ENDING DEVASTATING CRISES WHILE EARNING INVESTMENT RETURNS

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Beyond Borders Investment Strategies and Our Clients' Motto: *The Few. The Proud. The Crisis Fighters. Earning Returns While Helping People in Crisis-Stricken Countries Recover from Devastating Crises That Destroy Their Standards of Living, Dignity, Families, Health, and Lives by Investing in Companies That Create Jobs.*

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Report Summary

Beyond Borders Investment Strategies (BBIS) is a boutique investment firm that provides internationally diversified equity strategies that many institutional investors, family offices, and individual investors have called unique. We run portfolios built from single-country ETFs of nations where stock markets trade at low valuations. Most countries we invest in are stricken by major economic, political, financial, environmental, public health, and social crises.

This report will give you a good understanding of the goals BBIS pursues along with our supporters, what motivated us to develop the firm pursuing a differentiated investment strategy, the mechanism we use to reach these goals, how to invest with us, and how our clients and we measure success. These topics are covered in Parts 1-2 and 5-8.

In Part 3, I described our clients' and my motivation to focus on helping counties recover from crises. The report focuses on the significant damage crises could do to people's lives, explaining why we decided to use capital to help countries recover from crises. I used an example of the European Sovereign Debt Crisis, whose impact on a number of Western European countries I covered for the Quarterly Economic & Market reports I wrote initially for the largest institutional and later all BNY Mellon Asset Management and BNY Mellon clients worldwide. The impact of that crisis was powerful and lasting. The crisis started in 2008, and its acute stage lasted until 2012. But the high unemployment that resulted from the crisis lasted until 2020, when it was succeeded by the increased unemployment caused by the COVID-19 pandemic.

In Part 4 of the report, I described why the current well-meaning financial-aid-based approach to helping crisis-stricken countries recover has not been successful or efficient. I looked at the theft of financial aid. I also analyzed why implementing economic reforms imposed by the International Monetary Fund (IMF) and the World Bank as pre-conditions for low-interest loans and foreign aid did not work in the past and are unlikely to work in the future. The reforms can be summarized by the title of a speech by Anne O. Krueger, the IMF's Acting Managing Director, *"Meant Well, Tried*

Little, Failed Much: Policy Reforms in Emerging Market Economies." [1] While she talked about emerging markets, many reforms are considered failures in developed countries. For example, Greece and Spain endured very high unemployment after the European Sovereign Debt Crisis for almost a decade. In fact, the reforms could not protect the Greek economy from the crisis and its consequences, and the country was demoted from the developed to the emerging market universe by MSCI in 2013 and FTSE in 2015. [2] [3] I described the lessons about strategies to help crisis-stricken nations recover that do and do not work that I learned as a youth during the political, economic, and hyperinflationary crisis that hit the former Soviet republics after the collapse of the USSR in the early 1990s and lasted until the 2000s. I did not have to research what the crisis did to people: I experienced the crisis' fury firsthand.

Part 1: The Firm's Supporters and Why They Welcomed Our Investment Approach

Our supporters include clients, potential clients, BBIS interns, BBIS Advisory Board members, people spreading the word about the firm, and many friends and colleagues whose valuable advice and sometimes just kind words benefitted the firm tremendously. Many of our supporters include potential clients who love the strategy but cannot invest with BBIS yet because the investment minimum of $100,000 is too high for them. We plan to lower this investment minimum when the firm reaches $100 million in assets under management.

Our supporters are globally-oriented conscientious investors who are humanitarians and pioneers. As humanitarians, they want to help crisis-stricken countries and their citizens recover from significant crises. Some BBIS supporters experienced devastating crises up close in the countries where they grew up. Others traveled to these countries, while the rest saw the crises on TV. One overarching desire unites all clients in this group – they all want to help people suffering in crisis-stricken countries. They all want to help build a *"bridge over troubled waters"* for residents of crisis-stricken countries.

As pioneers, they do not want to rely solely on the prevalent but not efficient – and often damaging in the long term – foreign-aid-based approach to helping crisis-stricken countries recover. Under this approach, most funds are delivered to these countries' governments or non-profit organizations' offices in these countries. While both types of entities use the money to pay off immediate debts and feed the populations, neither is suited for efficient job creation. Most government employees in countries around the world have no or limited experience in job creation. Charities' missions are to help various groups of people – often small – rather than create jobs that would allow the whole country to recover. Our supporters know that in every country in BBIS' 49-country universe, more jobs are created by the private sector rather than the public sector *(see Appendix A).* As a matter of fact, private sector companies generate more than two-thirds of the jobs in every single country, ranging from 97.4% in Singapore to 68.0% in Israel. Let me repeat this. In every single country, more than two-thirds of jobs are created by private sector companies, and yet most of the funds sent to these countries are delivered to the governments that are, for the most part, not good allocators of capital. Our supporters

[1] Anne O. Krueger, IMF, "Meant Well, Tried Little, Failed Much: Policy Reforms in Emerging Market Economies," March 23, 2004.
[2] Charles Sizemore, Forbes, "Greece Downgraded To 'Emerging Market,' But Will It Ever Emerge?" June 20, 2013.
[3] Benzinga, "Greece Suffers Another Market Classification Demotion," September 14, 2015.

choose BBIS because it uses a sustainable approach that helps local companies protect and create jobs that enable people to get skills and feed their families and themselves not only during the current crisis but for the rest of their careers.

Part 2: The Firm's Goals

The firm *(see the firm's leadership bios in Appendix B)* and our supporters have two complementary goals.

Goal 1 - Help People in Crisis-Stricken Countries Recover by Helping Corporations to Create Jobs: BBIS supporters want to improve people's lives in crisis-stricken countries. After our supporters accumulated enough money to satisfy their and their families' current and future needs, they often want to contribute to more than just themselves. Viktor Frankl, an Austrian psychiatrist, philosopher, and World War II concentration camp survivor, developed *logotherapy*, "a school of psychotherapy that describes a search for a life's meaning as the central human motivational force." [4] In his bestselling book *"Man's Search for Meaning,"* Mr. Frankl argued convincingly that people's chief desire is not pleasure, as Sigmund Freud stated, but meaning. [5] In the absence of meaning, people distract themselves with pleasure. Our supporters are not indifferent to ordinary people's suffering, most often not caused by these people. Most crises are caused by bad social, economic, or financial policies, irresponsible government borrowing, geopolitical tensions, low demand for goods produced by countries, banking crises, currency devaluations, etc. *(see the list of various crises by origin in Part 3 of this report).*

Helping countries and their citizens recover from crises has two sub-goals that turned out to be of interest to people who initially had no interest in assisting countries to recover. These goals benefit citizens and investors outside of the crisis-stricken countries.

a. **Sub-Goal 1: Strengthening Global Security by Reducing Militant Nationalism:** BBIS aims to improve regional and global security by reducing militant nationalism that often develops as a social virus among confused, hungry, and angry people in crisis-afflicted countries who cannot provide for themselves and their families. Sometimes, this nationalism spills onto the international arena in the form of terrorism or war. Some of the significant conflicts of the past (i.e., World War II, Arab Spring) were caused by economic crises and militant nationalism that developed in crisis-stricken countries due to these crises.

b. **Sub-Goal 2: Helping to Ensure Uninterrupted Import Supplies to the US and Worldwide:** This sub-goal was the latest addition to BBIS' aims. We added it after we discussed it with almost all of our supporters during the COVID-19 pandemic. The US is an open economy and a significant importer of manufactured goods, commodities, and services. The same goes for many other economies around the world. Some imports from

[4] Wikipedia, "Viktor Frankl." Downloaded on February 14, 2023.
[5] Viktor E. Frankl, "Man's Search for Meaning," Boston, 2006. First published in 1946.

countries that are going or recently weathered crises have few substitutes. By helping crisis-stricken countries and their companies recover, we are helping ensure that imports flow to supply chains of the US and global consumers and businesses are not interrupted.

For example, due to the COVID-19 pandemic's impact on semiconductor fabs in Taiwan, significantly fewer chips were produced than were required by global automakers in 2021-2022. Some car and truck models were unavailable and were expected to become available only in 2023, when the chip production would be restored. The lack of chips in the automotive industry became known as "Chipaggedon." [6] By investing in stocks of semiconductor producers – via single-country ETFs or directly in stocks of individual companies – investors provided support to these stock prices. In addition, these investments supported the stock prices of automakers and their multiple suppliers, reducing layoffs in these companies. Without investments, the stock prices of these companies could have dropped more, leading to factory and office closures, workforce layoffs, and even lower chip and, by extension, automotive vehicle production *(see Part 5 on the link between stock prices and corporate investments)*.

Goal 2 - Earn Attractive Investment Returns while Reducing Investment Risks via Diversification: Our supporters include people who believe in pursuing profits and rely on the private sector in this pursuit. They do it not only because they need profits but also because they believe that the pursuit of self-interest by the private sector - investors and corporations - can help countries recover from crises faster and more sustainably. They implicitly believe in Adam Smith's *'invisible hand'* metaphor that this Scottish enlightenment thinker described in his famous book *"The Wealth of Nations"* in 1776. [7] *"The invisible hand is a metaphor for how, in a free market economy, self-interested individuals operate through a system of mutual interdependence. This interdependence incentivizes producers to make what is socially necessary, even though they may care only about their own well-being."* [8] Our supporters rely on the millions of *'invisible hands'* of people working in the private sector's corporations rather than on the hands of governments, charities, or multilateral agencies such as the International Monetary Fund (IMF) and World Bank to deliver returns and help countries recover from crises.

Specifically, our supporters include people who believe in pursuing attractive investment returns. They want BBIS to earn these returns by investing in undervalued stock markets of nations impacted by crises while reducing the risks of their portfolios through two layers of diversification. According to our observations, country crises usually last one to three years, after which stock price valuations revert to their long-term average levels, leading to higher returns. Our supporters are attracted to BBIS because we diversify their investment portfolios within and among countries. We reduce idiosyncratic risks of individual companies' stock declines on the portfolios by diversifying within countries using single-country equity ETFs or portfolios with dozens or hundreds of stocks. We diversify among countries by not investing more than 10% of the portfolio weights in any one country.

[6] DHL, "'Chipageddon': How Taiwan is Battling The Global Chip Shortage," September 13, 2021.
[7] Adam Smith, "An Inquiry in the Nature and Causes of the Wealth of Nations," 2018. First published in 1776.
[8] Christina Majaski, Michael Sonnenshein, and Ariel Courage, Investopedia, "What Is the Invisible Hand in Economics?" January 1, 2023.

Part 3: As Armies of Evil, Crises Kill People or Make Their Lives Miserable

For our supporters, economic, business, social, political, natural disaster, public health, and other crises are not just words on paper. Despite different origins, all major crises – as an Army of Evil – hurt people by destroying their well-being, dignity, families, health, and lives. They destroy the livelihoods of millions and their careers and make people do things they regret for the rest of their lives to survive. Like mass murderers, these crises also take the lives of thousands of people, leaving the pain of losing loved ones for people whose loved ones were killed by the crises.

1. **The Crisis Horsemen of the Apocalypse:** The crises send their loyal subjects as the Horsemen of the Apocalypse to hurt people in countries they attacked. Some of these subjects include 'Unemployment,' 'Inflation,' 'Poverty,' 'Hunger,' 'Crime,' 'Prostitution,' 'Addiction,' 'Early Death,' 'Societal Division,' 'Militant Nationalism,' 'Terrorism,' 'War,' and 'Hopelessness.' I often think about these Horsemen as the terrifying faceless and invisible Dark Riders, or Nazgûl, masterfully described by J.R.R. Tolkien in his *"Lord of the Rings"* trilogy. [9] While the Horsemen had ordinary swords, their primary weapon was terror. [10] While some Horsemen show up only during some crises, one Horseman shows up during almost every crisis. His name is 'Unemployment.' Not only does he show up to each crisis, but he also shows up first, often leading some or all other Horsemen.

   While it is impossible to eliminate 'Unemployment' entirely, our goal at BBIS is to weaken this Horseman of the Apocalypse from a giant – who destroys people's well-being and leads other Horsemen – to a still evil but almost harmless creature.

2. **Types of Crises**: While different reasons cause major crises, almost all crises destroy jobs and increase unemployment, which amplifies the crisis power. Major crises may initially be caused by reasons that can be attributed to such spheres as:
   - **Geopolitical** (i.e., heating political tensions between countries and their neighbors),
   - **Political** (i.e., election of a president supporting industry nationalization or increasing taxes),
   - **Macroeconomic** (i.e., currency crashes, sovereign external debt, sovereign domestic debt),
   - **High Inflation / Hyperinflation** (i.e., often caused by excessive borrowing by governments, companies, and the public; undisciplined printing of money; or by broken links between companies and their partners abroad),
   - **Bank Collapses** (i.e., due to banks' financing thousands of clients, even one bank's collapse and its clients' inability to access their deposits they need for their consumption or paying off their obligations can cause havoc in an economy),
   - **Economic** (i.e., many companies in one or several industrial sectors going bankrupt, leading to bankruptcies among buyers and suppliers and later in multiple companies in other sectors of the economy),
   - **Business** (i.e., global demand for the country's main export declines or supply increases),

[9] "Nazgûl," Wikipedia. Downloaded on April 30, 2023.
[10] Ibid.

- **Social** (i.e., revolutions, riots, high crime and countries' inability to rule it in),
- **Public Health** (i.e., epidemics, pandemics), and
- **Natural Disasters** (i.e., earthquakes, floods).

3. **Crises Happen Not Only in Frontier or Emerging Markets But Also in Developed Countries:** I was often asked whether major crises affect people only in emerging and frontier crises. No, they happen in developed countries and lead to tremendous human suffering there. Let me return to a crisis forever etched in US history – the Great Depression of 1929-1933. By then, the US was the world's largest economy, a status the country achieved by the turn of the 20th century. [11] The US GDP per capita surpassed that of the United Kingdom as the highest among the wealthiest nations in 1899. [12] In 1933, the US unemployment rate reached the rate of 24.7%, the infamous record that is still standing. [13]

During the Great Depression, every fourth worker could not find a job, no matter how boring, dangerous, or both. As a parent, I think with horror about parents forced to give up their children for adoption during the Great Depression. According to Adoption.com, *"By the mid-1930s, the number of children in American orphanages had risen to its peak of 144,000, and the number of children in the American foster care system had risen to 249,000."* [14] Some children given up for adoption spent their whole lives trying to find their siblings. Please read an account of one family's children's search for each other in the ABC News article *"Siblings Reunite 80 Years After Depression-Era Adoption."* [15]

Unfortunately, giving up children for adoption due to poverty is not a phenomenon of the past in developed countries and is very present in emerging and frontier market countries. According to the current University of Washington's website on adoption, *"A main reason for parents, with low income, to give their children up for adoption is that they hope their children can receive enough food, a home, education and find themselves in better living conditions."* [16]

You do not have to go back more than 90 years to the Great Depression to see the devastating impact of financial crises. Anyone following global affairs for more than a decade and a half must remember the European Sovereign Debt Crisis that started with the collapse of Iceland's banking system in 2008. [17] The crisis spread to Portugal, Ireland, Italy, Greece, and Spain – giving a name for the acronym 'PIIGS' – and other countries such as Cyprus. [18] All countries but Italy could not deal with the crisis impact with their financial resources and had to ask for – and received – bailouts from the European Union, IMF, and other multilateral organizations and individual countries. [19]

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[11] Wikipedia, "United States," Economy section. Downloaded on March 8, 2023.
[12] Council on Foreign Relations, How Did the United States Become a Global Power? - World101. Downloaded on March 8, 2023.
[13] Kimberly Amadeo, Erika Rasure, and Taylor Tompkins, The Balance, "Historical US Unemployment Rate by Year," December 6, 2022.
[14] Adoption.com, "During the Great Depression." Downloaded on August 4, 2022.
[15] Sarah Netter, ABC News, "Siblings Reunite 80 Years After Depression-Era Adoption," December 9, 2009.
[16] University of Washington, "Adoption, Why Kids Are Given Up for Adoption?" Downloaded on August 4, 2022.
[17] Will Kenton, Anthony Battle, and Katrina Munichiello, Investopedia, "European Sovereign Debt Crisis: Eurozone Crisis Causes, Impacts," October 28, 2021.
[18] Ibid.
[19] Wikipedia, "European Debt Crisis." Downloaded on February 14, 2023.

In human terms, the crisis destroyed so many people's livelihoods by dramatically increasing unemployment. To put the magnitude of unemployment during the European Sovereign Debt Crisis in perspective for the US readers, let me say that during the US Global Financial crisis of 2007-2009, the US unemployment rate peaked at 10% in October 2009. [20] In all five European countries, the unemployment rate passed this level. The total unemployment rate reached 12.8% in Italy in 2014, 15.5% in Ireland in 2012, and 17.2% in Portugal in 2013 *(see Exhibit 1 left pane).* [21] In Spain and Greece, unemployment surpassed the dreaded 25% level registered in the US during the Great Depression. In 2013, the unemployment rate reached 26.1% in Spain and 27.8% in Greece. [22]

During the European Sovereign Debt Crisis, unemployment hit younger people, who did not have or had limited experience, the hardest. Youth unemployment among 15-24 year-olds reached the devastating level of 25%, at which the US total unemployment level peaked during the Great Recession, in all the PIIGS countries mentioned above and stayed above the level for years. In all countries but Ireland, unemployment had also surpassed a psychologically important level of 33.3% - when one out of three youths was unemployed. Below is the list of countries in the order the countries were impacted by unemployment. In Ireland, unemployment peaked at 30.7% and remained above 25% for four years, from 2010 to 2013 *(see Chart 1 right pane).* [23] In Portugal, youth unemployment peaked at 38.3% in 2013, stayed above 33.3% for three years from 2012 to 2014, and stayed above the 25% level for eight years from 2009 to 2016. [24]

In Italy, unemployment peaked at 42.6% in 2014, remained above 33.3% for six years from 2012 to 2017, and stayed above 25% for 11 years from 2009 to 2021. [25] In Spain, the youth unemployment rate peaked at 55.5% in 2013, remained above 50% for three years, stayed above 33.3% for ten years from 2009 to 2018, and stayed above 25% for 11 years from 2009 to 2019. [26] Finally, in Greece, the youth unemployment rate peaked at 59.4% in 2013, remained above 50% for four years from 2012 to 2015, stayed above 33.3% for ten years from 2010 to 2019, and stayed above 25% for 11 years from 2009 to 2019. [27]

[20] Bureau of Labor Statistics, BLS Spotlight on Statistics, "The Recession of 2007-2009," Page 2, February 2012.
[21] OECD Data, "Unemployment Rate." Downloaded on February 14, 2023.
[22] Ibid.
[23] Ibid.
[24] OECD Data, "Unemployment Rate by Age Group." Downloaded on February 14, 2023.
[25] Ibid.
[26] Ibid.
[27] Ibid.

