How the World Bank Manages Its Money

It Generates Yearly Profits Of $40 Million

By CLYDE H. FARNSWORTH

WASHINGTON — Seated at a round table below clocks that give the time around the world, Araceli Gonzaga, a short-term money trader, is trying to squeeze out the best return possible on $110 million she has to invest for 32 days — until a scheduled payment for a bond sinking fund falls due. As she places the money at 13⅝ percent in New York, her colleague, Philip R. Spray, is busy getting interest-rate quotes from German banks, and Hugo J.H. Shielke, their boss, is on the phone trying to sell some two-year Treasury notes that he believes will soon go down in value.

The scene may be a common one on Wall Street Street or in a European financial center but not on Pennsylvania Avenue a few blocks from the White House. Mrs. Gonzaga is a Peruvian, Mr. Spray an American and Mr. Shielke a German, all employees of the World Bank. Here, in a fourth floor operations room in the sedate confines of the institution, a little-known trading operation has been growing until it is now a major player in the bond market.

The New York Times/Teresa Zabala

A conference of the money managers at the World Bank's offices in Washington.

To Eugene H. Rotberg, vice president and treasurer of the bank, there's nothing incompatible between the fourth-floor activity and the bank's primary role as the biggest lender to the world's poorest countries.

In fact, he says, the two functions are complementary. Portfolio management by the Rotberg-Shielke team of specialists has contributed an additional $40 million a year to the bank's profit over the last five years — which means more money to lend to the poor. Overall, the bank's net profit this year is expected to be $500 million.

The $40 million a year represents the difference between what the bank paid to borrow over this period and the higher amount it was able to earn by investing funds from the huge pool of money it has amassed.

Today that pool has grown to $10 billion, one of the largest sums in the non-OPEC world. And even in the swollen coffers of the Organization of Petroleum Exporting Countries the sums are respectable.

Such liquidity protects the bank from having to borrow when conditions are unfavorable. Huge companies, such as The International Business Machines Corporation and the Bell System, don't have such protection. Recently, both have come into the bond market at uncomfortable terms.

That won't happen to the World Bank, says Mr. Rotberg. Because American interest rates have been so high, for example, the World Bank has not borrowed in the United States for more than two years (although Mr. Rotberg believes rates have peaked and hints the bank may come back into the American market next year.)

"The bank has the flexibility to avoid adverse conditions in capital markets," says Michael S. Hyland, an analyst at the First Boston Corporation. "as well as the ability to adjust its lending program to changes in the level of borrowing costs. It can also select the location, amount and terms of its borrowings to an extent unparalleled by any other financial institution."

One problem that could prove troublesome for the bank is Iran, which owes the bank $550 million on loans made to that oil-producing nation before the 1973-74 quadrupling of oil prices. But Mr. Rotberg says he is not worried about an Iranian default. "We get payments every couple of weeks from them," he says.

In Iran's case there is another consideration — the central bank in Teheran is itself a creditor of the bank as the holder of $400 million of its obligations.

To date, the bank has experienced no loan losses or writeoffs on any of its operations. Even during the conflict in Lebanon, that nation continued making payments on its obligations.

Borrowers recognize they have too much at stake to default — continuation of their development efforts which depends on the bank's involvement. About half of all development financing is channeled through the World Bank and its two affiliates, the International Development Association and the International Finance Corporation.

Founded in 1946 as one of the pillars of the Bretton Woods postwar economic structure, the bank, formally known as the International Bank for Reconstruction and Development, now lends about $8 billion a year.

It has received capital subscriptions from 135 countries and lent to 99 of the poorest of these to finance projects such as dams and roads to speed economic development. In more recent years it has channeled increasing amounts of money into programs that help people directly by expanding food and water supplies, improving educational systems and supporting other "basic needs."

Mr. Rotberg, who was a lawyer with the Securities and Exchange Commission before joining the bank 11 years ago, works in an office propped with artifacts from foreign travel and rows of books that include not only financial balance sheets but such reading matter as Virginia Woolf's Diaries. He pointed to a case filled with pastel-colored pieces of paper — bond certificates representing issues that the World Bank has sold to investors in 17 countries.

The bank has $28 billion of debt outstanding, of which less than $7 billion is held in the United States. Of the $28 billion, $8 billion is held by governments. The largest holders are Saudi Arabia, Venezuela, West Germany, Japan, Yugoslavia, Nigeria and Iran.

The bank borrows at the same rates as most governments. It has to pay just a little bit more (30 to 50 basis points, a basis point being one-hundredth of 1%) than the United States Government.

Although the bank has borrowed in 17 currencies, it runs no exposure to risks in exchange markets because it invests the proceeds in liquid assets in the same currency. The diversification of currencies — in effect the World Bank's currency basket — adds still more strength to the balance sheet.

Another factor is that most of th[illegible] $28 billion of debt outstanding is co[illegible]ed by the aggregate capital subscriptions of the major non-Communist industrial countries.

Even though chances were high that the West German Mark, the Japanese yen and the Swiss franc would appreciate over the last two years, the World Bank has been a heavy borrower in these low interest-rate currencies.

As Mr. Rotberg explains it, what is saved in interest rates over, say, 20 years, the average maturity of World Bank obligations, more than compensates for the exchange-rate risk.

In both its borrowing and liquidity management programs the bank has earned plaudits from the professionals.

"In terms of their sophistication and use of computer tools, they are among the most intelligent operators anywhere in the market," comments H. Erich Heinemann, vice president and economist for Morgan, Stanley & Company. "We have a tremendous respect for their professionalism," says Irving M. Auerbach, vice president and economist for the bond firm of Aubrey, Lanston.

"In our opinion," according to Robert G. Smith and Wayne K. Mueller, senior analysts at Merrill Lynch, Pierce, Fenner and Smith Inc., "the quality of debt support behind the World Bank ranks among the premier AAA-rated securities available on the bond market today."

Mr. Rotberg's investment policy is to maintain liquidity in the $10 billion portfolio for an amount equal to 40 percent of the bank's anticipated cash needs over three years.

The $10 billion, at today's lending rates, is invested only in government securities up to five years and in commercial bank certificates of deposit.

Although Mr. Rotberg says he is convinced that American interest rates have peaked, this is not the unanimous view of the bank's investment specialists whose collective decisions in the management of the $10 billion portfolio are responsible for the relatively high return.

Under Mr. Shielke and another of Mr. Rotberg's proteges, Morton Lane, now president of the Discount Corporation of New York Futures, a financial-risk computer model was devised some half dozen years ago to measure uncertainty over interest-rate projections.

Each of the dozen members of the investment group has to predict at regular intervals what rates will be for each maturity but only in terms of probabilities. "We want to be aware of the amount of uncertainty that we have," Mr. Rotberg observes. "We also want to admit to mistakes."

In the end the computer figures the collective odds upon which the portfolio decisions are based.

The typical investment officer in the fourth floor trading room has about six years of college education and most have two advanced degrees, such as the masters degree in mathematics held by Jacques R. Rolfo of France or the Ph.D. in economics held by Adnan Akant of Turkey.

There is also an alumnus of the Federal Reserve Bank of New York, John S. Hill, who was a senior economist on its Open Market Committee.

Mr. Rotberg, a former adjunct law professor at George Washington University Law School, had been chief counsel in the S.E.C.'s office of policy research before being tapped by Mr. McNamara to head the World Bank's financial operations a decade ago.

To John Gutfreund, managing partner of Salomon Brothers and another close watcher of the World Bank, "it was one of McNamara's blessings when he got Gene Rotberg. Gene is a careful and delicate taskmaster."