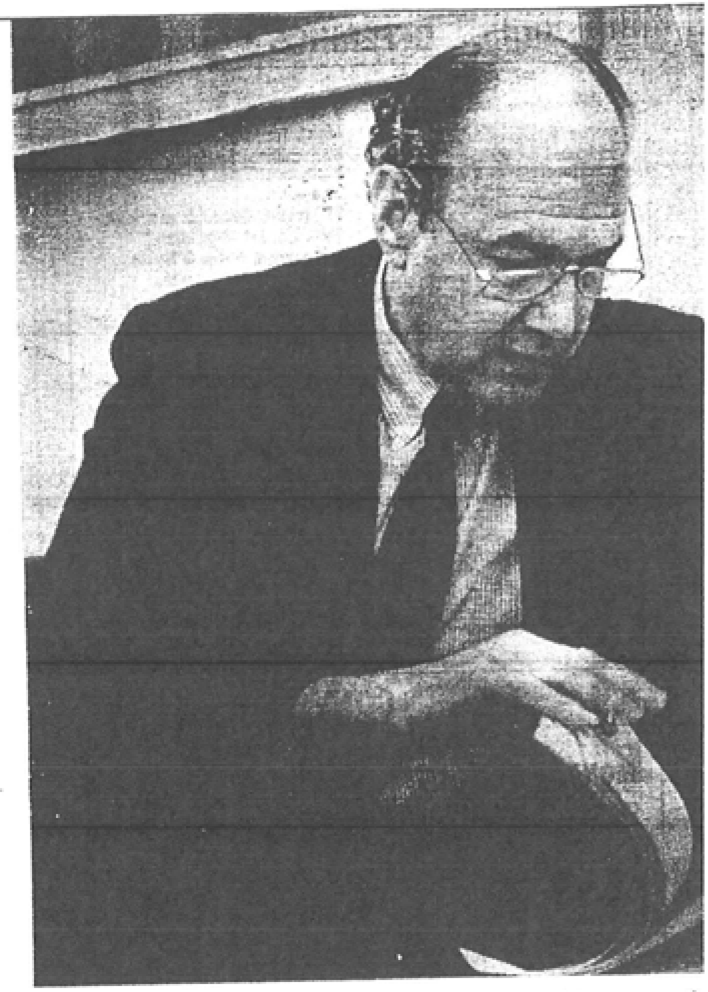
Financial Markets Pay Close Attention To the World Bank



World Bank Treasurer Eugene H. Rotberg, who oversees the agency's investment sectio

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base of usable capital provided by member governments. While the 150 nations have pledged to provide nearly $67 billion to the bank, they have been required to pay in only $5.8 billion, and $1.7 billion of that is not really available because of restrictions on its use placed by the governments that provided it. The U.S. share of the paid-in capital is about $1.3 billion. The remainder of the pledged capital is supposed to be available if the bank calls for it, and is used as a kind of guarantee to back the bank's borrowing.

During the 1986 fiscal year, which ended June 30, it borrowed $10.6 billion worth of funds in 16 currencies, issuing in exchange a wide variety of securities with maturities ranging up to 40 years. Some of the proceeds were used to pay off the bank's own maturing debt, fund new loans and add to its already huge pool of liquid assets.

The bank's biggest impact on financial markets, according to a number of financial market analysts, comes through its active management of those liquid assets, most of which are shorter-term U.S. government securities. In an effort to obtain the highest possible return, the bank's $20 billion worth of liquid assets were so actively traded in the past fiscal year that portfolio transactions hit $4 trillion, the bank reported recently.

A small group of traders representing about 10 nationalities and working in a recently renovated, windowless trading room at the bank's headquarters on 19th Street were responsible for those transactions. Earnings on the portfolio, including capital gains of $365 million generated by rising bond prices, topped $2 billion in fiscal 1986.

Government Securities Powerhouse

The bank is a particularly potent force in the U.S. market for government securities. "They are the largest customer in the marketplace on an ongoing basis," said the chief government securities trader for a major New York bank. "Everyone wants to know what they are doing because they have provided a great deal of intellectual rigor to this market."

Wall Street actively goes after the bank's business, he explained. "All of these people are soliciting them. The Street gives them tremendous prices because the traders want to know what they are thinking," he said.