Exhibit 1. Total and Youth Unemployment Prior, During, and After the European Sovereign Debt Crisis. [28]

Total Unemployment						Youth Unemployment (15-24 Years)					
Years	Portugal	Ireland	Italy	Greece	Spain	Portugal	Ireland	Italy	Greece	Spain	Years
2007	9.6	5.0	6.2	8.4	8.2	21.6	9.1	20.4	22.7	18.1	2007
2008	9.2	6.8	6.8	7.8	11.3	21.6	13.5	21.2	21.8	24.5	2008
2009	11.2	12.7	7.9	9.8	17.9	25.3	24.5	25.3	26.1	37.8	2009
2010	12.6	14.6	8.5	13.0	19.9	28.2	28.1	28.0	33.7	41.5	2010
2011	13.5	15.4	8.5	18.1	21.4	30.2	29.5	29.0	45.3	46.2	2011
2012	16.6	15.5	10.9	24.8	24.8	38.2	30.7	35.2	55.9	52.9	2012
2013	17.2	13.8	12.4	27.8	26.1	38.3	26.7	40.0	59.4	55.5	2013
2014	14.7	11.9	12.8	26.7	24.5	34.8	23.4	42.6	53.1	53.2	2014
2015	13.0	9.9	12.0	25.0	22.1	32.0	20.2	40.3	50.3	48.3	2015
2016	11.5	8.4	11.8	23.9	19.7	28.3	16.7	37.7	48.2	44.5	2016
2017	9.2	6.7	11.3	21.8	17.2	23.8	14.4	34.8	44.5	38.7	2017
2018	7.2	5.8	10.6	19.7	15.3	20.3	13.7	32.3	41.2	34.4	2018
2019	6.7	5.0	9.9	17.9	14.1	18.3	12.4	29.1	37.6	32.6	2019

Unemployment Rate of Above 50%
Unemployment Rate of Above 33.3% but below 50%
Unemployment Rate of Above 25% but below 33.3%
Unemployment Rate of Above 10% but Below 25%
Unemployment Rate of Less Than 10%

Source: Organization for Economic Cooperation and Development (OECD).

The European Sovereign Debt Crisis made unemployment and underemployment among young people widespread. It led to a phenomenon of 'truncated careers,' or *"the conflict between the "expectations encouraged by (or in) young people throughout their academic educational journeys and the later (negative) reality they experience when they enter the labor market; as a result of this conflict, the trajectory, or professional career, of young people might be truncated by the volatile and unsteady situation caused by the recession of previous years."* [29]

Young people had to emigrate from crisis-stricken countries on a mass scale to avoid unemployment and underemployment (truncated careers). For example, the lack of decent job opportunities that enabled fulfilled and autonomous lives in Spain has driven thousands of young people to emigrate. Between 2012 and 2016, approximately 1,600,000 Spanish residents under the age of 34 years – many highly trained - left the country. [30] This group of emigrants represented 3.4% of the total population of Spain in 2011. Proportionately, to the US population of 331,449,281 people in 2020, the emigration loss of 3.4% would be 11,345,491. [31] The emigration loss would have meant that the US lost 11,292,763 people, or the combined population of New York (8,622,357), the US largest city, and Chicago (2,670,406), the US third largest city. [32]

[28] OECD Data, "Unemployment Rate." OECD Data, "Unemployment Rate by Age Group." Downloaded on February 14, 2023.
[29] Clara Selva and Aniol Recordà, NIH National Library of Medicine, National Center for Biotechnology Information, "Spanish Youth is Emigrating: A Bibliometric Approach to the Media Coverage," June 20, 2018.
[30] Ibid.
[31] Wikipedia, "2020 US Census." Downloaded on March 30, 2023.
[32] World Population Review, "The Top Ten Most Populated Cities in the US as of 2020." Downloaded on March 30, 2023.

Due to the emigration wave, Spain's population declined by around 260,000 people from 46 million 740 thousand at the end of 2011 to 46 million 480 thousand at the end of 2016. [33] That represented a population decline rate of 0.1% during the five years, a far cry from the annual population growth of 1.4% during the decade before the crisis (2002-2011). [34] If there were no crisis and the country continued to grow at 1.4%, by the end of 2016, Spain's population would have been higher by almost 600,000 people, or 590,808, to be exact. [35] This population decline happened not due to a war or an epidemic but a severe economic crisis. It will be tough for Spain to recover from not only a massive 'brain drain' but a sheer population decline with no negative consequences, such as the country's lower expected economic growth rate.

Before the European Sovereign Debt Crisis, Greece was already seriously impacted by the Global Financial Crisis that started in 2008. During eight and a half years from 2008 to the end of the first half of 2016, more than 427,000 people emigrated from the country. [36] This number represented 3.9% of the country's population of 11,050,000 at the end of 2007. [37] If the US were to incur a loss of 3.9% of the country's population, it would have lost 12,808,040 people, or more than the combined population of New York (8,622,357), the country's largest city, and Los Angeles (4,085,014), the country's second-largest city. [38] The crisis' impact on Greece was so powerful that the country that invented democracy, which became the bedrock of the Western political system, was on the brink of being expelled from the Eurozone. [39]

4. **Fighting Against Crises Is Not Only Compassionate But May Be Profitable:** Even investors – who may be utterly indifferent to the fate of people in crisis-stricken countries or simply need the money so much that they cannot care about anybody else – may benefit from investing in the stock markets of crisis-stricken countries. For example, investors might have benefited from investing in indices of the five PIIGS countries that suffered most during the European Sovereign Debt Crisis after the MSCI indices of these countries dropped significantly from the pre-crisis peak values. The stock market prices fell because of two factors. First, investors expected profit decreases. Second, they were willing to pay less for these expected profits, causing stock valuations to decline because even these lower expected profits were less predictable and more speculative due to the strengthening crisis.

   If investors invested equal amounts of money in the MSCI equity indices of Portugal, Ireland, Italy, Greece, and Spain after the indices dropped 30% from their pre-crisis peaks and held investments for a year, they would have been rewarded with attractive returns. The investors would have realized average annual returns of 21.3% per country. They would have realized an annualized return of 16.0% during a period of less than 16 months from May 6, 2010 – when the first investments in MSCI Portugal and MSCI Spain were made – to August 24, 2011 – when the

[33] Google Search, "Population of Spain." Source: The World Bank.
[34] The World Bank, "Spain's Total Population." Downloaded via Refinitiv on February 14, 2023.
[35] Calculations are based on the World Bank data: The World Bank, "Spain's Total Population."
[36] Philip Chrysopoulos, The Greek Reporter, "Economic Crisis Marks 3rd Emigration Wave of Greeks," July 2, 2016.
[37] Google Search, "Population of Greece." Source: The World Bank.
[38] World Population Review, "The Top Ten Most Populated Cities in the US as of 2020." Downloaded on March 30, 2023.
[39] Wikipedia, "Greek Withdrawal from the Eurozone." Downloaded on February 14, 2023.

last investment in MSCI Ireland was sold *(see Exhibit 2 for individual and average country index returns and an annualized portfolio return).* The country index investment returns would have ranged from a 20.9% loss from investing in the MSCI Greece index to a 39.8% gain from investing in MSCI Italy. The one-year returns from the investment in MSCI Ireland would have been 14.5%, while the returns in the MSCI Italy and Spain indices would have been almost identical and attractive: 36.8% and 36.3%, respectively.

There is another crucial lesson embedded in the example above. Investors should always diversify while investing in general and in stock markets of crisis-stricken countries in particular. In the heat of the crisis, distinguishing winners from losers in stock markets of crisis-stricken countries is often challenging. As the title of the Reuters article published in April 2011 says, "*Euro Zone 2010 Deficit Down; Greece, Portugal Up,"* Greece and Portugal were two countries that did not manage to get their 2010 budget deficits under control. [40] These countries were the most likely to be excluded from the Eurozone. However, despite some common problems, the countries' stock markets had the most divergent performances among the five countries: a significant loss for Greece and a huge gain – almost double the size of the Greek loss – for Portugal.

Exhibit 2. MSCI Equity Indices' Returns of the PIIGS Countries Indices Purchased After 30% Indices' Declines from the Peaks and Sold One Year Later.

	MSCI Portugal	MSCI Ireland	MSCI Italy	MSCI Greece	MSCI Spain	Total
Peak Dates	Jan 11, 2010	Jan 14, 2010	Jan 11, 2010	Jan 11, 2010	Jan 11, 2010	
Peak Values, $	294.98	230.75	1,285.86	906.14	5,627.78	
Purchase Dates	May 6, 2010	Aug 24, 2010	May 7, 2010	Apr 22, 2010	May 6, 2010	
Purchase Values, $	204.23	156.30	892.21	632.92	3,781.20	
Sell Dates	May 6, 2011	Aug 24, 2011	May 9, 2011	Apr 22, 2011	May 6, 2011	
Sell Values, $	285.43	178.93	1,220.41	500.51	5,153.01	
Average Returns by Country, 1-Year Holding Periods	39.8%	14.5%	36.8%	-20.9%	36.3%	21.3%
Annualized Portfolio Return, May 6, 2010 - Aug 24, 2011						16.0%

Sources: Refinitiv, Beyond Borders Investment Strategies. 'Purchase Dates' are the dates when indices' values crossed the 30%-below-the-peak value. For consistency purposes, "Purchase Prices" represent closing prices on the 'Purchase Dates.' All values and returns are calculated for indices' total returns that reflect price appreciation and dividend payments. Returns are calculated for illustrative purposes only, as investors cannot invest directly in the MSCI indices. The returns were calculated gross of fees. Due to ETFs' management fees, actual portfolio returns would be lower than those shown for indices.

Part 4: Countries Should Aspire to Attract Investments Rather Than Live Off Foreign Aid or Loans as Many Have Done for Decades

Several years ago, I spoke on the Global Macro Investing panel at the MIT Sloan Investment Conference. When asked what my favorite book was, I answered almost instantaneously: "*This Time Is Different: Eight Centuries of Financial*

[40] Jan Strupczewski, Reuters, "Euro Zone 2010 Deficit Down; Greece, Portugal Up," April 26, 2011.

Folly," a masterpiece on crises written by Carmen Reinhart and Kenneth Rogoff. [41] I have read this book and other favorite books on crises many times. I did it and continue to do it now, not only because of my academic interest in the topic or because it is a topic that interests everybody, which it does not.

1. **Living Through a Major Crisis Made Me Aspire to Find Ways of Ending Crises:** I am interested in the topic of fighting against crises – to return to or build societal prosperity – because I lived through a monstrous crisis as a youth and have seen people's suffering caused by it in the former Soviet republics after the collapse of the USSR at the end of 1991. I have experienced the crisis wrath in three of the republics where I lived and traveled to visit my family: Russia (where I lived), Ukraine (where my mother's family was from), and Moldova (where my father's family was from). That vicious political, economic, and hyperinflationary crisis dramatically damaged or even destroyed people's living standards, dignity, families, health, and lives. I felt the pain of living through a crisis and thought about how to end crises, not because it was just an interesting theoretical exercise but because I have seen what a crisis did to people around me.

   In addition to experiencing and observing destruction caused by the crisis in the three republics mentioned above, I have learned about people's suffering in the other twelve former Soviet republics from conversations with friends hailing from these republics. I also learned about the crisis' impact on people's lives from stories of strangers they shared during subway or bus rides. These often well-educated people – engineers, doctors, scientists – told me about being forced by poverty and lack of opportunities to leave their families and homes in these republics to do menial work (i.e., cleaning streets and public restrooms) in Moscow, which, despite its suffering, fared better than many other places in the former Soviet space. I also voraciously read about the crisis' different aspects in the newspapers and magazines.

   After seeing a group of young women forced into prostitution in July 1994 and older women selling their and their family members' World War II medals – the most prized possession in the USSR, the country that lost 20 million people during the war, selling them meant that they sold everything else and still did not have money for food – I promised myself that I would try to do something to end crises in the future. I described these episodes in the section titled *"The Goal is Born – Stop Hopelessness"* of the white paper on the BBIS impact goals titled *"We Will Not Leave You Behind: Economic, Social and Political Impact of Investing via Single-Country Equity ETFs in Countries During and After Major Crises*" in February 2019. [42] I have seen that the most popular method of fighting against crises – the financial-aid-based approach - has potent adverse side effects comparable in magnitude to the societal problems this method is supposed to cure.

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[41] Carmen M. Reinhart and Kenneth S. Rogoff, Princeton University Press, "This Time Is Different: Eight Centuries of Financial Folly," 2009.

[42] Vitaly Veksler, Beyond Borders Investment Strategies, "We Will Not Leave You Behind: Economic, Social and Political Impact of Investing via Single-Country Equity ETFs in Countries During and After Major Crises," Pages 2-4, February 14, 2019. Below is a link to the paper: https://bbistrategies.com/our-publications--events/we-will-not-leave-you-behind-economic-social-and-political-impact-of-investing-via-single-country-equity-etfs-in-countries-during-and-after-major-crises

Later in this section, I will discuss how the IMF package of reforms, or 'shock therapy' that the Fund de-facto imposed on Russia – where I lived before immigrating to the US – and other former Soviet republics after the USSR collapse in the early 1990s was rushed and not well thought through. The reforms caused tremendous damage to many in society. They generated pushback against the market economy and democracy, almost allowing Communists and ultra-nationalists to take (back) power in the country. The extreme economic division, poverty, and crime that the reforms caused pushed many Russians to look for a leader to bring stability to the country and increase wages and pension payments. I agree with the title of the NPR article *"How 'Shock Therapy' Created Russian Oligarchs and Paved the Path for Putin."* [43] Without 'shock therapy' that strongly contributed to massive instability in the country and led to the birth of the 'oligarchs,' there would be no need to stabilize the country and bring to power Vladimir Putin, a relatively unknown KGB colonel and deputy mayor of St. Petersburg. The oligarchs mistakenly thought they would be able to control the new president. At the same time, President Yeltsin appreciated Putin's loyalty to St. Petersburg Mayor Anatoly Sobchak, against whom President Yeltsin led a political campaign. [44] Both oligarchs and President Yeltsin thought President Putin's main asset was his reliability. While President Putin managed to stabilize the economy of Russia, he brought anything but stability to its neighbors.

The economic nature of the crisis was not that different from the one we observed during the COVID-19 pandemic around the world when many companies' global supply chains were damaged or torn. The magnitude of the crisis in the former Soviet space was much more substantial. For example, Russia's GDP declined by 29.3% from 1992, the first post-Soviet year, until 1998, when it bottomed, before recovering to the 1992 level only in 2004 or 12 years later. [45] The GDP decline was even more significant because it started in the late 1980s, but the IMF's constant GDP data for post-Soviet republics go back only to 1992. [46] In Moldova, the crisis was even more pronounced. The country's GDP declined by 41.9% from 1992 to 1999 before recovering to above the 1992 level only in 2011, or 19 years later. [47] However, things were even worse in Ukraine. The country's GDP declined by more than half – 50.4% - from 1992 to 1999 and was still 20.7% lower than the 1992 level in 2021 (the last year before the war with Russia started on February 24, 2022) or 29 years later. [48] Due to the war with Russia, Ukraine's GDP plummeted to a level that was 44.7% lower than the early post-Soviet level in 2022, or 30 years later. [49] For comparison, due to the COVID-19 pandemic, the US 2020 GDP declined by 2.8% versus the 2019 level but surpassed the 2019 level in 2021, making the crisis length less than two years. [50]

The decline in the former Soviet space was so dramatic due to a number of factors. Some – but definitely not all – reasons included the following: due to political animosity between republics, enterprises in some republics did not want to do business with their former partners in other republics, and economic links between enterprises were

[43] Greg Rosalsky, NPR, Planet Money, "How 'Shock Therapy' Created Russian Oligarchs and Paved the Path for Putin," March 22, 2022.
[44] Mary Childs, Rund Abdelfatah, And Ramtin Arablouei, NPR, Planet Money, "The Rise of Putin," January 22, 2020.
[45] The International Monetary Fund, The World Economic Outlook Database, "GDP, Constant Prices, April 7, 2023.
[46] Ibid.
[47] Ibid.
[48] Ibid.
[49] Ibid.
[50] Ibid.

broken; manufactured or food products of former Soviet enterprises were not competitive with imports in terms of their quality and were replaced by them; enterprises were led by management teams that did not have any experience of operating in the market economies; and former Soviet republics' governments did not have money to stimulate their economies or expertise to pass laws that would attract investments. Some republics were politically unstable because of internal and external political factors. Ukraine, unfortunately, became synonymous with political instability. Some instability originated internally. Ukraine's large neighbor was responsible for the rest. In addition to seceding from the USSR in August 1991, the country had two revolutions – the Orange Revolution in 2004 and the Revolution of Dignity in 2014. [51] The latter revolution was followed by Russia's annexation of Crimea and the Luhansk and Donetsk regions' secession from Ukraine in 2014. [52] As I mentioned above, Russia invaded Ukraine on February 24, 2022. Ukraine had five traumatic political events during its first 30 years of post-Soviet existence. These events negatively impacted the country's stability and repelled domestic and foreign investments, leading to abysmal economic growth.

