



LATVIA'S SUCCESS STORY

Europe's Best-Kept Secret

An Interview with Her Excellency
Vaira Vike-Freiberga, President, Republic of Latvia



H.E. Vaira Vike-Freiberga

EDITORS' NOTE After growing up in refugee camps in Germany, Latvian-born Vaira Vike-Freiberga studied in Morocco and Canada, where she earned a B.A. and M.A. at the University of Toronto and a Ph.D. at McGill University (Montreal). She served as professor of psychology at the University of Montreal from 1965 to 1998, when she was appointed director of the newly created Latvian Institute in Riga. Vike-Freiberga was elected president of Latvia in June 1999, and was reelected for a second term four years later.

For our readers who are not familiar with Latvia, how would you best describe your country?

It's a country that is a new member of the European Union, and a country that, at the moment, is experiencing the best economic growth in Europe. We have, in Europe right now, a slowdown in economic growth among the established member countries of the EU, whereas the newer members that come from a part of the continent that was, in our case, under the Communistic yoke of Soviet occupation for many years, are seeing the benefits of a free market economy and all that it entails.

Latvia is a dynamic country in terms of economic growth, and it is a democracy that has now been reestablished for 15 years. We have joined NATO, and we participate in debates that require interna-

tional action. We are already making international donations, and we hope to become a donor country for the United Nations and other programs as soon as possible. We have received a lot of support during our changeover from a post-Communist country that was occupied and then absorbed into the Soviet Union. We reclaimed our independence and we have reclaimed democracy, and a free-market economy. We still are lagging behind some other countries in average per-capita income, but with the rate of growth that we're experiencing now, we have very good prospects for catching up.

Latvia is a very beautiful country. Having lived on different continents and in different countries, I can say that it has a special Nordic charm. Our forests are especially beautiful and accessible. It's very rare to have so much forestland, and so many lakes and rivers that are accessible. We have an extraordinarily beautiful seashore. Admittedly, it's not the type of beach where you can swim for many months of the year, but you can certainly sun yourself. You can go for walks. We have this very bracing sea air and we have pine trees – extraordinary Baltic pines that grow right up to the seashore. And so I see Latvia as a really interesting tourist destination. Many people say that Latvia is the best-kept secret in Europe.

You mentioned Latvia's recent entry into the EU and NATO, the dynamic growth of the country's economy, and its return to independence and democracy. How do you see the next 15 years evolving for the country?

I see economic growth continuing, and the gap narrowing between those who still live under a Soviet middle-class model, which constitutes the majority of our population, and those who have embraced the benefits of a market economy. I also see the country achieving greater social justice, and actively participating in decision making in Europe. And, in that sense, Latvia will work toward the implementation of free movement of goods and services, and of people, within the European Union.

We are ready to compete with and for

our services, and this, of course, creates a certain amount of anxiety in other countries. We saw this with the recent EU referendums in France and in the Netherlands – a certain anxiety in those countries concerning competition from countries in Eastern Europe and whether this will be a threat to them. We see it differently. We see our country and others as new members contributing to the strength of Europe, rather than weakening it.

President Bush was in Latvia in May and spoke about his and the United States' foreign policy objectives, which, as you know, emphasize the spread of freedom. What does freedom mean to you?

For Latvia, freedom means sovereignty, and regaining the sovereignty that our republic was founded on in 1918. Freedom means having your own state, your sovereignty, and your territory, with no foreign troops on your land that you have not invited. The ability, therefore, to make your own decisions, guide your own fate, and accept the consequences of your decisions.

Freedom means the equality of women in society, for example. Rather than having someone declare that women have only one role and there are no others that they are allowed to perform in life. Freedom means having choice, the opportunity for choice, and the responsibility for your own fate.

Women in Latvia are extremely proud that the country has chosen a woman as their president. How have you conveyed to women that they can achieve great goals in life?

