

IDB AMERICA

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November–December 1998



Two families, two futures

Tracing the origins of inequality

VIEWPOINT

1 Democracy and women's participation

FOCUS

2 Two families, two futures

Tracing the origins of inequality

6 What can be done about inequality?

8 Education: the Gordian knot

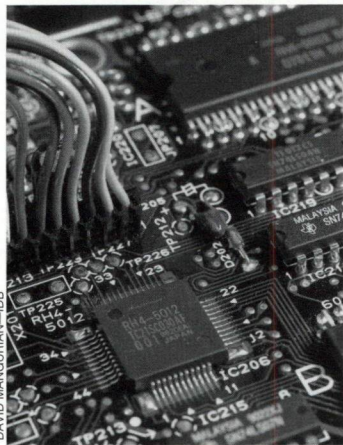
NEWSBEAT

10 Will they fix the millennium bug?
Time is running out

12 Women demand more leadership

THE BANK IN ACTION

13 A school for Pahuacal



The first day of the next millennium could spell trouble for millions of computers, and Latin America is likely to suffer unexpected consequences. See article on page 10.

NEWSBEAT

14 A village that works with nature

16 Free trade talks begin in Miami

THINKTANK

18 Crisis and contagion: the search for a cure

20 Export promotion in the age of globalization

FIGURATIVELY SPEAKING

21 A yardstick for misfortune

EXPRESSIONS

22 Latin America in black and white

23 Nothing musty about old music

PROJECT NEWS

24 Updates

25 New projects

26 Latest approvals

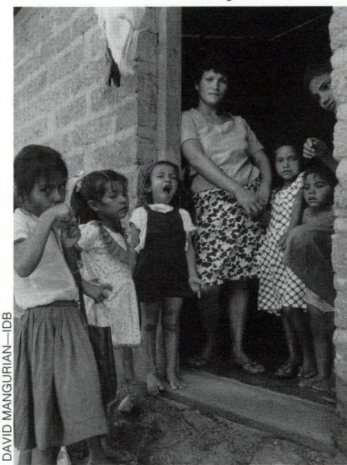
PROTAGONISTS

29 Reason for smiles in Ecuador's blue city

THE COVER

Why so unequal? Everyone knows that the gulf between rich and poor is exceedingly wide in the nations of Latin America and the Caribbean, and everyone thinks they know the reason why. But an in-depth study by IDB researchers indicates that the causes of inequality are not always what they seem to be. See story on page 2.

—IDB Photo by Willie Heinz.



EDITORS' NOTEBOOK

Remember her?

EARLIER THIS YEAR, YOU MET this perky Ecuadorian schoolgirl on our subscription renewal card. We now want to thank you for contributing to a renewal request rate that far exceeded our expectations. We know that dozens of publications are vying for your attention, and we're grateful that you choose to spend time with us.

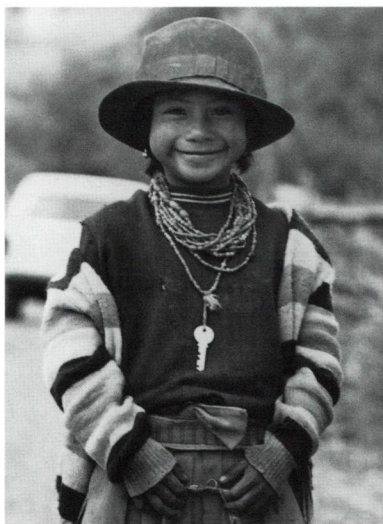
Beyond the size of the response, we were struck by the large number of electronic replies from our Spanish-language subscribers—more, in fact, than from English-speaking readers. This was good news for us because for some time we have included website information with many of our articles, assuming that a growing number of our readers in Latin America are plugged into the World Wide Web.

Along with updating our

distribution list, we have spent the last few months making some editorial and production changes. We've added an occasional column devoted to dissecting development buzzwords, and one that will highlight noteworthy studies and reports posted on the Bank's website.

Inside the back cover you'll find "Protagonists," a new column that will profile innovative and trend-setting individuals from across the region. We have expanded our coverage of cultural topics and newly approved IDB-financed projects, and are increasing the use of color where warranted by the subject matter.

We also have changed our frequency of publication to bimonthly, increasing the



Off to school.

number of pages to give us more room for in-depth coverage of priority topics.

We're always looking for the stories behind the news. If we're missing something, please write and tell us.

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“Others simply eat the leaves off trees.”

From a Nov. 3 report in La Prensa, a Honduran daily, on the plight of survivors stranded for days in tree-tops and on roofs by flooding caused by Hurricane Mitch.

“It took us decades to rebuild after Hurricane Fifi, and just as we were glimpsing a better future, we get an even worse punishment.”

From a Nov. 6 editorial in Honduran daily La Tribuna, referring to the 1974 storm that killed 10,000.

“I couldn’t keep away from it.”

Rick Johnston, a manager at Offitbank Emerging Markets Fund, quoted by Bloomberg News on Oct. 19. Johnston was referring to his decision to buy Latin corporate bonds whose yields have soared as high as 20 percent in the wake of the Asian financial crisis.

“After so many decades of each side trying to win the wars, today the two countries together are winning peace.”

Ecuadorian President Jamil Mahuad, in an Oct. 27 Washington Post story on the treaty that ended his country’s border dispute with Peru.

“We must continue to free ourselves of our prejudices, to overcome traumas that have been generated over more than half a century.”

Peruvian President Alberto Fujimori, in an Oct. 27 New York Times article on the same subject.

“Each generation has to learn for itself.”

Georges Blum, chairman of the Institute for International Finance, quoted Oct. 5 in the Financial Times. He referred to the abundance of bank executives and stock traders too young to have ever experienced a prolonged market downturn like the one in progress.

Democracy and women’s participation

By HILLARY RODHAM CLINTON

HOW DO WE ENSURE THAT democracy and free market economies produce better lives for all people, especially the poor and the marginalized?

We believe that a nation’s progress depends on the progress of women; that the strength of democracy depends on the inclusion of women; that the vibrancy of an economy depends on the hard work of women; that the richness of civil society depends on the full participation of women; that human rights are women’s rights; and women’s rights are human rights.

There is a very important report that was completed recently by the Women’s Leadership Conference of the Americas that details the progress and the challenges that still face women in the Americas. This report confirms that while many governments, organizations and individual citizens acknowledge the importance of women’s participation, women are still blocked from going as far as their talents would take them.

Progress has been made. More and more countries require a minimum level of women’s participation in local and national elections. Others have created agencies to promote women and family policies. Some programs are now seeking to increase the pool of qualified women to compete for leadership positions.

But we all must do more to make sure that political parties are fair to women and include them in electoral lists, that governments seek out qualified women and give them opportunities to serve. We will all benefit if more women assume positions of political responsibility.

The second challenge is strengthening the rule of law. There is, of course, general agreement in polite company that women deserve equal rights under law. But there are still laws in the Americas that deny women equal rights. I have always believed that the job should be suited to the person. For example, many women cannot lift heavy objects, but some women

shrined in all of our countries. We need more women lawyers, more women judges, more women prosecutors.

Our third priority is opening up economic opportunities for women. Women cannot earn good incomes for themselves and their families and fulfill their god-given potential if they are not educated or if they are held back by poor, or unavailable or substandard health care.

So we must do everything we can to ensure access to education for girls and women and to make available quality health care throughout the hemisphere. The economy of the 21st century will be unforgiving for those who are not educated and not healthy and able to make their way.

We also have to face up to continuing wage discrimination against women.

And women who work in the informal sector, as many do, have no job benefits and no security.

We must look for ways to get more capital and credit into women’s hands. I would again issue a plea to commercial banks and other potential funding sources to look at the success of microcredit as a tool for creating market activity at the grassroots level, giving more people a stake in the free market.

Now, where does this leave us? I hope that we are building on the progress so many of you have begun. I hope we are producing real partnerships that will strengthen democracies and improve lives of women throughout the Americas.

—The writer, the United States first lady, presented the keynote speech at the Vital Voices of the Americas: Women in Democracy Conference, co-sponsored by the U.S. government and the IDB in Montevideo, Uruguay, on Oct. 3. This article was adapted from her address.



DAVID MANGURIAN/IDB

Latin America needs more women doctors, lawyers, judges and prosecutors

can. If they qualify, they should be permitted to compete for those jobs.

The larger problem is that on paper we have equal rights, but they are not enforced. We have to do much more to institutionalize the rule of law in the Americas, with an independent judiciary, with due process. We know we will have achieved that goal when a poor, indigenous woman is able to walk into a court and demand the same rights as every other person.

I would hope that by opening up the legal system to more women judges and women prosecutors, women will make sure that women’s rights are respected and the rule of law is en-

Two families, two futures

Tracing the origins of inequality

By PAUL CONSTANCE

THE ALTAMIRAS ARE RICH. THEY LIVE IN A luxurious eight-room apartment in an exclusive section of a large Latin American city.

The Bajareses are poor. They live in a one-room shack on a hillside with no electricity, no potable water and no paved roads.

Anyone raised in a Latin American or Caribbean country is familiar with these two fictional families. Everyone knows that the gap in their incomes—and in their overall prospects—is huge. After decades of studies on the topic, people are no longer surprised to hear that the region has the world's worst income disparities.

Inequality is so ubiquitous that it can be tempting to dismiss it as an obvious problem with obvious solutions. Many people assume that inequality is a reflection of underdevelopment, and that the only way to reduce the gap between rich and poor is to improve a country's social and economic conditions.

But is the problem that simple? Do we really understand the origins of inequality and how it is perpetuated? The 1998–99 edition of the IDB's report on social and economic progress in the region, *Facing Up to Inequality in Latin America*, summarizes an unprecedented effort to answer those questions. IDB researchers analyzed responses to questions about income, education, age, occupation and other factors that were gathered in thousands of households between 1994 and 1996. The surveys cover 14 countries that account for more than 80 percent of the region's population.

By processing data from the surveys, researchers were able to paint an unusually detailed portrait of typical families at each level of the wealth spectrum. The picture that

emerges of the Altamiras and the Bajareses, who are used as composites to represent characteristics of the wealthiest 10 percent and the poorest 30 percent of the region's families, defies many popular stereotypes. Indeed, it shows that understanding inequality requires a much closer look at the confluence of economic and institutional factors, personal decisions, cultural influences and gender roles.

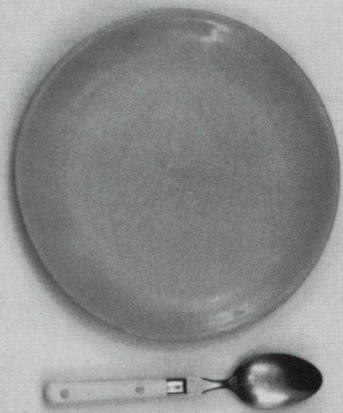


■ **For the Bajares family, life is defined by limited choices, hard bargains, and doubts that the future will be any better** ■

Out of proportion. According to the IDB report, Latin American and Caribbean countries are much more unequal than countries in other regions of the world. Some 150 million Latin Americans, or 33 percent of the region's population, live on less than \$2 a day, an amount which is assumed to be sufficient for minimum subsistence. But if income distribution in the region were the same as the international average, thus reducing inequality, poverty in Latin America and the Caribbean would be half of what it is today. If income in the region were distributed as it is in Southeast Asia, Latin America would have one-fifth as many people living on less than \$2 per day.

In effect, Latin America has what economists call "excess" inequality: disparities that are far worse than they should be, consider-

ing the region's overall level of development. The chasm between the Altamiras and the Bajareses makes that clear. According to the IDB report, the Altamiras and their peers among the wealthiest 10 percent take in a stunning 40 percent of all the region's income, while the Bajareses and their neighbors in the lowest 30 percent earn just 7.5 percent of the total. Looked at another way, the Altamiras' per capita household income is 20 times that of the Bajareses. Moreover, IDB researchers warn that the disparity is almost certainly larger because household surveys measure only income from labor, not capital (such as rental properties, investments, etc.), and the latter is an important source of money for the top 10 percent.



DAVID MANSFIELD



■ **Be it at dinner, school or work, the Altamiras have numerous options and opportunities** ■

much less likely to emerge from poverty if they live in the countryside.

The Altamiras and the Bajareses also differ starkly when it comes to education. Mr. Altamira has completed 12 years of school, just under the average for his peers, while Mr. Bajares has only five years of schooling. Perhaps more significantly, Mrs. Altamira and her peers have completed an average of 11.6 years of school-

ing, compared to only 4.7 for Mrs. Bajares and other women in the lower 30 percent. Education sets the Altamiras apart even from people in the second highest decile of the income spectrum: on average, people in the top 10 percent have 2.7 years more schooling than people in the next decile. In Mexico, Brazil and Costa Rica, this gap is more than three years. Thus, even though the Altamiras have not even gone to college, they tower above the rest of society when it comes to education, simply because most people in the region have so much less.

Mr. Altamira and Mr. Bajares have a similar likelihood of participating in the formal labor force (85.8 and 82.5 percent, respectively). But while a quarter of the heads of household in the top 10 percent work as professionals, technical personnel, or senior corporate executives, only a tiny fraction of workers in the lower 30 percent reach leadership positions or have technical responsibilities on the job. As a result, Mr. Altamira earns 3.5 times more than Mr. Bajares.

Given her husband's sizeable income, Mrs. Altamira can afford to stay out of the work force. But one of the most unexpected discoveries of the IDB household surveys showed that, in fact, a majority of women (60 percent) in the top income decile participate in the work force (meaning they are either employed or seeking employment). By contrast, only 36.7 percent of the women in Mrs. Bajares' income segment do so, and most of them work in the informal sector, where the pay is much lower.

Women's work. According to the IDB report, this sharp difference in the labor participation and income-earning potential of women turns out to be one of the most significant contributors to inequality in the region.

Why are poor women so much less likely to be in the work force? There are a number of factors, but education is perhaps the most evident one. While men with very little education are still very likely to be in the work force, the opposite is true for women: only 40 percent of women with four years or less of schooling is in the labor market, compared to 78 percent of those with higher education.

(next page please)

Why are these gaps so large and so out of proportion? The authors of the IDB report argue that the explanation resides in the confluence of macroeconomic, demographic, educational and geographic factors. But they also show that significant parts of the answer can be found in four key variables in the lives of families like the Altamiras and the Bajareses: their fertility, place of residence, education and employment.

Who are the rich? One popular stereotype of wealth in Latin America holds that each country is dominated by an elite group of large, fabulously rich clans that control vast tracts of land and key industries. In the clichéd view of these families, the men are

A woman's choice of whether or not to work is also determined by the wages her husband earns, the number of children she must care for, and, in traditional societies, by the productivity of housework. The Bajareses have no electricity, gas or running water in their home, and they live far from public transport. Mrs. Bajares consequently spends many more hours a day at basic household tasks than Mrs. Altamira, whose home is equipped with all the latest appliances. (Mrs. Altamira also can afford to hire household help.) Even if she could find someone to watch her children and help with the housework, it would hardly be worth it for Mrs. Bajares to travel to a job in the nearest city, because wages for people with her education are very low. As a result, only 7.5 percent of all women in Mrs. Bajares' income group have formal sector jobs, compared to 33.5 percent of women in the top 10 percent.

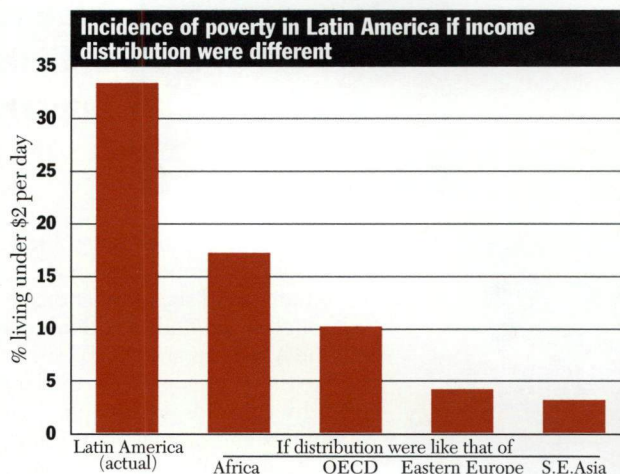
The real tragedy in this pernicious cycle of missed opportunities is that it perpetuates inequality. Consider a different scenario. If Mrs. Bajares had completed more years in school when she was a girl, she would have had a greater incentive to participate in the work force because of the prospect of getting reasonable pay. Once she was employed, Mrs. Bajares would probably have endeavored to have fewer children, in order to improve her chances of keeping the job. The Bajareses' combined income might have enabled them to move to a village with electricity, water and sewer service, and to buy a stove, a refrigerator, and a clothes washer and other appliances. These conveniences would have made housework more productive, ensuring that Mrs. Bajares would have enough time to hold down a job while her children are at school.

