



The IFC Review of Private Investment in Developing Countries

IFC Impact

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Taking
the
Plunge

FILE COPY

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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Impact

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Lands of Vision

Peter Woicke

I've been in international finance for 30 years now — been to a lot of places, seen a lot of things. But in all honesty, I don't think I've ever done anything quite as exciting as the trip I took to India and Bangladesh in February.

I say this because of the rare opportunity it gave me to meet people who can only be described as visionaries — people whose vision has changed not just their industries, but their countries. Today the entire world respects the high-tech sector in India and the micro-finance organizations of Bangladesh, thanks in large part to the impassioned commitment their leaders have shown for 20 years or so. And while their countries remain home to some of the world's most grinding poverty, the irresistible energy of these pioneers of development offers all the inspiration to address it we will ever need.

It had only been about 18 months since my last visit to India, but I couldn't help being struck by the enormous changes in the country in that time. Everywhere I went I found strong, competitive businesses. They saw the whole world as their playing field, just like their best counterparts overseas. The old mindset of seeking subsidies and other forms of government protection that had long helped keep this country from meeting its vast potential seemed to have vanished from the scene.

In New Delhi, for example, I met with Rajendra S. Pawar and his management team at NIIT Ltd., a nationwide network of private information technology (IT) training centers. Its 40,000 highly skilled annual graduates help form a big part of the country's booming high-tech sector. A for-profit, locally owned company, it fills a crucial void left by the public universities, and now offers courses in 21 different countries. That makes it a perfect early example of something I'm sure will soon be more common: the cutting-edge Indian firm that holds its own not just at home but abroad. I was also fascinated to see NIIT's sophisticated research and development team working hard on new ways to bring computer-assisted education to slum children around the country.

Bangalore is the hub of this Indian IT industry that now generates more than \$2 billion in annual revenues. There I had the chance to sit down with a world-class entrepreneur named N.R. Narayana Murthy. Last spring his software firm, Infosys Technologies, became the first Indian company to list on a US stock exchange. A meteoric rise since has left it with a Nasdaq market value of more than \$37 billion. That provides quite a role model for a poor country in today's highly competitive knowledge economy. The new confidence Infosys and others like it have given the broader Indian business community is truly a sight to see.

Throughout Bangalore's "Silicon Plateau," ideas and business plans are moving between entrepreneurs and investors at an incredible rate, creating a great many new skilled jobs. I saw no reason to doubt India's claim to being no. 2 in the world in software, trailing only the US. But like all who go there, I also saw deep poverty that no amount of high-tech start-ups will ever cure. Indeed, our challenge everywhere in the year 2000 is to use the awesome power of the Internet to help

reduce income inequality, not increase it. So while we work on technology in India, there is also a vast need for IFC and our colleagues in the World Bank to help in health, education, and other areas that will bring direct benefits to lower-income groups. There are many excellent new interactive educational software packages being developed that offer great promise, and perhaps we can support them, or other innovative approaches of this kind. For how much longer can India go on with 350 million poor in its midst?

In tackling such difficult issues, there is no substitute for knowing what works. And anyone looking for proven solutions in the fight against poverty should go to Bangladesh. That is where microfinance — the art of going outside the conventional banking system to make small loans to poor people wanting to create their own jobs — has had a greater impact than anywhere else. In Bangladesh it reaches a full 60% of the low-income population. This is a far higher rate than most other poor countries report, and largely because of the work of two local NGOs with whom we are proud to be associated, Grameen Bank and BRAC. Between them, they finance entrepreneurial self-help activity in 7 million households. They do so, I might add, with far better repayment rates than many larger banks.

IFC is glad to leave its traditional sphere a bit and work with these nonprofits as they increasingly seek out new partners and move into commercial activity. In a village called Porabari, I paid a local woman 12 taka to use the cell phone she rents out at a 13% commission through a joint venture between Grameen and Telenor of Norway that IFC financed. Like any good business deal, this one made sense for both sides: it contributed to her income and kept me in touch in an area with no conventional phone service.

I also spent a memorable day with BRAC, attending an adult education class where poor women learned valuable life skills for surviving divorce. It was just one aspect of BRAC's comprehensive social vision, something that should serve it well as it works with IFC and others to start a new for-profit commercial bank targeting small and medium enterprises — a vital market segment that is unfortunately far less served in Bangladesh today than microfinance.

In meeting the founding fathers of Grameen and BRAC, Prof. Muhammad Yunus and Fazle Hassan Abed, it was clear that they are just like their counterparts in the Indian high-tech scene: men of vision and energy who have built world-class organizations. And it was equally clear that they add another, all-important element to the equation: compassion.

It was a pleasure to see India and Bangladesh with the help of these visionary leaders who have accomplished so much through sheer will to succeed. They offer great inspiration to all of us at IFC as we play our own small part in improving living standards in these two unforgettable countries. ■

Peter Woicke is the executive vice president of IFC and a managing director of the World Bank

Softbank and IFC Attacking the

Iaking on one of the new millennium's most urgent development challenges — the "digital divide" that separates rich and poor



countries on Internet access — IFC is joining with Japan's Softbank Corp. in a \$520 million initiative to spawn start-up Internet companies in some 100 developing countries.

The two partners will jointly launch a new \$200 million entity to incubate Internet-related businesses in the developing world called Softbank Emerging Markets (SBEM). IFC is also participating in other initiatives Softbank has recently announced totalling \$320 million.

"The digital divide is one of the greatest impediments to development, and it is growing exponentially," World Bank Group President James D. Wolfensohn

told reporters in Tokyo Feb. 14. "With this initiative by IFC and Softbank, we are taking a lead in the effort to close the gap. This investment will accelerate the inclusion of the developing countries in the information revolution. It will transfer technology from the rich countries to the developing world, fostering sustainable new local businesses, which will promote prosperity and reduce poverty. And it will, I hope, encourage others to follow with their own investments and initiatives to establish technology and information centers all around the world."

The investment will bring successful leading-edge Internet models to developing markets and foster local enterprises. The growth of e-business and Internet-based enterprises in the developing world that it supports will help narrow the gap between countries with access to information technology and countries that are constrained by reliance on traditional communication and business tools.

SBEM will be based in Silicon Valley, funded 75% by Softbank and 25% by IFC. It will:

- Nurture new Internet enterprises both by investing seed money and by providing an array of technological, legal, and management support to quickly turn ideas into solid businesses ("incubation")

- Speed the creation of Internet-anchored businesses in developing countries by working with a network

of global industry leaders and local partners

- Help entrepreneurs in developing countries use established business models to start up locally adapted versions of some of the world's leading Internet companies
- Provide risk capital and support for entrepreneurs in the developing world to turn their own business concepts into successful Internet enterprises.

Softbank CEO Masayoshi Son, one of the world's leading Internet investors, said the partnership "will play a crucial role in building the new digital economy in developing countries around the world." His company operates or has strategic equity holdings in more than 300 Internet companies around the world, showing a strong track record in fast-paced development of online enterprises. In Japan it is active in distribution, publishing, Internet media platforms, and a broad range of e-commerce, businesses, and joint ventures with Microsoft, Cisco Systems, and others. It is also a 50-50 partner with NASD, Inc., in creating Nasdaq Japan, a new trading platform designed to increase the transparency and liquidity of Japan's equity markets. In the US, it is the largest shareholder in many leading Internet companies, including Yahoo.

SBEM will also establish a Global Incubation Center to facilitate the

Divide

transfer of the latest Internet technologies and business models from developed countries to emerging markets. This technology company will ensure adequate

on business concepts while a core of centrally based experts handles many of the ancillary business start-up requirements. In addition, SBEM will create

set up joint ventures with local entrepreneurs and investors to build, launch, and operate local Internet companies, utilizing the parent's model, for each targeted



World Bank

Now Is the Time: Internet investor Masayoshi Son (l.) and World Bank/IFC president Wolfensohn (r.) launch a landmark deal.

technical resources for the incubated companies and foster the development of a mature technological base in the target countries, allowing entrepreneurs to focus

joint ventures with successful Internet companies to oversee the company's global rollout in the targeted developing countries. These partnerships will, in turn,

country. SBEM plans to announce its first incubated company in May 2000. ■

MURKIN MUDSLIDES A NATION REBUILDS

December 1999 was a time of horror Venezuelans may never forget. Four days of torrential rains caused massive flooding and mudslides in a mountainous coastal area, killing up to 50,000 of its 350,000 residents. At least 200,000 more were left homeless. Roads were buried, bridges washed away. In the state of Vargas, the area worst hit, entire settlements were buried under tons of earth, warehouses were ripped apart, and water and sanitation systems completely destroyed.

With the scale of human tragedy almost beyond belief, relief organizations immediately initiated

recovery efforts. The international community also pledged financial assistance to help absorb the costs of the disaster, which could reach \$30 billion. But there were still enormous needs facing those who bore the greatest burdens in the aftermath, the poor.

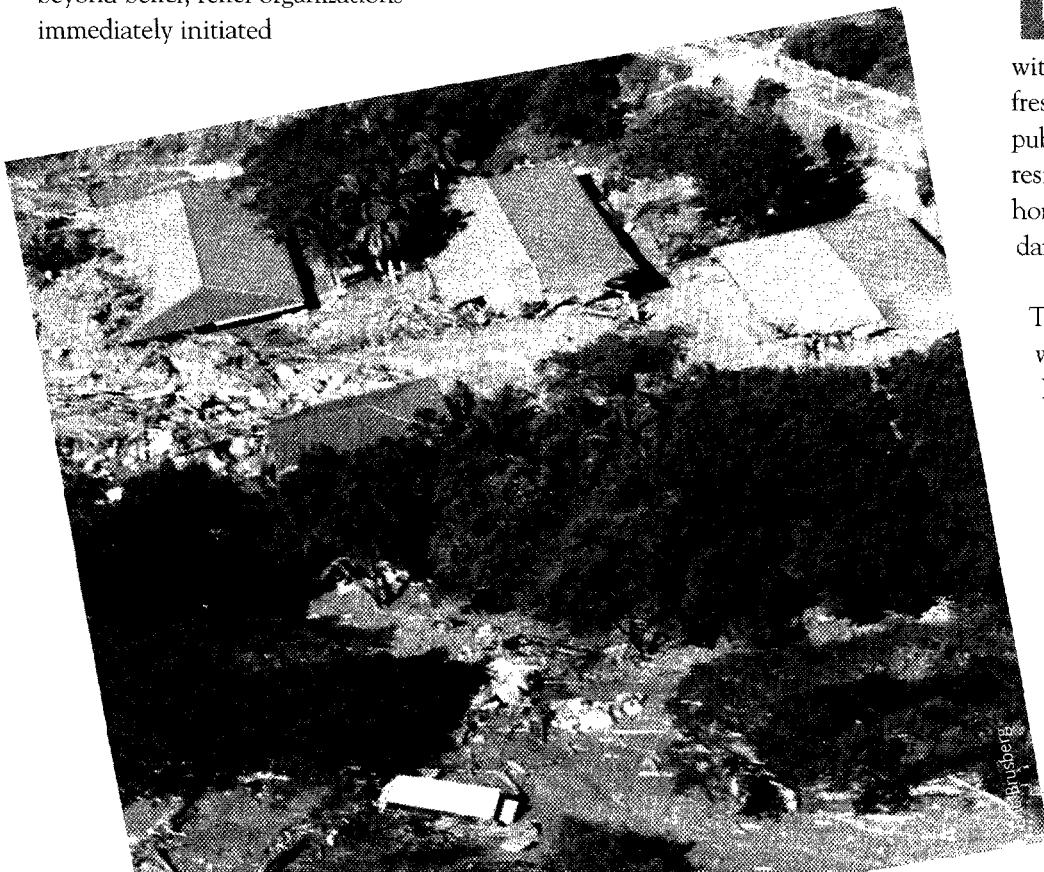
Although not generally in the business of providing humanitarian aid, IFC quickly found a role to play. Just 48 hours after the tragedy, a team of investment officers, engineers, and social specialists set the framework for an emergency \$30 million loan to the local power

utility, Electricidad de Caracas (EDC). The funding will speed up restoration of electricity to the poor living in the area's shantytowns, low-income neighborhoods, and fishing villages.

"Power is a basic need for everyone in the community, and EDC is an ideal vehicle for channeling money into directly helping the poor," said Sybile Lazar, IFC's lead investment officer on the project. "Working with a company that understands the needs of the poor made the humanitarian effort possible."

