The IFC Review of Private Investment in Developing Countries

Private

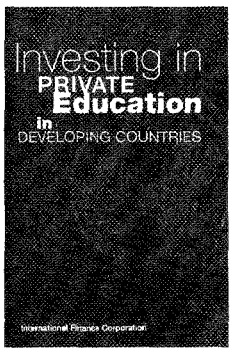
Fall 1999 | Vol. 3 No. 4

THE BALKAN MAZE

Public Disclosure Authorized

Just Out!

Three new publications of interest are now available from IFC



Investing in Private Education in Developing Countries

Between 1995 and 1997, IFC approved just one investment in private schools each year. But in 1998 it approved seven private education investments, and several more are now in preparation as the Corporation faces a wave of interest and requests for financing of education projects. This new report outlines IFC's strategy for participating in education, an essential component of development and one in which private ownership is increasingly playing innovative, constructive roles throughout the developing world.

IFC's goal in this work, according to the authors, is to act as a catalyst to spur other private investment in education, help mitigate risks, and pass along its findings to the education and investment communities.

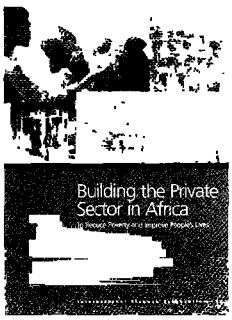
Investment Opportunities in Private Education in Developing Countries

A landmark conference at IFC in June 1999 brought together 150 private education providers and investors to share their unique viewpoints on private education worldwide and IFC's growing role in supporting it. The gathering specifically addressed the frequent criticism that private education caters only to children of the elite, finding many cases instead in which it helps build the strong middle class that is missing in so many societies, and whose presence can contribute so much to improvement of living standards.

The presentations summarized here came primarily from educational entrepreneurs in developing countries, such as those behind the virtual university of Monterrey Institute of Technology in Mexico, the Brazilian school chain Pitagorás, Egyptian textbook publisher International Printing House, and others. They are intended to "contribute to a greater understanding of the challenges and opportunities in this important area," writes IFC Vice President Birgitta Kantola.

Building the Private Sector in Africa to Reduce Poverty and Improve People's Lives

"Africa poses special challenges that call for a response different from IFC's approach in other regions," writes IFC's executive vice president, Peter Woicke, in this new report. It outlines the Corporation's current strategy for developing the private sector in Africa to help build the foundations for what Woicke calls "the sustained economic development that has so far eluded most of the region."



The report summarizes IFC's reasons for focusing on several key ways to achieve this goal, such as developing the local financial sector, building indigenous entrepreneurship, investing in private infrastructure, and targeting key sectors where Africa has a comparative advantage, such as extractive industries, agribusiness, tourism, and others. At the end of fiscal year 1999, IFC's African portfolio stood at $676 million.

While the economic climate has improved substantially in many countries in the 1990s, the report makes it clear that much more still needs to be done. "More and deeper reforms will be necessary to improve the business environment, and the financial sector in particular must be stronger and more diverse if it is to support private business growth," Woicke writes.

These reports are available free of charge from IFC's Corporate Relations Unit, 2121 Pennsylvania Ave., NW, Washington, DC 20433 USA, phone: 202-473-7711, fax: 202-974-4384, e-mail: Impact@ifc.org.

IFC

IFC is a member of the World Bank Group supporting private sector development in member countries through investment, advisory services, and technical assistance.

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The IFC Review of Private Investment in Developing Countries

IFC Impact

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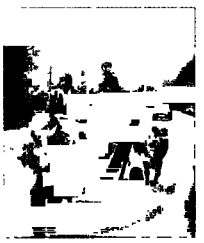

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Tell us what you think!
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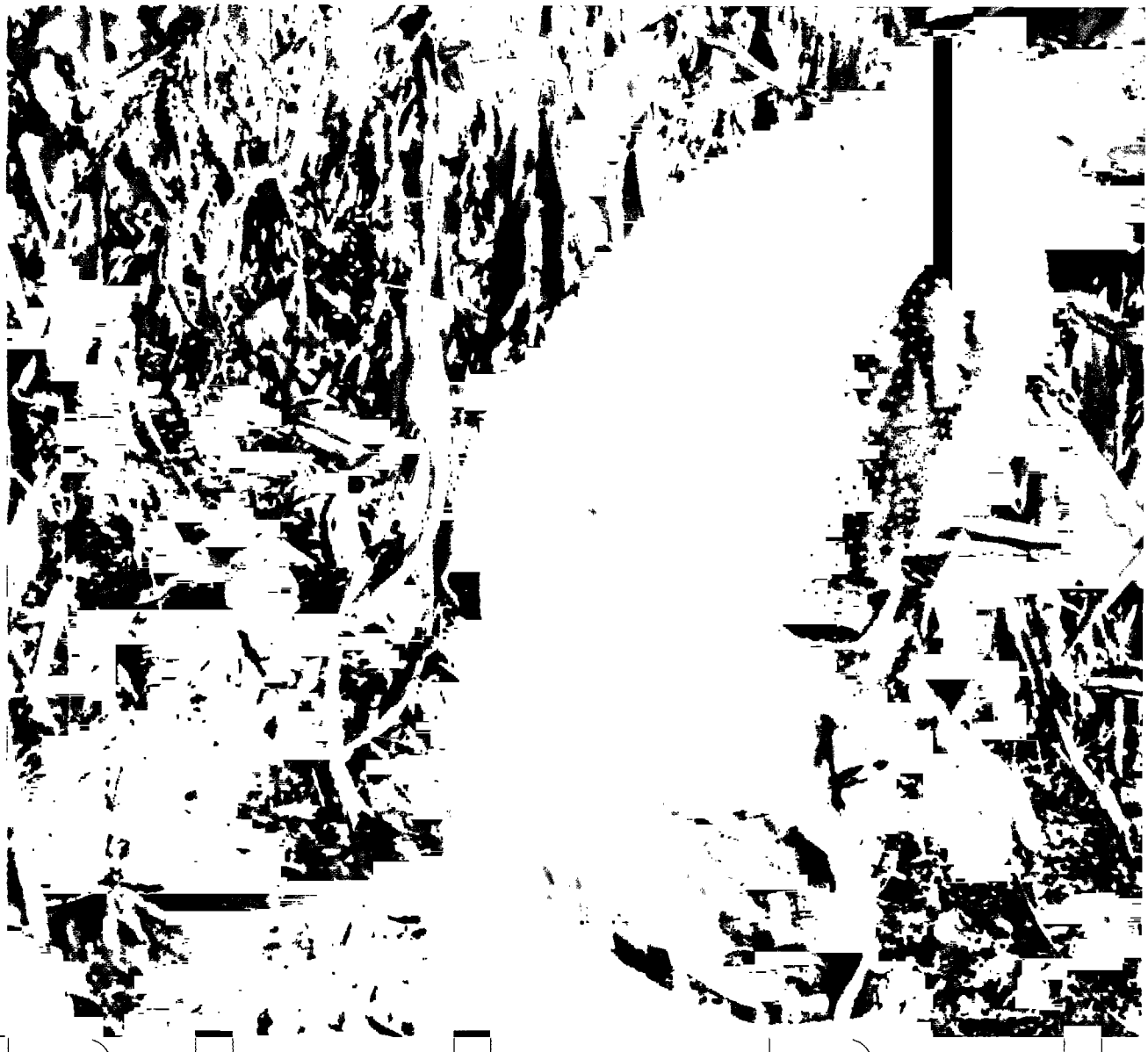
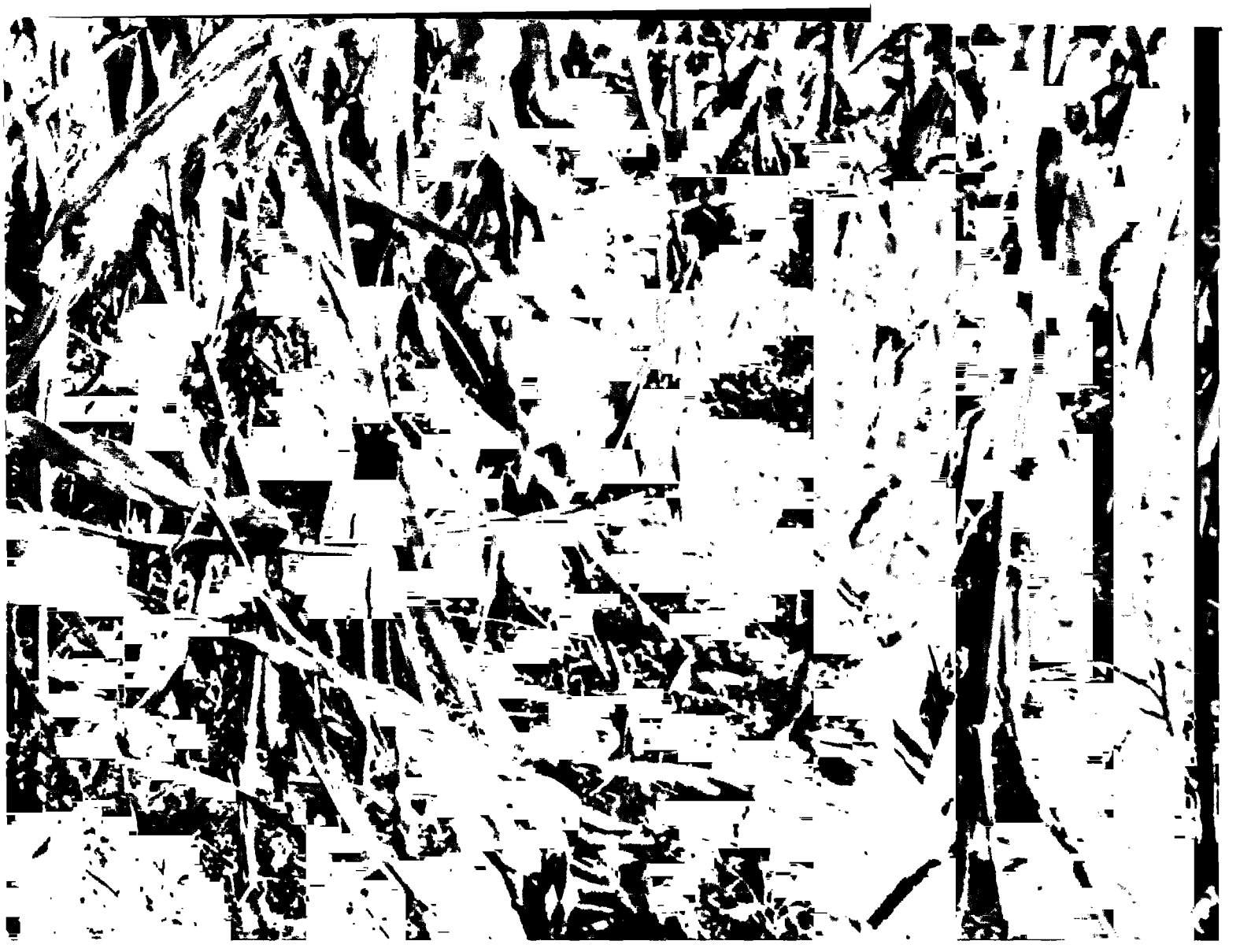


Bringing Back the Balkans

Rob Wright
IFC Corporate Relations

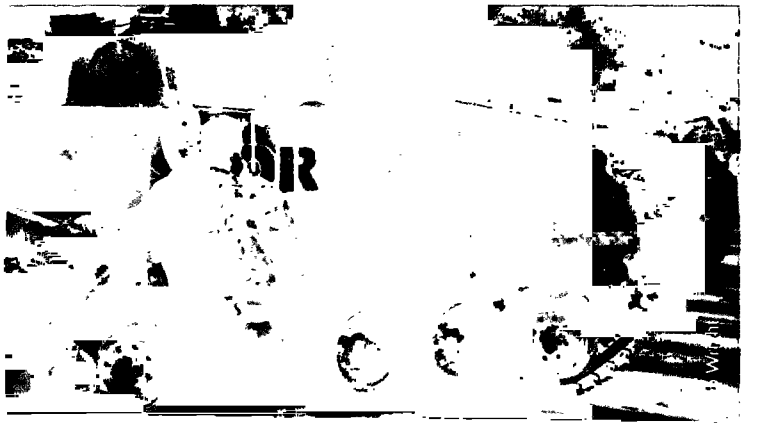


No language can describe adequately the condition of that portion of the Balkan Peninsula — Serbia, Bosnia-Herzegovina, and other provinces. Political intrigue, constant rivalries, a total absence of political spirit, hatred of all races, animosities of rival religions and absence of any controlling power...nothing short of an army of 50,000 of the best troops would produce anything like order in these posts."

— Benjamin Disraeli, prime minister of Great Britain, 1878.

"Most of our employees are Moslems; the rest are Croats and Serbs. They don't fight — they have breakfast and coffee together every day. For 90% of them this is their first real job and they just want to enjoy working together. People in this country are able to communicate and live together. It's just the politicians who can't. But perhaps some day we'll get them all drinking wine together too. Then everything would be fine again."

— Raif Dzafic, general manager of Bosnian meat-processing company Akova Impex, 1999.



Could both be right?

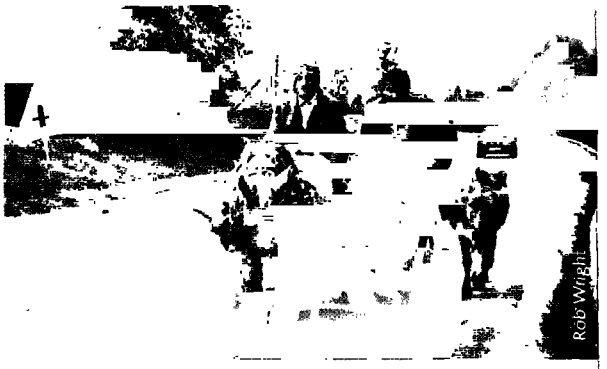
Disraeli might be interested to know that there are currently not just 50,000 but more than 70,000 NATO-led peacekeepers in only two small corners of the Balkan

Great Need

The two [illegible] countries where IFC has been [illegible] most [illegible] [illegible]nia and [illegible] and [illegible] are two of the [illegible] [illegible] have stable currencies, high education levels, and [illegible] labor, [illegible] combo of weak domestic banks and huge [illegible] risk [illegible] for- [illegible] local [illegible] short on [illegible] and [illegible] to create [illegible] jobs.

	Bosnia and Herzegovina	FYR Macedonia
Population	3.9 million	2 million
GDP per Capita	$1,000	$1,000
Unemployment	35%	30%
Annual Foreign Direct Investment	$100 million	$75 million
Current Account Deficit	35% of GDP	5% of GDP
IFC Investment	$50.8 million	$64 million

Sources: World Bank, USAID estimates


Rob Wright

held parts of Bosnia, Croatia, Kosovo, and Serbia in their grip... brought ordinary life to an end...kept hard-working, honest people afraid to return to their former homes for fear of being hunted down like animals. Why doesn't the world simply wash its hands of the Balkans? Because the decade's death toll there tops 250,000 — or roughly four times the US dead in Vietnam —all of it but a half-day's travel from the cities of *Othello*, of Freud, of Liszt. And because no one wants it to happen again.

Peninsula, Kosovo and Bosnia and Herzegovina, and that occupying troops could be in this region a long, long time. Without the ominous, heavily armed presence they provide, many fear the horrors of the recent past could soon return: gang rapes and mass graves; waves of refugees; a "successful" air war that also may have killed as many as 1,400 Yugoslav civilians.

The Balkans are difficult by any definition. And they are a place where the cynics see no hope. Great empires of history have unraveled there: Roman, Ottoman, Austro-Hungarian, perhaps even Soviet, whose end may have been foreshadowed by Tito's 1948 break with Stalin. Since every effort for lasting peace there has failed, the cynics say, how can the future be any different than the past? History shows that fighting breaks out every 50 years or so, and that linking all these troubled countries together works no better than letting them drift apart.

That's what the cynics say, all right. And they are of no help whatsoever to international organizations that are in business, like it or not, for one reason: to make the world a better place.