The very fact that there is a woman president is already an embodiment of the equality of opportunity. I was very pleased, after I was elected by the parliament, that people in the streets expressed their appreciation. Now, young girls from all over the country have a role model in life to remind them that they can achieve anything. If a woman can be president, it means that a woman should be able to be anything else. I am very touched when I meet little girls and ask them, "What do you want to be when you grow up?" A number of them say, "I want to be president." ●

Astonishing Progress

An Interview with Sally Painter, Managing Director,
Dutko Global Advisors, Dutko Worldwide, Washington, DC

EDITORS' NOTE *With 20 years' experience providing corporations and governments with strategies that address business development and foreign policy challenges, Sally Painter has successfully directed a number of public-private partnerships worldwide, including managing the 50th anniversary NATO summit in Washington, DC, and the 2002 NATO summit in Prague, which invited seven new nations to join the alliance. She has also served as executive director of the Business Coalition for U.S.-China Trade, director of Teneco Inc.'s international division, and senior adviser to U.S. Secretary of Commerce Ronald H. Brown, providing strategic advice to U.S. companies bidding for and winning international contracts.*



Sally Painter (right) with Latvian President Vaira Vike-Freiberga

COMPANY BRIEF *Founded in 1981 and based in Washington, DC, Dutko Worldwide is a multidisciplinary government-affairs strategy and management firm that provides advisory services to public and private sector organizations, with the aim of impacting political and policy-making processes. With additional offices in Boston, Brussels, Denver (Colorado), Las Vegas, Manila (Philippines), Prague, Tallahassee (Florida), and Vienna, the company's extensive experience covers a wide range of practice areas, including health care, sustainability, information technology, homeland security, education, and nongovernmental organizations.*

You have worked closely with Latvia's leaders, including President Vaira Vike-Freiberga, for the past 10 years. What have you observed about the country's current political leadership and stability, and where do you see the country heading in coming years?

Since regaining independence in 1991, Latvia has made astonishing progress. Under President Vike-Freiberga's leadership, the country has succeeded in achieving many of its key foreign policy goals, including entry into NATO and the European Union. Most importantly, the Latvian leadership has implemented fundamental market reforms, and, as a result,

this nation's economy has become one of the fastest growing in the EU.

Looking ahead, I believe further integration with the West will allow Latvia to grow and prosper, becoming once again a favorite travel and tourist destination. Latvia continues to set its sights high and is seeking to host the next NATO summit, to be held in 2006. I, for one, believe it would be the best choice for NATO and, if chosen, Latvia would demonstrate once again that it is a strong and vibrant member of the alliance.

Dutko Worldwide's mission is "to make public-private interactions more transparent, less complicated, and more mutually successful." What examples, including your work helping Latvia to enter NATO, best describe Dutko Worldwide's achievements in the country?

At Dutko, we believe that the most productive engagement strategies are those that bring together all the stakeholders, including business leaders, civil society, and elected officials. While facilitating these public-private partnerships can be challenging, we believe it is the most effective way to truly achieve a country's goals and a leader's vision.

We worked for many years in partnership with the Latvian government developing and implementing a strategic plan to press for its invitation to join the NATO alliance. Having successfully com-

pleted that work, we continue to identify and work to encourage private-sector investment in Latvia, so that economic opportunities continue to grow for all Latvians. To achieve that end, we have advised the government on the reforms and policies that would encourage investment and greater economic opportunity.

You have worked with, and provided strategic advice for, leaders in many countries during your career. What have you found best, and most challenging, about working in Latvia?

It has been an honor and a privilege to work with President Vike-Freiberga and with several of the nation's ministers, including its prime ministers, defense ministers, foreign ministers, and economic ministers. It has been particularly rewarding to work with leaders who care deeply about their country and its people. In Latvia, as in many of the countries that were once under Soviet rule, a great many changes and reforms had to be put in place in order for democracy and the economy to expand and grow stronger. While many of these reforms were not popular in the short term, they have proven to be the right policies. As a small Baltic nation, it has, at times, been difficult to get business, government, and opinion leaders to focus on Latvia and its many opportunities in the way it truly deserves.

Perhaps the most rewarding aspect of my work through the years has been the many opportunities I have had to work so closely with the Latvian people, whom I have found to be not only exceedingly warm and generous, but also ready to meet the challenges that have confronted them.

For the past decade I have worked with many leaders in Central and Eastern Europe on their vision to have their nations join the NATO alliance and enter the European Union. Although this work has been among the most challenging in my career, it has also been the most rewarding. I am very proud to have been among the many individuals who played a small part in righting a historic wrong and bringing these countries back into the European and world communities. ●

Could Riga Be the Next Dublin?

