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# Debt Relief a la Eugene Rotberg

WASHINGTON--Eugene Rotberg has a plan to save the world from the debt crisis, and in typical fashion, the outspoken former World Bank treasurer and current Merrill Lynch executive vice president is not keeping it a secret.

Since he first unveiled his scheme back in May, Rotberg has campaigned tirelessly in its behalf.

He terms the reaction to his plan thus far as "favorable," though he concedes that the World Bank has been studying similar proposals for five years and that the debtor nations would indeed prefer some form of "immediate debt relief." Nonetheless, Rotberg sees strength in those middling reviews.

Crucially, his plan advocates an equitable sharing of the pain - a feature that is likely to displease all the parties to some extent. "If anyone says that a plan is exactly what they wanted, then you know that the plan has failed and will never go anywhere," avows Rotberg.

The Rotberg plan departs from all the other would-be solutions to the debt crisis by advocating not debt reduction, but expansion, with the new lending to be used as a lever to achieve necessary wholesale structural reforms in the debtor economies.

When Institutional Investor recently asked Rotberg to explain how the plan works, Rotberg offered (again, in vintage fashion) to not only provide the answers, but also the questions. Here, then, are Rotberg's responses to the questions he thinks people should be asking about the plan.

**What is the objective?**

To encourage commercial banks to increase their lending LDCs.

**Why?**

Because the LDCs cannot sustain themselves economically or politically without increased lending for growth.

**Why not just formalize debt relief?**

Because (a) the savings would be "lost" and (b) there would be little leverage to target the savings for specific projects or programs requiring structural reform. If, however, funds are made available, they could be tranched and linked more easily to specific development programs.

**Should the new resources be specifically linked to World Bank loans?**

Yes. The project or program should involve World Bank and International Monetary Fund lending with appropriate conditionality so that the disbursements of commercial bank lending would be locked into the World Bank loan.

**What do we need to do to make the commercial banks lend more?**

Guarantees or credit enhancement. Banks have come to realize that without new lending they risk not getting paid the interest on the stock of the outstanding debt owed to them.

**Who would provide the guarantee or credit enhancement?**

An affiliate of the World Bank guarantees the repayment of principal - not the interest. Therefore, commercial banks are not "bailed out."

**Why not a direct World Bank guarantee?**

Because that puts at risk the U.S.' and other nations' callable capital and, to the extent used, reduces the bank's lending authority. It would unnecessarily escalate public policy concerns. There are a variety of ways to build up the strength of the affiliate without using IBRD callable capital. For example, from day one, the World Bank (and possibly commercial banks) could make an investment of capital in the affiliate, which would hold that money and invest it for twenty years - the first date that the commercial bank can call on the guarantee from the affiliate.

**Why will commercial banks go along?**

1. Otherwise they risk not receiving interest on their old loans.

2. The new loans, linked to World Bank loans, will make for a stronger LDC economy and thereby strengthen capaci ty to service existing debt.

3. Banks should earn decent return from the interes on their new loans.

4. Since repayment of th principal is guaranteed, the probably can hold the loan o their books at par.

**Do the commercial bank have to wait twenty year to get back their principa if there is a default o interest?**

Negotiable. Perhaps not.

**Other than the risk o not getting paid interest o their loan, do commercia banks have any othe potential loss?**

Ted Kappler