All attempts at internationalism, IFC's included, undoubtedly have problems, but even a short Balkan visit shows why they are made in the first place. It is to somehow help prevent a recurrence of the systematic death and destruction that have

How can outsiders help in a place of such torment? Probably only by looking past the horror and building on the positive energy of the Balkan people — especially those now rebounding from agonies the rest of us can scarcely imagine. These are precisely the kind of people IFC and its partners are working with, and they show the strength of the human spirit. Workers at a Bosnian factory, for example, are now producing furniture called "Phoenix," symbolizing their country's rise from the ashes. A Macedonian bank whose hopes were dashed last year when a proposed buyer pulled out over rumors of war in Kosovo has since found what it considers an even better one. A Croatian inventor has designed a product with excellent market potential — robots that can safely clear his country's landmines. A Bosnian businessman who lost his house, his savings, everything but his family to ethnic cleansing still finds a way to joke: "We say *nema problema* even though we've got problems up to the roof! It's been that way for centuries." These are the horses to bet on.

Bal•kan•ize (bôl´kə-nīz´) *v.* To divide into small states hostile to each other.

Since the end of the West's war against Slobodan Milosevic, the Balkan nations (generally defined as all the former Yugoslav republics except Slovenia, plus Kosovo, Albania, Bulgaria, Romania, Greece, and the European parts of Turkey) have received more international attention than ever before. Much of it comes from the European Union, which last summer launched an unprecedented cooperative effort called the Balkan Stability Pact to plan a course for democracy, peace, and prosperity, backing it up with more than $2 billion in Kosovo aid pledges.

The European press widely derided the effort from the outset, and not a soul underestimates the difficulty involved, least of all the Stability Pact's coordinator, Bodo Hombach of Germany. Much of the criticism has come not just from cynics but from those who see themselves merely as realists, convinced the Balkans' future is unfathomably bleak. But the efforts continue. Those with a sense of history remember the area's incendiary role in the last two world wars and desperately want the Stability Pact to succeed. The rise since the pact was signed of far-right anti-immigrant parties in Austria and Switzerland, where many from the Balkans have fled in search of a better life, adds yet one more disturbing twist. "Either Europe will force stability on the Balkans, or the Balkans will force instability on the rest of Europe," is how European Commissioner Chris Patten puts it.

The purpose of the Stability Pact is to coordinate all security, political, and economic efforts in Southeastern Europe, thus decreasing the chances that things will unravel further in years ahead and increasing the odds that they might even improve.

Hombach has had some interesting things to say about it. "We should have begun earlier with a process like this — in fact, 50 years ago," is one. Here's another: "The experience gathered during Bosnia and Herzegovina's reconstruction shows that a reconstruction that is solely based on government programs has little impact. The precondition is cooperation among the Southeast European states, support for small and medium-sized companies, and the creation of stable framework conditions for foreign investors."

Quietly over the past three years IFC has worked toward those very goals, to date mainly in Bosnia and Macedonia, and increasingly now in the surrounding countries as well. These small economies are racked by some of the highest unemployment rates in the world. And since small economies are made up mainly of small companies, the work has inevitably involved finding ways to help them.

Unglamorous as they may be, small and medium enterprises (SMEs) are the key source of job creation and economic growth in this part of the world, and most others. Helping begins with finding the good ones and providing them with financing not available locally. They need the support, for they are caught in a region with little honest domestic money to invest, and one that foreign investors are understandably reluctant to touch. After meeting with Stability Pact leaders in Berlin in late October, more than 100 top US and European CEOs issued a statement that called conditions for investing in the Balkans "highly negative," mainly because of poor physical and financial infrastructure, "lack of transparency and professionalism in government administration," and "widespread corruption and bribery that act as a major obstacle." The group's cochairmen, the CEOs of Xerox Corp. and Suez Lyonnaise des Eaux S.A., insisted their members will only invest when the legal and financial environments improve and corruption is reduced.

So for the time being it is up to organizations like IFC to take the financial risks and pump up the private economy. But smaller Balkan companies need more than just money from IFC. They also need access to outside experts and someone to plead their case for a better business environment before unsupportive governments.

Such pioneering work is costly and difficult, requiring IFC to mount an extensive field presence under mettle-testing conditions. Not many high rollers take it on, even though it does have its advantages. It introduces you, for example, to people like Raif Dzafic. When we met him, he was sipping blueberry juice and doing the single best thing anyone can do to combat

Bosnian Carnage: *People used to live here — until they were ethnically cleansed.*

unemployment: signing payroll checks. His meat-processing company outside Sarajevo, Akova Impex, now employs 150 people. Its sparkling new plant runs at 100% capacity, producing cold cuts and sausage for the local market. It is a plant this Moslem veteran of the local food industry had intended to open in the spring of 1992. But war got in the way. On May 28 of that year, he well remembers, Bosnian Serbs shelled his site, burning his dream to the ground and looting whatever was left.

"Either Europe will force stability on the Balkans, or the Balkans will force instability on the rest of Europe."

Chris Patten, European Commission

"When I came back, all I found was six meters of metal," Dzafic recalls today. "Not even faucets or taps."

Peace finally came three grueling years later. Dzafic collected the family he had sent to Italy for safety and started again from scratch. The war's devastation of rural Bosnia left him convinced that his once-fertile country could no longer produce more than 5% of its food needs. But people had to eat. Owner of a restaurant and group of small grocery stores that had survived the war, he was able to pull together enough money to rent a small cold storage facility and began importing whatever meat he could to make beef prosciutto, salami, and other local favorites. All the while he looked for high-efficiency production options that would let him make an affordable mass market product and still have a little profit left over.

Akova Impex had two of the key ingredients for business success: a market opportunity and good management. It lacked just the third: financing. Rebuilding its meat-processing plant now required the equivalent of $4.6 million, far more than Bosnia's fragile banks could provide. So IFC took a chance, investing staff time in helping Dzafic develop a detailed feasibility study. When the results proved favorable, IFC gave his company a $2.2 million, five-year loan, supplementing the $450,000 the small firm had earlier been able to get from a US Agency for International Development (USAID) financing program for local SMEs. The two sources together gave Akova Impex what it needed, and the plant opened for business with an integrated work force of Moslems, Serbs, and Croats earlier this year. It has been running ahead of projections ever since, selling its tasty processed meat products to 2,700 grocery stores, restaurants, and wholesalers around Bosnia.

Meeting Payroll: *IFC client Raif Dzafic signs paychecks for the 150 Bosnian workers whose jobs he created.*

Employees seem genuinely glad to be working there. They attribute its success squarely to the way Dzafic and his partners run the company.

"We've got good management," says a busy plant foreman, rushing to check if a new shipment of frozen beef has arrived. "They were in business 20 or 30 years before this, and even though Bosnia went through the hell of war, they were able to withstand it. They can bounce back from anything."

Why, we ask?

"Mainly because they're willing to take risks," he barks. Then it's back to work. Hundreds of boxes of sausages must go out today.

But filling the financing gap is hardly the only thing Bosnian businesses need from IFC. Although Akova Impex's sales are strong, its home economy is not, and it can easily take 90 days to collect receivables from customers. The company must also pay both sky-high weekly import duties on the frozen meats it gets from Western Europe and New Zealand and equally lofty utility bills to state-owned electricity, water, and telecom monopolies. When asked if he's tried complaining to government officials, Dzafic answers with a wry "they don't want to listen to us."

IFC and its colleagues in the World Bank, however, can use their influence with governments to press for specific policy reforms that will improve the business climate and give entrepreneurs a better chance. By bringing its market perspective into the debate, IFC tries to show local policymakers how the regulatory environment can actually choke off the small business job creation they otherwise claim to support.

Before the war, when Bosnia's economy was twice the size it is today, one of its strongholds was the wood-processing industry. It was the basis of SIPAD, a state-owned powerhouse that in the heyday of pre-1991 Yugoslavia had annual sales exceeding $1 billion, successfully moving its attractive furniture in middle-market retail outlets across Europe and the United States. But like so many of the remnants of that once-powerful country —which had a population of 23 million

Knock on Wood

The wood-processing industry was an economic cornerstone of prewar Bosnia, but now operates at only 10% capacity. Bringing it back to life is difficult — both for local companies and for IFC, which has made the effort one of its biggest projects in the Balkans. The key is partnering with small local banks that know the lay of the land.

The Challenge

- Revitalizing key industry in high-risk postconflict environment
- Little foreign or domestic capital available
- Few banks or companies privatized
- Wood companies need hands-on advice and training as well as financing
- Direct involvement costly and labor intensive for IFC; viable delivery model must be found locally

The Response

IFC

- Provides $14 million long-term debt facility to be broken down into smaller subloans
- Arranges $2.2 million in technical assistance grants from Canada, Italy, the Netherlands, and Norway for consultants to wood companies from Deloitte & Touche (accounting), others (marketing and operations, management, privatization support, etc.)

Bosnian Banks

- Help IFC by identifing/screening potential clients, doing pre- and postinvestment support work
- Receive fee of .75% of each IFC subloan (average fee: $17,000); provide 10% matching financing from own resources in each case

Bosnian Wood-Processing Companies

- 7–8 state-owned enterprises each receive 5–7 year, $1–$2 million loans for working capital, spare parts, equipment upgrades
- War criminals not eligible
- IFC involvement makes companies attractive to investors for privatization, restructuring
- Incentivized with .05% reduction in interest payments upon privatization
- With new financing, can slowly rebuild production to previous levels

and both the highest living standards and freest society in the Communist world — all of SIPAD's former holdings must now operate more or less independently, even if it doesn't make much sense for them to do so. One such unit, called Inga, sits only 500 meters from the border with Croatia, a wealthier market it desperately needs. Yet Inga's tables and chairs cost 22% more there than in Bosnia, thanks to high taxes and a trade war between the two countries. Almost no one will buy at that price. There's also not much hope of business in Serbia, historically the company's biggest demand center but now almost written off because of currency instability.

"This used to be one country, one market," mourns Inga's finance director, Vlado Kunovac. "We don't need these kinds of barriers." A Bosnian Serb, Kunovac fled his former home across the country with little more than the clothes on his back when the Moslem army moved in. He hasn't dared to return. A conversation with him reveals how futile it is to try to reconstruct the reasons for the war between extremist elements purporting to represent the country's Serb, Croat, and Moslem populations, or even what exactly happened. A shrug and a perplexed "everybody fought everyone" are the usual response you get. Inga's counterpart in the country's Serbian enclave, a firm called Manjaca, was seized and stripped of almost all its machinery by Croats who had driven out all the residents of a beautiful mountain town in the war's final days. Asking why this happened doesn't really help.

"This is the Balkans," says its investment director, Slobodon Cockolo. "And that's the way war is. There are no rules. If you complain, they cut your head off."

Then a far-off look takes over his face.

"There's a mass grave over there with 184 people in it, all civilians," he says.

The wood industry he represents cannot be ignored if Bosnia's economy is to have any real chance of recovery. Experts consider

the local beech supply to be as good as any in the world, and say the country has all the technical know-how it needs to regain its former competitive position. But the problem is the same one Akova Impex faces: lack of financing. Few foreign investors are interested, given the high political risk and well-publicized reports of rampant corruption in a country that has received more than $5 billion of foreign aid since 1995. To help, IFC has set aside $14 million to break into smaller loans for companies like Inga and Manjaca, with local banks providing a 10% match and invaluable help on the ground in each case. With the financing comes considerable donor-funded advice in marketing, production technologies, and other essentials that the companies otherwise could not afford. Without the support from outside, specialists fear the companies would lay off even more workers and tragically get out of processing altogether, instead devastating their forests by exporting raw logs to Europe in a desperate dash for cash.

Manjaca, for example, is one of only two major employers in its factory town of 18,000. Although the wartime looters reduced the company to little more than a carpentry shop, Cockolo expects the IFC loan to speed up the pace of its revival by 15 years by allowing purchases of new machinery. He vows to bring his labor force back to the prewar level of 600.

Money may be lacking in such companies, but confidence certainly is not. Even though its budget is squeezed tight, Manjaca has recently set up an NGO offering free computer classes to town residents, using PCs donated by the Orthodox Church. Its motto: "The whole world is ours. We *know* we can."

Partnering with others who have more experience supporting small companies in "frontier economies," whether USAID, a Bosnian bank, or another institution, is humbling but vital for a large, foreign-based institution like IFC, whose typical transactions are in the neighborhood of $10 million — far more than small companies can absorb. In essence it comes down to this: to work with the little guy efficiently, it pays to have the right partners. One of IFC's key channels in this regard is the international niche investment group Small Enterprise Assistance Funds (SEAF), manager of nine for-profit entities that target SMEs only. Its country director in Macedonia is a US banker named Bob Webster who started his career lending to local companies in Maine and Kentucky. He stayed in Macedonia throughout the 11-week NATO bombing campaign, even though the Kosovo border is less than an hour from his office and there were real possibilities of Serb retaliation.

A spin-off of the nonprofit humanitarian group CARE, SEAF began as a small business investor in Poland in the early 1990s and has built a successful track record since, doing a great deal to help local companies in difficult transition economies. It launched the first equity fund of any kind in Macedonia in 1998 with $4 million in seed money from USAID and then saw the fund grow to $12.5 million last year as part of capital increase that included $2.5 million from IFC. That should be enough for investments in about 35 different Macedonian companies over the next few years — investments that are just one part of a close strategic relationship with SEAF designed to take the companies beyond where they could go purely on their own.

The money is being invested in companies like Nasto, a cheese producer started in 1996 with money sent back by a grandfather who had immigrated to Detroit and built a successful bakery. At the time, his grandson, Ljubco Genadiev, was working in the construction industry and had a small restaurant on the side, but had bigger ambitions.

"Nobody believed Nasto would succeed," Genadiev recalls with a suave stroke of his goatee. "There already was a state-owned cheese producer in town, and everybody thought that was enough. But we started to build a reputation by paying our supplier dairies on time — unlike the state company, which really played games with them."

Although Nasto has created 38 direct jobs, in all likelihood it is those suppliers — usually poor peasants in the surrounding hills owning just one or two cows — that are gaining the most from its entry into the marketplace. Three years into operation, it now buys milk regularly from 700 of these small farms, providing a steady cash flow to supplement family incomes that are otherwise only about $100 a month. Like Akova Impex, it has become a nice little success story, crowding out imports with a fresher, more affordable locally made product. But the next step was unclear. It was financially limited by geography, trapped in a country where many people have lost their life savings in bank failures and where risk perceptions keep the supply of outside equity about as small as can be imagined.

The country's one investment fund, though, did not overlook Nasto. SEAF sensed the firm's potential and last summer began talking to Genadiev about his idea for adding a new higher-value product, long shelf-life ultra high-temperature (UHT) milk. Since there was only one other dairy in Macedonia and it could meet only 60% of the country's milk demand, the opportunity seemed self-evident. Still, many obstacles stood in the way — the kind that unfortunately often spell the demise of small businesses the world over. But after extensive discussions, SEAF and Nasto worked out financial models that showed the UHT project could work, and the investment fund provided a $480,000 debt/equity package, giving it a sizable minority stake in the company. Using their USAID connections, the new investors then brought in consultants from a US dairy industry leader, Land O'Lakes. Through these talks, Nasto is learning to convince its suppliers to spend a

Big Deals

Building small business is hardly the only thing to do in the Balkans. IFC is also working to strengthen some of the biggest private companies in both Bosnia and Herzegovina and FYR Macedonia. Though tiny by global standards, they are key players locally and need outside help to reach the next level.

