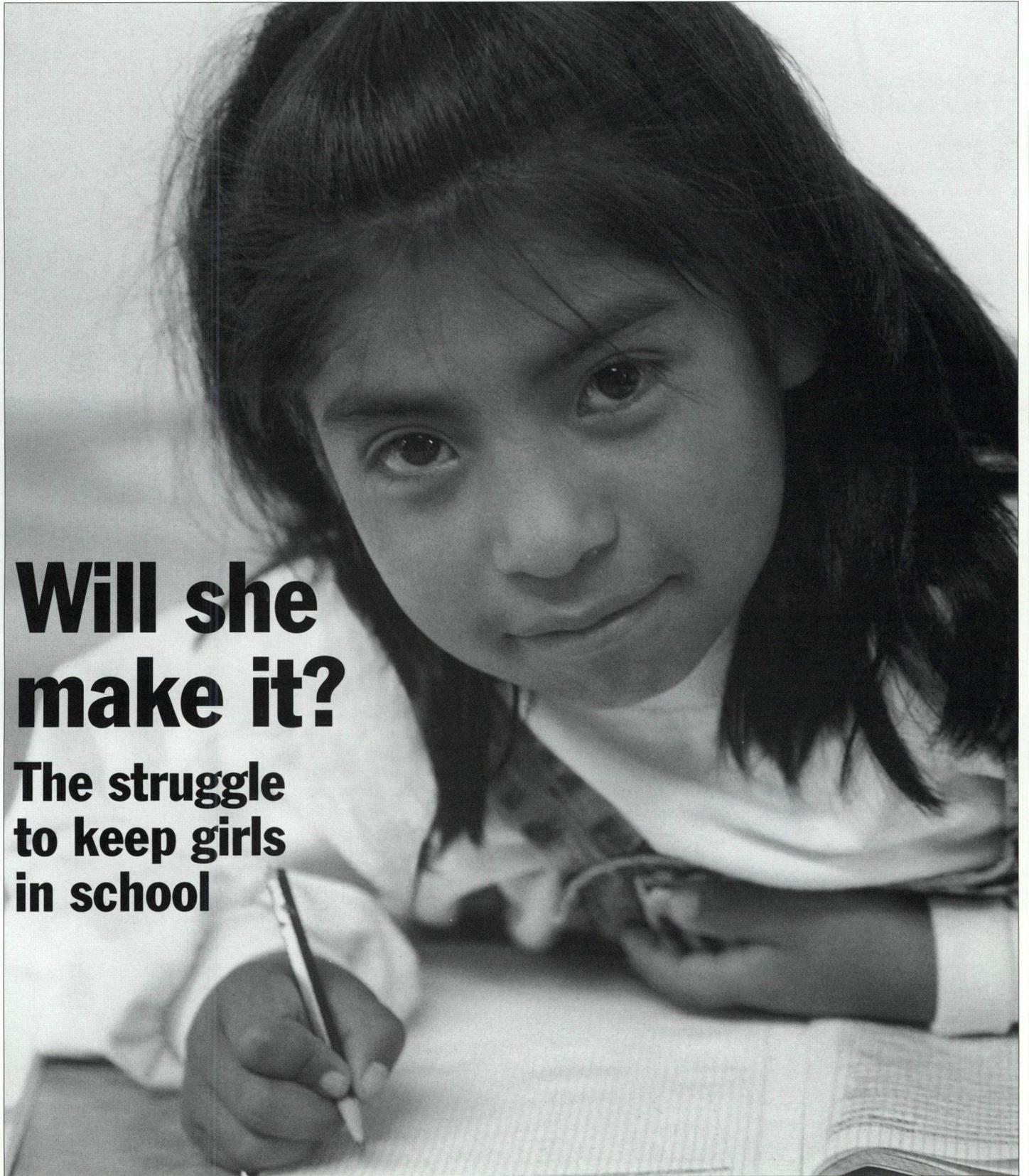


■ INDUSTRY'S TINY TITANS ■ SAMBA TO SUCCESS ■ LABOR UNIONS SEEK DIALOGUE

IDB AMERICA

Magazine of the Inter-American Development Bank

April 1998



**Will she
make it?**

**The struggle
to keep girls
in school**

VIEWPOINT

3 False remedies and Asia's crisis

FOCUS

4 Will she make it?

The struggle to keep girls in school

6 The story of Marta and Rosa

NEWSBEAT

8 A seat at the table
Union leaders make the case for inclusion

9 Round-up
El Niño steps to peace, conservation and investor savvy

10 Stumping for consensus

“Why must workers always pay the price of economic reform?”

María Rosa Velásquez
Central Unitaria de
Trabajadores, Chile



Velásquez and other labor leaders share concerns with IDB executives. See page 8.

THE BANK IN ACTION

11 A bridge that's earthquake-tough

THINKTANK

12 Those crucial childhood years

12 A better health test for sick banks

FIGURATIVELY SPEAKING

13 Industry's tiny titans
Small-scale manufacturing

PROJECT NEWS

14 Updates
A better cross-border highway for El Salvador

14 New projects
Violence prevention in Colombia; recharging Mexico City's aquifer

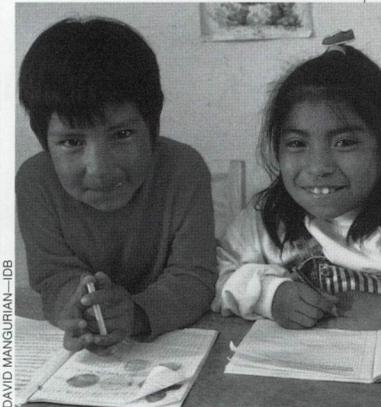
EXPRESSIONS

16 Samba to success

THE COVER

Back to school. Maricela Mejía Venegas, 8 years old, of La Paz, Bolivia, used to help her mother wash clothes instead of going to school. Now she attends classes and gets a nutritious snack at an IDB-supported after-school program that seeks to get working children back to school. For a look at other approaches to helping girls get an education, see story on page 4.

—IDB photo by David Mangurian

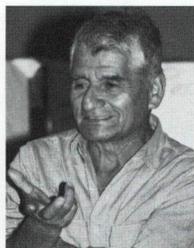


EDITORS' NOTEBOOK

A leader emerges from Guatemala's mountains

CAN A SINGLE PERSON EN-capsulate the turbulent modern history of Guatemala? Juan López Díaz comes close.