An Interview with Michael J. Bourke, President and Chief Executive Officer, Rietumu Banka, Riga

EDITORS' NOTE A chartered accountant and a fellow of the Securities and Investment Institute in London, Michael Bourke worked at the Central Bank of Ireland for many years, in a variety of investment-management, foreign exchange, and accounting positions. He later worked as a stockbroker in Dublin, and went on to serve as a banking expert at the International Monetary Fund, working with the central banks of Russia, Latvia, Egypt, Lithuania, and Armenia. He assumed his current positions in 1997, and a year later was appointed honorary consul general for Ireland in Latvia.

COMPANY BRIEF Established in 1992 and based in Riga, Rietumu Banka is Latvia's fourth-largest bank by assets, offering extensive banking services to corporate and private clients. Following its merger with Saules Banka in 2001, the organization expanded its portfolio of services to include exclusive payments, foreign exchange, corporate lending and finance, trade finance, wealth investment and management, and retail banking.

On August 29 this year, one of Europe's most influential investors, Dermot Desmond, purchased 33.1 percent of shares in Rietumu Banka, making him and Leonid Esterkin – a founding shareholder – the two largest shareholders. Why is this deal significant, and what does it portend for the bank?

Dermot Desmond is recognized as being the brain behind the International Financial Services Centre [IFSC], which made Dublin an important international financial services center. In fact, he owns IFSC House, the flagship building in the IFSC. He sold the concept of the IFSC to the Irish prime minister when Ireland was going through a difficult time, with poor economic growth and high unemployment, and he got the EU to support it with incentives. It was quite an achievement, and more than 13,000 jobs – well-paid jobs at that – are now placed in Ireland as a result. Citicorp has its European headquarters there, and JPMorgan Chase,



On August 29, Michael Bourke (left), CEO of Rietumu Banka, and Dermot Desmond, prominent international investor, announced Desmond's purchase of 33.1 percent of shares in Rietumu Banka, making him and the bank's founder, Leonid Esterkin, the bank's largest shareholders.

Deutsche Bank, and AIG, among others, all have offices there. A lot of this was directly due to Dermot Desmond's vision, energy, and foresight; he has an innovative, entrepreneurial approach to business, and that's exactly what we are looking for at Rietumu Banka.

We see the bank becoming a regional corporate investment bank with a focus on the wider region. Riga is in the center of a dynamic growth area and has the potential to attract a lot of investment capital and joint ventures, and we want to get involved in larger-scale asset management. I've always had the belief that we could have an international banking center in Riga that could take advantage of the tremendous trade opportunities here and in the surrounding countries. I mean, why not Riga as an international banking center? Riga has a low tax regime, available land, very good transportation infrastructure, and it has the necessary technology, facilities, expertise, and language skills. Having a good financial management industry is the best way to help develop a country, and we think we can repeat here what has happened in Dublin.

With that goal in mind, how will Rietumu Banka concentrate its efforts in coming years?

We are not primarily focused on non-residents, as most of our lending is to resi-

dent businesses in Latvia. However, in line with our vision and focus, providing full banking services to businesses in the region outside Latvia is very important to us too. We also do cross-border business, mainly in bank transfers but also via lending, and both have been growing and very profitable as trade between the CIS [Commonwealth of Independent States] countries and the West, via Latvia, continues to grow. This corporate focus has allowed us to concentrate our services and support on the most lucrative part of the economy, where income and wealth growth is at its highest. We are not trying to be all things to all people, as this can be expensive in terms of overhead and infrastructure.

You mentioned that you see the CIS countries as having great trade potential.

Yes. We already have many Russian, Belarusian, and Kazakhstani clients who export oil, oil products, metals, wheat, cotton, and fertilizer via Latvian ports to the West. At the same time, with Russia and these countries rebuilding their economies after the Soviet inefficiencies, they are heavily importing from the West – capital equipment, machinery, commodities, household equipment, etc. They have plenty of money to pay for these due to record oil and metal prices. So it's a fast-growing business – in two directions – that requires banking services. We use our representative offices network to source new business, and this works very well.

Besides financial services, where do you see other growth and investment opportunities in Latvia?