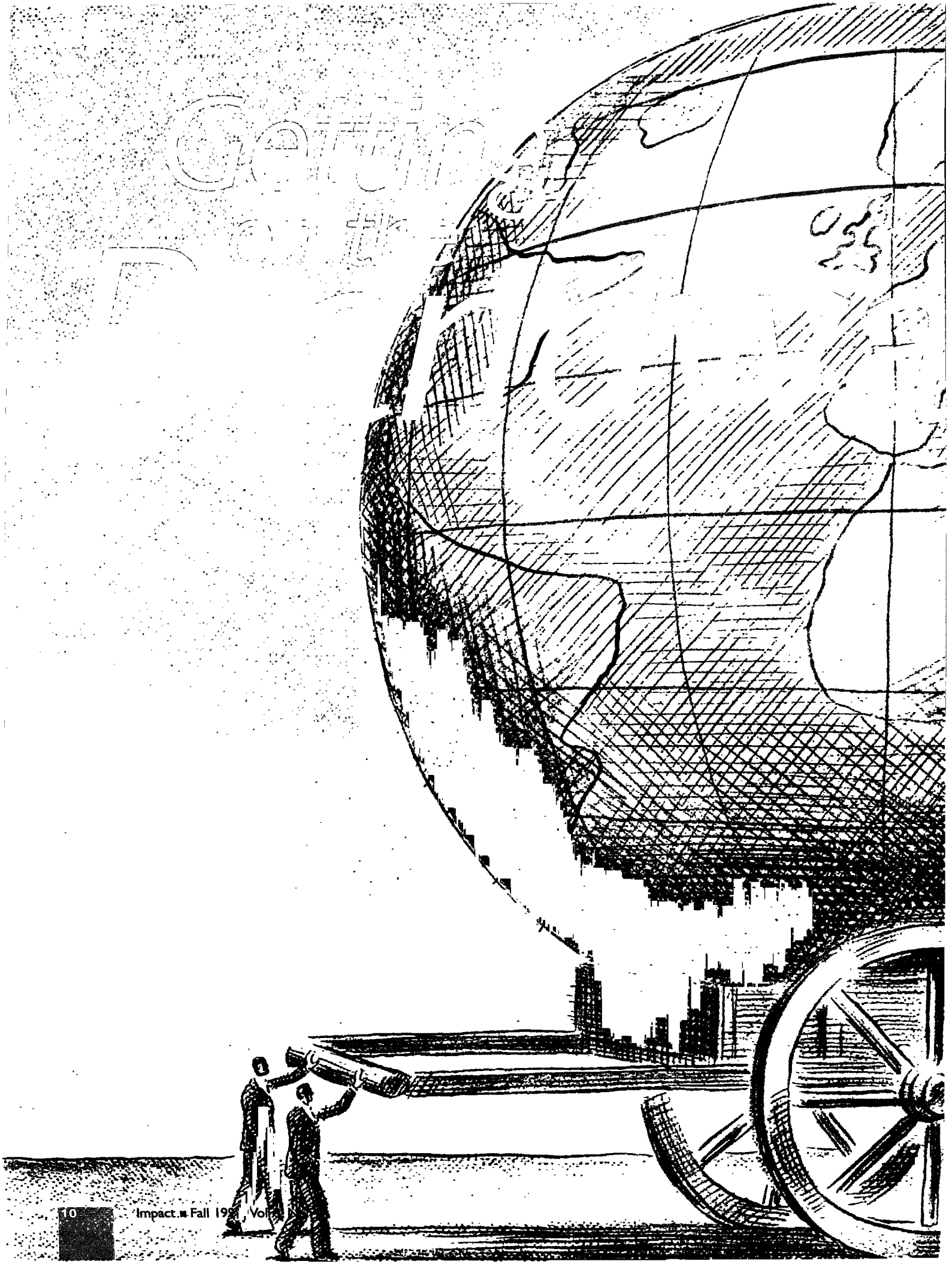
[illegible]	Company	[illegible]	[illegible]	IFC Support	Goal
Bosnia	Lijanovici	Meat Processing	Annual revenues: $31 million Employees: 700 Exports 40% of its production to Croatia and Macedonia	Lent $2.5 million in 1998; then arranged $86,000 Danish technical assistance grant for advice on quality control and distribution issues to prepare firm for entering the EU market	Expansion to allow 30% increase in production; building a model company for others to follow
Macedonia	Teteks	Textiles, Garments	Annual revenues: $47 million Employees: 4,500 Exports 55% of output to US/EU markets	Arranged more than $400,000 in donor grants starting in 1994 for company's first international-level audit and studies on technology and marketing options; results led to $1.5 million 1997 loan	Expansion; increased competitiveness of of company projecting 36% increase in in exports over next 5 years

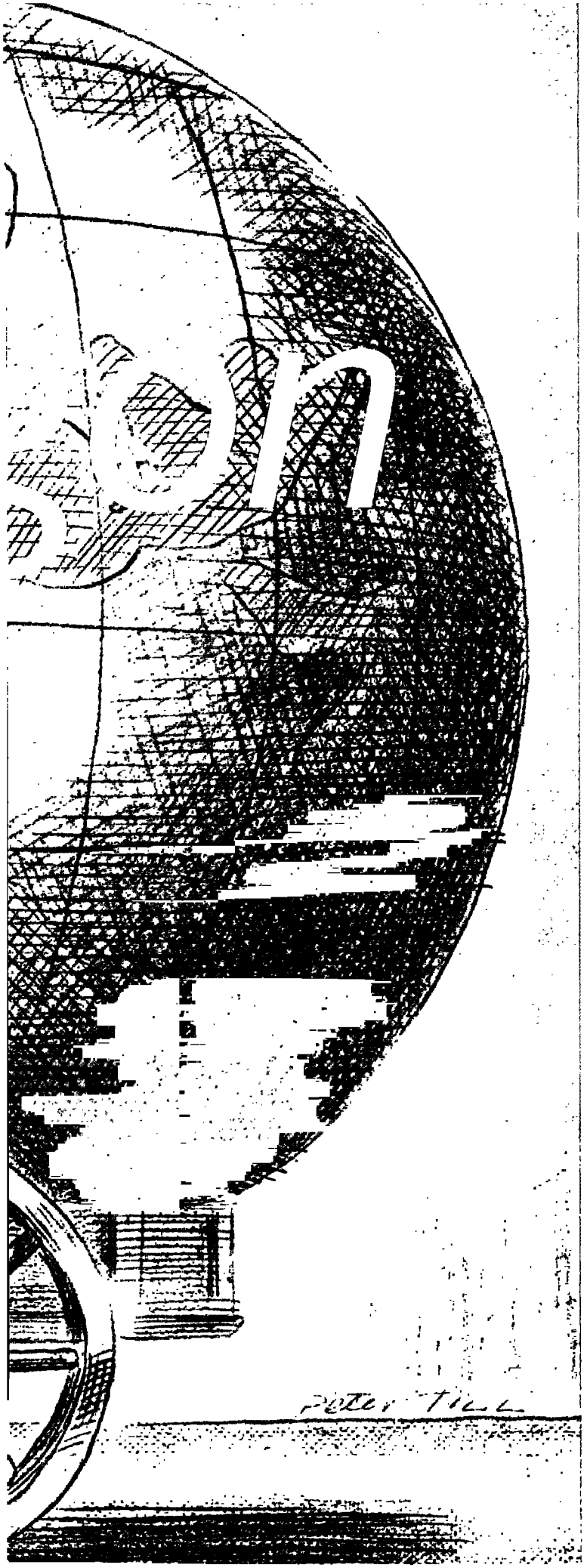
little money improving the hygiene of their milk, as required in UHT products. Meanwhile, with SEAF's money Nasto can buy packaging machinery from Sweden's TetraPak, the world's trend-setter in consumer cartons. Projections show annual revenues climbing to $3.2 million next year through the greater diversification, which would also bring more jobs at the Nasto plant and higher prices paid to the dairy farmers in the hills. And if other projections bear out, Nasto could be experiencing an additional 80% top-line growth over the next six years — enough for SEAF to sell its equity position, either back to the sponsor or to another investor at a solid return.

But that's a big "if," one that sums up the nature of the risk capital that Balkan companies so badly need. And no one who really takes risks can win them all. In late 1997, for example, IFC lent $800,000 to a Macedonian producer of equipment for the glass industry, Masinomont. After years of selling mainly in the Balkan countries, the company was interested in raising its quality standards to the level demanded by Western European buyers. By collaborating closely with a French partner, it has now reached that goal, featuring Siemens and Bosch components in its design for the first time. Its low overhead allows it to sell a comparable product 20% below the cost of its Western competitors. It is an impressive small company with good management and a hard working staff. But when the first tremors out of nearby Kosovo appeared last year, all its potential Western customers immediately shied away, fearing a new Balkan war might destroy the company and ruin their spare parts supply. Worse, the bombing of Serbia then closed off Masinomont's best-established market, leaving the company with few reliable revenue streams. It would be a killer combination for anyone, but worse on a small company confined to a single product line. Try as it might, last March Masinomont went into default on the interest payments on its IFC loan, making a rescheduling almost inevitable.

IFC continues to believe in the company, paying for a marketing consultant in Germany and supporting Masinomont's founder in a round of trade fairs and company visits in Western Europe in hopes of drumming up sales. But, as much as anything, Masinomont encapsulates the economic plight of this small, tranquil country surrounded by trouble on almost every side.

Continued on page 21





To get an edge in the new global economy, developing countries should stop thinking **products** and start thinking **brands**, writes Simon Anholt, Chairman of World Writers Ltd., London.

"Mamma, mamma, ci fai andare nella casa di Pinocchio?"
(Mummy, mummy, will you let us go in Pinocchio's house?)

The speaker: my youngest daughter, Claudia, aged three. The place: Disneyland Paris. She is speaking in Italian, her mother's tongue, yet pronouncing the name Pinocchio in the American way: *pin-know-key-oh.*

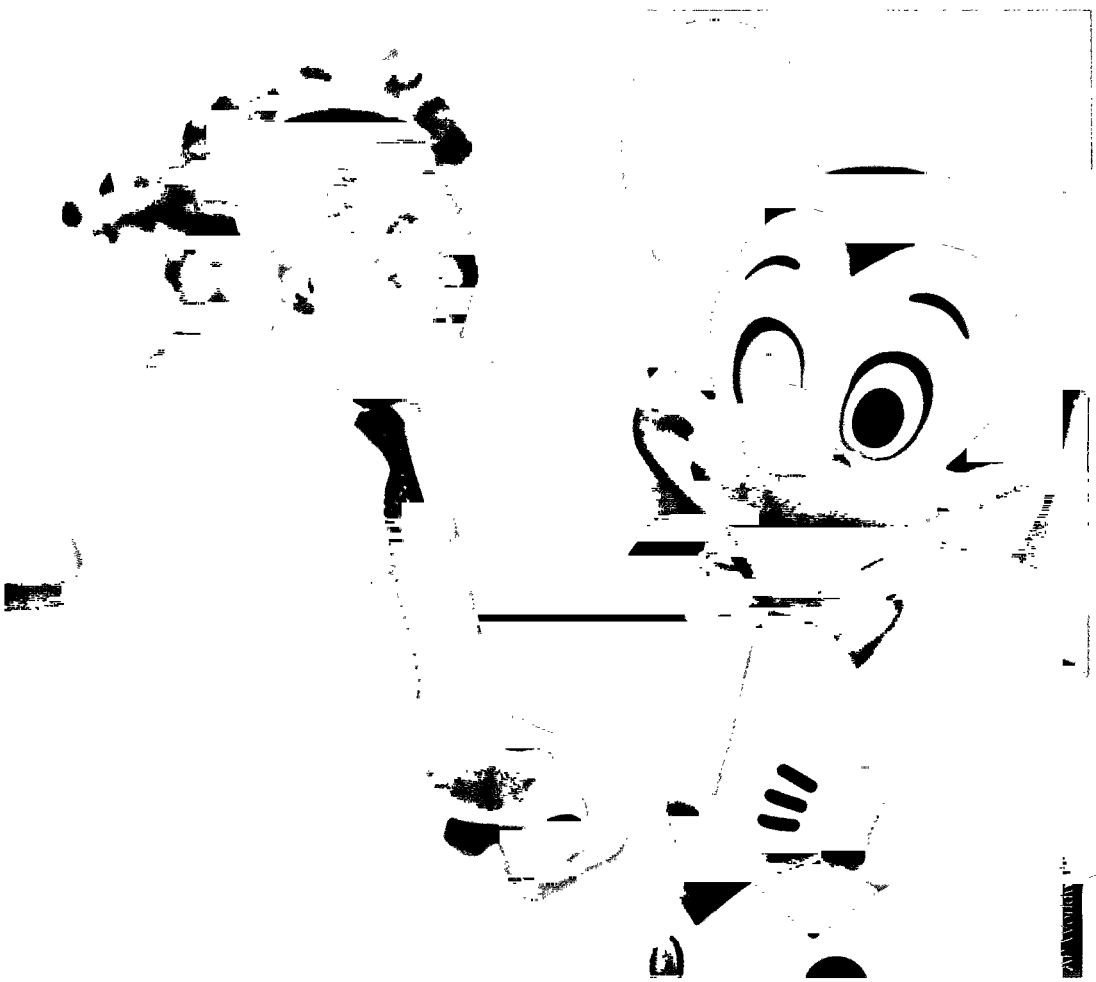
This sets me thinking. The correct pronunciation of the famous fibber's name is *pin-knock-key-oh* — that's the way millions of Italians have said it ever since Collodi first created the story in 1880. But my daughter, like most European children in recent decades, has been brought up on a steady diet of Walt Disney videos. And because we live in England, we tend to buy the English-language versions of the videos, which are of course the American-language versions.

My children firmly believe that *pin-knock-key-oh* should be pronounced *pin-know-key-oh*, and that the story is American, as are *Mary Poppins*, *The Hunchback of Notre Dame*, *Mulan*, and all the rest of them, despite their distinctly recognizable backdrops of London, Paris, and China.

Ah, America. It's one of the world's most enduring, powerful, and compelling myths. It's also home of the world's most successful brands. The two are not unconnected.

Disney and McDonald's, Coca-Cola and Levi's, Nike and Pepsi — all are known to come from America. This is a fundamental part of their international success and the reason that their American-ness has always been, quite rightly, stressed in their advertising messages. These days, it is not just what a brand represents. Where a brand comes from is often one of the very few differentiating factors among the bewildering variety of apparently identical products bombarding the consumer at every point of purchase. We live in an age where products can originate almost literally anywhere on earth, and knowing which country they represent can be as significant a part of our decision to buy as knowing which company they're from.

I well recall that day at the "casa di Pinocchio." My family succumbed to the force of what many specialists consider to be the world's most powerful brand: Disney. The minute many consumers sense the presence of that magic name and logo, alone worth $32 billion, according to a recent Interbrand/Citibank study, they gain confidence in a vast array of otherwise unrelated products: films, theme parks, clothes, toys, cruises, even an entire ready-made town (Celebration, Florida). Many, like my daughter, soon start to see the world through the all-seeing eyes of the Mouse, and the mighty brand behind him.



Year of the Mouse: *Hong Kong Chief Executive Tung Chee-hwa and a marketing rep of the world's most powerful brand, announcing plans for Disney's third international theme park, November 1999.*

A well-respected brand name carries undeniable clout. But what, exactly, do we mean by the term?

Technically speaking, a brand is the promotion of consumer preference bound up in a recognizable commercial name or identity. It is the sense of predictability and quality assurance that adds a measure of trust and appeal to a product sold under that name, and consequently allows the owner of the brand name to launch new products more easily, and to charge more money for them, than can its competitors. The sugary brown liquid in a Coca-Cola bottle, for example, can retail for up to twice as much as very similar sugary brown liquids marketed under less valuable brands. The brand is where the profits of most consumer goods companies come from; it's their competitive edge and, increasingly, their raison d'être. The book values of the real global megabrands (that is, the value of the entire company minus everything tangible) — are often greater than the GDPs of smaller countries.

One of the great advantages of brands over commodities is that they are an infinitely sustainable resource — that is, as long as their value is maintained through careful marketing. Their value resides primarily in the mind of the consumer, not the factory of the producer. Once created, this makes them surprisingly difficult to destroy.

Sharing the Wealth

Clearly, the notion of exporting branded rather than unbranded products is a compelling one. This is particularly true for developing countries, which could especially benefit from a movement toward global brand export: it is part of a sustainable wealth-creation behavior that could ultimately help them escape from the poverty cycle.

As it stands, most developing countries are enmeshed in a pattern of economic behavior that keeps them poor: selling unprocessed goods to richer nations at extremely low margins, thus allowing their buyers to add massive "value" by finishing, packaging, branding, and retailing to the end user. Examples abound: Nigerian oil, Nestlé chocolate, and all the rest. It is a process that often helps deplete the source country's resources while keeping its foreign revenues at a break-even level at best. Creating and selling international brands, on the other hand,

is the classic trick of industrialized nations. It is one born of necessity, perhaps, since some of the world's richest nations have precious few commodities to export, but it is one that many poorer nations would do well to emulate. For it is conceivable that if consumers in developing countries are faced with the choice between yet more brands from the G-7 nations, and new brands from "colleague countries" in the developing world with no shady colonial past, they might just feel more comfortable with the latter.