Finally, all these changes might have given the Bajares family more confidence in what economists call the "rate of return on education." In other words, the Bajareses might have concluded that working to keep their children in school is worth the near-term loss of labor because their greater long-term earning potential will benefit the entire family. The IDB household surveys, echoing numerous other studies, found that the children of working mothers tend to attain higher education levels than those of mothers who do not work, and that parents with more education and income-earning opportunities tend to have fewer children and channel more resources toward their education.

The policy challenge. Can governments hope to encourage this virtuous cycle of education, labor force participation and smaller families with a view to reducing inequality? Though the factors that influence a family's choices and options are numerous and complex, the authors of the IDB report believe appropriate policies can help.

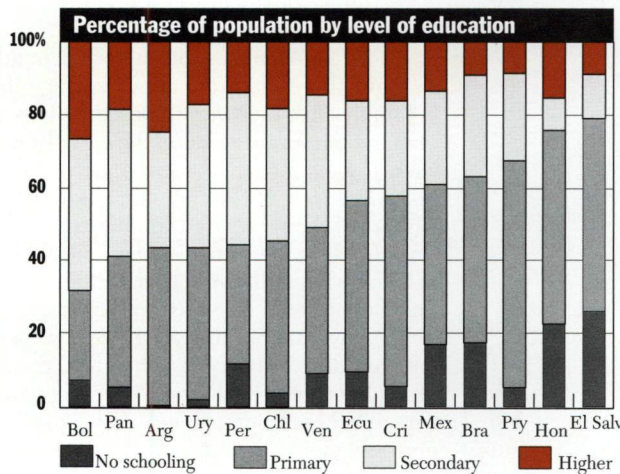
Unequal from any angle

A closer look at the income gap



Worse than it should be

Around 33 percent of Latin America's population lives on a per capita income of \$2 per day or less. This chart shows how much that percentage would drop if the income distribution pattern in the region were like other parts of the world. The comparison to Eastern Europe is particularly striking because per capita income in that region is comparable to Latin America's. (Source; Londoño and Székely, 1997)

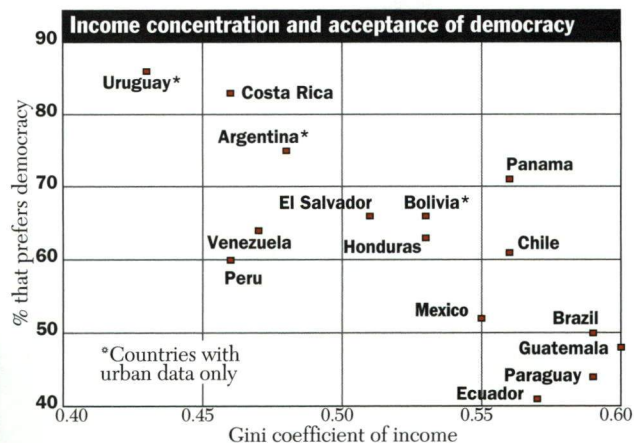
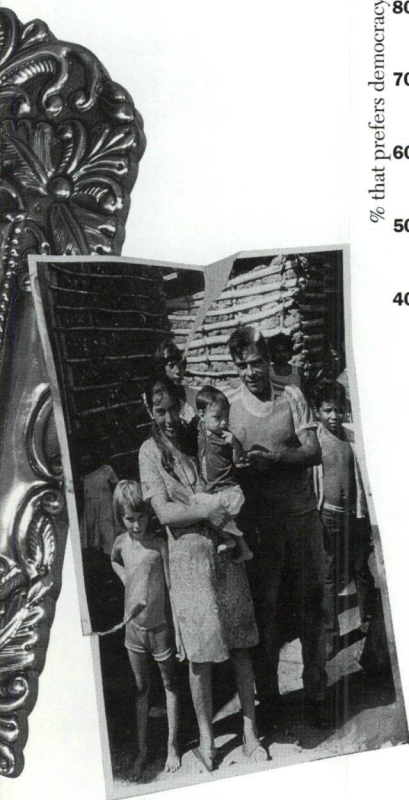


A question of schooling

No variable seems to explain more about the causes of inequality in Latin America than education. This graph shows the population distribution by level of education in 1990 of people 25 years of age or older—most of the region's work force. Note that workers with little or no education are the majority in half the listed countries, a fact that will perpetuate inequality for years to come. (Source: IDB household surveys)

First, any policy that increases women's education will increase their potential earnings in the labor market and lead more women to seek paid work, since the advantages of doing so will increase relative to the advantage of working primarily at home. At a practical level, that means opening more schools in locations that are accessible to low-income families. It also means improving the quality of education: too often, instruction is so poor that people correctly perceive that staying in school won't make a difference in their children's job prospects down the road. There are long-standing debates on how to

reform the region's school systems in order to improve quality, but a growing number of experts agrees that a good first step is to decentralize school systems so that local schools have more liberty to innovate and are more accountable to the families that use them. Another promising approach involves creating incentives for both teachers and students. Teachers' pay increases can be linked to performance assessments that include input from parents, and families can be motivated to keep their children in school through lunch programs, free books and other services.

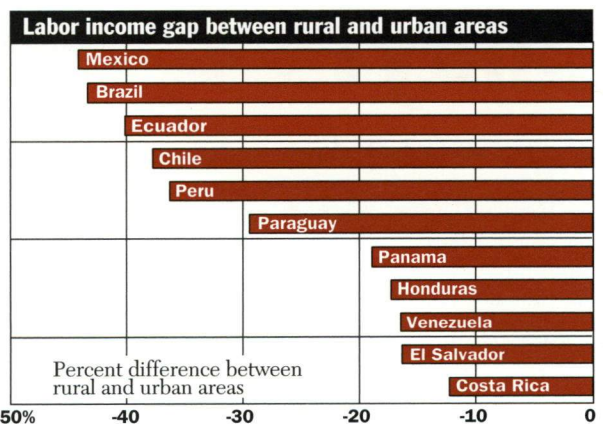


Bad for democracy

If people who live in severely unequal societies become disenchanted with democracy, they may support a more authoritarian type of government. In this chart, the responses to a survey where people were asked which form of government they prefer are related to a country's Gini coefficient, which measures income inequality. (Higher Gini scores indicate greater inequality; see article on page 21). Democracy is preferred the most in Costa Rica and Uruguay, where inequality is least pronounced. The opposite is true in Brazil, Guatemala, Paraguay and Ecuador. (Source: Latinobarómetro and IDB household surveys).

Rural disadvantage

There's a reason for the continuing migration of rural families to Latin America's large cities. Even controlling for variables such as education, experience and gender, urban jobs pay between 13 percent and 44 percent more than those in the countryside. This chart presents estimates of the size of the labor income gap in urban and rural areas. It shows that the difference is greatest in the region's two largest economies.



Note: Controlling for education, experience, experience squared and gender. Source: IDB household surveys.

Second, before poor women will consider joining the work force, they must be able to increase the productivity of their household tasks. Policies that extend the availability of running water, electricity and community services can have an immediate impact in this regard. For women with children, the availability of low-cost child care during working hours is central to the decision to seek work or stay at home. According to the IDB report, studies in Brazil and other countries have shown that increasing the supply of affordable day care leads to greater female participation in the work force.

Governments can also reform laws that indirectly discourage women's employment. In many Latin American and Caribbean countries, labor laws force employers—instead of the government—to pay for maternity leave. In order to avoid this considerable expense, many companies simply prefer not to hire women for important and better-paying positions. This tends to encourage labor segregation that relegates women to comparatively low-skilled clerical and service jobs. In some countries, labor laws also restrict the use of short-term contracts or part-time jobs—two categories that can be

attractive to women with children. Even laws that keep the minimum wage too high can work against women's employment, by forcing too many companies to rely on informal work arrangements that offer very low pay and no job protection.

Window of opportunity. Changing these policies can be both politically difficult and costly, of course. But if current fertility trends continue, many of the region's governments will be able to take advantage of a so-called "demographic window of opportunity" that will improve their ability to finance such efforts (see "Demographic surprises," THE IDB, April 1997). In the next two decades, people born in the higher-fertility years of the 1960s and 1970s will swell the region's working-age population, even as the number of children shrinks and the number of retirees remains stable. In simplified terms, that means that more women will be in a position to enter the work force—so long as economic and trade policies favor job creation. It also means that some governments will have more money to spend on improving education and other social services—because the social costs of caring for children and retirees will be temporarily lower and because there will be many more workers paying taxes. When the large working-age population of this period begins to retire in around 20 years, the social costs of caring for people 60 years and older will increase to a more typical level, and the "window" will close.

Moreover, there are compelling economic reasons for governments to prioritize spending on services that can diminish inequality. Classical economists have traditionally argued that inequality is something of a necessary evil. They maintained that the capital accumulation needed for economic growth could only come from the savings of a society's richest members because workers would always tend to consume everything they earned. They also argued that any efforts to redistribute wealth through social policy would backfire by lowering productivity and economic efficiency.

But recently, economists and policymakers have begun to question these assumptions in light of new evidence indicating that inequality can slow a society's human and physical capital accumulation. Countries with a chronic shortage of skilled, well-educated workers cannot increase productivity as consistently as their more egalitarian competitors. Severely unequal societies are also susceptible to social and political conflicts that undermine stability and ultimately hold back economic growth.

The shifting currents of economic theory mean very little to the Bajareses, however. They would welcome any effort to narrow the gulf between their prospects for a better life and those of the Altamiras. ■



CARLOS CONDE—IDB

More than a question of fate, inequality is a product of policies that can broaden or limit a family's opportunities for a better life.

What can be done about inequality?

The problem is difficult but not intractable

Editor's note: The 1998–99 edition of the IDB report on economic and social progress in the region, Facing Up to Inequality in Latin America, examines why the region's societies are so unequal and suggests what can be done about it. The report was prepared under the direction of IDB Chief Economist Ricardo Hausmann. IDBAmérica's Daniel Drosdoff spoke with him on the eve of the report's publication.

IDB AMERICA: We've heard a lot about Latin America having the highest inequality in the world. What is the report saying that is new?

HAUSMANN: Very often when people think of inequality in Latin America they think of something like the top 15 families. But even if these 15 families existed, they would not account for the high-income inequality in Latin America from a statistical point of view.

What makes Latin America the most unequal region in the world is not the top 0.001 percent of the population but the top 10 per-

cent. Here we have people with average incomes eight times greater than those in the bottom 30 percent. The difference is even more dramatic when we look at households. This is because in the top 10 percent nearly all adults work, but only one adult per family works in the bottom 30 percent.

Income is one major factor in inequality. Another is education. People in the top 10 percent have about 12 years of schooling, putting them at a greater advantage over the bottom 30 percent, where people typically go no further than the fourth or fifth grade.

A third key factor is the number of children per household. Those in the top 10 percent have fewer than two children, while those in the bottom 30 percent have twice that.

IDB AMERICA: What are the principal reasons for Latin America's inequality?

HAUSMANN: There is a mix of reasons, such as stage of development, and what we might call "natural endowments," or geography.

Development really has five dimensions.

The first is that as development proceeds, returns to capital decline. This is because capital becomes more abundant overall, while its share as a part of national income drops. At the same time, the share of income paid to skilled and unskilled labor increases. Latin America is now in the midst of this shift in income, from capital to labor, which improves the prospects for greater equality.

The second dimension is demography. Countries that have high rates of population growth also have high inequality. The lower the income, the higher the number of children. Again, fertility rates in Latin America are dropping.

Third is education. When relatively few get educated, such as in Latin America, inequality is high. But as more young people get educated and the older, less-educated generation passes away, inequality eventually starts to decrease.

Fourth is inequality that emerges from differences between rural and urban societies. In the countryside, most people are generally equal. But people in urban areas on the average have much higher incomes than in rural areas, so as urban areas grow, and you put the two together statistically, you get more inequality. In Latin America, there are four rural people for every six urban dwellers, accentuating this effect.

Finally, there is a process of formalization. As development proceeds, more people work in the formal economy, where wage differentials are smaller than in the informal sector. Latin America still has a very large informal economy.

IDB AMERICA: What do you mean by natural endowments or geography?

HAUSMANN: We find a very strong statistical relationship between geographical variables and inequality.

We have found, for example, that tropical areas tend to have more inequality in income and land tenure. Also, countries that tend to export tropical products tend to be more unequal. One explanation may be that it's harder to work in the hot areas, but that would be an obvious oversimplification. Another possible explanation is the higher disease burden in tropical areas.

Also, typical tropical agriculture is plantation agriculture, which is profitable because of its larger economies of scale and production. This leads to larger land holdings and more concentrated ownership.

IDB AMERICA: What must Latin America do to reduce its burden of inequality?

HAUSMANN: One thing that must be done right now is to take advantage of a unique demographic window of opportunity.

Fertility rates in Latin America are coming down, which means that the rate of increase in numbers of workers is higher than the rate of increase of children.

As a result, a larger share of the population is working.

Our generation has an incredible opportunity to do three things: we can work more, we can save more and we can educate more.

But the next 20 years will be decisive, and it is an opportunity that comes only once. Some countries, such as Uruguay and Argentina, already have gone through this demographic stage, and they will not get a second chance.

IDB AMERICA: What do your studies suggest in terms of concrete policies?

HAUSMANN: One thing is that we need policies that give skilled labor a return that is great enough to justify the necessary training and education, especially the female work force.

When the price of skilled labor is sufficiently high, families have an incentive to choose more labor market participation. As more women enter the market, families choose to have fewer children, and they invest proportionately more in schooling.

Paradoxically, educational levels are lowest in those countries where the returns for

education are highest. One explanation is that it is just too difficult for poor people to go to school.

Imagine yourself a woman managing a home without running water, without electricity, and without good access to transportation. After doing the household chores, you have no time or energy left to enter the formal labor market. This is why it is so crucial to have policies to improve water and electricity services, and increase access to transportation.

IDB AMERICA: How about changes in labor policy? Is there a link between labor policies and inequality?

HAUSMANN: In general, Latin America's la-



“Latin America’s labor legislation [was] written by men... Partly because of this, women have a harder time getting into the formal labor market.”

bor legislation is antiquated, and moreover, it has been written by men, not women. Partly because of this, women have a harder time getting into the formal labor market than men.

Current labor legislation restricts flexible work hours, part-time work and special hours, all of which are vitally important to a woman with responsibilities at home. If you don't work the standard hours, then employers must pay extra hours and charges, making it prohibitively expensive to hire women.

Secondly, you have relatively generous provisions for maternity leave, whose costs are supposed to be born by the employer. Consequently, employers prefer to hire men, or they hire women at a lower wage. If the wage is unattractive, women prefer to work in the informal sector or stay at home.

IDB AMERICA: On the one hand your report rejects populist policies, but on the other hand it says that greater equality in Latin America is better for growth. How do you resolve this apparent contradiction?

HAUSMANN: Let me say some things about populist policies.

Take the minimum wage. In Latin America the minimum wage that is on the books is not received by people in the bottom 30 percent of the income scale. Paraguay, one of the poorest and most unequal countries in the hemisphere, has the highest minimum wage. We find that the minimum wage has very small—maybe even negative—distributional effects.

Similarly, we argue that the attempt to build progressive taxation on a shaky foundation of inefficient tax collection systems has resulted in very little revenue actually collected. That leaves the government with two choices, both of them bad: either provide inadequate services, or resort to the highly regressive inflation tax.

What we are saying is this: create an efficient tax system that collects with relatively broad taxes and low rates. The progressivity of the fiscal system will come mainly from the spending side, by focusing on education, health and basic infrastructure. The reason is because the richest top 10 percent in Latin America doesn't use public education and doesn't use public health.

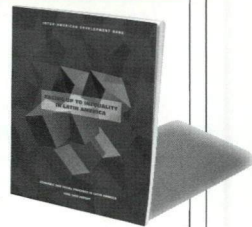
IDB AMERICA: This year's report champions greater income equality as good for economic growth. Isn't this at odds with some classical trickle-down theories that

favor concentration of income as a precondition to investment and growth?

HAUSMANN: Our view is that inequality harms the ability of the political system to undertake policies that promote growth. It leads to societal conflicts. Beyond that, countries may want a more equal society because they perceive that it's a good in itself. ■

IDB BOOKSHELF

Facing Up to Inequality in Latin America examines a provocative topic from a fresh perspective. The analysis is based on household data from 14 countries that have never before been standardized and subjected to comparative analysis.