The main growth areas are in infrastructure, commercial property, and logistics industries. Latvia has a huge need to build up the base of its economy – warehouses, networks, business parks, etc. EU funds can help, but private-sector investment is a must. Latvia can also be a base for industry relocation and outsourcing, given its platform close to Russia and the CIS countries, but within the EU. ●

The Best Connections

An Interview with Nils Melngailis,
Chief Executive Officer, Lattelekom, Riga



Nils Melngailis

EDITORS' NOTE Nils Melngailis studied economics and finance at Boston College and the Fletcher School of Law and Diplomacy. His career in Europe started in 1992, when he became a partner at Coopers & Lybrand and founded that company's business in Latvia. Melngailis subsequently held several executive positions within PricewaterhouseCoopers in Europe and, later, moved to IBM. Prior to joining Lattelekom in April 2004, Melngailis led the IBM Business Intelligence practice in Europe, the Middle East, and Africa, and the company's financial management division in the Nordic region.

COMPANY BRIEF Established in 1994, Lattelekom is one of the leading telecommunications companies in Latvia, whose versatile solutions range from conventional telephone connections and wireless networks to business process management. Among its products, the company offers inquiry and call center services, provided by the Lattelekom 118 Contact Center; broadband Internet services, under the Apollo brand; and complex IT and telecommunications services designed for corporate customers.

Lattelekom's growth has resulted in the company being split into four businesses. Could you describe those businesses and highlight how you

see them evolving in coming years?

We conducted a review of our strategy last year and, considering the development of the telecommunications industry and the IT industry, we concluded that there were a number of businesses within Lattelekom that could develop significantly if they had dedicated management teams and a branding strategy corresponding to each respective market.

The first conclusion was that, in order to respond to the convergence of IT and telecommunications services within the business customer segment, we would need to invest in this area and develop a unit which could provide seamless strategy, process improvement, IT integration, and the underlying data transmission infrastructure to develop and manage networks for both large and medium-sized businesses. This led to our decision to acquire MicroLink, the largest IT company in the Baltics, to establish an information technology and telecommunications [IT&T] unit with enough resources to be credible in Northern and Eastern European markets. We are currently developing integration plans and awaiting regulatory approval for this transaction, and hope to launch a business with some 400 professionals before the end of the year.

We have also established a separate business process management company called C1 and a network maintenance unit called Citrus Solutions. Both of these units will partner with our IT&T unit to offer integrated services combining these skills according to the individual needs of each business customer. We have recruited a number of business transformation managers with international experience and, considering our resource base of some 1,500 staff, we believe that we have a credible starting point to service significant European corporations.

Our fourth business is our broadband and communications company, which we will continue to develop under the Lattelekom [voice] and Apollo [broadband] logos. Here, we will develop high-speed Internet capacity to begin providing content services over Internet connections, including television, pay-per-view, games,

etc. We will also continue investing in wireless broadband and currently offer WiFi connections in many public locations. We anticipate that most fixed and mobile voice customers will switch to voice over Internet protocol, as is the case in many Western markets. Over time, we hope that our private customers will seek Lattelekom and Apollo as a single supplier for all communications and media needs.

You have noted that Eastern Europe and the CIS countries offer enormous potential, and that focusing on them fits nicely with Lattelekom's desire to "look beyond the EU."

Traditionally, businesses in the Baltic countries have focused on the development of their own relatively small markets. However, when you consider the geopolitical location of Latvia, for example, you realize that we are able to provide services to the Northern European market and, given the Russian language skills of our population, can also consider entering the Russian and Ukrainian markets, both for clients and resources. Few Northern European businesses have taken advantage of the low cost and high quality in Eastern Europe and we believe that we are in a unique position to take advantage of the convergence of these two marketplaces.

In what ways can Lattelekom ease the transition for new investors in Latvia?

For many industries, IT, communications, and support services infrastructure represent a significant investment, which can lead to businesses being stuck with high fixed costs, thereby reducing flexibility and increasing the risk that companies are holding underutilized support staff and high depreciation charges of fixed assets. We offer our clients the opportunity to focus their investments on sales and marketing while paying only for the high-quality IT, telecommunications, and support process costs that they need. Whether these are existing businesses looking to free capital for core business investments or businesses entering new markets, the Lattelekom group's corporate services provide a platform to obtain these services quickly and effectively. ●

Cosmetics and Real Estate: Beautiful Together

An Interview with Ieva Plaude, Chairwoman of the Board,
Baltic Cosmetic Holdings (BCH), and Founder, Kolonna Ltd, Riga



Ieva Plaude

EDITORS' NOTE With an M.B.A. and a doctorate in financial law from the University of Moscow, Ieva Plaude established Kolonna Ltd in 1991, later selling 45 percent of her shares in the company to East Capital, a Swedish investment fund, in 2004. An avid sponsor of art and cultural projects in Latvia, Plaude also founded Hanzas Tile Market, a chain of discount ceramic tile stores in Riga and Helsinki, among other locations.

