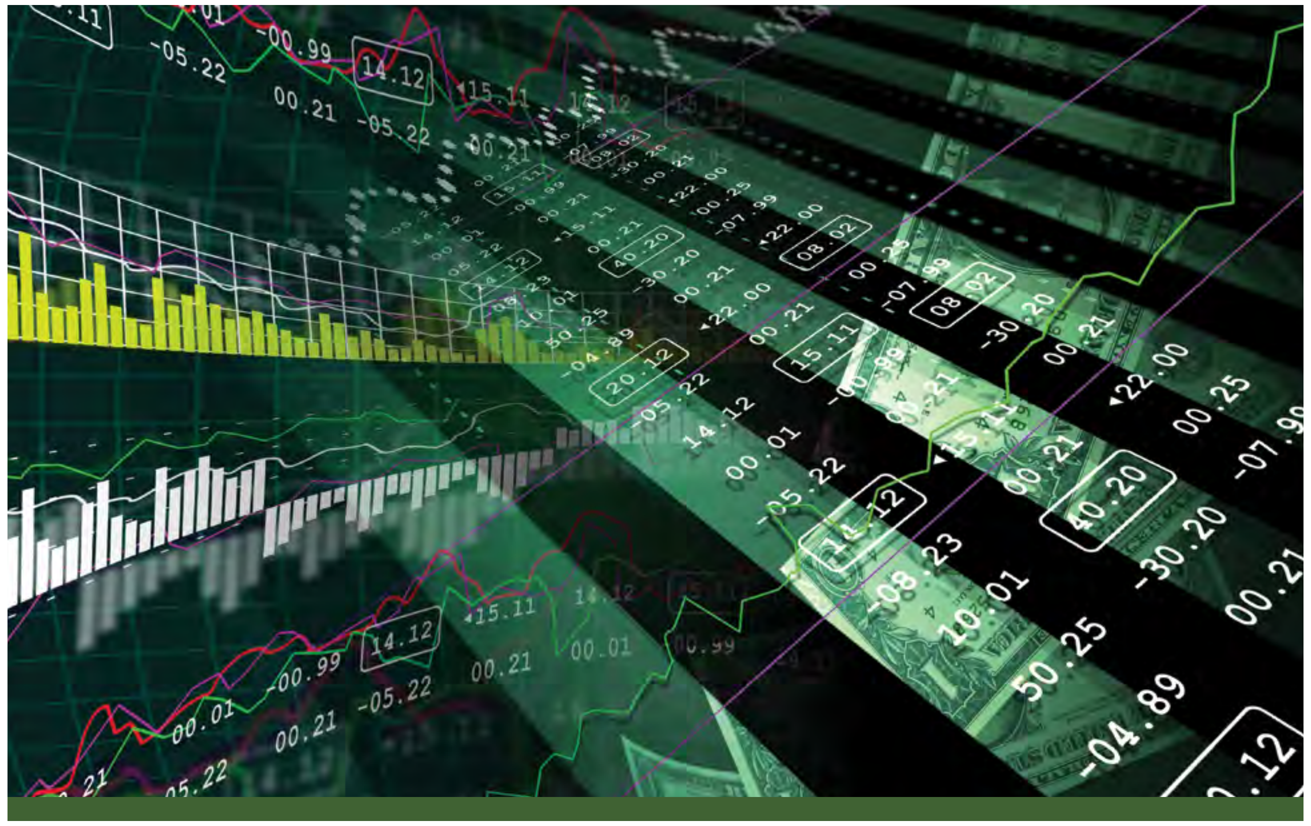
The dollar's decline in mid-1985 had led some within the World Bank to believe that demand for dollar-based securities from non-dollar-based investors in Europe and Japan would also decline. To address this, the World Bank launched a program called Continuously Offered Longer-Term Securities, or COLTS, for the U.S. market, with the investor free to choose any maturity to within a 3- to 30-year period.

"ANZ Bank is proud to be a trusted partner of the 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)

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.



Stock market graph analysis. Photo © brijith vijayan / Shutterstock

Solar power panels and windmills. Photo © city hunter / Shutterstock

CHAPTER 5

Global Bonds

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

Statisticians entering data into the database for further processing and analysis. Turkmenistan. Photo © World Bank

"The key thing is to license people in World Bank Treasury to think outside the box and to bring forward new ideas with the understanding that there are going to be many of them that aren't going to work, but the ones that do, can have a big impact."

Ken Lay, World Bank Treasurer, 2006–2010

World Bank 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."[30]

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

impediments to liquid, transregional trading."[31] Another aim of the new bond was to provide Euromarket investors with the backstop of solid U.S. domestic market demand by improving the bond's potential appeal to investors in the United States.

The World Bank's first global bond was a $1.5 billion 8⅜ percent ten-year issue, launched in June 1989. It was lead managed by Deutsche Bank and Salomon Brothers, listed on the Luxembourg and New York Stock exchanges, and settled in Euroclear and Fedwire. It was the most actively traded non-government bond in Euroclear in 1989. The global bond had key advantages for investors. It had the IBRD triple-A rating and a large issue size—a typical global bond was $1 to $2 billion dollars also cleared through multiple systems and traded in the secondary market on electronic platforms, and it had a geographically diverse investor base across various types of investors. There were other refinements, too. Because of the much larger size of individual global bonds, the World Bank would enter the markets less frequently, so new interest rate hedging mechanisms were put in place.

The World Bank issued its first non-US dollar-denominated global bond in March 1992, and again, Japan was a testing ground. It was a 250 billion Japanese yen 5⅞ percent ten-year issue, lead managed by IBJ International (which later became part of Mizuho), J.P. Morgan Securities, and Nomura Securities. The global bond was intended to provide another trading vehicle and enhanced liquidity to the yen markets. The following year, the World Bank issued global bonds in both U.S. dollars and Deutsche mark. Because of the popularity of the global bond format, public offerings became the dominant form of World Bank borrowing during most of the first half of the 1990s. Of the $12.68 billion the World Bank borrowed in fiscal year 1993, for example, 83 percent was in public offerings, of which 59 percent was global bonds.

Global bonds would continue to play a critically important role in the World Bank's funding program in the years to come. In fiscal year 2017, for example, the World Bank issued $28.2 billion in global bonds—half of the World Bank's borrowing program for the year.

Boosting Market Liquidity

There was a boost to liquidity in the markets because the global bond was offered simultaneously in the United States, Europe, and Japan to ensure a broad and diverse investor base. The result was the issue of a bond that was traded on dealers' most active desks in each time zone as a home-market product. "It was crucial that there be a real book passing between the U.S. and European markets,"[32] Lay told the *International Financing Review* in an interview in 2004.

The creation of the global bond did more than anything else to break down the barriers to capital flows and open the way to the boom in issuance that followed in the 1990s. It had a profound impact on the World Bank's relationship with central banks across the world because many of them preferred the liquidity of this instrument over direct placements with the World Bank. As a result, central bank direct placements, which had been a dominant form of World Bank borrowing during the mid-1970s, became a significantly smaller contributor to the World Bank's funding program, accounting for just 8 percent of borrowing in 1993.

