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The politics of the World Bank's Eurobond debut

The haste with which the World Bank dumped its anti-Euromart stance startled everyone — maybe even the bank itself.

by Laura White Dillon

Eugene Rotberg, treasurer of the World Bank, has a reputation for being a very nice guy. He's also acquired a certain notoriety as the man who loves to hate the Eurobond market, and kept one of the world's most voracious borrowers out of that sector for years, on grounds most recently elaborated at the Association of International Bond Dealers' May meeting in New York. There, he offered nearly a dozen blunt reasons why the World Bank was still displeased with the gargantuan Eurobond market, including the fact that "we are not comfortable with firms that seek to be excessively competitive to attract our attention or favor." Adamant as the remarks sounded, however, Rotberg then confounded the audience with a reply to a question: "We will do an issue within a year," he said.

Besides sounding like a non sequitur, that remark turned out to be an understatement. Barely three weeks later, the World Bank's long-awaited Eurodollar debut was launched under the aegis of Paribas — and if it brought some bankers nightmares, it turned out to be an intriguer's dream.

It happened this way. The last time the World Bank borrowed dollars publicly was in 1977 in the U.S. market, but Rotberg, for the past three or four months, has let it be known that he was interested in dollars again, now that rates were sliding. Paribas Eurobond chief Olivier Brunet spotted an opportunity in the Euromarket one day in early June, and a firm offer was quickly telexed to Rotberg (who claims he didn't have many firm offers on hand, despite his AIBD remarks) by Paribas International chairman Pierre Haas, who was traveling in London. As Rotberg tells it, he thought the Paribas offer was reasonable and fair to investors, borrower and Paribas — in Rotberg's eyes, a key and not necessarily common combination in Eurotransactions. It also compared favorably with the cost of raising dollars in the U.S. So after talking over the proposal briefly with World Bank president Robert McNamara and another colleague, Rotberg tracked Haas down in London and snapped up the bid.

Deutsche Bank's Guth: Had he been promised the mandate?

World Bank's Rotberg: "My guess is that the next one will be more traditional"

It was a real coup for Paribas, of course, and bankers who saw Pierre Haas afterward said he was strutting around like a peacock. Bankers do not regard the deal as especially innovative, and they say the market opening was not hard to spot. But the other Eurobankers just didn't have the imagination to try the World Bank. If there is no such thing as luck, Paribas' brilliance consisted merely of seeing no harm in asking. (Paribas, it should be noted, refused to comment on the World Bank exercise.)

Symbolic occasion

Few things, however, are as simple as they appear — especially in the Eurobond market, and especially when a premier borrower making a market debut has one of the most prestigious lead management positions imaginable to bestow on some lucky bank. Quite aside from choosing a competent manager (and there were only a few complaints about the way the $300 million and subsequent $200 million World Bank branches were handled by Paribas), the political considerations involved in selecting a management group on such symbolic occasions are not lost on most big issuers. Judging by the furor surrounding his choice of Paribas, in the future they may not be lost on Eugene Rotberg, either.

The issue that kept tongues wagging was whether Paribas won the lead management prize that had already been promised to Deutsche Bank. Several years ago, it seems, the World Bank held extensive discussions with the Deutsche Bank, which manages its Deutsche mark issues, about arranging a Eurobond deal; those talks came to naught because the cost of raising

Paribas' Haas: It never hurts to ask

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Eurodollars didn't compare favorably at the time with that of raising dollars in the U.S. Did Deutsche Bank believe it had a mandate to lead the World Bank's first Eurobond issue, whenever it materialized? Sources at Deutsche Bank say there was no doubt in their minds that they had been promised that plum. Some people at the bank were even convinced that Rotberg and Haas had schemed to bypass that agreement.

In any case, Deutsche Bank declined participation in the Paribas management group, as did Credit Suisse First Boston, in a gesture of solidarity reflecting its close ties with the German bank. Crédit Suisse was thus the only Swiss bank of the Big Three not to participate, and First Boston was alone among the managers of the World Bank's last spate of dollar borrowings in the U.S. to be absent from the Euroissue. Rumor has it that the Deutsche Bank then made a counteroffer to Rotberg and tried to revive the old management group, though neither Rotberg nor Deutsche Bank will confirm or deny it.

"Under no conditions will we put an underwriting firm in a position of having to compete with what we consider a good price," says Rotberg a bit obliquely, echoing one of his well-publicized principles of doing business and alluding to his complaints about aggressive Euromarket competitive practices. "Nor would we accept such an offer if it was made."

"This was an ad hoc transaction," Rotberg further insists, and that assertion may indeed be the clue to what was behind the escapade. "The way business is done in the Euromarket is changing," points out one London corporate finance chief. The on-again, off-again nature of the Eurobond market over the past few years, he explains, has encouraged the rise of the so-called "bought" deal, in which the managers guarantee terms to the borrower at the time they make a bid, as opposed to the traditional method of indicating a coupon and adjusting final pricing at the end of a selling period. Even though the market for the time being is considerably steadier than in the days that spawned the firm-offer phenomenon, borrowers are still shy of the possibility that markets *might* turn volatile.

More and more often, therefore, deals are snapped up on a firm-offer basis, and the conventional deliberative process of choosing a manager and planning an issue has almost begun to look quaint. And so it appears that, providing the offer came from a reputable institution, Rotberg was ready to accept the best firm offer that came along, consistent with his views of fair pricing.

Even so, there are unanswered questions. To some market observers, the fact that the World Bank accepted a bought deal (which Paribas — presumably along with its co-managers — would be committed to hold if the market went against them), and one with a traditional commission structure that makes room for reallowance to large institutional buyers, seemed to trespass on some of Rotberg's principles: "We don't want our banker-underwriters to hold our securities," and "we are not at ease pricing issues in which there are variable discounts given to some customers and not to others," he said in the AIBD speech. Indeed, says one banker involved in the deal, "We know the World Bank well enough to have found certain aspects of the transaction unusual." "There are a lot of things I'm not at ease with," Rotberg protests, implying that you can't fight all the battles at once. "I could have restructured the deal to have a ⅞ [commission] spread," he admits, "but we preferred to have the coupon at that level — not for cosmetic value, but to establish ourselves at a reasonable spread over U.S. Treasury securities." But as one veteran Eurobond trader puts it: "All these fine ethics go out the window when there's a buck to be made."

Such sniping may be only the inevitable and unjust deserts of a man who has been bold enough to talk about values and ideals in a scrappy arena where those words aren't overused. Rotberg, for his part, says he is "disappointed" about all the controversy the World Bank issue has generated, and says emphatically that no precedents have been set in it. "We are *not* going through any change in the underwriters we have used around the world," he says. "We think we have the greatest underwriting group anywhere."

Would he do it differently if he could start all over again? "No," says Rotberg, but then again, he adds, "my guess is the next one will be more traditional — just because the probability of doing an issue the same way the second time is low."

In the last analysis, even if the World Bank's Eurobond debut was borne of the innocent acceptance of a decent, well-timed bid, naiveté — real or apparent — has its costs. For a borrower that has long prided itself on its savvy and its excellent relations with underwriters, the World Bank in this case should have better understood the subtle power games of the Euromarket. II

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