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.

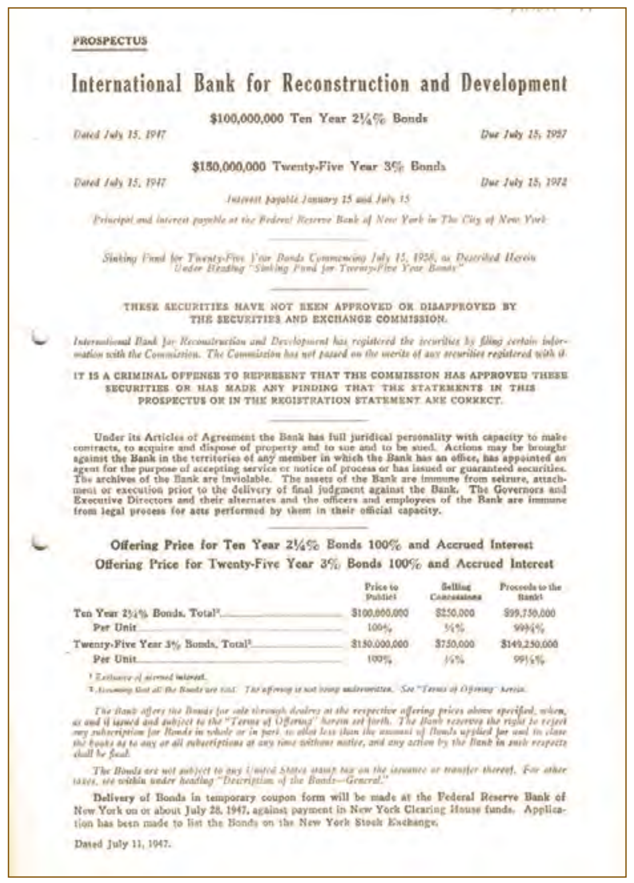
To support the sales campaign, it set up a small office in the Federal Reserve building in New York, NY, where staff were supplemented by volunteers from several of the leading banks and capital markets dealers to focus on marketing the World Bank to prospective investors on Wall Street and around the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

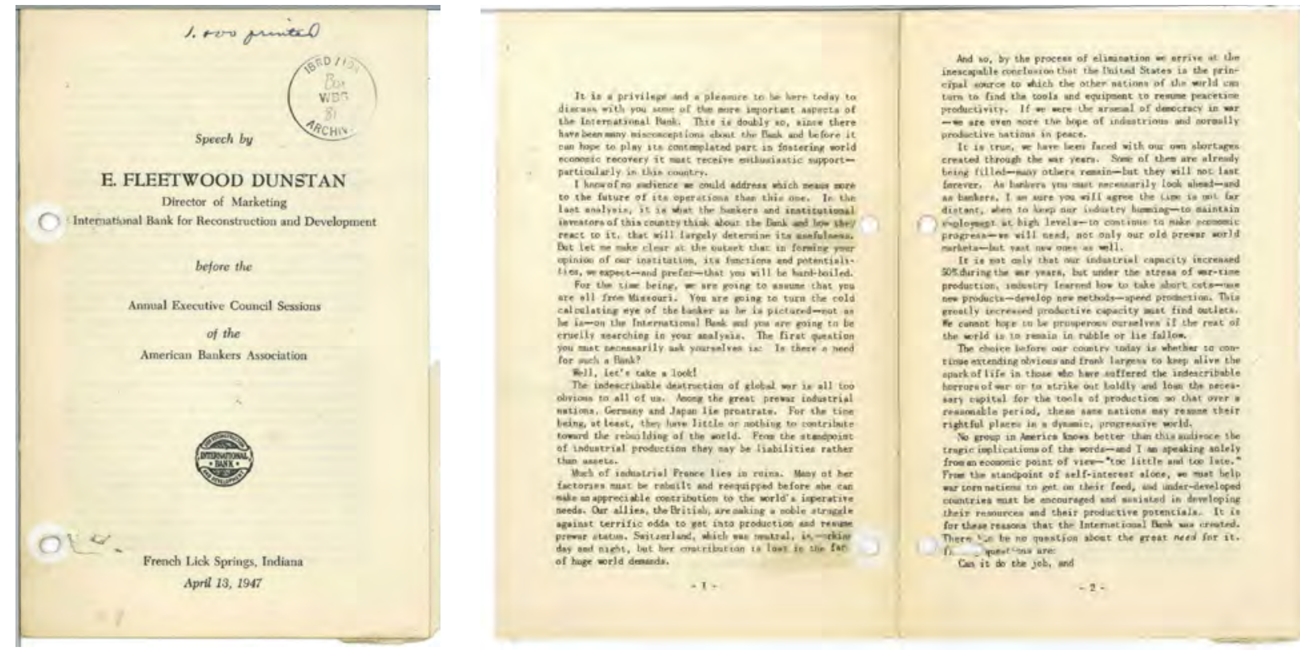
Dated July 11, 1947.