Looting and other crimes soared during the blackouts that immediately followed the disaster. And without power, the refrigeration and fresh water essential for maintaining public health were in short supply. Many residents also resorted to rigging up homemade wiring, posing enormous danger, especially to children.

The need to restore basic services was overpowering. But even though EDC is known locally as a socially responsible company with concern for its low-income customers, it needed outside help. With transmission towers washed out to sea and other equipment hidden under tons of mud, the privately owned utility estimated it suffered \$100 million in losses.



Working round-the-clock, EDC has done as much as it could out of its own funds to restore service. The rest will have to wait until its disaster insurance kicks in, and then the company will have little choice but to target repairs in its more profitable service areas. But with the IFC loan it has a source of funds it can earmark solely for reconnecting places that would otherwise have been a lower priority. It will be able to act faster to restore public lighting and electrical services to residences and small businesses as well as remote water and sewage pumping stations to schools, medical clinics, and offices.

"The loan will allow the company to get on with restoring and distributing power to the favelas (shantytowns)," said Paul Nickson, IFC's principal engineer on the project. "It was key to identify areas with the most need and areas where resettlement was feasible and secure enough to restore power."

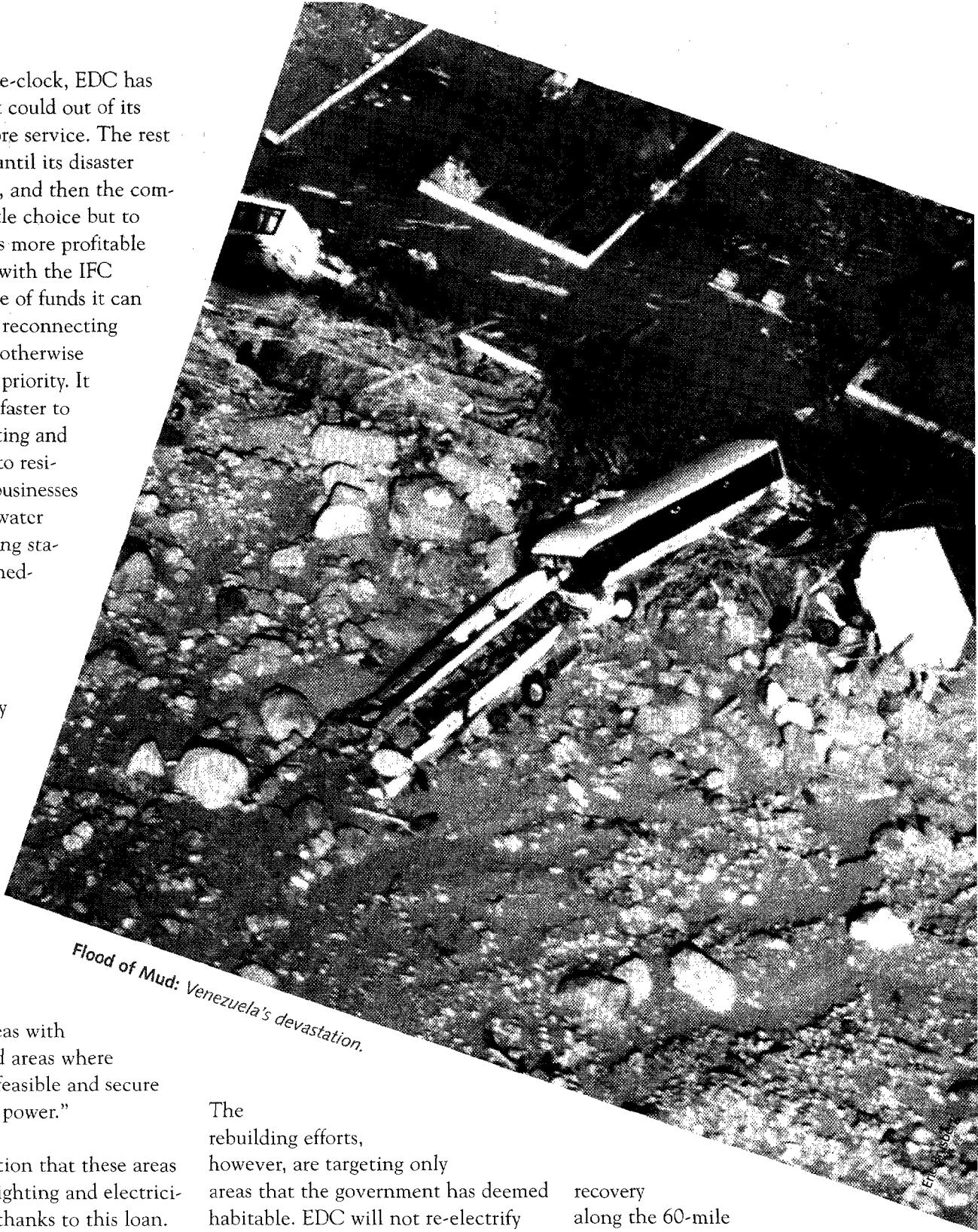
"There is no question that these areas will have public lighting and electricity much quicker, thanks to this loan. The biggest help it provides us is the ability to make these investments right away and know we have the financing for it that otherwise would take months or even years," added Andrés Gluski, executive vice president of EDC.

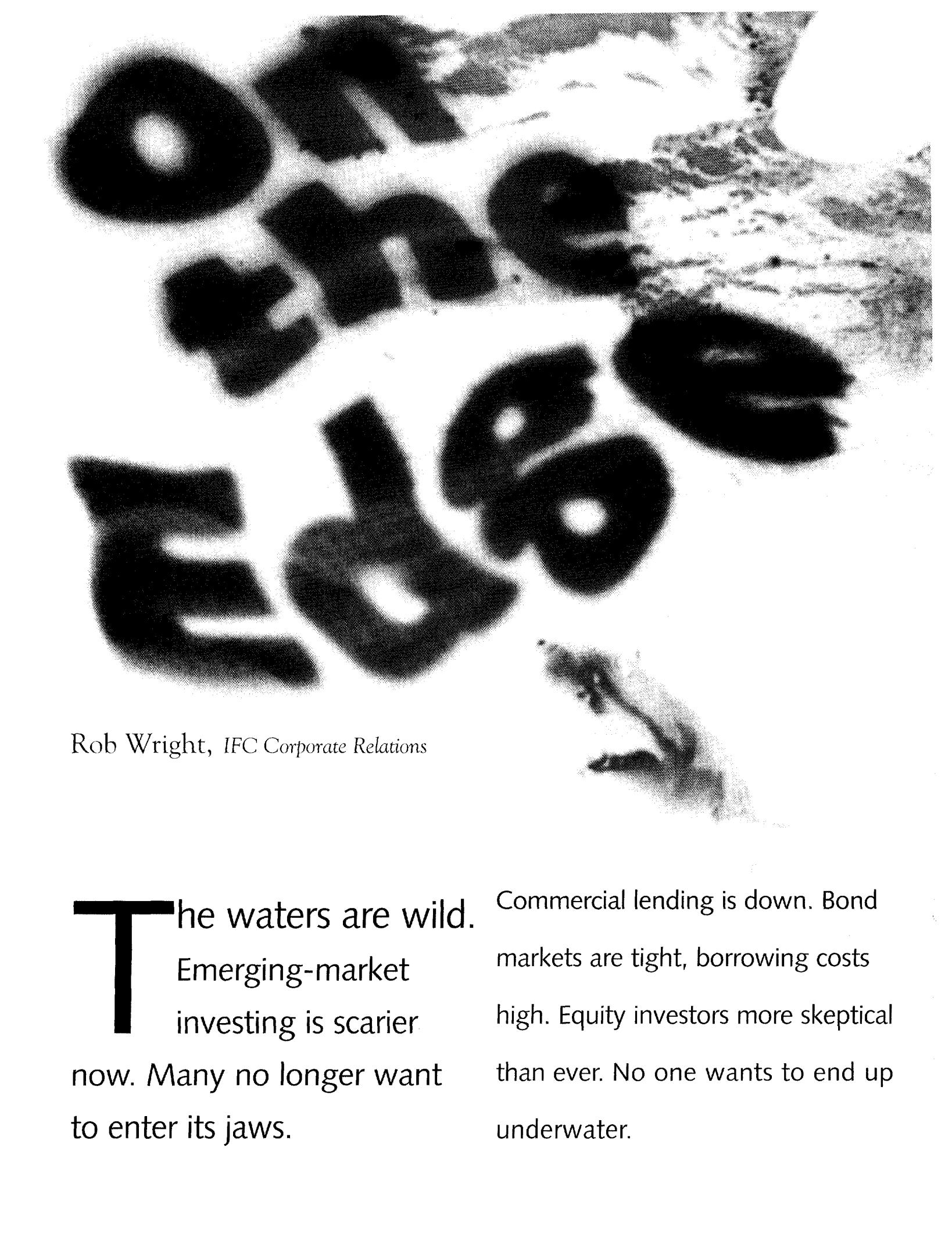
The rebuilding efforts, however, are targeting only areas that the government has deemed habitable. EDC will not re-electrify disaster zones in the mountains and elsewhere that have been declared unsafe for human settlement.

Gluski estimated that it will take up to six months to reach adequate service in prime affected areas but that full

recovery along the 60-mile stretch of Vargas where "certain towns just no longer exist" could take two more years. ■

— Jannette Esguerra





A black and white photograph showing a massive school of fish, likely sharks or rays, swimming in a dense, swirling mass. The perspective is from above, looking down into the center of the swarm. The fish are dark against a lighter background, creating a high-contrast, almost abstract pattern.

Rob Wright, IFC Corporate Relations

The waters are wild. Emerging-market investing is scarier now. Many no longer want to enter its jaws.

Commercial lending is down. Bond markets are tight, borrowing costs high. Equity investors more skeptical than ever. No one wants to end up underwater.



There has been some recovery, but the amount of private capital reaching the developing world today is still far less than it was before the East Asian financial crisis broke in 1997. Competition from high-return investment opportunities in the US and Europe has never been greater.

But there's no giving up. Development depends on deals getting done.

Here are some landmark transactions of the last 18 months —\$4.7 billion worth of bold ideas that steered money where it is needed most. Their investors had no illusions about playing it safe. They dove right in, knowing it all came down to this:

RISK and **REWARD**.

Eye-Popping IPOs

A pair of potentially perilous initial public offerings — as different as can be, but each a scene-setter in its own way.

India

Triumph of Transparency

DEAL: ICICI's listing on New York Stock Exchange

INDUSTRY: Commercial banking

DATE: September 1999

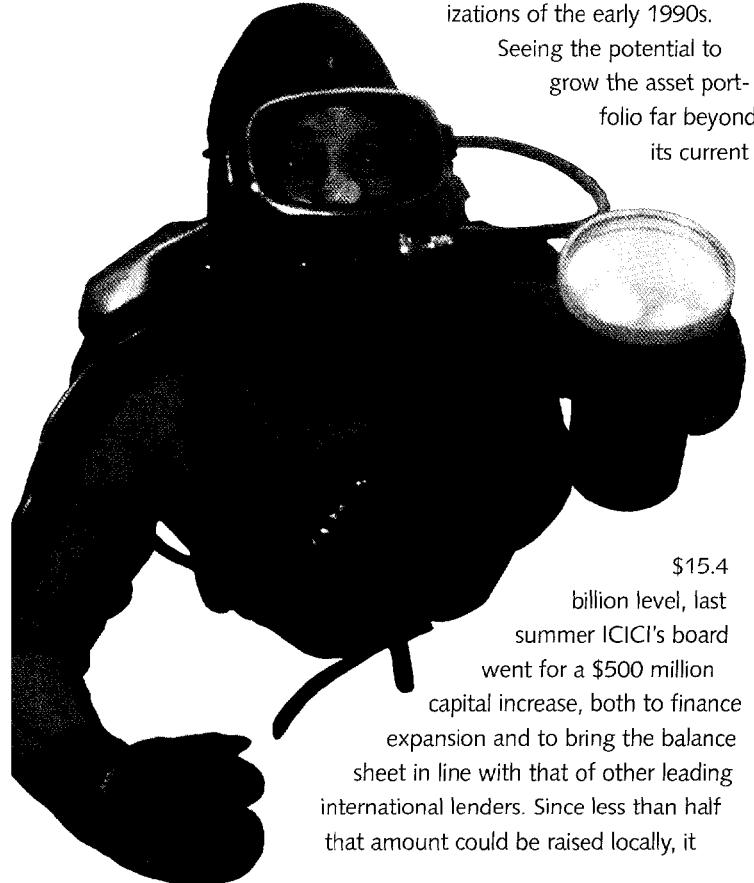
SIZE: \$315 million

INVESTORS: Retail and institutional investors worldwide

BACKGROUND: Considered one of its country's best banks, ICICI is a key source of financing for Indian companies, consumers, and infrastructure projects. It is also increasingly active in investment banking, venture capital, and advisory services.

