Strengthening ESG Reporting
Investors and regulators collaborate—and capital markets benefit.

Blockchain
Can this technology tackle challenges in emerging markets?

Outlook: Indonesia
Jim O’Neill revisits his predictions and explores new growth prospects.

The Equator Principles at 15
Revolutionizing global sustainability standards.

“Any company that is ESG-compliant will see good results on the bottom line.”

MOSSADECK BALLY
FOUNDER & CEO, AZALÀI HOTELS GROUP
The Equator Principles at 15

Costa Rica’s Conservation Efforts Protect Biodiversity

Building a Business with Staying Power

Blockchain: The Potential and Pitfalls

Better ESG Reporting — A Key to Strengthening Capital Markets

What’s Next for Indonesia?
A LETTER FROM IFC CEO
PHILIPPE LE HOUÉROU

Strong Standards, Stronger Results.

Businesses increasingly understand that their long-term success is linked to addressing the most urgent development challenges of our time—from poverty and disease to climate change.

Solving these problems is good business. Solving them well—in an environmentally and socially sustainable manner—is better business.

A recent study of IFC’s equity portfolio across emerging markets showed that companies do better financially when they do right by their communities and the environment. A parallel study showed the same for firms that put in place good governance.

The case for sustainability could not be clearer: Businesses can and must focus on societal needs—and must do so in a sustainable manner.

That’s what this issue of IFC PERSPECTIVES is about.

For 62 years, IFC has repeatedly pushed toward the frontier—to go to more difficult markets and bring solutions to more complex challenges. The further we have gone, the more we have been asked by our stakeholders to take on greater challenges. We have done so while maintaining our triple bottom line of impact, profitability, and sustainability.

In short, we know from experience that sustainability and profitability are not incompatible business objectives—it just takes patience and persistence to see results. Barely two decades ago, for example, there was no handbook for managing risks in project finance in developing countries. IFC had no guide for our own investments. So we established a set of standards for managing environmental, social, and governance (ESG) risks.

Today, IFC’s Performance Standards are a global benchmark. This year marks the 15th anniversary of the Equator Principles—which require participating banks to apply our standards when lending in emerging markets. In a remarkable example of voluntary self-regulation by financial institutions, these Principles have now been adopted by 94 banks from 37 countries.

The effects have been revolutionary. These standards turned an increasing number of financial institutions into critical agents of sustainable business practices—improving labor and environmental practices and bolstering engagement with local communities. They strengthened insufficient local standards in many markets and encouraged other institutions and regulators to follow suit.

Informed by the banking industry’s experience, institutional investors—who hold nearly $100 trillion in assets under management—are increasingly integrating ESG considerations into their investment decisions. This is the new frontier in sustainability.

In the following pages, we review the remarkable achievements of the Equator Principles. We meet African entrepreneur Mossadeck Bally, who has created a thriving hotel business—with high ESG standards—in one of the world’s toughest markets. And we learn how Costa Rica’s state-run power company, ICE, is taking steps to safeguard the environment as it generates power.

This issue also looks at blockchain’s potential to transform developing countries. And to mark the World Bank Group’s Annual Meetings in Bali, we’ve asked Jim O’Neill to update us on Indonesia’s economy—where it’s been and where it’s going.

I hope these stories encourage you to reflect on how far we’ve come since the Equator Principles were launched 15 years ago—and how sustainability has evolved from afterthought to essential component of every good business plan.

Philippe Le Houérou
CEO, International Finance Corporation

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The Equator Principles at 15

Just two decades ago, commercial banks paid little attention to the environmental and social risks of lending in emerging markets. When it came to financing projects, bankers focused on financial risks and returns. That’s the way it had always been.

But throughout the 1990s and early 2000s—as environmental awareness grew and protests led to disruptions of major mining and oil pipeline projects in developing countries—banks became vulnerable to criticism that their lending might be doing more harm than good. As the situation escalated, some banks determined that their reputations were at risk. That carried financial consequences.

Bank officials understood that they needed new ways to align their investments with modern social values.
The Equator Principles—a global benchmark for sustainable project finance—were created 15 years ago for this new era. They’ve made it possible for “real bankers to talk both profits and social benefits,” says Graham Sinclair, Principal at Sustainable Investment Consulting LLC. The consequences, he believes, have transformed the one-time status quo: “The Equator Principles have altered the way the business of global project finance is conducted in emerging markets... now, the Equator Principles are a *de facto* best practice that place environmental, social, and governance issues inside every deal.”

**Convincing a Skeptical Audience**

As the Equator Principles have become the most tested and applied global benchmark for sustainable project finance, they continue to influence the growth of responsible business standards across the globe. But in 2002, when discussions began, few were convinced that this new approach would catch on.

“Initially there were doubts that all these highly competitive banks would work together to establish common environmental and social principles or hold themselves to account for meeting them,” according to Jane Nelson, Director of the Corporate Responsibility Initiative at Harvard’s Kennedy School of Government. “But they did, and the Equator Principles became a pioneering model for other industry coalitions in developing and spreading responsible business standards.”

In fact, groups are now drawing on the experience of the Equator Principles to create similar standards for stock markets and capital markets. Sinclair notes that a new transparency initiative to fight corruption in the infrastructure sector is also modeled on the Equator Principles.

As for the original target—project financing—94 banks in 37 countries now adhere to the Equator Principles. This covers over 80 percent of project-finance transactions in emerging markets. In many of these markets, the Equator Principles set the bar above local requirements and standards.
A New Approach to Lending for a New Era

Today, the Equator Principles are considered a rare example of financial market self-regulation and the financial sector’s power to influence the trajectory of sustainable development. But the original idea was more modest in scope.

In the early 2000s, pressure was mounting against the lending practices of major banks. IFC had begun to build the business case for sustainability—demonstrating that companies in emerging markets could actually boost their financial results by taking steps to improve environmental, social, and corporate governance processes.

An IFC report featuring firms that had benefited from adopting environmentally friendly measures was launched at the Rio+10 Summit in 2002, sparking “a whole set of different conversations between IFC and clients around the area of sustainability,” recalls Bernie Sheahan, IFC’s then-Director of Strategy.

One of these conversations was with ABN AMRO. Civil society groups were criticizing the Dutch bank for not doing enough to manage social and environmental risks, and the bank approached IFC for help. After those discussions, the bank ruled out the option of adopting principles on its own—among other things, it would put ABN AMRO at a disadvantage among its peers—and instead chose to try to convince other banks to follow the same policies.

Sheahan says ABN AMRO played the lead role in bringing together a group that originally included Citibank and Barclays. IFC provided advice to the group so it could create a new industrywide framework to manage environmental and social risks in project lending. This common approach—originally, a “lighter” version of IFC’s Safeguard Policies from 1998—could help reduce important risks related to deal structuring, project completion, credit, and reputational risks.

