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IFC

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

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The IFC Review of Private Investment in Developing Countries

Impact

Fall 1997 Vol. 1, No. 2

In this issue

2 **Water Sector Privatization:**
The Manila Gorilla



Metropolitan
Waterworks and
Sewerage System

8 **Management:**
An African Alternative



11 **Mexico:**
A Different Kind of Revolution

Client Perspectives

15 Sir Gordon Wu, Hopewell Holdings

Infrastructure

16 **Czech Republic:**
Power Sector Landmark

Capital Markets

19 **CANTV:**
Comeback of the Year

People & the Envir

22 **Re: Corporate Citizenship**

Just Out!

26 New IFC Publications

Mailbag

To the Editor

Welcome Aboard

Congratulations to you and your colleagues on your new publication, *Impact*. I found the articles interesting and the style refreshing. The piece on foreign direct investment was excellent and I was especially pleased to see the feature on Morocco and Banque Marocaine du Commerce Extérieur (BMCE), one of our newest members from North Africa!

Charles H. Dallara
Managing Director
Institute of International Finance, Inc.
Washington, DC

IFC in Argentina

I was pleased to learn of this new magazine of IFC. I think that the first issue's stories about NahuelSAT and Acindar in Argentina are good examples of the distinctive goal of IFC: its contribution to development.

In the NahuelSAT project IFC was a pioneer. Carrying out this risky proposition — with complexity of technical risk, huge up-front investments, and uncertain demand — IFC has paved the way for other investors, mainly private, in this new area of infrastructure. This kind of project will have a great developmental impact in Argentina and Mercosur through a better integration of territories within the country and among countries within the area. Moreover, helping Argentina to enhance its communications will contribute to reducing country costs and making it more competitive.

In the case of Acindar we see how IFC, giving comfort to long-term lenders by mitigating some of the risks involved and providing technical advice, helped the company to solve its financial problems that have been exacerbated by the Mexican peso crisis, and to restructure its operations.

Summarizing, in both cases IFC devoted resources to areas where it has provided true additionality.

Enrique Ruete
Chairman, HSBC-Roberts SA
de Inversiones
Buenos Aires

The Need for Local Funding

Impact is a welcome addition to IFC's list of publications, renowned for the quality of their contents but not generally considered a light read. *Impact* presents some interesting examples of IFC's work in a readable manner, highlighting the wide range of IFC's activities.

One major achievement was the financing of the Via Dutra toll road project in Brazil in which the IFC role in assembling a B-loan package was a critical feature in completing the project finance. IFC's ability to catalyze finance for such projects is a powerful example of its additionality. However, infrastructure is ideally financed from local sources for a variety of reasons including avoiding the problems caused by currency depreciation. Although local savings in many countries are low, there are possibilities ranging from money under the mattress to pension funds and returning capital flight monies. The debacle in Albania over pyramid schemes indicates that even in the most unlikely economies local savings exist. One challenge for international development finance institutions is to provide the same sort of comfort that B-loan providers enjoy to local investors thus encouraging the growth of local capital markets.

Sean Magee
Director, Corporate Relations
Commonwealth Development
Corporation
London

Market-Based Microfinance

Your article *Credit, Where Credit is Due: The Changing Face of Microfinance* accurately identifies the key challenge facing the microfinance field: how to make this extremely effective social mission financially viable. As it pointed out, commercial viability is simply the only way microlenders can summon the resources to reach a significant percentage of the world's three billion poor. Several private sector microfinance institutions, including ACCION's affiliate in Bolivia, Banco Solidario SA, have already demonstrated that it is possible to meet the needs of the poor and still turn a profit.

Recognizing the power of such programs, two Latin American governments have just announced groundbreaking microfinance initiatives of their own. In a major departure from the past, however, both efforts will be 100% privately managed. MIBANCO, the Peruvian government's much-touted bank for the poor, will be privately capitalized and managed. And in Argentina, the Fondo Fiduciario de Capital Social (FFCS), a US\$40 million government microenterprise fund, will be managed by a new private sector company, FONCAP SA.

ACCION International, a U.S.-based nonprofit, served as an adviser on both projects. Our goal was to ensure that the two efforts were structured to be permanent, sustainable over the long term, and free of the waste and political pressure that have traditionally plagued government-sponsored social welfare efforts.

At a time when governments and multilaterals are increasingly channeling funds to microenterprise development, both MIBANCO and FFCS will serve as important models of how to establish microfinance institutions that will be financially sound, well managed, and focused on their true purpose: serving the poor.

Maria Otero
Executive Vice President
ACCION International
Washington, DC

In Defense of Subsidies

Impact is a welcome addition to the avalanche of journals on the development theme, and I found your first effort very interesting. But I am prompted to drop you a line in reaction to your article, *Credit, Where Credit is Due: The Changing Face of Microfinance*. It smacks of hype, the type of hype we've been getting of late as we desperately turn to "good examples" of aid.

Microfinance seems the flavor of the month but it is not nutritious: it is not helping much to get the poor out of poverty given the fact that the rates charged are unusually above the pro-

ductivity of the borrowed capital.

I believe this on the basis of a priori reasoning buttressed by field work as a development economist who has worked for the World Bank and also been an Executive Director and, in addition, has some acquaintance with the subject as a consultant. I've been to Bangladesh of late and reviewed RDI2, Bangladesh Rural Advancement Committee (BRAC) and Grameen operations. On the basis of my own observations and analysis and reading World Bank evaluation reports, I challenge anyone to demonstrate that the poor in significant numbers are getting out of poverty by this route. The repayment record reflects the desperate need for capital and even if it does not generate the requisite income, it has a payoff in terms of women being given recognition by virtue of loans from strangers.

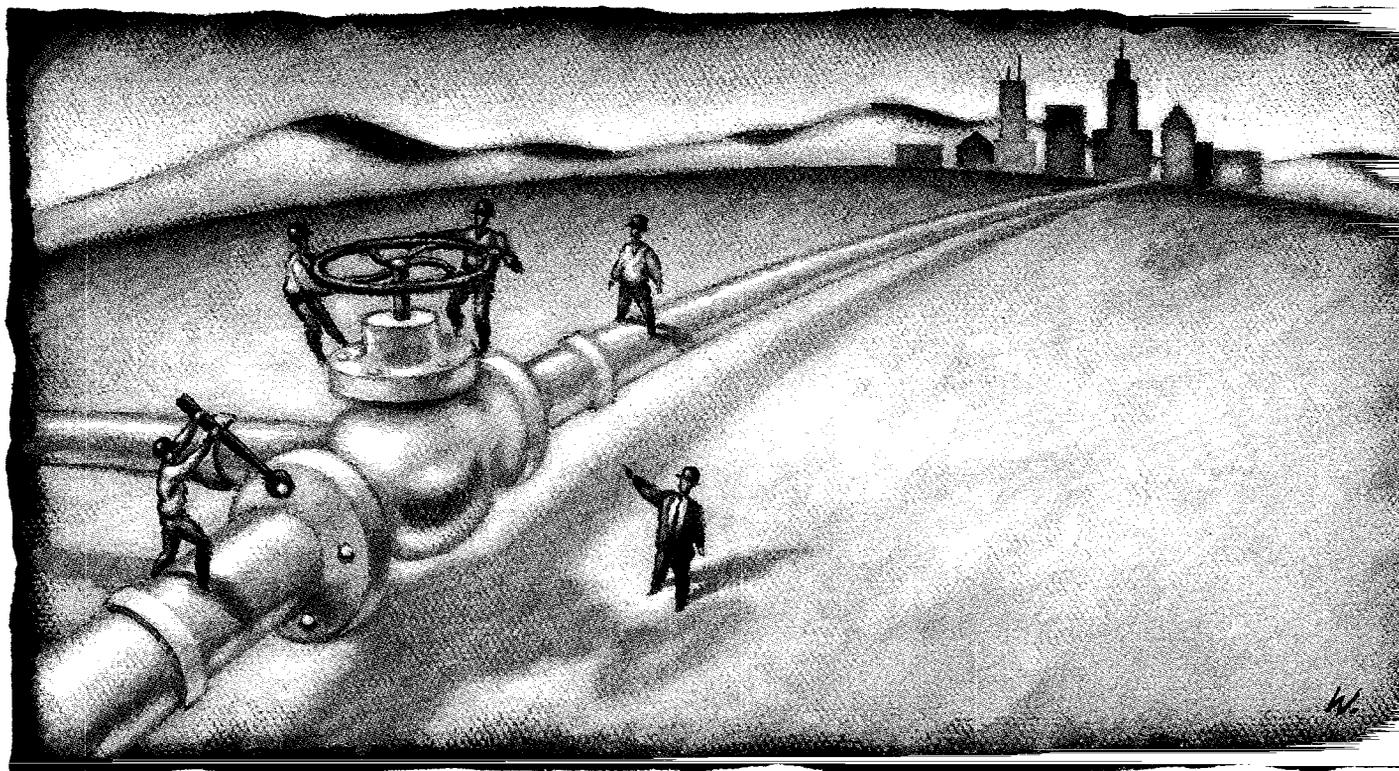
If IFC will only support those microfinance institutions that are profitable financially, it will be supporting those that charge rates that are high. For without subsidies, this approach to development is not going to be effective. One must remember that the terms of trade are usually against the peasants (who have little political clout) and providing subsidies only evens the scales. If the subsidization issue precludes IFC's involvement, so be it. Better honesty than indulging in hype and losing credibility, not to mention a positive impact in alleviating poverty.

Morris Miller
Adjunct Professor
University of Ottawa
Ottawa, Ontario

*We welcome letters
of up to 500 words.
They may be edited.
Fax: 202 974 4384
Email: Impact@ifc.org*

Manila: Private Water Works

Scott MacLeod, Tony Clamp and Luc Dejonckheere
IFC Corporate Finance Services Department



Water...

Everyone needs it. When it is scarce, people will do whatever it takes to get it — especially in the developing world, and especially the poor.

The need for improving the delivery of water and sanitation services almost defies imagination. Anticipated demand in the developing world is estimated to require at least US\$600 billion worth of new water projects during the next 10 years alone, an amount larger than the current GDP of China. But there is unfortunately little chance this can be achieved. Deep-rooted problems have long choked the sector: shortages of government funds in the face of competing demands for other infrastructure and services from an ever-growing population . . . reliance on inefficient, uncoordinated and highly centralized government bureaucracies . . . use of subsidies that perversely encourage wastage . . . and neglect of adequate health and environmental factors when deciding how to allocate funds.

Until these formidable obstacles are overcome, the developing world's poor will continue to suffer disproportionately for the lack of access to quality water and sanitation. Some of them buy water from street vendors at five or more times the rate charged by the public utilities whose systems do not reach their homes. Others have no choice but to risk their health by using water from unsafe sources.

“Current water management practices and policies have resulted in stark and terrible failures,” says the World Bank’s vice president for environmentally sustainable development, Ismail Scrageldin. “But the problems we witness today are only an indication of what may lie ahead. Current trends in the growth of population, urbanization, industrialization, and income will not allow us to continue current practices without crippling our health and our economies, as well as causing irrevocable damage to our environment.”

By any standard, the picture is grim. Yet there is hope, and much of it lies in the private sector. It lies with motivated entrepreneurs who see this crisis as an opportunity and can bring together the ageless forces of supply and demand to improve service and create new jobs, profits, and tax revenues.

The experience of Argentina and other countries in the early 1990s shows that developing countries can reap rapid gains through the properly considered transfer of poorly performing public water systems to private control. It is a story whose momentum is building.

This year IFC has had the privilege of serving as adviser to the government of the Philippines in the world's largest water privatization to date. It is a transaction that may emerge as an important model as the world looks for new ways to quench its ever-growing thirst for water.

On August 1 Manila's public water utility, the Metropolitan Waterworks and Sewerage System (MWSS), handed all responsibility for operational management and future capital investment to two new majority Philippine-owned private companies that together are expected to invest up to US\$7 billion over the next 25 years.

Tangible benefits of private sector operation quickly followed: that same day consumer water rates tumbled, and the new companies launched a series of much-needed physical and managerial upgrades that government had been unable to undertake. Before privatization, a third of the Manila area's residents were not even connected to the system, the vast majority of them poor people who had no choice but to pay independent vendors exorbitant rates for this most basic human need. The new private operators, however, are legally bound to provide universal water coverage to the population within 10 years.

"To sum it up, what we're going to have is better service for lower prices," said MWSS Administrator Angel Lazaro. "There are many things that we'll be getting this way that we couldn't have had before: more connections, a wider service area, better water pressure, lower losses, and far greater overall efficiency."

