The new loan insurance scheme

Private lenders to the Third World will help impose on debtors a new level of controls.

Chase Manhattan Bank's Sharif Ghaleb, Middle East director for the bank's Information Services Department, believes that new plans for introducing an international insurance facility for new bank loans, as well as debt rollovers, to the Third World will give the banks increased power to impose even more severe "conditionalities" than those of the International Monetary Fund.

The proposed insurance facilities, which the New York banks are saying will increase credit availability for the Third World would, says Ghaleb, "have its own risk analysis group, which would assess the political risk in each Third World country and assign higher insurance premiums on that basis. Commercial banks, naturally, would like to get access to the IMF's confidential data on these countries, and so the fund would have to be located at the IMF or another institution such as the BIS which could get access to these data."

The risk-analysis unit would then decide which Third World country qualifies for a loan. "In terms of financial impact on the recipient," Ghaleb confirmed, "it would be just like an IMF loan. Currently, private banks do not have the ability to enforce conditionalities on countries. With the new insurance fund, the borrowers would have to meet conditions established by the fund and the private banks."

Ghaleb's plans conform to a movement among banks geared to assessing "political risk." The leading insurance companies in the U.S., led by Chubb and AIG, stress that by taking into consideration such "intangibles" as political stability and population levels, which were not previously a strictly calculable element in loan terms, the new insurance facility can make insurance premiums "linkable" to risk considerations.

"Domestic interest rates are being subsidized, and are lower than the world level, in most of the Third World. This is tremendously inefficient and must be stopped," Ghaleb asserts. Those countries that persist in subsidizing their interest rates will have their insurance premiums raised under the newly proposed insurance fund. Thus, Ghaleb states, most of the subsidy programs in the Third World could be stopped. Ghaleb singles out currency exchange rates and subsidies of basic commodities such as food and oil as "problem subsidies" he wants eliminated.

"Most of these countries keep their exchange rates artificially high, which means they import too much. . . . Most of these countries," Ghaleb continued, "have very expensive subsidies for domestic energy prices and food. They consume too much food and still have not adjusted to the 1979 oil shock, because whereas the world oil price is $30 a barrel, their energy price is half that amount."

Ultimately, however, the use of risk by the insurance fund will determine the economic policy of those nations whose borrowings are insured. The U.S. government's Overseas Private Insurance Corporation (OPIC) is contemplating expending its bilateral insurance deal with the People's Republic of China, and intends to "double or triple our insurance of non-oil Third World nations' oil and gas development," an OPIC spokesman said June 10.

Ghaleb said that Third World energy policies could be changed by the right insurance policies imposed on their loans. "Egypt flares gas, which it could burn. Nigeria uses too much oil, which it could export. It can use wood-based methods instead."

Finally, Ghaleb stated that through the proper application of risk-analysis, Third World nations could have their populations forcibly reduced. "The IMF's loans are too short term, 2 or 3 years, to take population policy into account. But with conditionality on commercial bank loans, which can run 10 and 20 years, this will become an even more important factor," Ghaleb said. "Banks and central banks would refuse insurance or raise the premiums to countries with too rapid population growth. In most of these countries, domestic agriculture is too inefficient . . . and at a point past which projected overpopulation means too high risk to the lender. . . . Using World Bank data on demographics," Ghaleb said, "we could decide which countries need to implement what could be considered adequate population policies in order to get the credit they want."