The report may be purchased through the IDB Bookstore, E-105, 1300 New York Ave., N.W., Washington, D.C. 20577, tel (202) 623-1753, fax (202) 623-1709, e-mail: idb-books@iadb.org.

Education: the Gordian knot

Shortfalls in schooling are at the root of inequality

By PETER BATE



IF YOU WANT TO FIND A ROOT CAUSE FOR Latin America's income inequality, you don't have to look much further than its skewed educational system.

A report issued on the eve of the April Summit of the Americas in Santiago, Chile, found that the region's public schools are mired in crisis. Rather than contributing to progress, the report stated, they are reinforcing poverty, perpetuating inequality and holding back economic growth.

The report, which was prepared by a task force of education experts from Western Hemisphere nations, described the split personality of Latin America's educational system:

"Students from the region's top private schools perform at levels comparable to schools in industrialized countries. . . . Public school students, in contrast, perform dismally by any standard. Latin America's future will be bleak until all its children are provided real opportunities for decent education."

How could a worthy social undertaking like public education go so wrong? This is one of the questions plumbed in *Facing Up to Inequality in Latin America*, the 1998-99 edition of the IDB's report on economic and social progress in the region.

In contrast to other regions of the world, where there is a lack of schools, or where families are simply too poor to afford formal education for their children, Latin America has long overcome the problem of access to schools. "Interestingly enough, in Latin America almost all children start going to school when they are six or seven years old," says Eduardo Lora, senior research economist in the IDB's Office of the Chief Economist and one of the report's main authors. "What is startling is that they quit so quickly."

Using recent studies based on comparable household surveys from countries around the world, the report reconstructed the educational track record of Latin youths in differ-

ent social categories. It found that nearly all children in South American countries enrolled for the first year of school. But by the fifth year, nearly 40 percent of the poor had dropped out, while 93 percent of the richest kids were still in the system. By the ninth year, only 15 percent of the poorest students remained in school, compared to 58 percent of the richest. Performance was even worse in low-income Central American countries.

The region's poor families are still faced with having to choose between putting their children to work or making a long-term and uncertain bet on education. As a result, it is not unusual for a Latin American child to drop out of school by the age of 10 or 11. This explains why the typical worker in this region has only had an average of 4.8 years of schooling. In Southeast Asia the work force has an average of more than six years of education.

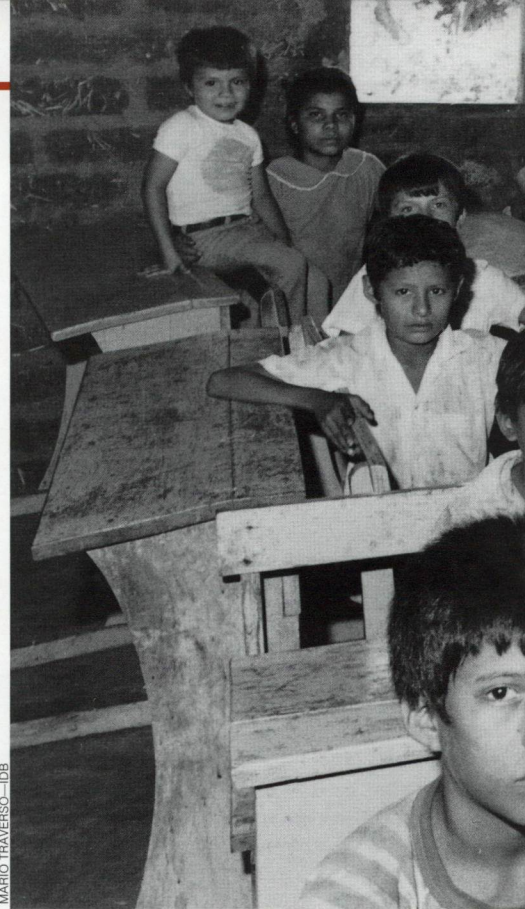
But at the other end of Latin America's social spectrum, the well-heeled can attend private schools where students spend twice as many years in class than their public school counterparts.

At the point when students enter the work force, the differences in income between university-educated Latin Americans and their less-fortunate counterparts is large but not dismal. But as the university graduates rise through the managerial and professional ranks, their incomes will steadily increase, while illiterate people barely see their salaries change. By the time both groups reach retirement age, better-educated Latin Americans may be earning 10 times more than their unschooled brethren.

Historic baggage. In a certain sense, Latin America has entered the era of the knowledge-based economy carrying the wrong sort of historic baggage. Blessed with a great abundance of natural resources, its countries in the past had few incentives to invest heavily in human capital. Producing more oil, copper or beef did not necessarily require better-educated citizens.

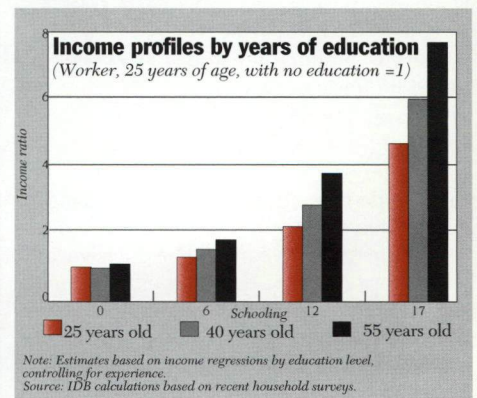
When the region's governments saw that their countries were lagging behind, they

■ **Poor families still must choose between putting their children to work or making a long-term and uncertain bet on education** ■



MARIO TRAVERSO—IDB

Children in poor communities will most likely repeat grades, and few will complete grade school. They will never have a chance to earn a university degree, which all but guarantees greater opportunities and much higher wages.



began to pour money into public education. But while their intentions were noble, the long-term result in almost every country was a highly centralized and rigid system that cannot respond to citizens' demands for ever-improving services.

Among the common traits of these systems, says the IDB's Lora, is that all key decisions are made by bureaucrats in a capital city, usually far from where parents, teachers and school administrators can have any influence. Moreover, these systems do little to encourage schools to improve teaching or to enroll and retain more children.

In most cases, budgeting guidelines bear no relationship to communities' needs or to



DAVID MANGUNJIAN—IDB

the number of children attending a given school. At best, resources are allocated by how big a staff a school district has or by simply repeating previous budgets. At worst, they may reflect the political clout of a mayor or a teachers union.

Push for quality. During this decade the region's governments have faced increasing social pressure to reverse the declining quality of education. The political importance of the issue, which is frequently mentioned as a major concern in Latin American public opinion surveys, was reflected in the Sum-

mit of the Americas, where the heads of government of the Americas urged the IDB to double its lending for education projects. The Bank plans to devote at least \$5 billion to that sector over the next five years.

The IDB report cites examples of Latin American countries that have started to experiment with programs that could help put their public schools back on track. Several have launched decentralization plans designed to inject a degree of accountability and competition into their systems—and thereby bring decisions down closer to the families they serve.

In Bolivia, Brazil, El Salvador and Nicaragua, parents are serving on local school boards to take on responsibilities that include picking principals, managing funds or evaluating teachers. Other countries are experimenting with school nutrition programs to improve poor children's health, or instituting longer school hours that free their mothers to work. More traditional approaches for keeping poor children in school, such as subsidizing textbooks, uniforms or transportation, have had mixed results.

Some countries are breaking new ground by offering scholarships and even vouchers to entice the poor to keep their kids in school. In Mexico, an ambitious program gives qualifying children a cash transfer and school supplies if they maintain an 85 percent attendance record. Brazil's *Poupança-Escola* program seeks to reduce repetition and dropout rates through a savings plan that deposits 100 *reals* in a student's bank account for every grade the child passes.

How long do improvements in school attendance and educational quality take to pay off in terms of reducing the gap between the rich and the poor?

Not that long, says Lora, who argues that benefits could be seen quickly if Latin American children could increase their average years of schooling to 10 from the current five. "The interesting thing is that the effects of education are multiplicative. One might think that improving one generation's education is like helping them climb one rung on a ladder. Rather than a leg up, it's more like rising in an elevator," he says. ▀

Will they fix the mille

For many governments and companies that depend on computers, it may be too late

By PAUL CONSTANCE

WHILE MILLIONS OF REVELERS CELEBRATE the New Year in the early hours of Saturday, January 1, 2000, cryptic error messages will start popping up on computer screens from Bangkok to Buenos Aires.

A tourist stopping for cash in Caracas will find that automatic teller machines are not responding. A security guard in Managua will get stuck in an elevator between two floors. Airports everywhere will fall strangely silent.

It sounds like low-brow science fiction, but variations of this scenario are being contemplated seriously in corporate boardrooms and government offices around the world. In fact, most people have heard of the "Year 2000 problem" ("Y2K" for short), which stems from the fact that most computers process dates based on two-digit codes that represent Dec. 31, 1999, for example, as "12/31/99." When confronted with a "00" year code on Jan. 1, 2000, many computers will either assume the year is 1900 or stop functioning altogether.

Media reports on Y2K tend to bounce between the extremes of alarmism and skepticism. In Latin America and the Caribbean, Y2K is sometimes dismissed as a sort of technological curse that will mainly afflict the United States and a few other rich countries. The result, according to Ricardo Miranda, an IDB information systems specialist who serves as the Bank's Year 2000 project manager, is that "many people know about it, but most doubt that it is a serious problem."

Domino effect. While debates over the severity of Y2K will rage at least until Dec. 31, 1999, there is broad consensus among information technology experts that it will, in fact, mean trouble.

Here's why. Practically all the software used by governments and corporations—including those in virtually every Latin American and Caribbean country—relies on date-

codes. Such codes are particularly crucial in financial and banking software that controls things such as the electronic funds transfers, records of deposits, and withdrawals, and pension payments. They also affect transportation, energy, manufacturing, health, defense, telecommunications and international trade.

Individual software systems can be "fixed" or altered so that they will correctly process dates ending in "00." But the problem is complicated exponentially by the fact that most computers exchange information with others, via networks. Even if one bank has fixed its software, for example, it might still suffer damage if it processes funds transferred by a foreign bank that has not.

So much for the realm of visible computers. The Y2K problem also affects the vast world of "embedded processors," or computer chips that are buried in the guts of all sorts of appliances

and machinery. Videocassette players, building elevators, alarm systems, air traffic control terminals, cellular phones and medical diagnostic equipment—these are but a few of the kinds of machines that could also malfunction because of date-code errors.

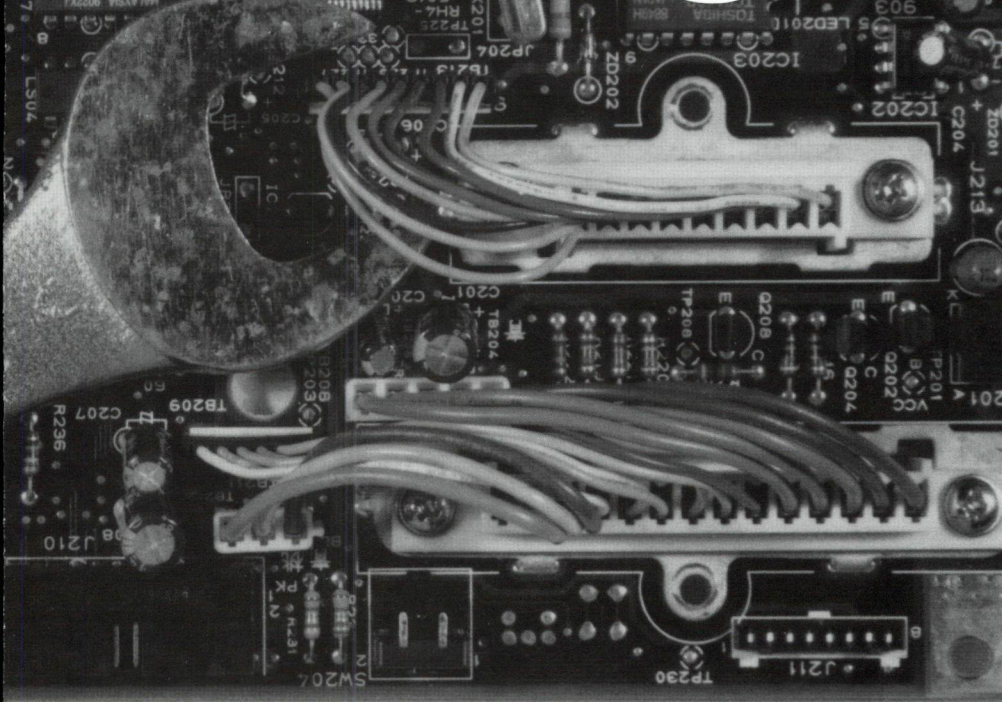
In effect, software and computers are now threaded through so many dimensions of the world's infrastructure that no one can effectively predict how many systems are vulnerable to Y2K. Even if a small percentage of them fail on January 1, 2000, however, they could have a domino effect on related systems, causing massive economic and social disruptions. Some observers believe the cost of these disruptions and after-the-fact repairs will be high enough to cause a global recession in the year 2000. Edward Yardeni, chief economist for Deutsche Bank Securities in

NOT SO SIMPLE: Replacing circuit boards and other hardware won't solve the Year 2000 problem, which resides in the intangible world of software.

New York, made headlines earlier this year by claiming that there is a 70 percent chance that such a recession will occur, and that it will be "at least as severe as the 1973-74 global recession ... caused by the OPEC oil crisis." Though he is quick to admit that there is very little reliable information on the extent of the problem, Yardeni has used detailed reports on the vulnerability of U.S. government computer systems to extrapolate on how private industry and other governments might be affected. His conclusion: a majority of governments and companies will not fix their systems on time.

What to do? As simple as it may sound, the Y2K problem is fiendishly difficult to fix. Many of the software applications on the mainframe computers that run critical business and government systems are one-of-a-kind creations written in the 1960s and 1970s. The programmers who created these systems have now retired or moved on to other jobs, and few of them left detailed documentation explaining how the systems work. In order to make a system safe for the new millennium, programmers today have to check each line of computer code. Most mainframe software programs have several hundred thousand lines of code, and most corporations and government agencies use dozens of programs.

Y2K bug?



DAVID MANSURIAN—IDB

Although most organizations are trying to tackle the Y2K with their existing information technology staff, many are finding that they simply lack the resources and expertise to do the job. A small industry of Y2K consulting firms has sprouted up in the last few years to help vulnerable companies and governments get the job done, resulting in fierce competition for the limited number of qualified software programmers. Even if an organization can afford to hire these consulting firms, they are not guaranteed success. It can take months—even years—to get the job done, and the best software programmers are constantly being “hired away” by competing firms that offer higher salaries.

Perhaps the most sobering indicator of the extent of the problem is the amount that is being spent to fix it. Citicorp, the largest U.S. bank, has budgeted \$600 million, according to a recent issue of *The Economist*. Eight other leading U.S. banks are spending between \$100 million and \$400 million. The U.S. government, which had originally estimated the cost of preparing all public-sector systems at less than \$2 billion, now plans to spend nearly \$6 billion. The Gartner Group, a U.S. consulting firm that specializes in Y2K issues, has estimated that worldwide expenditures on preventing the

problem will run between \$300 billion and \$600 billion.

Even the IDB has seen the cost of Y2K exceed its early internal estimates. Miranda says the Bank originally calculated that it would cost around \$10 million to repair all its critical corporate systems. “Then we started looking at other areas, such as departmental systems, embedded systems in the headquarters building (security, telecommu-

nications, elevators and even air conditioning) legal, contingency planning and so forth, and we realized the task will probably cost twice as much as we expected,” says Miranda.

Budget buster. Unlike other kinds of spending on information technology, expenditures on Y2K repairs cannot be justified for the extra value or efficiency they might bring to an organization:

their only purpose is to maintain the status quo. As a result, governments and corporations that are already facing spending constraints have found it extremely difficult to get money for Y2K efforts.

Over the last year, many governments in Latin America and the Caribbean have launched Y2K awareness programs and have begun to assess the vulnerability of their critical systems. James Castle, a Gartner Group


“Most countries have to assume that they won’t get it done on time.”

consultant who has met with senior political and corporate officials in Argentina, Brazil, Mexico and Venezuela, says that as in much of the world, government computer personnel in the region are being told to “go fix the problem, but don’t spend any money on it because we can’t afford to.” Although he believes most of the large national and multinational corporations in the region are setting aside sufficient resources to deal with the problem, Castle said the public sector “has started tragically late in terms of serious remediation.”

There is one significant exception. Castle says Mexico has made impressive progress over the last year, since President Ernesto Zedillo took a personal interest in the problem and appointed a National Commission for the Year 2000 Conversion that is composed of cabinet ministers, key legislators and influential representatives of the corporate and academic communities. The commission has required Mexico’s 263 government agencies and its 14 major banks to adopt a rigorous schedule for converting and testing all critical systems, and it has hired independent auditors to make quarterly progress checks at each institution. The October edition of *Year 2000 Outlook*, a newsletter published by the Information Technology Association of America, reports that 80 of those 263 agencies have already completed the conversion and tested their systems, and that the remainder will have done so by December 1998.