Trouble Ahead, Trouble Behind

The handover successfully culminated a complex two-year process. It began in 1995, when far-sighted Philippine officials had examined projections showing their capital city's population would double in 30 years. They determined that the creaky, heavily indebted MWSS system simply could not deliver water to all who would need it. Spurred on by the success of their country's power sector privatization in ending crippling brownouts a few years earlier, they worked with parliamentary leaders to pass a Water Crisis Act, setting the framework for radical change in the sector.

Change was long overdue. *The Manila Standard*, one of the country's leading newspapers, wrote that the city's water consumers had grown "quietly convinced that no other arrangement could possibly be worse than the present situation," one in which "the poor bear the greatest economic burden of bad water service." The chairman of MWSS, Public Works and Highways Secretary Gregorio Vigilar, readily admitted that the agency was "one of the most maligned

The World's Biggest Water Privatization

Name: Metropolitan Waterworks and Sewerage System (MWS) a government agency with roughly US\$1 billion in assets and US\$150 million in annual revenues

Location: Manila, Philippines

Service Area Population: 11 million (1996)*

Method: Competitive bidding for two 25-year concessions for separate geographical service areas together covering all of Met Manila; once technical qualifications were met, award made on the basis of the lowest proposed average consumer tariffs; the same bidder was not allowed to win both concessions

Adviser to MWSS: IFC

Closed: July 31, 1997; concession commenced August 1, 1997

Winning Bidders: (1) Zone East — Manila Water Co. (Ayala Corp./United Utilities/Bechtel Enterprises); (2) Zone West — Maynilad Water Services (Benpres Holdings Corp./Lyonnaise des Eaux)

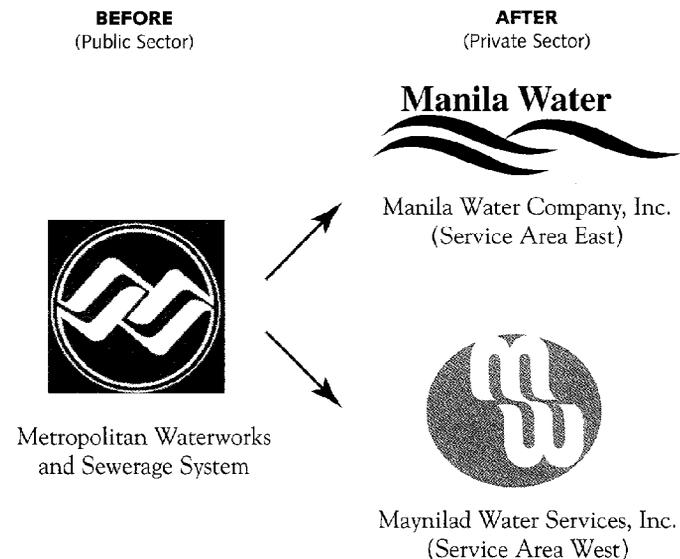
Rate Cuts: Zone East: 74%; Zone West: 43%

Mandated Service Improvements: Improving water connections from 67% to universal coverage in 10 years and sewerage and sanitation connections from 8% to 83% in 25 years

Anticipated Total Capital Investment: Up to US\$7 billion over life of concession (IFC estimate)

* *The largest previous water privatizations to date:*

Agua Argentinas (Service area of 8.6 million, Argentina, 1993; and Thames Water (7.2 million, UK, 1989)



organizations in the Philippines, and with good justification.” With 8,000 employees, he pointed out, it was probably between two to four times overstaffed and encumbered by a long history of confrontation in labor-management relations.

“These Manila concessions clearly rank as the number one water privatization in the world to date... The transparency and fairness of the whole process set out by IFC and MWSS was a major attraction.”
— Nigel Hendley, United Utilities

MWSS could make service available only 16 hours a day on average, often with insufficient water pressure. People who could afford them bought back-up tanks; those that couldn't went without.

Manila's water service coverage had become one of the lowest among major Asian cities, with its system offering connections to only 67% of area residents for water, and to only 8% for sewerage. And although it was in the enviable position of being a monopoly seller of something that everyone needed, MWSS could not make the necessary improvements in its system. This was due in part to a financial crunch that stemmed largely from its loss of a full 55% of the system's water through leakage and theft. How? Old, leaky pipes and obsolete meters certainly contributed, as did unscrupulous parties who stole large volumes of water, either to keep for themselves or illegally sell to others. The industry calls this phenomenon “non-revenue water.” But by whatever name, the fact remained that MWSS was losing most of the only product it had to sell.

MWSS clearly had many problems. Once it decided on privatization as a means to address them, the Philippine government began looking for an adviser to help it prepare and execute a transaction that, it insisted from the start, had to be fully transparent in order to succeed.

The government saw creation of a process with complete integrity as the best way to attract world-class sponsors who could shore up the system. But it knew that attracting them would not be easy. Audited financial statements showed that MWSS was barely breaking even on annual revenues of US\$150 million, leaving no money available for system rehabilitation and expansion. No investors were likely to come to the table unless the privatization process was well conceived, giving them access to adequate information and a clear bidding process. In addition, the transaction structure itself needed to be prepared, including design of appropriate legal and regulatory frameworks and contract documents.

Given the political sensitivities involved in seeking private companies to take over the capital city's water and sewerage system, the Philippine government wanted to be advised by a multilateral institu-

tion whose presence could both assure the general public and ensure fairness and transparency in the privatization process. The development challenges and commercial aspects of the task made it one ideally suited for the private sector arm of the World Bank Group.

Getting Started

In November of 1995 the Philippine government turned to IFC, which had built a global name for itself in water in 1993 by organizing initial financing for the developing world's biggest previous privatization in the sector, the US\$4 billion Aguas Argentinas concession in Buenos Aires. The need in Manila was even more massive and could only be met by assembling a large inter-disciplinary team of expert consultants. That same month an advisory contract was agreed whereby MWSS would pay IFC a fixed retainer fee for the preparatory phase of the assignment, plus a more substantial success fee payable only upon successful completion of the privatization. In addition, MWSS agreed to pay the fees of the various consultants recruited into IFC's team, which consisted of Sogreah Ingénierie (engineers, France); ACCRA Law (lawyers, Philippines); Cleary, Gottlieb, Steen & Hamilton (lawyers, United States); Punongbayan & Araullo (accountants, Philippines); and National Economic Research Associates (economists specializing in utility regulation, United Kingdom).

IFC's special contribution to the process as a development institution was to bear in mind the interests of all stakeholders — the different branches of government, the consumers, labor, and the investors — and strike an appropriate balance that satisfied and ended in financial closure. For its client, the government, the IFC team quickly identified four overall goals: (1) transferring the financial burden for providing water to Manila to the private sector; (2) improving service standards while rehabilitating and expanding the system; (3) increasing operating efficiency; and (4) minimizing the tariff impact on consumers.

The ability of the bidders to reach these goals was to hinge on their perceived ability to reduce non-revenue water in the early years, increase operating efficiencies, and meet the anticipated growth in demand across the system. IFC thus drew up a 25-year concession agreement with a total estimated investment requirement of US\$7 billion that called on potential bidders to:

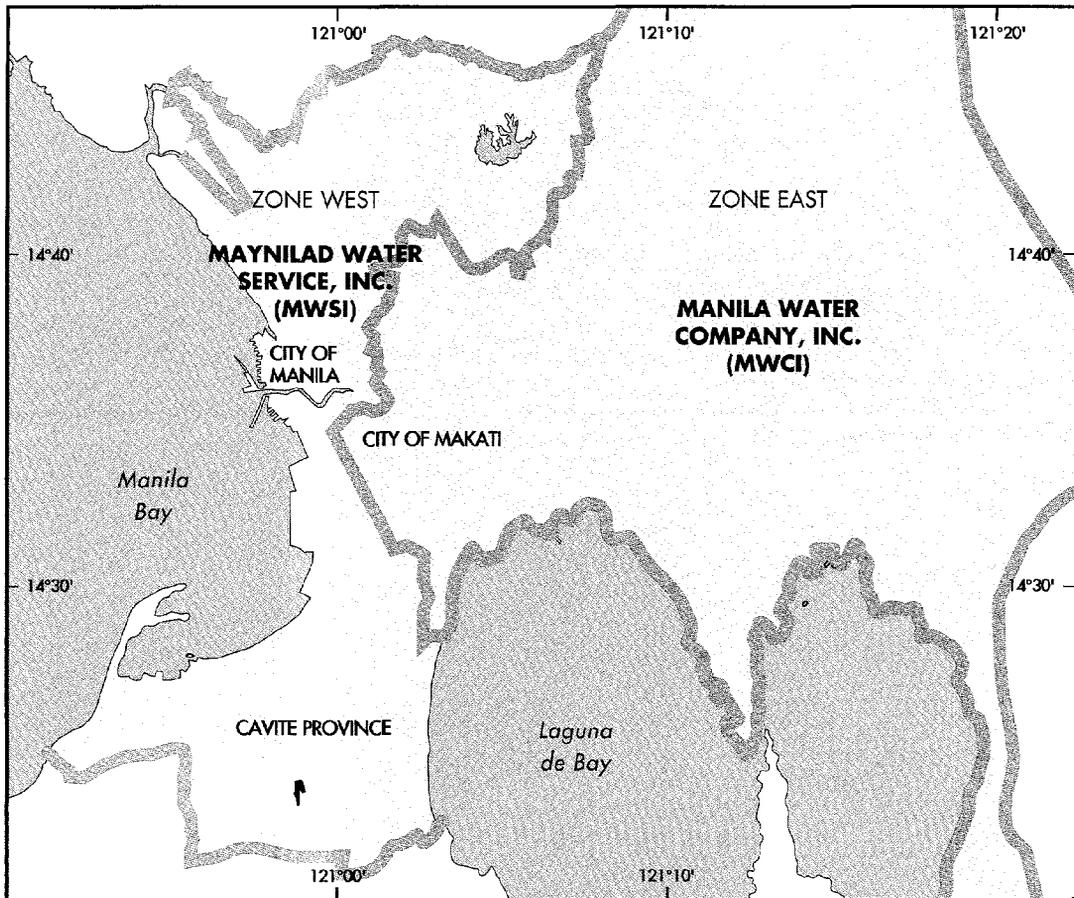
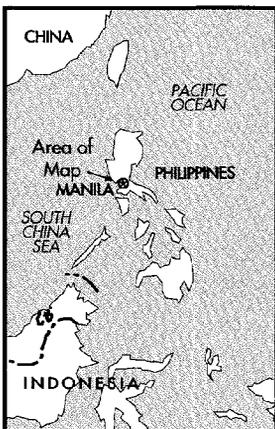
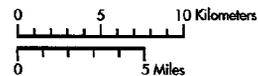
- elevate water pressure throughout the system to 16 pounds per square inch;
- offer uninterrupted 24-hour water service within five years;
- comply immediately with Philippine national drinking water safety and water effluent standards; and
- provide universal water service coverage within 10 years and 83% sewerage and sanitation coverage by the end of the concession period.

It was quite a wish list, especially since bidders realized from the outset that once all technical qualifications were met, selection was to be made on the basis of price alone. Under the rules of the bidding, the winners would be whoever could find a way to do the job with the biggest initial water rate cuts. These were cuts that could not be

PHILIPPINES METROPOLITAN WATERWORKS AND SEWERAGE SYSTEM

ZONE BOUNDARIES

This map was produced by the Map Design Unit of The World Bank. The boundaries, colors, denominations and any other information shown on this map do not imply, on the part of The World Bank Group, any judgment on the legal status of any territory, or any endorsement or acceptance of such boundaries.



Existing MWSS Service Area: Divided between Zone West and Zone East.

adjusted except for inflation and some other carefully specified events beyond the control of bidders for the first five years. The key to profitability thus would be rapid reductions in water losses, as Buenos Aires had already shown could indeed be done.

The One Shall Become Two

Given the enormity of Metro Manila (population 11 million), the IFC team recommended that the Philippine authorities divide the unitary MWSS system into two new concession areas. This structure was seen as a means of promoting competition in the bidding process, balancing the potential negotiating power more evenly between the concessionaires and the post-privatization MWSS regulator, and providing an independent benchmarking of performance. It also offered the availability of an alternative if one concessionaire failed to meet its obligations and needed to be temporarily replaced. But each area's single concessionaire was to have the sole right and duty to manage, operate, repair, and upgrade its water and sewerage area.