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."

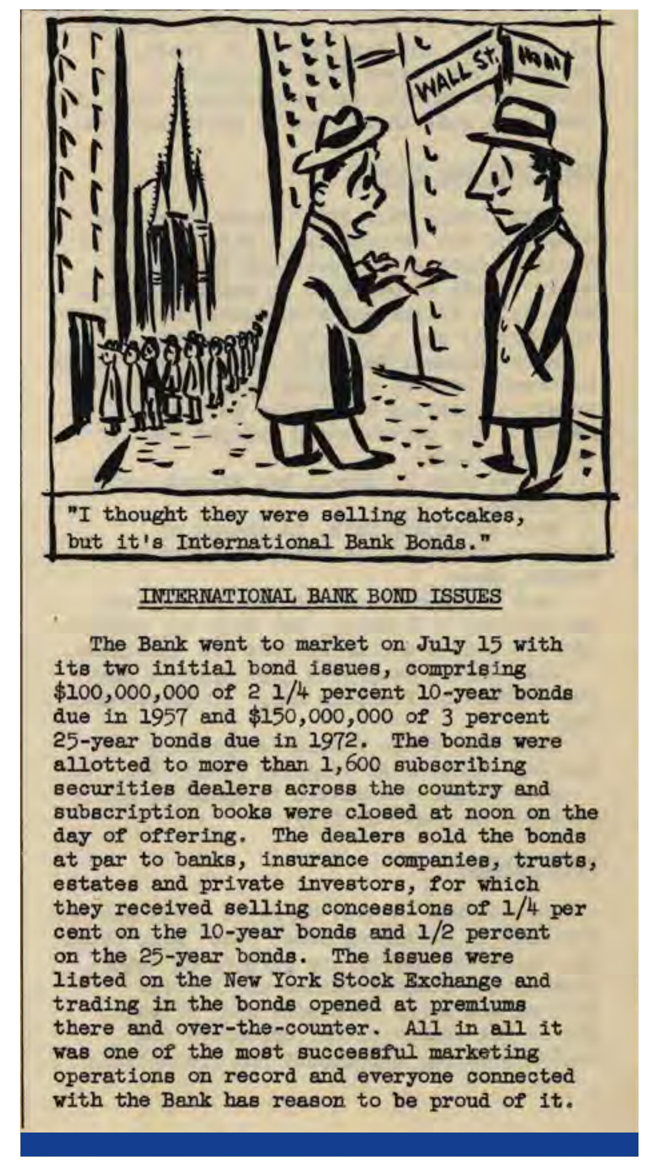
Gerald A. Rizzieri, President and Chief Executive Officer, Mizuho Securities USA

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

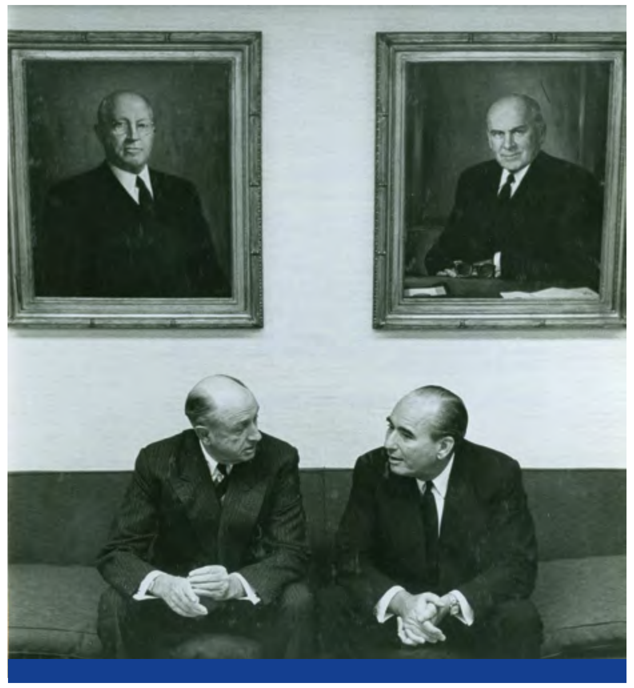
The Bank went to market on July 15 with its two initial bond issues, comprising $100,000,000 of 2 1/4 percent 10-year bonds due in 1957 and $150,000,000 of 3 percent 25-year bonds due in 1972. The bonds were allotted to more than 1,600 subscribing securities dealers across the country and subscription 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

> ***"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

bonds. These additional funds in several currencies could then be used to pursue the World Bank's global development goals.

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

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

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.

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