The Gartner Group’s Castle cautioned that although several other Latin and Caribbean governments have established similar Y2K commissions, few have either the authority or the financial means to make a significant difference in the 14 months that remain before the date change. “Most of the region’s countries have to assume that they won’t get it done on time,” he says. “So instead they are coming up with contingency plans for the critical systems at each government agency.” Such plans usually involve devising “manual work-arounds,” or procedures for providing vital services in the event a computer system fails.

In the meantime, the IDB’s Board of Executive Directors is considering an emergency line of credit that will make loans for Y2K preparations and repairs available on an expedited basis to its borrowing member countries. The Bank also has been working with each of its project executing agencies to increase awareness and planning. “It is going to be a bigger problem than people realize, and it is going to cost more than they think it will,” says Miranda. “The goal is to prepare for the worst and hope for the best.”

 For more information, visit www.iadb.org. Detailed resources in Spanish are available at www.y2k.gob.mx.

MONTEVIDEO - URUGUAY
OCTOBER 1-3, 1998

VITAL VOICES
OF THE AMERICAS
WOMEN IN DEMOCRACY

VOCES ESENCIALES
DE LAS AMERICAS
LA MUJER EN LA DEMOCRACIA



Women must "raise their voices," said United States first lady Hillary Clinton (left).

Women craft leadership strategy

Montevideo meeting lays groundwork for partnerships and networks

MORE THAN A DOZEN UNITED STATES institutions and corporations announced new partnerships with Latin American and Caribbean counterparts to promote issues important to women during an October conference in Montevideo, Uruguay.

Some 400 women leaders from 34 Western Hemisphere nations attended the three-day event, "Vital Voices of the Americas: Women in Democracy." The goal of the conference, which was sponsored by the IDB and the U.S. government, was to create networks of women leaders in the region's countries in order to help consolidate democracy and improve public understanding of women's political, social and economic contributions.

U.S. first lady Hillary Rodham Clinton and IDB President Enrique V. Iglesias were among the featured speakers, along with senior officials from the Uruguayan government and the U.S. State Department.

Workshops during the confer-

ence were designed to develop strategies for extending the influence of women in three areas: law and leadership, politics and public life, and economic integration and business growth.

Projects announced at the conference included the following:

▶ A series of public service announcements on issues of concern to women that will be produced by the U.S.-based Discovery Channel, the foreign Ministry of Argentina and

the Buenos Aires-based Global Foundation.

▶ A month-long internship program for four leaders from Latin American NGOs and four government leaders from four countries to explore how to increase citizen/government communication. The program will be coordinated by the U.S. League of Women Voters Education Fund.

▶ The creation of South and Central American networks of women in business to promote trade, with the support of IBM Corp. and the Global Women's Trade Network.

In her speech, Clinton announced that the U.S. Agency for International Development (USAID) will increase lending to microenterprises in the Americas to a total of \$120 million, with more than two-thirds of those loans earmarked for women. She said the U.S. also is committing \$50 million through USAID to support the goals of the recent Summit of the Americas "to strengthen human rights, justice and democracy, particularly on behalf of women."

"Today, more than at any time in history, women have the opportunity and the responsibility not only to raise our own voices but to empower others to raise theirs as well," Clinton said in her keynote address.

In his address, Iglesias highlighted the central role women play in the day-to-day business of surviving and making a living. He reminded the audience that one in three Latin American families lives below the poverty line, and that in such homes, "women must face a daily and silent fight for survival."

Mayra Buvinić, who heads the IDB's Social Programs Division and its Women in Development Unit, told conference participants that getting more women in leadership positions is both effective and efficient. "You can't have an effective democracy without the participation of women," she said. "And in terms of efficiency, it's very inefficient for our countries and our economies not to take advantage of the human resource represented by women," she added.

Also addressing the delegates were Uruguayan President Julio María Sanguinetti, Theresa Loar, U.S. women's issues coordinator and Harriet Babbitt, deputy USAID administrator.

The Montevideo conference was the third of a series that began last year in Vienna with the participation of women from Central and Eastern Europe and the former Soviet Union. The second was held earlier this year in Belfast, Northern Ireland, with the participation of women leaders from the United Kingdom, the Republic of Ireland and the United States.

For additional information, go to www.usia.gov/vitalvoices and www.iadb.org/sds/.



WILLIE HEINZ—IDB



DAVID MANGURIAN—IDB

From tiny businesses to the halls of government, Latin American women are moving into center stage.



Everyone came to the inauguration in the tiny Guatemalan village, where speakers (below) hailed the success of community action.

A school for Pahuacal

A community takes the initiative

SANDWICHED BETWEEN DORMANT VOLCANOS and Lake Atitlán in the department of Sololá lies the Cerro de Oro, or "hill of gold." According to the local people, it received this name not because of the presence of the yellow metal, but because of the richness of the soil.

But for the communities that live there, life is anything but rich. Eking out a bare existence from tiny plots of corn and beans, the people must make do without many of the basics that others would take for granted: electricity, potable water, basic health services and schools.

As recently as 1997, very few of the 350 children in the village of Pahuacal, the largest community in this Tzutuhil-speaking region, attended more than three years of primary school. The students attended class in dirt-floor shacks that could accommodate only a handful of children at a time.

Pedro Pacay Quivoc dreamed of giving each of his seven children an education. In particular, he was determined that his daughters would get the same schooling as his sons, although rural families here and throughout Latin America typically give preference to

their sons when they must decide who is to remain in school.

But with the nearest school three km away, Pacay had to face a major obstacle to realizing his ambitions for his children. He and his neighbors would have to find a way to get a school built in their community, a major challenge given their isolation, poverty and lack of fluency in Spanish.

Pacay set off to Guatemala City to knock on doors in government offices and nongovernmental agencies. But the doors remained closed. Between the frustrations of dealing with the bureaucracies and the expenses of traveling, Pacay and his neighbors began to lose hope.

Meanwhile, Pacay continued to tend his plots of corn and beans, occasionally traveling to Lake Atitlán to supplement his income by working in the large houses built there by people from the capital. On one occasion, the IDB's representative in Guatemala, Waleska Pastor, was visiting some friends in one of these houses, and there she met Pacay.



She advised him to take one more trip to the capital, this time to visit the IDB-financed Social Investment Fund that is managed by the government. The purpose of the fund, she told him, is to finance community projects that are carried out with the help of the local people.

Things moved quickly. The community provided masons to build the schoolhouse, the Ministry of Education hired teachers, and the Communications Ministry built an access road.

Last year, Pastor was one of the guests at the inauguration of Pahuacal's new school, which was already equipped with desks, blackboards, lights and recreation areas.

Encouraged by their success, Pacay and his neighbors have set a new goal for themselves: a health center that will bring basic services to their community. ■

A village that works with nature

On Colombia's savannah, a community puts sustainable development to the test

By ROGER HAMILTON

IN COLOMBIA, *GAVIOTA* IS THE LOCAL NAME for tern, an agile little bird that dips and wheels over the waves, occasionally soaring so high it nearly disappears from sight. Gaviotas is also the name of a village that a group of idealistic artists and engineers built on the parched savannahs of eastern Colombia in the department of Vichada. With imagination and lots of hard work, these pioneers of the spirit created a remarkable and unfortunately rare example of sustainable development in practice.

These intellectual adventurers, led by a visionary named Paolo Lugari, founded their experimental community in 1968. More than a 16-hour drive from the nearest city, they quickly recognized that they would have to be inventive if they wanted even the barest necessities for themselves and their families.

So invent they did: wind generators to produce energy, an airy hospital designed to keep cool even on the hottest day, and a solar kettle to sterilize drinking water. They

even attached the school's seesaws and swings to pumps so that as the children played, they would pump their school's water from underground aquifers.

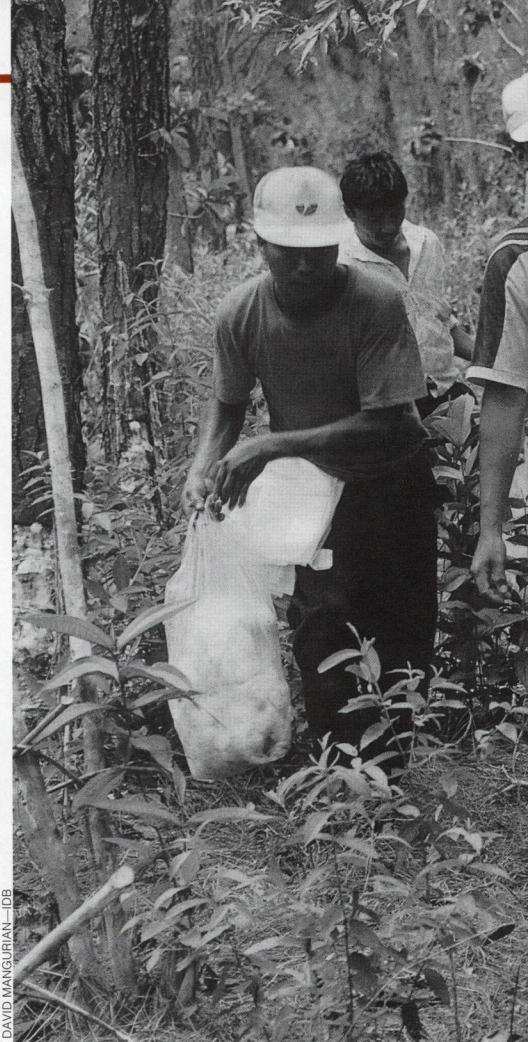
The community's spirit of invention seemingly knows no limits. Not even the days of the week are exempt. In the early 1980s, so many visitors were making weekend pilgrimages to Gaviotas that residents had no time to rest on their supposed day off. The solution: move Saturday to Wednesday.

In all, the village of Gaviotas has produced more than 50 designs for techniques to produce renewable energy, potable water, organic produce and herbal medicines.

Although Lugari and his fellow inventors refuse to patent their ideas, they manufacture products based on their designs and market them throughout the country to support the town's 30 families. To date, the community has sold more than 40,000 solar heaters, 8,000 windmills, and 700 micro-aqueducts.

In past years, the town also received some funding from the government as well as grants from international sources. But in the early 1990s, outside financial support began to dry up, so another sources of income had to be found. The solution came in the form of a 1,500-hectare stand of Caribbean pines that had been planted as part of a reforestation effort more than a decade before. The trees held a double promise. First, from an environmental standpoint, they did not pose a threat to local ecosystems because they would not compete with local species. Second, they had a great economic potential for their sap, a high-quality resin locally referred to as "green hope." After processing, the resin is used in goods ranging from paints to violin rosin. At the time, Colombian industry had to rely on imports of the two principal resin by-products, colophony and turpentine, for use in the production of fragrances, soaps, insecticides, solvents and paints. In 1991, some 3,300 tons of these products were imported from Mexico at a cost of \$2.4 million.

Gaviotas needed to greatly expand its plantations to make resin production economically viable. So with the help of \$1.9 million in financing from the IDB-administered Japan Special Fund, the community



DAVID MANGURIAN—IDB

planted an additional 4,000 hectares of pines and built a plant with a capacity to distill 2,500 tons of resin. Additional land contiguous to the plantings was left fallow to encourage the growth of natural vegetation. A study also was conducted on the possibilities for expanding the project and building additional resin extraction facilities.

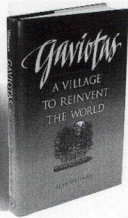
Today, despite transportation problems, insurgent groups and lack of government presence, Gaviotas continues to thrive. The community has a total of 7,000 hectares of tree plantations, and it hopes to have 20,000 hectares planted in the next 10 years.

Annual production of colophony now totals 500 tons, all of which is sold in the domestic market. Exports could begin in 2004, when production from maturing trees will allow the plant to operate at its full capacity of 2,500 tons annually. To date, the project has created 85 permanent jobs.

Meanwhile, the plantations have yielded unforeseen environmental benefits. Although not a part of the savannah ecosystem, the pines attract local birds, which are distributing seeds from regional indigenous trees. The seeds are helping to regenerate a forest that has not existed in this part of Colombia for hundreds of years.

"Elsewhere they're tearing down the forest," Lugari says. "In Gaviotas, we're putting it back."

DEVELOPMENT BOOKSHELF



While Colombia's most famous community must be the mythical Macondo created by novelist Gabriel García Márquez, a good candidate for second place could well be Gaviotas.

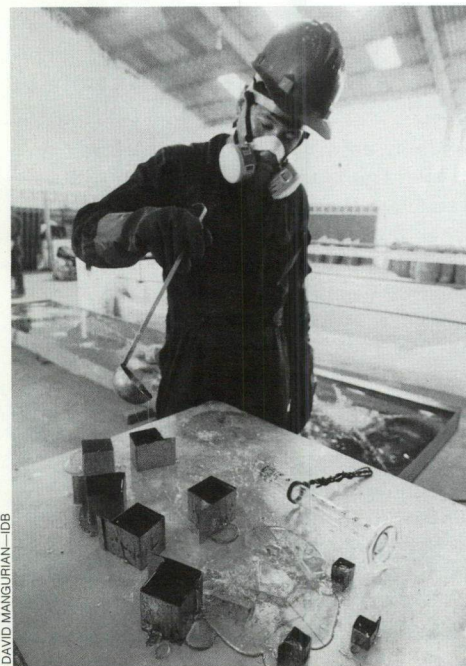
In fact, García Márquez himself called Gaviotas founder Paolo Lugari the "inventor of the world."

Now Gaviotas has its own chronicler in journalist Alan Weisman, whose book *Gaviotas: A Village to Reinvent the World* (Chelsea Green Publishing Company, Vermont, 1998) tells the community's story in a vivid narrative based on extensive interviews with the main protagonists.

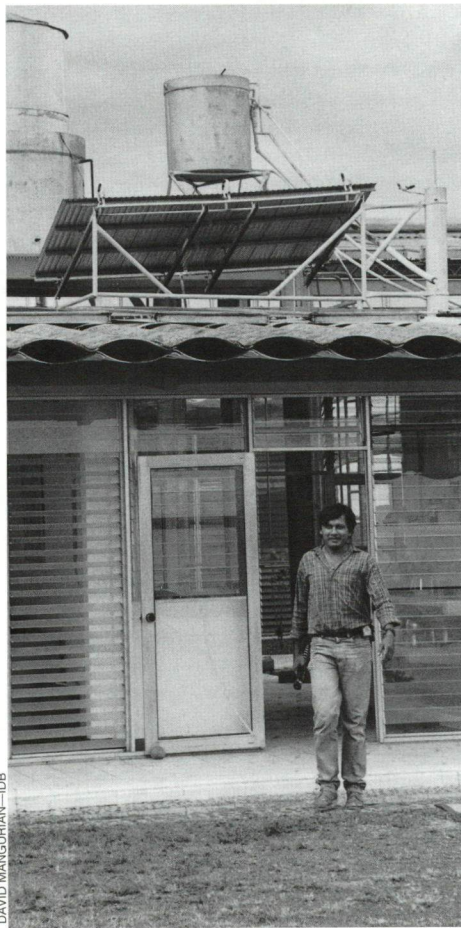
"A place like Gaviotas bears witness to our ability to get it right," writes Weisman, "even under seemingly insurmountable circumstances."



GOLDEN TREASURE: Plantation workers haul out sacks of pine resin that will be processed into colophony and turpentine in the Gaviotas plant (below left). One tree yields 2.5 kilograms of resin in 36 days. At the Gaviotas hospital (below right), workers receive free medical care in a naturally air conditioned building equipped with roof-top solar collectors.



DAVID MANGURIAN—IDB



DAVID MANGURIAN—IDB

‘Don’t fight the tropics’

Paulo Lugari spoke to IDBAmerica’s David Mangurian about the philosophy that lies behind the creation of Gaviotas. Here is what Lugari said:

“Early on I came to the conclusion that we must accept the reality of the tropics, not fight it.

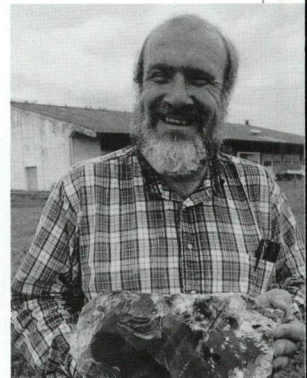
“I also realized that the kind of agriculture that is taught in the tropics is inspired by countries with four seasons. When technologies and concepts developed in the north are transferred to the south, they don’t produce the expected results. The big problem is changing the mentality of people in the tropics who have been educated with ideas from the north.