The existing service area, covering all of the metropolitan area of Manila, was consequently divided into two geographically separated zones: Zone West, including the old Manila and the southern province of Cavite, representing 60% of the population; and Zone East, including much of the Makati business district and the

expanding suburbs of the east and representing 40% of the population (see map, above). For bidding purposes it was ruled that, while all competitors had to bid separately on each of the two zones, the same bidder could not win both concessions. A "composite rate" system was to be used to select the winning bidder in the event that one bidder submitted the lowest rate for both.

Under terms of the concession agreements, the concessionaires were to be responsible for funding all MWSS debt service obligations. Since these agreements effectively required far more capital expenditures in Zone East, the concessionaire in this area was given responsibility for assuming only 10% of MWSS's existing government-guaranteed debt obligations of more than US\$400 million to

"What we're going to have is better service for lower prices."
— MWSS Administrator
Angel Lazaro

the World Bank, Asian Development Bank, and others. The larger Zone West, lying alongside Manila Bay, needed less investment and thus would otherwise be more attractive to bidders. It was saddled with the remaining 90%.

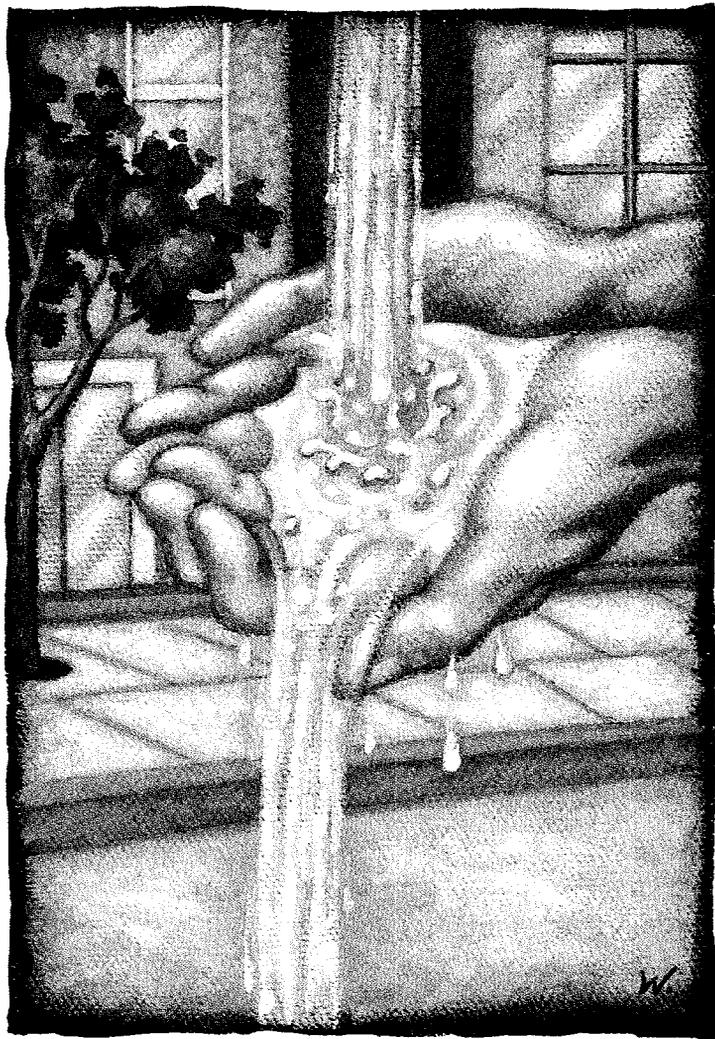
In late 1996, MWSS reduced its workforce from 8,000 to under 6,000 in recognition of serious overmanning. It subsequently developed an arrangement where all its employees who wanted them were to receive jobs with the new concessionaires for at least an initial six-month probationary period. All employees were to receive a retirement package prior to transfer to the concessionaires, at a combined cost to MWSS of more than US\$70 million, while any staff losing their positions after the probationary period would receive a top-up payment from the concessionaires.

While there were some inevitable political fireworks at first about these labor issues, IFC's colleagues at the World Bank arranged for both MWSS labor representatives and management to visit Buenos Aires to review how the Aguas Argentinas privatization had been carried out. They saw that the former public sector workers there who stayed on with the new private operators received better work terms and conditions than before, and that those who left received generous severance packages and often found good jobs elsewhere in the local water industry. This exposure helped alleviate MWSS labor leaders' fears of the privatization's effect on employees. The way the government handled many of the privatization issues ultimately meant that the awarding of the concessions would have few visible critics in Manila.

Auction Block

Since most expertise in private water supply came from outside the country, bidding terms allowed international consortia to be formed, as long as ownership was at least 60% Filipino, as the national constitution requires of any entity that controls utilities. Ultimately, 10 firms each paid US\$25,000 for the right to undertake due diligence, with eight of them later linking into four competing bidding consortia.

On January 6, 1997, each of the four bidding consortia submitted bids for each of the two concession zones. Bids comprised two sealed envelopes: one containing a technical proposal, the other the financial proposal (i.e., the rate to be charged the consumers). The one with the technical proposal was immediately opened and subjected to an intensive two-week period of assessment by an IFC working group chaired by MWSS that judged the technical competence of each consortium's business plan on a "pass" or "fail" basis. With four of the world's most prestigious international water companies and the Philippines' most successful commercial entities involved in each consortium, it was reasonable to expect that each should pass. They did.



Eric Westbrook

On January 23 the financial bids were opened in a public ceremony held at the Development Bank of the Philippines. When the bids were opened, the consortium consisting of Philippine conglomerate Ayala Corp., United Utilities of the United Kingdom, and Bechtel Enterprises of the United States had bid so aggressively that it was the clear winner of both concessions. According to the bidding mechanism, it was then awarded only one: Zone East. The concession for Zone West then went to the runner-up for that concession area, the group led by another Philippine conglomerate, Benpres Holdings Corp., and Aguas Argentinas' lead sponsor, Lyonnaise des Eaux of France.

The average price cuts for consumers contained in the winning bids were dramatic. In Zone East, they dropped by 74%; in Zone West by

43%. In both cases this was much more than it had been in Buenos Aires, where the immediate rate drop was about 17%.

How was it possible? Because of the long-term attraction of business opportunities in a system that was due to be greatly expanded and rapidly cut its losses. Projected demand growth and additional efficiencies in the system made it an attractive proposition for investors over the full 25-year term of the concession, and allowed them to charge less than the current government operators.

Number One

"These Manila concessions clearly rank as the number one water privatization in the world to date," said Nigel Hendley of United Utilities, which has 20 million water customers in the United Kingdom, Australia, Mexico, Malaysia, and other countries. "They are the largest competitively bid water concessions and pioneer a path for many of the world's megacities to follow. We were very keen to be the international operator for such a prestigious project, and our partner Bechtel Enterprises was equally keen to take a leading role in the development, financing, and capital investment management program. And our local partner, Ayala Corp., was also extremely interested in adding to its portfolio of infrastructure ventures and strengthen its move into utilities.

"The transparency and fairness of the whole process set out from the start by IFC and MWSS was a major attraction," he added. "Now, our consortium will be able to manage the system more effectively than government for reasons of clarity of management objectives, incentives to maximize efficiency, and freedom to raise finance to achieve defined service obligations. This is not to denigrate the previous management or workforce, but simply to recognize the freedom to manage, together with clear accountability, that privatization brings."

With the price cuts in place, the burden for improved service is now on the private operators, who have christened themselves as "Manila Water Co." in the East Zone and "Maynilad Water Services" in the West. They will have to live up to the performance standards set in the concession agreement. But there is no denying the way the high-profile assignment and its profit potential present strong motivations to do so, as do their combined obligation to pay in US\$200 million in capital and post US\$180 million in initial performance bonds.

President Fidel V. Ramos's strong political leadership was invaluable. When he announced the commencement of the concessions at the Malacañang Palace on August 1, the Philippines had every right to be proud.



August 1, 1997: Philippine President Fidel V. Ramos (second from left) raises the privatization agreement marking handover of Manila water utility MWSS to the private sector. Joining him (from left): Public Works and Highways Secretary Grigorio Vigilante, MWSS Administrator Angel Lazaro, Eugenio Lopez, Jr. of Benpres Holdings, and Fernando Zobel de Ayala of the Ayala Group of Companies.

The Timetable

IFC's advisory contract in the privatization of the Manila water utility MWSS called for this ambitious timetable, with bidding on the new concessions to occur within 14 months:

- advisory contract signed/IFC team starts work: November 1995
- pre-marketing to investors: March 1996
- start of investor due diligence: May 1996
- MWSS board approves structure: August 1996
- investor pre-qualification: October 1996
- bids submitted: December 1996
- bids opened: January 1997
- contracts awarded and signed: February 1997
- all legal conditions of contract satisfied: July 31, 1997
- start of private sector operations: August 1, 1997

World-class operators, in partnership with highly respected Philippine partners, had taken control of the MWSS system and pledged to improve it dramatically, and at a far lower cost to consumers than government could have done. The world's knowledge base of water privatization had been significantly widened, and the contribution of the US\$7 billion in new investment will provide significant support and stimulation for the expansion of the Philippine economy.

Noting that this anticipated capital investment figure exceeds the total amount of demand, savings, and time deposits in the national financial system, Philippine Senator Raul S. Roco summed it up well: "We should make sure that the news about the Philippines remains good. Our water project must become a case study for the world in how a democracy adroitly balances the interest of government, business, and the public at large." ■

IFC's MWSS Privatization Team: Tony Clamp, Luc Dejonckheere, Jerry Esmay, Brenda Gbolie, Tony Lim, Scott MacLeod, Adil Marghub, Josette Mendoza, Michael Oraro, Partho Sanyal.

Managing for Change ...in Africa

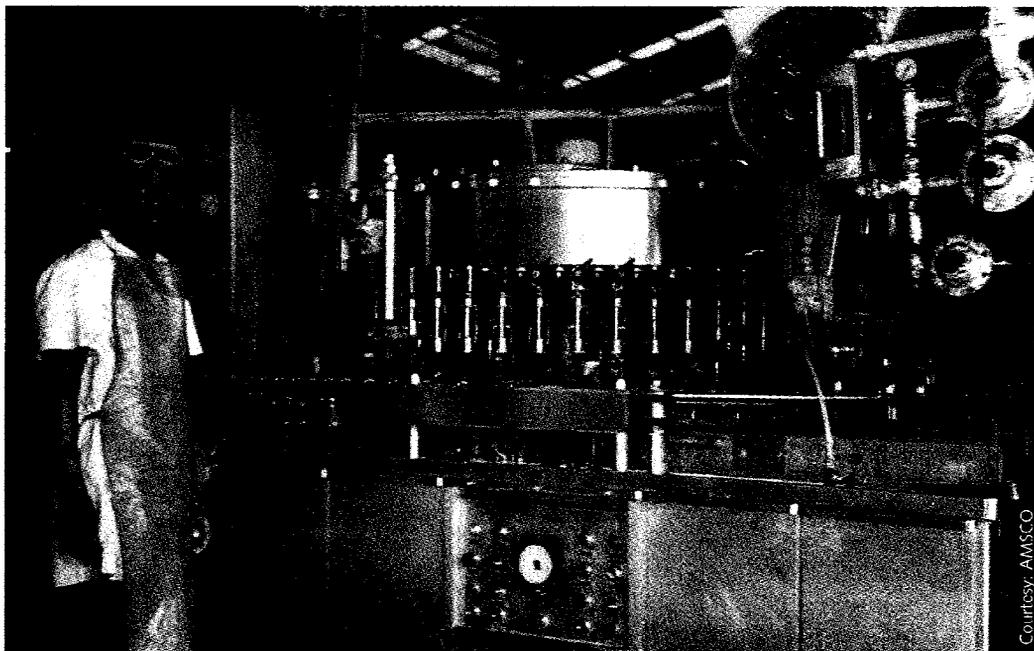
Alexander Nicolas Keyserlingk, *President and CEO*
and Charles Minor, *Training Director*
African Management Services Co. (AMSCO), Amsterdam

A harsh reality has emerged throughout the business world. Companies that want to compete today and excel tomorrow can no longer afford to distinguish between management and training. To be blunt, he who separates is lost.

In today's highly competitive global economy, managers who fail to invest in developing staff skills can quickly fall at a disadvantage, and often with disastrous consequences. Bankruptcy courts are filled with companies that thought they were "safe" but soon lost market share, either to nimbler rivals shown to be in better touch with the times or through economic forces far beyond their control. Only when it was too late did they see how valuable investing in employee skills-enhancement programs might have been.