This was a welcome but unexpected game-changer, says Sheahan, who met with banks’ teams over a period of nine months. “The big surprise was that, in the last month, we were able to bring the banks to a completely different position: that they would adopt IFC’s policies, not some ‘light’ version as they had intended to do. The key argument that won them over was that they would consistently be arbitraged by NGOs against IFC’s standards so that a ‘light’ position was untenable.”

Negotiations wrapped up in June 2003, when 10 banks announced that they were adopting the Equator Principles. The name they chose reflected the initiative’s global perspective.

The news that financial institutions were taking steps to safeguard the environment made headlines because financial institutions were doing something unheard of—taking a leadership role on global environmental and social issues.

Standardizing the Standards

The Equator Principles are now the global standard for sustainable financial investment. They follow IFC policies that require project sponsors to assess an initiative’s impact on the natural environment and society, as well as the World Bank’s guidelines on pollution prevention and abatement. As IFC has continued to strengthen its own policies—learning from experience and consulting with stakeholders—it introduced the Performance Standards to assess and manage environmental and social risks on an even more granular level. After the Performance Standards were adopted in 2006 and updated in 2012, the Equator Principles were revised to reflect these new approaches.

As an increasing number of financial institutions have committed to sustainable business practices, labor standards have improved, important environmental practices have gained support, and engagement with indigenous peoples and local communities has been strengthened.

Rapid adoption and expansion of the Equator Principles has inspired others to follow suit. Multilateral development institutions and 37 Export Credit Agencies adopted similar approaches, drawing on IFC’s Performance Standards as well as the Equator Principles. Organizations such as the Sustainable Banking Network look to the framework as an example of tested best practices when supporting regulators and banking associations in policy development in their home countries. The Principles encouraged the development of a variety of other standards—such as the Carbon Principles, the Climate Principles, and the United Nations-supported Principles for Responsible Investment for capital markets.
A New Global Standard

The Equator Principles have changed the way major projects around the world are funded. They have become the global standard for project finance, while successfully addressing regional differences and managing cross-border complexities. Such an achievement was only possible because the Principles are consistently evolving to absorb changing market practices and stakeholders’ demands.

Itaú was one of the first emerging-market banks to adopt this new global framework, in 2004. The commitment was consistent with our international expansion strategy and our persistent engagement with sustainable development and social responsibility.

Besides knowledge-sharing, membership has brought Itaú benefits in many areas: It has directly enhanced our risk approach and enabled us to access foreign funding and investors who increasingly value what the Equator Principles stand for. Moreover, with more than 90 members—including major European, American, and Asian banks—the framework has set a level playing field for sustainable financial institutions with overseas operations.

By leading the way in sustainable finance, IFC continues to push to improve and enhance the Principles. The fact that one-third of the signatories now come from emerging markets is mostly thanks to IFC. The IFC Performance Standards are at the heart of the Equator Principles, forming the technical framework on which the Principles were built. They provide valuable guidance on how to address sensitive topics such as indigenous communities, filling gaps left by environmental and social laws.

Transcending Blind Spots—and Borders

The Equator Principles continue to evolve as needs change and new situations arise. For example, member institutions are now considering human rights issues and how to reflect the repercussions of climate change.

As institutional investors start to embrace the business case for sustainability, the biggest impact may lie ahead. After all, they hold $99 trillion in assets—and numbers this significant could have an impact beyond the changes the world has seen in the last 15 years.

Indeed, this is where sustainable finance is headed, Sinclair says. It “opens doors to deals in difficult places and reduces the risks of blind spots—and it transcends borders, cultures, and political economies.”

“The Equator Principles have changed the way major projects around the world are funded... Such an achievement was only possible because the Principles are consistently evolving to absorb changing market practices and stakeholders’ demands.”

CANDIDO BRACHER, CHIEF EXECUTIVE OFFICER, ITAÚ UNIBANCO HOLDING S.A.
Electromechanical technician Maria Del Milagro Vargas Mora surveys the Reventazón project.

In 2017, Costa Rica produced nearly 100 percent of its energy by renewable means. The nation aims to be the world’s first carbon-neutral country by 2021.

Eduardo Alvarado is the manager of the Reventazón power station. “This is the first power station in Costa Rica that has both engineers and environmental specialists working on site,” he says.

Costa Rica’s state-run power company, ICE, knows how to implement clean-energy solutions while protecting the environment. For many years, it has measured and mitigated biodiversity impacts during the construction of hydropower projects.

But the planning process for Reventazón, a $1.4 billion hydropower plant built in partnership with IFC and the Inter-American Development Bank, was different. The scale of the challenge required a new approach to ensure the highest standards of environmental responsibility and sustainability.

Since operations began in 2016, here’s how ICE employees and field scientists have been applying responsible business standards.

A PHOTO ESSAY BY DOMINIC CHAVEZ
Mario Castillo Chavez is an ICE forestry engineer who meets with local farmers to discuss and design options for reforestation. Under a program developed by the World Bank, farmers are compensated for planting native species of trees and preserving forested areas.
Every three months, ICE biologists catch, weigh, and release fish at 10 spots along the river to assess the health of the fish population.

Biologist Jorge Leiva (top right, in the fedora) has been involved with Reventazón since its first environmental assessment in 2007. “It was the first time biologists, engineers, management, and lawyers sat down together to focus on a long-term approach,” he recalls.
ICE biologists working on the Reventazón project set one of 40 cameras that capture a variety of species in their natural habitat. Costa Rica is one of the world’s most biodiverse countries.

*Stephanny Arroyo Arce* works in Costa Rica as a jaguar scientist for Panthera, a global wildcat conservation organization. She is the handler for Tigre, a Labrador retriever that is being trained to track the diversity of the country’s wildcat populations.
Alexis Quiros Salas plants a bully tree as part of efforts to help local farmers establish new forest cover with native species of trees in the biological corridor near the Reventazón power plant.

Rafael Angel Cordoba Angula and Carmen Garita Alvarado operate a small dairy farm located near the Reventazón project. With help from ICE, the family is employing efficient farming techniques to reduce the amount of land they need for their cows, allowing them to maintain a conservation area on their property.
IN CONVERSATION WITH MOSSADECK BALLY

Building a Business with Staying Power

Starting with a single hotel in the Malian capital of Bamako, Mossadeck Bally has built a chain of eight business hotels in five West African countries, bringing thousands of jobs and millions of dollars in economic activity to areas that need both. Environmental and social standards have helped his company, Azalahi Hotels, thrive in challenging markets.
“IFC believed in my entrepreneurial skills, saw my managerial capacity, and helped us refurbish the hotel. IFC was instrumental in helping the Azalaï Hotels Group grow up.”