Global brands as the ultimate distributor of wealth? It's an intriguing thought.

In today's hypercompetitive global marketplace, where so many products are functionally identical to their many direct competitors, a powerful brand is just about the only remaining legal competitive advantage a company can possess. One attribute that is particularly important to international brands is the influence that the brand's origins (or its perceived origins) has on the consumer's perception of the brand. When you look at the question of a brand's provenance, it becomes clear that certain countries behave almost like brands in their own right. Just like commercial brands, "nation brands" are well understood by consumers around the world, have long-established identities, and can work just as effectively as an indicator of product quality, a definer of image and target market, as the manufacturer's name on the package.

Without doubt, the world's most powerful country brand is the United States. This may well be connected with the fact that "Brand USA" has the world's best advertising agency, Hollywood, which has been busily pumping out its two-hour cinema commercials for the best part of a century, and which — here's the irony — consumers around the world have enthusiastically paid to watch.

Indeed, Brand USA is so powerful that companies around the world will often attach bogus American values to their domestic brands in order to give them a more glamorous image. One of the biggest-selling chewing gum brands in Italy, for example, is called "Brooklyn," its packaging proudly displaying a reasonably accurate drawing of the eponymous bridge. The fact that the product is manufactured by Perfetti of Milan is, from both the consumer's and the manufacturer's point of view, a very minor issue indeed.

Apart from the United States, though, only a few countries have clear, consistent, and universally understood brand images, and most of them are European: for example, England (heritage and class), France (quality of life and chic), Italy (style and sexiness), Germany (quality and reliability), Switzerland (methodical precision and trustworthiness), Sweden (cleanliness and efficiency).

Billion-Dollar Brands

By one recent estimate, a full 50% of the money made globally over the next 25 years will come through the power of brands. Working with Citibank, the international consultancy Interbrand found 60 brands that when measured apart from their corporate parents' other assets were each worth more than $1 billion. In some cases the brands — respected ID tags hung on a host of different products — were by far the most important factor in determining the overall market value of their owners. The leaders:

Brand	Value	Brand's Share of Company Value
1. Coca-Cola	$83.9 billion	59%
2. Microsoft	$56.7 billion	21%
3. IBM	$43.8 billion	28%
4. General Electric	$33.5 billion	10%
5. Ford	$33.2 billion	58%
6. Disney	$32.3 billion	61%
7. Intel	$30.0 billion	21%
8. McDonald's	$26.2 billion	64%
9. AT&T	$24.2 billion	24%
10. Marlboro	$21.1 billion	19%
11. Nokia	$20.7 billion	44%
12. Mercedes	$17.8 billion	37%
13. Nescafé	$17.6 billion	23%
14. Hewlett-Packard	$17.1 billion	31%
15. Gillette	$15.8 Billion	37%

Source: Interbrand/Citibank study, 1999

As might be expected, all these countries produce successful international brands that are in turn strongly associated with their brand qualities: so England gives us Burberry and British Airways; France gives us Chanel and champagne; Italy gives us Ferragamo and Ferrari; Germany gives us Bosch and BMW. Switzerland gives us Swatch; Sweden, IKEA. Together, they give us one of the great industrial brands, ABB.

In fact, it's hard to find any international brands that don't come from strongly branded countries: brand-neutral countries like Belgium, Portugal, Austria, Chile, or Norway have produced remarkably few international market leaders.

But nation branding does not depend on government promotion alone. It is primarily a private sector-led process, one that reaches the foreign consumer's latent desire to buy into his or her favorite parts of the sourcing country's image.

Still, the record shows nations can enhance their own brand values, just as manufacturers can enhance the value of their commercial brands. Japan is perhaps the most striking example of a country that had succeeded in completely altering its values as a provenance brand in a short space of time: 30 years ago, "Made in Japan" was a decidedly negative concept. It stood for shoddiness. Today, though, it is enviably synonymous with advanced technology, manufacturing quality, competitive pricing: even of style and status.

Korea, too, has undergone a similar, even more rapid transformation in its brand image, thanks to the efforts of such corporations as Hyundai, Daewoo, Samsung, and LG.

Other countries could perhaps capitalize on the success of their high-profile brands: Finland and Nokia, for example. It appears crucial for Finland to capitalize quickly on the significance of Nokia's origin if it intends to make itself into a valuable nation-brand: through a combination of high product quality, speed to market, excellent marketing and distribution, Nokia has turned itself from a moderately successful domestic producer of rubber boots into one of the most successful high-technology brands in the world. In doing this, it has also managed to create an entirely new set of associations with "brand Finland" in many consumers' minds. No longer just a quaint fairyland perched on the farthest fringe of Europe, known mainly for saunas and reindeer, this is a country that can do technology, can do marketing. People believe it can become a world-beater.

Brazil the Brandable: *A country with enviable ingredients for "nation-branding." So why hasn't it happened?*

And there's a good deal of that mysterious, associative consumer logic that makes this shift believable: who knows — perhaps it's something to do with the fact that cold countries are believed to be precise and efficient countries, which makes them good countries to make high-tech products. So if other Finnish companies — and Finland itself — don't move quickly to build on and leverage this climate of global consumer acceptance, then they are missing a great opportunity. Sadly, Nokia itself seems at pains to diminish its own origins in the way it markets its products, perhaps in an effort to appear "global" (that is, nationless), which means that this valuable pro-Finnish opportunity may be going to waste.

Still, Finland, Japan and Korea are all rich countries. What about poor ones?

When you try to match provenance with product, there are some pairings that clearly make brand sense, and others that just don't. People might well buy Indian accountancy software (the $61 million March 1999 NASDAQ debut of Bangalore's Infosys Technologies has certainly helped this association) or a stylish Lithuanian raincoat, and although I'm tempted to say that they probably wouldn't buy Peruvian modems or Croatian perfume, attitudes can and do change quickly. Fifteen years ago, who would have believed that we Europeans could be happily consuming Chinese Tsingtao beer or Malaysian Proton cars?

Or, indeed, who would have believed that one of the world's most successful and fastest-growing manufacturers of jet aircraft would be a Brazilian company, Embraer?

A New Era?

The stage, therefore, is set for the emergence of many poorer countries as respected, even privileged provenances for successful commercial brands. As Embraer shows, successful branding often emerges where we least expect it. Sometimes that happens not at the retail but at the wholesale level, where a company purchasing agent is the consumer, and someone else he never meets is the actual end-user.

Still, many barriers must be overcome. Brazil, one of the most "strongly branded" countries in the world, produces almost no other international commercial brands whatsoever. This is sur-

Could She Sell Software? *India has much of it to offer.*

prising, particularly because the brand print of Brazil is associated with a very homogeneous and coherent set of values. "Brand Brazil" has much going for it — the merriment of dancing the samba at Carnival time; awesome rainforests as endangered as they are exotic; sex, beaches, sport, adventure. All are attributes that could contribute to the brand print of almost any successful youth product on the market today, especially in the food, cosmetics, fashion, music, and even automotive and industrial fields.

Admittedly, these are clichés that may be depressing, even insulting, to the average Brazilian, but they are undeniably a fine platform on which to build a believable global brand. It is one of the tasks of advertising and marketing to manipulate these clichés into something more creative, more substantial, more fair, more true — just as Australia leveraged actor Paul Hogan's "Crocodile Dundee" role to market tourism, Foster's beer, even the Subaru Outback sport utility vehicle.

The fact that there are negative associations (pollution, overpopulation, poverty, and the like) within the brand print of Brazil is not necessarily a cause for great concern, at least from the branding point of view. After all, a strong brand is a rich brand, and richness implies a complex and satisfying mix of many different elements. The brand equity of the United States also contains a significant proportion of negative elements, but does little to diminish its attraction, especially when the audience you're dealing with is composed of younger consumers, who demand to challenge and be challenged.

Currently, however, almost all of Brazil's export income derives from the sale of raw commodities (such as soybeans, tobacco, iron ore, and coffee), semiprocessed goods (such as cellulose, steel, soy oil, and sugar), and largely unbranded manufactured goods (such as shoes, orange juice, sheet steel, and automobile tires). Many of these exports contribute directly or indirectly to the depletion of the country's natural resources.

There is no question that if these bulk exports were to be enhanced or, indeed, replaced by the sale of branded goods directly to overseas consumers, profits — at least for the owners of these brands — would rise dramatically, and the level of profit generated by the success of these brands might soon overtake the income created by the export of commodities.

The opportunity to capitalize on the positive and powerful associations that Brazil evokes in people's minds all over the world is not, by and large, being seized — at least not by Brazilian companies. So far, it is largely through the efforts of companies in North America and Western Europe, for example, that Brazilian coffee is sold on supermarket shelves in richer countries. There are also plenty of Western companies making great capital out of real and bogus "rain forest" ingredients. But the real value of "brand Brazil" is, as yet, untapped.

The Western consumers' curiosity in things exotic is in all likelihood the best market-building strategy for developing countries to pursue. Yet few have Brazil's natural advantages: a strong nation-brand, combined with an increasingly healthy economy, and a government that actively encourages the export mentality, not to mention considerable domestic experience in brand-building. After all, even though it emerged from military rule and hyperinflation only a few short years ago, Brazil enjoys a democratic climate, and this has enabled the creation of many highly successful entrepreneurs, domestic companies, and domestic brands (not to mention one of the best advertising industries in the world).

Nonetheless, with the right combination of marketing expertise, government support, a high-quality manufacturing base, investment, and a creative brand strategy, many countries around the world have the basic potential to develop a healthy brand-based export economy. To spot the opportunities, all you need is the brand development skill, creative flair, and the grasp of global consumer psychology to make credible and attractive pairings between the country brand and the brandable products that country produces.

And the oddest things do happen. One of India's largest conglomerates, the mighty Tata Group, is currently in the process of buying the Tetley Tea Company of England, the world's second-largest teabag manufacturer — a spectacular reversal of the tradi-

tional arrangement, where the tea is grown in a poor country and sold at a low price to a brand-owner in a rich country who sells it on to rich consumers at a vastly higher price.

China too has proved full of nasty surprises for many Western manufacturers: more than $270 billion has been invested in Chinese ventures, by thousands of foreign firms, since 1992, yet few Western companies have succeeded in making any money in China. *The Economist* recently reported that Whirlpool, launched enthusiastically in China in 1994, built factories to manufacture household appliances it confidently expected to sell to the Chinese, only to find that it couldn't compete against domestic brands. (Indeed, one of these rival firms, Haier, is now beginning to market products under its own brand-name, with some success, in North America). After losing more than $100 million and shutting down most of its factories, Whirlpool now manufactures washing machines for Guangdong Kelon, another of its Chinese competitors, that are sold to Chinese consumers under the Kelon brand. So perhaps the next great nation-brand association in the making is China, soon to be recognized by consumers worldwide as a byword for quality domestic appliances.

What It Takes

Naturally, launching a global brand requires flair, confidence, and chutzpah — especially if you don't come from a Top Ten country. It requires objectivity to an unusual degree: the ability to see yourself as others see you, and to accept that this is, at least in commercial terms, more important than the way you see yourself. It also often requires government support.

And it requires constant investment in the country brand itself, which in turn requires commitment, collaboration, and effective synergy among the main purveyors of the country's image in the global media: usually the national tourist board, the national airline, and the major food producers, because these are the routes by which the national brand is most commonly created and exported.

Until a few years ago, it would also have been true to say that building a global brand requires lots of cash to buy advertising media: until the "new media revolution" happened, this was the sine qua non of building global brands. You just couldn't think of building a global brand for less than fifty or a hundred million dollars a year: quite simply, as in all extremely mature and heavily exploited markets, every media vehicle had its own value calculated to the *n*th degree, and there were no bargains.

But with the Internet-driven media revolution, we find ourselves in an entirely new context for buying and selling, in an immature and as yet very imperfectly understood market. And in immature markets, there are bargains everywhere, for anyone who knows how to recognize them: even the owners of some of the new channels of communication have yet to realize the true value of what they're offering.

Poor Country = Poor Quality?

Until recently, it was also true to say that the biggest hurdle that emerging country manufacturers had to overcome before launching their brands boldly onto the international market was the common consumer perception of poor manufacturing quality — "unless it comes from Europe, Japan, or North America, it can't be properly made" — but, again, circumstances are conspiring to change people's minds.

For this, we have the rich country producers to thank: over the last few decades, consumers have become very familiar with those humble little stickers on the underside of their American or European-branded goods ("Made in Vietnam," "Made in Mexico," and many more besides), and they have quietly absorbed the fact that a great many of the products they buy are manufactured (to the high standards required by those American and European brand-owners, naturally) in poor countries.

The American and European brand-owners could hardly have done their supplier nations a better favor. The perception only has to be enhanced a little further, and brought repeatedly to the consumer's attention, and yet another barrier preventing the development of global brands from emerging markets is removed.

One last obstacle standing in the way of emerging countries as producers of global brands? It may be purely psychological: a simple lack of self-confidence. After years of acting as mere suppliers to more commercially successful nations, many developing countries suffer from what you might call the Groucho Marx syndrome ("I'd never belong to a club that would have me as a member"): the idea that nobody in a rich country could possibly be interested or attracted by brands coming from a country so poor and unimportant as theirs.

Well, that perception is probably less true now than it has ever been before. As we hurtle toward the millennium, there is a pronounced shift in Western tastes and fashions, including one towards "Asianization" — a yearning for the values of older, wiser, more contemplative civilizations than our own.

Never before has there been such a vogue for the "ethnic," the organic, the exotic. Just look at Ricky Martin, proudly singing in Spanish on his way to becoming not only Latin America's must successful pop star, but one of its top global exports of any kind. Look around us and we see World Music (currently the fastest-growing part of the big record labels' catalogues, and fast overtaking the hitherto unquestioned dominance of the big American popular entertainers); World

Cinema (occasionally rivaling the success of Hollywood blockbusters); World Cuisine (a Parisian family recently offered me sushi when I visited their home — a phenomenon that would have been literally unthinkable a few years ago!); the phenomenal surge of interest in alternative, Eastern, and pseudo-Eastern remedies (acupuncture, shiatsu massage, aromatherapy); and much more besides.

The Western consumer is attracted as never before by the cultures and the products of distant lands. Now, surely, is the time for the rightful owners of the truly exotic nation-brands to leverage the power they hold over the imagination of the world's richest consumers. Now is the time for them to start making back some of the money that they have paid rich countries for their products over the past century, to begin to reverse the relentless flow of wealth from poor to rich, and to redress some of the imbalance between the lucky and the unlucky nations of the earth.

The factors that make consumers buy products from certain brand names and not from others — whether these are country brands or corporate brands — may seem somewhat mysterious. The perception of a brand in the mind of the consumer is like that game where you join up a series of numbered dots to make a picture of an animal. But in branding, the dots have no numbers, and the brand-owner has little control over how the consumer will join them up in his or her mind, and what kind of creature will be the result. But refined technique, long experience, and above all a profound understanding of cultural differences and consumer psychology can make the process far from random.

In reality, "brand extensions" — where a brand-owner launches a new product line under an already familiar name — can, as we have seen, be very logical and very obvious, or they can appear totally random. For Kellogg to launch a new kind of breakfast cereal on the market is just as much to be expected as is a new wine from France or a new fashion label from Italy. But when Caterpillar, a manufacturer of earth-moving equipment, recently launched a range of casual footwear, it was as surprising and exciting as a software giant emerging from India.

