Eugene Rotberg and the World Bank: Worth spending one's life on

Philip Moore | Friday, September 13, 2019

The World Bank's influence on the growth of global capital markets is unquestionable, and no individual has played a more important role than its former treasurer, Eugene Rotberg.

Eugene Rotberg served as treasurer of the World Bank between 1969 and 1987

Globalization means different things to different people. Like democracy, its application can only ever hope to please some of the people some of the time.

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But it is hard to see how any right-minded individual can dispute that in its purest form, globalization of capital flows can only be a power for good. This is a utopian vision whereby US dollars lying idle in bank accounts in Milwaukee can be put to work to finance a primary school in Malawi.

Utopian perhaps. But it is doubtful if anybody did more over the latter stages of the 20th century to promote the productive recirculation of inactive money than Eugene Rotberg, who between 1969 and 1987 served as treasurer of the World Bank.

Rotberg was an improbable hero when he took up his position at the Bank in January 1969, six months before Euromoney's launch. The previous October, the former Securities and Exchange Commission lawyer had been mulling job offers from Oppenheim and Salomon Brothers, but he bluntly admitted to Robert McNamara at his interview with the World Bank that his knowledge of the bond market was "de minimis".

He added that he knew nothing about "international stuff", barely knew the difference between a bond and equity, and that his only experience of dealing with investment bankers had been derived from: "Trying to put most of them in jail for violations of the Sherman Act."

It could have been a job interview from surrealist sketch show Monty Python rather than an august multilateral development bank had it not been for two important details. The first was the response Rotberg gave when he was asked what he thought about the problems of poverty in undeveloped markets.

It was not a subject he knew much about, Rotberg answered, but it was one, he added, that was probably worth spending one's life on.

The second was that McNamara was not looking for an experienced number-cruncher. Instead, Rotberg recalled many years later, the World Bank president had in mind a treasurer who was: "Not beholden to the world of finance and its way of doing things."

The articulate, opera-loving 38-year old Rotberg, who had studied "mainly history and literature" as an undergraduate, appeared to fit the bill perfectly.

Besides, McNamara had not had much luck with his previous treasurer. Bob Cavanaugh had held the position for 10 years, but was fired by McNamara when half of a SFr80 million 16-year bond was left on the underwriters' books in October 1968.

Parochialism

Rotberg would later recall that when he joined in 1969, the Bank had been a minimal borrower and Cavanaugh himself had believed that the institution "could not borrow very much."

That may not have been entirely fair. In its early days, the Bank encountered an element of parochialism – even jingoism – when it approached investors outside the US. When the Bank suggested that Swiss investors participate in its inaugural dollar bond in 1947, it was rebuffed. Switzerland was not a member of the International Bank for Reconstruction and Development (IBRD), so Swiss investors saw no reason why they should buy its bonds.

By the 1950s, however, the Bank was successfully raising money outside the dollar market and redirecting it towards infrastructure projects in countries where capital was in short supply. By the 1960s it was cultivating an increasingly diversified investor base.

Eugene Black, the Bank's president between 1949 and 1963, was recognized as a master bond salesman. Cavanaugh, meanwhile, extended its reach as a borrower beyond a handful of European currencies and into the Saudi and Kuwaiti markets at the end of the 1960s.

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>
> - Eugene Rotberg

It was Rotberg, however, who turbocharged the Bank's funding programme and prodded into nooks and crannies of the global investor community that others had generally left unexplored.

It was Rotberg and his team that knocked on the doors of German cooperative savings banks, offering them a 10-basis point spread over bunds in exchange for their excess savings.

It was Rotberg and his team that wore out shoe leather in Japan, calling on insurance companies, as well as regional and trust banks, with similar enticements.

Kenneth Lay

Kenneth Lay, who joined the World Bank in 1982 and went on to become its treasurer in 2006, adds that it was Rotberg who effectively established the IBRD credit among investors.

In the early days, one of the challenges this involved was emphasizing the difference between the IBRD and the International Development Association (IDA), which helped to strengthen the perception of the World Bank's rating across the global investor community.

"Far from being a threat to the World Bank's credit, IDA was if anything a protector of the triple-A rating," says Lay. "It reassured the ratings agencies that lower-income countries unable to borrow on IBRD terms were being taken care of by IDA."

IDA launched its inaugural bond to great fanfare in 2018, but for the previous 58 years it depended for its financing purely on regular replenishments from donor countries. This, says Lay, has always been an important feature of the relationship between the World Bank's anti-poverty mission and its capital market operations.

"The treasurer of the World Bank has always had responsibility for the IBRD and IDA," he explains. "But on the IDA side this traditionally covered the management of its reserves rather than any market operations."

Globalization

Rotberg says that long before globalization had entered the financial lexicon, the funds generated from surplus economies such as Germany and Japan were being recycled by the Bank for productive use in resource-rich, cash-poor and newly independent countries across the developing world.

"When we had identified where the world's untapped savings were, we simply fashioned an instrument to access these funds and on-lend them to developing countries, which would otherwise have had no access to finance for infrastructure," says Rotberg.

"We were able to borrow so much in Germany and Japan not just because their excess savings were so plentiful, which made them potentially inflationary," he adds. "It was also because by the 1960s investors were increasingly eager to diversify internationally."

Now 89, Rotberg continues to work four days a week and dedicates much of his time to writing on a variety of subjects. When he spoke to Euromoney, he was just putting the finishing touches to the libretto of his first opera.

"All I need now is to find somebody to compose the music," he says.

Rotberg clearly relishes reminiscing about his time at the World Bank, to which he says he remains "very favourably inclined," although he is too modest to dwell on the product innovations for which he is well known throughout the global investment banking community.

The most notable of these was the scheme he devised in 1981 under which the World Bank swapped the obligations on a dollar bond for those of IBM in Swiss francs and Deutschemarks, thereby creating the first currency swap.

Lay makes the point, however, that financial engineering of this kind was only possible in the 1980s because by then Rotberg had successfully built the financial profile of the Bank to a level at which its triple-A rating was more or less taken for granted by investors and counterparties worldwide.

“It was only when our triple-A rating was universally unquestioned that we could explore ways of extracting the best value from that rating in order to support the World Bank’s extraordinarily low cost of funding,” says Lay.

While Rotberg acknowledges the importance of the contribution made by the swaps market to the depth and efficiency of international capital markets, he says that the globalization of financial flows is a story that has not had adequate recognition.

Rotberg says that this was a story that gathered critical momentum as the World Bank developed its expertise on accessing international pools of savings and subsequently shared that knowledge with developing economies.

“Thanks to intensive training programmes at the World Bank treasury department that would last anything from a month to a year, developing countries were able to build direct access to the world’s capital market,” says Rotberg.

The long-term impact was powerful.

“By the year 2000, globalization had matured,” Rotberg explains. “Developing country A could borrow country B’s currency (say, yen) and thereby tap into the institutional or individual savings of country C, say Canada or Germany, where investors wanted yen assets.

“The proceeds of the bond issue were used to buy, say, sophisticated textile equipment from country D, which in turn had imported component parts from perhaps a dozen other countries, all paid for by the savings of Canada or Germany.

“Country A would then leverage its low labour costs to use this equipment to satisfy demand in country E.” And that globalization, Rotberg concludes, is irreversible.

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