> **"*If you were involved in international capital markets from the '70s throughout the '80s, the World Bank was really the principal player. The World Bank continuously developed new structures and issuance techniques in response to changes in the marketplace and to new technologies.*"**

Donald Roth, World Bank Treasurer, 1988–1992

Donald Roth, the former Chair and Chief Executive of Merrill Lynch Europe who succeeded Eugene Rotberg as Treasurer in 1988, and Jessica Einhorn, who took over from Roth in 1992, served during one of the most innovative periods of development financing history, and all three played a big role in devising and implementing the global bond. Lay, who ended up working for the World Bank for nearly 30 years, including his stint as Treasurer in the challenging years after the 2007 financial crisis, was described by the magazine *Global Capital* as "the architect of the modern bond market." Lay said, "I'm mindful of the fact that everybody now takes the global bond for granted but it was hugely controversial at the time because of the changes in nitty-gritty stuff like clearing and settlement that you needed to implement to make that work."[33]

Jessica Einhorn was the first female to be appointed Treasurer by the World Bank. A conservative risk manager, she had worked with the Bank for more than a decade and was a familiar face in the world's capital markets. In 1997, *Euromoney* magazine included her in its list of the "Top 50 Women in

EuroWeek

www.euroweek.com

THE NEWSPAPER FOR THE GLOBAL CAPITAL MARKETS

Issue 1,000 • Monday April 23, 2007

www.euroweek.com

TWENTY YEARS OF BONDS, 1987-2007

Greatest contribution to supranational funding

Ken Lay

Bond market becomes a global giant

Supras, sovereigns and agencies keep market leadership

Financial firms drive bond market growth for 20 years

EuroWeek awards Ken Lay. Photo © World Bank Archives

McDonald's Inspired by World Bank Treasury Swaps Model

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 ($2.17 billion equivalent) ten-year issue. The World Bank required a core group of underwriters to agree to be ongoing market makers in the repurchase ("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,"[34] 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 snowy 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."[35]

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,"[36] 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 4¼ 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

Harvesting crops. Korea. Photo © Curt Carnemark / World Bank

THE WORLD BANK
Treasury | IBRD • IDA

70 Tombstones

Connecting Capital Markets to Development
1947 • 2017

International Bank for Reconstruction and Development
INAUGURAL BOND ISSUE
July 15, 1947
US$100 million 2.25% bonds due 1957
US$150 million 3.00% bonds due 1972
Lead Manager
Morgan Stanley
Dealers
More than 1,700 dealers

International Bank for Reconstruction and Development
FIRST NON-US DOLLAR ISSUE
June 1, 1948
CHF 17 million 2.50% bonds due 1954
Placed with
BANK FOR INTERNATIONAL SETTLEMENTS

International Bank for Reconstruction and Development
FIRST EUROPEAN PUBLIC OFFERING
May 23, 1951
GBP 5 million 3.50% bonds due 1971
Syndicate
Barings · Lazard · Morgan Grenfell · Rothschild · Schroders · Hambros

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International Bank for Reconstruction and Development
FIRST CANADIAN DOLLAR BOND ISSUE
February 5, 1952
CAD 15 million 4% bonds due 1962
Lead Managers
CIBC · RBC Royal Bank

International Bank for Reconstruction and Development
FIRST US DOLLAR BOND SOLD ENTIRELY OFFSHORE
September 20, 1954
US$50 million 2.50% bonds due 1959
Lead Managers
Credit Suisse · Morgan Stanley

International Bank for Reconstruction and Development
FIRST PUBLIC OFFERING IN THE MIDDLE EAST (KUWAIT)
August 14, 1968
KWD 15 million 6.50% bonds due 1988
Lead Manager
Kuwait Investment Co.

International Bank for Reconstruction and Development
FIRST PUBLIC OFFERING IN ASIA
June 1, 1971
JPY 11 billion 7.75% bonds due 1981
Lead Manager
Nomura

International Bank for Reconstruction and Development
FIRST LOAN FROM A NORTH AMERICAN BANK
December 17, 1971
CAD 50 million loan due 1975
Lender
BMO Bank of Montreal

THE WORLD BANK
International Bank for Reconstruction and Development
LONGEST NON-USD FRN (99 YEARS)
November 21, 1984
CAD 100 million FRN due 2083
(45 bps over 91-day Canadian T-bills)
Lead Managers
ScotiaMcLeod · TD Securities

THE WORLD BANK
International Bank for Reconstruction and Development
FIRST PERPETUAL FRN
February 15, 1985
US$500 million T-bill-indexed Perpetual FRN
Lead Manager
J.P.Morgan

THE WORLD BANK
International Bank for Reconstruction and Development
FIRST SERIAL ZERO COUPON BOND TRANSACTION
February 20, 1985
US$1.38 billion bonds due annually through 2015
Lead Manager
Bank of America Merrill Lynch

THE WORLD BANK
International Bank for Reconstruction and Development
FIRST SHOGUN BOND
August 15, 1985
US$300 million 10.5% bonds due 1995
Lead Manager
Nomura
Co-Lead Manager
Daiwa Securities Group

THE WORLD BANK
International Bank for Reconstruction and Development
LONGEST JAPANESE YEN LOAN (30 YEARS)
December 3, 1986
JPY 40 billion 6.20% loan due 2016
Lead Manager
Nippon Life Insurance Company

THE WORLD BANK
International Bank for Reconstruction and Development
FIRST GLOBAL BOND
September 18, 1989
US$1.5 billion 8.375% bonds due 1999
Lead Managers
Citi · Deutsche Bank

THE WORLD BANK
International Bank for Reconstruction and Development
FIRST JAPANESE YEN GLOBAL BOND
March 11, 1992
JPY 250 billion 5.25% bonds due 2002
Lead Managers
Mizuho · Mizuho International · J.P.Morgan · Nomura

THE WORLD BANK
International Bank for Reconstruction and Development
FIRST DUAL CURRENCY SAMURAI BOND (U.S. Dollar/Japanese Yen)
November 18, 1999
JPY 10 billion 3% dual currency bonds due 2015
Lead Manager
SMBC Nikko

THE WORLD BANK
International Bank for Reconstruction and Development
FIRST FULLY INTEGRATED ELECTRONIC BOND
January 25, 2000
US$3 billion 7.00% bonds due 2005
Lead Manager
Goldman Sachs

THE WORLD BANK
International Bank for Reconstruction and Development
FIRST STERLING INFLATION INDEX LINKED NOTES
August 24, 2000
GBP 100 million 2.505% Inflation Index Linked notes due 2030
Lead Manager
Royal Bank of Scotland

THE WORLD BANK
International Bank for Reconstruction and Development
FIRST ISSUE SOLE LEAD MANAGED BY A JAPANESE REGIONAL BANK
June 27, 2005
US$33 million 3.45% bond due 2009
Lead Manager
Shizuoka Bank

THE WORLD BANK
International Bank for Reconstruction and Development
FIRST MEXICAN PESO GLOBAL BOND
March 10, 2006
MXN 2 billion 7.56% bonds due 2011
Lead Managers
BBVA · Goldman Sachs

THE WORLD BANK
International Bank for Reconstruction and Development
FIRST TURKISH LIRA GLOBAL BOND
April 25, 2007
TRY 500 million 13.625% bonds due 2017
Lead Managers
ABN·AMRO · J.P.Morgan · TD Securities

THE WORLD BANK
International Bank for Reconstruction and Development
FIRST EURO GLOBAL BOND
May 22, 2007
EUR 1.5 billion 4.25% bonds due 2010
Lead Managers
ABN·AMRO · HSBC · Deutsche Bank

THE WORLD BANK
International Bank for Reconstruction and Development
LAUNCH OF WORLD SUPPORTER FUND
(composed of World Bank EM-currency bonds)
June 28, 2007
Fund Manager
nikko am Nikko Asset Management
Initial Distributor
Chiba Bank

THE WORLD BANK
International Bank for Reconstruction and Development
FIRST KAURI GLOBAL BOND
July 20, 2007
NZD 350 million 7.50% bonds due 2014
Lead Managers
ANZ · TD Securities

THE WORLD BANK
International Bank for Reconstruction and Development
FIRST CARBON EMISSION REDUCTION LINKED BONDS
June 9, 2008
US$25 million emission reduction linked "Cool Bonds" due 2013
Lead Manager
Daiwa Securities Group

THE WORLD BANK
International Bank for Reconstruction and Development
FIRST GREEN BOND
November 12, 2008
SEK 2.325 million 3.50% bonds due 2014
Listed on the Luxembourg Stock Exchange
Luxembourg Stock Exchange
Lead Manager
SEB