COMPANY BRIEF Kolonna Ltd is the major subsidiary of Baltic Cosmetic Holding (BCH), comprising 112 perfumeries, 18 hair salons, 20 beauty parlors, three fitness clubs, and a laser clinic in the Baltics. The largest cosmetic company in Latvia, Kolonna is also a residential real estate development company, with projects including the development of seven residential villages and the restoration of historical residential houses in Riga. With total estimated sales of \$52 million, BCH employs more than 1,100 people in the Baltics.

Could you provide an overview of Kolonna's business?

In the early '90s, Kolonna began to work in the cosmetics industry and real estate development, which are, at first glance, two very different activities. However, we believe that Kolonna is a lifestyle

company, increasing the quality of life for Baltic people in every possible way.

What inspired you to start Kolonna?

I first had the idea in 1991 in Germany, where I was producing operas at the time. I noticed that women in Germany had a lot of ways to take care of themselves, and I concluded that Latvian women, who are no less attractive or elegant, deserved such opportunities as well. Since the establishment of the company, our aim has not changed: Kolonna assists people in achieving their goals. Self-confidence is what it is all about; a good-looking person is just more confident. Kolonna is making use of leading technologies, goods, and knowledge in the fields of perfumes and cosmetics. The consistently high quality of Kolonna's services is as good as you will find anywhere.

How much are Baltic citizens willing to spend on cosmetics?

At the moment, the average spending per person, per year, on cosmetics is only €41 in Latvia, €42 in Estonia, and €26 in Lithuania; in the poorest of the "old" European countries, Portugal, people spend €104 per year on average. The market in the Baltic states has room to increase at least threefold, until we reach the average EU level of €147 per capita per year.

Have you developed your own beauty secrets?

My beauty secret can definitely not be bought at the local pharmacy. Although Kolonna's four basic beauty principles are quite simple – positive thinking, fitness, healthy food, and hygiene – I regret to say these still pose a problem in former Soviet Union countries.

Last year your business received a major investment from a Swedish asset management fund, East Capital. Why did you choose East Capital?

I decided to cooperate with East Capital because this investor specializes in Eastern European markets, and we wanted to expand into Lithuania, the largest of the Baltic markets, by acquiring the perfumery chain SARMA. Financial investment is only part of it, as East Capital

also gave us valuable business contacts in Europe. Now Kolonna can benchmark itself against the standards of the leading European retail cosmetic businesses, such as Douglas, Marionnaud, and Sephora.

For more than a decade, Kolonna has also been involved in developing real estate. How has the market changed in that period of time?

With the banking sector launching mortgages, there has been a boom in the Baltics' real estate market in the last five years. The real estate market is one of the few markets where the return on investment is very high. When we started to build one of Kolonna's residential areas, Silezers, in 1998, the price of facilitated land was \$8 per square meter, and the ready constructed house cost \$390 per square meter. By 2002, the price of land had already increased to \$15 per square meter, and \$650 per square meter of house. Now land prices are around \$50, and houses \$1,000. That said, the market still has a long way to go to reach European standards.

What is Kolonna's position in Latvia's real estate market?

Until last year, Kolonna was a clear market leader in the high-end residential sector, having constructed and sold more than 250 houses. In Riga and its suburbs, the Mezaparks, Silezers, and Makonkalns residential villages have been created. Kolonna has also developed apartment buildings and hotels. Rather than quantity, our goal is to execute exclusive projects with architectural worth.

How do you successfully combine your activities in real estate and cosmetics?