Due to these and many reasons, many enterprises went out of business or laid off large percentages of their employees. When the first group of enterprises went out of business or shrank, their suppliers and buyers faced the same predicament, causing the second, third, and many more waves of bankruptcies and production capacity reduction. The self-perpetuating vicious loop of bankruptcies and unemployment led to an extreme shortage of finished goods. The severe shortage of goods led to their prices jumping into the stratosphere. The crisis caused a lack of jobs and sky-high inflation that destroyed what little money people had. The unemployment and inflation – as two Horsemen of the Apocalypse – shattered people's hopes for a better future. As a result, criminals and vodka killed men with such speed that their life expectancy dropped to just 58 years in Russia (1994) and 61 years in Ukraine (1995) and Moldova (1996). [53] Older people were pushed to the brink of death from hunger, some over the threshold. Many unemployed people who could not provide for their families were forced to sell their organs (i.e., kidneys) to the mafia that resold them abroad for many multiples of what they paid. Many parents could not afford to feed their children and gave them up for adoption.

Many women were forced into the hands of domestic and international human traffickers. According to the "*Corruption, the Criminalized State, and Post-Soviet Transitions"* chapter from the *"Corruption, Global Security, and World Order"* book, *"… one study suggests that in the decade between 1995 and 2005 as many as 500,0000 to 850,000 women may have been trafficked out of Russia. In Ukraine, a country with a little more than a third of the population of Russia, from 1991 to 1998, an estimated 500,000 women were victimized. More shocking, in Moldova, parallel estimates in the first decade after the collapse of the Soviet Union were 200,000-400,000 women, which, if true, is close to 10 percent of the female population.*" [54]

[51] Wikipedia, "History of Ukraine." Downloaded on January 27, 2023.
[52] Ibid.
[53] The World Bank, "Life Expectancy at Birth, Male (Years) – Moldova, Russian Federation, and Ukraine." Downloaded on January 27, 2023.
[54] Robert I. Rotberg (Editor),"Corruption, Global Security, and World Order," Brookings Institution Press, 2009. The quote comes from the following source: Robert Legvold, Chapter 8. "Corruption, the Criminalized State, and Post-Soviet Transitions," Page 210.

My family saved one young woman from Moldova, who came to Moscow in search of success, from falling into the hands of human traffickers, but unfortunately, we could not save thousands of others. It was one of the reasons why I promised that I would try to do something to stop crises in the future.

2. **Private Sector Investments – Not Foreign Aid – Ended the Crisis That Seemed Endless:** As a youngster who did not know much about economics and investments, I hoped the former Soviet republics would recover from the crisis when they would get a highly-publicized inflow of foreign aid from foreign governments, charities, IMF, and World Bank, and reforms by the latter two that the media and everyone around me talked about. But it was not meant to be. Since my youth, I have never treated the IMF or World Bank as the 'sacred cows' whose ideas and reforms aimed at helping countries recover were infallible. The IMF loans and reforms the Russian government implemented to get these loans and humanitarian aid from charities and foreign governments did not weaken the crisis. If anything, they made the crisis worse. The crisis in the post-Soviet space ended only when private sector investments – especially foreign – started flowing there. Foreign investors began opening their facilities, taking over local firms, and hiring people. The jobs killed the crisis that seemed endless.

   Even as a youth, I observed one massive difference in how the governments and multilateral organizations (i.e., IMF, World Bank) on the one hand and corporations treated the assets and money. The former were cavalier in throwing huge amounts of money onto problems without first making sure that the lack of funds rather than something else was the leading cause of the problem. Later, I will show examples of how the Russian government and the IMF nonchalantly moved around billions of dollars without showing respect and protecting them. For example, the Russian government did not ensure the money and humanitarian aid were safe from theft *(see the 'Foreign Aid Is Often Stolen' section in Part 4).* Also, despite imposing many conditions, the IMF did not ensure the privatization rules proposed by the Russian government, inexperienced in organizing privatizations or simply corrupt, were up to snuff. This mistake created a massive division between the wealthy and the poor and the perception that privatization was done unfairly. Due to the error, significantly more money left the country than the IMF lent to Russia.

   Corporations were very different in their approach. They watched over their assets as hawks. They treated their assets - plants, factories, offices, inventories, and finished goods - with utmost attention because they were owners of these assets. As I wrote about the crisis in the former Soviet space after the collapse of the USSR in the paper *"We Will Not Leave You Behind: Economic, Social, and Political Impact of Investing via Single-Country Equity ETFs in Countries During And After Major Crises," "companies used armed guards to protect enterprises, some of which had already received investments from foreign companies. The guards made stealing from companies both problematic and risky. It was still probably possible to steal goods from under the noses of the guards whom one could occasionally see behind tall walls with concertino wires on top surrounding production facilities, but fewer people tried. As the saying went, "In addition to the goods belonging to the companies, one could leave with an extra* *nine grams of lead embedded in one's head."* [55] Stealing from corporations, which carefully guard their assets, is difficult not only in Russia but worldwide.

As a person who grew up in a socialist economy that relied on inefficient government investments, I observed with awe how investments by corporations – rather than the foreign aid distributed by the government – were transforming the hopeless situation. Corporations created jobs that brought hope for a better life back. While the corporations were not signaling their virtue as governments often do, they were efficiently killing the crisis and its byproducts – prostitution, early mortality, hunger, and inability to provide for one's family – one job at a time.

Even before leaving Russia, I knew that my approach to helping countries recover from crises would be based on the private sector actors rather than governments, or more specifically, not just on governments. Governments have a vital role in helping countries recover from crises. They have to pass and enforce business-friendly laws to attract investors. It is almost impossible to help a country with anti-business laws recover from a crisis, even if you want. Cuba, North Korea, and Venezuela have been going through severe economic crises for decades. People in these countries do not even call them crises. They call them the 'socialist existence.' Also, countries where governments choose not to enforce laws against crime and maintain order, for example, to appease major population groups supporting them, find investors to avoid them. For example, between 2019 and 2021, leading countries on three continents – Chile, the USA, and South Africa – experienced riots and crime spikes. [56] [57] [58] Very few of the rioters and criminals were brought to justice. Business people closed businesses, and investors moved capital from the areas significantly impacted by the riots and crime spikes. [59] [60] [61] [62]

3. **The Foreign Aid-Based Approach of Helping Countries Does Not Work in Most Cases:** During the 60 years from 1960 to 2019, foreign governments and multilateral organizations distributed a tremendous amount of money as foreign aid. According to the World Bank, foreign aid distributed during the 60 years constituted an extraordinary amount of $5.15 trillion measured in inflation-adjusted 2020 US Dollars. [63] Unfortunately, the aid did not lift the majority of countries out of poverty. Most countries that were receiving assistance at the beginning and in the middle of the period continued to receive aid at the end of the period. We considered that a country stopped receiving aid if it did not receive it during the last five years (2015-2019) of the 60-year period from 1960 to 2019. Countries

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[55] Vitaly Veksler, Beyond Borders Investment Strategies, "We Will Not Leave You Behind: Economic, Social, and Political Impact of Investing via Single-Country Equity ETFs in Countries During And After Major Crises," Page 19, February 14, 2019. Below is a link to the paper: https://bbistrategies.com/our-publications--events/we-will-not-leave-you-behind-economic-social-and-political-impact-of-investing-via-single-country-equity-etfs-in-countries-during-and-after-major-crises
[56] Wikipedia, "2019–2021 Chilean Protests." Downloaded on February 21, 2023.
[57] Wikipedia, "Violence and Controversies During the George Floyd Protests." Downloaded on February 21, 2023.
[58] Wikipedia, "2021 South African Unrest." Downloaded on February 21, 2023.
[59] Carla Selman, IHS Markit, "Protests and Terrorism in Chile: Examining the Data and What to Expect in the Coming Year," May 3, 2021.
[60] Valentina Fuentes and Daniel Cancel, Bloomberg, "Money Rushes Out of Chile as Cracks Deepen in Economic Model," December 15, 2021.
[61] Vitaly Veksler, Beyond Borders Investment Strategies, "To Protect Investment Portfolios From Inflation, We Need to Know Its Roots," Pages 17-24, April 7, 2022. Below is a link to the report: https://bbistrategies.com/our-publications--events/to-protect-investment-portfolios-from-inflation-we-need-to-know-its-roots
[62] Wikipedia, "2021 South African Unrest." Downloaded on February 21, 2023.
[63] The World Bank, "Net Official Aid Received (Constant 2020 US Dollars)." Downloaded on February 21, 2023.

graduate from the group of foreign aid recipients and stop receiving it when their income levels increase above the Gross National Income (GNI) per capita threshold set by the Organization for Economic Cooperation and Development (OECD). [64] It was set at $12,235 per capita in constant (inflation-adjusted) 2016 US Dollars for 2020 and slightly higher, $12,695 per capita in the constant 2020 US Dollars, for 2022-2023. [65] [66] According to the World Bank, out of 179 countries and territories that received official development assistance (ODA) during the 60 years, only 42 countries (23.5%) graduated from the group and stopped getting this assistance by the end of the period. [67] It means 137 out of 179 countries, or 77.5% – close to four out of five – continue to have low income per capita.

Yet despite such a visible failure of financial aid, during and in the immediate aftermath of crises, the overwhelming majority of the money for crisis-afflicted countries is still delivered as charity, debt, or aid. Foreign governments or multilateral organizations, such as the IMF and World Bank, deliver it. It is distributed to crisis-stricken countries' governments or non-profit organizations, as has happened for decades. The governments and non-profit organizations can pay out their immediate debts and feed people, but they are not incentivized or equipped to create jobs efficiently. A great proverb says, *"If you give a man a fish, you feed him for a day. If you teach a man to fish, you feed him for a lifetime."* Decade after decade, foreign donors and lenders continue to provide the proverbial food to crisis-stricken countries using the same old and tired approach that has not helped local people start 'fishing' to provide for themselves and their families.

4. **Some Reasons Why the Foreign-Aid Dependent Method of Fighting Crises Does Not Work:** In addition to governments' lack of focus or ability to create jobs, several other factors prevented governments in crisis-stricken countries worldwide from creating jobs and ending crises.

   a. **The Public Sector – Neither Larger Nor More Efficient Job Creator than the Private Sector – Receives Most Foreign Financial Aid:** In every country in BBIS' 49-country universe, more jobs are created by the private sector rather than the public one. As a matter of fact, private sector companies generate more than two-thirds of the jobs in every single country, ranging from 97.4% in Singapore to 68.0% in Israel. [68] While there are stark exceptions, governments, for the most part, are not good capital allocators. Most government employees in countries worldwide have no or limited experience in job creation. At best, the crisis-stricken countries' governments may forward some of the money to state-owned enterprises, known for their inefficiency compared to profit-seeking private sector companies. State-owned enterprises create very few jobs compared to profit-driven companies, and even those jobs are often given to political allies of the government regardless of these people's competence or even interest in the subject matter. Suppose a government stays in power for a while.

[64] OECD, "DAC (Development Assistance Committee) List of ODA (Official Development Assistance) Recipients." Downloaded on February 21, 2023. "The DAC revises the list every three years. Countries that have exceeded the high-income threshold for three consecutive years at the time of the review are removed."
[65] OECD, "DAC List of ODA Recipients, Effective for Reporting on 2020 Flows." Downloaded on February 23, 2023.
[66] OECD, "DAC List of ODA Recipients, Effective for Reporting on 2022 and 2023 Flows." Downloaded on February 23, 2023.
[67] The World Bank, "Net Official Aid Received (Constant 2020 US Dollars)." Downloaded on February 21, 2023.
[68] International Labor Organization (ILO), Organization for Economic Cooperation and Development (OECD), China - National Bureau of Statistics of China, Hong Kong - Census and Statistics Department of the Government of the Hong Kong Special Administrative Region, and Taiwan - The Examination Yuan of ROC.

In that case, state-owned enterprises are often filled with incompetent employees, who, in addition to their incompetence, are also entirely uninterested in their jobs and indifferent to what their employers are trying to achieve. State-owned enterprises are often unlikely to create much value and profit, making their countries dependent on foreign financing. Countries relying on state-owned enterprises as the major growth engine continue to depend on foreign aid for decades.

b. **Countries' Higher Debt Levels Lead to Higher Taxes That Repel Private-Sector Investments and Lower Economic Growth Rates:** Low-interest loans – a popular form of foreign aid provided to crisis-stricken countries by governments of wealthy countries, IMF and other multilateral organizations – increase crisis-stricken countries' government debt levels, often to astronomic levels. High debt levels often – but not always *(see the example of Ireland below in this section)* – make countries increase or keep high taxes, repelling investments in companies, and making crises and post-crisis recessions last longer than if the countries were not forced to keep taxes high.

During the European Sovereign Debt Crisis, for example, Greece, Portugal, and Spain could not deal with the crisis impact with their own financial resources and had to ask for – and received – debt bailouts from the European Union, International Monetary Fund (IMF), and other multilateral organizations and individual countries. [69] The bailout packages increased the Debt-to-GDP ratios of these countries dramatically. Greece's Debt-to-GDP ratio was 177.4% as of the end of 2022 from 104.0% before the crisis in 2007; Portugal's – 116.0% from 72.7% in 2007, and Spain's – 112.0% from just 35.8% in 2007. [70]

These 2022 debt ratios are very high and range from close to three to two times the European Union's Debt-to-GDP country ceiling. According to the European Union regulations, every country has to cut debt annually by 1/20th of the excess above the EU ceiling of 60% of GDP, thus implying that 60% is a manageable long-term value for the government debt measured by the Debt-to-GDP ratio. [71] In the BBIS universe, five countries have Debt-to-GDP ratios that are more than twice the long-term value of 60%: Japan – 261.3%, Greece – 177.4%, Italy – 144.7%, Singapore – 134.2%, and the US – 121.7%.[72] The other six countries have Debt-to-GDP ratios of over 100%: Portugal – 116.0%, Spain – 112.0%, France – 111.1%, Canada – 106.6%, Belgium – 105.3%, and the UK – 102.6%. [73]

High debt levels mean that countries have to use significant percentages of their revenues to service the debt, i.e., make interest payments. To lower Debt-to-GDP ratios to manageable levels, indebted countries must either cut government spending through austerity measures or increase taxes to service higher debt. While austerity

[69] Wikipedia, "European Debt Crisis." Downloaded on February 14, 2023.
[70] The International Monetary Fund, World Economic Outlook, "General Government Gross Debt, Percent of GDP." Downloaded on April 23, 2023.
[71] Jan Strupczewski, Reuters, "High Debt EU Countries Should Cut Debt Ratio by 1%/GDP a Year Minimum – Germany," April 6, 2023.
[72] The International Monetary Fund, World Economic Outlook, "General Government Gross Debt, Percent of GDP." Downloaded on April 23, 2023.
[73] Ibid.

often does not work well *(see why it has often resulted in disastrous outcomes for countries that implemented it below in this section),* increasing taxes works even worse!

According to a study, *"Climbing Out of Debt,"* published by Alberto Alesina (Harvard University), Carlo A. Favero, and Francesco Giavazzi (Bocconi University in Milan) based on the analysis of 16 out of the 35 countries belonging to the Organization for the Economic Cooperation and Development (OECD) from 1981 and 2014, tax increases lead to *"large and long-lasting recessions. A tax-based plan"* for lowering countries' debt levels *"amounting to 1 percent of GDP was followed, on average, by a 2 percent decline in GDP relative to its pre-austerity path. This large recessionary effect tends to last several years."* [74] According to the study, recessions caused by increased taxes were deeper and longer than the ones caused by government expenditure cuts that are part of the austerity measures. [75]

In addition to austerity measures, the above-mentioned European bailout recipients – Greece, Portugal, and Spain – had to impose higher corporate taxes than the OECD country averages, making them less competitive in the fierce global competition for investments. Both high taxes and austerity lowered these countries' economic growth. During the European Sovereign Debt Crisis and the post-crisis 15-year period (2008-2022), the average combined corporate income tax rates for all three countries were higher than the average rate for the OECD countries. The corporate tax rate in Portugal was 29.9% (9th highest among 38 OECD countries), Spain – 27.5% (14th highest), and Greece – 24.9% (20th highest). [76] The average for all 38 countries was 24.8%. [77] These countries would have had lower corporate taxes to attract significant investments, leading to high economic growth. Otherwise, why would investors and businesses invest in countries with serious macroeconomic problems? Not surprisingly, the high above-average corporate taxes in the three countries did not help them to attract investments and resulted in anemic below-average growth rates. The countries' GDP adjusted for inflation grew on average 0.6% per year in Portugal (33rd highest among 38 OECD countries), 0.4% in Spain (35th highest), and dropped by 1.5% in Greece (38th out of 38). [78]

Unsurprisingly, Greece grew slower than Portugal and Spain because the country's GDP-to-Debt ratio (i.e., 177.4% in 2022) and the funds needed to service the debt were much higher than the other two countries: Portugal – 116.0% and Spain – 112% in 2022. Due to slow growth, the countries could not decrease their debt levels considerably. Thus, the Portuguese Debt-to-GDP ratio declined just slightly from 132.9% in 2014, when its bailout ended, to 116.0% in 2022. [79] [80] Spain's Debt-to-GDP ratio actually increased from 105.1% in 2014,

[74] Alberto Alesina, Carlo A. Favero, and Francesco Giavazzi, IMF Finance and Development, "Climbing Out of Debt," Page 9, March 2018.
[75] Ibid.
[76] Organization for Economic Cooperation and Development, OECD.Stat, "Table II.1. Statutory Corporate Income Tax Rate." Downloaded on April 23, 2023.
[77] Ibid.
[78] The International Monetary Fund, World Economic Outlook, "Gross Domestic Product, Constant Prices," April 2023.
[79] Ibid.
[80] Wikipedia, "2010-2014 Portuguese Financial Crisis." Downloaded on April 23, 2023.

when the country's bailout ended, to 112.0% in 2022. [81] [82] The astronomically high Greek Debt-to-GDP ratio decreased from 190.7% in 2018, when the final of the three bailouts since 2010 expired, to 177.4% in 2022. [83] [84]

Compare Portugal's, Spain's, and Greece's high-tax, slow-growth model to a low-tax, high-growth model implemented by another recipient of a bailout during the European Sovereign Debt Crisis: Ireland. The country imposed the lowest corporate tax among all the OECD countries and, not surprisingly, registered the highest growth of 5.3% per year. [85] By attracting massive investment inflows from companies from all over the world through its low taxes, Ireland managed to reduce its Debt-to-GDP ratio from 119.9% (twice the European Union's ceiling of 60%) in 2013 when it exited the bailout program to 45.2% (almost a quarter below the European Union's ceiling of 60%) in 2022. [86] [87] Taxes matter. They matter a lot!