Born in 1929 in Jacaltenango, six hours by road from Guatemala City, López spent his early years as a subsistence farmer. At age 32 he started working for the Maryknoll Brothers, a Catholic missionary group, providing them with a “horse taxi” on trips to mountain villages.



Juan López Díaz

The missionaries taught him to read, and soon he was taking agriculture courses.

Eventually López bought land, planted coffee, joined a growers' cooperative and began showing a gift for lead-

ership. He was named president of Guatemala's Federation of Coffee Growing Cooperatives and was sent to the United States to study Native American agricultural cooperatives. Later he was elected director of Guatemala's National Coffee Growers' Association. He served as mayor of Jacaltenango from 1968 to 1970.

Like all Guatemalans, López often found himself in the crossfire of his country's long civil

war. Some times he was harassed by left-wing guerrillas and other times by the Army. Through it all, he worked doggedly at what matters to him most: helping small farmers make the transition from

subsistence to prosperity.

Today López is recognized as one of Guatemala's foremost authorities on small-scale agriculture and cooperative farming. Last year, when the government launched its ambitious Community Development for Peace Program (DECOPAZ), López was named to serve on the program's executive board, along with six other leaders from government, indigenous communities and the private sector.

López is enthusiastic about DECOPAZ, which will finance grass-roots infrastructure and production projects with support from \$50 million in IDB financing. He likes the fact that the project puts financing directly in the hands of qualified local communities, which are free to choose projects based on their own priorities.

“The villagers are the real experts when it comes to their own development,” López says. “This project finally gives them the wherewithal to do something about it.”

