Borrowing for the bank where bad loans are unknown

Eugene Rotberg, treasurer of the World Bank, has laid down eleven bank borrowing commandments, and enthusiastic tiro underwriters limbering up for a share of the action should beware, for 'we are not comfortable with underwriting firms that either do not know the market or seek to be excessively competitive to attract our attention or favour'.

By Jo McBride

Rotberg of the World Bank — 'We do not look upon our underwriters as our adversaries.'

Eugene H. Rotberg is treasurer of a bank which has just closed a financial year in which it made loan commitments of US$11.5 billion for terms of up to 20 years and at interest rates fixed at less than 9 per cent.

During the year it borrowed US$5,173.4 million through bank loans, private placements of notes and public issues of bonds in yen, D-marks, Swiss francs and US dollars.

Yet Rotberg means it when he says that the World Bank's borrowing programme and the policies that guide it are 'really very simple'.

He is saddened that not all private investors and investment managers understand the institution — but with those that do rapidly swallowing up all that it puts on offer, it is a passing regret on which he sees no need to dwell.

The antipathy which a fraction of the market still harbours to World Bank issues seems curiously bound up with a notion of the ethics of wealth which deems making funds available to poor borrowers of uncertain financial management abilities and curious social practices little less than immoral.

By association, any institutions which indulge in such habits must be unsound, sinful or both.

But on any list of the world's leading financial puritans, 51-year-old ex-United States SEC Regulator Rotberg must come pretty close to the top.

Certainly he believes that lending to the poor to help them become better off is a concept which 'should be supported', but he does not put it in the prospectus.

Instead, he advises potential bond purchasers to look at the track record of an institution which:

- had earnings last year of $588 million;
- whose cost of funds — debt plus equity — is the 6 per cent today that it was five years ago;
- has liquidity of around $10 billion;
- and whose 'callable' capital from member governments of about $35 billion is available only to meet its obligations to bond holders.

This callable capital is the 90 per cent of governments' subscriptions which remain once they have paid in the required 10 per cent.

As the bank's articles of agreement dictate a 1:1 lending ratio, it is the total authorised capital (currently $40 billion but scheduled to rise to $80 billion by October 1981) which dictate how much it can lend.

Once it has decided how much of this can be prudently absorbed by developing country borrowers in a given period, it sets about borrowing the funds.

Perhaps a more telling measure of its day-to-day good management is that in its 34 years of history the bank has never made a bad loan.

On 30 June this year, for example, with $27.51 billion in loans disbursed and outstanding, only $52,000 in interest charges — no principal — was more than 60 days late. A month later the figure had slumped to only $4,000 overdue.

Even Iran still honours its outstanding obligations to the Bank

More recently, Iran, which has suffered a change of government by revolution and is not currently seeking to borrow from the bank, still scrupulously honours its outstanding obligations.

All these factors have helped make the World Bank the biggest non-government borrower in the world.

Of its perhaps 30 to 40 debt issues a year, possibly half a dozen are publicly traded, but enthusiastic tiro underwriters limbering up for a share of the action, beware. Eugene Rotberg applies equally rigorous yardsticks to this selection process.

While lead underwriters for most issues are rotated (the exception is D-marks for which Deutsche Bank would normally be appointed), the roster is 'not finite' and is open to new boys.

In his speech to the Association of International Bond Dealers in New York in May, Rotberg handed down eleven commandments on how to do business with the bank or, as he more punchily put it, 'what turns us off'.

I 'First, we are not interested in tombstone advertisements.

II We are interested in talking to institutions who can place our bonds.

III We don't want our banker-underwriters to hold our securities; if we did, we would have made a bank loan or a private placement with them.

IV We are not comfortable with underwriters who do not feel an obligation to their customers, that is, their institutional clients.

V We do not like bond issues in which the customer is not satisfied with the price.

VI We are not comfortable with firms that either do not know the market or seek to be excessively competitive to attract our attention or favour.

VII We do not look upon our underwriters as adversaries.

VIII We do not bargain or negotiate. If the price is wrong for us or the public, we simply do not do the business.

IX If what we are offered is unfair or wrong or inappropriate, we simply will advise the governments of the world who are our stockholders that the investment banker has made an inappropriate or uninformed offer and that no deal is possible.

X We do not threaten our managers with price competition from other firms. In turn, our managers have good reasons to simply offer terms which are fair to us and to their customers.

XI We are not at ease pricing issues in which there are variable discounts given to some customers and not to others. Indeed, as you know, we are not at ease pricing issues in which there are substantial deviations from the secondary market yields in other markets in the same currency. For example, the World Bank's secondary market trading several years ago in the United States for dollar-denominated bond issues was over $4 billion. Therefore, we must be very cautious were we ever to price a Eurodollar issue that a mispricing could seriously affect an extraordinarily deep and vital secondary market in the United States.'

Showing some flexibility in his stern financial rectitude, Rotberg added, 'I have been asked why we have not done a Eurobond issue. The fact is we are in the Eurobond market. We just use domestic syndicates to sell the bonds all over the world. It's just that we use a rather old-fashioned way to do it.

'But I suggest that may change in the future. After all, in a market in which similar quality issues can be priced as much as 150 basis points apart from each other on the same day, there must be some rather aggressive salesmen.'

This flexibility does not run to allowing political gamesmanship to dictate the place or pricing of issues or the institutions of ultimate placement.

Japan was the best market then for the biggest single borrowing

When China Development Finance Co (Hong Kong) Ltd — a joint-venture deposit taking company involving the 13 Chinese banks with bases in the British territory plus two Chinese insurance companies — took up some of the World Bank's $300 million note issue in July it was because it was invited to do so (through the Bank of China's Paris office) by lead managers Paribas.

It was not because the World Bank wanted to bring its newest member, and therefore potential borrower, into the fold as a lender. Similarly CDFC saw the issue as 'a good investment'.

The choice of Japan for the biggest single borrowing the Bank has made to date, a part-loan part-private placement for ¥115,000 million ($524.2 million) in June last year, was simply because that was the market with the best terms then available.

The Bank once toyed with the idea of a bond issue in Hong Kong but abandoned it when the government declined to declare the issue exempt from withholding tax — a privilege the institution enjoys in most other centres.

Today Rotberg recalls with a smile that 'rates went up soon after that anyway'.

He will not be drawn to comment on whether there might be an Asian dollar bond issue except to say that this market will be judged in the same way as any other, despite what Bank sources describe as 'pressure on us' to have a listing in Singapore.