With 45 years of history as an autonomous, for-profit institution despite indirect government control, ICICI (founded in 1955 as Industrial Credit and Investment Corp. of India) has grown into a world-class bank since India's liberalizations of the early 1990s.

Seeing the potential to grow the asset portfolio far beyond its current



\$15.4 billion level, last summer ICICI's board went for a \$500 million capital increase, both to finance expansion and to bring the balance sheet in line with that of other leading international lenders. Since less than half that amount could be raised locally, it

sought to become the first Indian company to open its books and list on the New York Stock Exchange, where financial disclosure requirements are the toughest in the world.

RISK: Investors had seen India undergo three changes of government in three years and come under international sanctions for its May 1998 nuclear weapons testing. The rupee-dollar exchange rate had also dropped sharply since the Russian financial crisis erupted in August 1998, and the Indian government's classification of local banks' nonperforming loans was far below US standards. Any renewed 1997-style general loss of confidence by emerging-market investors also had the potential to affect ICICI's finances.

RWARD: Although no Indian company and only one other Asian bank (Bank of Tokyo-Mitsubishi) had ever done so, ICICI was willing to meet all the transparency standards needed to sell its American depositary receipts in New York. Chief among these was reconciling its accounts to the strict standards of US Generally Accepted Accounting Practice, which has long been difficult for issuers from many developing countries to meet. But the bank came clean, fully complying with those terms and indicating the reasons for its approximately 12% nonperforming loans rate. Shortly before the offering occurred, Standard & Poor's upped its rating of ICICI from BB/negative to BB/stable, praising the bank for its "leadership position" and for making "continuing progress" in strengthening its balance sheet.

Intrigued by the bank's growth potential — and the 300% gain that software company Infosys had shown in the six months since it became the first Indian corporate to list on Nasdaq — US investors jumped on ICICI, leaving the offering more than six times oversubscribed. When the bank's CEO K.V. Kamath became the first head of an Indian company ever to ring the NYSE trading bell, it was a sign that corporate India had arrived. Within four months after the listing, ICICI's share price had more than tripled.

BOTTOM LINE: The deal's detailed 200-page prospectus, with financial statements audited by international accounting firm KPMG, answered the public's every question and was backed up by an active global investor relations operation run from headquarters in Mumbai. Meeting the NYSE's transparency requirements opened ICICI's doors to previously unimaginable amounts of new equity, setting an excellent example for others to follow.

Latin America

Nothing but Net

DEAL: StarMedia's Nasdaq launch

INDUSTRY: Internet

DATE: May 1999

SIZE: \$110 million

INVESTORS: Chase Capital Partners and others (US)

BACKGROUND: There may be no better example of the power of the digital economy — and its new, head-spinning rules — than this tale of taking Latin America's first pure Internet company public only four months after the region's largest economy nose-dived. At the time most conventional investors were still reeling at the thought of new exposure there. No problem, shrugged StarMedia's 33-year-old CEO, Fernando Espuelas. "The Internet is part of the new reality. Whether or not Brazil is having a bad year is irrelevant," he said.

His selling point: a Yahoo-style portal that offered Spanish and Portuguese content when most Web sites were still in English — and could attract advertisers. But while having the first proven way to bombard Internet users in Latin America with ads is, so far, giving StarMedia rapid revenue growth, it is not enough to make money. The firm has already lost \$121.5 million in its short history and says it does not expect any profits "in the foreseeable future."

Risk: In 1995 the Uruguay-born, US-based Espuelas had little to sell beyond a dream of Latin America on-line: "For the first time we have a historic opportunity, not just to run really fast to come in last, as we have done for the last 500 years, but to compete with the rest of the world on the same terms," he said. Nevertheless, Internet access in the region was in its infancy, stymied by regulatory hurdles, weak technology, and phone companies' exorbitant prices for dial-up access.

So what?

The industry runs on gutsy money. Between July 1997 and August 1998 StarMedia was able to raise \$96 million in venture capital from a consortium led by Chase Capital Partners. Indications were growing that the Web could soon offer advertisers more precise demographics for reaching target markets than any other form of media. "On the Internet, everything gets stripped down to brand. And StarMedia understood that in 1996, before a lot of other companies," said a Chase co-investor, Jerry Colonna of Flatiron Partners.

REWARD: When it came time to take StarMedia public, underwriters Goldman Sachs were looking to debut at no more than \$12 a share. Investor demand instead drove the share price up to \$15 at the opening, netting the firm \$110 million. It soon quadrupled.

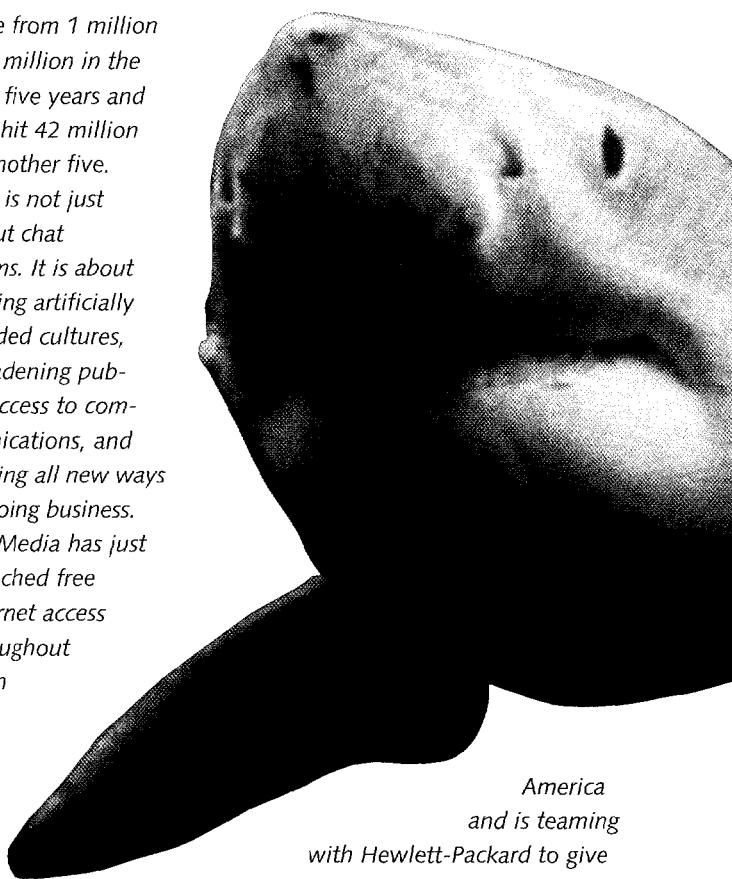
Nobody seemed to care about StarMedia's lack of profits — not at a time when Yahoo had gone from being the raw idea of two Stanford students to a company with a market value of \$95 billion in only five years. Or when Amazon.com's chairman could lose \$550 million and still be voted *Time's* Person of the Year. Within five months of the IPO, Chase's original \$25 million stake in StarMedia was worth more than \$1.2 billion.

BOTTOM LINE: By Morgan Stanley Dean Witter's count, the number of Internet subscribers

in Latin America has

*gone from 1 million
to 6 million in the
past five years and
will hit 42 million
in another five.*

*This is not just
about chat
rooms. It is about
uniting artificially
divided cultures,
broadening pub-
lic access to com-
munications, and
finding all new ways
of doing business.
StarMedia has just
launched free
Internet access
throughout
Latin*



*America
and is teaming
with Hewlett-Packard to give
small and mid-sized companies there a
fast, cost-effective way to use the Web for
expanded retailing, procurement, and distribution. It is just part of
what some say will be an \$8 billion regional e-business market
three years from now, affecting not just retail but health care,
financial services — and maybe everything else.*



Restructure, Rebuild, Revive

Asia's buyout funds are looking for good turnaround stories. Could this be one?

Indonesia

A Long, Hard Climb

DEAL: Astra Microtronics

Technology (AMT) buyout

INDUSTRY: Semiconductors

DATE: December 1998

SIZE: Approximately \$100 million

INVESTORS: Asia Opportunity Fund (Hong

Kong); Newbridge Capital (US)

Nusantara Investment Fund
(Indonesia)

BACKGROUND: AMT is a leading integrated circuitry assembly and testing subcontractor that services major semiconductor companies such as Motorola, Siemens, and ZiLOG. It came on the market in 1998 when its parent, Indonesian conglomerate Astra International,

had to sell assets to generate fast cash and repay some of its \$2 billion in foreign debt.

At the time AMT had a work force of about 3,600 at its Batam Island plant near Singapore. Despite the problems of its parent, its nearly \$100 million in total assets and relatively high net income made it an attractive takeover target for Asian restructuring funds, which took a chance in hopes of turning it into a winner within a few years. The

Asia Opportunity Fund (AOF), a collaboration of Chase Capital Partners, IFC, and others, joined a group that purchased 100% of AMT. The AOF invested \$28 million for a 7.4% ownership stake and senior notes with warrants to acquire additional equity.

RISK: The investors could get AMT at a nice price, as Astra's problems and high perceived country risks limited the number of competing buyers. But at the time, Indonesia was seen as one of the

world's biggest question marks. Its political and economic future was full of troubling variables, making accurate forecasts almost impossible. The semiconductor industry climate was also difficult: global sales were projected to fall because of overcapacity, partly due to crisis in Asia. AMT's own sales had also declined.

Increasing production scales, new technologies, and large capital expenditures also exerted downward pressures on prices in this highly competitive industry.

Reward: As iffy as the company's situation was at the time of the investment, its longer-term outlook had excellent potential. AMT had a strong existing management team with a solid track record and strategic focus. Revenues were dollar-based and costs among the lowest in the industry. In addition, its Batam Island location ensured easy access to Singapore's efficient transportation and communications infrastructure for its exports and substantially insulated AMT from the problems affecting other parts of Indonesia.

In late 1999, the new owners merged it with Hana Technologies, a Hong Kong-based integrated circuitry packaging and testing operation. That created a new company with a larger base, more products, and other operating synergies.

Since the investment, the global semiconductor market has turned around and demand is now growing strongly. The new owners say that AMT is now a good candidate for a future strategic investor and that an initial public offering either on New York's Nasdaq or in Singapore within the next 12–18 months is a clear possibility. Comparable Nasdaq-listed companies such as ST Assembly Test Services and Amkor are valued at 12–35 times pretax cash-flow. A multiple of only 12 would value AMT at several times the Asia Opportunity Fund's acquisition cost.

BOTTOM LINE: This was one of the first foreign buyouts since Indonesia's crisis began. Although it is not over yet, all indications are that the deal highlights turnaround investors' ability to cut through risks and capitalize on rewards.

A New Lease on Life

High-flyers aren't usually up for helping small companies from Turkey. It took some tricks to get their interest.