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False remedies and Asia's crisis

By **NANCY BIRDSALL**
and **MICHAEL GAVIN**

"How do you set taxes on the services that a U.S. architect provides over the Internet to a Costa Rican client?"

José Manuel Salazar, Costa Rican foreign trade minister, quoted in *The Journal of Commerce*, March 17. Salazar was referring to the difficulties of setting international standards for the sale of goods and services over the Internet.

"...unjust, stupid, backward and uneconomical."

Chilean Finance Minister Eduardo Aninat, describing the wage gap between male and female workers, in a March 10 article in *El Mercurio*. The story quoted estimates published by Chile's National Women's Service that women there earn between 50 and 60 percent less than comparably qualified men.

"In a global economy, education is the only route to lasting, inclusive growth."

U.S. Deputy Treasury Secretary Lawrence Summers, quoted by Reuters on March 18. Summers spoke at the IDB's annual meeting in Cartagena, Colombia.

"Barbados and the other islands are compatible enough and have enough strength in their economies to be able to have one currency."

Lester Bird, prime minister of Antigua, quoted in a March 27 *Financial Times* article on options for political and economic integration under study by Barbados, Antigua, Dominica, Grenada, Montserrat, St. Kitts, St. Lucia and St. Vincent.

"This is a way of striking a balance between conservationists and industrial fishermen."

Flor María Valverde, Ecuador's environment minister, quoted in a March 8 article in *El Comercio* about the signing of a law that would ban commercial fishing boats from operating within a 40 mile radius of the Galápagos Islands.

AS THE EFFECTS OF THE Asian economic crisis linger on, the question arises: what does it take to immunize an economy from contagion by foreign financial shocks? Policymakers are recognizing that several vaccines once considered effective have turned out to be false remedies.

First, we know today that policymakers cannot look to capital controls and financial repression to insulate an economy from external shocks. Several years ago, observers were blaming the "tequila crisis" of 1994-1995 on the lack of such controls and excessive financial liberalization in Mexico and Argentina. They contrasted Latin America unfavorably with Asia, where many countries restrict both foreign capital flows and the activities of domestic financial institutions.

But in retrospect, it is clear that in countries like Korea, tight controls went hand-in-hand with implicit (if not explicit) promises of government support for local banks in bad times. These unspoken promises undermined market discipline and perpetuated a system that lacked the transparency and effective supervision that are essential to a market economy.

The result: subsequent deregulation, without that transparency, led to reckless lending by domestic banks and excessive borrowing by local companies, which made Korea vulnerable to the currency panic that originated in Thailand last summer.

Another popular view was that a high level of domestic savings would help hold financial crises at bay. Here again, observers pointed to the low level of domestic savings in Mexico and other Latin American countries as one of the roots of the tequila crisis. In Asia, the comparatively high saving rate in most countries was said to furnish protection from financial shocks.

But as shown by the desperate situation of many high-saving South East Asian countries today, savings on their own do not make an economy crisis proof.

Finally, it has become clear that prudent fiscal policy is not enough to prevent financial contagion. This was already apparent during the tequila crisis, where both Mexico and Argentina were pursuing relatively sound fiscal policies. Likewise, Indonesia, Korea, Malaysia, Singapore and Thailand have all had fiscal surpluses in recent years, and the Philippines' estimated budget deficit in 1997 was less than one percent of GDP. Yet each of these countries has been pummeled by the current crisis.