“So we carried out a full-scale demonstration—not a pilot project—of development in the tropics that is neither too fast nor too slow. It is what we in Gaviotas call ‘productive harmony with nature.’ We take a middle position between the two fanaticisms of development at all cost and little or no development at all. We believe you can alter nature, and sometimes even improve the environment, since environmental impact can be positive as well as negative.

“Take the case of Gaviotas. You can see how the savannah that has been planted with Caribbean pine—which is a tropical pine, not a Nordic pine—after a number of years begins turning into forests in which the pine is one of many species.

“Gaviotas is an object lesson that proves that science and technology can provide cures as well as illness, that we can achieve development in the tropics without causing harm.

“Many people live *off* sustainable development, but they don’t live *for* sustainable development. Many sustainable development projects have not progressed beyond the pilot stage, never getting to the level of large-scale applications as in Gaviotas. The reason is that pilot projects are more comfortable than big projects, because there is much less need to make decisions and assume risks. This is why it generally takes a long time for an innovation to be put into practice.”



Lugari: the guiding spirit.

ROUND-UP

Debt relief for Bolivia

Bolivia has become the first country in Latin America to benefit from a debt relief program that will save it \$450 million over the next five years. The program includes \$155 million from the IDB, \$54 million from the World Bank, \$29 million from the International Monetary Fund, \$39 million from the Andean Development Corporation and \$14 million from other creditors.

A first in public health

Two Argentine economists have won the first José Luis Bobadilla award for health research and innovation in health policy. Silvia Montoya and Manuel Willington, both of the Institute for Studies of the Argentine and Latin American Reality, were honored for their paper "Financing of Public Hospitals: Analysis of the Alternatives for Argentina." The annual award was established at the initiative of the IDB, the Mexican Health Foundation, the Pan American Health Organization and the World Bank. Bobadilla was an internationally recognized public health specialist who died in a plane crash in 1996 while on an IDB mission.

Accord settles contested border

Ecuador and Peru signed an agreement in Brasilia on Oct. 16 to put an end to a long-running and at times bloody border dispute. In hailing the pact, IDB President Enrique V. Iglesias offered to make available \$500 million to finance programs in the border area as well as to form a consultative group to receive funds for this purpose.

A hit list for dams

A global commission will study 150 large dams in at least 10 major river basins in a step towards establishing guidelines and criteria for future dam schemes. The Capetown, South Africa-based World Commission on Dams aims to help reduce conflicts between builders of dams and the groups concerned about the effects of dams on the environment and local people.

Commerce data on disc

Firms looking for business in Central America will be able to get questions answered from a CD-ROM produced by the Central American Economic Integration Secretariat. The information, which will include trade flows, commercial requirements and principal commercial partners, was obtained from several institutions, including the IDB.

Free trade talks begin in Miami

Negotiators look to 2005 deadline

BY ALEXANDRA RUSSELL-BITTING, Miami

AFTER THREE-AND-A-HALF YEARS OF hemispheric summits and rounds of preparatory workshops, negotiators in September took the first concrete steps towards the creation of the Free Trade Area of the Americas (FTAA).


The month-long negotiating session in Miami, Florida, brought together delegates from 34 countries to start addressing the many serious issues that must be resolved if the FTAA will be launched in 2005 as planned. The ambitious project was originally launched at the December 1994 Summit of the Americas in Miami.

Among subjects on the table in Miami were market access, agriculture, services, investment, subsidies, antidumping and countervailing duties, competition policy, government procurement, intellectual property rights and dispute settlement.

After Miami, negotiators will meet next in Panama and then in Mexico. Four additional sessions will be held to provide political direction; these will be chaired by Canada, Argentina, Ecuador and the United States/Brazil. At the same time, committees will provide guidance on issues involving civil society, electronic commerce and the problems of small countries.

The IDB, together with the Organization of American States and the United Nations Economic Commission for Latin America and the Caribbean, make up the Tripartite Committee that is providing technical and logistical support for the negotiations, as it did for the preparatory stage. IDB contributions include the creation of a hemispheric data base on market access to support discussions on tariffs and nontariff measures, technical studies on modalities for negotiating market access in regional agreements, a compendium of rules of origin in the hemisphere, a guide for customs procedures, and compendia on government procurement.

Since the Miami summit, the hemisphere's trade ministers have met four times to forge a work plan for the FTAA. At their March 1998 meeting in San José, Costa Rica, they adopted the declaration that launched the negotiations. That declaration, which can be compared to the 1986 Punta del Este Declaration that set in motion the Uruguay Round of multilateral trade negotiations, represents the largest regional integration effort ever undertaken involving both developed and developing countries to realize free trade and investment in goods and services.

 For more on the FTAA negotiations, go to its official website at www.ftaa-alca.org.

A change in lexicon

THE JOB OF A TRANSLATOR ASSIGNED TO talks on the Free Trade Area of the Americas (FTAA) got considerably more difficult in September.

Gone were the soaring rhetoric and stock phrases that typically characterize public discussions of such landmark subjects. Instead, Alexandra Russell-Bitting and the other IDB translators assigned to the start of FTAA negotiations in Miami had to deal with language that had them constantly running to their technical dictionaries, and when that failed, to the delegates themselves.

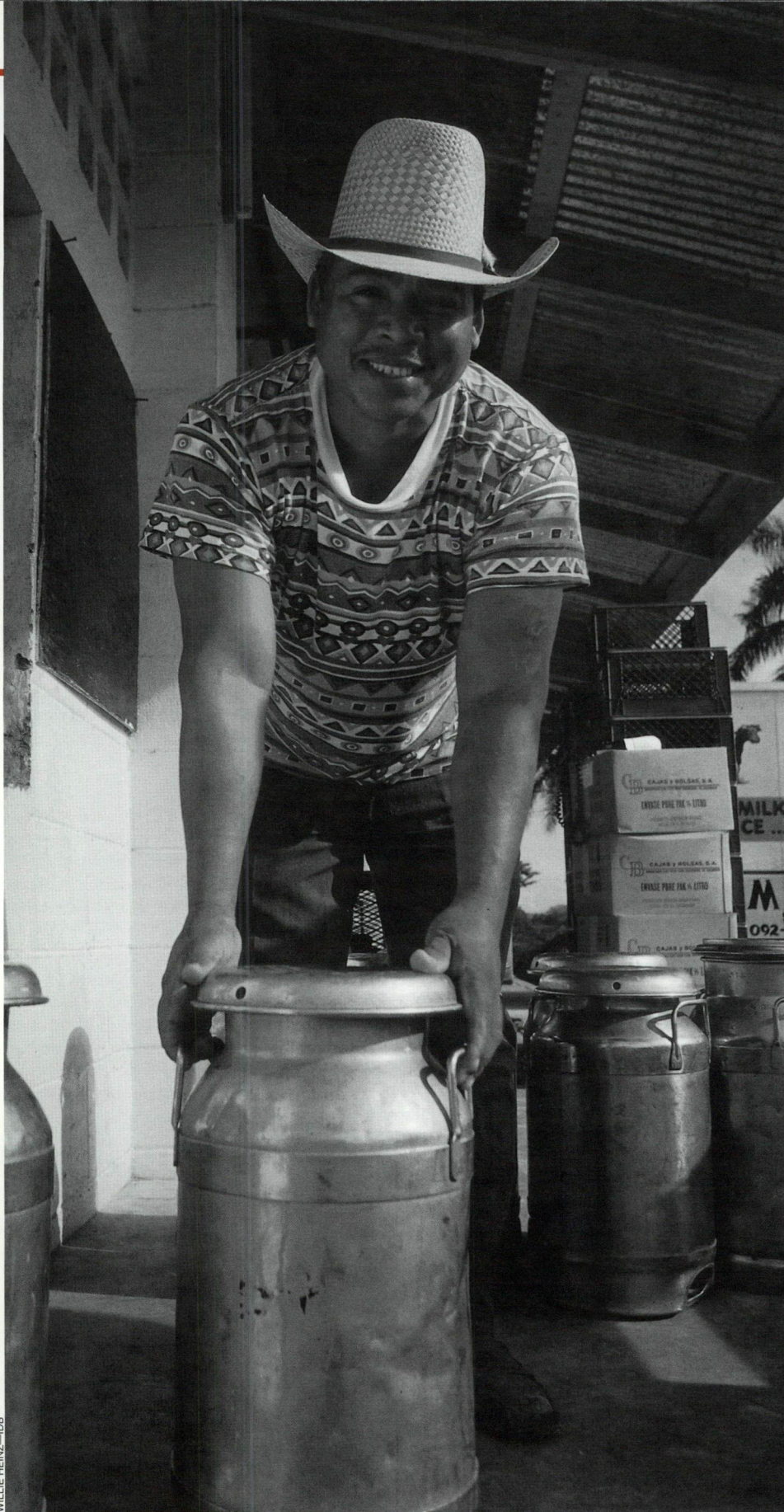
"This was down and dirty, roll-up-your-sleeves, let's-get-this-show-on-the-road type work," reports Russell-Bitting.

For her and her colleagues, it meant

keeping up with terminology such as "inward and outward processing," "single-desk traders," and "satellite accounting method."

The delegates arrived in taxis, not limousines. For the most part mid-level technical staff, such as directors of integration and/or trade offices and officials in areas such as customs and agriculture, they came with lists of discussion items on topics that included market access; agriculture; services; investment; subsidies, antidumping and countervailing duties; competition policy; government procurement; intellectual property rights; and dispute settlement.

These aren't the stuff of the 7 o'clock news, but of real work getting done.



WILLIE HEINZ—IDB

DAIRY FRESH. Jamen Vázquez, a dairy farmer in Belize's Cayo district, prepares to hoist fresh milk onto a refrigerated truck owned by the Macal Dairy Cooperative. The co-op bought the truck with a \$25,000 IDB loan obtained through Belize Enterprise for Sustained Technology, a local organization that supports local businesses.

Information and the IDB

Bank gets good marks for access and quality

A PRIVATE WATCHDOG GROUP HAS ISSUED A REPORT that puts the IDB at the head of the multilateral development bank (MDB) pack in terms of information disclosure.

The Bank Information Center (BIC), a nongovernmental organization based in Washington, D.C., issued the report as the first in a semiannual series.

In its evaluation of summaries of Bank-financed projects, the IDB received a score of 91, compared to the next highest score of 76. Seven of the Bank's summaries received perfect scores and none were rated poor.

As with the other MDBs, the IDB in recent years is allowing vastly more public access to project-related documents than it had in the past. According to the current IDB information policy, reports and other information are provided to the public unless there is a specific reason not to do so.

"The IDB has made commendable progress in implementing its information policy," according to the BIC report. "The institution appears to be committed to providing relevant, high quality information to the public in a timely fashion," it said.

"One of the most positive aspects of the IDB's disclosure is its responsiveness in meeting the public's needs," said the report.

At the same time, BIC recommended improvements in public access to information in the Bank's country offices as regards to private sector projects and environmental and social impact reports.

In its overview, the BIC report recognized that the MDBs have made what it called "significant gains" since the early 1990s, when their activities were "shielded from the public by a thick veil of secrecy." The MDBs, it said, have "significant impacts on public life (and) must be fully accountable for their actions—and only an informed public can ensure this accountability."

According to the IDB's information disclosure policy, the effectiveness of Bank-supported projects will be strengthened by public access to information and consultation with affected populations. In addition, it states, availability of information about Bank projects will increase understanding and support of the Bank's mission and promote transparency and accountability.

 To read the IDB's information disclosure policy, go to www@iadb.org under the "policies and mandates" button.



DAVID MANGURIAN—IDB

Marcos Caramuru de Paiva, Brazil's international secretary in the Ministry of Finance, describes the difficult choices facing his country.

Crisis and contagion: the search for a cure

By PETER BATE

AS A FINANCIAL HURRICANE SWEEPED GLOBAL markets in October, destroying capital and smashing confidence in developing economies, a group of top economic policymakers briefly stepped out of the storm to reflect on two crucial issues: how to detect these crises before they happen and how to protect healthy economies from "contagion."

The occasion was particularly poignant for the Latin American government officials gathered for the October seminar "Crisis and Contagion in Emerging Financial Markets," that was held at the IDB's Washington, D.C., headquarters during the annual joint meeting of the International Monetary Fund and the World Bank. The Latin American countries, widely regarded as blameless victims of the present crisis, nevertheless suffered a sudden and painful loss of credit following the near-collapse of Russia's financial system in September.

"We are facing the first real global financial crisis, in which emerging markets around the world are feeling the effect of contagion," said IDB President Enrique V. Iglesias at the opening of the conference. "We must explore

the origins of this crisis, discuss what countries should do at an individual level in order to build up their defenses, and examine what the international community can do to help find global solutions to a global problem."

Iglesias noted that conversations were already underway between governments, international financial institutions and the private sector on how to address the effects of the crisis, which was punishing Latin American countries despite their decade-long economic reform efforts.

In introducing the issues, IDB Chief Economist Ricardo Hausmann said that Latin America's current credit plight constitutes a clear case of contagion, as there were negligible economic connections between this region and Russia. In August, that country chose to default on some of its debt, sparking panic in emerging markets around the globe.

In the ensuing selloff, Latin American countries found themselves shut out of the same capital markets that had lent eagerly to them since they rebounded from the 1995 Mexican crisis.

The swiftness of this contagion rekindled the debate over the liberalization of capital

flows that began with the 1997 economic crises in East Asia. Should countries regulate investment inflows in order to prevent speculative bubbles from building up? Or should they concentrate on beefing up their banks to withstand sudden swings in market sentiment?

Ernest Stern, a managing partner of JP Morgan, the New York bank, and a former senior vice president of the World Bank, argued that this was not a crisis of emerging markets but rather a global crisis that had followed a global boom.

"The understanding of markets remains very imperfect," said Stern. "I think we have a crisis today that is fundamentally different from crises that occurred in a financial system that was smaller, more heavily based on bank lending instead of capital markets, and had fewer participants."

Stern recommended that developing countries build stronger financial buffers because in many cases their financial institutions were not robust enough or sufficiently supervised to participate in the modern capital markets and absorb such resources carefully.

World Bank Chief Economist Joseph Stiglitz observed that financial crises are becoming increasingly frequent and painful. At least 70 countries—industrialized as well as developing—have suffered such upheavals over the past 25 years.

The crises in East Asia, however, shattered some of the tenets about these shocks, he added. Economic models for predicting financial disasters did not single out the Asian

“tigers” as especially vulnerable. Their financial disclosure standards were about average, suggesting that a supposed lack of transparency was not the triggering cause. Moreover, some of these countries had not experienced an economic downturn in three decades, so volatility was not an issue.

“What we do know is that there is sufficient economic justification for doing something,” Stiglitz said. “If you believe that there ought to be someone involved in the bailout business, then you have to believe that there ought to be interventions to stop the events that lead to it.”

He argued that financial crises are systematically related to financial market liberalization, and that the likelihood of such episodes can be reduced by having better regulations. Preventive measures should go beyond strengthening capital adequacy standards for financial institutions to setting restrictions on risky investments, he said. To buttress his argument, Stiglitz pointed out that Thailand, after dropping the rules it kept against real estate speculation in the 1980s, wound up with a bubble that eventually burst and wrecked its financial system.

International institutions, he suggested, could play a role in advising countries to adopt sound policies and in persuading investors that such restraints on capital flows do not signal hostility to investments but simply a desire to avoid risks “that are not compensated by adequate benefits.”

Other panelists voiced support for taxation or market-based controls of capital inflows. José Antonio Ocampo, director general of the U.N. Economic Commission for Latin America and the Caribbean and a former finance minister of Colombia, defended the reserve requirements imposed on short-term foreign investments in his own country and in Chile. He also called for establishing commodities stability funds, such as Colombia’s coffee fund, Chile’s copper fund and Venezuela’s planned oil fund, which were designed to cushion the effects of steep drops or spikes in prices of those countries’ key exports.

“Crisis prevention is a task of boom periods, and instruments of this sort must be designed to manage them,” he added.

Michael Gavin, a former lead research economist at the IDB who recently joined the Warburg Dillon Read investment bank, presented a paper he co-authored with Hausmann that set forth a series of measures Latin American governments could take—and in fact, which a few have already taken—

to meet three basic objectives in order to weather international shocks: they must be solvent, they must be liquid, and their policies must inspire confidence.

