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World Bank treasury rediscovers its touch

A very different World Bank has been on display to the capital markets in the last year, as the institution has reinvented itself as a nimble player in a broad range of markets. Nick Jacob caught up with the treasury team to find out what has changed.

THE LAUNCH of the World Bank's first global euro bond — its first big benchmark in a currency other than US dollars since 1998 — was front page news in May, but was by no means the only high profile change in its recent funding activities.

"In the last year, we've met our borrowings requirements differently," says Doris Herrera-Pol, head of capital markets at the World Bank treasury in Washington, DC. "We tapped the euro global market for the first time, launched benchmark bonds in Australian dollars, New Zealand dollars, South African rand and Turkish lira, pursued opportunities to do small transactions at attractive terms, and were successful tailoring socially responsible investor products."

The bank's overall funding requirement grew to \$11bn in its 2007 fiscal year (to the end of June) from \$9.4bn in fiscal 2006. It raised around 70% of the total from vanilla, non-benchmark bonds, 20% in benchmarks, and 10% with structured notes.

The World Bank's projected need next year will be slightly higher still, in the range of \$10bn-\$15bn, as it faces slightly higher redemptions and expects higher disbursements.

The euro benchmark deal — a Eu1.5bn three year bond, launched in May by ABN Amro, Deutsche Bank and HSBC — was the first time that the bank had issued its annual benchmark in a currency other than US dollars for nine years.

"Costs for supranational issuance across the major currencies were converging," explains Herrera-Pol. "Alignment of cost indications led to the opportunity to do a global transaction in a currency other than US dollars."

The deal was priced at 5bp over Bunds and immediately tightened to 4bp. The strong performance justified the borrower's approach, says George Richardson, the bank's principal financial officer.

"We're really happy with the way it has been performing. It tracked the Bund it launched against almost exactly, despite tightening versus Libor. That

indicated that we had successfully positioned ourselves more as a government proxy, whereas the bonds by our peers who issue more regularly are more correlated to Libor."

The global yen market may now be on the agenda, and while in smaller size, sterling and Canadian dollars feature prominently in the World Bank's plans. It has already roadshowed in Canada, and is waiting for the correct market conditions before launching a deal.

However, core benchmark markets only make up a small proportion of the World Bank's funding activities. Its recent deals include its first New Zealand dollar Kauri global bond, a South African rand global, its first Malaysian ringgit issue, the first Turkish lira global and many more.

The World Bank put in a strong performance in the yen structured note market this year, after several poor years when it was seen as an inflexible and difficult borrower.

"The market had been developing in the last few years to one which demanded more tailoring," says Richardson. "It became clear that the issuers who had the most flexibility were the most successful and the ones that banks turned to when responding to demand from clients. We saw this trend and changed our approach."

The bank lowered its minimum size requirement to ¥100m, in line with best practice in the market, from its previous ¥500m-¥1bn limit.

"The response was immediate," says Richardson. "We're now taking back the market share we used to have."

The World Bank has also made strides in other areas this year, says Herrera-Pol. "There is increasing demand on the part of investors at the retail level for SRI products that give investors a financial return and also a 'social return'."

That approach has prompted the bank to launch an Eco Bond deal with ABN Amro. Similar in some regards to the European Investment Bank's climate

awareness bond, it also has many differences. Instead of a one-size-fits-all approach, the World Bank has been careful to work on one specific market — in this case, Benelux retail investors.

While the deal will undoubtedly be smaller than the EIB's — Eu100m would represent a great success — there are unlikely to be the same recriminations from syndicate members as in the EIB trade. The difference in philosophy is expressed by Heike Reichelt, head of investor relations and new products.

"To derive the most benefit from tailored products you need to focus on the precise demands of the client," she says.

The treasury team are certainly enjoying the new challenges at the bank. "It's been a much more exciting time than previous years," says Herrera-Pol. "Fifteen years ago we only needed to speak to Wall Street — we had few opportunities to work with the rest of the World Bank. These days we are close to clients, to World Bank country specialists in the regions and to other areas of the bank."

Those new challenges also include projects away from the traditional business of issuing World Bank bonds. The treasury led the set-up of the International Finance Facility for Immunisation (IFFIm) at the end of last year and launched the highly successful \$1bn inaugural issue.

The treasury was also involved in establishing the Caribbean Catastrophe Risk Insurance Facility this year. Ivan Zelenko, head of derivatives and structured finance at the bank, explains: "It is a new development to provide efficient and innovative catastrophe risk financing tools to our developing country clients.

"The Treasury helped the insurance facility designed for Caribbean countries transfer its risk to the capital markets in the form of a catastrophe swap."

All in all, an eventful year. Richardson sums up the new approach neatly: "It's all part of the same package. It's about being entirely flexible to what's needed."