When a country does have the courage, insight, and creativity to move away from the classic paradigm of "national produce" and celebrate the fact that it produces brands that make you think again about the country that produces them, the results can be far more noticeable, and consequently far more profitable. Somewhere in the mysterious processes of consumer logic, Caterpillar boots made sense, and the resulting brand extension benefits both the company's core business and the new business: it really is a case of two and two making five. This is one kind of aid that emerging countries could find truly valuable: the international branding expertise that can create unexpected and inspiring connections between countries and consumers, and that will enable countries to launch their products onto the global marketplace with confidence, with a big noise, and above all, with pride in their origins. ■

Simon Anholt is the founder of World Writers, a global creative consulting firm that works on branding and other issues for multinational clients that include Coca-Cola, Hewlett-Packard, IBM, Microsoft, Nike, Nestlé, Sony, and others. He is also the author of Another One Bites the Grass: Making Sense of International Advertising *(John Wiley and Sons, 1999).*

Building Accountability From the Ground Up

The New Compliance Adviser/Ombudsman

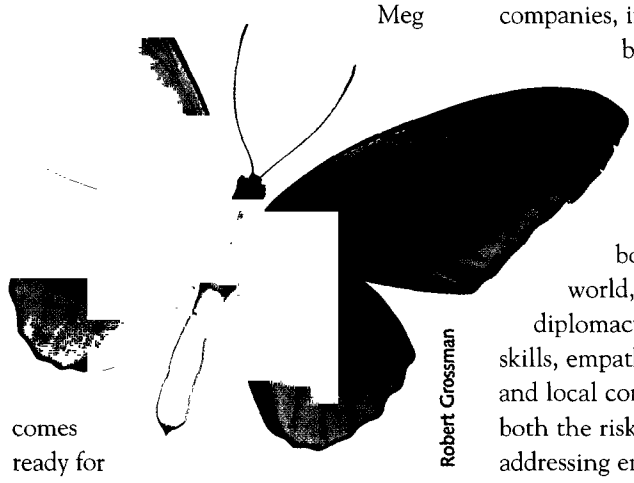
Shawn Miller
IFC Corporate Relations

At first glance one wonders a bit about the butterflies. Mounted in windowboxes in Meg Taylor's new Washington office, they absorb the afternoon sun, reflecting back their own luster and depth of color in a most remarkable fashion...

The butterflies turn out to be not just things of beauty, but important symbols as well. They represent Meg Taylor's pragmatism, her sense of purpose, and her commitment to sustainable development and improving people's lives. More than 800 species of butterflies live in the endangered rain forests of Papua New Guinea (PNG), her home country. But so do people — people with immediate everyday needs such as basic health care, education, and food. Meg has long worked to be a bridge between these two worlds, supporting for-profit ventures that provide real economic opportunity, and hope, for poor people without negative environmental consequences.

Her new role may be just as challenging as catching a butterfly. Since arriving in July as the first environmental and social compliance adviser/ombudsman (CAO) of IFC and its sister organization the Multilateral Investment Guarantee Agency (MIGA), she has had a difficult task: juggling responsibilities both as eyes and ears for people affected by an IFC- or MIGA-financed project and as a provider of solid, practical advice to IFC and MIGA on complex social and environmental issues.

Her office will be a point of contact for local people that have a legitimate complaint or concern regarding an IFC- or MIGA-financed project. Her mission is to improve the two institutions' performance and accountability, and Meg comes ready for the challenge.



Robert Grossman

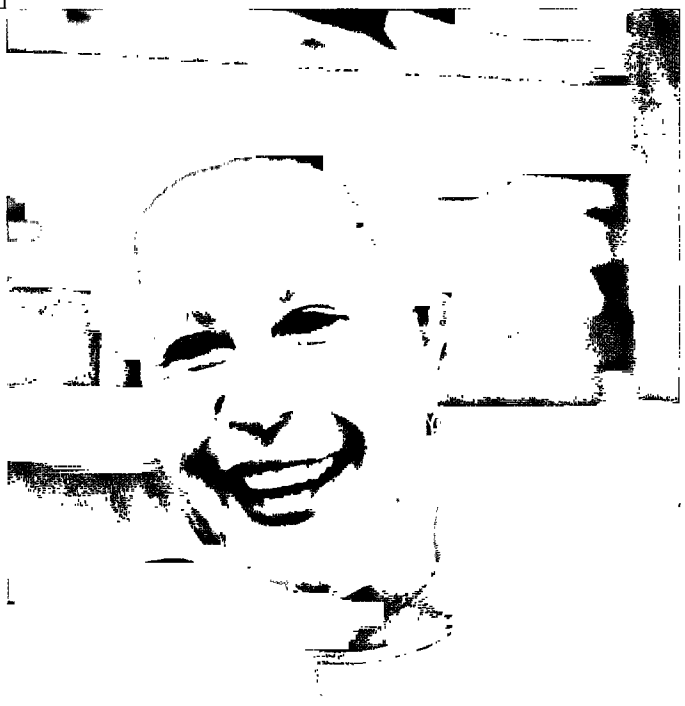
As PNG's former ambassador to the United States, she has long been a consultant on projects dealing with complex environmental and social issues. She was one of five independent experts, for example, assessing the World Bank's studies of how the proposed $1.2 billion Nam Theun II hydropower project in Laos would affect local social and environmental conditions. In Meg's view, the intersection of sustainability and private sector development is not hard to cross.

"Environmental sustainability and private sector development can be synonymous," she says. "A lot depends on the type of project, the extent of local community participation, and forward thinking of all stakeholders about life beyond the project."

Her views derive from her past experience in PNG sitting on the boards of several companies, including one of the world's biggest mining projects, Lihir Gold, and other ventures in the agribusiness and oil and gas sectors.

Comfortable in both the boardroom and the NGO world, Meg's strengths are her diplomacy and conflict resolution skills, empathy with vulnerable groups and local communities, and knowledge of both the risks and opportunities in addressing environmental and social issues within a private sector context. These skills and personal traits were just what the World Bank Group's president, James Wolfensohn, was seeking in the CAO, who reports directly to him.

Before Meg's appointment, the idea of an accountability mechanism for both IFC and MIGA had been dis-



Robert Grossman

Happily Challenged: *Meg Taylor's job balances IFC's inside and outside worlds.*

cussed extensively with the NGO and business communities, both of which were represented on an external search committee that aided Mr. Wolfensohn in selecting the first CAO.

Bjorn Stigson, president of the Geneva-based World Business Council for Sustainable Development (WBCSD) and a former executive vice president of ABB, chaired the committee.

"The CAO selection process was a bold move by the World Bank and Jim Wolfensohn, asking a group of 'outsiders' to carry out a search for a vice president in the World Bank Group," says Stigson. "The search was an experiment in a multistakeholder process that turned out to be remarkably efficient. It utilized the substantial network and knowledge of the search committee members and created buy-in and ownership from key stakeholder groups. This will give Meg Taylor a good platform to carry out her challenging and important task."

Peter Woicke, IFC's executive vice president, adds that Meg Taylor's arrival presents a unique opportunity to move forward on the development side of the Corporation's mission to build a private sector in developing countries.

"Development is about people, and one of Meg Taylor's strongest assets is her comfort level and understanding of local communities' needs — she is not afraid to roll up her sleeves and engage in dialogue with people on the ground," says Woicke. "It is also important to note that this is a home-grown approach to improve the development impact of IFC-financed projects — this will positively strengthen our institutional accountability."

Raised in an isolated valley in the PNG highlands, Meg has a longstanding connection with local community concerns. Her mother, a member of a highlands clan in the Wahgi valley, taught her local traditions and the link between one's environment and quality of life. Her father, an Australian explorer/administrator, settled in the highlands and planted coffee in the Asaro valley. Meg considers her childhood valley a unique place — and still calls it home.

Fond memories aside, she is also well aware that some present and future IFC project sponsors — and even some IFC staff — may view the CAO's office as just one more hurdle, or perhaps even a potential roadblock, in securing IFC financing. But just the opposite is intended; Wolfensohn views the office as an opportunity to *add value* to the project finance and development process.

"Fundamental to the role of the CAO is its practical and solution-driven orientation that is designed, whenever possible, to achieve a positive outcome for the locally impacted community and the private sector project sponsor," said Wolfensohn upon Meg Taylor's appointment to the vice-presidential level post in April of 1999.

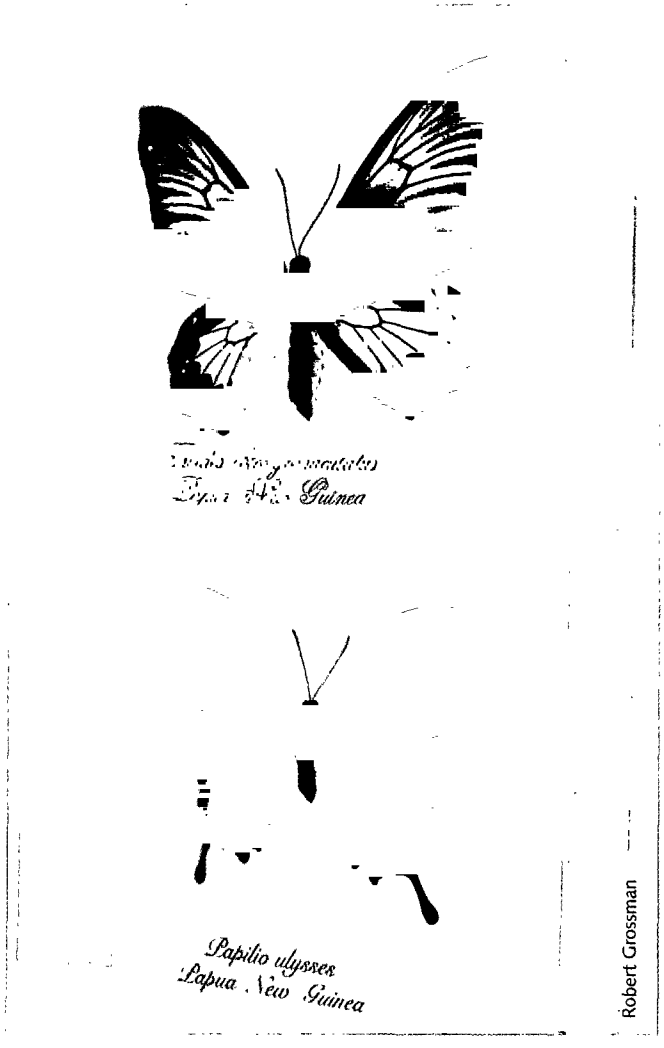
This view is echoed by Andreas Raczynski, IFC's technical and environment department director.

"Meg Taylor's appointment is a critical step in enhancing accountability and credibility for IFC's operations. Meg brings a unique combination of experience with community-based organizations, NGOs, and private sector corporations which will add much value to our transactions," Raczynski notes.

IFC requires public consultation with local communities as part of its environmental assessment process. This approach is also part of good corporate citizenship. Meg Taylor agrees wholeheartedly dialogue and information sharing are key ingredients to building trust between parties — especially between neighbors such as project financiers and local communities.

"IFC and MIGA, as publicly accountable institutions, have to think hard about what is really meant by the term 'client.' If we're here to alleviate poverty, local people and communities are clients as well," Taylor says. "We have to learn to listen."

As the first CAO, Meg Taylor is building the office from the ground up. She realizes how important it is for all stakeholders to



Captured in Their Glory: *Butterflies symbolize the CAO's home country.*

be involved meaningfully in the process of developing operational guidelines for the CAO office.

"It is common sense to talk with and listen to your partners, either in business or in development. Establishing open dialogue will lead to a mutual understanding. And, yes, there are bound to be differences, but there often will be common ground upon which to build trust," Taylor says.

Meg Taylor truly believes that consultation and dialogue are the only ways to achieve consensus — and ultimate trust — between parties. One of her first acts as the new CAO was to convene a roundtable workshop, composed of representatives from NGOs and business and industry, to discuss operational guidelines for the office. Working with consultants led by David McDowell, former director general of the International Union for the Conservation of Nature, the new CAO plans on consulting extensively with NGOs and civil society, business, and other interested parties in the developing world. The draft guidelines will be available on the CAO website (www.ifc.org/cao) for a period of three months. Any interested party, from present and future project sponsors and NGOs to IFC and MIGA staff, may comment, and the comments will be taken into account when a final draft is prepared in the spring of 2000.

Andrea Durbin, international program director of Friends of the Earth–US, notes that the consultative approach has worked well in bringing NGOs and business to the table.

"We applaud IFC's and MIGA's new CAO for bringing together different stakeholders, including representatives of business and the NGO community, to try and forge agreement on how the new compliance adviser/ombudsman should function," says Durbin. "We find that when we come together, there is a lot more commonality and agreement than differences between NGOs and business. That is because we are talking about creating a mechanism that operates by using common sense."

But Meg's concerns also lie in the challenge of forging strong ties with people on the ground. She is acutely aware of how far away Washington may seem to people affected by an IFC- or MIGA-financed project.

"It will be a real challenge to let communities know that the Office of the CAO exists, and it will listen to their concerns," Taylor says. "However, it will be a greater challenge to manage communities' expectations. At times, this office will find solutions to problems; at other times it may not. Clearly, there may be disappointments. But, in trying to be responsive and accountable to local people, we are giving them a chance to speak and have their voice heard. That is a big step in the right direction."

Meg Taylor wants people to know that her office is accessible: to locally affected people and NGOs, to private sector project sponsors, and to IFC and MIGA management and staff members.

As Friends of the Earth's Durbin puts it, "Mr. Wolfensohn speaks highly of the need for the Bank to be more accountable as a public institution. While Meg Taylor is bringing a wide range of different experiences and goodwill to this accountability effort, we will want to see what happens when communities start banging at the door."

Meg Taylor says banging is unnecessary — her door is already open. ■

Any interested individual may comment on the draft CAO operational guidelines by going to http://www.ifc.org/cao or by e-mailing cao-compliance@ifc.org.

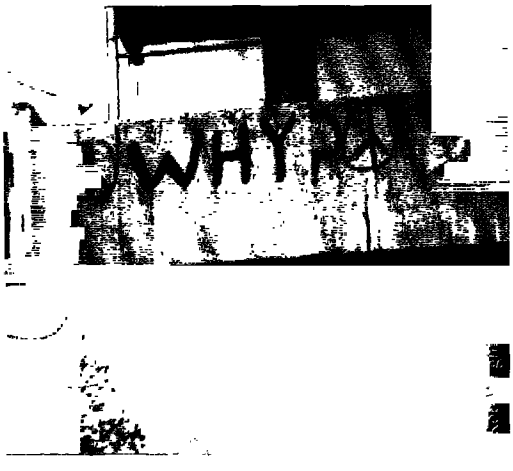
Shawn Miller is IFC's NGO relations and outreach officer. He also conducts policy analysis and writes on environmental, social, and public consultation issues at IFC. He can be contacted on smiller1@ifc.org.

Bringing Back the Balkans

Continued from page 9

Nevertheless, IFC is doing all it can to help, even going well beyond the SME sector by investing $11 million to build the competitiveness of two of Macedonia's largest companies, Alkaloid and Teteks, plus a total of $40.7 million more to help attract major foreign partners into the upcoming privatizations of its largest bank and national telecommunications company. All told, Macedonia has about as much IFC investment relative to the size of its economy as any country in the world. It needs it.

"All of our efforts have involved bringing Macedonia closer to Europe, but growth has been less than expected because of the series of Balkan wars," says its former president, Kiro Gligorov. "We were not involved in any of these wars, but we are included in an insecure region. Foreign investors simply see Macedonia as a risky country — they don't see it any other way."



250,000 Dead: *Grafitti, Sarajevo.*

Tragically, he personifies those risks. A calm and soft-spoken 82-year-old man, he commands much respect and has helped provide the leadership that prompted the World Bank to write, "in a region where the reverse is more usually true, FYR Macedonia has remained a peaceful, democratic, and multiethnic society and made substantial progress in structural transformation." But his face bears permanent scars from a 1995 car bombing that killed his chauffeur and very nearly claimed his life as well. The assassination attempt shocked his countrymen and remains unsolved to this day, with ultranationalist and Mafia elements from various countries often suspected. In a painful piece of irony, it took place near the birthplace of the Macedonian capital's most famous native daughter, Mother Teresa.

Bringing back the Balkans will be anything but easy. It cannot be done without building stronger national economies that will reduce unemployment and undermine the base for the racism, corruption, and organized crime that are so rampant in many of these countries today. All sides agree on two things: the private sector must take the lead, since no amount of foreign aid will ever be enough to provoke lasting recovery; and most new job creation will happen in the smaller companies. The Akova Impexes, Ingas, Manjacas, Nastos, Masinomonts, and others, now desperately cut off from access to capital, often have all it takes to succeed if only given a fighting chance. For this reason, IFC's Central and Southern Europe Department is currently working with donor agencies to create a new facility to support small businesses in Macedonia, Bosnia, Kosovo, Albania, and possibly other parts of the Balkans that the world of commercial finance barely touches. Like similar efforts IFC runs in Russia, sub-Saharan Africa, Vietnam, Cambodia, Laos, and elsewhere, the new facility would offer a host of services. It would do early-stage work to prepare viable projects that institutions such as the European Bank for Reconstruction and Development, IFC, USAID and others could finance, train and educate local entrepreneurs, and contribute research and advocacy on the key reforms that must be made in the business environment to support small business growth.