These dynamics are global in nature. But they are especially seen in Africa, where the private sector is hindered by one additional overriding social constraint: chronically weak human resource development.

With education levels so low continentwide, African business owners often cannot find enough experienced managers locally and must import costly foreign expatriates for senior positions. No matter how qualified they may be, these expats can leave their companies especially vulnerable if they go back home without having built up the skills of local staff. This does nothing to break the vicious circle of private sector development in Africa. With few suitable business schools available, promising students generally seek their management degrees abroad and stay there to build careers. This leaves few indigenous managers on the scene and means staff with advancement potential lack the role models to help them climb the ladder. The number of Africans in senior management of Africa's companies has consequently stayed unacceptably low for many years.



Courtesy: AMSCO

The Management-Training Link

Donor-financed private sector development programs in Africa have long tried to address this problem. They have occasionally financed individual projects in either management or training but rarely addressed both needs simultaneously as the market demands. This very linkage, however, lies at the heart of AMSCO, an international joint venture uniting the donor community, multi- and bilateral development finance institutions (DFIs), and the corporate world to help build sustainable businesses in Africa. AMSCO was created in 1989 to carry out a United Nations Development Programme African management training project and was put under the aegis of IFC as executing agency. While it draws on both private and public sector funding, it is run as a business, not an aid project, and seeks full cost-recovery for its operations. Like IFC, it firmly believes that the objectives of the business and development communities can be complementary, not contradictory.

Results

A London consulting firm, Norman International, measured the impact of AMSCO's work in an independent evaluation of 11 AMSCO client firms in Africa. It found "a clear indication of significant improvement in economic performance by the sample clients during the AMSCO intervention," such as:

- doubling of annual local currency sales and even greater rise in export earnings;
- average turnarounds of US\$478,200 in annual net losses to US\$378,000 in net profits; and
- protection of 2,218 jobs that would otherwise have been at severe risk of being eliminated and creation of 324 new ones.

Such results have always been the goal of both the DFIs such as IFC, the African Development Bank and others that hold 70% of AMSCO's US\$9 million in share capital, and the 53 international companies active in Africa that hold the rest, including Philips, Nestle, IBM, Carl Bro., British Petroleum, Marconi, Swiss investment fund managers EDESA, the Mehta Group of India, and others. The DFIs and the private shareholders recognize the importance of competent senior executives to manage the African businesses in which they invest and see AMSCO as a cost-effective source of the management needed to make their investments in Africa succeed. The large multinationals, on the other hand, may also see their participation as a form of corporate philanthropy consistent with self-interest.

But whatever their motivation, the private shareholders are AMSCO's largest single group of owners and chair its board, providing a level of strategic vision, management discipline, and accountability rare in government agencies.

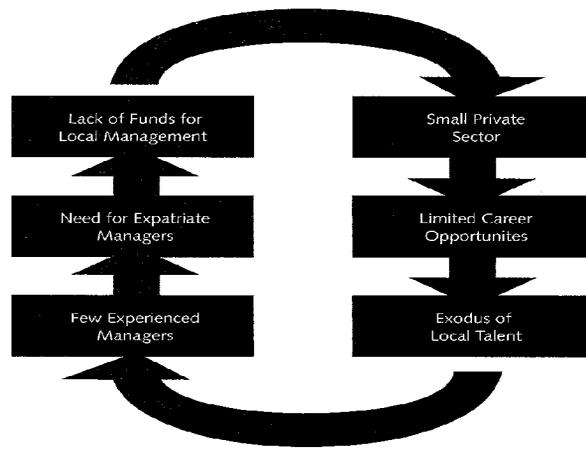
Over its eight-year history, AMSCO has worked with more than 100 different companies in a wide range of industries across Sub-Saharan Africa. Its clients typically are locally owned medium-sized enterprises, not the large multinational resource extraction ventures that dominate so many economies. It is currently assisting 51 African firms, all on a contractual, fee-for-service basis. AMSCO has 109 managers in the field in 18 African countries.

How It Begins

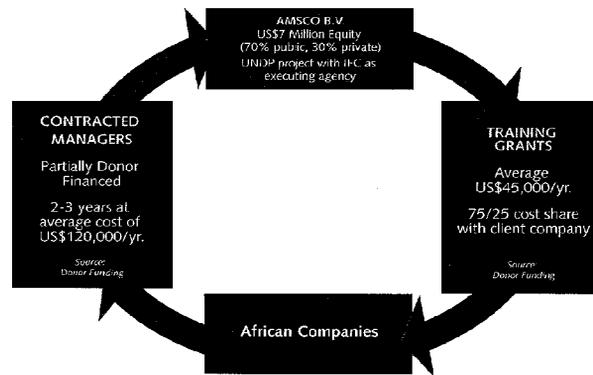
Each operation begins with an inquiry from an African business owner or financial institution needing new management at a senior level, such as CEO, COO, CFO, or marketing director. In response, AMSCO combs its large network of contacts in the donor, business, and independent consultant communities to identify candidates with the special qualifications requested such as relevant industry and African experience, language, and inter-cultural communication skills. If the African business owner hires the recommended candidate or management team, he or she signs a two- or three-year contract with AMSCO covering all costs involved, including salary, benefits, and housing allowance. AMSCO charges a fee to cover its project management services such as recruitment, client relations, and shareholder liaison.

The cost of this service is not insignificant, nor should it be expected to be. Since the African business owners seek experienced mid-career professionals who can provide immediate leadership, the contracts reflect competitive international private sector rates. They typically amount to an average of US\$120,000 per year per manager.

The Vicious Circle of African Management



AMSCO's Alternative



Client expectations run high at this price, and finding the right person for the job is essential. AMSCO's unique structure gives it an advantage in this regard. One is the UNDP affiliation that allows it to offer client companies contracted managers who are tax-free, an important asset in attracting first-rate personnel to work in challenging African environments at rates local firms can afford. Another is the sponsorship of AMSCO by large international institutions that allows AMSCO to attract highly qualified senior executives who would not otherwise be willing to accept such positions on their own.

If the African business owner cannot meet all of the costs of this assistance, AMSCO sometimes arranges access to government subsidies such as those offered by the Dutch government through the FMO. Although these subsidies are widely used, the African companies still must attach value to the AMSCO contract by paying at least half the costs from their own pockets, and thus have a direct financial stake in the eventual outcome. Their fees contribute to a revenue stream that enables AMSCO to operate without total reliance on donor funds for day-to-day operations.

While providing hands-on management personnel, AMSCO also designs and implements management training programs in each client company. This training over the two to three years of the AMSCO contract is intended to raise local teams' management. Again, AMSCO requires the client companies to bear part of these training costs with the balance paid out of donor funds that AMSCO manages.

The training and management linkage is the essential goal of AMSCO shareholders, who have no desire to merely increase the number of costly foreign consultants already flooding the continent. Instead, they want to offer the owners of Africa's promising companies an integrated package that helps make the most of their own human resources. The key: combining access to top-flight contracted managers with the financial resources for customized staff training programs offered on-site, elsewhere in Africa, or in developed countries.

Training Resources

AMSCO's Management Development Fund (MDF) has received some US\$13 million in contributions from IFC, UNDP, the African Development Bank, and from the Dutch, Finnish, Italian, Portuguese, Swedish, Swiss, and U.S. aid programs. Its grants defray up to 50% of the costs of the training programs AMSCO provides. These funds are used to train everyone from business owners and senior managers themselves to middle and junior management. The goal is to help African companies not only improve their performance while under contract to AMSCO but also sustain this improvement long after these relatively brief AMSCO interventions end.

AMSCO also helps provide the first managers and training programs for greenfield projects of international joint ventures. This is currently the case in several businesses that involve AMSCO shareholders. Examples of such projects are the new cashew and mango plantation in Guinea-Bissau, backed by Banco de Fomento of Portugal, and the successful merchant bank in Ghana in which IFC and the Commonwealth Development Corp. are shareholders. Both are carrying out intensive training programs and creating new jobs and skills in economies that sorely need them.

Other needs arise from the incipient privatization process in Africa. After years of government mismanagement that had resulted in its closure, the Grand Hotel de Bamako has reestablished itself as Mali's premier business class hotel, with thanks to AMSCO support. It was sold to a local investor who contracted a strong French management team from AMSCO that quickly rebuilt it to three-star status. The reopening of the hotel has created nearly 100 new jobs, almost all of them going to Malians whom AMSCO had trained to serve business guests at the same standards demanded in the cities of major industrial countries. Customer satisfaction has reached the point that the hotel is frequently used by the World Bank's resident office for meetings and has hosted both James D. Wolfensohn and IMF Managing Director Michel Camdessus on their visits to Mali.

AMSCO is increasingly seeking to add value in the privatization process, by supplying new management to improve state-owned



AMSCO:
Management and training support to African industry.

enterprises' performance before their sale. This assistance can increase the market value of the firms by lowering the demands on future owners to implement costly restructuring and retraining programs and thereby increasing the ultimate sales value. AMSCO is doing preprivatization work with a majority state-owned wood products company in Gabon. It has also sent a general manager, deputy general manager, and training director into a Southern African country's system of state-owned savings and loan institutions whose balance sheets will require extensive cleaning up if they are to stem chronic losses and drain on the national budget.

These management and training services can be provided in conjunction with privatization support programs of bilateral or multilateral donors. The Southern African intervention, for example, has been carried out with partial European Union funding. The assignment in Gabon involves support from the Caisse Française de Développement, Finnfund of Finland, and FMO of the Netherlands, and a recent AMSCO privatization seminar in Togo was funded under an IDA credit.

Not all of AMSCO's assignments have been successful. Personality clashes between strong-willed owners and contracted managers can sometimes lead to cancellation of contracts, and turnaround operations are sometimes impossible to turn around despite all parties' efforts, especially when unforeseeable financial setbacks occur. But in a region as needy of private sector development as Sub-Saharan Africa, these are risks well worth taking. ■

Alexander Keyserlingk, a Canadian, has been with IFC since 1971. Before taking a leave of absence to head AMSCO in 1994, he was involved in IFC investment activities in Latin America, the Middle East, and Africa, and had earlier been a chartered accountant with Price Waterhouse and Ernst and Young in Canada, Venezuela, and Germany.

Charles Minor, a Liberian national, joined AMSCO in 1993. He previously served as acting managing director of the Liberian Produce Marketing Corporation and as a management consultant with Arthur D. Little in Cambridge, Massachusetts, and in Accra, Ghana, where he also ran his own consulting practice specializing in management development projects across Africa.

Chiapas: A Chance for Change

Rob Wright, *IFC Corporate Relations Unit*

Chiapas, Mexico

“We are the only Mexicans who ever decided to be Mexicans,” the hotel manager says. “Everybody else already was.”

His hotel is in Palenque, home of spectacular Mayan ruins that draw thousands of international visitors each year, anxious to discover a lost world. Like others in Chiapas, he knows his state intimately and loves to talk about it, especially to dispel misconceptions of its being a haven of guerrilla activity that is unsafe to visit, let alone invest in. He is recalling the 1827 referendum in which Chiapas voted to separate from Guatemala, from which it was ruled during the Spanish colonial era. While no one is complaining about that decision today, it did leave Chiapas under the political control of a far more distant capital — one with many more urgent priorities than development of a state that, on the surface at least, seems far more like Central America than the rest of Mexico: small, poor, and agricultural, not big, rich, and industrial.

Statistics tell the story, or at least part of it. Per capita income in Chiapas is roughly half the Mexican national average, with health and educational levels also far lower. About a third of the state’s population of 3.2 million are Mayan Indians, many of whom prefer to speak their traditional languages over Spanish and maintain a separate culture in many other ways. Like their ancestors who built, and then mysteriously let fall, the most advanced pre-Colombian civilization, they live for the most part in the state’s mountainous, jungle-covered eastern section, and with far less in the way of infrastructure than one might expect in a middle-income Latin American country. It is a verdant area, one with jaguars and toucans in the forest and mouth-watering tropical fruit ready for the asking, a place that could hardly be more different from the arid Mexican north. Indeed, the differences between Chiapas and the rest of the country are so overwhelming that local tourism authorities have recently begun promoting it with a slogan their counterparts in the United States also use at the other end of the NAFTA land mass, Alaska: “the last frontier.”

At the same time, Chiapas is rich in natural resources, with plenty of water and fertile land — both of which are scarce in the industrialized north of Mexico. Historically, however, it has lagged far



behind the rest of the country in social and political evolution. The rapid emergence of a middle class elsewhere in the nation at the beginning of the twentieth century did not happen in Chiapas, which today seems to have remained closer to the Mexico of the nineteenth.