While higher taxes slow investments in all countries, their impact is especially profound in crisis-stricken countries where macroeconomic situations are far from perfect. The investment-repelling effect of higher taxes is also stronger in emerging and frontier markets compared with mainly developed countries that the *"Climbing Out of Debt"* study focused on. In emerging and especially frontier markets, investment risks, on average, are higher than in developed markets. Why would investors allocate their capital to Colombia, which increased its combined statutory corporate income taxes from 31% in 2021 to 35% – the highest level in the OECD universe – in 2022 and 2023 under the leadership of the country's President Gustavo Petro, whom very few people would call business friendly. [88] Before the election of Gustavo Petro, an ex-rebel, in June 2022, Colombia was one of the fastest-growing economies in the OECD, with its GDP growing at 3.4% per year over the 15 years from 2008 to 2022. [89] In 2023 and 2024, GDP growth is projected to drop sharply to just 1.0% and 1.9%, respectively. [90] Companies and investors need incentives (i.e., low taxes) rather than disincentives (i.e., high taxes) to allocate money to riskier countries. In general, investments tend to flow into companies in countries with lower tax rates because, with everything else being equal, investment returns in countries with low taxes are higher than those in countries with high taxes. The incentives for private sector companies and investors, which create most jobs in all countries in the BBIS universe, to create these jobs and to allocate time and money to high-tax countries are lower.

[81] The International Monetary Fund, World Economic Outlook, "General Government Gross Debt, Percent of GDP." Downloaded on April 23, 2023.
[82] Lauren Frayer, NPR, "Spain Exits Bailout in a Sign of Progress, Not Recovery," January 23, 2014.
[83] The International Monetary Fund, World Economic Outlook, "General Government Gross Debt, Percent of GDP." Downloaded on April 23, 2023.
[84] Council on Foreign Relations, "1974-2018 Greece's Debt Crisis." Downloaded on April 23, 2023.
[85] Ibid.
[86] Wikipedia, "Economic Adjustment Program for Ireland." Downloaded on April 23, 2023.
[87] The International Monetary Fund, World Economic Outlook, "General Government Gross Debt, Percent of GDP." Downloaded on April 23, 2023.
[88] Organization for Economic Cooperation and Development, OECD.Stat, "Table II.1. Statutory Corporate Income Tax Rate." Downloaded on April 23, 2023.
[89] Matt Murphy, BBC News, "Gustavo Petro: Colombia Elects Ex-Rebel as First Left-Wing President," June 20, 2022.
[90] The International Monetary Fund, World Economic Outlook, "Gross Domestic Product, Constant Prices," April 2023.

c. Foreign Aid is Often Stolen: A large percentage of humanitarian aid has been stolen. According to a statement by Richard L. Palmer, an expert on Russian organized crime, up to 60% of Western humanitarian assistance delivered to Russia during the winter of 1991-1992 – the first winter after the collapse of the USSR when the country badly needed it – was resold at free market prices. The money was laundered through the banks, and an estimated $15 billion was transferred abroad in 1991-1992. [91]

The theft of foreign aid is not unique to Russia. It happens in other emerging markets and even developed markets. In the book *"Adapt: Why Success Always Starts with Failure,"* its author Tim Harford focused on the work of Ben A. Olken, an economist from the Massachusetts Institute of Technology (MIT), who measured how much money was being stolen from large World Bank projects. [92] He focused on an Indonesian road-building project across 600 villages. [93] Professor Olken compared on-the-ground costs with those submitted to the World Bank. He found out that around 25% of the money was missing. [94] In the underlying paper, *"Monitoring Corruption: Evidence from a Field Experiment in Indonesia,"* the percentage of missing money was even higher – 27.7%. [95] A similar percentage of the money was estimated to be lost in the United States. According to an audit by the US Government Accountability Office, $1.4bn of the $6bn, or close to 25%, in federal emergency relief for Hurricanes Katrina and Rita victims in the southern US were spent on improper or fraudulent payments. [96]

In an eye-opening paper, *"Elite Capture of Foreign Aid: Evidence from Offshore Bank Accounts,"* published by Jørgen Juel Andersen (BI Norwegian Business School) and Niels Johannesen (The University of Copenhagen and CEBI), and Bob Rijkers, the World Bank's own Senior Economist, the authors identified sharp increases in bank deposits in offshore financial centers known for bank secrecy and private wealth management, or '*havens,'* from the aid-dependent countries during the quarters when the World Bank aid is disbursed. [97] The *'havens'* include such countries as Switzerland, Luxembourg, the Cayman Islands, and Singapore. [98] The authors compared the flows to non-haven financial centers in countries like the United States, the United Kingdom, France, Germany, and Japan. [99] There was no increase in cash flows to these centers during the quarters when aid was disbursed. The authors convincingly made a case that part of the aid is diverted from the aid packages to financial accounts in the *'havens.'* The authors convincingly made a case that part of the aid is diverted from the aid packages to financial accounts in the *'havens.'* The 'leakage' was estimated to be 7.5% on average and

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[91] Statement of Richard L. Palmer, President of Cachet International, Inc. on the Infiltration of the Western Financial System by Elements of Russian Organized Crime Before the House Committee on Banking and Financial Services, September 21, 1999.
[92] Tim Harford, ""Adapt: Why Success Always Starts with Failure," Farrar, Strauss and Giroux, 2011.
[93] Noble World, "Business Book Review: Adapt: Why Success Always Starts with Failure." Downloaded on July 29, 2022.
[94] Tim Harford, ""Adapt: Why Success Always Starts with Failure," Farrar, Strauss and Giroux, 2011.
[95] Ben A. Olken, The Journal of Political Economy, Vol. 115, No. 2, Page 219, 2007.
[96] Ibid.
[97] Jorgen Juel Andersen, Niels Johannesen, and Bob Rijkers, The World Bank, "Elite Capture of Foreign Aid: Evidence from Offshore Bank Accounts," Page 1, February 18, 2020.
[98] Ibid. Page 35.
[99] Source of the Complete List of the Countries in the Study: Bank of International Settlements (BIS), Quarterly Review, Statistics Annex, Reporting Countries Providing Locational Banking Data, Page A5, December 2010.

exceeded 15% in some cases. [100] Specifically, the higher the aid was as a percentage of GDP, the higher was the leakage. When the aid was around 1% of GDP, the leakage was about 4%. When the aid-to-GDP ratio increased to 3%, the leakage increased to 15%. [101] Notably, the leakage does not include money corrupt government officials and their cronies used to buy real estate, cars, and other luxuries after the reduced funds arrived in the recipient countries' government accounts. [102]

d. **Governments That Often Are Most Responsible for Crises Get Enlarged and Entrenched by Having Access to Financial Aid:** So, who wins from the foreign aid and the low-interest IMF and other multilateral organizations' loans? The clear winners are governments of crisis-afflicted countries that stove away immediate crises and get money from the IMF on a pretty consistent basis. Since they know that the donor governments and IMF do not want to have a 'black eye' by having one of its 'patients' default, they continue using the IMF funds on the priorities they choose rather than the ones the Fund chooses. Accounting for foreign aid uses is even more difficult than for the Fund's loans. Thus, IMF lending may promote government corruption.

In a report to the US Senate titled *"Can IMF Lending Promote Corruption?"* Congressman Jim Saxton (R-NJ), Vice Chairman of the Joint Economic Committee United States Congress, wrote in December 1999: *"Foreign aid, then, often has not worked to promote reform. Consequently, aid tends to subsidize -- and thereby strengthen -- existing government connections and structures since aid recipients also will distribute this aid so as to preserve their political positions. In short, political elites can benefit from aid. In practice, aid subsidizes and strengthens existing regimes so they become solidified and entrenched. When existing regimes are corrupt, such regimes can be strengthened by foreign aid. It has been shown, for example, that foreign aid seldom includes meaningful incentives to alter governmental behavior with regard to corruption. In sum, when existing regimes are corrupt, the result is that these corrupt political regimes can benefit from foreign aid and become more firmly entrenched."* [103]

Foreign aid that includes low-interest IMF loans may strengthen the country governments and lead to an increase in the government size. According to the *"Can IMF Lending Promote Corruption?"* report, *"Unlike manna from heaven, official aid does not descend indiscriminately on the population of the recipient country; it accrues to specific groups of people in positions of power and sets up repercussions often damaging to development, notably by contributing to the politicization of economic life. Specific recipients of aid monies have economic incentives that may differ or conflict with the intentions of donors. They have incentives, for example, to reward their friends, supporters, and special interest constituents. Because of these realities, foreign aid can in practice work to strengthen the role of the recipient countries' public sector relative to its private sector. Aid has tended to promote centralized economic control and fostered a concentration of bureaucratic power in recipient*

[100] Ibid. Page 4.
[101] Jorgen Juel Andersen, Niels Johannesen, and Bob Rijkers, The World Bank, "Elite Capture of Foreign Aid: Evidence from Offshore Bank Accounts," Page 1 and Page 17, February 18, 2020.
[102] Ibid. Page 4.
[103] Jim Saxton, US Senate, "Can IMF Lending Promote Corruption?" December 1999.

governments. This is corroborated by the fact that government-to-government transfers often lead to increases in government spending. And, as one researcher concluded, "Aid… does increase the size of government." [104]

While the governments and their allies reap the benefits, the ordinary people bear the costs of servicing the debt. These costs could include fewer social services, higher taxes, lower economic growth, higher debt levels that make countries prone to crises, currency depreciation, high inflation, etc. An example of ordinary citizens of Kenya's response to the IMF's approval of a large loan demonstrated the point about different winners and losers of Kenya getting low-interest loans and other types of financial aid.

The IMF approved a three-year financing package to support Kenya's Covid-19 response and its plan to reduce debt vulnerabilities on April 2, 2021. [105] In April 2021, Kenyans petitioned the IMF to cancel its approval of a $2.34 billion loan for Kenya, citing the mismanagement of funds by the government and the country's increasing debt load. [106] Indeed, during the years of rule of President Uhuru Kenyatta, analysts and the general public repeatedly raised concerns about Kenya's public debt, which has increased by 288% from 2013, the first year of President Kenyatta in the office, to 2021, his last full year in office (2021). [107] Kenya's current public debt reached USD$75.0 billion, or 67.8% of the country's gross domestic product (GDP) in 2021. [108] The macroeconomists at the IMF and other organizations recommend that public debt-to-GDP ratios should not be higher than 40% for emerging markets. [109] When debt is over this level, countries face the prospect of devastating debt, currency, and economic crises.

Kenyans accused the country's government of corruption in handling financial resources and 'losing' billions of dollars, including those received as loans from the IMF. The government recognized corruption as a significant problem Kenya faced. In January 2021, President Uhuru Kenyatta said that $18.5 million is stolen from the government daily. [110] It translates to $6.8 billion annually, which is 6.2% of the 2021 GDP of $110.5 billion. [111]

These losses due to corruption raised questions over how the government spent money, leading to online and offline protests against the newly approved IMF loan. Shortly after the new IMF loan was approved in April 2021, the complaints spread to a live Facebook discussion on climate change between Kristalina Georgieva, IMF Chair and Managing Director, and Christiana Figueres, Costa Rican diplomat. The discussion had nothing to do with the loan to Kenya, but people wanted to reach Ms. Georgieva in any way possible. During the discussion,

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[104] Ibid
[105] Andrea Shalal, Reuters, "IMF Approves $2.34 Billion in New Financing Arrangements for Kenya," April 3, 2021.
[106] Carlos Mureithi, Quartz Africa, "Thanks But No Thanks: Kenyans Are Furious with the IMF over Billions More in Loans," April 28, 2021.
[107] The International Monetary Fund, World Economic Outlook, "General Government Gross Debt, National Currency," October 2022.
[108] The International Monetary Fund, World Economic Outlook, "General Government Gross Debt as Percent of GDP," October 2022.
[109] Ibid. I was also taught the same rule in the "Global Economic Challenges" class at the MIT Sloan School of Management. This class was taight by Professor Kristin Forbes.
[110] Carlos Mureithi, Quartz Africa, "Thanks But No Thanks: Kenyans Are Furious with the IMF over Billions More in Loans," April 28, 2021.
[111] The International Monetary Fund, World Economic Outlook, "Current GDP, US Dollars," October 2022.

Kenyans took over the comments section. [112] Some of the most interesting comments written by Kenyan authors on Facebook are below. The grammar and syntax of the comments are left unchanged.

- *"Tonny Mwangi: It seems you've got nothing between your ears,,😡😠 Kenyans are tired of paying loans that were stolen by the corrupt president..,,Stop confusing Kenya to Kenyatta #StopLoaningKenya"*

- *"Murey Waithanje: Whatever deals you do with Kenyan's President, remember it's not for the good of the citizens. #stoploaningKenya"*

- *"David Mutua: Stop lending money to a corrupt Kenyan government. We are already neck-deep in debt and billions are lining the pockets of greedy politicians. #StopLendingKenya"*

Outside social media, more than 240,000 people have signed "*Petition to the IMF to Cancel the KSHS. 255 Billion Loan to Kenya,"* out of which more than 230,000 people signed the petition within the first three and half weeks after the loan was approved in April 2021. [113] [114] "KSHS" stands for Kenyan Shillings, and KSHS 255 Billion translated to $2.34 Billion, as mentioned at the beginning of the section.

The petition focused on the corruption of President Kenyatta. He was accused of purchasing political support by purchasing luxury vehicles for Kenyan lawmakers. President Kenyatta also allowed some business people to organize irregular tenders for Personal Protective Equipment (PPE) during the first wave of COVID when all people desperately wanted to buy them. [115] The money for purchasing the PPE was provided by international donors, including another multilateral international organization – the World Health Organization (WHO). [116] The WHO has donated PPE and other assorted medical equipment needed for the fight against COVID-19 since December 2020. [117]

The petition started with the following statements: *"The announcement that the IMF recently approved a Kshs.255 billion loan to the Kenya government has left many Kenyans shocked and very disappointed. This is due to the fact that previous loans to the Kenya government have not been prudently utilized and have often ended up in mega corruption scandals." …*

[112] The International Monetary Fund, The Exchange – Conversations for the Better Future, Conversation Between Kristalina Georgieva and Christian Figueres on Climate Change, Facebook, April 22, 2021. https://web.facebook.com/watch/live/?v=837552520130657&ref=watch_permalink
[113] Carlos Mureithi, Quartz Africa, "Thanks But No Thanks: Kenyans Are Furious with the IMF over Billions More in Loans," April 28, 2021.
[114] Jefferson Murrey, Change.org, "Petition to the IMF to Cancel the KSHS. 255 Billion Loan to Kenya." Downloaded on October 13, 2022.
[115] Ibid.
[116] Republic of Kenya, Ministry of Health, "World Health Organization Donates Assorted Medical Equipment and Personal Protective Equipment to Support COVID-19 Mitigation Efforts," August 25, 2021.
[117] Ibid.

The petition proceeded to describe the problems faced by most ordinary people – the losers of the corruption game – in heavily indebted countries. *"Right now Kenyans are choking under the burden of heavy taxes, with the prices of basic commodities such as fuel skyrocketing, and nothing to show for the previous loans,"* the petition says.