While many of their recommendations for fiscal and banking policies ran along the lines of widely accepted best practices, such as running very small deficits or even modest fiscal surpluses during good times or avoiding short-term debt, Gavin staked out a provocative position on monetary and exchange rate policy. He based his argument on observations of Argentina and Mexico, two countries with similar fiscal policies that were also the worst hit by the 1995 “tequila” crisis. Looking at how these countries have fared during the recent financial turbulence, he found that in Argentina, a country with a rigid currency board, interbank interest rates were less than half of those in Mexico, which has a flexible exchange rate.

“If there are any casualties in the conventional wisdom about exchange rate management, it’s the belief that flexible exchange rates allow the latitude to lower interest rates during periods of crisis,” he said.

Speaking for Argentina, which has successfully implemented several of the best practices enumerated in Gavin’s and Hausmann’s paper, Finance Undersecretary

Miguel Kiguel stressed his government’s efforts to strengthen its banking sector immediately after the 1995 “tequila” crisis, when Argentine banks suffered a run on deposits comparable to the U.S. panic of the 1930s.

The “vodka” crisis unleashed by Russia prompted the Argentine government to seek support from the multilateral banks to bolster a standby liquidity fund it had arranged with foreign lenders long before the most recent bout of instability in global financial markets.

Regarding the role multilateral development banks could play in this scenario, Hausmann noted that institutions like the IDB are often asked to show concrete results for their efforts to help borrowing countries develop their economies. But in terms of containing the social costs of financial volatility by protecting people’s livelihoods, creating precautionary arrangements may be more important than more traditional projects.

“One might say that we are not structured to prevent houses from burning down but rather to send some blankets after the fire is put out. I think that precautionary measures that stop houses from catching fire are very much what we should be working on,” he said. ■

“We are facing the first real global financial crisis, in which emerging markets around the world are feeling the effect of contagion.”

IDB President Enrique V. Iglesias

The Bank’s website (www.iadb.org) is loaded with more than 20,000 pages of reports, statistics, studies and other information not available anywhere else. Here is a selection of items of interest.

➤ In a major new book, Oxford University economist Rosemary Thorp explores the paradoxes of Latin America’s **economic history** during the past century in *Progress, Poverty and Exclusion: An Economic History of Latin America in the 20th Century*. Read the first chapter (in English) under the “New Titles” section of the “Press & Publications” button.

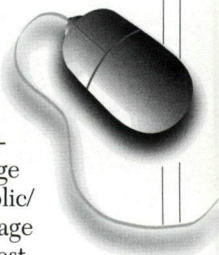
➤ In the lower left corner of the Bank’s home page is a button for The Regional Fund for Agricultural Technology, an IDB-sponsored consortia that promotes strategic **agricultural research**. Its online publications include a recent economic evaluation (in Spanish) of agricultural technology in the region.

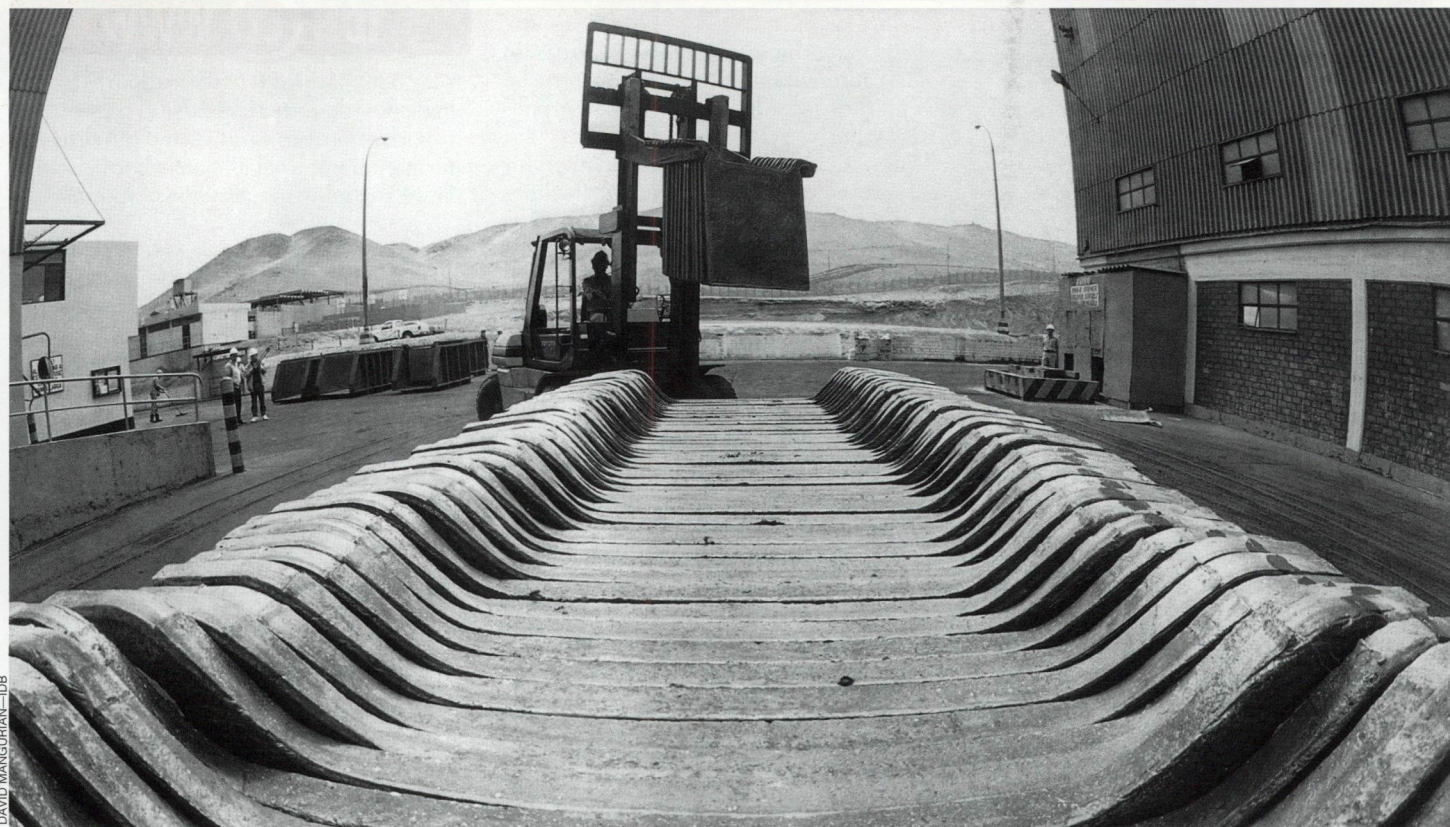
➤ The IDB’s Office of the Chief Economist has published more than 70 full-text working papers online. For a list of available titles, click on “Departments” and then choose OCE. The search button in the Publications section will pull up papers on specific subjects. For a provocative study of **pay scales** in Latin America’s education systems, search for “How Much Do Teachers Earn?” by Claudia Piras and William Savedoff.

➤ The IDB’s Felipe Herrera Library has a handsome home page (Spanish and English) on the Bank’s website, accessible under the “Departments” button. You may search an **online catalog** of the library’s 100,000 item collection, review recent acquisitions, and more.

➤ What do we know about **poverty** in Latin America and the Caribbean and how can we reduce it? The Bank’s Sustainable Development Department (SDS under the “Departments” button) presents an overview of the problem in its “Poverty and Inequality” section.

➤ Visit the IDB’s Informatics 2000 Initiative in the lower left corner of the Bank’s home page for an overview of this public/private program to encourage **information technology** investments in the region. “Recent Activities” for a description of projects involving satellite-based teacher training, online legislatures, and the Year 2000 computer problem.





A forklift operator lifts slabs of copper, one of Peru's principal exports, at a refinery near the country's northern city of Tacna.

Export promotion in a global economy

NO ONE DOUBTS THAT BOOSTING EXPORTS is one of the key challenges for Latin American and Caribbean countries bent on achieving sustainable economic growth. According to Juan José Taccone, director of the IDB's Institute for the Integration of Latin America and the Caribbean (INTAL), the question is how these nations should improve their exporting performance in markets that are being radically changed by globalization.

This issue was tackled at a forum organized in June by the Buenos Aires-based INTAL, the IDB's Trade and Integration Division and the World Bank. Participating were experts in export promotion from Latin America and the Caribbean, the United States, Asia and Europe.

Summing up the meeting's conclusions, Taccone explained why governments and export promotion agencies must continue to lend a strong hand to the private sector, even

in this age of retrenchment of the state and shrinking subsidies.

"The government has an important role to play in helping the private sector overcome what economists call, in their jargon, asymmetries and information gaps," he wrote.

In particular, export promotion policies should address certain blind spots in the markets that frequently thwart potential exporters. For example, small and medium-sized companies in the region lack sufficient information about business opportunities, consumer preferences and quality requirements in other countries. The cost of gathering such data is far too high for most entrepreneurs to undertake individually. Even if they could afford it, companies fear that their competitors will ride on their coattails without having to pay any research and marketing costs.


The same thing can be said about pioneering exporters, who must make a considerable investment in attempts to pry open a foreign market, cultivating contacts, establishing distribution chains and other costly activities which will later be used by their rivals.

Likewise, most companies in the region do not have the wherewithal to run ambitious technological research or training programs. As a consequence, they miss out on the productivity gains achieved by enterprises with deeper pockets.

These are gaps that can be successfully filled by national export promotion agencies, Taccone writes. He points to the fact that there are several examples in the Americas of agencies that cull information on foreign markets for their exporters and encourage their companies to attend trade fairs in order to help them become acquainted with markets abroad. Export promotion agencies could also help build bridges between enterprises and universities and research centers in order to help improve their technological and human resources.

Experts at the INTAL forum agreed that national export promotion agencies should be funded jointly by the public and private sectors, should have a fair degree of autonomy, and their executives should not be constrained by pay scales set for government workers.

The latest issue of the INTAL journal *Integration & Trade* includes an eight-article series on the new regional and multilateral trade scenario and the experiences of export promotion agencies in Brazil, Chile, Colombia, Costa Rica and Mexico.

 For additional information, visit the INTAL website at www.iadb.org/intal.

A yardstick for misfortune

Income, inequality, and a man named Gini

By PAUL CONSTANCE

CAN INEQUALITY REALLY BE MEASURED? On one level the notion seems absurd, like trying to quantify fairness, honesty or corruption.

Dictionaries define inequality as a "lack of equality" in opportunity, treatment, or status. Though these concepts are themselves abstract, people tend to use something very concrete—personal income—as evidence that some individuals are more equal than others, to quote the popular adage. In effect, most societies view the distribution of income as a de facto indicator of inequality.

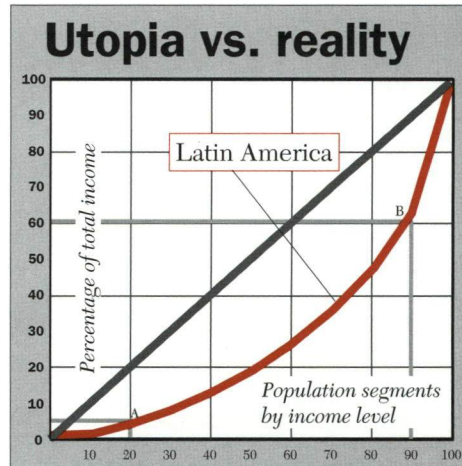
Economists have turned the human preoccupation with pay into a more scientific measure of inequality. They are helped by the fact that income, unlike opportunity or status, can actually be measured with some precision. For the IDB's new report on economic and social development, *Facing Up to Inequality in Latin America*, Bank researchers used answers to questions about income in household surveys conducted between 1994 and 1996 in 14 countries representing more than 80 percent of the region's

population. These answers can be plotted as an ascending curve on a graph that shows the percentage of all income earned by segments of a population (see box at right).

In a perfectly equal society, this line would be a straight diagonal (because, for example, any given 20 percent of the population would earn exactly 20 percent of all income). In Latin America and the Caribbean, the curve sags downward markedly. Look at points A and B on the graph, and you'll see that the poorest 20 percent earn only 4 percent of all income while the richest 10 percent earn 40 percent of national income.

For most people, however, a curve is much less descriptive than a score. To make themselves understood, economists have popularized a measure known as the "Gini coefficient." Named after Corrado Gini (1884–1965), an Italian statistician and demographer who pioneered studies of the measurable characteristics of populations, the coefficient represents the gap between the perfect distribution diagonal and a country's actual distribution curve.

A Gini coefficient of 0 indicates perfect income equality, while a 1 would imply that



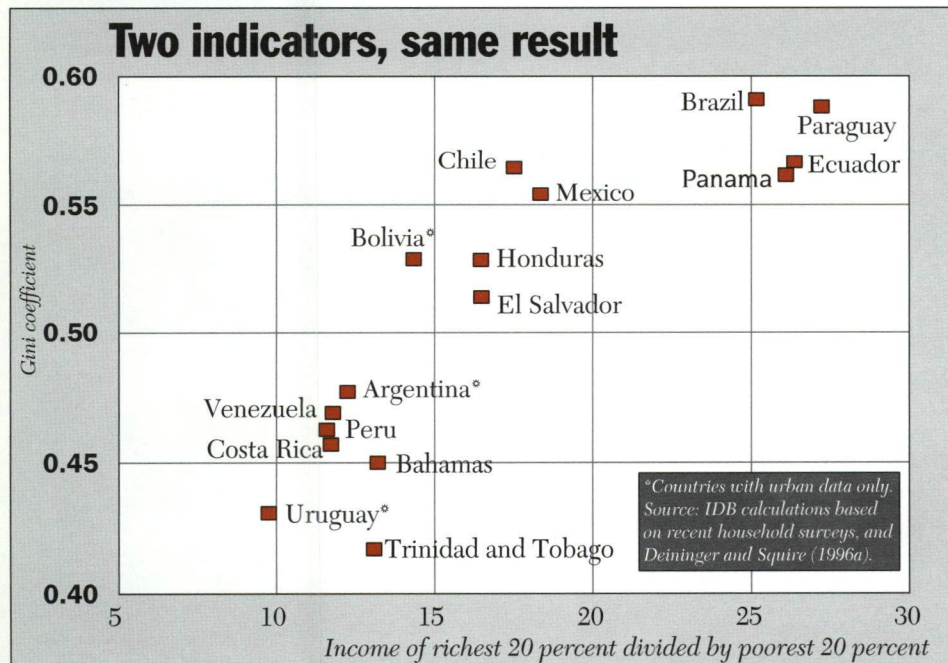
The diagonal line represents an ideal society where a given percentage of the population earns a proportionate amount of all income. The curved line represents average income distribution in Latin America.

all wealth is concentrated in a single person. For the 95 out of 100 countries for which comparable data are available, Gini coefficients range between 0.26 and 0.60. In Latin America and the Caribbean, they range from a high of 0.59 in Brazil to a low of 0.43 in Uruguay (see graph below).

Skeptics might dismiss the Gini coefficient as yet another statistical toy cooked up by researchers obsessed with rankings. Indeed, there are several other ways of parsing income numbers in order to assess income inequality. One of the most common consists of simply dividing the income of people in the top 10 or 20 percent of the curve by that of the bottom decile or quintile. But as the larger graph on this page demonstrates, Gini coefficients tend to correlate very closely with these so-called "income gap" ratios.

For all their appeal, however, the Gini and other income indicators only illuminate a narrow slice of reality. "The real goal is to measure standard of living," says Miguel Székely, an IDB economist who processed many of the statistics in the Bank's report, "and income is only one dimension of standard of living." Other dimensions, such as health, education and consumption, are supposed to be reflected by income, but sometimes they aren't. Countries with comparable Gini scores can have radically different health indicators, for example.

As national averages, income indicators also obscure the huge variations in inequality within individual countries. If the household surveys from which an index is derived include only urban areas (as is the case with Argentina, Bolivia and Uruguay in the graph below), the distortion is even greater. Székely says the inequality score for these three countries would have been considerably worse if rural areas also had been included.



To test the accuracy of two popular indicators of income inequality, this graph juxtaposes their results. Countries with the biggest income gaps (horizontal axis) also have the highest Gini coefficients (vertical axis).