Turkey Soaring Away

Deal: Garanti Leasing IFC Finance securitization

Industry: Equipment leasing

Date: December 1999

Size: \$51.4 million (equivalent)

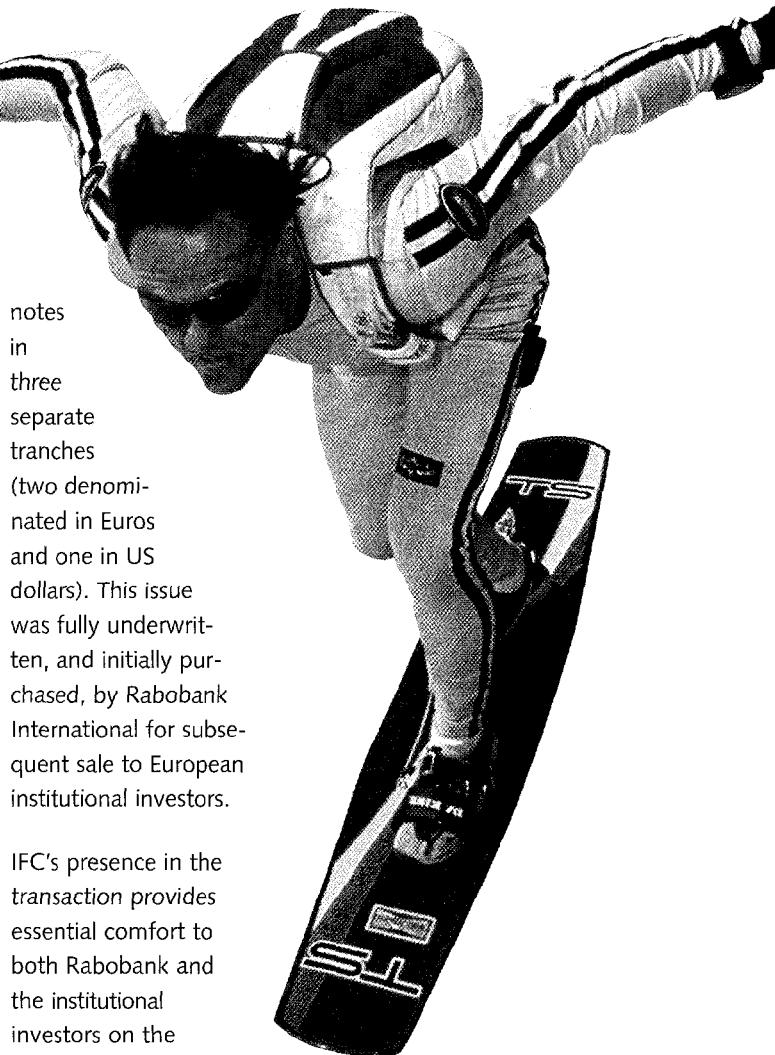
Investors: European institutional investors

Background: Garanti Leasing (GL) is Turkey's market leader in its field, enabling local companies in textiles, printing, packaging, and other industries to obtain equipment through long-term, hard currency-denominated leases. An affiliate of the country's second-largest financial institution (Garanti Bank) and a long-time IFC client, GL needed to find a way to raise \$50 million of new medium-term finance from international markets so it could keep up with client demand and better match its assets with its liabilities.

Risk: European banks and bond market investors had soured on emerging markets, including Turkey, since the 1998 Russian financial crisis, and no equipment lease securitization deal had ever been arranged for an emerging market issuer. Only a very well-structured, IFC-supported package would attract investor interest in a new borrower.

Reward: The key to success was using credit enhancement that enabled GL to raise financing through a structure involving an off-shore special purpose vehicle (SPV), together with the use of IFC's B-loan umbrella. The SPV, as the sole participant in an IFC B-loan, issued four-year asset-backed notes that are considered to be of higher credit quality than GL itself, its parent, or even the government of Turkey: the notes received investment-grade ratings of Baa2 from Moody's and BBB from Duff and Phelps, compared with the current non-investment-grade foreign-currency ratings for the Republic of Turkey.

As security, GL earmarked \$67.6 million of lease contracts and assigned these receivables to IFC, which in turn made a limited recourse loan to GL for the equivalent of \$51.4 million. Of that amount, IFC kept \$7.3 million as an own-account A-loan and syndicated about \$44.1 million equivalent to the SPV as a B-loan. The SPV funded itself by the issue of \$44.1 million of asset-backed



notes in three separate tranches (two denominated in Euros and one in US dollars). This issue was fully underwritten, and initially purchased, by Rabobank International for subsequent sale to European institutional investors.

IFC's presence in the transaction provides essential comfort to both Rabobank and the institutional investors on the issues of currency, convertibility, and transfer risks, as well as structural soundness. In line with rating agency requirements, the amount of the assigned receivables is 24% greater than the initial IFC loan. This overcollateralization, plus an additional liquidity reserve of 4%, offer protection against payment problems and defaults on the lease portfolio. Payments on the leases are collected by GL on behalf of IFC and are strictly segregated from GL's own accounts. The lease payments will be the sole basis for servicing the debt over its four-year life.

Bottom Line: Under this new model of emerging-market asset securitization, GL was able to borrow a significant amount of money at a time of difficult market access. The transaction also marks IFC's first securitized financing aimed specifically at European, rather than North American, investors.





Banks: Asia's Mega-Mergers

Good banks are the foundation of any strong economy. Unfortunately, developing Asia has far too few of them. In 1998, when the regional picture was still far from clear, IFC began using a combination of investment and transparency-building technical assistance to strengthen sound local banks in Korea and the Philippines. In both cases the support ultimately led to large-scale mergers and investment from top-quality foreign partners, creating solid new institutions that should stand the test of time. Thailand offers another story.

Korea Footing the Bill

DEAL: Kookmin Bank investment

INDUSTRY: Commercial banking

DATE: May 1999

SIZE: \$500 million

INVESTOR: Goldman Sachs (US)

BACKGROUND: Until the onset of financial crisis in late 1997, most Korean banks had little accountability, making reckless corporate loans under government pressure and not worrying about the effect on shareholders when they were not paid back. Change has proved difficult: key corporate restructurings remain unresolved, and the transparency needed to attract foreign investors who can recapitalize the troubled banks has been lacking. Thomson Financial BankWatch says that, while improving, the Korean financial sector's performance continues to be "dismal" (combined 1999 losses: more than \$5 billion). The global London-based bank HSBC's cancellation of its planned \$900 million purchase of insolvent Seoulbank last year was also seen as a highly negative signal in the markets.

RISK: In June 1998, only six months after the country's near collapse, IFC became the first new foreign investor in the banking sector. It put up a fresh \$25 million to help strengthen the capital base of Korea Long Term Credit Bank (KLB), a small corporate lender it had backed since 1967. At the time, the Korean economic picture was bleak, and while not as high as that of some others, KLB's non-performing loan rate had reached troubling levels.

RWARD: After its investment, IFC sent a representative to work with KLB: Thomas Krayenbuehl, a former senior executive of Union Bank of Switzerland who took an active role in strategic planning with a special focus on corporate governance. He urged KLB not only to reposition itself as a commercial bank but also to consider a merger as a way to ensure long-term survival. By September 1998 it had accepted a takeover offer from Kookmin Bank, a large retail institution with no corporate business. The combination created the second-largest bank in the country (\$93 billion in assets, 14 million customers) and one of the few profitable ones (estimated 1999 net income: \$100 million). The enlarged Kookmin then agreed to become the first Korean bank

with a foreigner on its board, giving Kravaynbeuhl this status. He worked on IFC's behalf to improve corporate governance and monitoring of credit quality up to international standards. IFC also used a \$350,000 Japanese grant to hire PricewaterhouseCoopers to help Kookmin begin reconciling its accounts with International Accounting Standards, almost unknown in Korea at the time.

These steps quickly made Kookmin more attractive in the marketplace when it went looking abroad for new equity needed to bring its capital up to government standards. It found it in April 1999 when a private equity fund run by Goldman Sachs invested \$500 million to become Kookmin's new largest shareholder, taking a nearly 20% stake. Since the time of the merger, Kookmin's shares on the Korea Stock Exchange have more than doubled, becoming a standard in many foreign investor portfolios.

BOTTOM LINE: "Kookmin has emerged as a 'core bank' through Korea's restructuring drive and has been anointed by the Korean government as a leader in the local financial sector." (Thomson Financial BankWatch).

Philippines A Bigger Pie

DEAL: Far East Bank acquisition

INDUSTRY: Commercial banking

DATE: October 1999

SIZE: \$2.16 billion

INVESTORS: Bank of Philippine Islands, DBS Bank (Singapore)

BACKGROUND: In 1998 Far East Bank and Trust Co. (FEB), was the no. 6 bank in the Philippines with \$3.5 billion in assets. It was also a long-time IFC client that had held up relatively well during the Asian crisis. Voted "the best bank in the Philippines" by Euromoney that year, it was one of the few in the country not controlled by a local family, having a diversified shareholder base that included Sakura Bank of Japan (25%) and the local subsidiary of US insurance giant AIG (8%).

RISK: Although not hit as hard by the crisis as its neighbors, in 1998 the Philippines had just endured GDP shrinkage and a 31% currency

slide. With the government pursuing rapid financial sector liberalization, the long-term future of second-tier banks was highly uncertain. Nevertheless IFC bet heavily on FEB, wanting to show support for one of the few competitive banks in Southeast Asia. IFC extended a 10-year, \$120 million loan and also bought \$15 million of FEB's common stock despite the considerable volatility and low liquidity in the Philippine Stock Exchange at the time. IFC also helped it improve its provisioning and limit asset-liability mismatches. Despite these long-term measures, the Russian financial crisis that began barely a month after IFC's initial purchase and affected all emerging markets led to a sudden 24% drop in FEB's share price.

Reward: Knowing the country had far too many banks relative to the size of its economy, the Philippine government began encouraging banking consolidation as a way to help reduce vulnerability to future crises. FEB had been strengthened by the seal of approval from the World Bank Group and soon went on the hunt for a merger partner, trying unsuccessfully to buy larger PCI Bank in the spring of 1999. In the fall it tried again, bringing in Goldman Sachs advisers who recommended a different strategy: having FEB play "kingmaker" by selling to a buyer who in the process would become the biggest bank in the country.

In mid-October market leader Metrobank jumped first, buying a 7% stake. Its rival, Bank of the Philippine Islands (BPI), then responded with an \$816 million friendly takeover offer coming at an 18% premium over FEB's prevailing share price. FEB quickly accepted. It was the largest purchase in Philippine corporate history at the time. But before the deal could close another new suitor arrived on the scene: Southeast Asia's largest financial institution, DBS Group of Singapore. It spent another \$1.2 billion to buy out the holdings of IFC and others in FEB and those of JP Morgan and others in BPI, thus positioning itself to become the second largest investor in the newly enlarged institution once the merger was complete. The flurry of deal-making created a new Philippine financial powerhouse, and one of the 10 largest banks in Asia outside Japan.

BOTTOM LINE: FEB turned itself into a hot acquisition target. Although it would lose its name and independence, it joined a bigger partner to become the Philippines' first true regional financial institution.

Thailand Back from the Brink

DEAL: Nakornthon Bank acquisition

INDUSTRY: Commercial banking

DATE: September 1999

SIZE: \$335 million

INVESTOR: Standard Chartered PLC (UK)

BACKGROUND: Financial sector restructuring and recapitalization have been top priorities in Thailand. The government has introduced transparency-boosting measures, new insolvency legislation, and other reforms that have raised investor interest in Thai banks. Into this fast-evolving context walked a foreign lender with more than a century's experience in Asia, Standard Chartered (SC). It made an offer that, if successful, would make it the first foreign purchaser of a nationalized bank in Thailand. The target: Nakornthon Bank, the country's second oldest and 12th largest bank, but one with a negative net worth at the time of \$129.7 million.

Risk: SC was willing to take a chance. Nakornthon's bad loans were estimated at about 70% of its portfolio, and there were also concerns over the quality of its work force, outdated technology, and critical need for recapitalization. Yet less than two weeks before expiration of the deal's deadline, no decision had been reached over who would pay for that recapitalization, or how complete it would be. Initially, the Thai government's Financial Restructuring Advisory Committee was set to do so, but new banking reforms introduced in August 1999 barred it from injecting money into any institution with negative net worth. The spotlight then shifted to the Thai central bank's Financial Institutions Development Fund (FIDF), which had earlier taken over Nakornthon and ousted the long-time local owners.

The FIDF eventually agreed to provide enough to give the bank the roughly \$174.5 million needed to meet internationally accepted Tier 1 capital ratios of 8%. That cleared the way for SC to acquire 75% of Nakornthon's shares, with the FIDF keeping 24.97% and the rest held by external shareholders. But the British bank had to double its final offer to about twice book value to fend off rival interest from HSBC, United Overseas Bank of Singapore, and Citigroup.

Reward: Despite being a beleaguered and relatively small player, Nakornthon had a nationwide 67-branch network that made for a prime attraction. For although SC had been in Thailand since 1894, its market penetration had been hindered by the country's former policy limiting foreign banks to one branch, and it feared losing out as competitors increased their presence. The acquisition gave it a new outlet through which it could sell its proven financial products to the core retail market — the aspect of Thai banking it thought had the greatest growth potential.