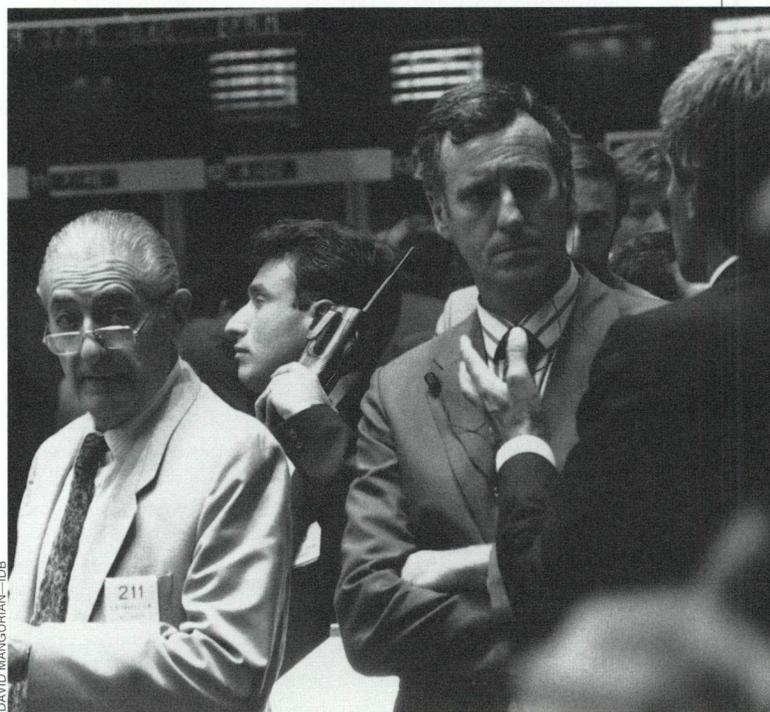
Why did capital controls, high savings and sound fiscal policies fail to protect the Asian countries? The most obvious reason is the dangerous combination of a weak banking sector and lending booms. Encouraged by mac-

roeconomic stability and rapid economic growth in the years prior to the crisis, domestic banks lent injudiciously, leading to overspending by the private sector. Government banking regulators and supervisors, who should have been "leaning against the wind" and preventing banks from offering too many loans, generally failed to do so.

A completely effective vaccine against external financial shocks probably does not exist in our increasingly integrated world. But the Asian crisis serves as a reminder that a fast-growing economy that looks healthy on the outside can harbor serious systemic problems that can only be identified and cured through rigorous banking regulation and transparent accounting practices.

—The authors are, respectively, executive vice-president of the IDB and lead research economist in the Office of the Chief Economist.

■ **A seemingly healthy economy can harbor serious problems that only rigorous banking regulations and transparent accounting practices can cure.** ■



DAVID MANGUNAN—IDB

Will she make it?

Guatemala finds new ways to keep girls in school

By CHRISTINA MACCULLOCH

IN A CRAMPED TWO-ROOM HOUSE IN VILLA Nueva, a working-class district south of Guatemala City, seven-year-old Gabriela González Hernández is getting ready for her first day of school.

Although she probably does not consider herself a child of privilege, Gabriela is already part of an elite, because slightly less than half of all Guatemalan girls do not enroll in elementary school at all. If she perseveres in her studies, Gabriela could join an even more select group: the one out of eight Guatemalan girls who complete sixth grade.

Gabriela's chances are relatively good. Her mother is herself an elementary school graduate, and her father completed high school. Though their home has but a zinc roof, bare cement floors and no running water, Gabriela's parents are determined to keep her in school because they are convinced that education represents her best chance to escape poverty. Gabriela is also lucky because she lives near a city that offers relatively good access to roads, schools and income-generating work for her parents.

But for girls in Guatemala's rural areas, the outlook is much bleaker. Simply walking to and from a distant school each day can challenge a young girl's endurance and threaten her safety. In households where both parents must do full-time agricultural work, school can seem like a questionable luxury. Most girls end up staying home to care for younger siblings, cook and help wherever else they are needed.

The pressures are such that even among girls in rural Guatemala who do enroll in first grade, 66 percent drop out before reaching third grade. And when families feel they can afford to send a child to school, they generally send a boy. In 1991, some 500,000 girls between 7 and 15 were estimated to be missing school in Guatemala, compared to only 300,000 boys. Overall, 60 percent of Guatemalan women are illiterate, and 80 percent of these are from the country's rural indig-

enous regions, according to official figures compiled early this decade.

