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SOLUTIONS & OPPORTUNITIES

According to Merrill Lynch executive Eugene H. Rotberg, the debt crisis, precipitated in the 1970s, has not yet been resolved primarily because of the failure of proposals to address the concerns of *all* involved parties. Consequently, Mr. Rotberg believes that the challenge facing the world's financial community is to forge a response that recognizes and balances the concerns of each affected constituency.

Mr. Rotberg says that each of the major participants in the debt crisis—lesser-developed countries, commercial banks, industrial nations and multinational banks—have their own valid priorities.

But most proposals to resolve the crisis up to now "have addressed the crisis and solution from the perspective of only one of the constituencies involved and for that reason they are politically and practically unworkable," he says.

Therefore, Mr. Rotberg has suggested several objectives that must be met in a true solution that would be acceptable to all parties:

- ***There needs to be new and sustained lending to LDCs*** *("new" being that amount which stems substantial negative cash flows, permits servicing of debt during periods of adjustment, supports reasonable growth and facilitates trade).*
- ***LDCs should remain politically viable.*** *Whatever the solution, it should not prompt a collapse of the fragile democratic political processes in the country.*
- ***Banks must continue to attract capital*** *with the prospect of earning a reasonable return, and be able to continue to diversify their activities with broad-based support for their own funding activities.*

A DEBT RESTRUCTURING SCENARIO

EUGENE H. ROTBERG is an executive vice president of Merrill Lynch & Co., Inc. His professional experience includes 19 years as a vice president and treasurer of the World Bank.

Gene Rotberg proposes the following scenario for sharing the LDC debt burden:

- A commercial bank lends new money to a debtor nation in a sum equivalent to a substantial fraction of interest due to it, for a term of 20 years, and based upon a conditional World Bank structural adjustment loan. Principal payments are amortized, with a substantial "balloon" payment due after 20 years.
- The World Bank provides a "put" (at par, and exercisable only after 20 years) against all principal payments due the commercial bank. Principal risk, therefore, is credit-risk free.
- After 20 years, the commercial bank can exercise the put and receive par from the World Bank in exchange for the notes due from the debtor nation.
- The commercial bank would be obligated to simultaneously re-lend the same amount to a World Bank affiliate, which immediately would repay the World Bank and purchase for its own balance sheet the loans to the LDC. The commercial bank would then receive the prevailing three-month Treasury bill rate for the ensuing 20 years from the World Bank affiliate.

Mr. Rotberg emphasizes that such a scenario would remove two barriers that have prevented the various constituencies from working toward a realistic resolution of the problem:

- Commercial banks would hold a 40-year credit from a tripled A-rated credit—the World Bank—instead of risky LDC loans.
- LDCs would receive the new money necessary to service their debt and to achieve economic growth at a reasonable interest rate.