The petition described some of the winners in the corruption game and focused on how the kleptocracy was maintained. *"Just recently the President dished out luxury cars to thousands of junior lawmakers to have them support controversial changes to the Constitution, thus punching another hole on an already shoestring budget. Indeed, some of the President's close associates have been adversely implicated in the so-called "Covid Billionaires" scam, where billions of shillings from international donors were lost in irregular tenders for PPE at the height of the first wave of the Covid-19 pandemic. Nothing ever came out of the President's commissioned probe into the scam."*

The petition concluded with a direct and unambiguous message to the IMF. "*The IMF can, and should, do the right thing: keep the cash until Kenyans get themselves a new, hopefully more accountable, administration in office next year."*

While President Uhuru Kenyatta started an anti-corruption campaign in 2018 and even promised to imprison his younger brother Muhoho, a director in a company that had been accused in parliament of importing contraband sugar, if there is clear evidence against him, President Kenyatta and his family seemed to benefit from corruption on a massive scale. [118] According to Wikipedia's site on Uhuru Kenyatta, *"In October 2021, his name appeared in the Pandora Papers, among more than 330 current and former politicians and senior officials using hidden accounts in tax havens. He and six family members, including his mother, a brother and two sisters, have at least $30 million in several offshore companies. He also owns a secret 'foundation' in Panama, holding over $30 million."* [119] So, the petition's author and many other Kenyans protesting against the IMF loans online and offline seemed correct to ask the Fund not to give more loans to their corrupt president and his government.

e. **Misguided Economic Reforms Introduced at the 'Barrel of a Gun' and That Are Not Subject to Questions or Debate Often Backfire:** The IMF reforms, which the Fund makes countries desperate for its loans to implement, have been known to work only sometimes. As mentioned above, the IMF's own Acting Managing Director, Anne O. Krueger, described the reforms' inefficiency in the title of her 2004 speech, *"Meant Well, Tried Little, Failed Much: Policy Reforms in Emerging Market Economies."* [120] Despite the low efficiency of the reforms that the IMF requires the desperate countries to make in exchange for loans, the Fund is extremely strong-handed in negotiations with these countries. The European Network on Debt and Development, known as

[118] Wikipedia, "Uhuru Kenyatta." Downloaded on August 4, 2022.
[119] Ibid. The Information on Uhuru Kenyatta's Corruption on Wikipedia is Based on the Following Document:
Simon Bowers, Finance Uncovered, "Pandora Papers: The Kenyatta Files," October 8, 2021.
[120] Anne O. Krueger, IMF, ""Meant Well, Tried Little, Failed Much: Policy Reforms in Emerging Market Economies," March 23, 2004.

Eurodad, said, *"Nations desperate for cash were at a disadvantage in dealings with the IMF, which were likened to negotiating 'at the barrel of a gun.'"* [121]

For example, on average, the IMF attached nearly 20 conditions to each loan it approved from 2011 to 2013. [122] Many included radical reforms such as severe budget cuts, including cuts to public-sector employee wages, and rapid privatization of state-owned enterprises in exchange for loans. These reforms hurt poor people first and solidified the public's sentiment against privatization. Privatization should be done deliberately to achieve the desired results of turning less-efficient public enterprises into more-efficient private sector ones. Also, when government employees' wages are cut, most are unlikely to support anything the IMF asks them to. For example, Ukraine had long resisted the IMF's conditions but finally agreed to them in 2014 after stating it was close to default. *"Ukraine's prime minister said his government was on a "kamikaze" mission to make painful decisions."* [123]

But suffering imposed by the IMF on the countries receiving its loans is often in vain. When people implement reforms, or anything else, under duress, they are not productive. Unsurprisingly, many reforms the IMF forced countries to implement were unsuccessful, and nations became repeat borrowers. The Eurodad found that most countries that applied for IMF assistance once had to borrow from the IMF again. For example, *"Twenty out of the 22 countries with new IMF programs from 2011 to 2013,"* or striking 91%, *"had borrowed in the past decade, and a majority had borrowed in the previous three years."* [124]

When organizations work as partners, they are not afraid to ask questions about every clause of the proposed reforms they do not understand. <u>When one group (i.e., the IMF) holds another group (i.e., crisis-stricken countries' governments) at the 'barrel of the gun,' none of the second group members will ask questions about the reforms they do not understand or disagree with.</u> That is how very damaging clauses of the reforms get passed and then severely reduce, destroy, or even reverse the positive impact of the reforms.

In the 1990s, as a pro-Western, pro-market, and pro-democracy youth – often wearing a T-shirt with an American flag on the mean streets of Moscow against the advice of my closest friends during the period later dubbed the 'gangster nineties'– I remember observing with horror that the draconian economic reforms, aptly named 'shock therapy' and implemented by the Russian government of President Boris Yeltsin as a pre-condition for IMF loans and on the advice of IMF were causing pushback against the ideas of free markets and democracy in the early 1990s. The reforms led to suffering during the country's transition from a socialist command-and-control basis to a market basis. Large groups of the population were rallying against the ideas the reforms were supposed to support: the development of a democratic society based on the market-based economy and friendliness with the West.

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[121] Anna Yukhananov, Reuters, "IMF Loan Conditions Grow Despite Vows to Limit Them: Study," April 2, 2014.
[122] Ibid.
[123] Ibid.
[124] Ibid.

The IMF miscalculated the difficulty of implementing a broad package of reforms all at once and convinced the Russian government to implement most economic and political reforms in exchange for disbursing a $22.7 billion loan. However, these reforms were so multi-faceted and complex – and were implemented so fast – that they led a large part of the population to oppose the transition to democracy and a market economy because they resulted in a large part of Russia's population becoming poor or poorer than during the Soviet era. The reforms almost killed the patient – Russia's economy – and led to the victory of the ultranationalist Liberal Democratic Party of Russia (LDPR) in Russia's first post-Communist parliamentary elections in 1993 and almost resulted in the triumph of the Communist Party's candidate, Gennady Zyuganov, in the presidential elections in 1996. [125]

The reforms could be divided into three large parts: "financial stabilization, liberalization, and privatization." [126] "*The IMF's role was to assist in identifying broad reform priorities and to insist that key reforms were included in the programs before the IMF would agree to support them financially.*" In other words, the Fund would give its loans after Russia implemented or started implementing all three parts of the reform package. [127] The Russian government, which was desperate for loans, and the IMF, which would not give any loans to the country before it committed to implementing the reforms, were rushing them. Harvard Professor Jeffrey Sachs, an American economist famous for his work in the economic development and global fight against poverty and who also served as an independent advisor to the Russian government, argued for a much more gradual approach to the reforms. [128] He wrote, *"If financial stabilization can be accomplished in the first year of radical reforms, and systemic transformation in the first five years [liberalization], the structural change in the economy [privatization] is a task of one to two decades."* [129]

Instead of two decades or at least a decade, the Russian privatization was done in less than three years. From 1992 to 1994, around 15,000 state enterprises were sold. [130] They were sold to new owners, often top managers of these enterprises during the Soviet time, who had no idea how to run them in the market-based economy. They did not know how to manage enterprises when they had to look for clients rather than when they were given the clients in the socialist state-control model. Many enterprises went bankrupt, leading to high unemployment and the creation of a vast group of poor people who did not know how to make a living for the first time in their lives. Under the socialist model, they were taken care of by the state. Most surviving enterprises were selling commodities in demand from foreign customers or had existing domestic or foreign customers.

Privatization would have been much more successful if the future leaders of enterprises that were to be privatized had an opportunity or even were required to study how to lead enterprises and market their products and services in the capitalist system. They could have taken customized classes that lasted several months, participated in

[125] Wikipedia, "1996 Russian Presidential Election." Downloaded on July 28, 2022.
[126] Abraham Song, Geo History, "Four Reformers in Russia's Shock Therapy," April 4, 2016.
[127] John Odling-Smee, IMF, "The IMF and Russia in the 1990s," Page 9, 2004.
[128] Wikipedia, "Jeffrey Sachs." Downloaded on August 4, 2022.
[129] Abraham Song, Geo History, "Four Reformers in Russia's Shock Therapy," April 4, 2016.
[130] Wikipedia, "Privatization in Russia." Downloaded on August 4, 2022.

executive MBA programs that last a year, or taken part in standard MBA programs that last two years. While the privatization process would have been delayed a little, the tradeoff would have been worth it. The enterprises would have been led by more knowledgeable leaders, and fewer companies would have collapsed, leading to lower unemployment and human suffering.

At the same time, the absence of well-thought-through rules for privatizing companies led to companies being sold for a song and the creation of immensely wealthy people. The resentment of the poor against the rich resulted in anti-democratic and anti-market pushback that almost led to the return of the Communists to power.

One of the most controversial privatization rules allowed banks auctioning companies to bid on the companies themselves. [131] This arrangement is not permitted in the West for apparent conflict of interest reasons. In Russia, it resulted in banks snapping the companies for a fraction of their values. As a result of the perceived injustice of privatization, the word ‘oligarchs’ became popular, and not in a good way, with people across various strata of Russian society. They used the term to describe the new group of business people who became rich mainly due to privatizing state-owned enterprises, regardless of whether they added value to them. Russian ultranationalists used the word ‘oligarchs’ as a swear word as they were campaigning before the parliamentary elections in 1993 that they ultimately won. The Communists did the same during the presidential election campaign in 1996, which their candidate, Gennady Zyuganov, almost won. In early 1996, six months before the elections, President Boris Yeltsin’s support was just 8%. [132] Despite being an incumbent, he was in fifth place and trailed the Communist candidate, who had 21% support. [133] If it were not for the support of the oligarchs, two of whom owned the most popular TV stations that supported Yeltsin with a barrage of TV ads, Mr. Yeltsin most likely would have lost the presidential election in 1996. [134]

The fear of potential nationalization caused by the societal tension due to the IMF-inspired reforms persuaded many wealthy people to move their newly acquired money outside the country instead of investing it in their new companies that badly needed investments. Ironically, the IMF reforms resulted in massive legal and illegal outflows of money from the country, significantly surpassing the overall loan amount received. Thus, *“over the span of the 1992-1999 IMF lending program, capital flight amounted to at least $45-50 billion each year between 1992 and 1998, vastly overshadowing the IMF’s $22.7 billion contribution”* over the whole period. [135] According to this estimate, from 1992 to 1998, $315-$350 billion left Russia, or 14-15 times more than the $22.7 billion the country received in the IMF loans. [136] *“As much as 30 percent of that capital flight occurred illegally.”* [137]

[131] William Easterly, The Penguin Press, “The White Man’s Burden: Why the West’s Efforts to Aid the Rest Have Done So Much Ill and So Little Good,” Page 64, 2006.
[132] Wikipedia, “1996 Russian Presidential Election.” Downloaded on February 14, 2023.
[133] Ibid.
[134] Ibid.
[135] William Easterly, The Penguin Press, “The White Man’s Burden: Why the West’s Efforts to Aid the Rest Have Done So Much Ill and So Little Good,” Page 64, 2006.
[136] Ibid.
[137] Ibid.

f. Fiscal Austerity – The IMF's Main Prescription Against Country Crises – Has Been Shown Not to Work, Yet It Is Still Used Widely: The IMF's struggles to help countries reform their economies were not unique to Russia. The Fund's spotty history of success in assisting countries to recover from financial crises was succinctly described by the title of a report written by the Council on Foreign Relations, *"The IMF: The World's Controversial Fire Fighter."* [138]

While the case of multiple policy mistakes in Russian privatization was a case of an individual country fiasco, the IMF's own findings that its austerity reforms were detrimental to countries that implemented them alluded to an almost universal problem. Austerity conditions were a part of practically all reform packages forcefully prescribed by the IMF to crisis-stricken countries.

The IMF has been heavily criticized for austerity reform packages imposed on crisis-stricken countries. For decades, the IMF has been known to impose fiscal austerity conditions (i.e., cutting salaries of public sector employees, cutting social programs, increasing taxes) and other conditions on countries desperate for loans to avoid defaults. Many top-level economists argued against the austerity measures. For example, *"in his 2002 book,* Globalization and Its Discontents*, Nobel Prize-winning economist Joseph Stiglitz denounced the fund as a primary culprit in the failed development policies implemented in some of the world's poorest countries. He argues that many of the economic reforms the IMF required as conditions for its lending – fiscal austerity, high interest rates, trade liberalization, privatization, and open capital markets – have often been counterproductive for target economies and devastating for local populations."* [139]

Despite the criticism, it took decades and the IMF's own research to change the Fund's stance on austerity. In 2013, the IMF admitted that it completely miscalculated government austerity's economic cost. In a 2013 blockbuster paper attacking the IMF's methodology, *"Growth Forecast Errors and Fiscal Multipliers,"* authored by Olivier Blanchard, the IMF's own Chief Economist, and Daniel Leigh, Head of the World Economic Studies division in the IMF's Research Department, the authors found that every $1.00 that governments cut from their budgets reduced economic output by $1.50. [140] Previously, the IMF forecast that for every $1.00 fiscal spending cut, economic output would be reduced by only $0.50 as the budget cuts decrease economic output (GDP). [141] In other words, the paper revealed that austerity hampered rather than helped economic growth. It is not surprising because, in developed countries, authorities stimulate their countries' economies during crises – regardless of their level of indebtedness – rather than cut wages and social security programs. No surprise there: wealthy countries try to increase spending during crises to stimulate their economies monetarily - by lowering interest rates, printing money (Quantitative Easing), or fiscally – by reducing tax rates, spending on infrastructure construction, or giving employers low-interest loans, often forgivable, for staying afloat and not firing people. For

[138] Jonathan Masters, Andrew Chatzky, and Anshu Siripurapu, Council on Foreign Relations, "The IMF: The World's Controversial Financial Firefighter," September 8, 2021.
[139] Ibid.
[140] Olivier Blanchard and Daniel Leigh, IMF, "Growth Forecast Errors and Fiscal Multipliers," January 2013.
[141] Remy Davison, The Conversation, "We Were Wrong: IMF Report Details the Damage of Austerity," January 9, 2013.

example, the US government distributed loans to small businesses via the Paycheck Protection Program (PPP), Economic Injury Disaster Loans (EIDL), SBA Debt Relief, and Shuttered Venue Operations Grants during the COVID-19 pandemic. [142] The purpose of the PPP loans was to *"help small businesses and non-profits keep their workers employed."* [143] At BBIS, we incentivize the management of large and medium-sized corporations in countries worldwide to do the same – keep their workers employed.

What has been surprising is that despite the findings of the IMF's own leaders, a 2020 research paper, *"IMF Austerity Since the Global Financial Crisis: New Data, Same Trend, and Similar Determinants*" by the Boston University's Global Development Policy Center showed the Fund continued to use austerity as one of the significant conditions for providing loans to countries with the balance of payments difficulties long after the Global Financial Crisis of 2007-2009 until at least 2018. [144] [145]

g. **Politics and Politicians Often Replace Professionalism and Professionals in Governments and Multilateral Lenders Distributing Financial Aid and Loans with Predictably Disastrous Results:** People at wealthy donor governments and multilateral organizations responsible for distributing financial aid are often politicians or political appointees who lack competence in the sovereign country analysis and lending. They distribute billions of dollars of aid or debt based just on the promises made by the governments of the crisis-stricken countries, especially if they like these *governments (see analysis of the IMF's 2018 loan to Argentina below).* Professional economists and creditors, who, through their experience, understood the principle that 'talk is cheap,' require the crisis-stricken countries' governments to show some successful reforms in addition to the promises as conditions for loans. The professionals are much more measured in determining the sizes of the loans and do not treat capital as a cheap and unlimited commodity.

As we analyze the IMF's 2018 loan to Argentina – the largest in the Fund's history – let's compare professionalism in lending to that in the medical and military fields. I would compare well-trained and experienced macroeconomists and creditors to surgeons and anesthesiologists. Trained surgeons and anesthesiologists performing complex surgery do not infuse the record amount of an anesthetic (medicine that puts a patient to sleep) or pain reliever simply because they have access to the medications. They determine the dose carefully, considering the patient's medical conditions, allergies, age, weight, and other factors. [146] The anesthesiologists also do not infuse the drugs all at once because the patient may not wake up, or the impact of the medicines may wear off during the surgery, requiring more medications, which the anesthesiologists would not have. Giving massive doses could also lead to adverse side effects during the operation (i.e., death) and after the operation

[142] USA Government, "COVID-19 Small Business Loans and Assistance," February 8, 2023. Below is the link to the website: https://www.usa.gov/covid-small-business-loans
[143] Ibid.
[144] Rebecca Ray, Kevin P. Gallagher, and William N. Kring, Boston University's Global Development Policy Center, "IMF Austerity Since the Global Financial Crisis: New Data, Same Trend, and Similar Determinants," November 2020.
[145] The Boston University researchers' dataset covered the period from 2001 to 2018. Rebecca Ray, Kevin P. Gallagher, and William N. Kring, Boston University's Global Development Policy Center, "IMF Austerity Since the Global Financial Crisis: New Data, Same Trend, and Similar Determinants," Page 7, November 2020.
[146] American Society of Anesthesiologists, "Anesthesia Risks." Downloaded on April 30, 2023.

(i.e., long-term memory problems, learning disabilities, or severe breathing problems). [147] Similarly, trained macroeconomics and creditors do not give all or most of the money to one country, diversifying their money meaningfully among many countries and controlling the sizes of each country in their debt portfolios.

I would also compare inexperienced, often professional, politicians to confident but not competent military commanders. As a military joke goes, "*There are no worse commanders than the ones who lack competence but want to impress their superiors with confidence. These commanders get their soldiers killed."* Politicians may not understand the risks of lending money to crisis-stricken countries. However, what professional politicians do not like the publicity of multiple cameras filming them signing the loan or a deal with confidence and panache? The bigger the deal, the better. Even when politicians understand the risks of a loan or a deal, they may still sign them. While the voters see the politicians' confidence today, potential adverse effects of the loan or a deal may happen years later when the politician may have a higher position, is out of office, or retired. Also, it is much easier to take risks with money that belongs to taxpayers rather than the politicians' family or firm. The Medicis, the Rothschilds, the Morgans, and many other family and non-family-based banking firms were and are conservative compared to the IMF politicians willing to give huge loans to countries that default often and with exuberance. Some politicians would do the right thing and would not sign on a bad loan or a problematic deal, but they are a minority. Still, I am grateful that this minority exists.

Compared with the public sector, in the private sector – on average – the consequences of a spectacularly wrong decision are usually prompt and negative. A person may be fired quickly, making people carefully think about their potential decisions, talk to specialists they can find within their firms and outside, and allocate resources to various initiatives carefully and gradually. If the initiative is not progressing as planned, its direction can be changed. The initiative can be canceled with relatively few resources lost. Also, not signing plans to pursue various initiatives in front of journalist cameras makes it easier for private sector executives to cancel them – they do not need to save face. Finally, private-sector firms tend to hire specialists with the required knowledge and expertise because the firms are subject to financial scrutiny by armies of analysts. At the same time, many governments and multilateral organizations do not face this scrutiny. Many governments have unbalanced budgets year after year. Multilateral organizations depend on multi-billion money inflows from member states, which usually come no matter what losses the organizations had during previous periods.