MOSSADECK BALLY, FOUNDER AND CEO, AZALAÏ HOTELS
Growing up in West Africa as the son and grandson of Malian traders, Mossadeck Bally spent every spare moment learning his family’s import-export business. “Entrepreneurship was in my DNA,” he says. He just never imagined a career in the hospitality sector.

But in 1994, following a period of political upheaval in Mali, he saw the opportunity to purchase the state-owned Grand Hotel in central Bamako. He knew that establishing a comfortable environment for business travelers—especially foreign investors—could have a lasting impact on his country’s post-conflict growth and prosperity. With $1 million in financing from IFC to refurbish the hotel to adhere to the highest international standards, and a second $1.68 million loan from IFC a few years later, he built the Azalaï Grand Hotel.

Since then, Bally has expanded the Azalaï Hotels Group, a chain of eight business hotels spread across five countries in West Africa. The business has created 2,000 jobs, a number that is expected to double by 2023, when additional hotels open. Bally has also developed programs to train African workers for the hospitality industry and encourage them not to emigrate. Thanks to a new partnership, certificates will soon be issued by the École Hôtelière de Lausanne, widely considered the top hospitality-management program in the world. This will open up more opportunities for graduates.

Azalaï hotels adhere to IFC’s environmental, social, and governance (ESG) standards, helping to lower energy consumption, improve food quality, and work with local suppliers. Despite Bally’s initial hesitation over ESG requirements, he’s seen the benefits to the bottom line. Here, he shares with IFC PERSPECTIVES his views on how adhering to high international standards leads to long-term success—and why establishing a new sector in a fragile country demands patience and resilience.

Q&A

IFC PERSPECTIVES: Among all the challenges you faced building your first hotel, what was the most daunting task?

MOSSADECK BALLY: Finding financing. Remember, I was someone with no hospitality background, and I was looking for financing in a country recovering from conflict. Had I gone to a big international bank, I wouldn’t have gotten the loan I got from IFC. IFC saw a big potential for Mali, which had emerged from a coup d’état with a well-run democratic election. IFC believed in my entrepreneurial skills, saw my managerial capacity, and helped us refurbish the hotel. IFC was instrumental in helping the Azalaï Hotels Group grow up.

Staffing and HR was another very significant challenge. We could not find local people who were trained to work in this industry. A project called AMSCO, which IFC ran with the United Nations Development Programme, helped us get professional managers, including our first General Manager.

How did the problems with staffing lead Azalaï Hotels Group to create its own hotel school?

Training is key to any business. We already know that hospitality is a major development sector because it can create jobs quickly. And today in Africa, the number one problem is that we don’t have enough jobs. That’s one of the reasons people are leaving the continent. Hospitality is a priority, but there was no investment in training people. So we created our own training school in Bamako, with the aim of opening one in every city where we have a hotel. Our training budget is 2 percent of our revenues; that gets redirected to the school.

We hire young people who spend one year with us, training half the time in hospitality and learning academic subjects the other half of the time. So far, we have graduated 150 students. For the upcoming year, we’re accepting 100 students—almost double the number of each previous class size. Our business hires about 30 percent of our graduates, and 95 percent of the other graduates get jobs in hotels, restaurants, and diplomatic compounds. They stay in Africa because they have the skills employers are looking for. Now, with the certification from the École Hôtelière de Lausanne, there will be even more opportunities.
You’ve pursued high standards like this from the time you launched the business, when you first agreed to meet IFC’s conditions on ESG—such as the requirement to build wastewater treatment plants for your hotels. But you also acknowledge that ESG requirements can be daunting, and that you were skeptical at first that it would pay off. How has ESG helped the business grow?

IFC is the standard on ESG in the development finance world today. It’s true that ESG constraints have added complexity, but IFC has always been there to help us. That was critical. IFC has rules, we have to obey the rules, but they have helped us and they continue to help us meet these requirements.

While it took maybe 25 years, I’m convinced ESG is absolutely needed. What I always tell my staff, if they say that ESG is too complicated, costly, and time-consuming, is that in the long run, we will see benefits to our bottom line. I’m convinced that any company that is ESG-compliant will see good results on the bottom line. In our case, ESG compliance has helped us lower our energy consumption. This is critical because we are in an environment where energy is very costly—it’s one of our top budget lines. So anything we can do to lower our consumption helps the business. But to successfully comply with ESG demands, you have to have the staff, understand exactly what the requirements are, and get help. And that’s what IFC is doing for us.

Aside from the business necessity of adhering to these standards, I live in Bamako—so I have an interest in preserving the environment in which I live.

“I’m convinced that any company that is ESG-compliant will see good results on the bottom line.”

Have there been unexpected benefits of complying with ESG standards?
Yes. People know if they go to Bamako or Dakar, they can stay in hotels that meet international standards. That makes doing business on the continent much easier—which also has an impact on foreign investment.

As you say, you live in Bamako, not Washington. IFC advises you on ESG—but how would you advise IFC on ESG?
It’s important to take into account the specific situation of each region and not “copy and paste” requirements. What’s possible in Tokyo or Paris might be more complicated in Africa. Living in Africa, we have to be pragmatic and flexible. Things take time. We have to examine the costs, because sometimes it’s costly to be compliant. Sometimes it makes sense to look at the size of the companies and start small, then scale up.

Could you talk about one specific way ESG requirements have changed the way you do business?
Absolutely. Once we decide to invest in a country, the first thing we do is the ESG study. We hire a consultant referred by IFC, who knows the IFC standards and has experience. That’s the initial step and we don’t move forward until we get the results.

What’s your advice to entrepreneurs and investors who are considering operating in Africa?
When I meet young African entrepreneurs abroad, I tell them that they could have a much bigger impact back home. I tell them about my own experience. I could have stayed in the U.S. When I was considering next steps after my MBA in the States, Mali had a military regime and the economy was not thriving. It was difficult. But I made the move back to Africa, and I was quite resilient.

That’s the biggest advice I give to young Africans who want to come back—that if you want to be successful in Africa, you have to be resilient, know your long-term plans, and be patient. If you are, there are a lot of opportunities on the continent right now.

I give the same advice to foreign investors. I’ve seen it work, and that’s exactly what IFC did. It was not very easy for a development finance institution (DFI) to finance a hotel project in Mali in 1995, with someone who hadn’t been in the business. But DFIs should go where it’s not easy, and IFC did this. IFC eased doing business and helped a champion of Africa grow.