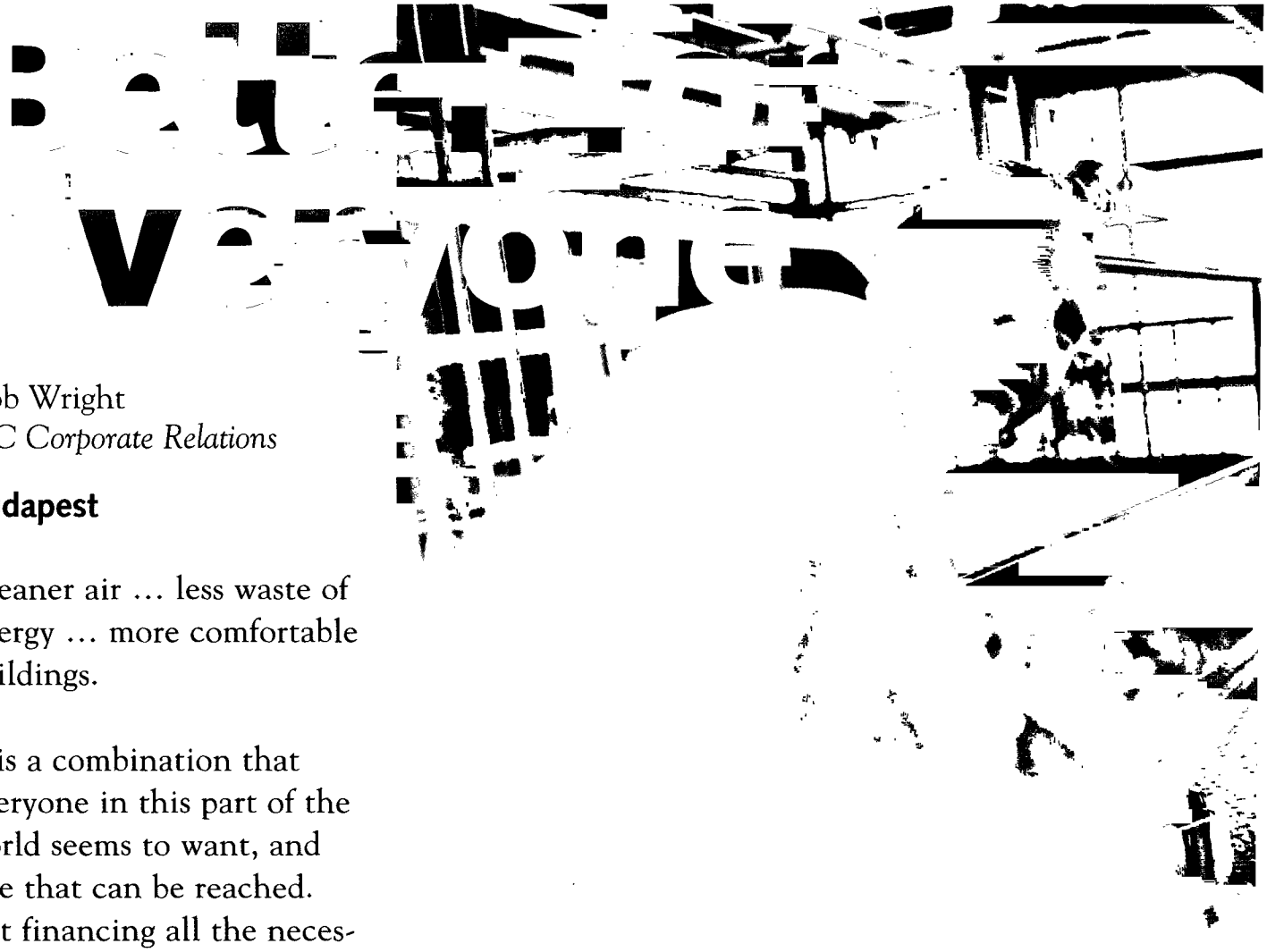
That effort is likely to get under way in earnest in 2000, promoting some of the key priorities laid out in the Stability Pact's strategy documents on economic reconstruction and development. Like anything IFC or any other international organizations do in the Balkans, it is a risk. But inaction and its apparent consequences are a far greater one. Do we dare leave things in this troubled subcontinent as they are? Or, should we say, as they have always been? Perhaps in the end those are the most vital questions. There the one to consult is not Disraeli but Ivo Andric. An engrossing Yugoslav novelist, he was a most deserving winner of the 1961 Nobel Prize, yet, like so much of the Balkans' savage beauty, remains largely unknown to outsiders. His fictional world of a 19th century Bosnian monastic physician offers up the perfect mirror for all who go to the region claiming good intentions today:

Having observed the herbs, minerals and living beings around him, and their changes and movements, day after day, year after year, Fra Luka became more and more convinced that in this world as we see it only two things existed — growth and decay — intimately and inseparably bound up with each other, eternally and everywhere in action...And the whole art of healing consisted in recognizing, seizing, and using the forces that surged in the direction of growth, "as a sailor makes use of the winds," and in avoiding and removing the forces that worked for decay. Wherever a man succeeded in catching hold of the forces of growth, he recovered and sailed on; where he failed to do it, he sank, quite simply and without appeal. And in the great and invisible account book of growth and decay one force was carried from one side of the ledger to another.

— Bosnian Chronicle, 1945.■

Infrastructure

Energy Efficiency



Rob Wright
IFC Corporate Relations

Budapest

Cleaner air ... less waste of energy ... more comfortable buildings.

It is a combination that everyone in this part of the world seems to want, and one that can be reached. But financing all the necessary work is notoriously tough to achieve in today's volatile conditions.

The reason is simple. Although not overly expensive, energy efficiency enhancements are still often beyond the reach of this region's cash-strapped utilities and state industries, who usually cannot get flexible-enough lending terms from local banks. But by partnering with a world leader in energy efficiency technology, US-based Honeywell Inc., IFC is doing its best to break the standoff. The goal: making conservation upgrades affordable to those who need them most.

Stalin's Ghosts

The effort involves shoring up Hungary's shoddy Communist-era equipment that wastes fuel left and right, making people's energy bills up to three times as high as in the European Union. The problem dates to the rapid industrialization of the 1950s, when Moscow's central planners built many of the grotesque cinderblock office and apartment buildings that mar so much of the former Eastern bloc. For energy supply they usually took the cheapest solution: "district heating," a one-size-fits-all approach that forces all buildings in a given area to accept uniform temperature levels and provides none with the thermostats needed to adjust them.

While this approach has worked well in Scandinavia and other parts of Western Europe, in this region it resulted in poorly designed heating systems. They caused huge energy losses that grew worse over time as the area's state-owned utilities crumbled from chronic underinvestment. Nevertheless, thermostatless homes remain common: an estimated 185 million people live in district-heated homes in Central and Eastern Europe. Their inefficiency can make them grow unbearably hot, often causing people to throw windows open for relief in the dead of winter. The utilities that supply them have caused some of the world's worst air pollution and have also dragged down local economies by wasting foreign exchange on unnecessary fuel imports. It's a lose-lose situation.

The result is a huge demand for efficiency upgrades. Western companies sense a potential $2 billion market in Hungary alone, but can only install their technology if someone pays their bills, and have found the regional financing crunch to be quite the obstacle. Since many of the potential clients are small district heating companies in local municipalities with little to spend, much of the work remains undone 10 years after the Berlin Wall came down. The situation is even worse in the poorer countries to the East.

Taking a Chance

One partner IFC has turned to in an effort to help is Honeywell, an industrial controls giant whose engineers invented the thermostat in 1885. Honeywell has the full package of goods and services for upgrades to offer inefficient utilities, but like its competitors has had to struggle to find a way to make it affordable locally.

The company started with straightforward selling of energy efficiency equipment, but found the market surprisingly slim. Initial successes in the Czech Republic, for example, faltered when that country's demand dried up with the economic downturn that began in 1997. So Honeywell has been working ever since on a different model — creating a network of independent energy service companies (ESCOs) offering Central and Eastern European firms not just the technology and management assistance they need, but also the financing that makes the upgrades possible.

"Rather than be a simple equipment supplier, we wanted to be a total solution provider, but we couldn't find any financing," recalls Elemer Illes of Honeywell. "The need to offer our customers an innovative third-party financing structure completely drives our business."

His firm was understandably cautious about investing too heavily in startup ESCOs solely on its own, and needed to share the risk with others before going ahead. When purely commercial investors declined, it found a willing partner in IFC, which matched the European Bank for Reconstruction and Development's $2.6 million to help launch a new Hungarian joint venture ESCO run out of Honeywell's Budapest office. The investment stemmed from a relationship with Honeywell that had been developed in the Environmental Projects Unit, IFC's incubator for new ventures that have significant environmental benefits. Since such transactions often involve longer gestation periods and smaller deal size than typical IFC investments, they require special nurturing in the early phases before being

turned over to the mainstream investment units — in this case, IFC's Power Department.

Off and Running

Instead of requiring customers to pay up front after cutting their best deal with a local bank, as before, the ESCO offers efficiency upgrades on five-to-seven-year leases, leveraging its planned $10.6 million in equity comfortably with additional debt from Hungary's largest financial institution, OTP Bank. This structure allows clients to stretch out the cost of installing up to $2 million of energy-saving boilers,

Honeywell's full-service conservation package pays off for Hungarian utilities — and their customers.

How It Works

Honeywell ESCO/Hungary

- Created: 1999
- Planned equity: $10.6 million
- Investors: Honeywell (43%)
  IFC (24%)
  EBRD (24%)
  OTP Bank (9%)
- Access to approximately $50 million in debt from OTP over next 15 years

Local Clients

Goal: 5 contracts/year for next 10 years with:

- Municipal district heating companies
- State-owned enterprises

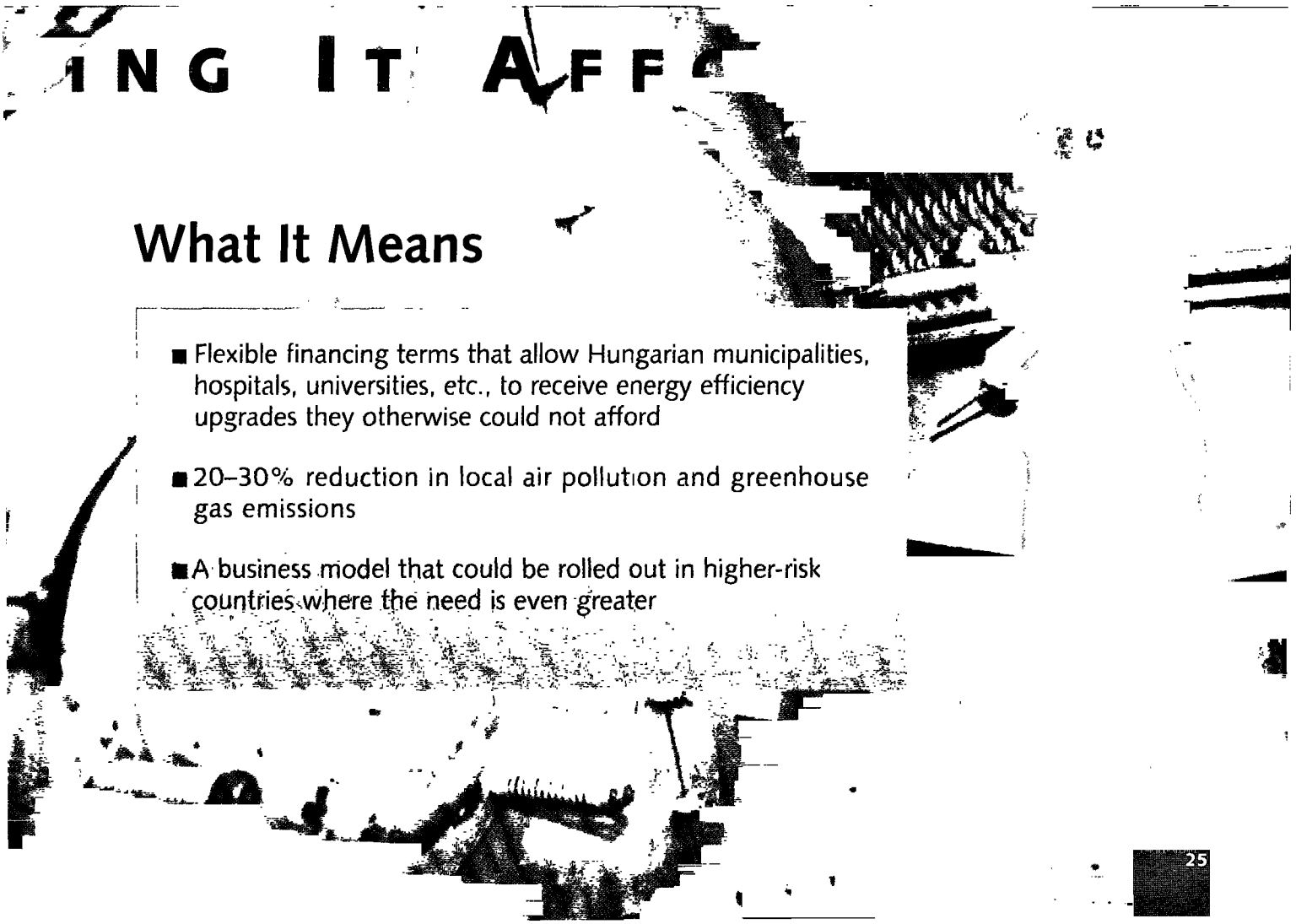
Benefits: Conservation measures bring rapid reductions in fuel expenses; energy savings allow contracts to pay for themselves

pumps, and thermostats from Honeywell and other manufacturers — equipment they then have the option of purchasing at a discount upon lease expiration and keep running for another 12 years or more. Experience from other countries shows that the resulting energy savings should pay for themselves during the leasing period, giving the utilities opportunities to reduce their energy costs by 20% or more while also significantly cutting emissions both of local air pollution and greenhouse gases that contribute to global warming. That should be good news for everyone, but especially the end-users: hospitals, schools and municipal office buildings as well as apartment dwellers across Hungary.

Since opening for business in mid-1999, the Hungarian ESCO has signed contracts with two local utilities and the state railroad. In time the ESCO expects to sign up about 30 companies, enough for annual revenues of about $15 million. And while it faces competition from an affiliate of France's Vivendi and others in the same market, the Honeywell ESCO believes its state-of-the-art equipment, quick payback, and affordable financing should soon give it a competitive edge.

The company's success, however, will depend largely on its ability to assess the creditworthiness of the municipal utilities it is financing. So having OTP Bank as a partner is a key step. OTP is the primary lender to the country's local governments, carrying a 22 billion forint ($100 million) municipal portfolio that has a low 1% default rate. It can no doubt assess municipal credit risk as well as anyone. So far, all signs indicate that the new ESCO should have no difficulty reaching the targeted market — one the Honeywell affiliate believes has grown by a factor of 10 through the new affordable financing structure.

The Hungary project is just one use of a $25 million pool of equity IFC has earmarked for investment in new Honeywell ESCOs alongside a like amount from the EBRD. A similar start-up also exists in Poland. Now that the initial model has been drawn, discussions are also under way about taking it to higher-risk markets such as Bulgaria, Uzbekistan, and China, where the need for energy efficiency is even greater. If the promising start in Hungary spreads to other parts of the world, the payoff would be big indeed. ■



What It Means

- Flexible financing terms that allow Hungarian municipalities, hospitals, universities, etc., to receive energy efficiency upgrades they otherwise could not afford
- 20–30% reduction in local air pollution and greenhouse gas emissions
- A business model that could be rolled out in higher-risk countries where the need is even greater

China's Changes

The Bank on the Bund

Philip Segal

Shanghai

One thing is clear about China's imminent entry into the World Trade Organization (WTO): it places enormous pressure on the big state banks that dominate local lending — and are burdened by substantial nonperforming loans, low profitability, inefficient operations and problems with corporate governance and management.