BOTTOM LINE: SC compared the risks of being marginalized in Thailand with those inherent in the Nakornthon acquisition and decided to buy, gaining outright control of an established second-tier player. Although the revived bank is not expected to show profits for at least three years, it has still been considered an important step forward in the revitalization of Thai banking. Central bank support made the deal possible — under the purchase contract, the FIDF has considerable responsibility for any further deterioration in Nakornthon's loan book.



Innovative Infrastructure

No one can accuse the people behind these power and water sector deals of taking the easy way out. Doing them under today's tough conditions took one thing: flexibility.

Colombia Breaking the Ice

DEAL: TermoCandelaria

INDUSTRY: Power generation

DATE: June 1999

SIZE: \$175 million

INVESTOR: KMR Power Corp. (US)

BACKGROUND: TermoCandelaria is a 320-MW gas-fired independent power project (IPP) in Cartagena, Colombia, the third such plant in that country to be sponsored by its Virginia-based developers. It is also believed to be the first 100%

"merchant" plant in Colombia, meaning it has no long-term fixed sales contracts and instead must sell all its output competitively in the country's deregulated spot markets. The sponsors had originally planned to raise financing with a 1998 high-yield debt issue in New York's 144A bond markets. But that option disappeared when the Asia crisis worsened in October of that year, affecting all emerging markets. Another solution was needed.

Risk: Time wore on, and time is money. Market sentiments remained highly negative when KMR renewed efforts to raise the necessary debt only a few months after Brazil's January 1999 devaluation

rocked Latin America. A 1997 Colombian IPP financing that was considered a landmark in its time, the TermoEmcali project in Cali, had also run into problems when the offtaking utility did not live up to purchase obligations, and there were widespread political risk perceptions concerning Colombia. What do?

Reward: Knowing it had to come up with an innovative structure to close the deal, KMR approached Centre Solutions, a subsidiary of the Swiss financial services giant Zurich Reinsurance. Centre grew convinced of the project's viability and guaranteed an \$85 million, five-year subordinated loan. Having this AA-rated partner involved greatly increased the likelihood of attracting other lenders to provide the rest.

At that point KMR engaged Bank of America (BoA) as its financial adviser and obtained a full package of political risk insurance for the project. BoA then arranged the \$90 million in five-year senior debt, providing \$40 million itself and obtaining the rest from Colombia's Instituto de Fomento Industrial and Banco de Bogotá and others. The plant is now under construction, using high-efficiency Siemens-Westinghouse turbines and nearby offshore gas that should make it one of the lowest cost producers in Colombia's competitive power market. That, and the fact that the project will receive some additional revenues in the form of fixed-capacity payments from the country's wholesale power market, should make TermoCandelaria profitable over its 25-year lifetime.

BOTTOM LINE: With financing secured, TermoCandelaria is expected to come on-line this summer, offering a country that is 70% dependent on hydro power a good alternative at times of drought. It is seen as an important addition to a Colombian power sector whose new reliance on wholesale markets is expected to bring long-term reductions in consumer rates. It was named "Power Deal of the Year for Latin America" by Project Finance magazine.

Philippines Winging It

DEAL: Maynilad Water Services, Inc., project financing

INDUSTRY: Water and sanitation

DATE: June 1999

SIZE: \$500 million

INVESTORS: Benpres Holdings Corp. (Philippines); Suez Lyonnaise des Eaux (France); Lyonnaise Asia Water (Holdings) Ltd. (Singapore)

BACKGROUND: The world's largest water privatization occurred on August 1, 1997, the day that the Philippines closed the accounts of its capital city's much-maligned state-owned water utility.

The heavily indebted, poorly performing system saw its enormous service area split in half and handed over to two new private companies under a process that had IFC as lead adviser.

The new operators were two Philippine-foreign joint ventures, Maynilad Water Services in the west of the 11 million-population service area and Manila Water Co. in the east. They took over with ambitious service improvement requirements that would require a combined investment of \$7 billion over the 25-year lifetime of their concessions. Two years later Maynilad is well on the way to becoming the first to complete a project financing. That means debt repayment will be the sole responsibility of Maynilad itself, with the lenders receiving only limited guarantees from its sponsors.

RISK: Maynilad began the initial \$500 million five-year phase of its project by investing \$150 million in sponsor equity. But to raise the rest, it had to convince banks that had just endured the Asian financial crisis and difficulty with currency convertibility in private infrastructure projects in Pakistan to lend longterm to the most ambitious project to date in a complex, politically sensitive sector. Any moves by a future Philippine government to weaken the sound existing regulatory structure or do away with Maynilad Water's concession for political reasons could easily disrupt repayment of their loans. Should financial instability return to the region at some point during the project lifetime, an entirely different set of problems could occur.

RWARD: Maynilad now reports annual revenues of about \$60 million. It expects to have a positive cash flow in 2002 and then grow increasingly strong as it builds the connections needed to meet its target of bringing water to 100% of the local population. On this basis it was able to secure a \$350 million package of loans that all rank

equally in repayment priority. The package includes a \$45 million, 15-year direct loan from the Asian Development Bank's private sector group and a related 12-year \$126 million cofinancing the ADB is syndicating through seven commercial banks: Barclays (UK), BNP (France), Citibank (US),

Fortis (Netherlands), KBC (Belgium), Paribas (France), and Tokai (Japan). But since the ADB's umbrella (like IFC's) lacks full political risk coverage, the commercial banks became willing to finance this envelope-pushing project only when the French export credit agency Coface and the European Investment Bank together provided another \$179 million loan with full insurance against war, expropriation, and civil unrest. The banks can thus be confident of being substantially repaid even in the unlikely event that a future Philippine government interferes with the project's earning power enough to prevent Maynilad from servicing the ADB loan and its cofinancing.

BOTTOM LINE: *The money is flowing. So is the water. Maynilad can now get on with its business of improving infrastructure, expanding connections, and reducing the amount of water that is lost or stolen each year. The efficiencies that come with private ownership are allowing it to pay off \$540 million of the old water company's debt and make extensive new investments, even while reducing consumer rates by almost 50%. It seems well on its way to meeting the Philippine government's target at the outset: "better service at lower prices."* ■

*Railroad privatization is no longer just a novel idea in de
It now has a...*

Track Record

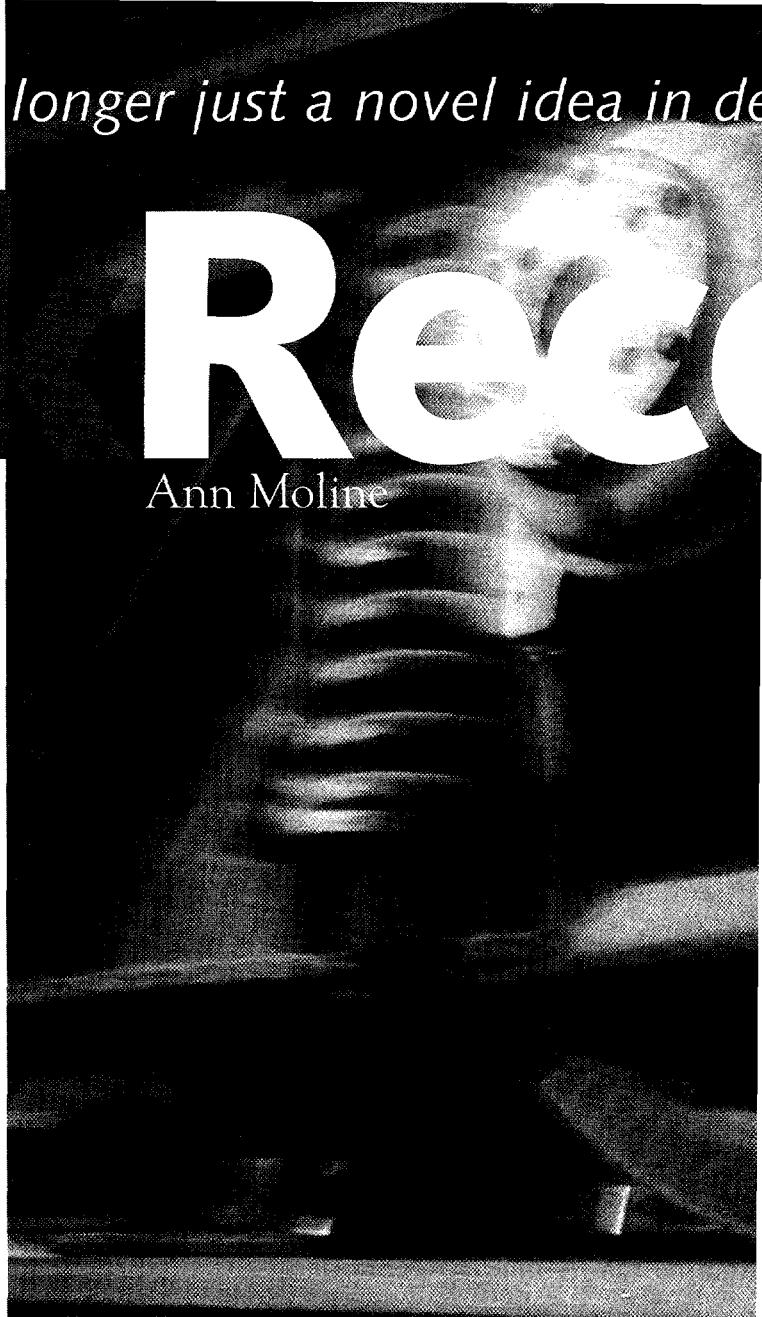
History books tell us much about the great cross-country railroad that first connected the Atlantic and Pacific coasts of North America in 1869. Rail buffs everywhere know about the "golden spike" that year that linked those mighty seas. But far less is written about the world's first truly transcontinental train, one that predated its more famous US cousin by a full 14 years.

Built with the blood, sweat, and tears of thousands of foreign laborers, the Panama Railroad opened for passenger and freight service in 1855. A 75-km single-track line across the isthmus, it was a major breakthrough, connecting the Pacific port of Panama City to its Caribbean counterpart, Colon, long before the invention of the automobile. And only now may it be coming into its own.

The narrow, alternately marshy and mountainous strip of land the railway traverses first emerged as an important corridor for world commerce in 1519, when Spanish conquistadors saw the advantages that transporting the riches they stole from native civilizations by a trail cut through the jungle had over sailing 7,000 miles around the southern tip of South America at Cape Horn.

An adventurous trade route it was. But it remained a relatively sleepy, distant one until the January 1848 discovery of gold in California. Suddenly a new passenger market appeared as thousands of eager young American men rushed westward to seek fortunes. Many opted to sail south and brave the Panama trail by foot and canoe rather than take the even more treacherous stagecoach journey across America's Wild West. Tragically, many of them found lethal strains of malaria and yellow fever awaiting their arrival.

Amid the chaos, entrepreneur William H. Aspinwall, whose company already ran a steamship mail route between New York, Panama, and California, sensed his own golden opportunity. He negotiated an early kind of build-own-operate concession with the government of Colombia, which administered Panama at the time, and gained the right to set up a railroad to transport passengers, mail, and freight across the narrow land bridge.



By the time the US Civil War began in 1860, the Panama Railroad had become a prime freight conduit, carrying California gold overland to New York-bound ships waiting in the Caribbean. The line's parent company flourished for several years; then the far more convenient US transcontinental railroad appeared and nearly put it out of business overnight. In 1879 the Panama line was sold to the French, who went on to lose \$287 million and the lives of 20,000 workers in a disastrous attempt to build the world's most celebrated canal. That effort ended in bankruptcy a decade later. When Theodore Roosevelt's gunboat diplomacy separated Panama from Colombia in 1903 as a first step in digging the "Big Ditch," the railway's strategic mission had been reduced to one of carting off dirt unearthed in the huge excavations.



loping countries.

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These transport tales lay buried in the past with little contemporary relevance until January 1 of this year, when Panama took control of the strategic waterway from the US as directed by the 1977 Carter-Torrijos treaty. The forgotten railway, long since transferred back to Panama, was virtually dormant. Poor maintenance had allowed tracks and locomotives alike to rot away, rendering its system unusable. Trucking had become the faster and cheaper way to go, and without prospects for increased freight activity, the railroad had no compelling reason to merit the new investment it needed to revitalize.