In 1994 and 1995 Chiapas was world news, thanks to the uprising of the Zapatista rebels who took up arms in an attempt to call attention to, if not redress, their state’s social imbalances. The government’s inability to quell the movement contributed to the myriad of factors that led to the peso’s collapse and Mexico’s subsequent severe economic contraction. Today the rebels are no longer as much of a factor in daily life, but the pressing issues of poverty and inequality that appear to have given rise to their movement remain. Paved roads, potable water, and electric power have traditionally been in short supply in the lowest-income regions, as have schools, health care, jobs, and farm land. All of these problems are compounded by a state population that is growing at an alarming 4.2% a year, more than twice Mexico’s national rate and not too far behind that of the fastest-growing country in the world (Yemen, 5.2%). As a result the population of Chiapas has doubled in the last 20 years and will double again in the next 15. This puts ever more strain on local institutions, especially given the widespread poverty, sectarian religious tensions, and disputes over the fundamental basis of such a heavily agricultural economy: land.

If ignored, these issues could create disaster. But the government has increased social spending considerably in recent years to address the root causes of poverty and population growth. It has also partnered with the business community in a groundbreaking for-profit initiative to capitalize on the state's abundant untapped resources to create jobs and economic opportunity for the local population. Its name: Fondo Chiapas.

"It's a little bit venture capital, a little bit adventure capital, a little bit of a development fund," says Mario Alonso of IFC, which is putting US\$5 million into the effort. "You can never separate this exercise from the context in which it operates: the social, the environmental, the poverty, and so on. Every time you hear Fondo Chiapas described from a purely venture capital perspective, you must remember that it has strong developmental objectives even though the profit motive is its first consideration, the very reasons for which IFC was set up in the first place."

In the Beginning

Fondo Chiapas' origins date to the fall of 1994, when Subcomandante Marcos and his Ejército Zapatista Liberación Nacional (EZLN) were still very much on people's minds. Troubled by his state's inability to generate anything but unflattering publicity worldwide, a ruling party gubernatorial candidate named Eduardo Robledo offered business leaders matching funds for a small investment fund to pursue projects in agribusiness, tourism, and other sectors.

Enrique Molina, head of the hotel-sugar-soft drink conglomerate Consorcio Industrial Escorpión, signed on as chairman and with his colleagues from other firms brought not only risk capital but a level of big business sophistication simply not found in the state. Crucial local support came from 12 Chiapas business leaders who came together to form a new body, Grupo Empresarial El Porvenir, that also put money at risk and offered contacts for project development. By January of 1995 the fund was in business on a pilot basis with a total capitalization of about US\$2.3 million. Although Robledo would soon resign as part of the state's fast-changing political kaleidoscope, the initiative has continued ever since under private sector leadership and with strong support from Robledo's successor.

In July 1995 World Bank President James D. Wolfensohn visited Chiapas. Responding to concerns expressed by the Mexican authorities, he oversaw the start of the Southern States Initiative, a new World Bank Group effort to address the socio-economic problems facing both Chiapas and Oaxaca. As part of its contribution, IFC began working with Fondo Chiapas, which was then still in early stages. IFC helped it change its emphasis, turning from an investment promotion vehicle to a true equity investment fund with the management structure and focus on rates of return that would help it become a sustainable entity and to raise new capital from Mexican private investors. Nothing was guaranteed, but potential returns were projected in the 15-20% range over the course of the fund's 10-year lifetime, mainly through the sales of its equity positions back to project sponsors, directly to other investors, or perhaps on Mexico's emerging over-the-counter exchange for small- and

Mexico's Last Frontier

Name: Chiapas

Location: Mexico's southernmost state. Bordered by the Pacific Ocean, and the states of Tabasco, Guatemala, and Veracruz

Size: 45,000 square km (comparable to Guatemala and Nicaragua)

Population: 3.2 million, projected to rise to 3.4 million

Annual population growth rate: 4.2% (more than the national average)

Indigenous Peoples: 30% of state population, divided between nine major Mayan ethnic communities

Population living in rural areas: 60% (above the national average); scattered among 16,000 different communities, of which have less than 100 inhabitants

GDP per capita: \$1,450 (less than half the national average)

Education: Primary school completion 20% lower than national average; adult literacy 17% lower

Health: Number of physicians per 1,000 people 50% below national average; life expectancy approx. five years below national average; mortality 50% higher

Homes without electricity: 33%

Homes without running water: 41%

Leading Industries: Agriculture (primarily coffee, sugarcane, and bananas); hydroelectric power, oil and gas reserves

State Capital: Tuxtla Gutiérrez (pop. 386,000)

Other Cities: Tapachula (245,000), Ocosingo (116,000), San Cristóbal de las Casas (116,000)

Sources: World Bank, Fondo Chiapas

medium-sized enterprises. IFC also became actively involved in marketing the fund's proposed capital increase, helping interest new investors by offering to put its own equity at risk, and offering parallel loan financing for Chiapas projects through a debt facility with BBV-Probursa. The response from some of Mexico City's largest companies soon became favorable.

What drove the interest of these hard-nosed businessmen? Talk to them on their own turf, and it becomes clear that where others looked at Chiapas and saw crisis, they saw potential. They are the first to admit that in terms of natural endowment, Chiapas ranks as one of Mexico's richest states, abounding in resources for agribusiness, tourism, energy, and other industries. But a history of neglect, inefficient government spending, and near-exclusive reliance on raw materials rather than higher-priced finished or intermediate goods, they say, has kept it from sharing in the country's broader economic gains.

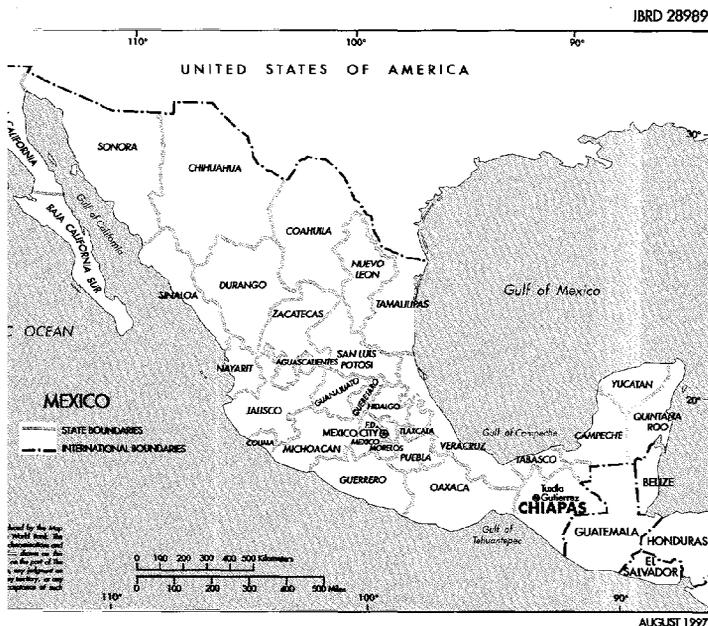
Until recently, many of these local businessmen maintain, the rest of the country has essentially run Chiapas as a colony, taking out without putting much of anything back in. They quickly recite the numbers: Chiapas produces more than a third of Mexico's hydroelectric power, accounts for about a quarter of its petroleum at present and has its largest untapped oil and gas reserves, and is the top source of coffee and bananas. Yet add it all up, and the state income is still only 1.9% of the national total. As they watch the population and land pressures worsen, local business leaders know it is no longer enough to get by on a few raw materials. Neither can they afford to keep ignoring others the state is ideally suited to produce or to fail to attract the private capital needed to build an economy on them.

Where's the Beef?

Consider the cow. Chiapas is the second biggest cattle producer in Mexico, yet has virtually no slaughterhouses. Its ranchers sell most of their herds to middlemen in the far more developed northern state of Sonora. These buyers command higher prices by fattening the cattle and selling them as beef — which few in Chiapas could afford to eat in any regard.

“Our cows leave the state walking, not frozen. That’s the way it is with everything,” says a Fondo Chiapas investment analyst, Eduardo Gonzalez. “We are very good producers. Producing is not our problem. The problem is marketing, promotion, and our complete lack of value-added and increased productivity. That is what has created the gap between Chiapas and the rest of Mexico.”

“What Chiapas really needs is management support and seed capital, and that’s why the IFC support is so important to us,” adds the initiative’s chairman, Enrique Molina. “IFC is teaching us an awful lot of how to do things, and having their analytical support is giving us a lot of help in building up our exposure nationally and internationally. Otherwise we’d end up eating the whole enchilada ourselves.”



How to attract investors to a state where people produce but don't commercialize? The fund has taken a two-pronged approach, actively promoting the state's opportunities to potential investors and offering to take an equity stake alongside them as specific deals come to fruition.

“If the government comes to you and says ‘We have a great idea. You should invest in it,’ it will raise suspicions,” says Fondo Chiapas General Manager Gustavo Gonzalez. “But if a group of private investors does it and says not only that but ‘We will be your partners,’ it will be viewed very differently, and that’s our main idea.

Our role is not to replace government, but to support and complement it, performing the functions that it cannot do as well.”

IFC approved its investment in the fund in late 1996 after its founders had demonstrated the concept's viability. By pledging to put US\$5 million of equity to help leverage even more from other private Mexican sources, the Corporation is raising the fund's total capitalization to US\$12.5 million. IFC has also taken an extra step of staff support beyond what it usually does for funds in which it invests, sending to Mexico Astra Michels, a senior investment officer with extensive prior experience in difficult operating environments. In addition to giving her a mandate to work closely with Fondo Chiapas as part of the Southern States Initiative, IFC also has made available technical experts in key industries when needed to help evaluate specific investment proposals. This input is expected to raise the fund's standards, and thus its development impact, considerably over time. Given the track record of the initial, pre-IFC investments, the prospects look good.

The Rubber Hits the Road

The cosponsor of two of these first projects is Grupo Agros, a Mexico City agribusiness investment fund best known for its tomato and citrus fruit operations in other states. In 1993 it diversified for the first time into rubber, a tropical product then virtually nonexistent in Mexico. The firm sensed an import-substitution opportunity in Mexico's US\$100 million trade deficit in rubber and the chance for an even-bigger long-term NAFTA payoff from its proximity to the import-dependent U.S. and Canadian markets.

Liking the feel of its first forays into rubber in the states of Veracruz and Oaxaca, Agros quickly became interested when Chiapas came knocking. With Fondo Chiapas as 30% co-investor, it bought 2,000 hectares of former ranch land nearby and began a US\$5 million project to convert it into a rubber plantation. Although it will take up to six years for the first seedlings to reach maturity and be tapped, the plantation has already created 170 permanent jobs paying three times the prevailing minimum wage, and eventually will have a fulltime work force of 1,000. Had it stayed a cattle ranch, this same land would have supported only four jobs. The reforestation is also expected to benefit the local environment.

Jaws

The partnership of Agros and Fondo Chiapas is also affecting campesinos. Like many other men in his area, Eloy Hernandez once made his living not just by fishing in shark-infested waters but by literally catching sharks. This most dangerous game involved first dangling bait overboard, then having the nerve to club and stab the killer fish to death in blood-red waters. That catch of the day could be sold for skins or as soup ingredients, but at a low price not worth the risking of life and limb.

The routine was clearly one of desperation, and Eloy got out as soon as he could. Instead he began growing corn, the national staple crop — but one that unfortunately produces few economic rewards in a tropical climate. Not much had improved for him until 1991, when a government program introduced him to cashews, a far higher



Rob Wright

The Good Earth: A Fondo Chiapas investee company buys cashews from farmers like Eloy Hernandez (above) and processes them at a plant providing jobs for local women (right).

value commodity and one that was better suited to local growing conditions. It was a bit of a risk, since it would be seven years before the cashew trees reached full maturity, but one he could offset in the meantime by planting watermelon and rapeseed.

In 1996 Agros, Fondo Chiapas and others teamed for a US\$800,000 cashew processing plant near the communal campesino land [ejido] where Eloy lives. As with rubber, Mexico imports virtually all its cashews, although it could be self-sufficient from production in Chiapas alone. Upon its opening in January of this year, the plant hired 180 fulltime staff, 80% of them women who were trained in new skills that allowed them to earn at least twice what they would otherwise make in the local economy.