Shanghai: *China's biggest city hustles and bustles, but needs better banks.*

These troubles are not surprising. Until very recently, few Chinese bankers ever had to bother learning to distinguish good risks from bad because the state ordered when and where to lend, and how much. If borrowers defaulted, the bankers just lent more. Facing little competition, both bankers and the workers at the financially unviable state-owned businesses they lent to could hold onto their jobs for life no matter what. It is a bad situation — one that has led Goldman Sachs to estimate the big state banks' bad loans at 25% of GDP.

But change is afoot. Much of it has to do with a small group of new, partly private banks that have begun operating on something much closer to commercial principles. Among this new, genuinely Chinese breed is the Bank of Shanghai (BOS), formed four years ago through the amalgamation of 99 former urban credit cooperatives in China's largest city. In September, IFC agreed to take a 5% stake worth $22 million — only the second time a Chinese bank has been allowed to have a foreign equity investor (China Everbright Bank sold a 3.3% share to the Asian Development Bank in 1996).

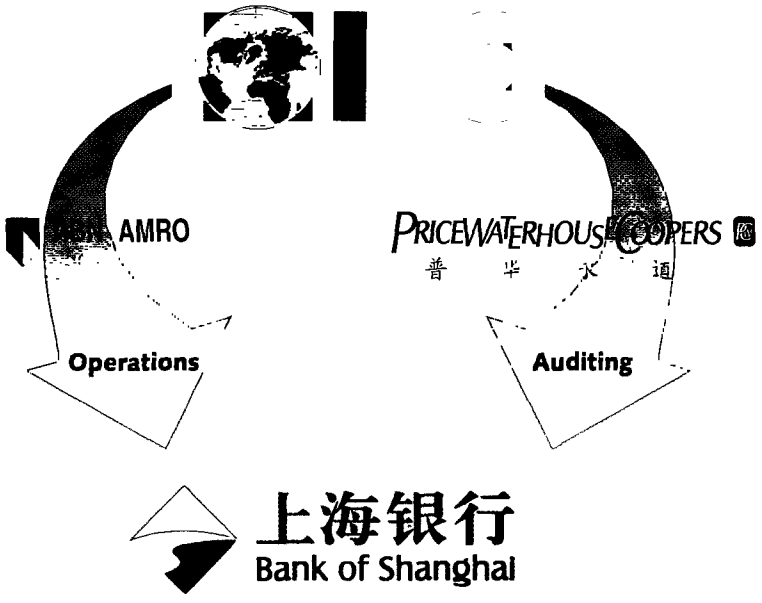
"The amount of this investment is not that significant — what is more important is that, through the cooperation with the IFC, BOS will introduce international standards and banking best practices," said Javed Hamid, director of IFC's East Asia-Pacific Department.

Application of international standards and practices is especially needed now that China is poised to enter the WTO, opening its banks up to fierce competition from foreign rivals. "That's why the Chinese government has fully endorsed IFC's equity participation in BOS," Hamid said. "They have seen IFC's track record in China and believe we can make meaningful contributions to their ongoing effort of financial sector reform."

IFC's decision to invest in BOS stemmed from a close cooperation between the two institutions that began in 1995, even before the bank's establishment in December of that year. Early on IFC organized a long-term, comprehensive technical assistance program to help build BOS, beginning by teaming up with Allied Irish Bank to advise BOS on the merger of the 99 credit cooperatives and related corporate governance issues. Subsequently, IFC connected BOS with the Dutch bank ABN AMRO for advice and training in all key operational areas, and also arranged for auditing help from PricewaterhouseCoopers.

With only about half a percent of all assets in China, BOS will admittedly be hard-pressed to make a difference on a national level all by itself. But it could certainly change things for the better in China's financial capital. The most encouraging part of its story is that it might act as a model for other banks to follow: one that includes making the bulk of its loans only to deserving private companies and funding those loans by relying on good service to lure depositors away from the four big state banks.

Chinese policymakers should hope that BOS and others like it work, and quickly. A severe credit shortage across the country



Knowledge Transfer: *Grants from Japan and the European Union enabled IFC to give the Bank of Shanghai extensive advice and training from two major Western institutions in its early days. They helped it gain an edge on rivals who were bigger, but less likely to look at the bottom line.*

continues, threatening continued demand shrinkage and social unrest. The reformists within the Chinese leadership, led by embattled Premier Zhu Rongji, know that there is little alternative if they wish to pursue economic change. The old approach of printing more money to hand over to badly managed, overstaffed state industries will no longer work, as China's economy is now so open and market-based that many of these firms cannot compete effectively. The hope among reformers in Beijing is that the private sector can become such an important force in job creation that state-owned businesses can be closed or sold without catastrophic increases in today's already high unemployment.

But getting the private sector rolling involves breaking the habits of a lifetime at China's state banks. Xiao Gang, an economist at the University of Hong Kong, said that state banks are reluctant to lend to the private sector because they would be open to accusations of corruption, whether their loans make money for the banks or not. Far safer politically to lend to a state-owned firm, he said. So who will give the new private start-ups the financing they need?

Enter BOS, which, with the input IFC arranged from ABN AMRO, has thrived by identifying an unfilled banking niche in Shanghai: lending to small and medium-sized private companies. One way it has helped its borrowers is by establishing a small- and medium-enterprise information center to help start-ups wade through the mounds of government regulations that could affect their financing. The bank now has 112 branches or sub-branches and 195 business offices throughout the city, making it second in visibility only to the state-owned Industrial and Commercial Bank of China.

Since all banks in China must offer loans at the same interest rates, BOS has to rely on superior customer service to lure the depositors who will fund its lending. The customers have certainly come. Deposits are up from RMB 25 billion ($3.1 billion) in 1995 to RMB 61 billion ($7.5 billion) as of the end of September 1999. While most loans are short term and only about RMB 1 million ($122,000) in size, this is enough to make a big difference to smaller companies in a credit-crunch environment where nobody lends long term.

There was plenty of work to do when BOS was formed, beginning with the institution of proper credit controls. The credit cooperatives out of which it was formed "were very basic and primary, and supervision from the central bank was relaxed," said BOS President and CEO Fu Jianhua, 48. "We canceled all separate accounts established by our branches with the central bank, and opened one unified account."

"When we were credit cooperatives, clients could borrow from several branches. They

Who Owns Bank of Shanghai?

Before IFC announced plans to buy 5% of the bank in September, the shareholders broke down into four main groups: the Shanghai municipal government and 13 other district governments owned 30%; 11 large, state-owned enterprises together had an 8% holding; and more than 2,000 small and medium-sized companies had 28%. Some 38,000 individuals, including most of the bank's 4,500 employees, held 34%. All shareholders will be diluted proportionately to make way for IFC.

BOS's shareholders and management would like to list the bank's shares on the Shanghai Securities Exchange within several years. Given its blistering rate of growth and the recent signals from the central government in favor of listing banks, it is hard to see the bank waiting very long.

The Borrowers

For Li Ruixia, general manager of private sector pharmaceutical maker Shanghai Lange Scientific Development Co Ltd BOS represented a novel answer to a chronic problem for small business in China: lack of credit Her two-year-old company makes Ever brand nondrug antibacterial products but used to run up against a critical shortage in working capital.

Although turned down when applying for a RMB 1 million ($122,000) loan at the giant state-owned China Construction Bank, in December 1998 she approached BOS after her company had been certified as a high-tech small to medium enterprise and become eligible for a guarantee by a government-sponsored fund for bank credit of up to RMB 2 million ($244,000).

It is rare for a borrower to say, but Li is now grateful that BOS' small and medium-sized enterprise center recognized a problem within her operations early on and decided to lend only half the desired RMB 2 million The bank was worried that since the company had just one assembly line it would never reach the economies of scale necessary to make a sufficient return on its capital. But if Li used her loan to build a second production line, BOS said it would lend the other RMB 1 million the government had authorized Lange Scientific built the second line and in less than a year has more than tripled production.

Hu Zhitong has a similar story. He is president of Da Yu Biochemistry Co Ltd, a Hong Kong-China joint venture that supplies pharmaceuticals to a wholly owned Shanghai operation of American drug company Wyeth-Ayerst. The American firm wanted to expand output of a product that helps the body absorb calcium in food and needed Da Yu to do the same But Hu ran up against one brick wall after another in his quest for credit to expand

"The large state banks promised us loans if we put our money with them for six months on deposit Then for various reasons they turned down our loan application," he said

Now, after borrowing RMB 1 million from BOS, Da Yu produces in two towns instead of one and says Wyeth-Ayerst will be using the extra capacity to export its product to the rest of Asia

Best of all for Hu was the level of service he says he received Before BOS lent to his firm "they made a careful appraisal as well as follow-up visits," he said, unlike the large banks that do not follow up after they lend

could go and borrow from one and then another," said Shen Heliang, deputy branch manager at one of BOS' largest outlets, the Wai Tan subbranch just off Shanghai's famed Bund, the winding road along the city's riverfront which more than anything else resembles London's Embankment.

Today, though, every BOS loan goes into a single data bank, and all branches operate with the same credit policies. While this may sound like the most basic aspect of credit control, it was not getting done as recently as four years ago.

Perhaps Fu's biggest achievement, though, was doing something managers of state-owned lenders find almost impossible: getting rid of bad bankers. "During my administration more than 10 branch managers were fired," he said. Of the 99 former credit cooperatives BOS inherited, 37 had their authorization canceled and were closed.

But beyond setting up the rudiments of a proper bank, BOS had to figure out who its customers would be. ABN AMRO's consultants helped in showing BOS "the methodology of analyzing the market, of exploring the market," said Fu.

That meant private sector lending. Today, up to 70% of BOS loans are to small and medium enterprises, 180,000 of which have accounts at BOS. The fact that most clients are private was one of the things that attracted IFC, and although the Shanghai government nominates the BOS chairman and owns almost a third of the stock, BOS tries to limit its exposure to "connected parties" to 12% of total loans, said Fu.

With assets of RMB 69 billion ($8.3 billion), BOS is a tiny fish in an ocean of Chinese banking. Yet it can post some other impressive numbers. Fu said the bank's capital adequacy ratio stood at 6% measured by international accounting standards, which are much more strict than Chinese accounting standards in classifying nonperforming loans and in recognizing income. But this ratio will rise to 7% once the IFC's investment is disbursed at the end of the year. Fu wants the bank to hit the Basle-recommended 8% ratio next year.

So far so good, but BOS also faces significant risks. One is that of growing so quickly in a country desperately short of experienced bankers. The Asian financial crisis served as a reminder that simple increases in the size of a business are no proof of profitability or soundness. BOS's loan book was 27% bigger last year than the year before, something that is of no use unless those loans will be paid back.

Karoly Attila Soos, a member of the board at the European Bank for Reconstruction and Development, notes that, following bank reform in Hungary and Estonia, lending did not expand but rather contracted. "When you really make banks sensitive to the quality of firms, their first reaction is not to lend to anyone because they never learned to distinguish between good or bad

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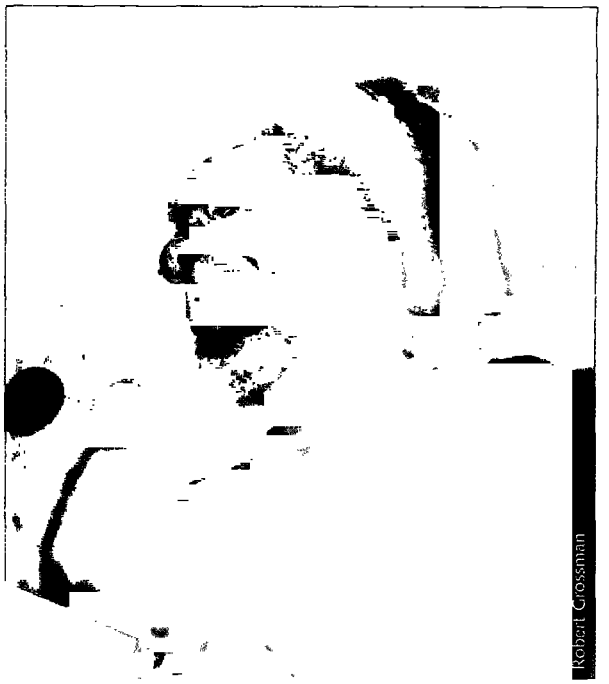
The Human Voice



Wole Soyinka: *Speaking to World Bank audience, September 1999.*

It's hard not to think of the Old Testament prophets when encountering Wole Soyinka. The wisdom in the face, the rich cadences of the speaking voice, the overpowering sense of presence — they all combine to link the great Nigerian author with others before him who, in equally unjust times, also called for justice to flow down like waters. True, he comes from the Christian side of his country's Yoruba culture. But his words would ring true in any tradition that clings to the innate worth of the human being, especially in the darkest hour.

In introducing the 1986 Nobel laureate's September 27 Washington address, "Culture, Democracy and Development," a top World Bank official called Soyinka one of the world's most courageous voices for justice and freedom — and one who, unlike so many other politically tinged artists around the world, has been willing to put his life on the line in defense of the principles he represents. They are the principles of fundamental human decency, not those of any political ideology.

Turn back to 1967. Soyinka was then not only a respected playwright but one who wrote impassioned articles in the local press demanding an end to his country's horrific Biafra war. For this he was arrested, enduring 22 months of solitary confinement in a tiny, darkened cell. His captors intended to break his mental health, the perfect response to "those whose minds they fear," he later wrote. But the experience served only to sharpen his unsilenceable voice. Poems he composed on secret scraps of paper were smuggled out, finding many readers. The act of writing them, he later said, "saved my sanity, and I think that would be true of most writers."

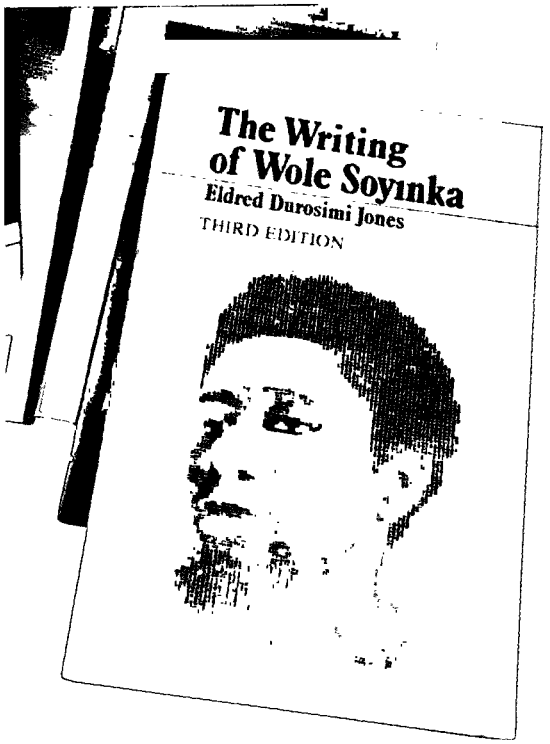
"Books and all forms of writing have always been objects of terror to those who seek to suppress truth."

— Wole Soyinka, *The Man Died* (1972).

Upon release, he wrote a deeply moving prose account of confinement, *The Man Died*. It took its title from his heart's reaction to news of the killing of a Nigerian journalist: "the man dies in all who keep silent in the face of tyranny." A year later, the war in Biafra finally ended — but only after causing a million deaths, many by starvation.

Freed, he became chair of the Department of Theatre Arts at Nigeria's University of Ibadan, but would soon be forced into and out of exile for many years. In 1986 he won the world's highest literary award, honored by the Swedish Academy as "one of the finest poetical playwrights that have written in English." But even while that aspect of his writing delved deep into the mysteries of mythology, he never stopped speaking up for the fundamental rights of man, never lost his central conviction: "For me, justice is the first condition of humanity."

Seven years after winning the Nobel prize, Soyinka took part in a prodemocracy rally where the Nigerian government shot and killed demonstrators. He



was placed under surveillance and may have been a marked man. Within a few months he was able to escape, but only narrowly — secreted out of the country he would not abandon by supporters after the government had confiscated his passport. "We decided to wait until the last possible moment, until there was no doubt at all in our minds what the junta had in store for me," he has said. As Nigeria's leaders then descended further into tyranny, corruption, and murder he was forced to remain in exile, speaking out elsewhere in Africa while producing a jeremiad entitled *The Open Sore of a Continent*.