The IMF's loan to Argentina can be a cautionary tale of political considerations taking over the business and economic reality. In June 2018, the IMF, under the leadership of Christine Lagarde, then the IMF's Managing Director and now President of the European Central Bank, opened a $50 billion line of credit to Argentina. [148] In September, the lending program's size was increased to $57 billion. [149] The loan was *"backed by the government's promises to cut the budget deficit and strengthen the central bank in the hope of quelling inflation*

[147] Ibid.
[148] The Economist, "The IMF bashes the IMF over Argentina," January 8, 2022.
[149] Dave Graham and Nicolás Misculin, Reuters, "IMF Boosts Argentina Program to $57 billion in Bid to Halt Peso Slide," September 26, 2018.

and stabilizing the peso." [150] The lending program's size was the largest in the IMF's history. The giant problem was that Argentina had been a habitual defaulter of its debt. It defaulted eight times before 2018. [151] Giving money to Argentina was akin to leaving the family fortune to an alcoholic or a drug addict who just promised that he would not abuse alcohol or substances anymore but has not proven it by getting into rehab or doing something else, showing the intention seriousness.

The reason I am challenging the rationality of the IMF decision is not because it turned out to be wrong. Every investor and every lender with decades of experience makes investments in companies that go bankrupt or gives loans to countries or businesses that cannot repay them. Only a person who does not do anything does not make mistakes. But all good creditors and bankers diversify their investments and loans, especially when they deal with countries that are among the world's defaulting elite. Only an amateur who has not worked in allocating capital or an irresponsible gambler may give more than 40% of its credit to a serious defaulter *(see Exhibit 3 below).* Shockingly, the IMF did not appear to have any risk management or control techniques that it requires from countries it gives loans. Any person familiar with the history of the IMF loans to Argentina knew in 2018 that the Fund had given 20 loans to the country and could not change the country's macroeconomic situation for more than several years after most of the loans. Most of these loans did not last more than 24 months and had to be replaced by new loans. [152]

Instead of making Argentina implement macroeconomic changes and then reward it with smaller amounts of money for each implemented - not just discussed - reform, the IMF threw the largest amount of money into a barely working economy seriously dependent on foreign capital inflows. I do not think it was wise to give more money that, when aggregated, would add up to one-third of the country's quota to reflect Argentina's 'super-defaulter' status. However, the IMF gave a loan amounting to <u>three times</u> the country quota to the nation that, throughout its post-WWII history, either defaulted on loans or had to borrow again to service its previous loans via the loans' restructuring, also known as 'soft' defaults. *"The 2018 IMF loan authorization for Argentina was 1,227% of Argentina's country quota, whereas IMF normal lending limits would have been 145% of country quota for any twelve-month period and cumulatively 435% of country quota (net of repayments) over the length of the program. In other words, the 2018 IMF loan authorization for Argentina was almost three times greater than the normal cumulative limit of 435% of the country quota."* [153] It was especially unwise to give the loan while high inflation continued to hurt the Argentine economy before any macroeconomic reforms were implemented. But if you throw more money into a country suffering from high inflation, you are more likely to cause higher inflation without achieving anything positive. Not surprisingly, this simple logic predicted the reality in Argentina, where the country's government ran out of money and defaulted on its loans in less than two years.

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[150] The Economist, "The IMF bashes the IMF over Argentina," January 8, 2022.
[151] Hugh Bronstein and Rodrigo Campos, Reuters, "Argentina Looks to Rewrite History as Default No. 9 Looms," May 21, 2020.
[152] IMF, Argentina: History of Lending Commitments as of May 31, 2022. The link to the document is below: History of Lending Commitments: Argentina (imf.org).
[153] Steven T. Kargman, International Corporate Rescue, Chase Cambria Company (Publishing) Ltd., Volume 19, Issue 3, "Argentina's Latest Tango (or Tangle) with the IMF: The Deal That Almost Wasn't – Part One," Page 172, May-July 2022.

The mistake of the 2018 loan is especially tragic because the IMF already played a similar role during the previous multi-billion-dollar default in Argentina in 2001. In 1999-2000, Argentina borrowed heavily from private foreign lenders during the Presidential campaign. To convince voters to vote for him, President Carlos Menem, who presided over Argentina's near decade of financial stability, increased public spending in his quest to get a third term in office. [154] Argentina borrowed way too much. In November-December 2001, less than 24 months after the borrowing streak started, Argentina defaulted on $81 billion owed to foreign bondholders. [155] The IMF lost $22 billion, while the rest of the bondholders lost $59 billion. [156]

Almost two decades later, in 2020, in a surreal repeat of the default of 2001, Argentina defaulted on the IMF's record large loan that it received less than 24 months prior in 2018! On May 22, 2020, Argentina defaulted by failing to make a $503 million interest on dollar bonds issued under New York law. [157] While the country defaulted during the pandemic, the default was in the cards before it. [158] Investors, creditors, and political observers speculated that it would happen. For example, the Council on Foreign Relations published an article with the foreboding title*, "Argentina's Default Risk: What to Know,"* on September 23, 2019, before anybody knew about the COVID-19 pandemic. [159]

It is hard to understand how a rational person or an organization can give the largest loan to a country stumbling from one default to another throughout its post-WWII history. I tried to understand what motivated Ms. Lagarde to push the loan through the IMF's Executive Management Board. Maybe giving the largest loan was a mistake of a professional not trained in allocating resources. Ms. Lagarde is a lawyer rather than an economist or a financier by training. [160] Maybe she did not know the history of the Argentine defaults well known by international investors and creditors. It is possible, but even the general public, let alone international investment professionals who must know economic history, knows about Argentina's tendency to overspend and empty its treasury, after which it has no other way but to default on its obligations. The enchanting musical *"Evita,"* based on the life of Eva Perón, the wife of Argentine President Juan Domingo Perón, and created by Andrew Lloyd Webber and Tim Rice, showed that the couple spent so much and so quickly that they emptied the treasury. [161] Watch the video clip *"And the Money Kept Rolling In and Out,"* sung beautifully by Antonio Banderas. [162] During less than four minutes, you will learn about how indiscriminate and extravagantly high government spending, educational loan and mortgage

[154] William Easterly, The Penguin Press, "The White Man's Burden: Why the West's Efforts to Aid the Rest Have Done So Much Ill and So Little Good," Page 232-233, 2006.
[155] Ibid.
[156] Ibid.
[157] The Economist, "Argentina Defaults Yet Again, but Hopes to Get off Lightly," May 23, 2020.
[158] Andrew Chatzky, Council on Foreign Relations, "Argentina's Default Risk: What to Know," September 23, 2019.
[159] Ibid.
[160] Wikipedia, "Christine Lagarde." Downloaded on July 29, 2022.
[161] Wikipedia, "Evita (Musical)," Synopsis, Act 2. Downloaded on July 29, 2022.
[162] Andrew Lloyd Webber and Tim Rice, Evita Musical, "And the Money Kept Rolling In and Out," Performed by Madonna and Antonio Banderas, 1996. The link is below: Madonna - Evita - 14. And the Money Kept Rolling In and Out (1996) - YouTube

forgiveness, theft of government funds, and corruption during President Peron's time in office set Argentina on a path characterized by high spending, high indebtedness, high inflation, and frequent defaults.

Most likely, Ms. Lagarde knew all this but decided to take a risk because she felt she would get the credit for success if Argentina – against all odds – recovered from the crisis. However, somebody else would bear the cost – taxpayers whose contributions finance the IMF would lose the money – if Argentina could not pay. According to the Time News article *"The Christine Lagarde Case: From One Disaster to Another," "the speed with which this loan was developed and the exceptional bond that was created between her and Mauricio Macri, ex-president of Argentina, continue to be disconcerting. Because the 2018 loan was guaranteed under completely atypical conditions for the fund, with part of the [Executive] Management Board dissenting, however refraining from vetoing. Lagarde, who is not an economist, found herself in favor of a more heterodox approach, including societal components, essentially transgender inclusiveness and other woke concepts, but very little reform aimed at the stability of the currency."* [163]

We would have had no problems with the IMF's inclusiveness as long as the Fund concentrated first on its core task – achieving Argentinian currency stability. A part of the Executive Board, which consists mainly of trained economists, financiers, and business people – people whose expertise is better aligned with credit assessment and specifically sovereign loan analysis than that of their boss – disagreed with Ms. Lagarde in their evaluation of the merits of giving the largest loan to the troubled country, but stopped short of vetoing the loan. [164] [165]

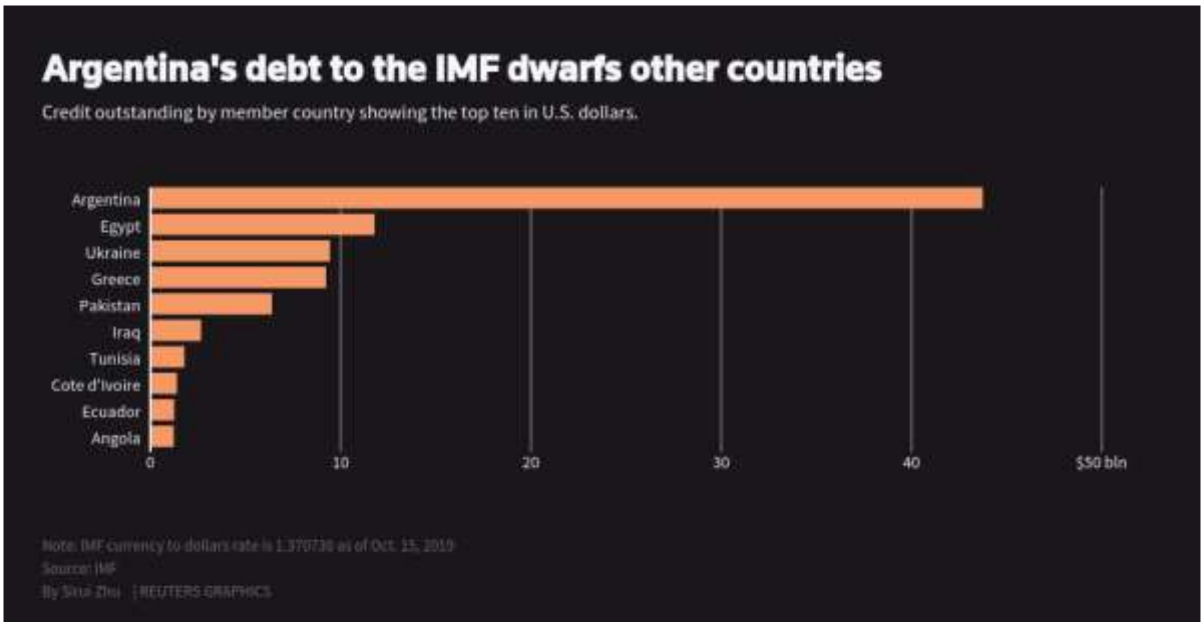
Some managers can be very impressive in running organizations and imposing their opinions – often not the most qualified – on their subordinates. According to the Financial Times article "*Lagarde's IMF Legacy Holds Clues to Her ECB Presidency," "After IMF staff reached a deal, some board members felt they had been bounced. "She engineered things very much in the way of a fait accompli, and the board couldn't decide anything but to go ahead," said one person familiar with the matter. "That was cavalier on her part."* [166] It is in human nature to use skills we have instead of those we need but do not have. As a talented lawyer and politician, Ms. Lagarde substituted her negotiation skills for the sovereign credit assessment skills she badly missed. It helped her pass the record loan to an elite defaulter through the Executive Board, whose role was to assess risks and stop any egregiously bad ideas from being implemented. Unfortunately, wishful thinking does not replace rational risk assessment and management, and the Board turned out to be incapable of stopping the blunder of a loan.

Giving such a disproportionately high amount of IMF funds to one country had another negative consequence. The IMF was limited in the amount of lending it could provide to other countries that badly needed its lending. By October 15, 2019 – before the COVID-19 pandemic heavily impacted countries' debt needs – the IMF had a total of $102.8 billion in credit outstanding, of which by far the most was extended to Argentina, with $43.9 billion

[163] Time News, "The Christine Lagarde Case: From One Disaster to Another," July 14, 2022.
[164] Ibid.
[165] IMF Annual Report 2018, "Building a Shared Future," "IMF Executive Directors List as of April 30, 2018," Pages 92-94.
[166] James Politi, The Financial Times, "Lagarde's IMF Legacy Holds Clues to Her ECB Presidency," August 30, 2019.

(42.7% of the total debt). [167] See *Exhibit 3* for the list of the largest recipients of loans from the IMF. [168] After Argentina, the next biggest were Egypt, with $11.8 billion (11.5%); Ukraine, with $9.4 billion (9.1%); Greece, with $9.2 billion (8.9%); and Pakistan, with $6.4 billion (6.2%). [169] And if we count Argentina's total approved loan of $57 billion, not all of which was drawn by October 2019, Argentina's portion increased to 55.4%. From the diversification perspective – or more from its lack – it makes no sense to give either 42.7% or 55.4% of the IMF loans to a serial defaulter that defaulted on its sovereign loans more than the overwhelming number of countries. It also does not make sense to give one country so much debt from a relative standpoint – Argentina's portion of the outstanding loans was 3.7 times (!) higher than Egypt's in the second place.

Exhibit 3. The IMF's Top 10 Largest Loan Recipient Nations, 2019.



Sources: Reuters, IMF.

Giving such a high percentage of loans to one country – especially with such shaky macroeconomic indicators as Argentina – was beyond cavalier; it was simply irresponsible. It is known *as 'taking risks while playing with other people's money,'* with an emphasis on *'playing.'* It shows that in allocating loans, the IMF took for granted the taxpayers' money provided to the Fund by the governments of the IMF member countries. Once again, a private sector investor or creditor who would make a mistake similar to Ms. Lagarde's would have been fired. Every investor knows about diversification and that investing a massive portion of their portfolio in one investment instrument or giving such a high portion of their portfolio to a single debtor, especially an investor or a debtor with a bad credit rating, is a horrible idea. However, in the international politics of the multilateral organizations and governments, the enormous mistake did not

[167] Megan Davies, Rodrigo Campos, Reuters, "The IMF in Figures: Debtors vs Creditors," October 18, 2019.
[168] Ibid.
[169] Ibid.

prevent Ms. Lagarde from getting the position of President of the European Central Bank, with not just billions but trillions under her control.

By the way, it was not the first time Ms. Lagarde was accused of negligence in dealing with public funds. In December 2016 – just over one and a half years before approving the IMF loan to Argentina – she was not just accused but convicted by a panel of judges in her native France for *"negligence by a person in position of public authority"* for a payout of €404 million ($429 million) as an arbitration award to businessman Bernard Tapie for the disputed sale of sports goods company Adidas. [170] Ms. Lagarde approved the payout when she served as a Minister of Finance in Nicolas Sarkozy's government in 2007. "*Accused of allowing the misuse of public funds, rather than actual corruption, she could potentially have been sentenced to a year in prison and a fine of €15,000, but escaped a sentence and emerges from the trial without a criminal record."* [171] In its verdict, the Court of Justice of the (French) Republic said Ms. Lagarde should have asked her aides and others for more information about the "*shocking arbitration award" that included damages of €45m."* [172] As at the IMF, in making an important decision that involved a colossal sum of taxpayers' money, Ms. Lagarde has not used the professional expertise of people who had it in the areas where she seemed to miss it sorely.

For me, the IMF's Argentinian debt fiasco shows that there were no appropriate checks and balances in the Fund as recently as 2018. The Executive Board did not challenge hard enough the extreme riskiness of allocating money proposed by its passionate leader, who unfortunately rose to the top of the world's 'lender of the last resort' not based on her economic, financial, or business acumen but by getting political support of her country's leadership, led by President Nicholas Sarkozy. The French leaders wanted to keep the job in the French hands after the previous IMF's Managing Director, Dominique Strauss-Kahn, quit amidst a sexual harassment scandal. [173] Unfortunately, as global history shows time and again, having political support is not the same as having the competence and the ability to succeed in a job – especially an important one. I hope it will not become customary for people with no medical education to perform surgeries, for people with no pilot certifications to fly commercial airplanes, and for people with no driving licenses to drive school buses with children. I hope hiring people without graduate education in economics or investing for positions at the top of the world's largest multilateral organizations will not become customary. There, the knowledge of and intuition in economics allows one to make independent and rational decisions involving millions, billions, or even trillions of dollars.

I also hope that the IMF's decisions under the guidance of Kristalina Georgieva, who replaced Christine Lagarde as the IMF's Managing Director on October 1, 2019, will be less political and more economically sound. [174] Ms. Georgieva has an impressive pedigree in economics, having studied the subject in her

[170] BBC News, "Christine Lagarde: IMF chief convicted over payout," December 20, 2016.
[171] Ibid.
[172] Ibid.
[173] James Politi, The Financial Times, "Lagarde's IMF Legacy Holds Clues to Her ECB Presidency," August 30, 2019.
[174] Wikipedia, "Kristalina Georgieva." Downloaded on July 29, 2022.

native Bulgaria at the University of National and World Economy, the London School of Economics, and the Massachusetts Institute of Technology (MIT). [175] She has written over 100 academic papers and even authored a microeconomics textbook. [176] However, changing large institutions such as the IMF and adding checks and balances (risk management) tools in the sovereign loan assessment process may be challenging. As the authors of the November 2020 paper *"IMF Austerity Since the Global Financial Crisis: New Data, Same Trend, and Similar Determinants"* by the Boston University's Global Development Policy Center stated, the IMF continued to treat countries applying for loans differently for more than a year after Ms. Georgieva assumed the top position in the Fund. [177]

Part 5: The Financial Mechanism for Achieving BBIS Goals

BBIS was founded with the goals of making money for our clients and helping crisis-stricken countries and their people recover from crises. By investing in equity ETFs of crisis-stricken countries, we make money when depressed stock market valuations increase to their long-term historical valuations or even often above them. We protect BBIS capital with two levels of diversification – among countries and within countries. Unlike many popular international and emerging market indices that allocate 15-30%+ of their weights to individual countries, we do not allocate more than 10% to most developed and emerging markets and more than 5% to frontier and riskier emerging market countries. Within each single-country ETF, BBIS money is diversified among dozens and hundreds of stocks. Both diversification among and within countries protects BBIS portfolios from devastating losses.