THE WORLD BANK
International Bank for Reconstruction and Development
LARGEST BENCHMARK ISSUE (US$ 6 BILLION)
March 26, 2009
US$6 billion 2% bonds due 2012
Lead Managers
Citi · HSBC · J.P.Morgan · RBS The Royal Bank of Scotland

THE WORLD BANK
International Bank for Reconstruction and Development
ISSUE IN 50TH CURRENCY (NIGERIAN NAIRA)
August 19, 2009
NGN 3 billion 8.00% bonds due 2010
Lead Manager
J.P.Morgan

THE WORLD BANK
International Bank for Reconstruction and Development
FIRST DUAL TRANCHE KANGAROO BENCHMARK
October 7, 2009
AUD 800 million 5.50% bonds due 2014
AUD 600 million 5.75% bonds due 2019
Lead Managers
Commonwealth Bank of Australia · RBC Royal Bank · TD Securities · Westpac

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THE WORLD BANK
International Bank for Reconstruction and Development
FIRST DIM SUM BOND
(denominated in Chinese Renminbi)
January 14, 2011
RMB 500 million 0.95% bonds due 2013
Bookrunner/Lead Manager
HSBC

THE WORLD BANK
International Bank for Reconstruction and Development
FIRST ISSUE IN UGANDAN SHILLINGS
May 17, 2012
UGX 36.75 billion 14.50% bonds due 2013
Lead Manager
Barclays

THE WORLD BANK
International Bank for Reconstruction and Development
FIRST KANGAROO GREEN BOND
April 16, 2014
AUD 300 million 3.50% bonds due 2019
Lead Managers
RBC Royal Bank · Westpac

THE WORLD BANK
International Bank for Reconstruction and Development
FIRST CATASTROPHE BOND
June 30, 2014
US$30 million Caribbean catastrophe linked bonds due 2017
Lead Manager
Guy Carpenter
Advisors
Swiss Re · Munich RE

THE WORLD BANK
International Bank for Reconstruction and Development
LARGEST SINGAPORE DOLLAR BOND
August 13, 2014
SGD 500 million 1.473% bonds due 2019
Lead Manager
DBS

THE WORLD BANK
International Bank for Reconstruction and Development
FIRST CHARITABLE SUKUK
November 27, 2014
US$500 million Floating Rate Sukuk due 2017
International Finance Facility for Immunisation
(World Bank, as Treasury Manager)
Lead Managers
CIMB Bank · FAB · NCB Capital · Standard Chartered

THE WORLD BANK
International Bank for Reconstruction and Development
FIRST EURO-DENOMINATED NSV (Namensschuldverschreibungen)
February 27, 2015
EUR 31 million 1.063% NSV due 2055
Lead Manager
DZ Bank

THE WORLD BANK
International Bank for Reconstruction and Development
FIRST PILOT AUCTION FACILITY EMISSION REDUCTIONS NOTES
October 7, 2015
US$20.9 million bonds due annually in tranches to 2020
Global Agent, Registrar and Settlement Agent
Citi

THE WORLD BANK
International Bank for Reconstruction and Development
CLIMATE OPTIMUM INDEX LINKED GREEN BONDS
April 6, 2016
US$50 million Equity Index Linked Green bonds due 2028
Lead Manager
Natixis

THE WORLD BANK
International Bank for Reconstruction and Development
FIRST GREEN SHOGUN BOND
June 29, 2016
US$100 million 1.709% bonds due 2018
Investor
Japan Post Insurance
Lead Manager
MUFG Mitsubishi UFJ Morgan Stanley

THE WORLD BANK
International Bank for Reconstruction and Development
FIRST GENDER FOCUSED SUSTAINABLE DEVELOPMENT BOND
August 19, 2016
INR 206 million 4.82% bonds due 2021
Lead Manager
Tokai Tokyo Securities Co., Ltd.

THE WORLD BANK
International Bank for Reconstruction and Development
FIRST MULAN BOND
(SDR denominated Chinese domestic bond)
September 2, 2016
SDR 500 million 0.49% bonds due 2019
Lead Bookrunner
ICBC 中国工商银行
Co-Bookrunner
HSBC
Joint Lead Underwriters
国家开发银行 China Development Bank · 中国建设银行 China Construction Bank

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THE WORLD BANK
International Bank for Reconstruction and Development
FIRST GREEN BOND ISSUE FOR A CENTRAL BANK
November 7, 2016
US$100 million 1.181% bonds due 2019
Investor
Bank Al-Maghrib
Lead Manager
Crédit Agricole Corporate & Investment Bank

THE WORLD BANK
International Bank for Reconstruction and Development
FIRST GREEN CALLABLE BENCHMARK
November 11, 2016
US$500 million 1.75% bonds due 2021
Lead Manager
TD Securities
Lead Investor
Maryland State Treasurer

THE WORLD BANK
International Bank for Reconstruction and Development
LARGEST EQUITY-LINKED BONDS
February 22, 2017
JPY 29.8 billion bonds due 2018
Lead Manager
MUFG Mitsubishi UFJ Morgan Stanley

THE WORLD BANK
International Bank for Reconstruction and Development
FIRST SUSTAINABLE DEVELOPMENT GOALS (SDG) BONDS
March 9, 2017
EUR 106.8 million bonds due 2032
EUR 56.8 million bonds due 2037
Linked to the Solactive SDG World Index
Lead Manager
BNP Paribas

THE WORLD BANK
International Bank for Reconstruction and Development
FIRST PANDEMIC BONDS
July 7, 2017
US$425 Floating Rate Pandemic Linked Bonds and Swaps due 2020
Sole Bookrunner and Structuring Agent
Swiss Re
Structuring Agent and Co-Manager
Munich RE
Co-Manager
Guy Carpenter

Art by Luis Gerardo Liceaga

Maasai man in traditional clothing using mobile phone. Photo © Wavebreak Media ltd / Alamy Stock Photo

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 of first E-bond. It was very successful,"[37] said Afsaneh Beschloss, the World Bank Treasurer from 1999 to 2001.

"At 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.

"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

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,"[38] 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,"[39] 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 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

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 Iongh (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.

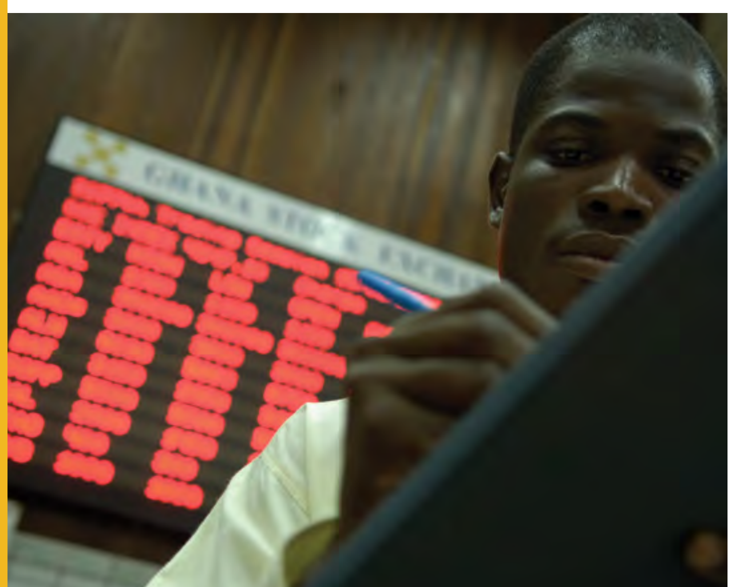
"Nomura is particularly proud to have been involved in a number of important transactions together with IBRD, including the first public offering in Asia in 1971, the inaugural Global bond in 1989, and the first Yen Global in 1992. After 70 years, IBRD is still innovating. Our work on the inaugural landmark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

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

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 program.