Dawn finally came, following the June 1998 death of Gen. Sani Abacha, a global pariah who had imprisoned the winner of the previous year's free and fair election. Before the end of 1998, the country had elected a new leader in retired Gen. Olusegun Obasanjo, an internationally respected statesman who made fighting corruption his top priority. Doors long shut to Soyinka suddenly opened. Though teaching at Emory University in the United States, he now returns often to the continent's most populous country. The man some have called a "one-man army" also earns comparisons to another mighty pen, the Czech Republic's Vaclav Havel.

What does such a man have to say to the World Bank Group? That "the real fundamentals of development can never be measured by a gross national product, or by the number of barrels of oil a country exports." Never forget, he warned, that development's ultimate aim is "the liberation of the human soul" — freedom from poverty, corruption, and human rights abuses, with a flowering of new job skills and "the infinite matrix of possibilities and choices" that any local cultural tradition provides.

To buttress his point, Soyinka recalled his first visit 15 years ago to an ancient foreign city that he immediately sensed had been robbed of its natural vitality. It was one whose atmosphere had become "something very anti-cultural, very anti-art," where the streets' only laughter was "the laughter of a slave eager to please his master." With a criminal elite holding unchecked power, the city tragically became known more for violence than anything else. Once-proud churches, theaters, and public squares fell into disrepair, tarnished as badly as the local economy. The people survived. But they were afraid to live.

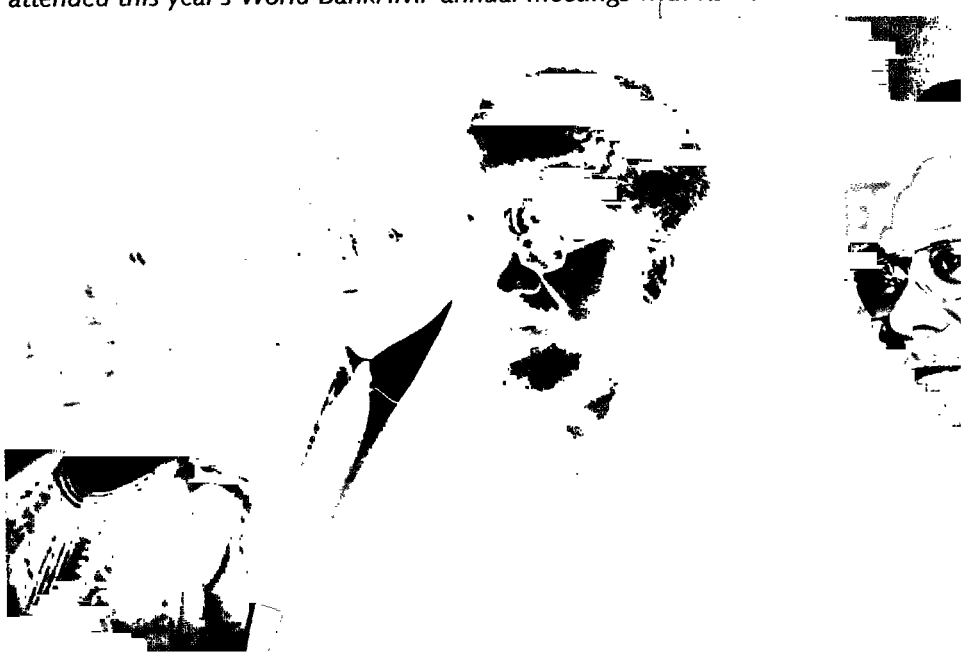
The city was Palermo, a Mafia stronghold.

Earlier this year Soyinka returned to Sicily's capital. What he found was nothing less than "a transformed humanity." The organized crime that controlled local life had at last been put in its place. "The furtiveness, the sullenness" that the city used to emanate merely because of "the complacency of a few" was now but a distant memory. The author now felt a sense of renewal rather than stagnation, a "culture of participation" that "effused the people with a new elasticity in their limbs the minute they set out in the morning." At last they were producing goods for their own self-betterment, not for embezzlement by the thugs in power. Businesses were opening; flower boxes were filled; monuments to past heroes were being rebuilt; artists were at work in newly bustling cafes.

"The boot had shifted to the other foot," he said. "Now the fear was in the eyes of the unrepentant Mafioso."

His point: that precisely these dynamics, have also occurred in the Uganda of Idi Amin and the Nigeria of Abacha. Anywhere a nation's soul can be held back by "the resolute conspiracies of a few, so long as they are organized and sufficiently ruthless." And anywhere they are defeated, it can flourish again.

A New Era: *The most vocal foe of Nigeria's former leaders, Soyinka proudly attended this year's World Bank/IMF annual meetings with its new ones.*



For all the horror he has witnessed, Soyinka remains resolutely optimistic. Nigerians, like the Sicilians before them, are at last "starting to reconstitute themselves in their own authentic image," in his view. For the first time in recent memory, they see promise in the future. It is a future he foresaw in 1994, when he wrote with full confidence that his countrymen were "attaining an unprecedented level of self-worth" that ensured "Abacha is the last despot who will impose himself on the Nigerian nation." Perhaps the outcome parallels those of other injustices Soyinka cried out against in different times — segregation in the United States, apartheid in South Africa. The thought leaves this surveyor of the tragedy and comedy of the human condition feeling good in his 65th year.

The prophet's and the poet's eyes are often one and the same. From the face of Soyinka, they see a continent that may be the world's poorest, one with "a numbing cycle of decay" amid the slaughters from Liberia to Somalia, from Rwanda to Sierra Leone, and beyond. But they also see another day coming, one whose concluding utterance brought his Washington audience to its feet in applause: a day when Africa and its irrepressible smile will be a "beacon of hope in the eyes and ears of a new generation." ■

— *Rob Wright*

Help for the New Nigeria

At a time when Nigeria is taking its first true steps toward economic reform, it has turned to IFC for help in privatizing two major public services devastated by decades of corruption, mismanagement, and debt under a military dictatorship. IFC has agreed to help broker the revival of both Nigeria's almost defunct national airline and the failing water system in the State of Lagos. They are among the first of hundreds of privatizations planned by the country's new democratically elected government, led by President Olusegun Obasanjo.

IFC's involvement is expected to lend credibility and transparency to the sale of the two assets. The work will include independent assessments, recommendations of market strategies, preparation of documents, and making sure that proper bidding processes are used to choose ultimate winners, all within the next 18 months to two years, said IFC's Bernard Portier.

The potential benefits of the projects to investors and Nigeria's population could be substantial.

Nigeria Airways, once one of the busiest airlines in Africa with 30 aircraft, has declined steadily due to poor management and is near bankruptcy today, operating just one airplane, mostly for domestic flights. The new government, however, considers the airline a flagship for the country and sees its successful privatization as a cornerstone of Nigeria's economic recovery program.

New investment in the airline would lead to both greater domestic service for Nigerians and new lucrative routes between Europe and the United States and Nigeria, which as Africa's most populous nation is a desirable destination for foreign carriers and could be an important regional hub. The privatization process will initially involve finding a strategic partner outside of the country that would own a minority equity interest in the company but control its operations through a long-term management contract. Selling price and other details are still to be worked out.

The Lagos Water Corporation is equally in need of a shake-up. Today it serves only a third of the estimated 13.2 million people in Lagos, the economic heart of Nigeria, carrying less than half its capacity of 148 million gallons per day. That forces the people it does not reach, especially the poorest among the population, to depend instead on costly water bought from street vendors and water tankers. Poor metering and management and interruptions in service also lead to an abysmal collection rate of just 10%.

"A key goal in privatizing the company is bringing cheaper water to at least 80% of the population," said IFC's Tony Clamp. "That would probably require more than a billion dollars spent on improving capacity over 20 years, largely financed by tariffs generated by the expanded system. But it would be money well spent. The availability of adequate and reliable water services is critical to the health of the population — waterborne diseases are the most common illness in Lagos — as well as the commercial, industrial, and agricultural sectors of the state's economy."

Portier said that although there are risks to investors in a country where the political situation remains complex and fragile, "if the Nigerians play it right this could become the powerhouse of Africa." The privatization effort supports the vision of World Bank/IFC President James D. Wolfensohn, who said on an October visit to Nigeria that the World Bank Group can help the country generate jobs, tackle poverty, and deal with its crushing $30 billion debt, but only if the government under President Obasanjo is committed to political change and an end to corruption. ■

— *Mary Gooderham*

China's Changes

Continued from page 28

companies," he said on a recent visit to Hong Kong. BOS may have found a lot of good credits waiting to be funded, or it could simply be rushing to lend all the money pouring into its branches, attracted by good service.

While BOS appears far from reckless, its annual report gives reason for some concern: take last year's pretax operating profit, the lowest since 1995, or its operating profit, which plunged from RMB 845 million ($103 million) in 1997 to just RMB 57 million ($7 million). While the bank's doubling of provisions against bad debts by RMB 100 million ($12.2 million) is good news, there is still a gap the report does not explain. Interest income from government securities rose by RMB 335 million ($40.9 million) and was subject to tax, unlike the year before, but that is still not a full explanation. Interest income was hard hit by the lowering of interest rates and lending spreads by the government several times during the course of last year. Nevertheless, while interest income was down, interest expenses did not fall proportionately. The report should explain this in greater detail.

"Now that IFC has become a shareholder, we will definitely require the bank to use higher standards of disclosure," said Jiansheng Wang, IFC's investment officer on the transaction. "And we will be closely involved with the bank in other ways, including having a former managing director of JP Morgan represent us on the board. We have also agreed with BOS' management on a set of operating policies and plan to continue the technical assistance program for a few more years, with a more intensive training focus on credit and risk management skills."

Compared with the problematic state-owned banking sector, and indeed a lot of already listed Chinese companies, BOS has made a promising start. In BOS, China appears to have what it has lacked for 50 years: a genuine homegrown bank in its financial capital of Shanghai operating largely on commercial principles. ■

Philip Segal is the Hong Kong correspondent of the International Herald Tribune.

Vietnam: Bank and Trust

Running a private bank is no small challenge in a Communist country with no formal banking education and a culture where most people distrust banks so much that they hoard their savings at home. Despite the fact that it was Vietnam's best capitalized and most successful private bank, as recently as two years ago Asia Commercial Bank (ACB) had no operational manuals, little staff training and lacked the transparency so critical to an efficient financial institution.

Fun with Finance: *Vietnamese bankers learn the fine points in IFC-arranged training class.*

But today the picture is very much different, thanks to an IFC-arranged training program that links ACB with Far East Bank and Trust Company (FEB) of the Philippines. Recently honored by the Asian Bankers Association, the partnership is emerging as a model for other such collaboration in Vietnam and elsewhere in the developing world.

"It's very important to have a healthy financial sector, but you cannot get it overnight. You have to go step by step," said Jean-Marie Masse, who oversees the program at IFC.

Masse said ACB, based in Ho Chi Minh City, was chosen for the $250,000 Japanese-funded technical assistance program because of its importance in Vietnam (seven branches and $100 million in assets), 30% foreign ownership (Jardine Fleming of Hong Kong, LG Merchant Bank of Korea, and two Western-managed Vietnam investment funds), and a willingness to open its books to audits up to international standards. FEB, which is in the process of becoming the largest bank in the Philippines after its recent acquisition by the Bank of the Philippine Islands, was seen as an excellent partner because it operates in Vietnam and, like all Philippine banks, uses the language of international finance, English.

Under terms of the program, ACB pays most of its own expenses, with the IFC-administered budget covering the time and travel of the FEB trainers. Since beginning in March 1998, it has offered 30 classes on topics ranging from credit and risk management to trust banking and project finance to about 480 ACB participants. Another six ACB employees have also completed internships in Manila. In April the twinning program won the "1999 Asian Banking Award" in the human resource development category because of its innovative approach in leveraging FEB personnel and training to help the smaller bank.

Having a trusted, well-functioning financial sector is critical to Vietnam's economy, and giving a leading private bank access to best international practices is a good way to create models for others to duplicate.

"If you have an efficient banking system, people will open a bank account, put money into the account, and have access to additional banking services, and the bank will have access to savings and make loans to both corporations and individuals," Masse said. ■

— *Mary Gooderham*

Africa

Infrastructure Fund Launched

In one of the clearest signs yet that Africa is open for business, IFC has launched a $500 million investment vehicle to help fix the region's crumbling infrastructure. The 10-year Africa Infrastructure Fund (AIF), the largest single pool of equity capital ever established for the continent, is intended not only to target a sector critical to the economic and social progress of the continent but also send a powerful message of confidence about investment opportunities there.

Since its "lost decade" of the 1980s, Africa has experienced a sea change in attitude towards privatization. But even though some governments have made progress in reforming their economies to attract private capital, the region's infrastructure remains a significant obstacle to development. In 1996 Africa had only 14 telephone lines per thousand people, compared with 41 per thousand in East Asia and the Pacific and 102 per thousand in Latin America and the Caribbean. Just 45% of the African population had access to safe water, compared with 84% in East Asia and the Pacific and 73% in Latin America and the Caribbean.

Nevertheless, the improving economic, political, and regulatory environment in Africa has spurred investor demand for the creation of well-structured, reputable funds, with many saying it makes sense to use the capital first to target infrastructure systems and services. "At the end of the day, if you can't use a phone in a country, it's unlikely you'll be investing there or your investment will pan out successfully," said IFC's Papa Ndiaye.

Ndiaye conceded that the AIF is ambitious, both in size and in the fact that it seeks to break new ground in an area just getting started as an investment target. "But we think this is Africa's turn, and someone has to take the first step in a bold type of initiative for Africa to avoid being shunted on the sidelines of global markets," he said.

Former South African President Nelson Mandela will chair the fund's advisory committee. Both IFC and American International Group, a large US insurance and investment company, will contribute $75 million toward it; other partners include the African Development Bank, international investor Sheikh Mohammed Al-Amoudi, and a fund established by Rand Merchant Bank Asset Management of South Africa. The $500 million is expected to leverage up to $2.5 billion for infrastructure projects across the continent. The AIF will be overseen by Emerging Markets Partnership, a Washington-based fund management company that also has other similar funds for Asia and Latin America.

— Mary Gooderham

Financial Markets

Sale of a Data Base

IFC has agreed to sell its Emerging Markets Data Base (EMDB) and the rights to IFC's well-known indexes for emerging stock markets to a global industry leader better equipped to steer the combined product to its full potential.

IFC began the data base in 1981, when few portfolio investors were even aware of developing countries, and its creation of stock market indexes did much to promote these markets in the following years. Now the flagship service is being passed on to Standard & Poor's, the largest provider of index products in the world, including the S&P 500 in the United States and similar offerings for Europe, Canada, Japan, and others.

The sale, quietly in the works for two years, allows S&P to add IFC's information on 2,200 companies in 54 markets to its own global index business, thus giving potential new investors the data they need when considering taking the plunge. The move responds to the needs of asset managers, who used to see emerging markets as a special breed but increasingly prefer to see them alongside developed markets in a broader "international" category, with performance information included in global benchmark indices such as S&P's.

Financially speaking, EMDB was at best a break-even proposition in IFC's hands. But commercial index companies such as S&P make money by licensing and spinning off data for other purposes, such as derivatives, which is something IFC would not do. And while the EMDB is highly successful from many perspectives, without inclusion in a global index "it is a wasting asset — it needs a professional financial information services company to maximize the value to end users and make the product all it can be," EMDB's manager Peter Wall said.

The sale of EMDB and the IFC indexes is consistent with IFC's approach of targeting promising products and regions when they cannot attract sufficient market interest, then moving on when private capital moves in. All the early signs indicate that under S&P the data base will become a more powerful tool in attracting capital to developing country markets. IFC will stay involved with the indexes as part of an advisory panel and help S&P develop new emerging markets information services. Parting is sweet sorrow: Wall said that, while there is change ahead, many in his unit feel rather like proud parents today, since "after 18 years we're seeing our child go on in life."

— Mary Gooderham

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IFC is a member of the World Bank Group supporting private sector development in member countries through investment, advisory services, and technical assistance.

Our Mission

To promote private sector investment in developing countries, which will reduce poverty and improve people's lives.