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A World Bank Solution

THE PESSIMISM in the international banking community about the ability of the developing countries to borrow the billions of dollars that will be necessary to service their debts and start their economies moving again has by no means abated.

Commercial banks, fully aware that it may take years before some of the biggest borrowers are credit-worthy again, simply do not see a way out. They do not, for instance, think it is practical to expect their governments or some international institutions to bail them out of their developing country loans. The voters are simply too wary of anything that smacks of "bailing out" the banks. Nor do they hold out much hope for some kind of subsidized developing country lending.

That is why so much more attention is being paid of late to a World Bank solution, which is one of the elements being discussed as part of the overall review of the role of the international institution that will be completed in coming months.

Eugene Rotberg, the World Bank's treasurer, concedes that many of the well-meaning proposals that have been made recently are impractical and unworkable. Having governments or international agencies take over the developing country loans would act as a disincentive to this form of lending in the future, he suggests. His skepticism is shared, for example, by former British Chancellor of the Exchequer Denis Healey.

Mr. Rotberg also says that these proposals certainly wouldn't encourage the developing countries to manage their affairs better, an important consideration in the stabilization programs currently being negotiated with the International Monetary Fund.

There is nothing magical about Mr. Rotberg's proposal. He stresses that the World Bank is a creature of governments. It is also a highly efficient financial intermediary, but it could become more so if it were able to fund itself in ways more similar to those of the commercial banks.

The World Bank could, for example, set up a merchant banking subsidiary that would be more highly leveraged than the World Bank itself, which has an exceedingly conservative 1:1 capital to loan ratio. If the subsidiary were to finance itself through variable rate instruments, there is no reason why it should offer depositors 1:1 capital protection when the commercial banks have 20:1 capital to loan ratios.

Typically, the quality of the loans made by the merchant bank would be better than those of the commercial banks because they would involve carefully prepared projects integrated into the overall development plans of the countries.

If governments feel comfortable with funding techniques similar to those used in the private sector and want to use the increased financial capacity of the Bank, it can easily be done, Mr. Rotberg says.

If governments do not and commercial banks are forced to go it alone — and chose not to do so — it would be unfortunate for both the developing countries and the industrialized nati¼ns, he suggests.

THE OFFICIAL RESPONSE TO Mr. Rotberg's proposal won't be forthcoming until it can be seen within the context of the overall World Bank review, including proposals for a capital increase.

The United States has not been enthusiastic in the past about earlier proposals to increase the World Bank leverage. Will it like the new idea?

Recent remarks by James B. Burnham, U.S. executive director at the World Bank, give some hint of the administration's thinking. Mr. Burnham said he is not terribly enthusiastic about suggestions that the bank take a more active role in assisting countries in dealing with their debt difficulties.

The bank's primary role and inherent comparative strength is in long-term, project-oriented development lending, he noted. It is not designed to be a central player in dealing with problems related to debt rescheduling or a worldwide business cycle. But the bank can play a useful role in supplementing the efforts of other agencies in certain situations. This it is already doing.

In planning for the future, he asserts, it might be helpful to define the World Bank's basic objective with respect to those middle income developing countries experiencing financial difficulties in terms of restoring their access to the private capital markets. Restoring access means that co-financing programs with commercial banks should be vigorously pursued. There should also be greater use of the International Finance Corp.

The bank's strengths in project finance, economic analysis and policy advice, he believes, should be brought to bear on a country's development potential on a case by case basis. And, in all cases, the bank's financial resources should be used only where they do not run the risk of displacing alternative sources of finance.

At this stage of the game, one might venture to say that the danger is not too great.

Mr. Burnham has one interesting proposal. He suggests that the commercial banks might fund a facility to provide bridging loans through a system of required interest-bearing reserve deposits. Required reserves would be calculated as a percentage of exposure to the developing countries.

Such a facility should reduce the potential of inflationary pressures arising from excessive short-term official finance in times of crisis and would temper any excessive enthusiasm which might conceivably occur for foreign lending in the next financial cycle. It would make the banks, which have certainly been part of the problem, part of the solution.

But the problem is not only one of bridging financing but a longer-term concern. We can only hope that the United States will be ready to take a dispassionate look at the whole World Bank proposal and make a constructive response.