Has your initial vision for the hotel group changed over time?
At the beginning my vision was to start small: we would manage the Grand Hotel to international standards but with an African touch, with African hospitality. Once we did so well in managing the best hotel in Bamako, with guests like Warren Christopher and Madeleine Albright, we bought the land to build our second hotel. Then the idea was to have an indigenous regional African hotel chain so that when a traveler comes from Paris, Tokyo, or London, he or she finds Africa in our hotels. At that point, I started to think that maybe this could be my lifetime achievement. I devoted all my time to developing the hospitality business because it’s an industry that has a big impact on our economy. I’m quite satisfied and happy to be in an industry where I can create jobs.

When you reflect on almost 25 years of the business, what achievements are you most proud of?
When I look back, I see that we were pioneers. Our endeavor is to create hotels that have an impact on local economies. Our monthly payroll is close to $400,000 across the Group. This goes directly into the local economy. We pay close to $300,000 every month in taxes to local and country governments across the globe. This is the impact a small hotel chain with eight properties—soon to be 13 properties—can have.

There’s a significant indirect impact, too. In each country where we have a hotel, we buy local products. I can help a small vegetable producer sell her tomatoes at the same time I’m promoting African management and hospitality. And we outsource some things, like security and laundry, which helps other African companies succeed. So I’m proud as an entrepreneur and as an African—proud to think we can start small, continue expanding, and have such a profound impact on local economies.
“I started to think that maybe this could be my lifetime achievement. I devoted all my time to developing the hospitality business because it’s an industry that has a big impact on our economy.”
Blockchain: The Potential and Pitfalls

Blockchain is a form of distributed ledger technology (DLT) that uses sophisticated cryptography to store data across computer networks. It has been billed as a solution to almost every challenge known to humanity. But it remains mysterious to most people—and largely untested. Is there potential beyond the hype?
True believers think blockchain could eliminate the need for intermediaries in a wide array of transactions and will transform virtually every corner of the global economy—not just the financial system, but also energy markets and supply chains.

In 2017, IFC worked with key influencers to examine the potential and perils of blockchain. (The full report can be downloaded at ifc.org/thoughtleadership/blockchain.) Conclusions suggest that blockchain could be valuable to developing economies by promoting greater financial inclusion and improving productivity.

But, as with all new technologies, a healthy dose of realism is necessary—and not just because of the collapse in cryptocurrency prices. The international financial system is built on trust between transacting parties, and the potential anonymity of blockchain hinders that trust. For all their advertised advantages, blockchain databases remain much less efficient than traditional databases. That may be one reason blockchain has entered the "trough of disillusionment" on technology consulting firm Gartner’s "hype cycle", which provides a view of how new technologies are expected to mature over time.

That’s not to say the technology will never be useful. Gartner says the trough of disillusionment can be followed by a productive period in five to 10 years.

Experts agree that blockchain is in its infancy. It will need to overcome serious technical and regulatory challenges if it is to achieve widespread adoption. To learn more about these challenges and opportunities, IFC PERSPECTIVES asked industry leaders to share their views.
Caution is warranted, however, with respect to the commonly held belief that DLT can “replace trust,” especially in trade and supply chain applications. Applications of DLT that eliminate intermediaries have so far involved assets that exist solely within the system, such as cryptocurrency. Anything meant to represent assets that exist in the broader world—such as a banana in a supply chain—requires an intermediary to create the link between the crypto-asset and the real asset. This is necessary to verify that the banana exists and is in the condition it’s supposed to be in. Because of this, beyond cryptocurrencies, DLT does not actually dispense with trusted third parties.

Given the higher cost and slower operation of systems, the net benefit of choosing DLT as an operational database for supply chains may be limited. Most proofs of concept to date have focused on the question “Can this be done using a blockchain?” rather than “Is blockchain the most efficient and effective way to do this?” Although there may be applications where redundancy, transparency, or other features justify the current cost trade-off in favor of DLT, there’s a risk that the hype surrounding blockchain could be costly—in terms of time and money. Some blockchain applications may succeed, but that may be the result of the amount of capital being thrown at this technology right now, rather than because blockchain technology is a necessary part of the solution. As The Economist noted recently, “firms that deploy blockchains often end up throwing out many of the features that make them distinctive.”

Where blockchains do turn out to have a real advantage, implementation will be a steep curve. Without the critical mass of a sovereign or a big corporate backer, any transition from a centralized system will be difficult. Business models will need to change.

Large companies like Oracle, IBM, and Microsoft have some power to drive change in technology. Some dominant players in a supply chain may be able to dictate how others interact with them, but why they would use that power to socialize rather than concentrate control of the database is not clear. IFC will continue to monitor developments. The intense experimentation and focused attention on the nature of ledgers, transactions, and counterparty connectivity could improve understanding of underlying processes and eventually result in useful applications. For most companies, though, it will pay to be a fast follower rather than to expend resources on speculative projects today.

ANDI DERVISHI
Global Head, FinTech Investment Group, IFC

MATTHEW SAAL
Head of Digital Finance, Financial Institutions Group, IFC

Blockchain and distributed ledger technology (DLT) drove the rise of cryptocurrencies, but it’s critical to look beyond the hype when assessing the potential benefits for developing economies. This is particularly important because we see that even in developed settings the technology is still maturing.

We don’t see developing economies as a different class regarding the technology. The adoption cycle may be different—either slower or faster, with the possibility of development leapfrogging traditional infrastructure, as was the case with mobile phones in Africa—but the applications are largely the same.

When we look at potential investments in companies that are pursuing DLT initiatives, we’re not assessing the opportunity with the goal of proving whether blockchain or DLT works or not. We invest in companies that are solving a problem and growing their customer base with whatever technologies are appropriate to their needs.

For example, in July 2018 IFC committed a $3 million investment in Twiga Foods, a Kenyan delivery service that runs a cashless platform through which vendors order and pay for fresh food and vegetables. By eliminating layers of middlemen, Twiga creates more efficient supply chains, benefitting farmers and vendors. The Twiga system, which has brokered 200 million bananas, uses conventional technology and mobile connectivity. IFC has also supported IrisGuard, which has developed a biometric ID technology that has been deployed in ATMs and linked to aid distribution programs for Syrian refugees in Jordan. Twiga is now piloting a blockchain-based financing system, and IrisGuard has implemented a blockchain-based back-end payments system that may deliver incremental cost reduction for one of the benefits programs that uses its biometric ID.

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Where blockchains do turn out to have a real advantage, implementation will be a steep curve. Without the critical mass of a sovereign or a big corporate backer, any transition from a centralized system will be difficult because a distributed ledger by its very nature deflates the hierarchies within it. Business models will need to change.