From the bank's point of view, the information flow in the other direction is important, too. Each conversation with a Wall Street trader, even if no deal is struck, provides new data to help the 15 or so World Bank traders and Rotberg decide what to do next.

Traders Aren't Judged by Profits

The bank's traders have one luxury most of their Wall Street counterparts do not: Their performance is not gauged by how much money they make or lose for the World Bank by their trades. Rotberg insists that when a trader is deciding whether to sell a security, the price paid for it should be disregarded. Instead, he says, the choice must be made on the basis of what is the best current investment, not whether the bank would sell the security for less than it originally paid for it.

In the trading room one afternoon last week, a trader concluded a sale of $100 million worth of two-year U.S. Treasury notes. To make the point about ignoring a security's cost, Rotberg leaned across the room's central bank of computer terminals and telephones, got the sheet on which the transaction had just been logged and barked, "Did you know what we [originally] paid for these?" The trader shook his head and went back to his telephone.

At many firms and institutions that trade in the government securities market, the cost of a security is an important consideration, not just the opportunity for profit if it is kept in a portfolio. Selling for less than was paid means recognizing what otherwise would remain, at least temporarily, only a paper loss. When a trader's compensation, and his boss' as well, is based in part on trading profits, recognizing losses can be painful.

The traders at the World Bank, on the other hand, are paid on the same scale as other professionals there, with salaries ranging from about $40,000 to $80,000 on an after-tax basis. They are attracted to the job by a number of factors, according to several of them, including the opportunity to further the bank's fundamental aim of serving as an intermediary between industrial nations and capital-short developing countries.

Hani K. Findakly, director of the investment department under Rotberg, said the bank has sought people with training in finance, economics, engineering and similar disciplines. "We can't teach someone with a degree in history the necessary mathematics," he said.

Findakly, an Iraqi who holds a doctorate in mathematics and civil engineering from MIT, joined the bank a decade ago intending to help oversee loans for public-works projects. As part of the bank's "young professionals" program, he became a trader and never got back to public works. He recently resigned to move to a New York securities firm, Drexel Burnham Lambert.

The traders quickly acquire the skills they need, and within two or three years each typically is managing $3 billion to $4 billion in assets, Findakly said. "Each individual has a large impact, and each of us feels a part of the institution, even though we have little contact with most of the rest of the bank," he continued.

In the end, a better investment performance means that "the bank can charge a lower rate on the help it provides. It means that the bank can make more available to help a poor African farmer," he said.

One of the few criticisms of the World Bank's investment operations heard on Wall Street is that, as one analyst noted, "It takes a while for them to get a policy change made."

As new types of securities have come along rapidly, the bank has been far slower to use them than private-sector institutions. There is no trading in futures and options, for instance, although Rotberg has proposed doing so and such trading could be approved soon by top officials at the bank.

Similarly, there are reports the bank would like to begin investing in securities with seven- or 10-year maturities. Currently, the limit is five years and three months. The bank also was slow to move into using securities it owned as the basis for repurchase agreements—selling them to other investors for cash with an agreement to buy them back at a later date.

One area in which the bank has been particularly aggressive is in its effort to open up new borrowing markets. For instance, during the past year, the bank borrowed Australian dollars for the first time in the so-called Euromarket—a term describing not a location but a transaction in a currency that takes place outside the issuing country's borders.

Rotberg Wants Top Reputation

Rotberg welcomes the growing integration of the world capital market and intends to continue to seek ever more places to borrow. He wants the bank to have an impeccable track record as a borrower in as many markets as possible as a hedge against some future time when interest rates might be much higher and funds much harder to come by.

For much the same reason, the bank limits the amount of borrowing it does in U.S. markets. The U.S. market is the deepest and most stable in the world, and if things got really tight, is where Rotberg would turn to keep funds flowing into the bank's coffers to support its lending operations.

The rationale for the bank's having a huge liquid portfolio is much the same. At the end of June, the bank's $20.2 billion in liquid assets was equal to 57 percent of its expected net cash outflow over the next three years. The degree of liquidity was even higher in the mid-1970s, but then was drawn down in 1981 and 1982 to 39 percent of the next three years' net cash outflow.