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. During



"It is with great pleasure that we have worked in collaboration with the World Bank over the last decade to enable and engage international investors in inclusive and greener growth across many new economies. It is our hope, that through this partnership—and the strong interest and support we see from investors—we can continue to be a close partner and drive finance towards integration of longer term social impact considerations in financial assessments."

Marcus Wallenberg, Chairman of the Board, SEB

(top) Machava BCI Bank Autobank Counter staff. Mozambique. Photo © Eric Miller / World Bank; (center) BCEL Bank. Vientiane, Lao PDR. Photo © Stanislas Fradelizi / World Bank; (bottom) Traders work on the floor of the Ghana Stock Exchange in Accra, Ghana, June 15, 2006. Photo © Jonathan Ernst / World Bank

"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, Chariman and CEO, Goldman Sachs

his tenure, the number of clients rose rapidly, generating revenues for World Bank Treasury and economies of scale that actually reduced in nominal terms the cost to the World Bank for its own World Bank Treasury functions. "Finance Ministries are charged to manage large debt portfolios, which are often the largest portfolios in a country and which can generate substantial risk to its balance sheet. I felt it was our responsibility to provide capacity-building in sovereign debt management to our clients," Wheeler said in 2017.[40]

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,"[42] he said. "It was an asset management company within the World Bank,"[43] 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.

"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]

Nepalese children celebrating on the day Nepal becomes the first country in the world to use support from GAVI, the Vaccine Alliance to begin protecting its children with Inactivated Polio Vaccine (IPV). The introduction is part of a plan to ensure that IPV will be available to millions of children in GAVI-supported countries through the introduction of the vaccine into routine immunisation systems (2014). Photo © Oscar Seykens / GAVI

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

In conjunction with Vaccination Week and World Immunization Week, Haiti introduced pentavalent vaccines in partnership with GAVI. Its target: protect more than 200,000 children against five deadly diseases: diphtheria, tetanus, pertussis (also known as whooping cough), Haemophilus influenzae type B and hepatitis B (2014). Photo © Jonathan Stern / GAVI

Celia Massinga (21) has her baby Victor (3 months) vaccinated at Mahulana Health Center, Moamba District, Maputo Province, Mozambique (2017). Photo © Guido Dingemans / GAVI

"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

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."[46]

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,"[47] 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."[48]

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.

Students from the Bislig Elementary School at their newly-repaired classroom in Bislig, Tanauan City in Leyte province, Philippines on July 13, 2014. Photo © World Bank

"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

Terraced rice field in Mu Cang Chai, Vietnam.
Photo © NanoStockk / iStock

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 $3\frac{7}{20}$ 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."[49]

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

Solar energy is used to light village shop. Sri Lanka.
Photo © Dominic Sansoni / World Bank

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 Fudning, 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

Wind Park near Kavarna, Bulgaria. Photo © Ivelina Taushanova / World Bank

Solar panels being cleaned at Ain Beni Mathar Integrated Combined Cycle Thermo-Solar Power Plant, Jerada Province, northeastern Morocco. Photo © Dana Smillie / World Bank

The first green bond was a 2.325 billion Swedish kronor 3¼ percent six-year issue, lead managed by Sweden's SEB (Skandinaviska Enskilda Banken 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 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.

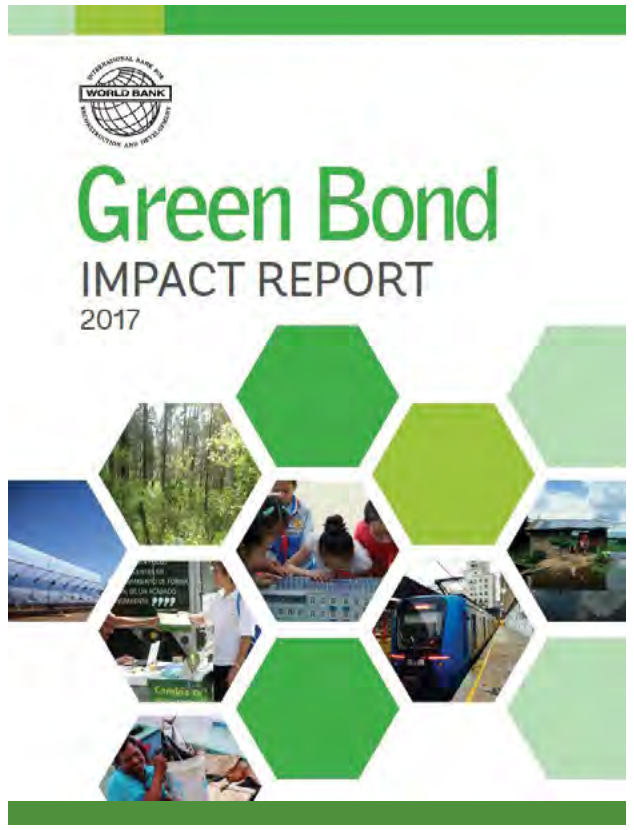
Many investors understood that such "ethical" financial market products could simultaneously achieve respectable returns and focus on having a positive impact on society. Led by the World Bank and other multilateral institutions, the market for Green Bonds grew from a niche market to a mainstream source 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.



Green Bond Impact Report, 2017

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

A neighborhood in Haiti, whose residents are beneficiaries of the PRODEPUR – Habitat project, in Delmas 32, Haiti. Photo © Dominic Chavez / World Bank

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,"[50] 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."[51]

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 on 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 user to establish a special purpose vehicle issuer of a catastrophe bond, with World Bank Treasury acting as arranger of such a bond issue.

Mexico became the first country to use the MultiCat Program, in a 2009 issue of a $290 million three-year catastrophe bond divided into three tranches, covering earthquakes and Atlantic and Pacific hurricanes. Mexico returned to the program again in 2012 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 catastrophic risk—earthquake and hurricane—to the market for the first time, and we are very satisfied with the results achieved,"[52] Alejandro Werner, Mexico's Vice Minister of Finance, said 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 $30 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.

"Innovation does not come by sitting in a room all by yourself. One of the things that World Bank Treasury does well is to engage very closely with the client countries, talking to them and finding out what their concerns and constraints are, and engaging with financial markets to test investor appetite and demand for these ideas. And then collectively, the team is able to find the best solutions to the problems."

Madelyn Antoncic, World Bank Treasurer, 2011–2015

A young girl in an evacuation center in the Philippines. Photo © Jerome Ascano / World Bank

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,"[53] 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."[54] 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.

(top left) UNICEF coordinators and volunteers drive their truck with load speakers through the Zumatown community in Monrovia, Liberia on March 3, 2015. UNIFEC is reaching out to educate residence about protecting them selves from Ebola outbreak; (top right) A portrait of Helena D. Sayuoh a nurse, wearing protective clothing while working at C.H. Rennie Hospital in Kakata, Margibi County in Liberia on March 4, 2015; (center) A detail of painting at Redemption Hospital in Monrovia, Liberia on March 5, 2015; (bottom) Daily life in Freetown, Sierra Leone on December 2, 1014. All photos © Dominic Chavez / World Bank

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 sizeable 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

Sukuk

Another innovative instrument the World Bank Treasury has used to raise funds are sukuk. As asset-backed trust certificates, sukuk function similarly to conventional bonds but comply with the Islamic prohibition against earning returns based on interest.

In 2014, the World Bank structured and arranged a $500 million sukuk issuance for the International Finance Facility for Immunisation (IFFIm). This transaction, known as the "vaccine sukuk," significantly diversified IFFIm's investor base by involving Islamic investors from the Middle East and Asia for the first time. The issue was lead managed by Standard Chartered Bank, Barwa Bank of Qatar, CIMB of Malaysia, NCB Capital of Saudi Arabia, and National Bank of Abu Dhabi (a predecessor of First Abu Dhabi Bank).