That might have been the end of the story, save for other events occurring on the world stage. The breakdown of trade barriers and the establishment of integrated markets such as NAFTA and

MERCOSUR beginning in the early 1990s had laid the foundation for a vastly increased flow of goods and services among countries. More recently, an explosion in e-commerce has required more companies to deliver more products to more places, even those locations once deemed impossibly remote. Somehow, somewhere, the goods must be gotten to where they must go. An entire industry, "supply-chain management," has arisen around efficient ordering and "just-in-time" delivery of everything from raw materials to end products. A booming logistics sector has emerged that now encompasses everything from warehousing, light assembly, and inventory control to shipping, trucking, air freight, and rail transport.

This far-reaching shift may well prove to be a doorway to Panama's economic future. Among other things, it explains the

decision of two leading US transport companies to buy the rights to operate the historic railway. Why are they embarking on a \$75 million IFC-financed project to bring it chugging back to life? Out of a belief that a fully renovated, well-managed rail line can be a valuable niche player, moving a significant amount of cargo across the isthmus faster than either the country's existing trucking companies or the ships crossing its canal.

Argentine Origins

One of the most important terms in shipping today is "containerization" — a process by which cargo is carried in large metal boxes for quick offloading onto freight trains for delivery to its next destination, reducing reliance on long-shoremen's labor. It is what makes the investment in the Panama rail line possible. Since 1980 the portion of world cargo shipped in this manner has risen from 23% to 70%. The reason is simple: as trade increases, so, too, do competitive pressures, and companies looking to keep transportation costs low will search for the fastest, cheapest, most efficient means of transport, no matter what it is. Amid this dynamic trade backdrop, railways are on the rebound worldwide.

Pivotal to the revival has been the rail sector's privatization in developing countries, says Lou Thompson, railways adviser for the World Bank. He is a strong advocate of getting government out of the business, suggesting that control by the private sector forces railway companies to respond to the demands of consumers, thus resulting in both more efficient service for consumers and larger profits for investors.

In past years the World Bank had attempted rail privatization projects. Few, including attempts in India and Pakistan, have met with success. The turning point came in 1990 in Argentina, where once-proud freight lines had fallen into disrepair under state ownership. That was the case almost everywhere. The difference here was the government's will to tackle the root causes.

"The country was frozen with inflation and the rail sector was the single largest contributor to the public sector deficit," Thompson recalls. "Since there was a bloated railway labor force of about 91,000 and very low productivity, we started asking the question, Why not get the private sector involved?"



Locomotive of Growth: A question mark when first financed in 1993, the IFC-backed Nuevo Central Argentino line has helped revive the economy of the Argentine heartland. Carrying cargo at competitive prices, it makes a difference for many local industries.

The idea was new to Latin America, but Argentina President Carlos Menem's government took a chance, dividing the ramshackle Ferrocarriles Argentinos system into six separate lines. Five of these have now been operating successfully for almost seven years. Thompson calls the Argentine experience "a spectacular story" — one that shows how making railroads respond to market rather than political forces leads to efficiency gains for the entire economy's benefit.

One critical early concession was that of the 3,600-km Nuevo Central Argentino (NCA) line running through the country's farm belt. IFC supported it with a \$28 million 10-year financing package in 1993 that brought major foreign commercial banks into this untested, high-risk sector for the first time.

"All we had at the time was a business plan — nothing else — and no bank in our country would touch us," recalls Horacio Diaz Hermelo of the Argentine consortium that won NCA through competitive bidding. "Our start-up was very, very difficult. The railroad that we inherited was a disaster. People saw no reliability in it at all — 96% of all cargo traveled by trucks at the time."

But his group was betting on the future, not the past. Through its heavy injections of new capital and management expertise, the railroad slowly revived. After three years of repairing locomotives and tracks, NCA eventually established a reputation for reliability with local businesses and became a fundamental part of the country's

Basic Training

IFC has financed several key transactions in developing-world freight train concessioning, something that began in Argentina in 1991 and has since spread worldwide.

Here is IFC's rail portfolio so far — part of a joint effort within the World Bank Group that in 1999 won the institution's highest honor, President James D. Wolfensohn's Award for Excellence:

SIGNED	Country	Railway	Length (Km)	Began Operation	Concession (years)	IFC Financing
SIGNED	Argentina	Ferroexpreso Pampeana S.A.	1,900	1991	30	\$28.4 million
		Nuevo Central Argentino	3,600	1993	30	\$28 million
	Brazil	Ferrovia Sul-Atlântico S.A.	6,536	1997	30	TBD
	Chile	Ferrocarril del Pacífico	3,000	1995	20	\$20.5 million
	Panama	CB Transportes*	4,200	1995	25-40	\$16 million
UNDER REVIEW	Panama	Panama Canal Railway Co.	75	2001**	50	TBD
	Cameroon	Camrail	1,100	1999	20, with 5 year renewal option	TBD
	Mexico	Ferrocarriles de Chiapas-Mayab	1,549	1999	30	TBD

* Owns concessions in Chile and Bolivia
** Projected

infrastructure. In the process it attracted other private investors to build river ports at tracks' end so that goods carried by rail from the Argentine heartland could quickly be offloaded for export. Availability of a first-class rail and port network then became one of the country's key selling points to foreign companies.

Free to compete head-to-head against trucks in a market that has been totally deregulated, the Argentine rail industry has regained considerable lost market share. Today NCA carries not only traditional agricultural goods but ore from an Australian-owned copper mine in distant Catamarca province, auto parts for assembly at a Fiat/Renault plant in Cordoba, and raw materials for a new cement plant outside Buenos Aires built by a world cement industry leader, Holderbank of Switzerland. All are products of the country's foreign investment boom of the last decade. The rail network "has become part of the new economy of Argentina," Diaz Hermelo says.

"High-volume transport is very new for Argentina, but critical because it brings our producers' costs down by 25%, making them more competitive at a time when commodity prices have fallen dramatically," he stresses. "In the 1980s it was impossible to produce at the volumes that we do now, but back then soybean prices were double what they are now."

Copper concentrate prices today are only half what they were five years ago. These lower transportation costs allow us to survive in a time of very difficult commodity price cycles."

A similar chain of events has played itself out to the north in poorer Bolivia. The success of its Oriental line, operated since March 1997 by an IFC-financed Chilean group, "has helped Bolivia become competitive in the world marketplace because of the way it has brought transportation costs down," says IFC rail specialist Martin Spicer.

"There is great agricultural potential in the eastern part of the country, but few improved roads. Oriental has made it possible to bring agricultural products to the border with Brazil for export to world markets," Spicer explains. The availability of rail transport has also triggered new foreign investment in eastern Bolivia, as major US agricultural producers gain access to the high-quality soybeans produced in this fertile land. Both Archer Daniels Midland and Cargill have established major grain producing operations in the past three years, exporting Bolivian soybean products via the Oriental line east to the Paraguay River, where they are loaded onto new barge services recently built by American Commercial Barge Lines and others.

Chilly Winds

The path to privatization success is not always simple. A smooth process depends, in large measure, on the ways in which concessions are structured and responsibility is divided between government and concessionaire. When too much infrastructure is kept in public hands, problems result. So say those who have trod that path.

"Railroad privatization is part of a larger logistics story. It must be done in tandem with ports and roads," Spicer warns. "If not, a private railway will not compete against alternative methods of transportation."

Why? Because if the other transport sectors retain inefficient vestiges of public control, the national economy will be poorly positioned to compete for a share of expanded world trade. As a result, all forms will vie for the same stagnant business volume, with none having the ability to develop anything new.

In the case of FEPASA, a privatized rail line in Chile, competition from a trucking industry swimming in governmental subsidies has been the primary obstacle, but hardly the only one. Investor Larry McCaffrey, president of New York-based Unirail Corp, is happy today, having seen annual revenues in Chile climb by 10% to \$33 million in the past year and knowing they are projected to rise another 20% in the next 12 months. But it wasn't always so. "I've been involved in many tough start-ups in the US — I've seen vandalism and all sorts of things — but this was the toughest," McCaffrey says. He calls his Chilean experience "a composite of every imaginable problem." It is one that can serve as an important cautionary tale.

In January 1995, McCaffrey's company joined a Chilean consortium that spent \$31 million to buy the 51% stake in FEPASA that the government was putting up for sale, only to see difficulties arise almost immediately. The existing public railway employees had little incentive to stay with the new company, since the government was offering them generous pensions to retire immediately. Almost all did. Soon the new owners were left with virtually no skilled staff. "This was a really difficult thing for us at all levels," recalls McCaffrey. "Why they did it, we don't know."

The personnel problems extended all the way up to the highest levels of management. The new owners brought in a team with a mixture of backgrounds, some Chilean and some American. While the Americans had railroad experience, they lacked an understanding of local business customs; and while the Chileans brought this understanding into the mix, some lacked solid railroad credentials.

The company struggled with management changes and concession-restructuring negotiations with the government (which,

unlike in Argentina, remained an important minority shareholder and exerted considerable influence as a regulator). A slow pace of obtaining financing also bedeviled the company until a \$26.5 million IFC package to support repairs and improvements was obtained in September 1997. When FEPASA at last ramped up, key export markets in Asia experienced a financial meltdown that diminished demand for Chilean goods. Meanwhile the government's decision to end coal supports meant that a prime railway commodity now faced tough competitive pressures from cheaper imports. Strong competition also existed from the local trucking industry, which reduced prices in a market suddenly facing excess transport capacity.

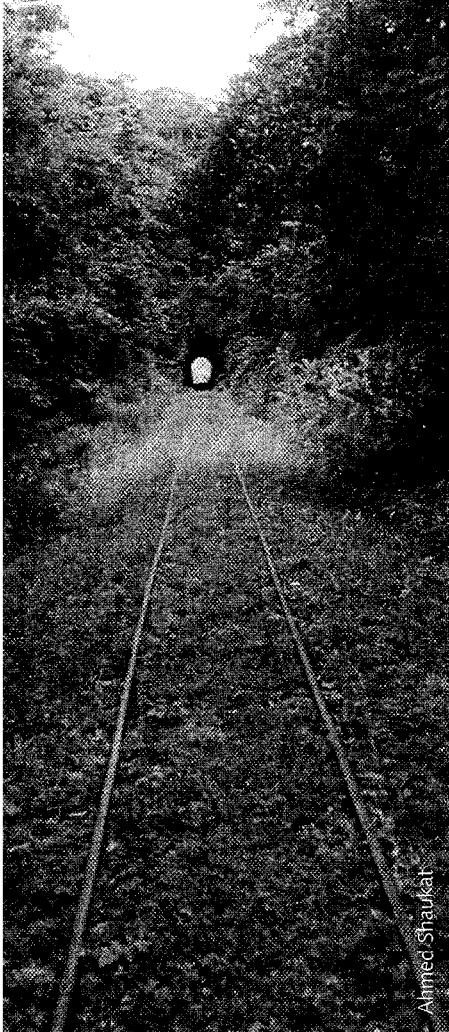
It was a rough start. Today, McCaffrey says, although the company still struggles with tremendous pressure from truckers, the Chilean economy has recovered from the Asian flu and is once again exporting copper, cellulose, and agricultural products. FEPASA faces a more stable horizon, more than four hard years after his initial investment. And successful on-the-job training of new personnel has borne results.

"This is all about establishing a logistics industry," McCaffrey says. "We are looking to bring freight from beyond Buenos Aires west to Chile for transport to the Far East."

As trade barriers fall, government policies change, and better Andean crossings are constructed, Latin America's position as a prime player in the logistics industry will be cemented, he says. McCaffrey also believes that multinational companies will begin to look closely at Latin American countries such as Chile as strategic locations for manufacturing centers and distribution hubs, spurring new economic growth as the result of private sector investment.

Today, virtually all Latin American rail lines have been privatized, including major lines in Mexico operated by the Union Pacific and Kansas City Southern railways that connect with US tracks to extend the NAFTA trade route. Brazil's national freight railway too has been divided into six components, all of them now in stable operating mode. "A whole continent has been concessioned, with great results," says the World Bank's Thompson. "Farmers are getting products to market, companies are making money, clients are investing in clients. In fact, in all of the Americas, only three significant railways remain in government operation: Cuba's, Amtrak in the US, and Via in Canada."

