
Rotberg's Thirteen Questions

The terms "debt relief" or "debt reduction" are too emotional and too "meaningful" to allow cool evaluation, says Eugene Rotberg, executive vice president of Merrill Lynch and former treasurer of the World Bank.

"Let's forget these terms and pretend, as if by magic, that they did not exist," he told delegates at a seminar yesterday on 'Restoring financial flows to Latin America' sponsored by NMB Bank.

Rotberg suggested that the concept of debt reduction, now so fashionable, should be stripped down to its elements by asking the following questions:

1. Who takes the risk on any guarantees; who puts up the money; how much is available?
2. If there is debt relief who takes the loss, and what is the mechanism?
3. What are the actual real-life cash-flow projections for debtors and creditors?
4. What does the accounting look like; what are the regulatory and tax implications?
5. How are the countries chosen? Is it first come first served, or those in good shape, or those which are reforming, or those in bad shape?

Rotberg pointed to six contentious issues:

1. Will a specific initiative, once defined, create incentives or disincentives?
2. Are the terms debt relief and new voluntary lending just language or do they mean something new?
3. What are the implications [of debt relief] for the IMF and for the credit standing in the market of the World Bank?
4. Is there a time problem? If expectations are not met soon enough what will happen to flight capital, will it stay out or come in?
5. Will banks insist that because they are taking a hit on their profit and loss account international institutions and governments must do something too, such as subsidize interest payments?
6. What are the implications of taking the banks out of the creditor relationship and substituting pension funds, insurance companies and other buyers of bonds? Won't they be less amenable to sitting in a room to come up with a solution?
7. Will the IMF and the World Bank and other multilateral institutions simply be pressured to get money out fast, or will they be able to use disbursements as pressure for reforms?

- David Shirreff