Guatemala is hardly alone in this respect. Mayra Buvinić, chief of the IDB's Social Development Division, cites global literacy statistics showing that in 1990, there were only 74 literate women for every 100 literate men worldwide. "The same studies estimated that globally there were 77 million girls between the ages of 6 and 11 who were not attending school, compared to 52 million boys, and that does not take into account repetition, absenteeism and dropout rates that make the gap even wider," says Buvinić.

Although the bias against educating girls has complex social and cultural roots, it is almost universally exacerbated by poverty. The nations of Latin America and the Caribbean are a case in point. In the region's most developed countries and in its largest cities, the education gender gap is either small or nonexistent. But among the tens of millions of Latin Americans who live in acute poverty, even in the richest countries, the problem is pronounced.

■ Gender gap: an estimated 77 million girls worldwide aged 6 to 11 were not in school in 1990, compared to 52 million boys. ■

Hidden costs. Societies pay a high price for the failure to educate girls. While investing in boys' education is obviously beneficial, there is evidence that the same investment in female education yields higher returns for society as a whole. Why? Because although both men and women who went to school are more likely to earn better wages and improve a country's productivity, education tends to affect aspects of women's lives that don't apply to men.

Educated women are more likely to obtain prenatal, delivery and postnatal care, which leads to lower rates of infant and maternal mortality. Indeed, a World Bank study of 25 countries found that an increase of one

to three years in a mother's schooling reduced infant mortality in the first year of life by 15 percent. Among fathers, the same increase in schooling resulted in only a six percent reduction in infant mortality rates. Likewise, better-educated women in almost all societies wait longer before they get married and tend to have fewer children—two factors that lower the risk of birth-related health problems for both infants and mothers.

The children of women with as little as three to six years of formal education tend to be better nourished, and they are more likely to enroll and stay in school than the children of uneducated mothers. Educated women also tend to be more active and effective participants in local government, particularly in issues involving social services. In short, because of their multiple roles in the marketplace, the community, and the home, educated women can have a higher impact than educated men on the development and well-being of their societies.

National concern, local approaches. In Guatemala, concern about girls' limited access to education has led to a unique effort to confront the problem head-on. Starting in 1991, a diverse group of educators, researchers, business leaders, civic groups, and donor organizations formed what would later become the National Association for Girls' Education. The association immediately began working with the Ministry of Education to develop a girls' education strategy within the ministry's broader program to strengthen elementary education.

In 1992, with support from the United States Agency for International Development and local foundations, the association commissioned a detailed diagnostic study that for the first time showed the extent of the shortfall in girls' education in Guatemala. The study identified the regions and municipalities where the problem was most severe and proposed a plan of action that included outlines of 37 potential projects.

Soon thereafter, the Ministry of Education launched the Girls' Education Program, a multifaceted effort to develop and test practical ways of increasing enrollment and retention of girls through the sixth grade. The program included projects in four broad areas; technical assistance for the Ministry of Education, the National Association for Girls' Education and individual schools working to implement girls' education programs; training for government officials, teachers and parents; conducting original

(continued on page 6)

SHOW AND TELL: Preschoolers in Guatemala City and crafts they made at an IDB-UNICEF-funded center for children at risk.



research on the problem of girls' education; and developing motivational books and other didactic materials in Mayan languages for use by rural schoolgirls (see below).

From the outset, the program's organizers realized that a successful intervention would require coordinating the activities of students, parents, teachers, community leaders and high-level government officials who supported the effort. To find effective approaches, the program launched a pilot "Educate Girls Project," that tested different combinations of initiatives such as training teachers, offering scholarships to individual students, forming parents committees and providing supplementary curricula to schools. The project also hired indigenous women to work as education aides to provide special support to schoolgirls and their families.

The pilot project yielded a number of lessons. For example, project leaders discovered that although teachers were generally receptive to new ideas, they needed training on the theory and practice of reaching girls in the classroom, as well as appropriate teaching aids and materials.