The vaccine sukuk was the largest debut sukuk ever issued by a supranational entity, and it marked the first time most sukuk investors had ever considered investing in something that provided both economic and social returns. The sukuk paid a competitive rate of return while supporting immunization programs in the poorest countries in the world.

"For Islamic investors, IFFIm's vaccine sukuk was both ethical in terms of its structure (in that it complied with the Sharia) and ethical in terms of its use of proceeds. This type of ethical sukuk product was completely new at the time we launched the deal and was extremely well-received by the sukuk investor base," said Michael Bennett, who worked on the transaction as Head of Derivatives and Structured Finance in World Bank Treasury.

IFFIm's vaccine sukuk won numerous awards, including the 'Achievement in Transformational Finance' award from the *Financial Times* and the 'Social Impact Deal of the Year for 2014' award by the *Islamic Finance News*.

The vaccine sukuk was followed by a similar issue for $200 million the next year.

Pandemic Bond Pricing on June 28, 2017, with World Bank Group President, Jim Yong Kim. Photo © World Bank Treasury

"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

in support of the PEF. 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."[56]

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."[57]

PEF

PANDEMIC EMERGENCY FINANCING FACILITY

First-ever Pandemic Bond Launched

On June 28, 2017, the World Bank launched specialized bonds aimed at providing financial support to the Pandemic Emergency Financing Facility (PEF), a facility created by the World Bank to channel surge funding to developing countries facing the risk of a pandemic.

This marked the first time that World Bank bonds are being used to finance efforts against infectious diseases, and the first time that pandemic risk in low-income countries is being transferred to the financial markets.

The PEF will provide more than USD 500 million to cover developing countries against the risk of pandemic outbreaks over the next five years, through a combination of bonds and derivatives, a cash window, and future commitments from donor countries.

Read the press release: bit.ly/2u7ph3h

"With this new facility...we are leveraging our capital market expertise... to serve the world's poorest people. This creates an entirely new market for pandemic risk insurance."

Jim Yong Kim
World Bank Group President

"The World Bank Treasury has been willing to innovate. It goes into markets that haven't been developed before. This is what the World Bank should do, because it's got certain capacities afforded to it by its charter and by its membership that allows it to take the long view and to take risk. It needs to be bold."

Gary Perlin, World Bank Treasurer, 1996–1998

"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.

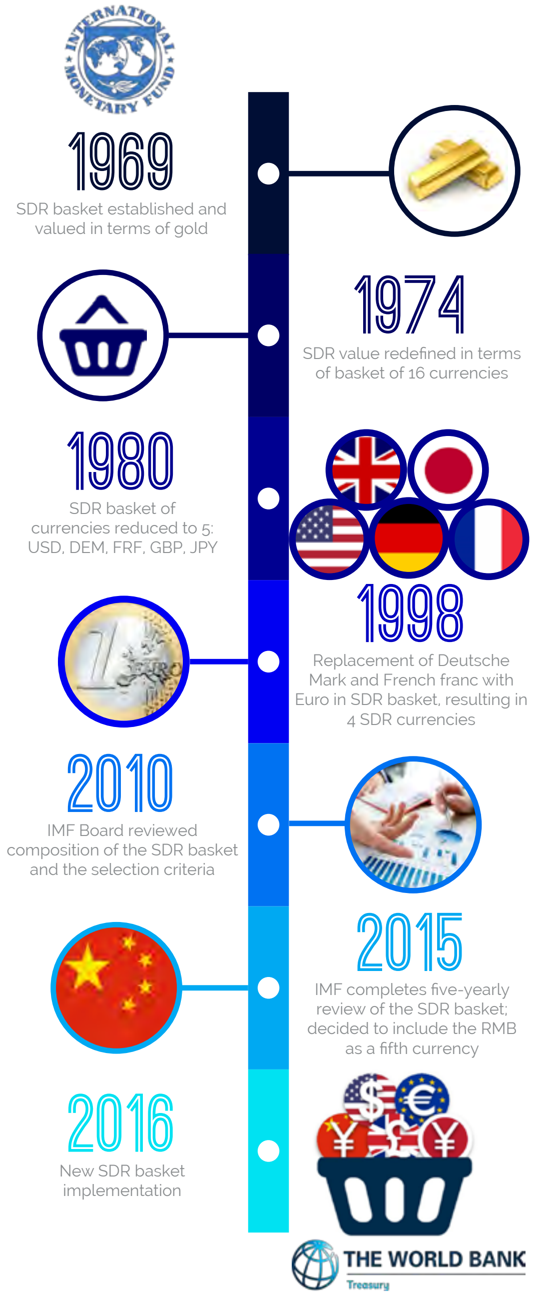
The World Bank's former Global Head of Capital Markets, Doris Herrera-Pol, called it a "landmark transaction," and said: "It is a privilege for us to have this opportunity that establishes the institution as a premier issuer in the fastest growing capital market in the world."

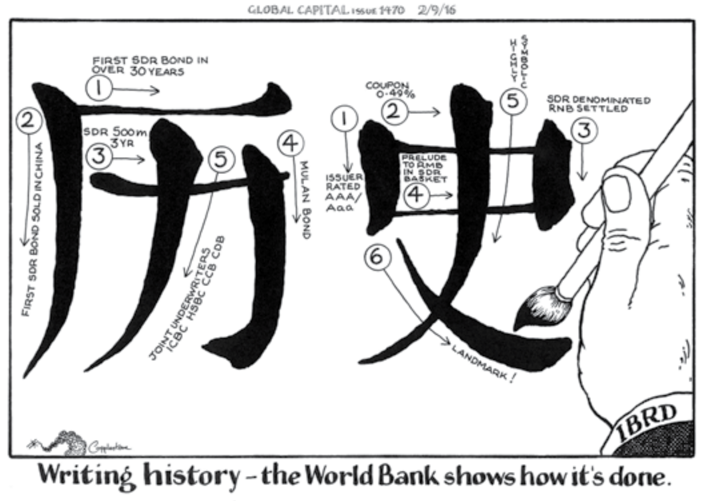
The World Bank followed up in 2016 by issuing its first Mulan Bond in the Chinese domestic market under a 2 billion SDR (special drawing rights) program approved by the People's Bank of China. The lead book runner of the 500 million SDR ($700 million equivalent) 0.49 percent three-year issue was the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