Latin America in black and white

A renowned Brazilian photographer celebrates work, religion, hope and despair

By ROGER HAMILTON

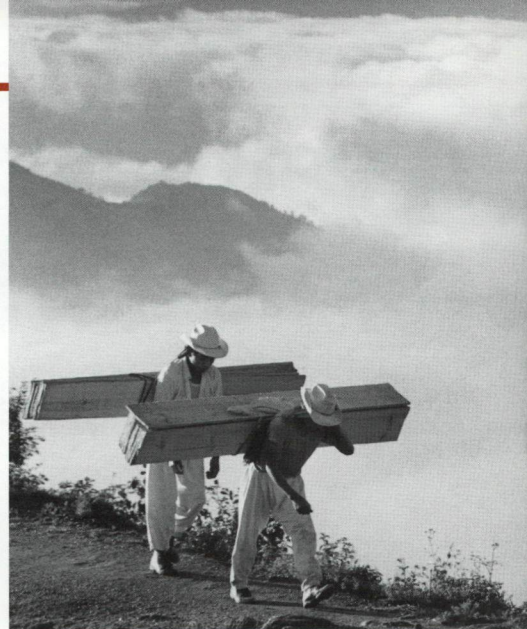
MEXICAN WORKERS CARRY STACKS OF rough-sawn lumber to market. . . Miners in the mudpits of Brazil's Serra Pelada gold mine pause for a rest. . . A close-up of three rough and gnarled feet symbolizes the harsh Andean environment.

These are images of ordinary people, living anonymous lives. They are also poignant reminders of the realities of poverty and the mission of institutions such as the IDB.

The exhibit "Other America," by re-

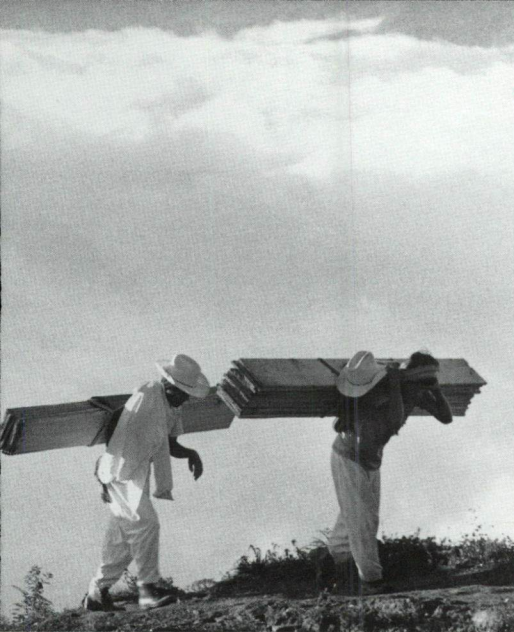
nowned Brazilian photographer Sebastião Salgado, on view recently at the IDB's Washington, D.C., headquarters, was presented as part of a series of lectures and cultural events commemorating Brazil's National Day. The photographs show people from Northeast Brazil, Chile, Bolivia, Peru, Ecuador, Guatemala and Mexico—"this Latin America," Salgado says in the accompanying text, "so mysterious and suffering, so heroic and noble."

While they can be viewed as art, the photographs also portray the human side of economic and social development. And in fact,



Salgado was trained as an economist, first in São Paulo, then in Paris. After a stint with the International Coffee Organization in London he turned to photography, documenting famine in the Sahel. After that he worked for several photographic agencies, including the elite New York-based Magnum agency. He is now based in Paris, France,





Nothing musty about old music

Colombian group gets toes tapping in U.S. debut

MUSICIANS IN 17TH CENTURY BOGOTA didn't need electric guitars and shiny drum sets to get their audiences moving to the beat. Although the music of the Renaissance and early Baroque—and particularly church music—is often regarded as austere and inaccessible, much of it belies this image.

To prove it, a group of spirited young musicians from the Colombian capital played a program of early Latin American music in September at the IDB's Washington, D.C., headquarters that kept toes tapping in the overflow audience.

Called *Música Ficta* ("ficta" referring to the Renaissance practice of using accidentals to prevent intervals that were prohibited for harmonic or symbolic reasons), the seven-member group was making its first United States performance after Latin American and European appearances. The IDB concert was presented by the Bank's Cultural Center.

Lively church music? "Think of it as gospel music," says *Música Ficta* director Carlos Serrano. The pieces were often played at processions, where their strong, often syncopated rhythms, kept the churchgoers moving. Once inside the cathedral, parishioners would occasionally even get up and dance.

The church couldn't afford to have dull music, according to Serrano. One of Spain's great missions in the New World was to convert the indigenous people to Catholicism,

and music was a large part of the church's appeal. In fact, the Spaniards instructed the Indians to play and make musical instruments, just as they taught them to paint religious scenes.

So too, Serrano and his group are making converts of modern audiences, which are drawn to the exotic sights and sounds of the replicas of early instruments his group uses. Against the beating of a hide-covered drum, the dulcian, a precursor to the bassoon, lays a base line while a guitar-like vihuela sets down the chords. A double reed shawm and a pair of high-pitched recorders trade solo parts with the singers.

Mastering these quirky instruments can be a challenge, as can finding early music scores. Although Serrano lives only a couple of blocks from the Bogotá cathedral, one of Latin America's finest repositories of original material, he has had no luck in gaining admittance. Most of the music his group plays comes from United States archives, particularly from the collection at Indiana University in Bloomington, where the group is studying at the Early Music Institute.

The early music movement was pioneered in England and the Netherlands and then spread to the rest of Europe and North America in the 1970s. Argentina is the leading Latin American center for early music, followed by Brazil and Mexico.

—R.H.

where he established his own agency, Amazonas Images.

Salgado picks his own subjects, and his output typically takes the form of book-length collections of photographs. "Other America," his first collection, was followed by a project on the Sahel in Africa, and then an exploration of the theme of work.

Regardless of the subject, Salgado never fails to communicate his intense interest in people. He uses the power of black and white images, with their ability to cut through the distractions of color and movement, to capture the light and shadow essence of his subjects. In lesser hands, achieving this level of formal beauty would risk masking the human dimensions of the subject. But in the case of Salgado, the elegance of the abstract image puts the humanity of his subjects in even sharper relief. Poor people have nobility, but there is nothing noble about poverty.

Salgado works in the time-honored tradition of documentary photography, but he documents people's lives, not news events.

"Some photographers talk about how the technique worked, or the situation in general," remarked an editor at Magnum, as quoted by *Americas* magazine. "Sebastião gives you little stories of what people said. He is very close to the people he photographs."

Salgado has won numerous awards, including the Eugene Smith Award for Humanitarian Photography (U.S.), Oskar Barnack Prize (Germany), Rey de España Award (Spain), Erna and Victor Hasselblad Award (Sweden), Grand Prix de la Ville de Paris (France), Grand Prix National du Ministère de la Culture et de la Francophonie (France), and Centenary Medal Award and Honorary Fellowship, the Royal Photographic Society of Great Britain.

Meeting of Andean villagers, Ecuador, 1982 (left), and men deliver wood to villages in the Eastern Sierra Madre, Mexico, 1980 (above).

DAVID MANGURIAN—IDB



Emissaries of ancient music: Carlos Serrano (second from left) and the other members of *Música Ficta*.

PROJECT UPDATES

GUYANA

Capital gets water meters

CREWS FROM GUYANA'S GEORGETOWN Sewerage and Water Commission (GSWE) are installing 500 water meters in homes and businesses throughout the capital as part of a far-reaching reform of the city's water system.

The meters will supply data on consumption that will enable the commission to set rates, project revenues, estimate water losses and identify the potential for conservation. All of the city's 28,000 customers will receive meters within the next five years, which will save an estimated \$500,000 annually. At present, only 2,000 users have meters. Of the 20 million gallons of water produced daily by the system, an estimated 14 million gallons are lost through leaks and other problems.

The project is part of an IDB-financed program to improve all aspects of the city's water supply management, including administration and maintenance. Particular emphasis is being placed on staff training, budgeting, and planning for repairs. Physical works include installation of new wells and tanks and repair or replacement of pumping equipment, pipe, valves and meters.

The project is being managed by the HARZA Engineering Company of Chicago in association with the Sven Trent Water Authority of the United Kingdom, Caribbean Engineering Management Company and E&A of Guyana.

The commission has already completed a computerized customer registry of 28,500 households and put in place new systems for billing and collecting, accounting, and cost control. The authority's staff has been reduced from 450 to under 240 through early retirement and other incentives. The remaining staff members, who are receiving salaries competitive with the private sector, have a new esprit de corps, according to Colin Forsythe, project specialist in the IDB's Guyana office. Also, water tariffs have been raised significantly over the past three years to ensure the GSWE's financial viability.

HONDURAS

Road to the past

Editor's note: At press time it was still not known if the roads mentioned in the following article were affected by Hurricane Mitch. Hopefully they were spared, and will contribute to the rebuilding effort that will be the subject of coverage in our next issue.

THE EL PUENTE ARCHEOLOGICAL park in Honduras' Copán department will become a more regular part of visitors' itineraries with the completion of a 6.25-km paved access road linking the Mayan site to the main highway.

El Puente, which is still being investigated by a team of archeologists from the Honduran Anthropology and History Institute with financing from the Japanese International Coopera-

tion Agency, was inaugurated as a park in 1994.

The road, which was financed by the IDB, was officially inaugurated earlier this year by Honduran President Carlos Roberto Flores, other senior officials and the IDB's representative in Honduras, Fernando Cossío.

The second most important archeological site in Honduras after Copán, the temples and pyramids of El Puente occupy an area of some 500 hectares in a fertile valley ringed by mountains. The 5.5-hectare park includes an interpretive museum built in the colonial style.

El Puente was first described by a Danish explorer in 1935, but the site had to wait until 1984 to become the subject of scientific investigation and mapping by teams of Japanese archeologists.

The site is made up of 210 structures, of which the nine principal ones have been studied and restored. These, together with a series of elongated struc-

tures that still lie covered with earth, form five well-defined plazas.

The park includes a building housing administrative offices, facilities for the sale of tickets and publications, an exhibition hall containing material on the history of the exploration of the site, a cafeteria, a gift shop and a scale model of how the site originally looked.

While in the department of Copán, President Flores also inaugurated a 10.5-km paved road link between the communities of Corquín and Cucuyagua. The road, which also was financed by the IDB, will help integrate this formerly isolated area into the national economy.

The Corquín area also has considerable potential for tourism. The mountainous region includes the Celaque National Park, the most notable cloud forest in Honduras. In addition, the area's waterfalls and bathing resorts attract many visitors.

WILLIE HEINZ—IDB



LINDEN STRAIN

Data from meters will be used in setting rates for consumers.



MAYAN MASTERPIECE: Some of the most impressive pre-Columbian ruins in Honduras will become a regular feature of visitors' itineraries now that an access road to the El Puente archeological site has been completed. In July, Honduran President Carlos Roberto Flores presided at the inaugural ceremonies marking the road's completion (below).



ALEX GALEAS, DIARIO EL PERIODICO

NEW PROJECTS

BRAZIL

Record IDB loan for private firms

THE BANK APPROVED THE BIGGEST loan in its history on September 23, a \$1.1 billion global multi-sector financing program to support the development of micro, small and medium-sized enterprises in Brazil.

The program, which will be carried out by Brazil's Banco Nacional de Desenvolvimento Econômico e Social, comes at a time when the Brazilian government has had to tighten its fiscal policy in the face of global financial turmoil.

"Support for these small enterprises is critical for improving their productivity and for creating a large number of employment opportunities," IDB President Enrique V. Iglesias said at a Bank executive board meeting when the loan was approved.

One of the main goals of the Brazilian program is to expand small firms' access to medium- and long-term financing so that they may improve their operations and become more competitive. Brazil's smallest companies and businesses employ between 24 and 36 million people.

The lack of access to credit is one of the greatest hurdles small firms must overcome. Only about 10 percent of them obtain loans from cooperatives, finance companies and nongovernmental organizations. Due to their informal nature and regulatory constraints on banks, most microenterprises must turn to friends, relatives, suppliers or moneylenders for credit, usually on unfavorable—if not usurious—terms.

The availability of financing also should serve as an incentive for microenterprises and small businesses that operate in the informal or "underground" economy to join the mainstream, building on Brazil's 1997 SIMPLES program that simplified tax rules for small-scale enterprises.

Another component of the program will encourage private sector investment in projects that improve the quality of higher

education and health services for the poor, two areas that also have suffered from the lack of access to long-term financing.

While university enrollment in Brazil over the past four decades, from under 100,000 students in 1960 to over 1.6 million in 1994, the percentage of young Brazilians getting a higher education is about half the average for the region. Nevertheless, demand far outstrips the system's capacity to accommodate students.

In the case of health services, a constitutional mandate requires the Brazilian government to provide free coverage for the uninsured, which make up about 70 percent of the population.

Budgetary constraints and unintended consequences of the policies governing the state-run universities and health system, such as subsidies that benefit the middle class, have been especially costly for the poor.

On the other hand, until now private providers of higher education and health services rarely had access to the long-term financing needed to significantly expand their operations.

By tapping such credit lines, efficiently run higher education institutions and health care providers will be able to play a larger role and serve more people. Private universities tend to offer more affordable programs and more flexible schedules to accommodate less affluent students. The expansion of private sector health services would allow the government to concentrate on providing care for low-income groups.

—Peter Bate

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NEW PROJECTS

REGIONAL

Program to fight money laundering

THE IDB'S MULTILATERAL INVESTMENT Fund will provide a \$480,000 grant to finance a pilot program to help countries in Latin America and the Caribbean fight money laundering, a criminal activity threatening the integrity of the region's financial systems.

The program to train financial regulators and bank officials in detecting and foiling asset laundering schemes will be carried out by the Inter-American Drug Abuse Control Commission (CICAD), an autonomous agency of the Organization of American States. IDB President Enrique V. Iglesias and OAS Secretary General César Gaviria signed the grant on Sept. 29.

CICAD plans to hire consultants to design and implement a training program for instructors in up to five countries that already have strong anti-money laundering laws on the books. Money laundering is a term used to describe financial maneuvers aimed at concealing the illicit origin of funds, such as the proceeds of drug trafficking and other crimes.

Building on previous bilateral and multilateral efforts, the regional program will seek to establish quality standards for anti-money laundering training. It will also promote cooperation on money laundering prevention among financial regulators, banks and banking associations in different countries.

Training will be carried out in the use of new technology that has proved to be highly successful in anti-money laundering programs carried out in the United States, Colombia and other countries. Other materials, including video, CD-ROM and computer software, will also be used as a cost-effective way to standardize and perpetuate the program.

The program, which grew out of the Summit of the Americas' plan of action, will turn out some 250 certified instructors.



DAVID MANGURIAN-IDB

LATEST APPROVALS

Argentina

A \$75 million IDB loan from ordinary capital and a syndicated loan of up to \$300 million to support the five-year investment program of Transportadora de Gas del Sur S.A., one of the country's two private sector natural gas transportation companies.

A \$10 million IIC loan to Hidronihuil S. A. of Mendoza Province to help finance an electric power project.

An \$8 million IIC loan to Curtiembre Arlei S. A. to help finance the expansion and modernization of the company's production facility in Las Toscas, Salta, which will increase the production of unfinished hides.

Bolivia

A \$4 million IIC loan to BISA Leasing S.A. to provide small and medium-sized companies with medium- and long-term financing via leasing operations that are needed to acquire equipment for productive purposes.

STEADY HANDS: Students in a silk-screen class at a school for street children outside Rio de Janeiro get pointers from Pedro Paulo de Souza (right), who is himself a former street kid. The school, which offers traditional education and job training to some 200 children, built a gym, four classrooms and the silk-screen shop with the help of \$300,000 extended through an IDB-funded education and health care program.

Barbados

A \$13 million IDB loan to assist in the development of a modern, dependable and efficient waste management system that protects the environment and improves public health.

Brazil

A \$1.1 billion IDB loan, the largest in the history of the Bank, to Banco Nacional de Desenvolvimento Econômico e Social to support microenterprise and small businesses (see article, page 25).

A \$250 million IDB loan to improve housing in low-income neighborhoods. The program will finance approximately 70 projects, managed by selected municipalities, that will benefit 70,000 families by increasing access to housing, improving sani-

tation, and regularizing land titles.

A \$24 million IDB loan to support the improvement of environmental quality and the conservation of natural resources.

A \$25 million IDB loan to support democratic institutions through the use of information technology and the Internet. The project will aim to improve communication between elected officials and the general public in legislative assemblies at the national, state, and municipal levels.

Dominican Republic

An \$8.96 million IDB loan to implement a decentralized development model in five provinces that will finance basic services for low-income groups and make them more accessible.



Honduras

A \$36 million soft loan from the FSO to improve health care.

A \$10 million IIC loan to Luz y Fuerza de San Lorenzo, S.A. de C.V. to help finance the construction and operation of a 60-megawatt thermoelectric plant.

Nicaragua

A \$65 million soft loan from the FSO and a \$765,000 grant for technical cooperation to strengthen the financial system.

A \$76.13 million loan from the FSO to support the strengthening and modernization of the electricity sector.

A \$19.5 million IDB loan from ordinary capital and \$19.5 million syndicated loan to the Tipitapa Power Company for the country's first private sector power plant under a new law for the electricity sector.

