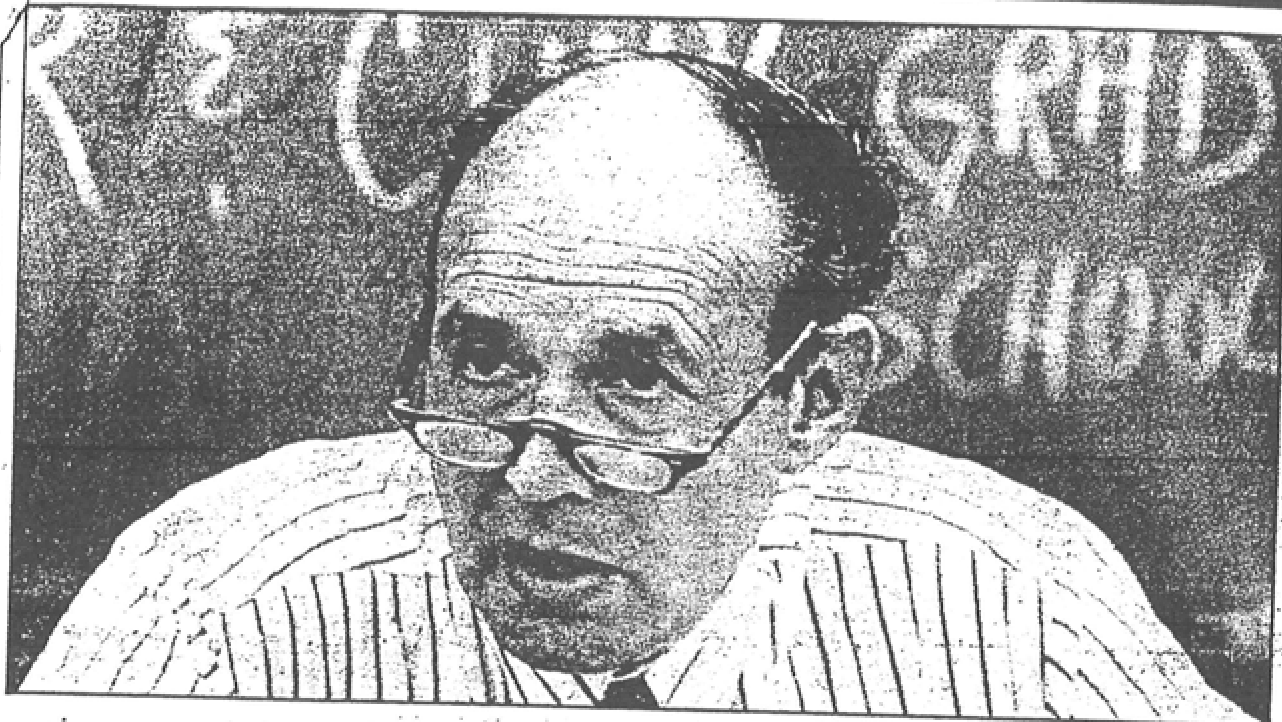

HARRY FISHER/The Morning Call

Eugene H. Rotberg, World Bank vice president-treasurer, addresses Lehigh University audience.

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World Bank exec predicts restructure for nations' debts

By CHERYL WENNER
Of The Morning Call

U.S. commercial banks that risked lending money to less developed countries over the past 10 years now find themselves in a "so-called crisis" situation, unable to collect their principals from the still-fledging, or floundering, Third World nations that are struggling to keep up with the annual interest payments.

"What the banks are interested in, despite the rhetoric, is the interest," say Eugene Rotberg, vice president and treasurer of the World Bank in Washington, D.C.

"Most countries will repay their debts but most can't pay back the principal. I predict those six- and seven-year loans will be restructured or rescheduled," he said. "As long as they [the debtor countries] keep up with interest payments, the difference between repaying or not repaying a lóan becomes virtually insignificant over a 50-year-period."

Rotberg spoke on "Current Perspectives on Less Developed Countries' Debt" yesterday at Lehigh University as part of the Economics Department's Colloquium series.

The government, he said, has made it quite clear" that it will no longer provide protection to banks that are unable to collect on loans to less developed countries and, consequently, some banks have proposed forming a partnership with the more conservative, secure World Bank in order to increase their "negotiating leverage."

In other words, "they want us to guarantee their loans," he said. "You must realize that when someone owes you $600 million, you do not have leverage. They have leverage. The banks want out."

The World Bank, he said, is not agreeable to forming a partnership with commercial banks. So commercial banks are compelled, not by legislation but by logic, to continue granting loans to less developed countries that already owe them money — to enable those countries to pay the interest they already owe.

Asked about a plan proposed by U.S. Sen. Bill Bradley of New Jersey that recommends that commercial banks reduce debt service and forgive, through various devices, debts already owed by less developed countries, Rotberg said he does not favor the proposal.

"I don't like telling adversarial parties — people who have put up a lot of money and people who owe a lot of money — what to do," he said.

"Obviously, the banks have already thought of this and have chosen not to do it. It would therefore have to be imposed on them."

As a result, he said, banks would be reluctant to make future loans and the government of the developing country would "lose its incentive to use the money wisely. We'd be sending them the signal that if you borrow enough money from the U.S. . . . someone will relieve you of the obligation" to spend it productively and eventually pay it back.

Owned by 151 governments, the World Bank borrows on world markets to get money to make loans to poor Third World countries for economical, cultural and technical development. Those countries pay market-rate interest to the World Bank just as they would to a commercial bank — currently 8.5 percent a year.

Financially stronger than most banks, the World Bank retains 4,000 financial analysts who research each loan request. "Ninety-five percent of our money comes from private investors who trust us," he said. "They assume we're going to lend it in places and for things which make sense."