Large companies like Oracle, IBM, and Microsoft have some power to drive change in technology. Some dominant players in a supply chain may be able to dictate how others interact with them, but why they would use that power to socialize rather than concentrate control of the database is not clear. IFC will continue to monitor developments. The intense experimentation and focused attention on the nature of ledgers, transactions, and counterparty connectivity could improve understanding of underlying processes and eventually result in useful applications. For most companies, though, it will pay to be a fast follower rather than to expend resources on speculative projects today.
It is important to highlight that DL T is a means to an end that presents opportunities for customers in the agriculture and food supply chains. In our Blockchain Acceleration Lab, we are investigating several solutions to the challenges customers face, including food provenance and safety. For example, a distributed ledger like blockchain can function as a single point of truth for food and agriculture-related transactions, but only if the solution is adopted by the majority of stakeholders. This helps organizations like ours better analyze the risk of pre-financing or investing in assets.

Rabobank is one of nine founding banks of the we.trade consortium, a blockchain-based platform (built on Hyperledger Fabric) to provide more trust for businesses when trading internationally. It’s about bringing customers of each member bank together to make the shared platform more useful—and more successful. If banks in Europe can prove the concept, the potential to deploy similar models in emerging markets could be enormous.

All sectors, institutions, and governments need to explore blockchain and DL T sufficiently to understand its significance, and it’s important to look beyond the hype. Collaborations like the Dutch Blockchain Coalition, where public and private organizations work together on fundamental challenges like identity and standardization, are great vehicles to increase understanding and bring the technology to the next maturity level.

“Blockchain can function as a single point of truth…but only if the solution is adopted by the majority of the stakeholders in the supply chain.”

Blockchain is immature but its potential is enormous, including in emerging markets. It’s like the Internet in the early 1990s—it’s clearly a game-changer, but it will take some time to really understand its practical use.

In our experience, blockchain and DL T more generally are most beneficial in domains where many stakeholders are involved, like trade finance and real estate. Even today, there is still a lot of paperwork involved in these processes, raising the risk of error and fraud. With the use of smart-contract functionality, which in some cases can function as a digital equivalent of legally binding contracts, DL T can increase trust in transactions between parties with conflicting interests.

In developing economies, where many people do not have a bank account, blockchain can provide access to finance for the increasing number of people who own a smartphone. Because cryptocurrency—one of the best-known applications of blockchain—lowers the need for some trusted third parties, the previously unbanked are now able to operate with low transaction costs and to make micropayments.

Using blockchain to facilitate micropayments also enables the development of sustainable pay-per-use platforms. This makes durable and long-lasting devices like kitchen appliances and farming equipment accessible for everyone, without a large investment upfront. Users pay for the equipment only when they use it, and therefore don’t need to worry about an initial outlay, guarantees, availability, or depreciation. Rabobank is already working on pay-per-use platforms to accelerate living in a circular and sharing economy.

DJURI BAARS and CHRIS HULS
Co-leads of Blockchain, Rabobank
While these examples represent quick wins—DLT raises the efficiency of existing value chains—the technology is still evolving. As the technology matures, it continues to face hurdles of different kinds: technical, regulatory, and institutional. Limited access to capital may limit the development of the underpinning innovation ecosystem on which DLT depends. A narrow human-capital base—especially in the area of digital skills—may further limit the adoption. Agile regulatory frameworks are also needed to accompany the fast pace of change. Regulatory sandboxes provide a useful approach to allow start-ups and regulators to learn together in practice and in a controlled safe space, so that they may make better-informed decisions about the boundaries of their respective responsibilities. The main drawback, however, is that they are limited to a single jurisdiction and do not accommodate the global reach inherent in the technology. One solution is the creation of a multijurisdictional sandbox composed of a college of regulators, or a global sandbox administered under the mandate of a multilateral institution such as the World Bank Group or the International Monetary Fund.

Meanwhile, regulators should provide some guidance to attract private-sector investors, ensure consumer protection and citizens’ rights, and provide safeguards against anti-competitive practices. The private sector should undertake initiatives to ensure industry-wide interoperability and compliance with existing legislation and overall public-sector objectives such as the collection of taxes and the prosecution of illicit activities.

“Blockchain may help to boost trade facilitation as well as compliance with specific goals regarding sustainability and inclusion.”

MARINA NIFOROS
Founder, LogosAdvisors

Perhaps the most promising application that has received the least attention amid the cryptocurrency exuberance is the potential for DLT to transform global supply chains. The cost of operating supply chains has risen enormously as a result of their increased complexity and digitization. Blockchain may be the solution to many of the logistical, cost, and transparency issues that plague their growth.

Two attributes of blockchain may help boost trade facilitation and compliance with specific goals regarding sustainability and inclusion. These are the reduction of agency costs and the availability of auditable traceability. Two supply chains where specific experimentation with blockchain is taking place are food and agriculture, and pharmaceutical safety.

In food and agriculture, a blockchain-enabled workflow automation (via smart contracts and integration with key machinery and data collection points) and auto-reconciliation for inventory can reduce costs for both consumers and producers. This is significant, given that 80 percent of the cost of delivered goods in such traditional supply chains is administrative and procedural. Producers, who bear the disproportionate burden of retaining capital, also minimize their credit, liquidity, and operational risk by enforcing greater conformity. The distributed ledger model could additionally improve access for regulators and authorities with respect to collecting taxes and customs duties.

As to pharmaceutical safety, DLT, in combination with the Internet of Things, also provides a solution to track drugs. This is a critical public health issue in developing countries, where an estimated 50 percent of drugs that are consumed are counterfeit. Blockchain can provide a record of all transactions, including location, data, quality, and price, visible to all involved entities in real time to minimize record-tampering.
One of the first steps in any blockchain project is to take the business process and determine what an optimized version of that process would look like. An example is Insurwave, a maritime insurance solution that has been developed by the shipping company Maersk and partners including EY, Willis Towers Watson, and XL Catlin using Microsoft Azure infrastructure. It uses blockchain technology to dynamically adjust insurance policies for ships as they travel around the world.

We recently partnered with the World Bank Group and the Commonwealth Bank of Australia to launch the world’s first blockchain bond. Dubbed “Bondi” (short for Blockchain Operated New Debt Instrument), it uses a distributed ledger to automate bond transactions among sellers, buyers, and banks. It aims to reduce the time it takes to settle securities from days to a few seconds, while providing full transparency and cutting fees. If the technology can reduce the cost and effort of these transactions, then it frees up resources to focus on the World Bank Group’s goal of economic development.

