WORLD BANK GETS THE ACCOLADE

According to World Bank colleagues, the departure of Eugene Rotberg was a traumatic event.

When World Bank president Barber Conable accepted the resignation of Eugene Rotberg in May, he landed the Bank with an insurmountable problem: how to replace a man with 19 years' experience of co-ordinating the institution's borrowing effort, a forceful leader, an impressive spokesman and, above all, one of the most powerful intellects in the international capital markets. "I haven't seen one name among those mentioned to take over from him," said a senior banker, "that could be taken seriously." It is a measure of the ability of the team Rotberg assembled, that the Bank's borrowing programme has continued smoothly, scarcely missing a beat, through the trauma of his departure. If that team deserves the accolade "borrower of the year", it might with equal justice be awarded retrospectively to Rotberg himself. By Peter Lee

Choose almost any sector of the international capital markets, and the likelihood is that the International Bank for Reconstruction and Development, the World Bank, will be one of the most, if not *the* most, important borrowers in it.

With a regular annual requirement of about $10 billion, the Bank is compelled constantly to seek new instruments and new investors. This year, for instance, it pioneered a new domestic yen bond, the Daimyo (literally – "big name"); it opened the domestic Spanish peseta market to overseas borrowers and effectively launched the Euro-Finnish mark.

It was the World Bank that re-opened the public Deutschmark market and, when the Kuwaiti dinar sector came alive again this spring, the Bank was there. Fixed-rate dollars, Swiss francs, Euro-yen, guilders . . . in all these currencies, the World Bank is, to say the least, a "big name".

What sets the Bank apart from almost every other major borrower is that its appetite is endless, its horizons are infinite. The Bank has muscle and is feted by international banks with new ideas: it has a prestigious ▶

name and a duty to cut borrowing costs as low as possible.

So, for example, when the Bank realised that 80% to 90% of its Deutschmark public issues was being placed outside Germany, it did not hesitate to find an alternative to its traditional syndicate. To its lead German banks – Deutsche Bank, Commerzbank, Dresdner Bank and WestLB – it added the Swiss Big Three – Union Bank of Switzerland, CSFB and Swiss Bank Corp – as well as three Americans, Salomon Brothers, Morgan Guaranty and Morgan Stanley International. A host of smaller regional German banks was excluded.

That was a considerable jolt to a conservative market and something of a coup for the foreign houses, which have enjoyed an uneasy relationship with the domestic giants. "It was a difficult decision," admitted René Karsenti, a senior financial officer at the Bank. "Some banks were disappointed, but some small German banks had not been placing bonds and were selling them instead to houses outside Germany."

One senior German banker said: "It caused bad feeling among the German banks, because some of them had been building up networks abroad, and those may now be wrecked. It's difficult to judge which had been selling to foreign intermediaries and which to investors."

The World Bank was unrepentant. "We launched the DM600 million issue through our new smaller syndicate into a deteriorating market. Instead of dumping, the managers inventoried the bonds; only the largest banks can do that," said Karsenti, but added: "If demand re-appears in Germany, we shall go back to the original syndicate."

Eurgene Rotberg: clashed with Bank president Conable over the approach to the Third World debt crisis.

In general, the World Bank cannot alienate banks or investors by being over-aggressive. Individuals within the Bank may have a detached admiration for the Kingdom of Denmark's approach to the market, but they can never emulate it. The Bank does not put its issues out to competitive tender, although it is open for business on an *ad hoc* basis and rewards attractive new ideas with mandates. Heinz Wergin, vice president and acting treasurer, said: "Each funding officer must be his own strategist and not be just opportunistic. Learning to price relationships into the cost of direct borrowing is a salutary influence on the way they conduct themselves."

That is the ethos of the World Bank's borrowing team. Its officers, the more experienced and the younger alike, speak of a kind of institutional instinct or memory that guides them to take the short-term advantage, but not at a long-term cost. It is that philosophy, imposed on the Bank's board of executive directors by Eugene Rotberg during his 19 years' leadership, that has shaped its borrowing strategy.

Rotberg was a leading character on the international capital markets stage. Senior bankers recall that whenever a new product or development emerged, Rotberg would almost invariably be involved. Perhaps most important, much of the pioneering work on the risk assessment and documentation of swaps in the early 1980s was conducted at the World Bank.

But in June this year, Rotberg resigned. It was no less a blow for being half-expected. He had disagreed with Bank president Barber ▶

Finding the right instrument for LDC debt management

Although the World Bank has yet to define its larger role as an intermediator between the commercial banks and the Third World debtor nations, individuals at the Bank are looking at ways of providing technical assistance in specific cases. "We are investigating what we can bring from the funding side to our lending product: what can we develop to put borrowers in a better position to manage the exchange risk that we are passing on to them," said acting treasurer Heinz Wergin.

Interest rate swaps are one new product that finance officers think might be offered to LDCs. Options would be another means of providing such countries with effective interest-rate caps. But options have traditionally been short-term risk-management instruments, and so not applicable to long-term debt.

It was only this year that the finance department received approval from the board of executive directors of the World Bank to enter the futures and options markets. And it has yet to take advantage of that authorisation. A pilot programme is scheduled for the autumn, though this depends on whether the back office can be brought up to scratch.

The Bank's swaps department under Deborrah Farrell has been assessing OTC and private options markets to see whether a sizeable longer-dated market might develop. "Our preliminary conclusion is that it may develop. Options are edging towards two years and we have seen the occasional five-year transaction written. But futures have not gone beyond two years and you need futures to hedge options positions," said Farrell.

What makes it difficult for a longer market to develop is that options prices are largely a function of the volatility of underlying instruments. Few people, comfortable with their ability to predict six-month interest rates, would care to take a view over five years. "Any longer market will probably develop between end users, separately from the OTC market," Farrell predicted.

"Borrowers wanting to cap long-term interest rates and investors looking to floor their downside risk might come to a price, perhaps through intermediaries." Officials at the World Bank emphasise that they are still at the research and development stage with futures and options, and stress that they have no intention of marketing such instruments to LDCs themselves. Rather, they hope to develop with the players in the private market a design that might be applicable to them.

Three or four countries have already asked for "hands-on assistance" from treasury professionals in approaching the capital markets. But resources are limited. Jessica Einhorn reported: "The executive directors of the Bank were always saying, 'Look, you can do all these neat things in the markets: why not help the LDCs to do them?' We are trying to make a couple of man-years available but we are highly constrained because of staff. The budgetary constraints are frustrating but we have to accept that, as part of such a large institution, we need to hold ourselves accountable to member governments that don't understand the needs of a particular department."