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.

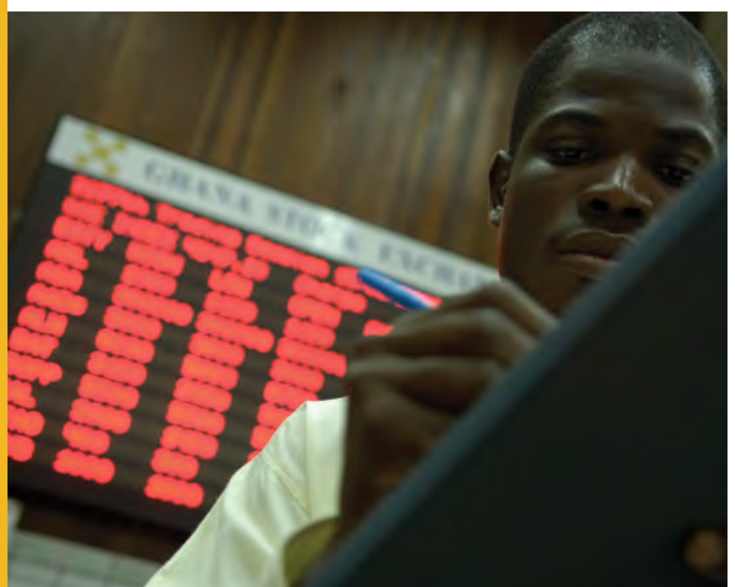
"Nomura is particularly proud to have been involved in a number of important transactions together with IBRD, including the first public offering in Asia in 1971, the inaugural Global bond in 1989, and the first Yen Global in 1992. After 70 years, IBRD is still innovating. Our work on the inaugural landmark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