In addition to being sellers of cashews, communal peasant farmers [ejidatarios] like Eloy are also 17% shareholders in the venture that will allow them to earn dividends as its business grows. Instead of facing the sharks every day, Eloy today earns an income four times the state average, which allowed him to improve his family of six's living standards dramatically with a car, a modern kitchen with a refrigerator, and a bathroom. Meanwhile the sponsors are working on a second-stage US\$2.5 million investment to buy roasting and juicing equipment in order to increase the price of their product through the value-added that comes with processing. And there is a long way to go up the value chain. A pound of farmers' unprocessed cashews sells to the Chiapas plant for 25 cents. A similar pound of nuts, shelled, roasted, salted and no doubt imported from Brazil, goes for US\$9 at a Washington, DC, grocery store.

Encouraged by the track record of these early investments, IFC is working with Fondo Chiapas to build a strong pipeline of future

investments that will succeed from both a development and financial perspective and carry benefits throughout the state's many diverse regions.

Take the 260-km Pacific coastline with considerable potential in commercial fishing and aquaculture. One local company there has a solid market for the output of its 50 ha shrimp farm. It is interested in a US\$1 million expansion to add a processing plant, since frozen, cleaned, and headless shrimp would fetch twice the price the company commands today and open up access to the export market. But when local interest rates spiked to 121% last year in the wake of the peso crisis, the local debt-financing option disappeared, and Fondo Chiapas is now considering supporting the project on an equity basis instead.

If successful, this investment could make a big contribution in a locale boasting natural conditions similar to those that have made Ecuador a world leader in shrimp. There are similar ideas for adding

continues on page 18



Mano a Mano

Name: Fondo Chiapas

Description: US\$12.5 million for-profit investment fund to develop the economic potential of one of Mexico's poorest states

Shareholding Structure: 31% Mexican private sector (Consortio Industrial Escorpión; Grupo Mexicano de Desarrollo; Grupo Modelo; Grupo Empresarial El Porvenir; Banca Serfin; Bancrecer; Maseca; Banco Internacional; Grupo Minsa; and others); 29% Mexican public sector (Chiapas state government, Nacional Financiera); 40% IFC

Began Operations: 1995

Objective: Long-term capital appreciation through taking influential minority equity stakes along with other investors in commercially viable, private small- and medium-sized enterprises doing business in Chiapas

Development Impact: Attracting new private investment to state with little to date; job creation and training; raising audit and financial disclosure standards of investee companies

IFC Role: Pledge of financial support important in raising funds from private Mexican investors; considerable input on fund's management structure, environmental assessment, and evaluation of proposed investments

The Word from Wu



Sir Gordon Wu's name is almost synonymous with private infrastructure in Asia. Founder and head of Hong Kong-based Hopewell Holdings Ltd. and a member of IFC's Business Advisory Council, he is generally credited with developing the world's first emerging market Build-Operate-Transfer power plants: US\$530 million Shajiao B in China in 1987 and US\$80 million Navotas in the Philippines in 1990. The latter is one of three he has built to date with IFC financing.

In July, Sir Gordon sold his remaining 20% stake in Hopewell spin-off Consolidated Electric Power Asia Ltd. (CEPA) to its new parent, a subsidiary of the largest U.S. electrical utility, Southern Co. The move allows him to concentrate on finalizing other high-profile projects such as the US\$6 billion Bangkok Elevated Road and Train System (BERTS) in Thailand. Here, he reflects on the role of foreign direct investment in development and suggests how IFC can help more countries benefit from it.

IFC: You've had projects succeed in some countries, but faced innumerable delays in others. Why do you think some countries effectively make themselves less attractive to infrastructure developers such as yourself?

Wu: I find that the most difficult obstacle in foreign invest-

ment is that when most countries see profits being repatriated as a result of a successful project, they say, "Ooh, we have lost this money. Why did we let the foreigners make it?" This is probably their worst, most erroneous perception.

IFC: Why?

Wu: The most erroneous part of it is the thinking that any money made by the foreigner is money lost to the host country. That's very, very erroneous! I'll give two examples: one is the case of North Korea and Cuba, who never let anyone make any money in the country or take it out. So theoretically they retain 100% of the profits, which is 100% of nothing.

On the other extreme are the cases of Hong Kong and Singapore, where there are no laws on foreign investment. That's because everyone is welcome. At the same time that billions of dollars are made in both places every year by foreigners, the local people in both places get richer and richer. If you didn't have the foreign investors coming to Hong Kong and Singapore, both places would be hell.

So the explanation to all this is very simple: the foreign investor brings into the country capital and expertise. Add this together with the hard work of the locals, and enormous new wealth is created. Everybody

needs foreign investment, even the United States, for the simple reason that it creates new jobs and new wealth. But it's not only the creation of the new wealth I'm talking about; it is the sharing of this wealth throughout the local economy.

IFC: How do you see that in practice?

Wu: Because, no matter how clever the foreign investor is, he can never take 100% of the profit out. As a matter of fact, he would have done a tremendous job if he could take 25% of it out. Case in point: suppose you go and sell power; you'll probably make six U.S. cents per kilowatt hour. Do you think you can make six U.S. cents per kilowatt hour profit? Probably not. The most you can make is probably one U.S. cent. And the United Nations has done a study that says each one kilowatt hour consumed equates to US\$1 of new GDP. So of that US\$1 the host country is getting, the foreign investor is getting one U.S. cent profit.

IFC: How do the foreign investors benefit the local economy with the money that doesn't go out as profits?

Wu: Remember, they still have to pay taxes, employ local people, make local purchases, and spend the money. Hong Kong keeps getting richer and richer. I've seen this same model in China. Between 1949 and 1979,

China's policy was one of self-reliance, and you know how poor the country was then. After 1979, Deng said "Open Door," and look what happened. It's all because for the first time China opened to the foreigners and said "Come in and create new wealth." Look at it today. They're sitting on \$110 billion of foreign reserves. This is an example other countries should follow. The important thing is to get the conditions right and let people know. If you let the first couple of pioneers make a lot of money as an inducement, then you would get the rest to come. It can happen anywhere, and the best arbiter/facilitator would be IFC.

IFC: How do you feel IFC and its World Bank Group partners can be more helpful in promoting infrastructure development in Asia?

Wu: The need is enormous, and what IFC, the World Bank, and MIGA collectively can do is to play the catalytic role rather than try to finance everything themselves, which they just cannot. The need is just too big. But if they play the role of the catalyst, then that will facilitate greater cross-border flows of money. And there's no lack of funds: the New York stock and bond markets alone are worth US\$4 trillion. But ground rules have to be created.

Kladno: A Regional First

Denis Clarke, IFC Power Department

Courtesy: EngroConsult Praha, A.S.

Kladno, commercial lenders and the fuel supplier have thus assumed a level of market risk usually seen only in transactions in the most developed power markets.

In supporting a transaction that ultimately depends on CEZ (and the Czech government which sets its tariffs), IFC and the other lenders are also taking the risk that power sector pricing will be adequate. The government's record on tariff adjustments and the major investment requirements of CEZ in implementing an environmental program in a country that has suffered some of the world's worst air pollution provided sufficient comfort that CEZ prices will be set at reasonable levels.

"IFC involvement was critical in closing the deal. We simply couldn't have done it without them," said NRG Chairman Dave Peterson. "Even though the Czech Republic is an investment grade country, it had no tradition of private power, which made contract negotiations very difficult. IFC was especially valuable as an honest

Kladno will sell its output at approximately 1% less than whatever rate CEZ charges STE.

STE declined to offer any indexing of the power price to the exchange rate between the Czech crown and the foreign currency of the loans, fearing that could drive Kladno's price above that of CEZ. To mitigate this substantial foreign exchange risk, IFC insisted that 50% of the project's senior debt come in the form of local currency. It calculated that, unlike many emerging markets, the Czech Republic's financial sector could provide about US\$100 million-equivalent in long-term debt.

Similarly, since the project company can not pass on any increase in fuel supply costs to STE, the local coal mining company agreed that the coal price cannot rise faster than the power price. In financing

Private Power in Central Europe

Project Name: Energy Center Kladno Generating

Location: Kladno, Czech Republic

Sponsors: NRG Energy, USA (59%); El Paso Energy International, USA (32%); Central Bohemian Grid (STE), Czech Republic (9%)

Turnkey Contractor: ABB, Sweden-Switzerland

Total Project Cost: US\$401 million

Distinctions: First project-financed power plant in Central or Eastern Europe; second largest foreign investment to date in Czech Republic; expands existing 22 MW plant to 343 MW with environmentally sound fluidized bed clean coal technology; ensures district heating system can meet new environmental standards at a price just below that of national utility CEZ

Structure: Independent power project selling to STE under a 20-year power purchase agreement

Financing: Equity — 27%, or US\$108 million; Debt — 73%, or US\$293 million: (1) Czech crown equivalent of US\$115 million in 12.5-year loans from four banks (CSOB and Ceska Sporitelna of Czech Republic, CIBC Wood Gundy of Canada and Bayerische Vereinsbank of Germany); (2) DM-equivalent US\$45 million 15.75-year IFC A-loan and syndicated US\$25 million 15.75-year IFC B-loan (through Hypobank and Bayerische Vereinsbank, CIBC, and ABN AMRO of the Netherlands) plus US\$15 million convertible subordinated debt from IFC; (3) US\$45 million 15.75-year and US\$10 million convertible subordinated loans from Nissho Iwai of Japan; (4) balance in DM subordinated debt from ABB Structured Finance

IFC Role: In addition to helping finance the project, IFC was the key "honest broker" negotiating the country's first bankable fuel supply and power purchase agreements and project finance security arrangements; the sound structure of these documents allowed the commercial debt to be raised, including the largest long-term local currency loan package in Czech history

Legal Counsel: White & Case (US)

Closed: May 1997



Key Deal: Signing the Kladno financing process were (from left): Kenneth P. Wisnoski, President-Europe, El Paso Energy International; Jemal-ud-din Kassum, Vice President-Investment Operations, IFC; and Valerie Knudsen, Vice President-Finance, NRG Energy.

World Bank Photo

broker with global power sector experience who could oversee the structuring of sound fuel supply and power sector agreements that we and our partners El Paso Energy International and STE needed to attract commercial bank loans.”

The project’s many complexities made it critical that these agreements be well structured. The value of the financial plan became apparent when the Czech crown fell by roughly 30% against the dollar in the wake of the Thai financial crisis soon after closure. Had there been a high dependence on dollar debt, this could have been a severe blow. But ultimately, the substantial element of debt sourced in local currency and Deutsche marks (with which the crown is likely to continue a strong relationship) provided enough comfort for lenders on the project’s foreign exchange risk.

The transaction shows that when a bankable project is put together in a transition economy, it can attract exceptionally attractive terms. The development impact of IFC involvement in this case was substantial: new foreign direct investment, the introduction of competition in the power sector, and environmental gains. When the expanded Kladno comes on line in 1999, the process begun six years earlier, with the privatization of the small district heating plant at the Poldi steel complex, will have a very successful ending. ■

continued from page 14



Palenque:
*Monument
to a Mayan past.*

much-needed efficiencies to the coffee plantations in the state’s northern highlands and for working with indigenous communities on revenue-sharing, upscale ecotourism projects.

The organizers of Fondo Chiapas have no expectation that a private investment fund alone will save the state. But they do think it can be just the kind of kickstart that is needed, especially when coupled with the government’s recent rapid increase in social spending.

“Long-term positive social change is one of our fundamental priorities, and that means satisfying basic human needs and improving productivity in all our regions,” says Chiapas Governor Julio Cesar Ruiz Ferro. “Doing it all at the same time is difficult, but improved education lies at the basis of it all, because improved education, especially for girls, is the best way to address population growth.”

“Unlike physical infrastructure, social infrastructure is 100% the responsibility of the state, and in the last two years we’ve increased our education spending by 15%, including the creation of many bilingual schools in indigenous communities,” adds the governor. “But at the same time it is essential that government also participate in this process of structural change, creating jobs not directly itself, but indirectly by getting the conditions right to allow the introduction of more private capital.”

The introduction has begun.

“These social issues simply have to be solved to bring Chiapas more in line with the rest of the country,” says the vice chairman of the Fondo Chiapas board, Jorge Ballesteros. “The single most important thing in doing that is increasing local opportunities in education and health, since that can slow down the population growth. We’ve seen it happen before: in Mexico, nationwide population growth was about 3.5% in the 1960s and is now down to under 2%, although Chiapas has never taken part in all that. If that can be done, and Fondo Chiapas can help with increased private investment and training, we can create thousands of jobs.” ■

Caracas Calling

Erik D'Amato

New York

Though not typically seen as sentimentalists, international investors are as enchanted as anyone by a good story. Indeed, any company without one to tell will have trouble bringing them to the table.