Since 1991, my vision has been to help Latvians have the same comfort and quality of life that European and North American citizens enjoy. The cosmetic industry helps everyone to be more self-confident and to enjoy life at any age. Furthermore, the quality of our living environment is essential; it has a major influence on our personalities, as I remember so well from my childhood in Soviet times. Kolonna contributes by creating a home for everybody – a place where one can feel happy and free. ●



LATVIA'S SUCCESS STORY

Supply Will Mean Demand

An Interview with Gregory Krupnikov,
Chairman of the Board, RIKA Ltd., Riga



Gregory Krupnikov

EDITORS' NOTE *The recipient of a degree in physics from the University of Latvia and a Ph.D. in electronics from the Institute of Electronics and Computer Science (Riga), Gregory Krupnikov was appointed to his current position in 1992. He has additionally served as a board member and vice-president of the European Council of Jewish Communities, an elected city councilman of Riga, and a research fellow of the Institute of Electronics and Computer Science.*

COMPANY BRIEF *Based in Riga, RIKA Ltd. is a holding company dedicated to sustainable energy oriented agriculture in Latvia and Ukraine. It has peat reserves of more than 10 million metric tons and is due to open a biodiesel production plant toward the end of 2006. The company has minor interests in real estate development and the production of prestressed concrete sleepers.*

How would you describe Latvia's future growth potential?

Latvia's economy is growing at an annual rate of about 7 percent. Add to this export growth of between 12 percent in 2000 and 30 percent in 2005, a stable currency, a low and flat corporate income tax, and the country's excellent geographical location, and

you have an economy you want to invest in. The country is still lagging behind most European countries in many areas, meaning that there is increasing demand and supply niches that have to be filled.

Could you provide an overview of the country's agricultural sector?

Latvia is a lightly populated country – 2.3 million people on 64,000 square kilometers of land. The country's climate is mild, and there is plenty of agricultural land and water. At the same time, Latvia is not producing enough even for internal consumption, let alone exports. For example, Latvia is producing only about 60 percent of the pork that Latvians consume.

You've noted that there is a lot of potential for agriculture in Latvia, especially in food processing and energy crops. Could you elaborate?

Latvia has close to two million acres of agricultural land. This means that up-to-date agriculture will cover internal needs in cereals and cattle food on a relatively small part of that land. Latvia's climate allows for the successful harvesting of a number of energy crops, such as rapeseed for biodiesel production.

You note that renewable fuels such as biodiesel are showing promise in the country. In what ways do you see the country's agricultural sector evolving in coming years?

I would say in several directions – ecological foods, intensive agriculture for mass food production, and energy crops being the most prominent.

Is RIKA Ltd. also looking at Ukraine for future business opportunities?

Yes. We believe that the last huge emerging market is opening up in Europe – Ukraine. Having traveled to Ukraine many times over the last year, and having invested there in bioenergetics, I believe that Ukraine's natural potential and our experience there equates to some fantastic possibilities for us in that country. We can position ourselves as a conduit there. ●

LEADERS

ADVISORY

The Grand Palace Hotel



If you've never been to Riga, Latvia, before, you'll be glad you went there after you've arrived. Riga is the largest and most economically vibrant city in the Baltics. The business and govern-

ment leaders of this country of 2.3 million people (Riga's population is 815,000) see it as not only the key transportation junction between Western Europe and the huge Eastern markets, but also as one of the most increasingly strategically important cities in Europe.

For those traveling to Riga on business, one of the appealing things that you'll immediately discover is that you can walk to many of your meetings. The city's 13th-century Old Town, with its cobblestone streets, beautiful steeple churches, and historic monuments and lack of traffic (only Old Town residents are allowed to drive their cars there, but visitors can pay a fee to take their cars into this part of the city) has a sense of history that permeates virtually every block.

Nestled near the center of the Old Town is the Grand Palace Hotel, without question the city's finest five-star establishment. One of the Schlössle Hotel Group's "Grand Hotels in Miniature," the 56-room Grand Palace Hotel is literally only steps from the president's office, less than a mile from almost all of the ministerial buildings, and only a short drive from most of the city's key office buildings.

The Grand Palace Hotel has well-appointed rooms and suites, conference rooms that are perfect for receptions and dinner parties, a health club, and the acclaimed Seasons Restaurant, rated among Riga's best. Best of all is the quality of service. Under the guidance of the hotel's personable and meticulous general manager, Bernhard Loew, the hotel's staff is first-rate.

While Riga and Latvia may be in need of more quality hotels – in part to accommodate the growing number of tourists who visit the city – even when new hotels are built, they will have a hard time matching everything the Grand Palace Hotel has to offer.

