



Teresa Barger '82

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Photograph by Tony Rinaldo

What moves markets?

Markets bend to forces on the immense scale of macroeconomics. But they're also nudged, poked, and even redirected by the individuals who work in them. In a 20-plus-year career, Teresa Barger has hit nearly every financial sector and every continent.

Teresa Barger started at the International Finance Corporation (IFC) — the private sector arm of the World Bank Group — in 1986. Her job was to build and strengthen capital markets around the world. Imagine her surprise when she learned her first assignment would be a secret mission in league with a cadre of communists.

Barger worked with the Communist Party of Hungary to create debt and equity markets in the then-communist country. The project turned out to be an early step in the dismantling of communism in Eastern Europe. “It was great fun,” she says. “Most of the Communist Party members I worked with later became stockbrokers and entered the mainstream capitalist world.”

Another time, Barger went to India. The country was then tangled in bureaucracy and regulation, which was a hindrance to its markets. She provides an example of how issues that today would be left to the market were then decided by a regulator: “I had to visit the controller of capital issues, a wonderful man. His position in the Indian government was to go through every issuance of public stock to decide whether or not the number of shares was the right number for the company to issue, that the price was right, that the timing was right.”

Barger’s task was to set up the first private venture-capital company in India. But private-sector unit trusts were not allowed under the tax code. Barger’s solution, developed with lawyers and colleagues, was to set up the venture as a charitable trust. This novel structure had the risk of inviting government interference, but it turned out well. “What happened was another fund was set up with the same structure, and then another, and another. And then the government was forced to give in and allow private-equity funds to use the trust structure that only state-owned entities were allowed to use before.”

In 1987, Chile was caught in the effects of the Latin American debt crisis. The government was struggling to escape the drag of dollar-denominated debt and had started a debt-equity conversion program, whereby holders of debt could convert that debt into equity positions in Chilean industry. Barger and others at the IFC saw

an opportunity again to bolster market functioning. “We said, ‘Why can’t we kill two birds with one stone here and use the debt-conversion mechanism to also develop a capital market and create a mechanism for holders of debt to convert their debt into investments in the stock exchange — in listed companies?’”

They negotiated with the Chilean government over how an investment fund should be structured, drew up a draft law, and saw it put into effect in a week. Barger was soon raising money for the fund, though coming just after the Black Monday stock market crash, her efforts only netted about \$25 million. The fund ultimately earned a 66% internal rate of return, and was part of a surge of outside investment in the Chilean market. She says, “An interesting thing that I’ve seen, over and over again, is that in these small, local markets, when foreign investors start investing in the market, then the locals get interested in their own markets.”

Barger says the rapid lawmaking in Chile “may not be replicable.” She points out that it happened because Chile had an autocratic government that was also strongly pro-free market — a rare combination. But she has often found herself working in the space where government programs and market dynamics intersect. “The governments of the countries are our shareholders at the IFC, and we never want to do anything that is in the negative interest of our shareholder. On the other hand, we want to make sure that investors can invest — that it’s reasonable for the private sector — because we believe in reasonable and well-regulated free markets.”

A little more than a decade after her Chilean adventure, Barger was named director of the Private Equity and Investment Funds at the IFC, which held commitments in all regions of the globe. She found that the emerging-markets private-equity industry was rife with problems. “We had all sorts of fun and games. I had forensic accountants going into the books of some companies. We had outright fraud. We had people stealing from us. We had plain incompetence.” She made one of her priorities to bolster professionalism in the field.

Barger argues that private equity can have a huge impact on a nation's economy. Companies usually first develop and grow — and thus create jobs — using funding from sources other than the major stock exchanges. Non-listed companies outnumber listed companies. The leverage of \$1 billion in funds allowed Barger to push the field toward professionalism. “We were very tough in those first couple of years on the fund managers who were not acting with high integrity. And since we were the biggest investors in emerging-markets private equity, I'd like to think that it had some spillover effect, and people understood that they wouldn't have IFC as an investor if they didn't operate with very high standards of integrity.” She cofounded the Emerging Markets Private Equity Association in 2004 to further entrench professional standards in the industry.

Barger has found no conflict between being an investment manager and her charge to improve the societies that are affected by her work. In fact, she argues that good business is often good for society. “An internal study of IFC projects showed very high correlation between high development impact and high financial return. That's what we who have been working in this area intuitively knew to be true. That if you invest in a poor company that's badly run, that does not give good returns to its shareholders, it's probably not very sustainable and probably not creating a lot of jobs. It's probably not contributing a lot to GDP.”

Barger adds, “Investing is just so much fun.” After three years leading the IFC and World Bank's corporate governance initiatives, Barger recently announced that she plans to retire and start her own emerging markets investment venture. Thinking about the evolution of global capital markets since she started at the IFC — more and more markets opening to investors, governments improving macroeconomic policies — Barger says, “I have to say, it's very nice to have been here for long enough to see the world change.” ●

➔ **More from Teresa Barger at:** som.yale.edu/q2.

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