Now Latin America's railway experience is going global. In other parts of the world, interest in its success has grown. Poland is weighing a freight concession, while Thailand, Gabon, Congo, Ghana, Cameroon, and Jordan are all in various stages of looking at privatizations.



Ahmed Shaukat

Canal Plus

But what of Panama's near-dead little railroad? While once dismissed as a quaint relic of a colorful past, it has suddenly taken on new significance as the shipping industry has evolved. The massive shift to containerized shipping has created some problems for the Panama Canal, which flow alongside the railroad. Simply put, the metal containers and their ships are too big — too wide and too tall — to fit through the canal. While ships do offload containers at one port and transport them via truck across Panama's clogged highways, the process is slow and unwieldy. And as everywhere else, safety and environmental issues go along with heavy reliance on trucking.

These problems create the new opportunity that the fledgling Panama Canal Railway

Light at the End of the Tunnel? The investors who took over the defunct Panama Canal railroad in 1998 started with little but these grassy tracks. They saw it becoming an important trans-oceanic transport link.

Company (PCRC) hopes to develop. A joint venture between Kansas City Southern Railway and port equipment maker Mid-Jack Enterprises, the company purchased a 50-year concession to revitalize the old Panama Canal Railroad in 1998. KC Southern first realized the potential in the rail line as Panama's ports began to privatize, first with two private container terminals in the mid-1990s, then again in 1996, when the government granted Hutchinson Port Holdings of Hong Kong concessions to operate Panama's public ports on both seacoasts.

PCRC executives are optimistic that their project will be the missing link, creating a land bridge between the two coasts that will establish Panama as a transshipment hub. Vessels too large to fit through the canal's locks will unload some of their containers onto rail cars, where they will travel in less than an hour either to ships waiting at the other port or to warehouses.

Currently, there is no such service in Panama, explains PCRC General Manager Dario Benedetti, since the established method of offloading is far too inefficient and time consuming. As it stands, ships can take up to two days to pass through the canal, including an estimated 24 hours of waiting. Although the new train's capacity is limited, it is likely to make a difference, as ever-larger vessels will be able to carry more containers, thereby reducing per unit transportation costs.

"I see this as an incredibly exciting development," says Rick Ferrin, vice president of Florida's Jacksonville Port Authority and former Panama Canal project manager for the US Army Corps of Engineers. "The efficiencies are extraordinary. The motto of the shipping industry is 'Cheaper, Better, Faster,' and this rail line is going to do that in Panama, for Panama."

Ferrin speculates that ancillary industries will blossom as well, including warehousing and light assembly of parts shipped to the Colon Free Trade Zone. The moves come at a time when Panama is also launching an ambitious plan for commercial redevelopment of its newly abandoned US military bases, with logistics just one of the industries being courted. If the Philippines' experience in attracting Federal Express to set up a major regional distribution center in similar bases the Pentagon left behind there is any model, the Panamanians may be on to something.

"We think the rail link will create even more jobs as the transhipment industry takes off," Benedetti says, seeing little risk of the political sensitivities that affected earlier infrastructure privatizations in the country. "The new government is very much enamored of this project. They are extremely supportive, because Panamanians will benefit economically." The rail will also loosen some of the congestion on the overloaded, traffic-snarled highway and reduce emissions, he adds: "If you have the choice of putting one hundred containers on one hundred trucks, or one hundred containers on one train, it's a no-brainer."

PCRC plans to be fully operational by January 2001. Enthusiasm is high. And based on past experience and current endeavor, its story of railway privatizations goes beyond just sending trains down tracks. The globalization of trading networks has created a demand for a smooth flow of goods through the supply chain. Establishing fast, efficient, responsive rail systems supports this smooth flow and is but one link in a worldwide seamless intermodal transport system that benefits foreign and Latin American economies alike — and is increasingly seen as a model throughout the world. ■



Ann Moline is a business writer whose work has appeared in publications such as "Plants Sites & Parks" magazine and "Washington Business Journal." She also writes for corporate clients.

BROADBAND

REVOLUTION IN THE AIR?

Rob Wright, IFC Corporate Relations

It's come to this:
POTS is panned.

To telecommunications industry analysts, at least, POTS stands for "plain old telephone service." It's a familiar product: the voice and data that run through expensive cables and switches, get wired into walls, and eventually comes to you from just a handful of huge companies that operate under the heavy hand of government regulation.

It is a situation the World Bank Group has been trying to address for years by helping governments privatize, promoting competition and creating independent, competent regulatory agencies. For its part, IFC has been active in financing many new fixed-line and cellular operators. But progress remains slow. There is still tremendous need for growth.

Yet even with new capacity being added in conventional telecom, there is also need for other, faster means of communications that can tap into the potential of the Internet. In much of Central America, for example, fewer than 10% of the people have phones and far fewer have Internet access — an unacceptable situation that new IFC client Convergence Communications, Inc. (CCI), is doing its best to change with a healthy, high-fiber approach.

Telecom is no different from any other industry — the old familiar are getting a run for their money from Internet-related

technology and dare not look away if they still want to be around in five years. The loudest noise banging on the POTS today comes from fast-emerging "broadband" systems. Their fiber optic-based infrastructure blows the phone companies' copper wire away when it comes to moving high volumes of information fast, and at affordable rates.

The trend is just starting to take root in Latin America. But many analysts think broadband is already well on its way to making modern communications much more accessible to people at all income levels and in ways unforeseeable even two years ago.

Among them is Christopher Taylor, an emerging-market telecom and media specialist at ING Barings in New York. He says fiber optic providers are "the hottest real estate in the communications revolution right now" and is sure they "will sooner or later put Latin America's ridiculously expensive long-distance charges into their proper place — the history books."

No fan of the region's privatized national telecom companies, Taylor sees their traditional dominance of the long-distance and international markets "dying" at the hand of inexpensive new broadband competitors. To him, the big telcos can be called only one thing: "dinosaurs." Like their earlier counterparts, they have seen a comfortable climate long taken for granted undergo sudden change. That raises the threat of extinction.

A key test market: El Salvador. With little fanfare, it has become one of the world's most deregulated telecom markets. Since 1996, government reformers have stripped away many of the creaky incumbents' long-held advantages, easing the way for newcomers to try to improve things for consumers with whatever innovative products and price structures they can muster.

The wide-open environment made the country one of the first to draw the attention of CCI, a small, privately held company that two Utah entrepreneurs launched in 1996 after announcing plans to sell their previous US cable television business to Sprint. They based their start-up on faith — faith in a coming "convergence" of cable and telecom. In this imminent New Age, CCI's D'Ambrosio brothers reasoned, any company anywhere with sufficient fiber optic infrastructure could offer a single connection for all the phones, computers, or televisions in a home or business. Video, voice, data — all could come in and out via new delivery platforms, not just the same old one that had always existed. The new marketing opportunities seemed endless.

Impressed with reports they were getting from El Salvador, the D'Ambrosios sent out consultants from Booz-Allen & Hamilton's Mexico City office to conduct a Salvadoran market survey in early 1998. The results showed enormous unmet demand. The country was several years

TIME TO CONVERGE

Name: Convergence Communications, Inc. (CCI)

Business: High-speed voice and data transmission in Mexico, Central America, and Venezuela

Annual Revenues: \$29 million

IFC Role: Took part in a \$60 million private equity financing of CCI in October 1999 to support future expansion, with two other investors (TCW; Electricidad de Caracas), making clear that IFC's involvement was a precondition of their participation. Having a World Bank Group entity involved was seen as an important way of holding CCI's operating countries accountable for their pledges of further deregulation of telecom markets.

Development Impact: CCI's fiber optic-based networks provide new competition to existing carriers, introducing new Internet-based communication products faster than would otherwise appear in these markets.



William Kerr-Smith

Cable Is Able: Once just a way to watch TV, Cablevisa has become a new communications force in El Salvador under CCI's ownership.

behind most of Latin America, only then beginning to privatize a plodding national phone company that made customers wait five years for a new line and then socked them with a \$335 connection fee (almost 20% of the average person's annual income). It had done so little new investment over the years that the backlog of lines to be installed was twice the existing total, of which 80% were confined to one location — the capital city of San Salvador. To call the more than 1 million of their countrymen living in the US, Salvadorans had to pay almost \$1 a minute.

It was not a great advertisement for state-owned monopolies. Seeing a perfect chance to shake things up, in July 1998 CCI swooped in and bought El Salvador's largest cable TV system, Cablevisa, then connected it with Lucent Technologies fiber they bought and installed in a 90 km above-ground ring around San Salvador. To go the "last mile" to reach

subscribers, they often needed no physical connection, just a wireless link-up of microwave transmitters and antennas that was akin to cellular but had far greater capacity and clarity.

At the same time the national phone company, Antel, was finally being privatized, with France Telecom acquiring it for \$275 million and quickly beginning to turn things around. Cablevisa too underwent change under its new owners, fast evolving from an entertainment service to the integrated delivery vehicle of an all-new range of communications services. Within two years, it would become an important local player, offering many new things to help Salvadoran businesses keep up with the rest of the world: customized Web page design, Internet access at speeds of 128K or more, video conferencing rented by the hour, and more. The pricing flexibility that its all-in-one fiber backbone offers frequently allows it to undercut its

larger competitor Antel, which must use a more limited fixed-line system that is 50 years old.

So far the emphasis is on bigger businesses. But Cablevisa expects to cut prices and start selling to small and medium enterprises within a year, then target the household market, offering low rates for Internet-based long-distance and international calling. Once cash flows cover the initial capital expenditure of laying the infrastructure and of staffing up, there will be little reason not to go mass-market.

As innovative as it sounds, the phenomenon is not entirely new to El Salvador. In 1993, when the country was still fresh from civil war and scaring off most foreign investors, IFC financed Antel's first true competitor, pioneering cellular operator Telemóvil. It too started as a high-end product but quickly recouped its fixed costs, allowing it to bring prices down



The Last Mile: Cablevisa can connect to Salvadoran users by microwave transmission, not wire.

enough to broaden appeal and attract two aggressive foreign-owned competitors. Today about 10% of the Salvadoran population uses cellular phones, a higher rate than any other poor country in the world, and probably greater than the number of those in the country having conventional fixed-line phones. The broad access is made possible by a fully deregulated market structure that fosters cheap wireless handsets, the ability to receive incoming calls for free, and variable pricing. For those who want to keep costs down and use cell phones mainly in emergencies, there are prepaid calling cards; for others, monthly packages are available with rates that have fallen by about 50%. Firms that operate in the many remote areas that Antel does not reach find the mobile service indispensable, and in the last year there has been an

explosion of usage by middle-class households and small-business owners who need to stay in touch on the job.

The same scenario may now play itself out again, but on a much larger scale, says World Bank telecom specialist Bjorn Wellenius.

"Broadband uses an entirely different kind of communications network structure from existing systems, but it is the one where the growth in the industry is going to be," he says. "It offers a modular approach that will allow companies like CCI to get into lines of business they may not even be aware of now: expanded e-commerce, distribution of electronic entertainment, far greater use of Internet telephony."

"It shows the importance of introducing competition into a sector to enhance innovation and bring down costs," Wellenius adds. "Think about it: why should communications be any different from shoes, books, or anything else? Shouldn't new producers be allowed to come out with new products, price them however they want, and see whether they catch on?"

Although the CCI deal is the first of its kind at IFC, more are likely to follow.

"We are shifting our focus from traditional networks to the new technologies such as broadband access," says Umberto Pisoni, the lead investment officer on the project. "This investment represents the first concrete example of it."

Wall Street stopped laughing at mavericks like CCI last year when it saw AT&T offer more than \$54 billion to acquire a large US cable TV operator, Media One. Add that to AT&T's 1998 acquisition of a similar company, TCI, and the telecom giant had suddenly spent more than \$100 billion to acquire fiber optic networks. Mainstreamers realized that cable connections could now be used for a whole lot more than watching bad movies or CNN. The broadband era had begun.

With its experience in El Salvador as a base, CCI is fast using its IFC financing to build a regional business, expanding and buying up local firms everywhere from Mexico to Venezuela. In Central America's largest economy, Guatemala, a fast pace of deregulation is also underway to improve on a woeful 5.3% installation rate. CCI has bought both Guatemala's largest Internet service provider and its second largest cable TV operator and has laid a fiber network to compete with newly privatized Telegua, until January 1999 the country's sole operator for local, long-distance, and international service. There, like everywhere else, the story is just beginning.