And so it is that many investors are now rejoicing in the success of Venezuela's largest private company, national telecommunications carrier Compañía Teléfonos de Venezuela (CANTV).

Prices of CANTV's New York-listed shares have almost doubled since the landmark November 1996 initial public offering (IPO) that raised US\$1.14 billion. The issue was both the first international listing of a Venezuelan firm and

the third-largest Latin American equity offering ever at the time, followed three months later by a US\$200 million Yankee bond offering whose demand exceeded supply by more than US\$1 billion.

CANTV's achievements have helped signal to the world that after several years of macroeconomic crisis and political instability, Venezuela is back on track. It is a remarkable comeback for a firm that only a few years earlier had suffered the torture of default.

From Promise to Peril

As with so many good suspense tales, this happy ending was once very much in doubt. IFC support played an important role in CANTV's darkest days, says Simon Flannery, lead Latin

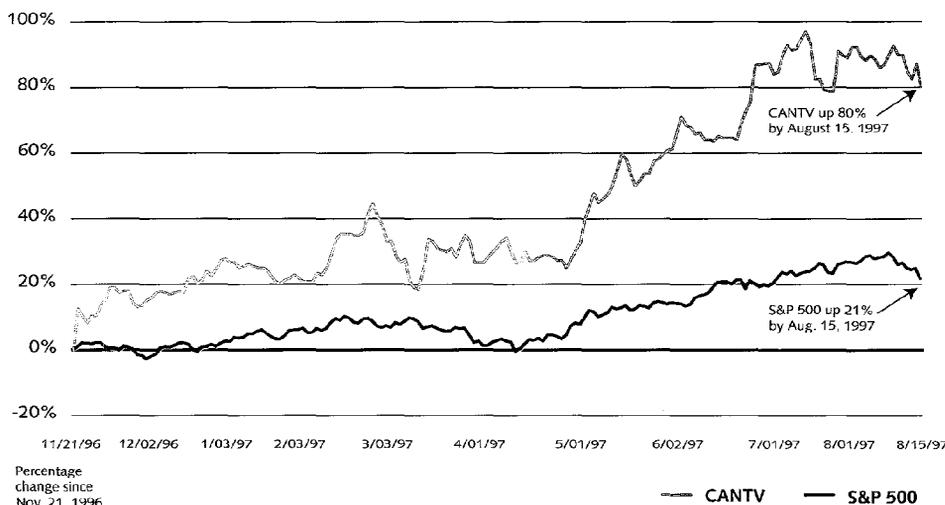
American telecom analyst at JP Morgan in New York. He well recalls the Venezuelan economy's "terrible problems" of 1994-95, a time when country risk perceptions meant CANTV and all other corporates had no access to international capital markets. Flannery considers the IFC loans "a very important precursor to the success of the IPO" since they "helped eliminate capital structure as an issue" for the firm.

At first, all seemed well when the Venezuelan government partly privatized CANTV in 1991 by selling a controlling 40% interest to the GTE-led VenWorld consortium for US\$1.9 billion. Yet within a year of the sale the country began sliding into what would become a deep financial and political crisis. After enjoying economic growth at a better than 7% clip in 1990-92, it suffered, in rapid succession, two attempted military coups and a collapse of the national banking system.

By 1994, growth had turned negative and the public sector deficit had risen to a nightmarish 14% of GDP. In an attempt to halt the crisis, the government enacted broad exchange, price, and interest rate controls and stopped the country's planned privatization program in its tracks. Rampant inflation that year led to a steep depreciation of the bolivar, sending the local currency cost of servicing

Since its 1996 IPO, made possible in part by an IFC debt restructuring package, shares of Venezuela's CANTV have risen by 80% on the New York Stock Exchange.

CANTV: % Change vs. S&P 500 to 8/15/97





CANTV's dollar debt obligations soaring.

The new CANTV managers had signed a concession agreement, granting the exclusive right to provide basic telecommunications services, but in return requiring vast investments to improve the extent and quality of telecom service. But after the government suspended convertibility of the bolivar, they could not make payments on these very large, very short-term, foreign-denominated loans taken out to finance the buildout. Gone as well was access to the medium-term Eurobond market, their preferred mechanism for rolling over the debt. CANTV soon had to seek a restructuring of US\$525 million of its commercial bank debt.

Worse, the firm realized it still would need new money to continue the ambitious investment agreement mandated under the concession. But from what source?

Enter IFC

CANTV contacted IFC, where telecom finance specialist Joseph Solan saw funding problems that were obvious and stark. "Banks are very risk averse and will not tolerate any

interruption of interest payments," he stresses. "And if there are exchange controls they generally will not lend. So, while CANTV was the best private sector credit risk in the country, it was still unable to raise foreign loans it needed on its own."

While CANTV and its commercial creditors negotiated a forced rescheduling of the existing short-term debt, extending maturities to three and four years, IFC's team got busy. Its mission was threefold: to prepare financial projections accurately reflecting CANTV's ongoing investment program; to help it obtain fresh capital to finance these needs; and to reconfigure the existing debt profile into a better match with projected cash flows.

An IFC package finalized in early summer 1996 had two components:

- swapping of US\$100 million of the newly rescheduled three- and four-year bank loans into an eight-year IFC B-loan;
- providing US\$160.6 million in new money with long grace periods and 8- and 10-year maturities, through a structure including US\$75 million of loans for IFC's account and a US\$85.6 mil-

Modern
Communications:
Backbone of
development.

lion syndication of large international lenders, including ABN-AMRO, ING, Chase Manhattan, Paribas, Sakura Bank, Caja de Madrid, and others.

The impact of the IFC loans on the CANTV balance sheet was both immediate and significant. The average life of the company's debt increased by more than 12 months, to 3.9 years, while the average cost was lowered by almost 200 basis points. Liquidity was improved and loan repayments were better matched to expected cash generation from operations. "In a very short period of time, we changed the capital structure of the company," says Andrés Gluski, CANTV's executive vice president for finance.

Ripple Effect

Gluski insists the value of the transaction greatly exceeded US\$260.6 million. "IFC played a crucial role by allowing us to begin the process of returning to the private markets, which were not quite ready to lend to us independently at that time," he emphasizes. "The fact that IFC came in gave a very positive signal to the markets. The assumption is that IFC does its homework, and others buy into IFC's analysis and the fact that it has very good recovery rates."

Agreeing is Allan Pollak, a vice president at Chase, one of the key CANTV creditors that signed on for the IFC conversion loan. He focuses on one aspect of the IFC's intervention: "timing."

"You have to remember that when IFC first got involved, there was no indication that

exchange controls — and the crisis in general — would end," says Pollak. He adds that IFC's involvement was especially important in securing new money from European banks.

IFC's involvement similarly set the stage for the November 1996 IPO. Of course other factors helped make this issue possible, just as it was a constellation of unfortunate circumstances that had led to CANTV's problems in the first place. Nicholas Millward, a managing director at SBC Warburg, an IPO underwriter, argues that equity investors will bet on a company with a relatively poor balance sheet if revenue and earnings growth are healthy. He points to three factors that made CANTV attractive. Number one, he says, was the Venezuela story itself: "We saw several positive movements in 1996: pledges by the government to open the oil sector; to eliminate controls on prices, interest rates, and foreign exchange; to restart the privatization process; and to tighten fiscal discipline."

Second was the regulatory environment, which was relatively positive. Third was the operating and financial performance of the company, which had been helped by the restructuring. "If there had been no restructuring the IPO would still have been possible," Millward argues, "but the values gotten would have been much less."

Others put more weight on the company's fiscal condition: "An equity investor doesn't really care if AT&T is rated double-A or single-A," says Flannery of JP Morgan. "But if a company like CANTV can or can't make its

There and Back Again

1991: In its biggest privatization to date, Venezuelan government sells control of telecom operator CANTV to consortium of GTE (51%), Telefónica de España (16%), Electricidad de Caracas (16%), Grupo Mercantil of Venezuela (12%), and AT&T (5%). Price: US\$1.9 billion

1992-93: Profitable years for CANTV, which finances expansion with short-term dollar loans

Spring-Summer 1994: Economic crisis: Banking sector collapses, currency is sharply devalued, exchange rate and price controls imposed; CANTV forced into default

August 1995: Forced rescheduling of CANTV's commercial bank debt

Spring 1996: Government reaches accord with the IMF; lifts exchange, price and interest rate controls; restarts privatization drive

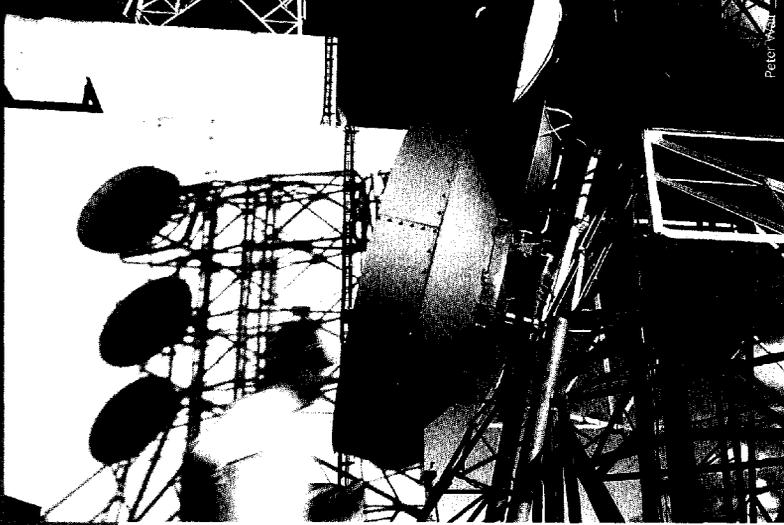
April 1996: IFC's US\$260.2 million package lengthens terms of CANTV's existing loans and provides new money

June 1996: IFC investment agreement signed; underwriters, led by Lehman Brothers and SBC Warburg, begin work on upcoming IPO

November 1996: Oversubscribed US\$1.14 billion IPO launched worldwide; declared "Deal of the Year" by *LatinFinance* magazine; reduces government ownership to 14%

February 1997: Market reception remains strong, as Yankee bond issue raises US\$200 million of five- and seven-year debt at less than 300 bp over LIBOR

August 1997: CANTV's New York stock closes up 80% since IPO



Venezuelan Telecom:
Rushing into the next millennium.

The Big Picture

CANTV's comeback also augers well for Venezuela's goals of advancing deregulation and privatization, enhancing creditworthiness, and reestablishing links to global capital markets. Most spectacular has been the company's role in deepening the local equity market: the IPO produced more than 80,000 new shareholders in Venezuela alone.

The improved fortunes of CANTV also coincide with the World Bank Group's ultimate goals of overall economic development and poverty reduction. According to Gluski, the company has increased its contributions to community development projects, including locally run calling centers in low-income and rural areas. More important, perhaps, is the enormous boost that a prosperous

and well-run electronic infrastructure will mean for all Venezuelans.

"Provision of telecommunication services is critical to supporting development and commerce," says Solan. "Every dollar invested in infrastructure, besides providing economic and social benefits to the existing community, generally attracts another dollar of new investment in industry and commerce which utilizes this infrastructure. So there is a quite substantial multiplier, and thus a big developmental role in what we did." ■

bank payments, it can mean the difference between having or not having new equity." Whoever gets the credit, the results have been positive. "Now people are falling over themselves to lend to the company," laughs Solan. And beyond the enthusiasm of creditors and investors, the company's operating performance has been successful. Despite the earlier trouble, CANTV is now on track to meet its cumulative buildout requirements. Some

3.2 million lines are projected to be installed by 2001, enough to reach 15% of the population and double the preprivatization 1991 levels. Productivity is also on the rise, with lines per employee doubling in 1991-97. Net income rose from US\$72 million in 1995 to US\$464 million in 1996, while the company's overall debt load dropped from US\$1.02 billion in 1994 to US\$606.3 million in March 1997.

Philippine Business: Lending a Hand in Development

Maria Aurora Francisco-Tolentino

Executive Director, Philippine Business for Social Progress, Manila



Of Cabbages and Things: *Input from top Philippine corporations supports local vegetable growers — and helps preserve an important watershed.*

Restituto Baculi has a busy day ahead of him — one filled with deliveries of vegetables to hotels, restaurants, and fast food chains. His broccoli, cauliflower, lettuce, and plump tomatoes are fetching good prices.

