

TREASURERS

World Bank's Rotberg has a lot of good ideas, but says innovation isn't all it's cracked up to be

THE INNOVATOR

By Daniel J. Kadlec

Over the years Gene Rotberg and his staff in the World Bank treasurer's office have pioneered a host of landmark financial instruments, perhaps the most notable being currency swaps. More often than not Rotberg's ideas come from within his office as opposed to coming from investment bankers on Wall Street, and his active imagination in a field that ascribes almost holy virtues to the term "innovation" has earned him widespread fame as a great innovator.

In addition to currency swaps, the first foreign public issue in Japan and the first nonresident borrowing from Japanese trust banks came from the World Bank. Rotberg was among the first to do a Swiss franc-linked index issue and was the first to do long-term fixed-rate private placements with central banks. Only last month Rotberg introduced the notion of insured swap agreements, and at the same time he disclosed his latest product: COLTS (continuously offered longer term securities). "We do open some markets," Rotberg modestly notes.

Rotberg's office routinely grinds out new ideas and has probably been "pitched" by more investment bankers with new theories than any corporate office anywhere.

Nevertheless, Rotberg insists that innovations in the financial arena are not all they're cracked up to be. In fact, he spurns Wall Street's penchant for "new wrinkles," saying that for every 10 innovative financing techniques that cross his desk he might use one. "Many innovations produce a hidden, something that will give the investor cost-free funds," Rotberg says. "They only pretend to lower costs, and we don't like to pretend. We don't like to fool ourselves." To illustrate, Rotberg says, he doesn't like zero-coupon bonds or notes with warrants. Both are too costly, particularly in the current environment of declining interest rates, he says.

He's difficult to argue with, colleagues and others agree. For one, his calls usually are sound. And secondly, he probably knows as much about the in-



World Bank Treasurer Gene Rotberg, a master innovator, rejects nine of every 10 new financing techniques that cross his desk

vestment world as anyone. "I think he has amazed Wall Street with how much he knows about their business," said Ken Lay, a senior official in financial operations for the World Bank. Lay was one of the people in Rotberg's office responsible for COLTS.

The most recent of the innovative products emanating from Rotberg's office, COLTS will allow the World Bank to do more business in the U.S. while diversifying its client base, Rotberg said. COLTS are basically a medium-term note, except maturities can stretch out to 30 years and beyond, a wrinkle with distinct advantages for the World Bank. "We are a long-term lender," Rotberg notes. "We don't find it attractive to fund in the short markets." COLTS give the World Bank continual access—the World Bank issues bonds somewhere in the world every two days, Rotberg says—to securities of longer maturities with varying rates.

The COLTS deal announced last month offers a glimpse of Rotberg's methods. The idea came from within his office, though it sprang from another product already on the market (medium-term notes). Rotberg's office researched it, decided to go ahead with it, and only then called upon Wall

Street for its distribution. "It was quite clear to us that the World Bank had done a great deal of homework before our arrival there," said Robert Shapiro, exec. v.p.-head of medium-term notes at Shearson Lehman Brothers.

Another investment banker who participated in the distribution of COLTS (agents are Shearson, Merrill Lynch, Salomon Brothers, and Goldman Sachs) said he had a briefing with his staff before pitching Rotberg to make his investment bank an agent. "We were talking about what the meeting would go like. I said we probably wouldn't have to say anything, that he would give us a big exposition and then tell us what to do. Sure enough, before we had a chance to say anything, there was nothing left to say."

Rotberg's fans aren't restricted to Wall Street. Earlier this year he was the only non-Japanese to testify before a Japanese securities council studying the impact of government regulation on their domestic markets. His speech before the council was anything but wishy-washy.

In so many words, Rotberg told the Japanese, among other things, that their regulations governing private placements were illogical and that their so-called 10% rule was misguided. The 10% rule puts a cap on the amount of foreign securities a Japanese institution can hold.

What did the Japanese think? Well, late last month they relaxed the 10% rule, allowing institutions to hold up to 25% of their investments in foreign securities.

With that kind of clout it is easy to understand Rotberg's often unabashed confidence. But he isn't devoid of humility, and even admits to making mistakes. Quite a few mistakes, in fact: "every single time we execute a deal in which had we waited the cost would have been lower," he declares. But without missing a beat, he quickly recovers and offers that "you can't win every time. If you did that the investor would always lose, and that would be highly inappropriate." **DD**