Gabriela Nuñez, a sociologist who coordinated the pilot project, believes the training sessions were important because they boosted teachers' sense of their importance in the process. "We found it was crucial to reinforce teachers' assessments of their own value as people, because only with a positive self-image can they transmit a sense of self-worth and recognition to their girl students," she says.

The pilot project also found that even modest scholarship grants, amounting to the equivalent of around five U.S. dollars per

month, were a very cost-effective way of encouraging attendance because they helped compensate for the loss of a girl's labor around the house. Although scholarships were also found to improve long-term retention, project officials concluded that financial support would have to be complemented by a variety of other strategies to encourage girls to return to school year after year.

Nuñez argues that efforts to improve educational opportunities for girls invariably benefit boys as well. "When boys see girls becoming more active in class and in school organizations, they get more involved themselves, because they don't want to be left out." Likewise, parent committees formed as part of the pilot project increased the parents' engagement in the education of all their children, regardless of gender.

Although it is hard to quantify the success of Guatemala's girls' education efforts to date, one fundamental accomplishment is clear. "The need to improve girls' access to education is now understood and considered a priority among policymakers at the national level," says Isabel Nieves, lead author of the Guatemalan diagnostic study and now a social development specialist at the IDB.

This new awareness became evident during the drafting of the 1996 Peace Accords that brought an end to Guatemala's civil war. The accords included specific mandates to end gender inequalities in education, a goal that was also specifically addressed in the Guatemalan government's 1996-2000 action plan. Indeed, that plan set an ambitious target of 80 percent primary school enrollment for girls by the year 2000 as part of educational reform programs.

Now, the IDB is supporting that program



DAVID MANGURIAN—IDB

Two girls, two stories, one message



USAID

A community teacher in Guatemala tells a familiar story.

AT FIRST THE CHILDREN CAN hardly believe their eyes. Mayan people in Guatemala's rural communities rarely see themselves depicted in print, but the color illustrations on the flip chart show two girls with unmistakably Mayan facial features and clothing. The pictures accompany a story—narrated by a local teacher—that is also familiar. Marta and Rosa both enroll in a rural school. But while Marta comes back year after year, Rosa drops out after the first grade. Years later, Marta is able to start a business and raise healthy children, while Rosa

struggles with poverty, malnutrition and disease.

The story, written and illustrated by Mayan educators, has struck a chord with hundreds of children and parents who have heard it in recent years. Part of a series of educational materials that are among the first ever developed specifically for Mayan girls, the flip chart includes questions and discussion points designed to reinforce the message that "If our daughters study, we all improve." It was developed for the Guatemalan government's girls' education campaign.



HOUSEHOLD HELPER: In many rural Guatemalan homes, girls care for their infant siblings and perform numerous other chores.

through a \$15 million loan approved last year for Guatemala's Ministry of Education. The funds will be used to pay for training teachers and supplying schools with bilingual and Spanish-language materials, implementing programs to reduce first grade repetition, consolidating community participation and replicating successful innovations from the Girls' Education Program.

"The IDB support is arriving at a crucial time," says Nieves. "These funds are allowing the Guatemalan government to mainstream many of the lessons learned during the girls' education pilot project into its overall educational reform program."

The IDB is supporting innovative girls' education efforts in other countries as well. In Bolivia, where illiteracy among women averages 67 percent and girls spend only 60 percent as much time in school as boys, a recent educational reform program partly financed by the Bank set out specifically to reduce dropout rates among girls. The program included a variety of incentives, including scholarships and day care centers where

girls could drop off younger siblings in order to attend classes.

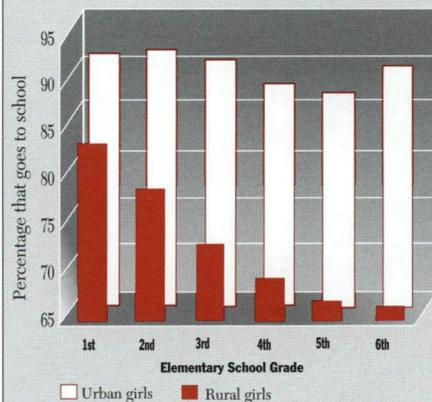
In Mexico, an IDB-funded program to assist up to three million children in extreme poverty is testing a different approach to easing the child-care duties of school-age children: letting them bring their younger siblings into the classroom. Though it is too early to judge the effectiveness of this concept, the aim is both to keep girls in school and to offer a more stimulating environment to preschool children.