Since Restituto began selling in these markets three times a week, his monthly net pay has averaged as much as P 10,000 (US\$384) — a 200% increase from its level of seven years ago. At that time, he was harvesting small amounts of corn and tomatoes that he could hardly sell. It was the same story for 3,000 farmers who cleared forests by the slash and burn method in Sudlon, a mountain village inside Cebu, the second largest Philippine city. In that area, 90% of upland community residents

could not earn enough to break through the poverty line.

Change began the day Restituto met a group of businessmen and development workers from Philippine Business for Social Progress (PBSP) that was working with then-Cebu Mayor Tommy Osmena. Knowing that the rapidly industrializing city below could not afford to let soil erosion harm its water supply, the team had jointly proposed a massive tree planting and watershed management program.

Recurring incidents of flooding in the lowlands was worrying these local leaders, and action was critical. Trees were being felled at an alarming rate in Sudlon, where only 7% of the original forest cover remained. Commercial logging and continued tree cutting by the farmers were quickly laying bare the rest.

But Restituto and the officers of the Sudlon community association said no. They were not interested in tree planting. Water supply was not their problem. They needed job opportunities, potable water, and health care, especially for their children.

Two-Way Street

Realizing that sparking environmental rehabilitation would not be simple, Mayor Osmena

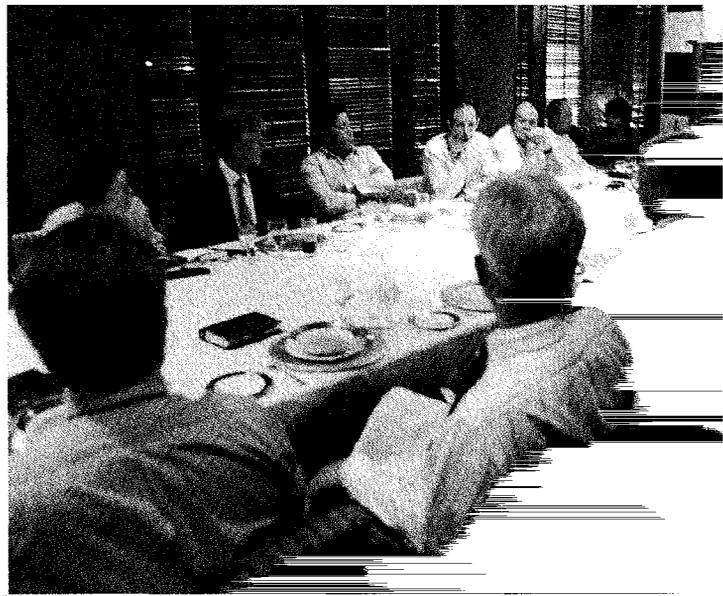
approached PBSP, a private nongovernmental organization with a track record in community organizing and development. He hoped to involve its board members, titans of business known for using their clout and influence to push social development projects. For his part, he committed the municipal government to installing electricity and building roads in the uplands.

Regional PBSP leader Erramon Aboitiz (now CEO of one of the country's largest shipping companies) helped to mobilize the business community to support a community-based program to renew the watershed area. PBSP national board members started campaigning among their business colleagues to raise resources for potable water, schools and health centers, spring systems for the farms, and seed capital for backyard projects. They convinced business chambers and medical associations to pitch in, and in no time the upland community had regular health clinics and mini-drugstores. The farmers learned soil conserving techniques and how to plant new high value crops such as broccoli. When PBSP linked them to market outlets such as local hotels and restaurants, they began earning incomes they never before imagined possible.

Once spring boxes were established as a source of water, these

Sudlon farmers began to understand how precious a resource water was and why they had to protect the watershed. They started to reforest on their own and welcomed the tree-planting caravans organized by the business community. To date, more than 650 hectares have been reforested. By strategies such as this that address the underdevelopment of the uplands, and by making the necessary social

companies leveraged another P 16.21 million (US\$4.1 million) from other donors, including Australian and German NGOs. In addition to reforestation, the community received training in environmental awareness, financial management, and possibilities for earning income in areas such as citronella oil processing, basket weaving, and natural soap and candle making.



Business and Development: 27 Years of Action

Name: Philippine Business for Social Development

Founded: By leading national CEOs in 1970

Members: 187 major Philippine corporations

Funding: Members pledge 1% of annual pretax profits for social and environmental projects, 20% of it channeled to PBSP directly, and 80% managed by the companies themselves

Strategies: Combines strong business discipline and initially strong development expertise; works in partnership with government and community groups; long-term commitment; focused on both policy dialog and grassroots projects

Record: Has raised a total equivalent of US\$86 million for 8,500 projects involving nearly 2.3 million low-income households... "one of the best examples in the world of a business-led partnership tackling the problems of poverty and social unrest" (*Business as Partners in Development*, Prince of Wales Business Leaders Forum/World Bank/UNDP, 1996)

investments for long-term development, the business community had helped ensure that Cebu would become the premier city of the Philippine South.

The Philippine Department of Environment and Natural Resources today considers this so-called Hillyland Development Program and its work with 684 local families a model of community-based reforestation. The P 5.7 million (US\$842,300) contributed by PBSP member and nonmember

Cebu business leaders furnished resources for medical missions, potable water systems, and water catchments for upland irrigation. They helped to build multipurpose centers and collected seedlings for reforestation. And they took time to tell schools and civic clubs why the project was important.

In this project, as others, PBSP put a premium on social preparation and regular consultation between the community and donors. The key is partnerships

— with the community, business, government, and others pooling their resources to work in synergy.

PBSP: Boardroom minds, grassroots hearts.

"PBSP has legitimized for the business community the importance of working at the grassroots level," says Mary Racelis, former Philippine representative of the Ford Foundation.

Continually exploring the strategic role of business in development while also seeking to influence the way individual companies conduct operations is the hallmark of PBSP. Founded 27 years ago, it now has 187 member companies nationwide. Members not only pledge an annual financial contribution of 1% of pretax income for projects but also go beyond writing checks to extend business and technical expertise. From the outset, prominent Philippine CEO board members have applied their managerial experience toward poverty alleviation. They have worked closely with PBSP's professional staff to bring about programs promoting self-reliance and a spirit of entrepreneurship in communities, believing this to be the key to helping people help themselves.

The Corporate Citizen in Asia

"For an Asian company, corporate philanthropy and citizenship are seen as part of a social contract with the community. The company observes this unwritten contract not out of fear of being picketed or penalized, but because it is the only truly acceptable way to do business.

"Here, a company may not prosper for long at the expense of others or the nation. Part of a company's earnings is seen as belonging to the nation's patrimony. A company's profits are a reward of the community, but a reward held only in trust. Part of that reward must ultimately be plowed back into the community.

"A company's community includes all its stakeholders — its employees, shareowners, suppliers, dealers, and even government and the localities where the company operates. A business enterprise can survive and prosper only with the community's support and goodwill."

— Andres Soriano III
Chairman and CEO,
San Miguel Corp.*
Chairman, Philippine Business
for Social Progress

* IFC client

Why Bother?

But why? What bottom-line factors motivate such decisions?

PBSP recently surveyed 110 Philippine companies with values of corporate citizenship and concern for the community integrated in their corporate credos, values that stemmed from not only altruism but pragmatic business concerns. Poor socioeconomic operating conditions had compelled the companies to regard community relations as a serious undertaking worthy of full-time attention.

"The CEO's job in an emerging economy is quite different from the job and role of a CEO in a more developed economy," argues Felipe B. Alfonso, president of the Asian Institute of Management. "Philippine CEOs, for example, spend a significant amount of time outside their offices dealing with various constituencies such as local communities, NGOs, national and local government officials. Specific to community relations, the participation and commitment of these CEOs have been the driving forces to ensure successful, sustainable programs that not only respond to the needs of the community but also benefit the sponsoring company."

In their collaborative 1996 publication *Business as Partners in Development*, the Prince of Wales Business Leaders Forum, the World Bank, and the United Nations Development Programme cited PBSP as one of the world's best examples of a business-led partnership tackling the problems of poverty and social unrest at both the grassroots and strategic policy level. This citation was partly based on what PBSP has achieved in the last 26 years: with more than P 455 million (US\$17.5 million) in membership contri-



butions, it has raised P 1.8 billion (US\$68 million) in cofinancing grants for total funding assistance of P 2.2 billion (US\$86 million). More than 8,500 projects have benefited close to 2.3 million poor Filipino households. Project partners (cooperatives, local nongovernment organizations, and rural intermediary financial institutions) made this accomplishment possible.

Vision

The handful of businessmen who founded PBSP in 1970, at a time of widespread social unrest in the Philippines and extreme skepticism about big business interest in genuine national development, had acted in a move of self-preservation. They insisted that PBSP answer the call of the times and built up a credible organization, one constantly learning how best to confront the many facets of poverty. Their commitment and spirit infuses the present membership, who undertake innovative programs in response to the most challenging national issues: environmental protection, agrarian reform, housing, social credit, strengthening of local governments, institution building for cooperatives, and others.

Says former IFC Business Advisory Council member Ramon del Rosario, Sr., chair-

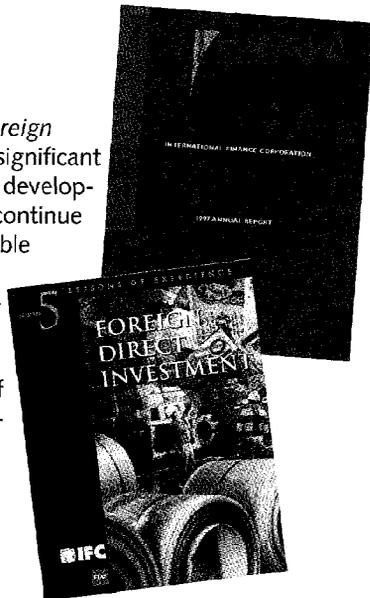
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man of cement industry leader Phinma Group: "We need to put our resources where they can generate commensurate, if not greater, returns to society — not necessarily just for our companies."

Del Rosario leads a dynamic group of about 40 CEOs who carry out the work of the Center for Corporate Citizenship

(CCC), an initiative launched by PBSP in 1992 that has directed the energies of these CEOs (including some non-PBSP members) to identify and implement business-oriented solutions to national issues such as education, environment, and local government. The CCC has now raised P 4.85 million (US\$187,000) for educational needs such as establishing com-

puter and science laboratories for public elementary schools students can watch the children's science program "Sineskwela" [School On Air]. On the environment side, the initiative has led to cosponsorship with Philippine Business for the Environment of a Clean Air campaign in Metro Manila, where total suspended particulates exceed WHO standards by a factor of five (and double this during the dry season). The Anti-Smoke Belching Program's 100-plus member corporations pledge to enforce a "clean air" policy on their premises. They ban smoke-belching vehicles from their compounds, while also ensuring that company- and employee-owned vehicles regularly undergo smoke tests and are properly maintained. Three smoke-testing centers have also been established in Shell gasoline stations in Metro Manila to inspect private vehicles free of charge.

This project is complemented by "Project Blue Sky," a media campaign to increase public awareness of the dangers of urban air pollution. It calls on motor vehicle owners to properly maintain vehicles, regularly undergo emission testing, and, if possible, use unleaded gas. TV, radio, and print ads are being aired for free as public service announcements. They were developed by McCann Erickson Philippines, one of the country's leading ad agencies. Creative services were donated and the government provided funds to cover the cost of production.

This is corporate social responsibility in action. When time, expertise, influence, and resources are harnessed for the greater good, changes are bound to happen. Using their individual experiences in community relations and corporate philanthropy as a springboard,

Philippine CEOs who come from diverse and even competing arenas now focus collectively on important national issues. Once widely perceived to be the sole responsibility of government, solutions to these concerns are seen by the corporate sector as essential for a healthy business environment.

"It's more than just corporate philanthropy. It's corporate practicality. What's good for the country's development rebounds to a better climate for business," says Maria Luisa Perez-Rubio, CEO of Pacific Products, Inc. and president of PBSP.

"Government cannot do it alone," President Ramos has said many times in encouraging business leaders to deepen their involvement in nation building. At the PBSP 25th anniversary meeting he had this message: corporate citizenship has taken on global dimensions, and in the Philippines, social responsibility now means a strong long-term commitment from business. ■

Maria Aurora Francisco-Tolentino has been with PBSP for 21 years and is on the board of various organizations affiliated with government and nongovernment work in social development. Until last year she represented the private sector in President Fidel V. Ramos' Legislative-Executive Development Advisory Council.



Measuring Up: School science lab in Manila founded by PBSP's Center for Corporate Citizenship, which encourages businesses to invest in education as well as the environment.

puter and science laboratories for public secondary schools; training for science and math teachers; scholarship grants for the master's degrees of science and math teachers; and televi-


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