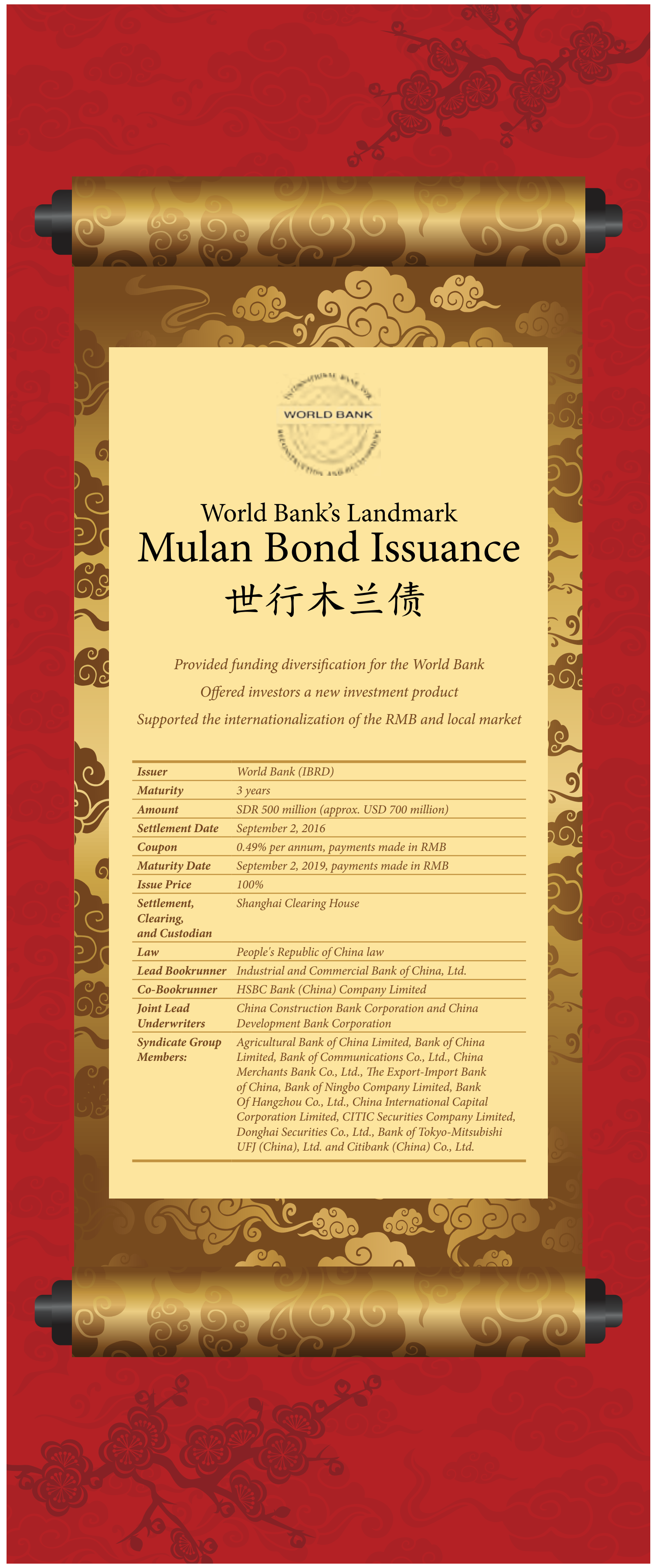
The World Bank named the market "Mulan," after a legendary female Chinese warrior, Hua Mulan, who took her aging father's place in the army even though women were not allowed to fight at that time. She was very successful and highly regarded for her skills. The story of Mulan is globally recognized, 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.

Children from China. Photo © Steve Harria / World Bank







(top left) SDR Timeline. Art by Ria Henares / World Bank Treasury; (bottom left) SDR Bond Cartoon, Global Capital Issue 1470, September 2, 2016. Artist: Olly Copplestone; (right) Mulan Bond banner. Art © Ria Henares / World Bank Treasury

October 5, 2016 — Washington D.C., 2016 IMF / World Bank Group Annual Meetings. Since 1960, IDA has transformed societies and lifted millions out of poverty by providing access to health care, education, clean water, roads and electricity. Photo © Simone D. McCourtie / World Bank

CHAPTER 8

First Bond Launched for IDA: Focus on the Poorest

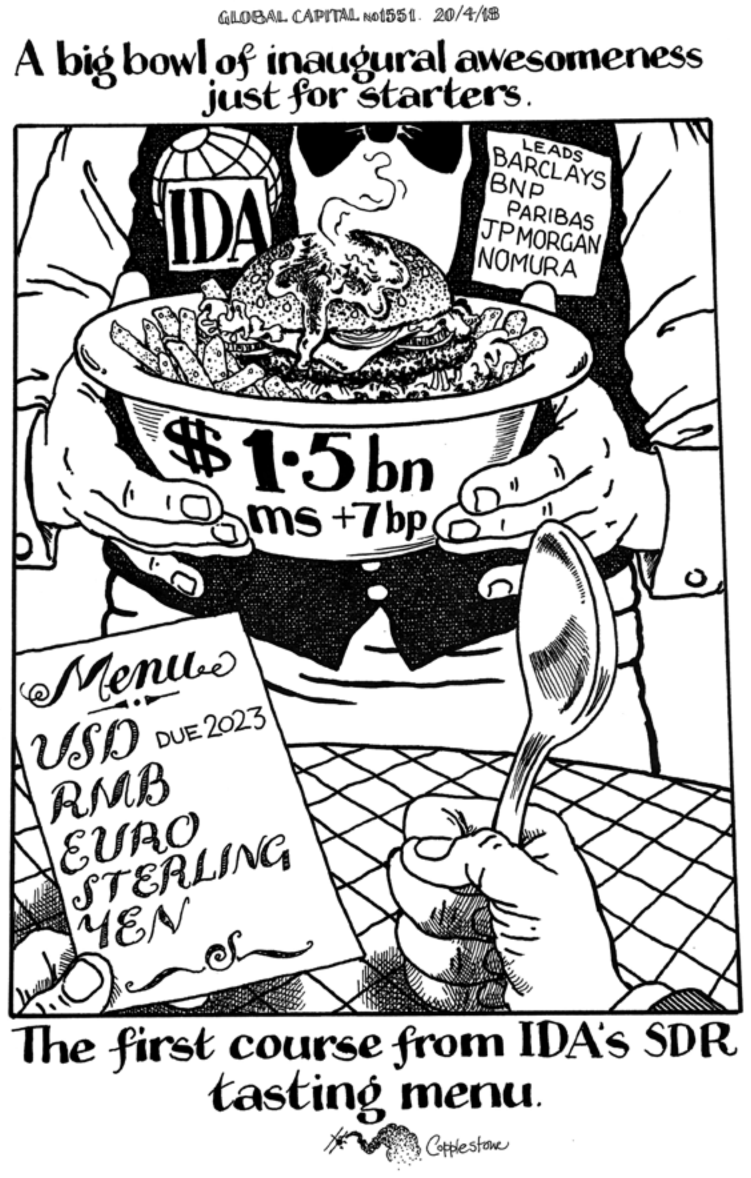
Arunma Oteh, World Bank Treasurer and Eugene Rotberg, World Bank Treasurer (1968 to 1987) at the IDA inaugural bond pricing event. Photo © World Bank Treasury

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.

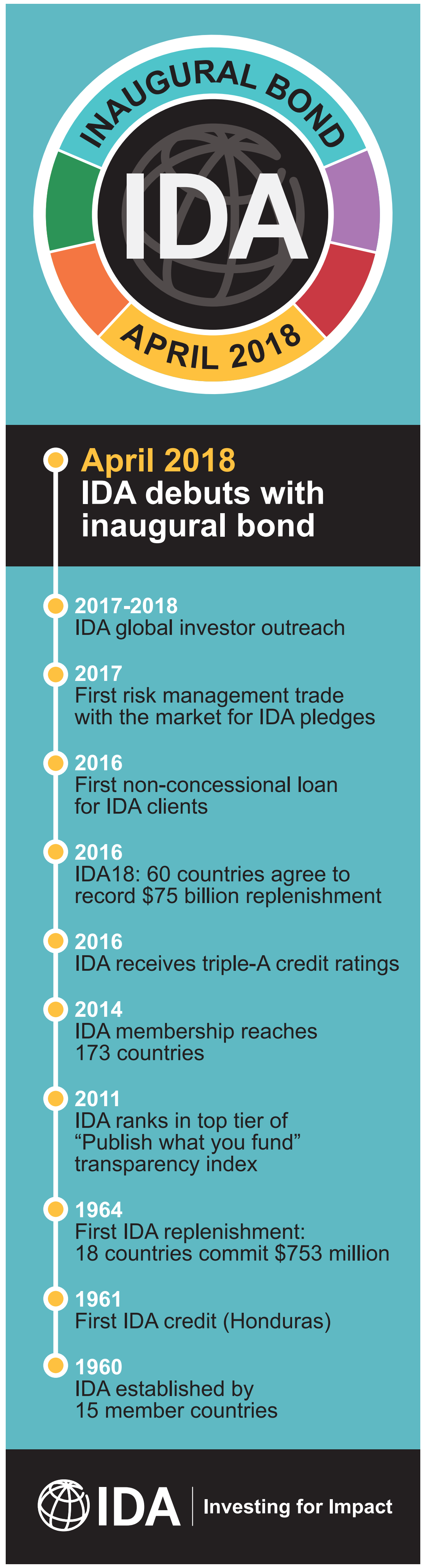
IDA joined a select group of top-tier supranational issuers with the inaugural bond that raised $1.5 billion from investors. The proceeds will support the financing of projects and programs in IDA-eligible member countries that advance the United Nations Sustainable Development Goals (SDGs), offering 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,"[58] 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."[59]

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."[60]



Global Capital No1551, April 20, 2018. Artist: Olly Copplestone



Art by Ria Henares / World Bank Treasury

"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,"[61] 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,"[62] 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.