1. **Exerting Upward Pressure on Stock Prices That Are Positively Correlated with Corporate Investments:** We consider the firm's strategy to be the best for ending crises – BBIS' Goal 1 – in almost 50 countries, with at least one ETF representing their stock markets. By investing in countries via single-country ETFs, we can quickly infuse capital into stocks of all large and medium-sized companies in a country. We contribute to arresting stock price falls and stabilizing stock prices. Companies rarely expand operations and hire people when their stock prices decline significantly. More often, they fire people, thus exacerbating crises. When one company closes a division or lowers its production capacity across all divisions, the company's suppliers and buyers of its products are often forced to reduce their production capacity, laying off people and exacerbating crises. Tragically, this happens even in cases of well-managed and admired companies, when the reasons for crises have nothing to do with companies and crises originated in countries half the way across the globe. The uncontrolled and unpredictable destruction of companies' divisions, the whole companies, and their workforces is akin to an economic bomb going off in the countries' economies.

[175] Ibid.
[176] Ibid.
[177] Rebecca Ray, Kevin P. Gallagher, and William N. Kring, Boston University's Global Development Policy Center, "IMF Austerity Since the Global Financial Crisis: New Data, Same Trend, and Similar Determinants," November 2020.

When prices stabilize after a fall or start increasing, companies often focus on adding capital capacity by opening new production facilities and offices and, most importantly, from our perspective, hiring people. Like tree roots provide nutrients for healthy trees and prevent soil erosion, jobs sustainably raise countries' well-being and create a stable political and business environment in countries that dedicated efforts to attract them in the first place. Also, gainfully employed people are less likely to participate in riots, pogroms, terrorist acts, or wars! This lack of desire to destroy leads to stability not only within these countries but also outside of their borders.

Crises Lower Investments and Kill Jobs: The findings of an influential research paper by the Philadelphia Fed's Senior Economist Yaron Leitner, *"Stock Prices and Business Investment,"* confirm the observations about the link between falling stock prices and declining investments I made during conversations with CEOs and other top corporate managers while working at State Street Research & Management (now BlackRock) and Fidelity Management & Research and voraciously reading the financial press. The paper reads, *"Empirical evidence points to a link between the stock market and the amount of money firms spend on investment. A firm tends to invest more after the price of its stock increases, and it tends to invest less after the price falls. Investment could be in capital (for example, buying machines or buying a new plant) or in research and development (for example, developing a new drug)."* [178] Of course, both manufacturing and research and development activities require people to perform them, thus creating jobs.

Corporate investments of equity-dependent firms are more dependent on factors not directly reliant on the economic environment than investments of privately owned firms. A firm stock price reflects two factors: fundamental value and non-fundamental component. [179] The fundamental value is determined by the company's expected cash flows from operations. The non-fundamental factors impact the firm's price, but the firm's prospects do not define them. Investment sentiment is an example of a non-fundamental factor. Negative sentiment – especially during crises – pushes prices down, while positive sentiment pushes prices up. In their research paper *"When Does the Market Matter? Stock Prices and the Investment of Equity Dependent-Firms,"* Professors Malcolm Baker (Harvard University), Jeremy C. Stein (Harvard University), and Jeffrey Wurgler (New York University) have found that corporate investment of all firms is dependent on non-fundamental movements in stock prices. [180] However, corporate investment of equity-dependent firms – or firms that need external equity to finance investments – was most sensitive to non-fundamental movements. [181] By purchasing stocks during or after crises, BBIS aims to make the negative non-fundamental movements less powerful, thus leading to higher prices and investments. Once again, higher corporate investments lead to higher corporate employment.

During crises, managers often operate in a 'panic mode.' As the corporations' prices plummet due to macro crises – non-fundamental factors impacting stock prices that often have nothing to do with the corporations – managers

[178] Yaron Leitner, The Philadelphia Fed, "Stock Prices and Business Investment," Fourth Quarter, Page 12, 2007.
[179] Yaron Leitner, The Philadelphia Fed, "Stock Prices and Business Investment," Fourth Quarter, Page 14, 2007.
[180] Malcolm Baker, Jeremy C. Stein, and Jeffrey Wurgler, "When Does the Market Matter? Stock Prices and the Investment of Equity-Dependent Firms," The Quarterly Journal of Economics, Page 969, August 2003.
[181] Ibid.

are willing to save costs by closing facilities and implementing major employee layoffs. According to Forbes magazine, *"Conventional wisdom for management is that layoffs are a necessary evil during economic downturns. Often, stock prices will rise in response to layoff announcements. However, in the long term, layoffs tend to lead to decreases in stock prices."* [182] It often takes years to rebuild production capacity and workforce lost during the crises within months, weeks, and sometimes just hours.

In a panic mode, many corporate managers do not think about the long-term prospects of their companies. They try to alleviate the current (short-term) pain and stop their companies' stock price dives. Below are four reasons for managers to try to keep stock prices high. First, stock prices are a barometer of corporations' financial and overall health. Corporate managers want to show their corporations to be strong and well-managed. Second, high stock prices allow companies to attract inexpensive capital needed for corporate growth. Third, high stock prices also make companies more likely to acquire their competitors, often for their stock, rather than be acquired.

Finally, CEOs and top managers are personally incentivized to keep corporate stock prices high. Large portions of compensation packages of CEOs, other top managers, and members of the Board of Directors are often tied to the stock price performance. When stock prices rise, the corporations' top managers are more likely to receive salary increases and bonuses. Also, top managers and members of the Board of Directors often receive a significant portion of their compensation in stock options that allow them to buy corporate stock at a predetermined price. These options are valuable for the managers only when the current stock price exceeds the predetermined price of the stock purchases. Otherwise, the stock options expire worthless. The higher the stock price, the higher the managers' or Board of Directors members' compensation. If stock prices plummet, top managers' compensation can dive as well. In addition, the managers may be fired. Before anyone starts criticizing top managers for responding to incentives, please understand that all of us react to incentives. Devising the right incentives for corporate management is not a trivial task. It is a task worthy of winners of the Nobel Prize in Economics. The 2016 Nobel Prize in Economics was awarded to professors Oliver Hart (Harvard University) and Bengt Holmström (Massachusetts Institute of Technology) for their work on corporate incentives. [183] [184]

At BBIS, we aim to incentivize company managers to escape the 'panic mode' and return their focus to long-term corporate growth as before the crisis. Specifically, we want to nudge the managers to switch their mindset from closing corporate facilities due to their companies' stock prices plummeting to keeping their facilities intact. By contributing to stock price bottoming or even rebounding, we want to convince the managers to keep the corporate facilities and workforce intact or expand their operations and hire more people instead of firing existing employees. We aim to achieve this by helping stock prices bottom and rebound via our ETF purchases.

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[182] Q.ai - a Forbes Company, Forbes, "Intel Layoffs: Will Intel Stock Keep Going Up By Cutting Costs?" November 23, 2022.
[183] The Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel 2016, Press Release, "Oliver Hart and Bengt Holmström: The Long and the Short of Contracts," October 10, 2016.
[184] Kara Baskin, MIT Sloan School of Management, "In Nobel Prize Lecture, Lessons for Managing Employee Incentives," December 9, 2016.

BBIS' goal is not different from the goals of many Western countries' governments during crises. To avoid a vicious cycle of bankruptcies and unemployment, they stimulate economies to make it easier for companies to survive the periods when demand for their goods may be lower for some time. Governments realize that if left untreated or, even worse, if severe austerity measures are applied, the vicious bankruptcy-and-unemployment spiral ravages economies, killing healthy and well-managed companies that failed only because their suppliers and buyers failed. The companies may go bankrupt because they cannot finish building their products due to the lack of several parts previously sourced from bankrupt firms or because they cannot sell their products to now-defunct buyers.

Governments stimulate the economy through monetary policy measures – such as lowering interest rates to make money cheaper for businesses and individuals, or 'quantitative easing,' also known as printing money. From the fiscal standpoint, governments lower corporate and individual taxes to generate more economic activity. They also build infrastructure on a massive scale. The goal of the latter measure is to employ more people. That allows governments to generate demand for goods and services provided for infrastructure projects (i.e., construction materials, equipment) or purchased by people employed on these projects. The buying power of employed people is higher than that of unemployed people.

Sometimes, governments even give companies low-interest loans – often forgivable – for staying in business and not laying off employees. For example, the US government distributed loans to small businesses via the Paycheck Protection Program (PPP), Economic Injury Disaster Loans (EIDL), SBA Debt Relief, and Shuttered Venue Operations Grants during the COVID-19 pandemic. [185] The purpose of the PPP loans was to *"help small businesses and non-profits keep their workers employed."* [186] At BBIS, we incentivize the management of large and medium-sized corporations in countries worldwide to do the same – keep their workers employed.

One of the potential investors asked me recently, *"Do you think my $100K will make a difference in stopping a country crisis?"* I responded, *"At war against crises, as in a real war, very few things are guaranteed. But have you seen a movie where a police officer, a soldier, or another hero disables a bomb just several seconds before it explodes? Now imagine a situation when a corporation's CEO decides or is forced by the Board of Directors to close a facility if the stock prices drop, say, 30% from the peak or to a certain absolute value (i.e., $25.00 per share). Imagine that your investment allocation to this corporation's stock – made as a part of the BBIS investment portfolio in single-country equity ETFs - stopped the price fall at 29.98% from the peak or at $25.02. To be meaningful, your investment does not even have to stop the price decline but just slow it, allowing other investors to start buying the stock and increasing or at least stabilizing its price. Remember, many investors do not want to be the first to buy the falling stock, or what is called in investment parlance, 'catch a falling knife.'*

Moreover, your investment does not even have to be the first investment in the declining stock to put the stock on an upward trajectory. Somebody else can be the investor who caught the falling knife, but your investment can push

[185] USA Government, "COVID-19 Small Business Loans and Assistance," February 8, 2023. Below is the link to the website: https://www.usa.gov/covid-small-business-loans
[186] Ibid.

the stock up by 0.01%. This move could be enough for investors with much larger funds to start buying the stock. Many 'value' investors wait for a stock price to stabilize before they put millions and billions into it.

Your investment may be a proverbial butterfly whose wings' movements start a firm's – maybe even an entire country's – recovery from a crisis. Without its tiny wings, the stock price would have dropped by more than 30% or below $25.00, leading to the company's facilities closure and employees' layoffs. Even one facility closure by a company or the whole company's bankruptcy can start a domino effect of facility closures and bankruptcies of companies that supply their products to the troubled company or buy its products. These facility closures and bankruptcies would lead to workforce layoffs. Your investment – no matter how insignificant it seems – can prevent the arrival of the crisis' dreaded 'Unemployment' Horseman, whom other Crisis Horsemen would have joined soon.

Also, we are not planning to rest on our laurels. We are actively raising capital. The more assets we raise, the more effective BBIS' strategy is in ending crises in countries worldwide."

2. **Achieving Attractive Returns by Lowering Investment Risks with Two Levels of Diversification**: To earn attractive returns – BBIS' Goal 2 – BBIS manages portfolios built from the single-country equity ETFs of nations where equity valuations are (significantly) below historical averages at the time of purchase. BBIS' portfolios benefit when the ETFs' valuations revert to their historical average levels or above them. We often buy these ETFs during or shortly after economic, business, and political crises or where stock market valuations are low due to suppressed demand for goods or commodities exported by these nations. *Professor Paul Samuelson* of the *Massachusetts Institute of Technology* (MIT), one of the founders of the famed MIT Economics School and the first US Nobel Prize winner in Economic Sciences, once said that the stock market is "micro efficient" but "macro inefficient." [187]BBIS aims to exploit macro inefficiencies in stock markets' pricing by buying ETFs representing these countries when they trade at valuations impacted by fear and selling them when the valuations are inflated by greed.

We also focus on managing risks to avoid total or significant capital loss in investing in each country. We manage risks by performing political, macroeconomic, and other risk analyses before investing. For example, we would not invest in a country where an incoming president, who does not have strong political opposition, intends to nationalize companies, no matter how much we would like to help this country recover. As fighters in the war against crises, we would not leave our primary weapon – our capital – in the hands of people causing crises.

Even if we think that the risks of investing are justifiable, we diversify BBIS portfolios <u>within</u> and <u>among</u> countries. Single-country ETFs allow us to diversify <u>within</u> countries because they consist of dozens and hundreds of stocks. BBIS portfolios get protection against bankruptcies of individual companies that may have a disproportionately large weight in many portfolios of stock pickers – run by both professionals and amateurs alike. Not only equity portfolio

[187] Jeeman Jung and Robert J. Shiller, Cowles Foundation for Research in Economics Yale University, "Samuelson's Dictum and Stock Market," 2006.

managers but the general public remember the names of some companies that went bankrupt (almost) without warning:

- Yukos Oil Company (Russia) – The Russian government's interference bankrupted this leading oil company;
- Ecovix Shipbuilding (Engevix Construções Oceánicas SA) (Brazil) – This top-notch oil-extraction shipbuilder was caught up in a giant price-fixing, bribery, and political kickback scheme at Petrobras; and
- Enron Corporation (US), WorldCom (US), and Global Crossing Limited (Bermuda) – These firms revered for their business creativity and efficiency became victims of scandals in corporate accounting, one area where creativity is rarely welcome.

These bankruptcies may happen even more often in riskier stock markets of crisis-stricken countries. To help others, you need to stay alive and alert yourself. BBIS uses investment portfolios that we compared to sturdy catamarans in the *paper "Investment Lessons from Fishing: Building Portfolios from Single-Country Equity Exchange Traded Funds (ETFs)."* [188]

Our supporters understand that diversification <u>among</u> countries is essential because, historically, many countries and stocks that once seemed unsinkable sank or slowed their growth dramatically. For example, the Soviet Union was the second fastest growing economy (after Japan) from 1928 to 1970 before collapsing as a giant on clay feet in just two decades at the end of 1991. [189] Japan was the fastest-growing large economy in the second half of the 20th century before its growth slowed dramatically in 1991 and stayed low for at least three "Lost Decades" through the end of 2010s. [190] Its inflation-adjusted GDP grew by 5.7% per year for 30 years from 1962 to 1991. [191] But the growth dropped by almost 90%, to 0.7%, for the following 30 years from 1992 to 2021. [192] China's economic growth is expected to have slowed to the annual real (inflation-adjusted) GDP growth rate of less than 5% in 2022 and stay there after 31 years of the above 5% growth levels from 1991 to 2019. [193]

For the returns of BBIS portfolios not to be negatively impacted by the underperformance of several large countries – which can underperform for decades – we do not allocate money to funds benchmarked against broad-based international or emerging market induces. Instead, we use single-country ETFs to build portfolios and limit each country's weight to 10% of the portfolio weight as a maximum. For comparison, the weight of China in the MSCI Emerging Markets Index was 33.5% as of January 31, 2023. [194] The weight of the top five countries in the Index

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[188] Vitaly Veksler, Beyond Borders Investment Strategies, "Investment Lessons from Fishing: Building Portfolios from Single-Country Equity Exchange Traded Funds (ETFs)," July 31, 2017. Below is the link to the report: [Investment Lessons from Fishing: Building Portfolios from Single-Country Equity Exchange Traded Funds (ETFs) - Beyond Borders Investment Strategies (bbistrategies.com)]
[189] Robert C. Allen, Department of Economics, The University of British Columbia, "The Rise and Fall of the Soviet Economy," Canadian Journal of Economics, Vol. 34, No. 4, Page 3, November 2001.
[190] Wikipedia, "Lost Decades." Downloaded on February 14, 2023.
[191] The World Bank Data Bank, "Japan Constant GDP Measured in the 2015 US Dollars." Downloaded on February 28, 2023.
[192] Ibid.
[193] The International Monetary Fund, World Economic Outlook, "Real GDP Growth (Annual Percent Change)," October 2022 Database.
[194] MSCI, "MSCI Emerging Markets Index" Fact Sheet, January 31, 2022.

(China, Taiwan, India, South Korea, and Brazil) was 77.9%, with the weight of the four largest countries (China, Taiwan, India, and South Korea) being 72.7%. [195] Suppose something happened to one or several of these countries (i.e., military confrontations, or even threats thereof, between China and Taiwan, China and India, North Korea and South Korea, or the Brazilian government's consideration of nationalizing some companies working in Brazil). In these cases, the value of the index and funds closely following it would have plunged. It would not have mattered what happened in the other 19 countries in the index because the average weight of their positions was less than 1.2% per country. [196] Also, limiting the weight of our investments in large countries provides us with another benefit. It allows us to allocate more money to smaller countries, which can offer excellent risk/return combinations that may be better than those of large countries but are often overlooked by portfolio managers in large investment firms.