Elsewhere, we’re excited to be working on a project called ID 2020, a private-public partnership with Accenture and the United Nations to bring digital identities to at-risk populations around the world. By creating a digital record of their citizenship and the place and time of their birth using blockchain, it enables people to access credit, to find employment, and to seek asylum. These digital identities can be bootstrapped to biometrics and don’t require a strong central authority to manage them, which means they really do belong to the individuals. And it’s open source, allowing organizations like the UN to more easily work with different vendors in each country.

Because emerging markets can suffer a lack of clarity with regard to regulations, people tend to assume more risk in using technology to solve problems. For example, information about who owns a cryptocurrency is encoded in the blockchain itself—it’s a purely digital asset. But in many cases, blockchain serves to represent a physical asset, and it’s possible to end up in a situation where the digital record differs from the physical reality. These divergences are more common in emerging markets, where systems cannot always accommodate the messy reality of the environments in which businesses operate.

Some economies may need to develop a little more before all the benefits of blockchain can be realized. For example, if people don’t have access to smartphones, their interaction with digital applications can be limited. But making technological compromises can create a solution that is more serviceable to the customer, such as designing a user interface using voice calls or SMS. To have real impact, blockchain solutions must integrate seamlessly with the systems these populations are already working with. Gaining that insight—and knowing exactly what the needs are—is very hard to do from a distance.

Organizations that seek to serve emerging markets need to spend some time watching and listening. In Nigeria, we have a team on the ground to identify potential customers and partners; we’ve found that the local tech scene in Lagos is tremendously strong. In China, we rely on local expertise to develop solutions that are adapted to the environments in which they will be deployed. Ultimately, that might mean doing more or different work in order to accommodate local constraints, but that’s what allows us to take better advantage of the opportunities.

MATTHEW KERNER
General Manager, Microsoft Azure
build a blockchain-enabled lending platform to provide microloans to small retailers, enabling them to purchase food from Twiga’s suppliers. Our goal is to create an ecosystem whereby individuals can deal with multiple suppliers and record all transactions on the blockchain. It will serve as a single point of truth and gives each individual a financial identity that can be accessed by suppliers and financiers, meaning they can get credit even without a bank account. The mobile-phone-based system uses SMS text messages, rather than requiring a smartphone, while repayments are made using M-Pesa, Africa’s leading mobile-money service.

Earlier this year, a pilot program at one of Twiga’s depots in Nairobi saw loans offered to more than 400 local retailers. During the eight-week pilot we witnessed a 17 percent increase in order size and a 6 percent increase in profits for each retailer. Of course, this also has benefits for those up the supply chain. The most important lesson we’ve learned is to put the user first and make it easy for them: by understanding how users work and what their day looks like, you can build a solution that fits how they operate.

The code we donated has now morphed into an open-source platform called Hyperledger Fabric, and IBM is just one of 245 organizations actively contributing to its development. Anyone can now download it. We want people to be able to experiment with blockchain. When they have something that’s really working, IBM can help them scale it. Whenever we develop solutions using blockchain, we make the application program interfaces (APIs)—that’s the way of connecting your blockchain to other people’s systems—open as well.

We’re currently working with companies of all sizes in many sectors across developed and developing countries. It’s important to establish the right partnerships so that solutions have longevity.

The IBM Food Trust, developed in collaboration with Walmart, aims to digitize supply chains. Allowing supply-chain issues to be traced in just minutes rather than days will dramatically reduce anxiety among consumers, minimize reputational impact, and cut stock-removal costs. Right now, the project is progressing in developed markets where the major costs are being covered by the largest players. But once proven, it has the potential to deliver meaningful benefits in emerging markets, too.

A more direct emerging markets example is Twiga Foods, a business-to-business logistics platform that connects small-scale farmers to shopkeepers in East Africa. In 2017, Twiga Foods partnered with IBM to build a blockchain-enabled lending platform to provide microloans to small retailers, enabling them to purchase food from Twiga’s suppliers.

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IBM is focused on enterprise-ready blockchain, which is private and permissioned, so participants are known and the relationships among parties are defined by smart contracts at the heart of the network. There is no anonymity to hide behind: the immutability and transparency reduces the opportunity for fraud and corruption. However, issues related to cryptocurrencies may discredit the underlying technology that is shared with enterprise blockchain. We must be diligent.

Blockchain is a team sport. We are looking for opportunities to form consortia, where the trust that blockchain brings can spawn new business models and new partnerships.
Twiga Foods has partnered with IBM to build a blockchain-enabled lending platform to provide micro-loans—typically between $10 and $30—to small food retailers, enabling them to purchase food from Twiga’s suppliers. The mobile-phone-based system uses SMS text messages, rather than requiring a smart phone.
Better ESG Reporting—A Key to Strengthening Capital Markets

Investors and regulators are coming together to improve environmental, social, and governance standards in capital markets as a way to help identify growth opportunities, manage risks, and promote sustainability in developing countries.
Anthony Miller, coordinator of the United Nations’ Sustainable Stock Exchanges initiative, sits in his office in Geneva, peering into his Bloomberg terminal.

Tapping on his keyboard, he enters the names of leading emerging-market firms. Significant data on their environmental, social, and governance (ESG) practices fills the screen, offering information on how each company ranks against recognized international sustainability benchmarks.

“When something like this pops up in the standard data sets, that tells me that sustainability investing is now mainstream,” says Miller.

This is a far cry from how businesses used to operate. “We all used to say, ‘Wouldn’t it be great if…’” adds Miller, who has been helping local capital markets and regulators in developing countries improve ESG reporting for 15 years. “Well, we’re getting there now. We have really made significant progress. But a lot more still needs to be done.”

In Tokyo, Hiro Mizuno, the Executive Managing Director and Chief Investment Officer of Japan’s $1.4 trillion Government Pension Investment Fund (GPIF), says the “to-do” list includes reminding governments that part of the responsibility for ESG reporting rests with them. Governments are not just policymakers, but “the biggest user of capital markets in the emerging markets” with the sovereign bonds they issue, Mizuno says. “Political or regulatory leadership of the governments [is] critical to promote systematic ESG reporting in those countries.”

Like Miller and Mizuno, industry leaders around the world agree that ESG data can create levels of trust that strengthen deep and liquid local capital markets. And that’s vital for a thriving private sector.

“Exchanges are showing growing commitment toward promoting ESG disclosures and facilitating finance to address sustainability challenges.”

MOHAMED FARID SALEH, EXECUTIVE CHAIRMAN, THE EGYPTIAN EXCHANGE

When “What If…” Becomes “What’s Next”

ESG reporting can fuel strong capital markets. That’s because high standards of disclosure and transparency mitigate some of the risk of investing in the most challenging countries—where public institutions and governance are often weak and companies are smaller.