Baltic Development Model: Lessons for Transforming Countries

By Hamid Ladjevardi, Cochairman, U.S.-Baltic Foundation (USBF),
and Managing Director, American Baltic Investments, Riga

EDITORS' NOTE Prior to assuming his current positions, Hamid Ladjevardi was cofounder and manager of *Baltic Fund 1, L.P.*, the first and longest-running private equity fund in the Baltics, established in 1994. Before that, he served as vice president of Morgan Stanley, where he was a portfolio manager and market adviser for 12 years. Ladjevardi holds degrees in economics and political science from the University of California at Berkeley, and an M.B.A. from Harvard Business School.



Hamid Ladjevardi

The emergence of the Baltic nations of Estonia, Latvia, and Lithuania as free, democratic nations from the ashes of the Soviet Union 14 years ago was a milestone for transformation development models. During this period, the Baltic countries made a breathtaking journey, from total dependence on a command economy directed by an oppressive government, to become independent, prosperous democracies that are now members of NATO and the European Union. The preconditions for this rapid transition were educated people with cultures that valued the individual, entrepreneurial spirit and a vision for their future that was partly based on the memory of their prosperous, democratic past.

The "Baltic development model" (BDM), which was the foundation for this successful transformation, incorporates a free market and enterprise approach to economic development, along with the building of civil society institutions. The most crucial ingredients for its success were popular support for a vision of change and political stability based on the rule of law. In order to achieve rapid, sustainable, non-inflationary growth, the BDM prescribed the following policies:

- Private sector is to lead in the economic development, including the privatization of government enterprises and land. If they had been confiscated from their rightful owners, they were to be returned.

- Free competition with gradual elimination of subsidies
- Prudent fiscal policy – a balanced budget or one very close to balanced
- Conservative monetary policy: low inflation
- Stable, convertible currencies and free flow of capital
- Favorable laws for local and foreign investors
- Low, pro-growth, and fair tax policy

relatively unregulated labor markets with affordable spending on social protection

- Efficient foreign trade, marked by the establishment of trade agreements with neighboring states, nations with complementary economies, and world bodies.

In addition, the BDM advocated the participation of all members of the society, particularly women, in the development.

The results, in terms of growth in GDP and other key economic indicators across the region, speak for themselves. However, despite the Baltic countries' impressive progress, there are some dark clouds emerging on the horizon. They show that:

1. The divergence of wealth and income – mainly due to rapid economic growth and corruption – between different economic classes, regions, and nationalities, may create fertile ground for populist politicians and people of ill will who could arouse the envy and anger of people.

2. More serious work needs to be done to lessen the influence of corruption.

3. Practice of good governance – transparency, accountability, respect for the law and for all stakeholders at the political and economic institutions – needs to evolve at an even faster pace.

4. There should be continued efforts to offer citizenship and to make available avenues for full integration into Baltic society to all members of the population who seek it. One national language, spoken by all, is a source of unity in any country. Diversity of cultures and fusion of its many attributes in a nation are sources of

creativity, strength, and enrichment for all its citizens.

Some of these problems emanate from the Soviet culture and the mindset it created over the many decades that the Baltic nations were occupied. Regardless of the problems' origins, they have created a pressing need for the leaders and elite of each nation to commit themselves to promoting values that will help dissipate the dark clouds. These individuals must start promoting policies and laws that will help reduce the existing problems. Furthermore, they must assume moral leadership by displaying attributes such as honesty, transparency, fairness and justice, consistency, competence, courage, and compassion. Only then can the BDM genuinely fill the role as a blueprint for many other countries that are now in the throes of transformation from totalitarian regimes to more democratic, free-market societies.

The most likely candidates are some of the countries near the Baltic nations, starting with Ukraine and Byelorussia, and continuing to Southern Caucasus countries like Georgia, Armenia, and Azerbaijan. Select countries in the greater Middle East and North Africa such as Iran, Iraq, Jordan, Lebanon, Syria, Egypt, Morocco, and Tunisia, would also greatly benefit from BDM.

Many of these countries have educated populations with ancient cultures, possessing strong individualistic and entrepreneurial traditions. Some of these countries have also had periods of sustained economic and cultural growth in their past. Their memory could serve as a basis of their vision for future development.