"All of our infrastructure has room to grow," says CCI's Troy D'Ambrosio. ■



Private health care operators seek openings in the reforming markets of Central and Eastern Europe.

A Healthy

Erik D'Amato

choice

Warsaw

Banacha Hospital is Warsaw's largest public health care facility. It is also a fitting symbol of the ills facing the local health care sector, not just in Poland, but in many surrounding countries.

Mammoth and run-down, the hospital serves countless patients a day, struggling to provide acceptable care with a small fraction of the financial resources available to similar institutions in Western Europe or North America. Lunch carts ply its crowded inpatient wards, serving shallow bowls of thin and watery soup.

They underscore patients' continuing lack of choice and innovation in what is otherwise the world's most successful post-Communist economy. The health care industry's inability to keep up with the remarkable progress shown by the rest of the country is frustrating for all, coming as it does in the one aspect of life where few want to take chances.

At the end of one of Banacha's many long corridors, however, is a sign of a completely different challenge facing the region's dilapidated public health system: competition. It comes in the form of an inviting, freshly decorated private room operated by a fast-growing commercial health care provider.

The renter of the space is a five-year-old firm called Medicover. It is one of a growing number of private companies in Central and Eastern Europe trying to fill in the gaps left by underfunded, overburdened, and inefficient public health care delivery systems. With a \$7 million loan from IFC, it is deepening its presence not only in Poland but in Hungary, Estonia, and Romania and also moving on to explore similar opportunities elsewhere in the region where the need is at least as great.

By financing Medicover and other early moves in Central and Eastern Europe's private health care industry, IFC's goal is not to try to replace public institutions like Banacha with private ones. Nor is it



Courtesy: Budapest Business Journal

Hungary: No fun being sick in an overcrowded public clinic.

to dilute longstanding commitments by regional governments to universal access and quality care. Instead, the goal is to help foster an appropriate mix of private and public health care systems in a period of dramatic sectoral reforms, a mix that can better serve the long-term needs of these countries. IFC and other investors are looking for potentially profitable and productive opportunities in areas such as private hospital management, elder care, and laboratories and diagnostics.

"The crucial question is: How can the management skills, technology, and capital of the private sector be mobilized to improve health care in these countries?" says Michael Swetye, a principal investment officer at IFC. "All too frequently in the region, public hospitals and clinics are absolutely appalling places with outdated equipment and demoralized staff. While the public sector must be dramatically

improved, there clearly is a role for the private sector to help lead the way."

Taking the Pulse

Although they show many differences, the health care sectors of all transition economies share certain problems, including a paradoxical mix of too many hospitals and too little money. It is a legacy of the centrally controlled, supply-driven command economy of their past, and one that has led to two common results: massively overbuilt, poor-quality health care infrastructure and bad usage patterns.

Central and Eastern Europe have far more hospital beds than Western Europe, but a far less healthy population. In Hungary, the percentage of people admitted to hospitals as inpatients since 1989 has been twice that of the United States. Yet Hungary's male life expectancy of 71

years remains the lowest among the 29 industrial nations belonging to the Organization for Economic Cooperation and Development. It is a full six years less than that of its neighbor Austria.

A key problem lies in the fact that the region's enormous health care infrastructure is simply not supported by sufficient financing. Poland, for example, spends only about 5% of GDP on health care, versus 7.5-10% for Western Europe and 10-14% for North America. In absolute terms, the division is more stark.

Measured by purchasing parity, Poland spent \$297 a year per capita on health care during the period 1990-1997, compared with \$2,235 by Germany and \$3,951 in the US. While these statistics are admittedly suspect due to large "gray market" payments and poor data collection methods in the region and possible overspending in some developed countries, they do provide an indication of the problem.

The health care needs of rapidly aging populations also threaten to weigh heavily on the national finances of some higher-income countries in the region, most of which are already facing fiscal pressures from expenditures on infrastructure and reform of other social services, such as pension systems. But raising taxes to raise health expenditures is not easy, as tax rates are already punishingly high in the region. New solutions must be found.

Private Entry

Faced with such challenges, most governments in the region are looking for ways to draw private investment and expertise into their health care sectors. They realize private sector entry can promote cost-consciousness and better care, as well as help finance the massive investments in information technology and advanced pharmaceuticals demanded by modern medicine. Poland is the early leader in reform efforts, having enacted a massive plan in January 1999 to devolve health coverage from the

central government to regional authorities, to grant institutional and managerial autonomy to public hospitals and other providers, to separate the financing function from the provision of services, and to lay the groundwork for eventual competition between public and private service providers. In January of this year, Hungary moved forward on the path to reform as well, privatizing its 6,859 family medical practices. Most other countries in the region, from Romania to the Baltic republics, are also allowing or encouraging private firms to enter the health care arena.

It all adds up to an unprecedented opening for daring entrepreneurial companies willing to brave the waters. An early leader in the field is Medicover. Backed by Swedish venture capitalists who have been successful throughout the region in other industries, it focuses on providing prepaid integrated health services to individuals through their employers. It

does this via both a combination of stand-alone clinics staffed by its own full-time personnel and contracts with specialists and public hospitals like Warsaw's Banacha. But as a first-generation player in a high-risk field, it is unable to draw commercial financing, making IFC support critical.

"There is almost no access to private capital for companies in this sector that are trying to develop and grow in this market," says Dr. Paul Lenz, Medicover's Warsaw-based CEO. "IFC is one of the very few institutions that can evaluate a start-up business in this sector and act."

Cover to Cover

For the employee with Medicover benefits, coverage can simply mean basic standards of comfort and convenience that the public system rarely provides: the ability to walk into a clean, well-appointed clinic with an appointment to see a medical professional, and assurance that the

appointment will actually occur as scheduled. It can also mean a level of medical care higher than that found in public clinics. For the employer, who usually pays for the benefits as part of a compensation package, coverage can mean a healthier, more productive, and better-motivated work force. Medicover can also help companies analyze and change their practices to lower occupational health risks and better comply with government regulations. It currently does so for more than 1,200 companies in the region, serving 37,000 people in Poland alone. Although this is a small total in a country with a population of nearly 39 million, the quality of care and the overall approach Medicover offers leave it a significant lever of change in a system that desperately needs transformation.

One immediate benefit for both the employer and the country as a whole is a drop in sick days due to routine medical appointments and untreated illnesses.

A Hurting System

There is much to improve in Central and Eastern Europe's beleaguered state-run health care systems, which are holdovers of a discredited past—cost-free, but full of frustration. They run on a fraction of the funding of counterparts in the West, where people lead much longer and healthier lives. Data from the selected countries below paint a bleak picture of a situation that may improve with increased private sector participation.

Country	Annual Health Spending (per capita)	Annual Health Spending (share of GDP)	Life Expectancy (years)
Bulgaria	\$287	6.7%	71
Hungary	\$459	6.5%	71
Poland	\$297	5.2%	73
Romania	N/A	N/A	69
Russia	\$262	5.8%	67
Ukraine	N/A	N/A	67
European Union (avg.)	\$1,810	8.9%	77

N/A: Not Available

Source: World Bank, *World Development Indicators 1999*

"There are staggering social costs associated with absenteeism — the number of sick days at many firms here would bankrupt a company in the United States," says Lenz, who before coming to Medicover served for 16 years as head of a multispecialty group practice in New Jersey with \$250 million in annual revenues.

Agreeing wholeheartedly is client Aldona Janeczko of Vogel Publishing in Poland. Having her employees enrolled in Medicover "saves a lot of time," she says.

"Medicover offers a very high level of service," she adds. "Their staff is always professional and friendly. In my opinion it is a very important positive thing for our country, especially for businessmen traveling frequently, as they have their own centers in all the biggest towns in Poland."

By law, most employers in the region must provide annual checkups for their employees. But checkups usually require employees to see a variety of specialists, and the lack of integrated facilities can mean a lost work day for each visit.

Trusted Physician: Paul Lenz, Medicover's doctor-turned-CEO.



Courtesy: Medicover

Medicover, however, helps workers see all necessary doctors in one day.

One typical enrollee in Warsaw, a 22-year-old call-center operator named Agnes, said there was no substitute for having an all-inclusive doctor's appointment she knew would be kept. Under the public system, seeing everyone necessary for a routine checkup would sometimes require workers like her to take a week off from work, with most of that time lost to waiting.

"The atmosphere is nice here, the service is friendly, and it's easy to contact them by telephone," she said. "You never wait more than five minutes for your appointment."

Another prime selling point: the company's emphasis on preventive and occupational medicine. These steps make it a market leader, helping to keep clients healthy and reduce the need for costly trips to the doctor in the first place. As early as 1998, for example, Medicover launched a drive to promote

breast cancer prevention in Poland, offering training sessions on proper breast self-examination techniques and providing free mammograms to high-risk groups of women. It is also a regional pioneer in promoting health in the workplace, developing training modules for local occupational medicine specialists and productivity-enhancing health education programs for employers.

Gold, Silver, and Gray

Perhaps the biggest hurdle facing Medicover and other commercial entrants in the region's health sector is the fundamental lack of a popular consensus regarding the role of private money in financing health care and the widespread expectation that such services lead to improperly unequal outcomes.

"There is a mindset that health care is a right and not a privilege and therefore it must be guaranteed by the state," Lenz says. "And while people accept that there are certain payments they must make to get into the system, they still have a difficult time accepting the idea that this payment can be insured."

By "certain payments," Lenz means the so-called "gray money," which has long been an unfortunate necessity for gaining access to or receiving timely care in health networks plagued by queues and shortages of equipment and supplies. The region's doctors are paid far less than their Western counterparts and often demand "supplemental" payments before treating patients. The outcome of these payments, however, can be frustratingly uncertain.

The problem, Lenz says, is that success in the system often depends on patients not just making hidden payments, but having connections. "The difficulty patients have now is that even if they have gray money, they can't access the system. You need some relative, some friend of a friend of a friend or referral so that you can pay the gray money. You can't just walk in. I look

at private insurance as a way to overcome these bottlenecks."

For the individual patient, this new form of access provides a range of benefit plans tailored to the needs and budgets of clients. The most common benefit schemes, which cost companies between \$25 and \$40 a month per employee, are

For the doctors who work with Medicover, the existence of both a private enclave of high-quality and convenient care and a multitiered system of access within it can at first be difficult to swallow. But they say the grim realities of the public system — the months-long wait for treatment or even



Friendly Reception: Workers enrolled in a Medicover plan can count on good service.

called the "green," "white," and "blue" plans and offer preventive exams, vaccinations, pregnancy care, and other forms of primary care, as well as specialist consultations and ambulance and 24-hour hotline services — just about everything short of inpatient hospitalization care, which is left to the public hospital system. Meanwhile, Medicover also offers more comprehensive "silver" and "gold" plans that provide complete private care, including hospitalization in a private room, like that in Banacha hospital. Most contracting companies offer the more basic plans to their workers and lower-level managers, while reserving the comprehensive plans, which cost up to \$100 a month, for their senior executives.

tests and the need for most patients to make significant under-the-table payments — make Medicover's positive example more than worthwhile.

"Of course it sometimes bothers me, but what can we do?" asks Dr. Dorota Szczesniak-Slomska, an internal medicine specialist working with Medicover after a decade in the public health system. "The only hope is that someday the public system will reach the level that we have here."

In the meantime, Dr. Szczesniak-Slomska says, every chest X-ray or service that Medicover provides helps take pressure off the underfunded and reform-whipped public health care system. In addition,

Medicover provides extensive pro bono services to uncovered patients in each market in which it operates. In Poland, that means furnishing free outpatient services to 10 orphanages left out of the public system and sponsoring a charity organization for children with cancer. In Romania, it means having full-time staff volunteer each week in an "adopted" village.

Every bit as important as Medicover's direct activities is the example it can provide of improved quality in medical services. The firm developed systems to screen doctors and nurses and has worked out and put in place internal quality-control systems virtually unknown in the region, an achievement underscored by the firm's status as the first medical institution in Poland to receive an ISO 9000 quality certificate, attesting to its meeting demanding best-practice standards.

To Lenz, Medicover is simply trying to demonstrate that, with adequate financing and expertise, quality medical services in convenient and comforting surroundings are possible in this part of the world. Indeed, they are something for average people to expect and demand. "By creating the awareness that it can be provided, we are creating the demand," he says. ■

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