Strong ESG standards can lead to improved business performance. Mohamed Farid Saleh, Executive Chairman of the Egyptian Exchange—which in 2010 worked with Standard & Poor’s to launch the first ESG index in the Middle East and North Africa—has seen this dynamic first-hand. “Our companies that are highly ranked on ESG are outperforming others that are not as highly ranked,” he says.

Other evidence throughout emerging markets shows that adhering to high standards is a competitive advantage: companies participating in sustainability indexes in Brazil, India, South Africa, and the Middle East have outperformed their broader markets in recent years.

Toward a New Definition of “Performance”

In many developing countries, though, capital markets are still in their infancy and ESG reporting across emerging markets remains a low priority.

That may finally start to change as more asset managers advocate for companies to deliver positive contributions to society alongside financial performance. Larry Fink, chief executive of BlackRock, the world’s largest asset manager with more than $6 trillion in assets under management, issued a call this year for companies to benefit not just their shareholders, but also their employees, customers, and communities. The impact of this could reverberate widely because BlackRock’s vast portfolio includes a $311 million emerging-market equity fund.

State Street Global Advisors, another major asset manager, recently surveyed senior executives with asset allocation responsibilities at 475 institutions in the U.S., Europe, and the Asia-Pacific region. More than two-thirds said that integrating ESG factors into their investment strategies in developed and developing countries had significantly improved returns.
But they had lots of suggestions, too. Executives stressed that stronger benchmarking would allow investors to track their performance against peers and make more accurate assessments of external ESG managers. They also called for clearer terminology—specifically, a shared definition of ESG—and an approach that takes into account performance measures, internal capabilities, and costs.

**Building a Platform for Better Decision-Making**
Influencers across the industry are already thinking ahead to what can be achieved as momentum builds for more robust ESG reporting. Mizuno, from the GPIF, is one of those leaders speaking up—in part because of his position as a board member of the UN-supported Principles for Responsible Investment, which brings together more than 1,800 financial firms. He’d like to keep the momentum going by extending ESG reporting to bond markets.

“In the emerging markets where corporate bond markets have not been established, sovereign issuers play key roles,” Mizuno says. “Therefore, we need to focus on the sovereign bonds in emerging markets.”

GPIF recently teamed up with the World Bank Group to study how ESG factors can generate better and less volatile returns in fixed-income investments in emerging markets. The joint study found that progress has until recently been held back by a lack of standard ESG definitions and benchmark ESG indexes in emerging markets. It called for broadening and deepening available ESG data; requiring more rigorous research on the relationship between ESG factors and financial risks and returns in fixed income markets; refining standards, principles, and metrics for applying ESG and impact investing; and developing more innovative, scalable products to accommodate the growing demand for fixed-income sustainable investments.

In April 2018, J.P. Morgan unveiled an index that will support this agenda—the J.P. Morgan ESG (JESG) index, which was created with BlackRock. It integrates ESG factors in a composite benchmark that covers more than 170 countries and more than 650 issuers. Such analytical tools reward issuers for their ESG status, rather than their market capitalization. Investors are responsive because they benefit from the inclusion of ESG factors into their overall investment strategies. In August, BlackRock launched its first set of investment funds using the JESG index. The intent is to channel more investment to ESG-friendly companies over time.

“**We need to focus on the sovereign bonds in emerging markets.**”

HIRO MIZUNO, EXECUTIVE MANAGING DIRECTOR, GPIF, JAPAN

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**ESG Index Outperforms in MENA Region**

Standard & Poor’s and Hawkamah (the Institute for Corporate Governance for the MENA region) jointly created the S&P/Hawkamah ESG Pan Arab Index in response to investor demand. It is the first index of its kind in the region and uses S&P’s ESG methodology based primarily on quantitative factors, bringing in qualitative analysis as an overlay. The index constituents are selected from a universe of the top 150 companies listed on the national exchanges of Bahrain, Egypt, Jordan, Lebanon, Kuwait, Morocco, Oman, Qatar, Saudi Arabia, Tunisia, and the United Arab Emirates. The index consists of the 50 highest-scoring stocks, according to their composite ESG scores. Since 2009, the index has significantly outperformed the S&P Pan Arab Composite Index.

*Data has been re-based at 100.*
These initiatives constitute important progress in the development finance agenda. Still, not everyone agrees that high ESG standards automatically stimulate new investment. Saleh, from the Egyptian Exchange, says that although his organization has ramped up local ESG reporting, it has not yet seen an increase in foreign investment. He thinks it is of “paramount importance” for international financial institutions to work with specialized asset managers on new investment vehicles to help usher it in—in Egypt and other markets.

“Exchanges are showing growing commitment toward promoting ESG disclosures and facilitating finance to address sustainability challenges,” Saleh says. “There is a responsibility on international institutions to foster investments in ESG-champion listed securities to further promote the adoption of ESG practices, reporting, and disclosure.”

The Next Stage
Even the most enthusiastic advocates of robust ESG reporting acknowledge that there’s plenty of work ahead.

“Much more needs to be done if we are to transition to a truly sustainable economy and avoid the worst risks of climate change,” says Steve Waygood, Chief Responsible Investment Officer at Aviva Investors in the UK and a co-founder of the UN Sustainable Stock Exchanges initiative.

“A business-as-usual approach is no longer enough,” Waygood says. “Market players and market regulators need to [partner] to deliver a sustainable financial system that works for individual and institutional investors across the world.”

IFC’s Disclosure and Transparency Toolkit

Reliable public information about local companies’ adherence to ESG standards can be hard to find in emerging markets.

That’s why IFC offers a disclosure and transparency toolkit for companies, investors, capital-markets officials, and regulators. It’s already helping to fill the ESG information gap.

The toolkit’s practical guidance is summarized in Beyond the Balance Sheet, a publication available free online at ifc.org/corporategovernance/publications.

Since the toolkit’s release in January 2018, it has been used to develop market and regulatory guidance in Kazakhstan, Kenya, Nigeria, Peru, and the Philippines. IFC clients in several countries have used it to improve their annual reports and disclosure practices. Kenyan Capital Markets Authority Chief Executive Paul M. Muthaura says that IFC’s toolkit suggestions have been “vital” in improving the agency’s corporate governance assessments.

The toolkit guides local companies on an integrated approach to corporate reporting, recommending what should be disclosed, and supporting a better understanding of the critical factors that drive corporate value today.

Among its practical tools: a large selection of ESG metrics that can be used to identify companies’ Key Performance Indicators, drawing on model indicators from IFC’s widely adopted Environmental and Social Performance Standards and Corporate Governance Methodology.