IDA Inaugural Bond Pricing on April 17, 2018, with World Bank Group President, Jim Yong Kim. Photo © World Bank Treasury

Celebrating the successful IDA Inaugural Bond Pricing with World Bank Group President, Jim Yong Kim, World Bank Treasurer, Arunma Oteh, World Bank Treasury Head of Funding, Andrea Dore and World Bank Group Controller, Bernard Lauwers. Photo © World Bank Treasury

Strong World Bank Franchise Positions IDA to Leverage Capital Markets for Development

THE WORLD BANK
Treasury | IBRD • IDA

1940

1947
IBRD issues its first bond in the international capital markets

1950

1951
IBRD issues its first public offering in the U.K.

1960

1968
IBRD issues its first public offering in the Middle East – a Kuwaiti Dinar denominated bond

1970

1971
IBRD issues its first public offering in Japan

1980

1981
IBRD executes the first ever swap (with IBM)

1989
IBRD issues the world's first ever global bond

1990

1998
IBRD issues first EUR denominated bond to mark the introduction of the Euro

2000

2000
IBRD issues the first electronic bond (E-bond) offered globally through online platforms

2003
IBRD becomes the first MDB issuer to execute swaps on an electronic trading platform (E-swaps)

2007
IBRD creates first MDB multi-currency bond mutual fund

2008
IBRD issues the world's first ever plain vanilla green bond

2009
IBRD launches world's first sovereign cat bond advisory program

2005
IBRD partners with the French postal system to offer the first bonds marketed as socially responsible

2007
IBRD issues first environmentally-themed Eco 3+ bond

2008
IBRD executes innovative risk transfer transactions to offer drought protection to Malawi

2009
IBRD issues largest ever MDB bond (USD 6bn)
IBRD selected as exclusive agent to sell carbon credits for the UN

IFFIm

2006
IFFIm launches its inaugural issue, a $1 billion, 5-year transaction

2008
IFFIm launches its debut issue in the Japanese retail market, a 1.7 billion South African Rand Uridashi issue

2010
IFFIm issues its first issue in Australia, a 400 million Australian dollar "kangaroo" 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 2014 by the *Financial Times*

2010

2011
IBRD offers structured investment solutions for central banks

2013
IBRD executes largest weather and oil insurance transaction (Uruguay)

2014
IBRD issues first ever MDB cat bond covering 16 Caribbean islands for earthquake and hurricane risk (CCRIF)

First Sukuk introducing Islamic Finance to SRI investors (IFFIm)

2015
IBRD issues first ever bond incentivizing private sector to reduce carbon emissions

2016
IBRD issues largest EM currency retail notes program in Europe

IBRD issues first ever domestic Shogun green bond (Japan)

IBRD designs innovative financing mechanism to support donor contributions for MENA refugee initiative

2017
IBRD develops world's first structured notes to raise awareness for SDGs

IBRD launches strategic partnerships to mobilize capital for sustainable investments (Japan's Government Pension Investment Fund; French and Swiss banks and investors)

IBRD executes innovative local currency swap to offer typhoon and earthquake risk coverage (Philippines)

2016
IBRD issues first ever SDR denominated Mulan Bond (China)

2017
IBRD issues first ever Pandemic bonds and swaps to contain outbreaks of infectious diseases in IDA countries

2018

2018
IBRD issues first Canadian dollar gender bonds

IBRD executes largest sovereign risk transfer transaction ($1.36bn for Pacific Alliance)

IDA executes first loan conversion for West African Development Bank

IDA
International Development Association
WORLD BANK GROUP

2018
IDA issues debut bond in the international capital markets

Art by Ria Henares / World Bank Treasury

"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, JP 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 realizing 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.

"Congratulations on the successful launch of IDA's inaugural bond issue! Alecta is proud and honored to support IDA's mission to reduce poverty by contributing to programs aimed at boosting economic growth, reducing inequality and improving the quality of life of people in the world's poorest countries. The bond also meets our stringent requirements for financial returns. It is an excellent example of how we can contribute effectively to the Sustainable Development Goals."

Peter Lööw, Head of Responsible Investment, Alecta Pension Insurance Mutual

"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 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

"Continuously innovating in how we finance development and mobilizing capital for the world's poorest people is one of IFAD's highest priorities and central to our mandate in eradicating rural poverty and hunger. IFAD welcomed the opportunity to be an early investor in IDA's successful debut bond issue because of our mutual commitment to transform development finance in order to successfully reach the Global Goals by 2030."

Alvaro Lario, Associate Vice-President and Chief Financial Officer,
International Fund for Agricultural Development (IFAD)

"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

Art by Shepherd Inc.

From IDA Bond Roadshows. Images © World Bank Treasury

Syrian Refugee children in one of the camps in Beqaa Lebanon.
Photo © AhmadSabra / iStock

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 Suzman / 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

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

(right) Third grader Mariama Morou lives in Kosseye Satom, a village 15 kilometers from Niamey, capital of Niger. Photo © Stephan Gladieu / World Bank

Awards & Recognition (2003–2018)

2003

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

2004

IFR & The World Bank, "The World that Changed the Bond"

2005

IFR Special Report on first Islamic Finance Bond, "Spreading It Around"

3rd MTN Awards–Landmark Deal–TRY70m Notes

2006

Romanian Brokers Association Special Award for World Bank's First Listing of an International Financial Institution on the Romanian Capital Market

2007

5th MTN Awards–Landmark Deal–EUR230m Eco-3Plus Floored Index-Linked Notes

KangaNews Kauri Bond Deal of the Year for NZ$350 million 7.5 per cent 2014 bond

IFR, "World Bank Treasury Rediscovers Its Touch"

Euroweek Overall Deals of the Year
- Euro Supranational / Agency Deal of the Year
- Best Deal of the Year in the Canadian Market
- Deals of the Year in Emerging Currencies
- Overall Deals of the Year

EuroWeek's 20th Anniversary Awards
- Most Innovative Borrower over the Last 20 Years
- Second Most Impressive Supranational Borrower over the Last 20 Years
- Greatest Contribution to Supranational Funding, Kenneth G. Lay, World Bank Vice President and Treasurer
- Greatest Contribution to Sovereign Funding, Vincenzo La Via, World Bank Chief Financial Officer

2008

Environmental Finance Award Carbon Finance Transaction of 2008 Runner up for the Daiwa Securities and World Bank CO2 'Cool' Bond

6th MTN Awards–Landmark Deal–Cool' Heats Up

2009

International Financing Review (IFR) Supranational/Sovereign/Agency/Regional Bond of the Year for Treasury's US$6 billion global benchmark bond issued in March 2009

KangaNews
- Kangaroo Deal of the Year for A$1.4bn 5.5% Oct 2014 and 5.75% Oct 2019
- Kauri Bond Deal of the Year for NZ$300m 5.375% Dec 2014

Euroweek Best public sector issuer in dollars

MTN-i 2009 Awards
- 7th MTN Awards–Editor's Award–Funding Immunisation
- 7th MTN Awards–Institutional Performance–Seizing SSA Leadership

2010

Credit Magazine Supranational Bond of the Year for Treasury's US$4.5 billion global benchmark bond issued in May 2010