The ultimate success of these kinds of programs depends, of course, on the perseverance of girls like Gabriela González Hernández and the commitment of parents, teachers and community leaders. But as the progress achieved in Guatemala illustrates, governments can help to create an environment where perseverance and commitment can bear fruit in the lives of individual girls.

 For more information on education for girls in Guatemala contact Isabel Nieves at (202) 623-1542.

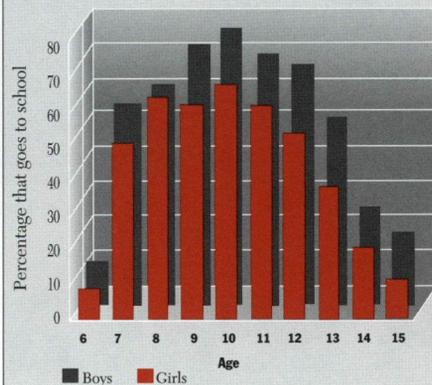
Rural disadvantage

Rural schoolgirls drop out of school much more than their urban peers

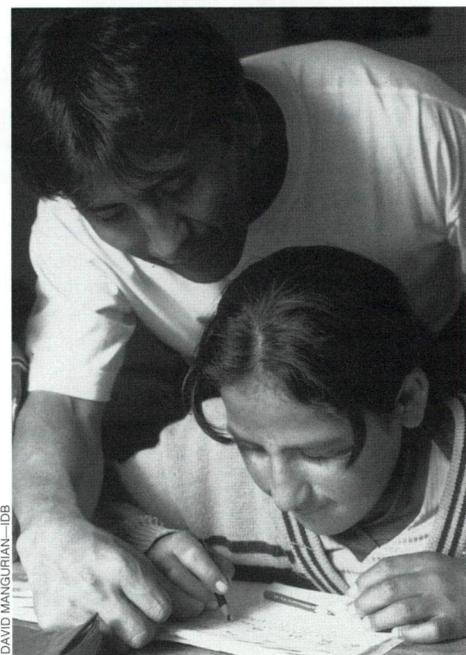


Gender gap

At almost every age, Guatemalan boys outnumber girls in school



Source: Nieves, I., B. Bezmaninovic and B. Newman. 1992. *Diagnóstico de la Educación de la Niña. Guatemala Comisión Eduquemos a la Niña.*



The children of adults who finished school are more likely to do so themselves.



Workers like these miners in Peru have little say about economic reforms, but are often among the first to feel their consequences.

A seat at the table

Union leaders urge IDB to include workers' concerns in reform programs and free trade negotiations

By PAUL CONSTANCE

IT WAS THE SORT OF MEETING THAT PRESUMABLY never takes place.

At the IDB's Washington, D.C., headquarters last February, senior Bank officials spent a day listening to some of their most legendary critics: labor union leaders from Latin America and the Caribbean.

Even more surprising was the candid but cordial tone of the meeting. "It is a pleasure to meet with you today," Leroy Trotman, president of the International Confederation of Free Trade Unions, told IDB President Enrique V. Iglesias. "This could never have happened before 1992," he added. "Back then we had too many mutual suspicions!"

Trotman was referring to an IDB-sponsored conference in 1992 where some 80 union leaders from the region met with representatives from the IDB, the World Bank and the International Monetary Fund. He said the conference, devoted to discussing the social and labor impacts of economic reforms, was a landmark event that persuaded

many union leaders for the first time that the IDB is receptive to their concerns and ideas.