“We hope this toolkit will help build momentum across capital markets—matching responsible companies in emerging markets with institutional investors,” says Ethiopis Tafara, IFC’s Vice President, Legal, Compliance Risk and Sustainability & General Counsel.
While China and India continue to drive the global economy, they are joined by several other high-population, high-potential countries, particularly in Asia. Indonesia is one such country. In 2005, my Goldman Sachs colleagues and I listed it as one of the N-11 countries with the potential to become important economies during this century.

Especially given the age dynamics of its population, Indonesia had and still has all the ingredients to be one of those countries that, with a modest degree of productivity potential, could show strong growth. Indonesia has so far mastered the transition to democracy, enjoyed a peaceful election, and shown some resilience to global volatility. In terms of its persistent challenges, the familiar ones generally remain: boosting productivity, and improving the ability to deliver infrastructure and governance.

In 2005, economist Jim O’Neill, a former Chairman of Goldman Sachs Asset Management, identified Indonesia as one of the “Next Eleven.” That group, which became known as the N-11, referred to emerging markets O’Neill expected to follow Brazil, Russia, India, and China—or “BRICs.”

Four years later, Robert Ward, Editorial Director of the Economist Intelligence Unit, included Indonesia in his own grouping of six countries that comprise the next generation of emerging markets.

These forecasts have aged well: since 2005, Indonesia’s GDP has more than tripled to almost $1 trillion, and it continues to enjoy strong growth. Here, O’Neill and Ward reflect on Indonesia’s successes and explore the challenges ahead.

JIM O’NEILL
While China and India continue to drive the global economy, they are joined by several other high-population, high-potential countries, particularly in Asia. Indonesia is one such country. In 2005, my Goldman Sachs colleagues and I listed it as one of the N-11 countries with the potential to become important economies during this century.

The whole idea of the N-11 was primarily a response to many questions as to why the BRIC acronym only referred to Brazil, Russia, India, and China, and why other large, highly-populated countries weren’t included. Of the N-11 largest-populated countries in the world, Indonesia was clearly among those with the most valid claim. Especially given the age dynamics of its population, Indonesia had and still has all the ingredients to be one of those countries that, with a modest degree of productivity potential, could show strong growth. Indonesia has so far mastered the transition to democracy, enjoyed a peaceful election, and shown some resilience to global volatility. In terms of its persistent challenges, the familiar ones generally remain: boosting productivity, and improving the ability to deliver infrastructure and governance.
But the jury’s still out on whether its potential has come to fruition. At the highest level, Indonesia has not managed to grow as much as was forecast, nor to the high desires and expectations of its own policymakers. That said, Indonesia has weathered global economic challenges and the volatility that comes with them better than many other countries, including those in the N-11.

From BRICs to MINTs

In 2014, I had the pleasure of doing a series of programs for BBC Radio in the UK about four of the N-11. We called it “MINT: The Next Economic Giants.” The acronym MINT refers to Mexico, Indonesia, Nigeria, and Turkey, and the term has since been taken up by much of the investment community. (An alternative list includes South Korea in place of Nigeria and is referred to as MIST.)

These four are primarily a group of the N-11 countries that were the largest in terms of GDP. They either already had more than 1 percent of global GDP or were the most likely to achieve 1 percent of global GDP relatively soon. The four countries face very different challenges but are united by favorable demographics: they all have large and youthful populations.

In many ways Indonesia has performed better than the rest of the MINT countries relative to expectations. And it has certainly done better than many commodity producers, including some BRIC countries, like Brazil and Russia, during the years of extreme commodity price falls. It resisted the sharp cyclical weakness that so many other commodity producers, such as Brazil, Russia, and Nigeria all experienced. Hopefully this is permanent—it impressed me.

A Favorable Outlook

When I originally devised the BRIC acronym in 2001, I was often asked why I excluded Indonesia. Should it have been the BRIICs all along, or maybe even the BIICs? Wasn’t Indonesia’s economic potential more compelling than Russia’s? Despite the size of its relatively young population—a tremendous asset—I thought it unlikely that Indonesia would do enough on the economic-policy front to quickly realize that potential.

I’m delighted to see Indonesia succeeding. It is now close to becoming a $1 trillion economy, which consolidates its position as one of the 20 largest in the world. It has the long-term potential of getting close to being in the world’s 10 largest economies.

The outlook for the next 10 years remains good. Indonesia still has all the positive population dynamics that attracted me to focus on it back in the 1990s and early 2000s. If the country can boost its education and skills, and with it, productivity performance, its trend growth rate could accelerate to around 7 percent.

Jim O’Neill is a former Chairman of Goldman Sachs Asset Management, a former UK Treasury Minister, and a former member of IFC’s Economic Advisory Board. He is an Honorary Professor of Economics at Manchester University and is Chairman of Chatham House, an independent policy institute based in London.
Going Forth

Indonesia’s prospects look good. We predict real GDP growth at just over 5.5 percent from 2018–2030, slowing to about 3.8 percent between 2031 and 2050. By the standards of the region and the Association of Southeast Asian Nations (ASEAN), it’s a pretty good outturn.

By 2050, we expect Indonesia to be the fourth-largest country by GDP based on purchasing power parity, following China, India, and the U.S. The difference in size among these three and Indonesia is significant, but I don’t doubt Indonesia will be a key player in terms of economic size in the next couple of decades. That will bring all sorts of challenges about how it defines itself within ASEAN and how it manages relations with China.

The global center of gravity is moving to Asia, and Indonesia can be the forerunner.

ROBERT WARD

Nearly a decade on from its inclusion in our CIVETS (Colombia, Indonesia, Vietnam, Egypt, Turkey, and South Africa) grouping, Indonesia is living up to its potential. From 2000 to 2018, Indonesia recorded an average GDP annual growth rate of 5.28 percent, second only to Vietnam among its CIVETS peers.

Contrary to most expectations, Indonesia has transitioned to a well-established and vibrant democracy. It has a youthful population with a median age of just 30.2 years and a large and growing middle class which, as it gets richer, is becoming more discerning in its needs. High rates of urbanization are also helping consumer markets grow and its tourism sector and services industry have expanded considerably.

Geography is a challenge. The Indonesian archipelago is comprised of nearly 20,000 islands, which makes it difficult to spread growth equitably. Owing to a lack of transport, energy, and communications infrastructure, parts of the country are developing well while others are being left behind. The Indonesian government is investing in roads, airports, and power plants, but Indonesia still has the highest logistics costs in the region. Accelerated infrastructure development is key to economic growth.

Robert Ward is the Editorial Director at the Economist Intelligence Unit, where he leads the EIU’s country, industry, and data analysis and forecasting teams. Previously he headed the EIU’s Global Forecasting unit, where he led the response to the global economic crisis.