TBLI Conference ESD Leaders Award for the Most Innovative Development in ESG for Treasury's Nikko AM World Bank Green Bond Fund

KangaNews
- Kangaroo Supranational, Sovereign and Agency Bond Deal of the Year for A$1.5 billion 5.75% February 2015
- Kauri Bond Deal of the Year for NZ$125 million 5.375% December 2014
- Kangaroo Issuer of the Year

Euroweek Most impressive SSA issuer in Australian dollars

2010 1st Americas Awards–Landmark Deal–USD500m Fixed-Rate Callable Notes due 2012

2011

KangaNews
- Kangaroo Issuer of the Year
- Kauri Bond Deal of the Year for NZ$300 million 4.5% August 2016

Euroweek Most impressive SSA issuer in other-core currencies

2012

Euroweek Award for the World Bank's $1.5 billion 3.5% global bond issued in October 1, 2008 due 2013 as one of the 25 most influential deals over the last five years

Asia Asset Management Best Country Award for the Most Innovative Product for Treasury's the Bank of China (Hong Kong) World Bank Emerging Markets Bond Fund

KangaNews
- Kauri Bond Deal of the Year for NZ$400 million 3.375% August 2017
- Kauri Issuer of the Year

Euroweek Most impressive supranational/agency funding team with funding requirement below €30bn

Euroweek One of the 25 most influential deals over the last five years

Euroweek Most impressive supranational/agency funding official with funding requirement below €30bn, George Richardson, World Bank Treasury

EuroWeek Award for One of the Most Infuential Capital Markets Participants, Doris Herrera-Pol, Global Head of Capital Markets, World Bank

2013

KangaNews Kangaroo Issuer of the Year

IFR 200th Issue, "World Leader: The Borrower that Shaped the Bond Markets"

MTN-i 2013 Awards
- 4th Asia Pacific Awards–Landmark Deal–CNH 2bn Notes due 2014
- 11th MTN Awards–Landmark Deal–AUD91m Zero-Coupon Note Series due 2020

2014

KangaNews
- Kangaroo Supranational, Sovereign and Agency Bond Deal of the Year for A$300M 3.50% April 2019 Green Bond
- Kangaroo Issuer of the Year
- Kauri Bond Deal of the Year for NZ$800M 4.625% February 2019

MTN-i 2014 Awards
- 5th Americas Awards–Landmark Deal–BRL975m/INR30bn/RUB10.5292bn Notes Series due 2013/15/16
- 12th MTN Awards–Deals of the Year–EUR50m Callable Zero-Coupon MTNs due 2064
- 12th MTN Awards–Dealer / Issuer of the Year–Structured EMTN Issuer of the Year

2015

KangaNews Kauri Issuer of the Year

MTN-i 2015 Awards
- 6th Americas Awards–Dealer / Issuer of the Year–3rd Party Structured Note Issuer of the Year
- 6th Americas Awards–Deals of the Year–USD30m Caribbean Natural Catastrophe Notes due 2017
- 6th Americas Awards–Deals of the Year–USD140m Leveraged Steepener Note Series
- 6th Asia Pacific Awards–Deals of the Year–SGD1bn 1.85%/2.01% Note Series due 2022
- 6th Asia Pacific Awards–Investor Solutions–Jumbo Equity-Linked Uridashi Series
- 6th Asia Pacific Awards–Editor's Award–Sovereign Risk Management
- 13th MTN Awards–Dealer / Issuer of the Year–Supranational Issuer of the Year
- 13th MTN Awards–Lifetime Achievement Award–Doris Herrera-Pol, The World Bank
- 13th MTN Awards–Deals of the Year–USD1bn Fixed-Rate Callable/Step-Up Note Series due 2017/18/20

2016

SRI Capital Markets
- Overall Most Impressive Green/SRI Bond Issuer
- Global Market Development Pioneer. Green Bond Awards Pioneer 2016
- Best Deal of the Year for Green Bonds Linked to Ethical Europe Equity Index
- Structured Products Association

MTN-i 2016 Awards
- 7th Americas Awards–Deals of the Year–USD250m Fixed-Rate Callable Notes due 2019
- 7th Americas Awards–Deals of the Year–USD29.687m Equity Index-Linked Green Notes due 2025
- 7th Americas Awards–Editor's Award–Pilot Auction Facility Emission Reductions Notes
- 7th Asia Pacific Awards–Deals of the Year–USD100m 1.709% Green Shogun due 2026
- 7th Asia Pacific Awards–Deals of the Year–USD100m 2.95% Euro CMS-Linked Range Accrual due 2046
- 14th MTN Awards–Deals of the Year–SAR625m/SAR375m Notes due 2018/19
- 14th MTN Awards–Deals of the Year–EUR50m Green Equity Index-Linked Notes due 2028

KangaNews
- Kangaroo Supranational, Sovereign and Agency Bond Deal of the Year for A$800 million 4.40% October 2023 & A$175 million 4.75% October 2026
- Kauri Bond Deal of the Year for NZ$875 million 3.50% January 2021
- Kauri Issuer of the Year
- KangaNews, "Winner's Words: Kangroo Market Achievement Award" article on Andrea Dore, Lead Financial Officer and Head of Funding, World Bank Treasury

2017

Ceres and Trillium Asset Management Joan Bavaria Award for Building Sustainability into the Capital Markets. Heike Reichelt, Head of Investor Relations and New Products, World Bank, for her leadership in Sustainable Investing

Global Capital Annual Bond Award
- Most Impressive Supranational Funding Team
- Most Impressive Supranational Funding Team in Dollars
- Nomination for Most Impressive Funding Official, George Richardson

KangaNews
- Kangaroo Supranational, Sovereign and Agency Bond Deal of the Year for A$850 million 2.60% September 2022
- Kauri Bond Deal of the Year for NZ$550 million 3.375% January 2022
- Kauri Issuer of the Year

MTN-i 2017 Awards
- 8th Americas Awards–US Manufacturers & Issuers of the Year–Issuer of the Year
- 8th Americas Awards–US Deals of the Year–USD428m Callable Zero-Coupon Notes due 2041
- 8th Americas Awards–US Deals of the Year–USD1m US Low Carbon Leaders Index-Linked Notes due 2026
- 8th Americas Awards–US Deals of the Year–USD20m CMS Reverse Convertible Notes
- 8th Americas Awards–US Deals of the Year–USD500m Green Callable Notes due 2021
- 8th Asia Pacific Awards–Editor's Award–Pandemic Bonds/Swaps
- 15th MTN Awards–Global Deals of the Year–SD949m Notes due 2018 / 19 / 20 / 21 / 22 / 23
- 15th MTN Awards–Deals of the Year–EUR163.6m Equity Index-Linked Notes due 2032/37

2018

GlobalCapital Bond Awards
- Best Issuer at Investor Relations
- Most Impressive SSA Structured MTN Issuer
- Best Issuer at Breaking New Investor Base
- Most Impressive Supranational Funding Team in Dollars
- Most Impressive SSA MTN Issuer

Kanganews
- SSA Kangaroo Bond Deal of the Year for A$850 million 2.60% September 2022
- Kauri Bond Deal of the Year for NZ$550 million 3.375% January 2022
- Kauri Issuer of the Year

MTN-i 2018 Awards
- 12th Americas Awards–US Deals of the Year–USD650m Fixed-Rate Callable Notes due 2020
- Asia Pacific Awards – Market Future Award – Blockchain Debt Innovation
- Deal of the Year – CAD SRI Notes Series due 2028
- Deal of the Year – NZD Notes Series due 2028

Trading Risk Awards
- Financial Facilitator of the year
- Initiative of the year – Pandemic Emergency Financing (PEF) Facility

Insurance Insider
- Reinsurance Transaction of the Year – Pacific Alliance Cat Bond

The World Bank Treasury Team, September 25, 2017. Photo © World Bank

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