3. **Crucial Safety Features:** Our investment style includes two critical safety features. The first one is intended to save investors' capital from being stolen, while the second one is intended to protect the cohesion of crisis-stricken countries and prevent them from exploding from within as they try to recover from crises.
   a. **No Cash is Sent to Crisis-Stricken Countries' Governments, So It Would Not 'Stick' to Their Hands:** Unlike the multilateral organizations, foreign governments, and charities, we do not send the money to crisis-stricken countries directly where it can be misallocated or stolen even during regular times, let alone crises. We infuse capital in corporations' stocks, contribute to stopping their price declines, enable corporations to invest in new factories or offices – at least not to close the existing ones – and create conditions for adding new jobs or protecting existing ones. We believe that investing in stocks of all public companies in stock indices of crisis-stricken countries is the most efficient way of ending crises and creating jobs that allow countries to recover from crises and not regress into them.
   b. **Equal Opportunity Investing is Key to Returning Economic Prosperity and Social Stability:** During and after crises, nations are like powder kegs from a social perspective. Most people become much poorer than before the crisis; some cannot even feed their families. Sometimes, governments succumb to the tendency of helping only certain groups they feel closest to based on ethnicity, race, religion, or any other identity characteristic by funneling resources (i.e., money, investments, or foreign aid) to these groups at the expense of others. While understandable, this faulty strategy does more harm than good. The resource transfers to favored groups make it more difficult for these nations to emerge from their crises. Any money transfers favoring some groups lead to resentment and negativity, often deepening societal divisions and strengthening inter-communal hatred. These transfers move societies in the direction opposite to the societal unity and goodwill needed for economic and social recovery. In these cases, the governments may lose not only the respect of the 'unfavored' citizens but their support as well. The lack of respect for the government among citizens may lead to social explosions, social polarization, and other negative consequences. At the very minimum, citizens from the 'unfavored' groups would not protect the government's property and steal or destroy it given a chance.

[195] Ibid.
[196] Ibid.

In contrast, BBIS' investments are totally transparent and do not involve any favoritism. During crises, all groups suffer in different ways. When we invest via ETFs, we are not trying to invest only in companies based on ethnicity, nationality, religion, color, race, gender, caste, age, or any other characteristics of the companies' owners or a majority of employees. The impact of BBIS strategies on crisis-stricken countries' economies is widespread, and we achieve it by treating people on an equal opportunity basis.

Part 6: Easy Way to Join Our Movement

As a boutique investment firm, we must focus on increasing the firm's assets under management to reach long-term sustainability. For this reason, our minimum investment is $100,000 for individual investors or $1,000,000 for institutional investors, including family offices, endowments, and foundations. Please contact us if you can and want to allocate this money to BBIS. You will be able to join our movement in three easy steps:

1. Reach out to BBIS at **info@bbistrategies.com**;
2. We will guide you through the account opening process at Interactive Brokers, a low-cost but high-performance broker that we use; and
3. Transfer funds to the accounts.

We will start managing the money on the first day of the month after we receive it. For example, if we accept the cash on September 16, we will start managing it and measure performance on October 1 (if it is a trading day) or the following day or two when trading begins.

We would love new investors to join our movement. The more money we have under management, the higher the positive impact of BBIS' strategies on crisis-stricken countries is. So, please consider joining us in 2023.

Part 7: If Helping Crisis-Stricken Countries is Important to You, Invest with Us and Avoid Regrets Later

If you agree with the phrase, "*The only thing necessary for the triumph of evil is for good people to do nothing,"* please consider investing with us. Your contribution will make a difference in the fight against crises. If helping people in crisis-stricken countries is important to you, you would avoid regrets that you were a mere bystander when your help could have defeated the evil forces of crises.

A potential client recently talked to me about why he would like to invest with BBIS and expressed his biggest regret if he did not invest with BBIS. With his permission, I am leaving the language in the dialogue format based on my recollection after the conversation. If you feel the same, please consider investing with BBIS.

This potential investor asked me, *"You know why I want to invest with BBIS."* I answered, *"Of course."* He continued, *"I believe that jobs end crises, and creating jobs is primarily the private sector's job. Governments should maintain business-friendly regimes by creating laws and regulations and keeping taxes in check. But governments should not be the main drivers of job creation. Companies should. BBIS' approach of incentivizing companies to protect and create jobs by impacting their stock prices makes sense to me.*

You also convinced me that you are serious about your company mission when you told me that you put more than 90% of your money into the strategy and did not take it out even when the going was tough, and for a while, you were not getting any clients.

I care about ending crises because I have seen what they can do to people myself and heard about their impact from you and other people. I am lucky that I worked hard, became financially successful, have enough money for my family, can help my children, give to charities, and would still have money left. I have never heard about a strategy like that of BBIS. But as I said, it makes sense to me. I was very upset when my money was wasted on maintaining corrupt politicians' lifestyles rather than helping ordinary people survive the crises.

My biggest regret would be not giving you some money to manage. I want to help people who need jobs to put food on the table rather than allow that president's son buy the twentieth luxury vehicle for his collection or another palace in a fancy place."

The last two sentences referred to the son of the President of Equatorial Guinea, Teodoro Nguema Obiang Mangue, known as Teodorin, whose mind-boggling collection of cars and palaces we discussed before. According to the article *"Equatorial Guinea: President's Son Convicted of Laundering Millions"* by Human Rights Watch, *"In 2012, the US Department of Justice calculated that Teodorin had spent $315 million around the world between 2004 and 2011 on properties, cars, and luxury goods. This is nearly a third more than the Equatoguinean government's annual spending on health and education combined in 2011... At the time, Teodorin was the country's agriculture minister, earning an official annual salary of less than US$100,000."* [197] Even if he received a bonus every year and his salary was $100,000, he would need 3,150 years, or 31.5 centuries, to accumulate the funds he invested over eight years. No humans live that long!

Shockingly, despite the information on the Obiang family's world-class corruption level, the IMF's Executive Board approved a $282.8 Million Three-Year Extended Fund Facility Arrangement for Equatorial Guinea on December 18, 2019. [198] The IMF added a $67 million loan for Equatorial Guinea on September 29, 2021, despite the open disapproval of the United States, United Kingdom, Canada, and Germany. [199]

[197] Human Rights Watch, "Equatorial Guinea: President's Son Convicted of Laundering Millions," October 29, 2017.
[198] The International Monetary Fund, Press Release: "IMF Executive Board Approves US$282.8 Million Three-Year Extended Fund Facility Arrangement for Equatorial Guinea," December 18, 2019.
[199] Eric Martin and Katarina Hoije, "US, UK Signal Disapproval of IMF Aid to Dictator-Led Nation," September 29, 2021.

Part 8: What Success Means to Our Supporters

There are many ways to make money. As any investment manager, BBIS cannot promise you positive performance every month or quarter. There will be months when we buy equity ETFs of countries that may continue going down. However, we can guarantee that your money will be invested in a way full of meaning: every month, it will work on ending crises and their aftershocks in countries worldwide.

We have been lucky to attract supporters who share our mission of helping crisis-stricken countries, their companies, and people to recover from crises. Our supporters share the meaning of what we do. They care not only about earning returns on their money but also about protecting and creating jobs in crisis-stricken countries. These jobs feed parents who would not have to sell their organs to provide for their families or give up their kids for adoption. These jobs provide income to women who would not have to get on a panel to earn a living. These jobs give youths a much better alternative to joining gangs and killing or terrorizing each other and other people. The jobs enable men and women to provide for their parents in countries with weak social protection nets. Through taxes on these jobs, countries can take care of their senior citizens by paying them pensions that would provide them with dignified lives rather than reducing them to living in fear of death from hunger. By investing with BBIS, you would be transformed from just an investor to a big-hearted superhero who comes to the rescue of people in crisis-stricken countries worldwide.

Please let me know if you have any questions about BBIS or the firm's investment strategies, would like to be on our publication distribution list, or want to invest some funds with BBIS.

Thank you.

Best regards,

Vitaly Veksler, CFA
CEO & Portfolio Manager
Beyond Borders Investment Strategies, LLC
vveksler@bbistrategies.com

Appendix A. Public Sector vs. Private Sector as Percent of Total Employment

	Countries	Year	Public Sector as Percent of Total Employment	Private Sector as Percent of Total Employment
1	Singapore	2021	2.6%	97.4%
2	Colombia	2021	3.9%	96.1%
3	Taiwan	2021	5.1%	94.9%
4	Nigeria	2019	5.9%	94.1%
5	India	2022	6.4%	93.6%
6	Pakistan	2021	7.3%	92.7%
7	Japan	2020	7.7%	92.3%
8	China	2021	7.9%	92.1%
9	Peru	2021	8.1%	91.9%
10	Indonesia	2022	8.7%	91.3%
11	South Korea	2020	8.8%	91.2%
12	Philippines	2021	9.4%	90.6%
13	Thailand	2021	9.6%	90.4%
14	Qatar	2020	10.0%	90.0%
15	United Arab Emirates	2021	10.2%	89.8%
16	Germany	2020	10.9%	89.2%
17	Netherlands	2020	12.0%	88.0%
18	Mexico	2021	12.2%	87.8%
19	New Zealand	2015	12.4%	87.6%
20	Brazil	2021	12.4%	87.6%
21	Chile	2021	13.1%	86.9%
22	United States of America	2022	13.4%	86.6%
23	Italy	2020	13.6%	86.4%
24	Turkey	2020	14.2%	85.8%
25	Malaysia	2020	14.5%	85.5%
26	Portugal	2020	14.8%	85.2%
27	Vietnam	2021	15.2%	84.8%
28	Ireland	2020	15.5%	84.5%
29	South Africa	2021	15.6%	84.4%
30	Hong Kong	2022	15.8%	84.2%
31	Switzerland	2021	16.0%	84.0%
32	United Kingdom	2020	16.4%	83.6%
33	Spain	2020	16.4%	83.6%
34	Austria	2020	17.2%	82.9%
35	Poland	2020	17.7%	82.3%
36	Belgium	2020	18.5%	81.5%
37	Kuwait	2016	18.6%	81.4%
38	Argentina	2021	19.3%	80.7%
39	France	2021	20.3%	79.7%
40	Egypt	2021	20.5%	79.5%
41	Canada	2020	21.9%	78.1%
42	Greece	2020	22.2%	77.8%
43	Finland	2020	25.2%	74.8%
44	Denmark	2020	27.9%	72.1%
45	Australia	2020	28.9%	71.1%
46	Sweden	2020	29.4%	70.6%
47	Norway	2020	30.7%	69.3%
48	Saudi Arabia	2018	31.0%	69.0%
49	Israel	2021	32.0%	68.0%
50	Average		15.3%	84.7%

Sources: International Labor Organization (ILO), Organization for Economic Cooperation and Development (OECD), China - National Bureau of Statistics of China, Hong Kong - Census and Statistics Department of the Government of the Hong Kong Special Administrative Region, and Taiwan - The Examination Yuan of ROC.

Appendix B. The Firm's Leadership

Vitaly Veksler founded Beyond Borders Investment Strategies (BBIS) in 2014 and serves as the firm's CEO and Portfolio Manager. He is an investment management professional with over 20 years of experience. Throughout his career, Vitaly has specialized in identifying global and country-specific macroeconomic, geopolitical, business, and investment trends and translating these trends into individual investment selections and asset allocation decisions for global multi-asset class portfolios.

At BBIS, Vitaly manages Global ex-US and Emerging & Frontier Markets Country Value Equity portfolios built from single-country Exchange Traded Funds (ETFs) of developed, emerging, and frontier countries. Vitaly talked about the firm's investment strategies and discussed the emerging market, global investing, and impact investing topics at such thought-leading industry organizations as CFA Society Boston, Asharq / Bloomberg News (a Middle Eastern affiliate of the Bloomberg News), and such top universities as Harvard, Boston University, Tufts, Cornell, and MIT. Articles by and interviews with Vitaly have been published on ETF.com, Yahoo Finance, Fidelity.com, QProb (quantitative investment blog), Harvest (digital marketing platform connecting investors with financial firms), SovereigNet (an interdisciplinary network at Tufts University's Fletcher School dedicated to the study of sovereign wealth management and its impact on global capital markets), The Investors Podcast (with its motto "We Study Billionaires"), Finding Unique Value Podcast, and Advisors Perspectives (a publication for registered investment advisors, wealth managers, and financial planners).

Vitaly founded BBIS after living through a devastating economic and hyperinflationary crisis that hit all fifteen former Soviet republics after the collapse of the USSR. He observed people's suffering in three republics: Russia, Ukraine, and Moldova. Well-meaning Western governments and multilateral organizations sent billions of humanitarian aid to the republics. Still, most of it was stolen, misallocated, or used up for short-term relief, with the countries' populations needing more relief shortly. He had seen that the crisis abated and ended only when investments – especially foreign – started flowing into the republics. The investments created jobs that ended the crisis and made countries – with more skilled workforces - more resilient to any future crises. Having seen the incredible power of investments, he started BBIS to invest in stock markets of crisis-stricken countries worldwide to help them recover and earn attractive returns for BBIS investors who provided capital for this noble cause.

Before BBIS, Vitaly was Vice President at BNY Mellon Asset Management (BNYM AM). There, he authored highly successful quarterly Global Economic & Market Outlook reports. Before Vitaly worked on them, clients asked to take their names off the distribution lists, saying that the reports were full of financial jargon that was not easy to decipher and were plainly boring. Vitaly completely changed the format. He included discussions of significant economic and political events that clients could see on TV or read about in the media and explanations of how these events impacted portfolio asset allocation. He initially distributed the reports only to BNYM AM's largest multi-billion institutional clients. Later, after the reports got raving reviews from the clients and top management of BNY Mellon – BNYM AM's parent organization that employed 48,000 employees worldwide in 2010 – they were distributed to all institutional and private clients of BNY Mellon worldwide as examples of BNY Mellon's thought leadership in asset allocation. [200]

As part of BNYM AM's internal consulting group, Vitaly also focused on answering challenging questions about the global and emerging investing topics posted by the company's largest institutional clients. Among other high-profile projects, he co-developed a new framework for thematic investing in emerging market equities and co-authored an influential paper about the framework featured in the highly regarded Chief Investment Officer Magazine. Before BNY Mellon, Vitaly worked on the Technology equity team at Fidelity Management & Research, the equity research group of Fidelity Investments, and the top-ranked Energy equity team at State Street Research & Management (now BlackRock). Vitaly analyzed business, economic, and political trends affecting global public equities, identified global companies' stocks that benefitted from these trends, and published more than 200 reports on these topics.

Vitaly is a CFA charter holder, served on the CFA Society Boston's Board for three years, and led the society's Economist & Strategist Program Committee for seven years. He received his MBA degree from The MIT Sloan School of Management, his Master of Arts in Law and Diplomacy (MALD) degree with a concentration in International Finance from The Fletcher School at Tufts University, and his Diploma (BS and MS degrees combined) in Management Information Systems and Artificial Intelligence from Moscow Technical University (MIREA).

The firm's **Board of Advisors** includes **Lawrence F. Pohlman, Ph.D.,** and **Patrick J. Schena, Ph.D.**

Larry Pohlman has a distinguished career covering more than 30 years of equity, fixed income, and asset allocation. He's a successful player and coach recruiting, managing, and mentoring teams of researchers while personally pursuing state-of-the-art research. In addition, Larry is a skilled presenter of complex quantitative and analytical aspects of investment strategies to clients at various levels of expertise. He regularly speaks at professional conferences and is widely published in prominent journals.

Currently, Larry is the Director of Research at Adaptive Investment Solutions and a Partner at NP Investment Research. Previously, Larry was the Chief Investment Officer at BNP Paribas Quantitative Strategies. His team managed $3 Billion in global quantitative equities and minimum volatility strategies. Before BNP, Larry was responsible for the Quantitative Investment Group at Wellington Management. He and his team developed Wellington Management's quantitative models for a wide range of styles, including US and International securities. His team also managed $26 Billion in pure quantitative portfolios. Before joining Wellington, Larry was the Director of Research at PanAgora Asset Management, where he was responsible for overseeing all research, development, and enhancements to PanAgora's quantitative models covering $12 Billion. He also co-chaired PanAgora's Investment Committee. Prior to joining PanAgora, Larry was a Senior Vice President and the Director of Fixed

[200] Macrotrends, "Bank of New York Mellon: Number of Employees 2010-2023 | BK." Downloaded on April 30, 2023.

Income Research at Independence Investment Associates. Before that, he was a Vice President at Blackrock Financial Management, where he worked in their portfolio engineering group. Prior to that, Larry was an Associate in Mortgage Securities Research at Goldman Sachs & Co.

Larry holds five degrees from Columbia University: Ph.D. and Master of Philosophy in Finance, MBA in Finance and Management Science, MS in Operations Research, and BS in Nuclear Engineering. He is a member of the American Finance Association, CFA Society Boston, Econometric Society, Chicago Quantitative Alliance, and MENSA.

Patrick Schena is the Co-Head of SovereigNet, The Fletcher Network for Sovereign Wealth and Global Capital at the Fletcher School, Tufts University, where he works as an Adjunct Assistant Professor of International Business Relations. SovereigNet is an interdisciplinary network dedicated to studying sovereign wealth management and its impact on global capital markets. SovereigNet's mission is to advance research, advisory leadership, and education on a sovereign state's role as an institutional investor.

Professor Schena is also a Senior Fellow of the Council on Emerging Market Enterprises at The Fletcher School. Also, he is an Associate-in-Research at The Fairbank Center for Chinese Studies at Harvard University. Patrick Schena has 30 years of experience in finance, operations, and technology management focused on investment management. He was formerly a Principal, leading the delivery of the Investment Management Services practice at Genpact-Headstrong Corp., a global provider of outsourcing services. In addition, Patrick Schena has participated in and cofounded two firms providing technology and operations services to investment managers. He holds a Ph.D. from The Fletcher School and additional graduate degrees from The Fletcher School and Boston College.