A \$4 million IIC loan to Financiera Delta S. A. to support the expansion of services to include a leasing operation that will provide financial alternatives for the country's small and medium-sized companies.

A \$997,000 MIF grant to assist the modernization of capital markets and attract investors.

Panama

A \$2.5 million IDB loan to assist in developing a strategy to promote private sector investment in the tourism industry.

Peru

A \$30 million IDB loan and \$1.6 million grant from the European Union to support urban and rural microenterprise.

A \$2 million MIF grant to assist the creation of a policy and regulatory environment that enables private sector participation in the social security health system.

A loan of 687,471 European Currency Units (Ecu) and a grant of 512,949 Ecu from the European Union Special Fund for Financing of Microenterprises in Latin America to four Peruvian NGOs involved in microfinance.

Uruguay

A \$32.4 million IDB loan to improve agricultural technology to benefit small and medium-sized producers and to improve the sanitary quality verification process for animal based products.

Regional

A \$4 million MIF equity investment in the Terra Capital Fund, which will support small businesses in South America that have a positive impact on biodiversity.

A \$975,000 grant from the Japan Special Fund and a grant of \$200,000 from the Fund for Special Operations to strengthen the ability of the Caribbean Community to negotiate multilateral, regional, and bilateral trade and economic initiatives.

A \$1.5 million IDB grant to the Fundación Mexicana para la Salud (Funsalud) to create an inter-American network to promote the use of policy and managerial instruments and analytical methods for health system reform.

A \$10 million IIC investment in WestSphere Latin America Private Equity Growth Fund L. P., a diversified regional fund established in New York that will make equity or equity-related investments in medium-sized companies located in Latin America.

NEED DETAILS?

To read **press releases** on newly approved projects on the Internet, go to: www.iadb.org/exr/prensa/releases.htm. For related **project documents**, go to: www.iadb.org/exr/english/projects/projects.htm. IDB Projects, a monthly listing of planned projects and procurement opportunities, is on the home page under "Business Opportunities." For a sample printed copy, call (202) 623-1397, or fax (202) 623-1403. The Public Information Center can provide **further information** at (202) 623-2096, or e-mail PIC@iadb.org.

Sweden and Portugal set up trust funds

SWEDEN HAS ESTABLISHED A SPECIAL fund, to be administered by the IDB, that will help finance projects that strengthen democracy and the rule of law in Latin America and the Caribbean.

IDB President Enrique V. Iglesias and the assistant director general for Latin America for the Swedish International Development Agency, Eivor Halkjaer, signed an agreement in September under which Sweden pledges an initial donation of 8 million kronor for the fund. The new "Swedish Technical Cooperation Fund for Governance, State Reform, and Civil Society" will be used to finance consulting services for project identification, preparation, and evaluation; technical assistance for the development of new legislation; and the organization of consensus-building activities, such as conferences, seminars and workshops.

Additional activities that may be financed are design and implementation of pilot projects, training of human resources, and diagnostic studies of current policies.

Other Swedish trust funds, administered by the IDB, provide resources for microenterprise and small business, and other activities. Sweden authorized 1.6 million kronor earlier this year to assist a campaign to reduce and prevent domestic violence in Latin America and the Caribbean.

THE PORTUGUESE GOVERNMENT signed an agreement with the IDB to establish a fund with up to \$1.8 million in resources. The fund will finance consulting services for environmental and feasibility studies related to development projects in Latin America and the Caribbean, along with project preparation, implementation and evaluation activities. Seventy percent of the funds will be earmarked for Portuguese-owned consulting firms and the remainder will be available to the project host country.

A \$7.5 million IIC line of credit and another credit line of \$12.5 million, this one to be funded by international commercial banks, to Banco Nacional de Crédito, S.A. to finance medium-sized, locally owned companies in the tourism and free trade zone sectors.

Ecuador

A \$10 million IIC loan to Banco del Progreso S.A. for on-lending to eligible small and medium-size companies.

Guatemala

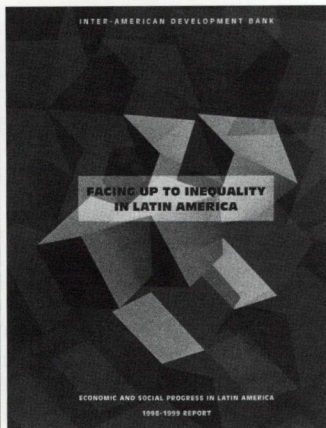
A \$1 million grant from the Japan Special Fund to support preparations for a project that will assist low-income groups in the country's Eastern region.

Haiti

A \$22.5 million Fund for Special Operations (FSO) loan to support the first stage of a reorganization of the national health system.

A \$19.4 million FSO loan to support the first phase of the government's investment project to strengthen basic education.

Facing Up to Inequality in Latin America



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of Technology**

This year's edition of the IDB's report on economic and social progress in the region casts new light on the causes of Latin America's gaping economic and social divisions. It also presents evidence that the region has a unique demographic window of opportunity for reducing inequality. But the countries must act now before the window closes shut.

For information on ordering, contact the IDB Bookstore, E0105, 1300 New York Avenue, N.W., Washington, D.C. 20577. Or phone (202) 623-1753, fax (202) 623-1709, or e-mail to idb-books@iadb.org.

IDB funds regional health policy network

THE FUNDACION MEXICANA PARA LA Salud received a \$1.5 million IDB grant to create an inter-American network for health policy. The network will support training for decision makers and technical personnel, with an emphasis on the use of management instruments and analytical methods in the design of health system reforms in Latin American and Caribbean countries. The grant also will finance regional and subregional seminars for health sector officials that will be carried out by the Inter-American Leadership Forum on Health, along with an Internet-based clearinghouse of information on health system reform initiatives.

IDB issues first euro bond

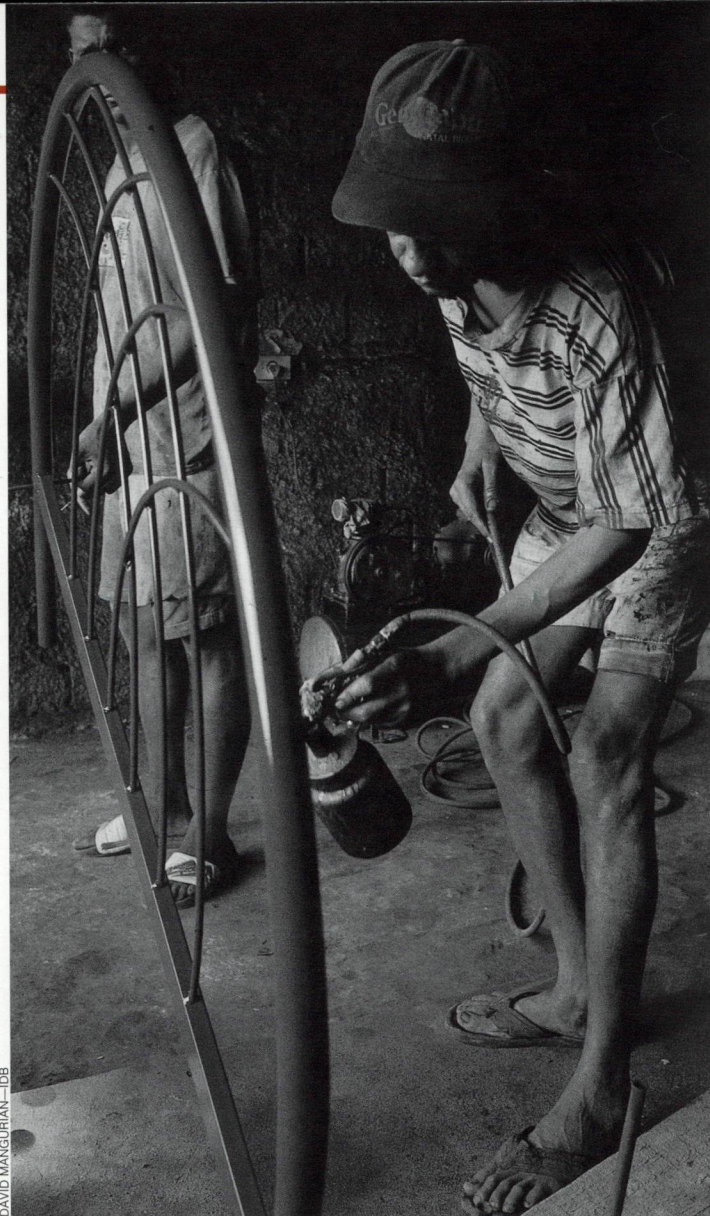
THE IDB IN OCTOBER LAUNCHED ITS first bond issue denominated in euros, the new currency that will replace 11 national currencies in the European Union beginning Jan. 1, 1999.

Nomura International was the lead manager of the euro 30 million issue (\$35,850,000), which was launched under the IDB's Euro Medium-Term Note Program. The bonds pay a 3.15 percent semiannual coupon and will mature on Oct. 24, 2002. The issue price was 99.98 percent. The net proceeds of the transaction will be swapped into dollar-denominated floating-rate financing.

APPOINTMENTS

Joel Riley, senior deputy manager of the IDB's Human Resources and Administrative Services Department, has been named interim chief advisor in the Office of the Executive Vice President, in addition to his current duties.

Robert Kaplan, previously chief advisor in the Office of the Executive Vice President, has been



DAVID MANGURIAN—IDB

SWEET DREAMS: An employee at Dan Móveis, a metal furniture-making business in Recife, Brazil, applies paint to a bed headboard. The business was started by José Sebastião Filho, a laid-off spray paint equipment factory worker who used two small loans from an IDB-financed microcredit program to buy materials and open a retail outlet for the furniture.

named chief of the Environment and Natural Resources Management Division within the IDB's Regional Operations Department 2.

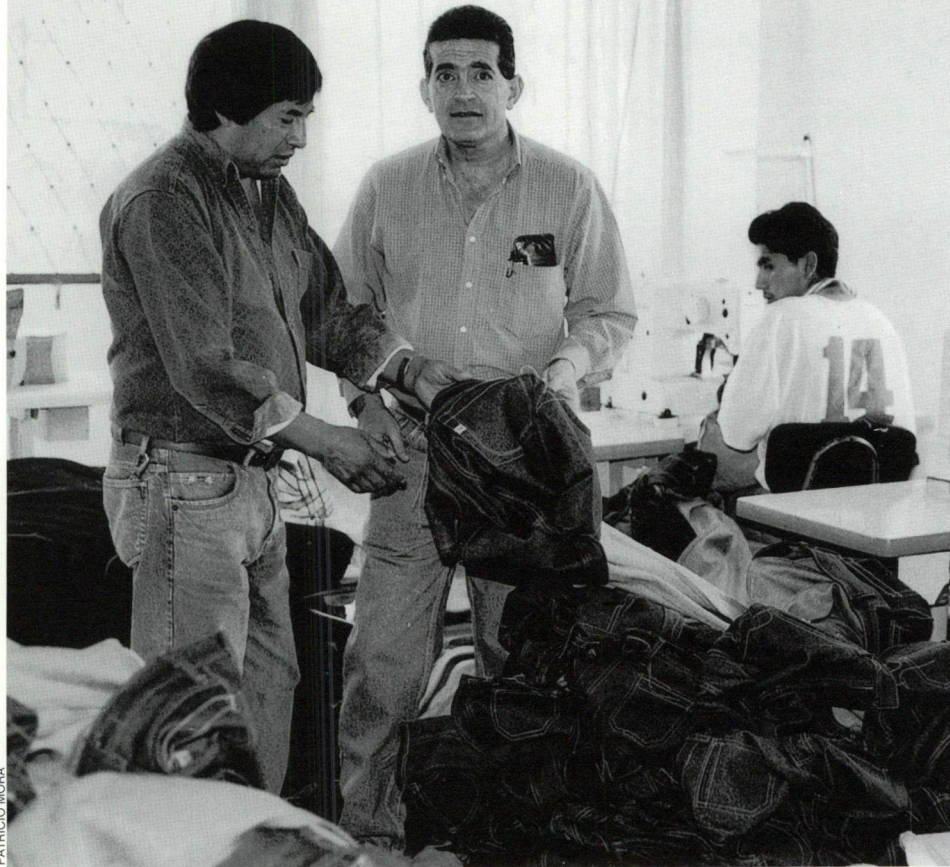
Jeremy Gould, previously advisor to the IDB's Regional Operations Department 3, has been named IDB Representative in Barbados. He succeeds **Pamela Williams**, who has been named a special advisor to the Caribbean Development Bank.

Silvia Sagari, formerly chief of the Infrastructure and Financial Markets Division in the IDB's Sustainable Development De-

partment, has been named senior regional operations advisor for Regional Operations Department 1.

Pietro Masci, who was chief of the Cofinancing Division in Regional Operations Department 1, will succeed Ms. Sagari.

Kyoichi Kato has been named deputy manager of the IDB's Multilateral Investment Fund. He previously held a number of senior positions at the Export-Import Bank of Japan, including posts as regional representative of the bank in Argentina and Colombia.



Lanusse examines the detail work on jeans produced in a Pelileo factory.

Reason for smiles in Ecuador's blue city

BY PETER BATE

WHEN JOSE ANTONIO LANUSSE FIRST arrived in Pelileo, a town of 12,000 people in the mountainous Sierra region of central Ecuador, there were hardly any proper buttonholes.

What would be an inconvenience for most places was an economic hardship for Pelileo, because its main industry is manufacturing denim

clothing. In fact, the town is so identified with the denim industry that it is known as "la ciudad azul" (Spanish for blue city) for its thousands of pairs of blue jeans drying on roofs.

At that time, most of the modest workshops and small factories made buttonholes by cutting small slits in the trousers, a crude technique that condemned their products to a short life before they started fraying. Only one medium-sized maker owned a buttonhole sewing machine, and he was not about to help his competitors by sewing buttonholes for other firms. (However, a disloyal watchman at the factory surreptitiously used the coveted machine to make buttonholes for other manufacturers, but his fees were too high for most potential clients.)

What was a headache for Pelileo's jeans makers was a golden opportunity for Lanusse, an Argentine lawyer who runs INSOTEC, a nongovernmental organization that provides business development services for small and microenterprises in Ecuador. His plan was to introduce sorely needed

technology into Pelileo's textile industry.

In 1994 INSOTEC used funds from an IDB soft loan to buy a buttonhole machine and installed it on the floor of its business service center in Pelileo. It charged jean makers 10 cents a buttonhole and disseminated information about the real cost and the source of this technology.

Today there are about half a dozen similar machines in the town. The cost of making a buttonhole has dropped, garment quality has improved, and so have the prices fetched by Pelileo's products.

Soon realizing that the buttonhole business could not remain profitable for long, INSOTEC moved into new activities, such as embroidery work and bulk purchasing of raw materials, and plans to move into new areas, such as stone washing of fabric. It also has organized business missions to cities in neighboring Colombia so that local manufacturers can see how more modern factories are run.

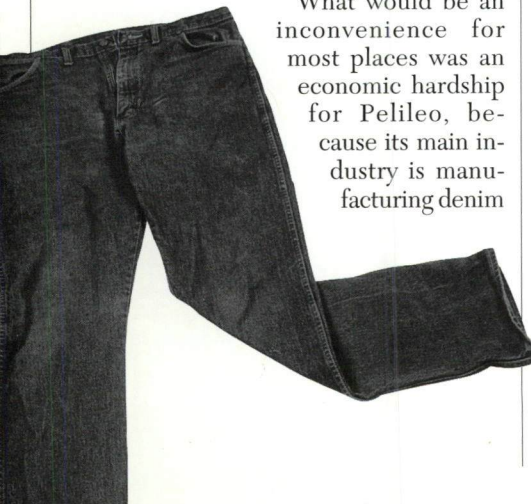
Created in 1980 as a social and economic research institute, INSOTEC gradually focused its mission and set itself achievable, measurable goals. Lara Goldmark, an IDB microenterprise specialist, credits INSOTEC's successful transformation to its emphasis on human resource development, a first-rate management information system and a market-based product development strategy which regards all of its services and offices as profit centers.

"INSOTEC drives home the idea that business development services for microenterprises can be for-profit, sustainable activities," she said.

Lanusse himself attributes INSOTEC's success to the discipline imposed on it by supporters such as the IDB and USAID, which insisted that beneficiaries be billed for services. "We found what services microentrepreneurs really wanted by seeing what they were willing to pay for," he explained.



In Ecuador's blue city, jeans mean jobs.





DAVID MANGURIAN—IDB

EVERYONE SAY "CHEESE": Indigenous grade school students in Opoqueri, Bolivia, show off sheep they have "branded" with traditional ribbons. At school, they receive instruction in their native Aymara language through an IDB-financed program.

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