The BDM can be a source of inspiration to nations that, like the Baltic States, possess a strong thirst for some degree of social, economic, and political freedom. When nations share similar development policies, their connections are strengthened. Similar policies also promote shared values, causing the expansion of freedom that has so much benefited the Baltic people. It is in the interest of Baltic leaders to help these countries move forward and adapt the BDM. ●



LATVIA'S SUCCESS STORY

Banking on Latvia

An Interview with Valery Kargin, President and Chairman of the Board, Parex banka, Riga



Valery Kargin

EDITORS' NOTE After six years in public service, Valery Kargin became director of the Latvian bank Parekss, and was appointed president and chairman of the board of the successor company Parex banka in 1992. Kargin holds a degree in journalism from Latvia State University.

COMPANY BRIEF Based in Riga, Parex banka offers a comprehensive range of financial services to corporate and retail customers, including asset management, investment banking, lending, and leasing. The bank operates 79 branches in Latvia and is represented in 16 other countries through a network of offices, branches, and subsidiaries.

Parex banka is ranked as the top performing bank in Latvia. To what factors do you attribute Parex banka's success?

During its 15 years of operations in the Baltic market, Parex banka has always been ahead of economic trends in Latvia, and has understood the needs of a growing market. Parex banka plays its part in the development of the country by helping the private sector to grow, and it is the market leader in Latvia – its home – where it holds a 19.1-percent market share of customer deposits and a 17.1-percent market share of total banking assets.

In recent years, Parex has built a

global presence, including operations of Parex Asset Management and leasing subsidiaries in the Baltic states and CIS countries, and a subsidiary in Switzerland, AP Anlage und Privatbank AG.

The outstanding performance of the bank is reflected in several areas of its operations. First, Parex banka has broadened its funding base and successfully placed its debut Eurobond issue, raising €100 million. Second, Parex banka closed the largest syndicated loan ever taken by a Latvian institution, attracting 34 banks from 16 countries for an amount totaling €188.5 million. Earlier this year, the bank closed a €69.5-million syndicated loan, mainly targeted at investors from Asian countries, with 18 banks from eight countries joining the syndicate. The facilities are used to ensure sufficient resources for expanding further the bank's share of retail and corporate business in Latvia, as well as for funding its expansion in the international leasing sector.

How would you best describe Parex banka's business strategy?

We have established, and intend to retain, our position as the leading financial services institution in the Baltics by offering the widest range of products and services to our clients. Parex Asset Management is the leader in the Baltic market, in terms of performance and profitability. At the same time, the bank seeks to increase shareholder value for its investor base, which includes private and institutional investors from European countries.

In order to capitalize on the Baltic's accession to the European Union and the growth of the Baltic economies, the bank aims to expand its market share to become a leading regional player in Central and Eastern Europe and increase profitability through:

- expanding its lending and commission-based financial services for retail and corporate clients in the Baltic region;
- diversifying and strengthening its funding base from local and international markets to remain a strong domestic lender and liquidity provider;
- expanding its regional presence to

meet the growing demand of its clients;

▪ enhancing its customer service efficiency by expanding its product mix and exploiting and refining cross-selling synergies;

▪ expanding its investment banking and asset management activities;

▪ and last, but not least, selectively expanding its international presence by following the bank's Baltic clients who are expanding to other EU countries.

What are the bank's future expansion plans?

We look broadly at new markets outside Latvia, as there are no borders for the financial sector. Although we have concentrated on the local market in Latvia, we have also established operations in Eastern Europe. Nowadays, our dynamic and fast-growing bank is also interested in Western markets. This year, we opened two new branches in Berlin and Stockholm, which will be offering full operational services to corporate clients active in the Baltic region.

What advice would you offer our readers about investing and doing business in Latvia?

Investment opportunities are best assessed from the macroeconomic perspective. The consumer boom is driving forward retail trade expansion, where the market still appears relatively open, providing favorable entry opportunities. The real estate market continues to be attractive: Prices are high, but the mortgage loan market is far from saturated, making a real estate price correction unlikely in the coming few years. EU tourist inflows highlight the shortage of hotel space in Riga. The scale of growth in Latvia means that there are increasing opportunities for private equity funds, and Parex is planning to launch such a fund in the near future.

I have outlined the characteristics of the Baltic markets, including the founding and development of the financial sector, in my recent book, *Money and People*, which also includes several suggestions about doing business in the Baltic states that have been used by some of our clients. That is a great honor for me. ●