Rotberg To Banks: You're On Your Own

By Kevin Muehring

Commercial banks are "naive" if they think U.S. government guarantees or subsidies, or greater commitments on the part of international lending institutions, will fill the gap between the banks and debtor countries, asserts former World Bank treasurer Eugene Rotberg, now an executive vice president of Merrill Lynch & Co.

Rotberg said he appreciates how difficult it will be for the commercial banks to extend fresh credits. But in a forthcoming essay on the LDC debt crisis, entitled "The State of Play," he seems to suggest that they are on their own.

In his essay, which essentially mirrors the views expressed by IMF Managing Director Michel Camdessus in his opening speech yesterday, Rotberg suggests that the World Bank could play a more active role in the debt crisis if it was allowed the flexibility to provide loans or guarantees unsecured against its callable capital. But, he states, "official development institutions cannot—will not—fill the gap between what the banks are willing to do and what the debtors are prepared to pay."

Debt reduction without fresh credits has little effect on cash flow, Rotberg writes, if the debtor hasn't been paying interest or principal anyway. "Given that reality, for the whole process to have an impact, the provisioning, write-offs, debt reduction or lower interest rates, plus new loans, must be in magnitudes greater than the amount of previous lending."

"My sense is that the banks expected an activist response from the U.S. government, perhaps in the form of subsidies or guarantees, or, absent that, a greater commitment from the international lending institutions. That was naive," concludes Rotberg.

He argues, however, that the World Bank *could* play a more active role, filling the gap between banks and debtor countries, via an off-balance-sheet affiliate. Such an affiliate would be able to extend loans or guarantees unsecured against the World Bank's callable capital. Or there might be an obligation that the commercial banks relend payments received from guarantees issued by the World Bank back to the World Bank at three-month treasury rates.

"Unless initiatives are taken along these lines," Rotberg warns, "the interventions by the international financial institutions are likely to be modest."

Sierra Club 1, Treasury 0

Congress Presses Multilaterals On