Trotman's assessment of the 1992 conference was echoed by other participants at the February meeting, which included John J. Sweeney, president of the American Federation of Labor-Congress of Industrial Organizations (AFL-CIO), Luis Anderson, president of the Inter-American Regional Workers Organization (ORIT), and top union federation officials from Argentina, Barbados, Brazil, Canada, Chile, the Dominican Republic, Mexico, Venezuela and the United States.

"Much of the mistrust that existed between us before has now disappeared," said ORIT's Ander-

son. But while he praised the IDB for its willingness to talk with labor leaders, Anderson said most of the region's governments have

refused to consult organized labor prior to adopting economic reforms that are promoted by the IDB.

Anderson said this lack of consultation is inexcusable, particularly on issues such as regional integration and trade liberalization, because workers are the first to feel the consequences of these changes. "We've never debated whether or not we agree with economic globalization and integration, because we know it's a reality," Anderson said. "We know that great wealth is being created [thanks to integration],



"...the trade union movement isn't prepared adequately to deal with new technologies and globalization."

Nair Goulart
Inter-American Regional
Workers Organization

but at the same time we see that poverty is increasing, the number of jobs is decreasing, and the informal sector is growing. So we believe there is a problem in the distribution of the benefits of these reforms."

Anderson and other labor leaders at the meeting said they generally support efforts to open local economies to greater foreign competition, but they warned that governments that fail to address the inequitable distribution of wealth and exclude labor unions from the trade policy debate risk a backlash from voters. He said the Clinton administration's recent failure to receive "fast-track" trade negotiation authority from the U. S. Congress was "a victory for the AFL-CIO" and "an example of what will happen in all of Latin America if integration is not perceived as benefitting working people."

As a step in the right direction, Anderson suggested that the IDB promote the creation of a forum for labor consultations as part of negotiations leading to the creation of the Free Trade Area of the Americas (FTAA).

In his remarks at the meeting, IDB President Enrique V. Iglesias agreed that the economic reforms that have swept Latin America in recent years have come at a cost for the regions' workers, and that the problem of unemployment has reached "new dimensions" in many of the region's countries. He also concurred that relations between labor, government and business have not been as productive as they should, saying there is a need to "improve the quality of the dialogue" between these groups.

Labor participants at the meeting also criticized what they described as a widespread failure to enforce worker rights codified in the various conventions of the International Labor Organization (ILO). The ILO conventions, which most Latin American and Caribbean countries have ratified, set forth a variety of basic workers rights, including the right to organize and bargain collectively, and protections against child labor and on-the-job discrimination based on gender.

Stan Gacek, the AFL-CIO's assistant director for international affairs, said the failure to enforce labor protections stems from a broader refusal by most governments to link social rights to trade policy. He argued that this refusal is difficult to justify when capital rights, such as those protecting intellectual property and trademarks, are explicitly ad-

ressed and defended in trade accords. "Governments that violate copyright protections get harsh treatment," Gacek said, "but what about those who violate labor protections?"

Several participants at the meeting urged the IDB to find better ways to include the input of public employees in Bank-funded projects that affect public services such as education or the judiciary. Tim Beatty, regional U.S. representative for Public Service International, said too many projects assume that the only way to improve a service is to privatize it or put it up for concession. "Public workers often have very creative ideas about how to improve productivity and service quality in state-run enterprises," he said, "but they are rarely consulted."

On a different note, other union participants at the meeting acknowledged that labor movement leaders have not always kept up with the changing demands of the market. "We recognize that the trade union movement isn't prepared adequately to deal with new technologies and globalization," said Nair Goulart, a Brazilian who is president of ORIT's Women's Committee. Participants praised an IDB program that paid for selected union leaders to take university courses on labor economics, and they encouraged the IDB to consider additional programs in labor leadership training.

Gustavo Márquez, a labor specialist in the Office of the IDB Chief Economist, said today's

union leaders also need to be more understanding of the demands of increasingly specialized and competitive labor markets that require flexible workers to meet evolving production processes. He said many of the labor disputes in Latin America today revolve around outdated work rules that limit the ability of employees' to adapt to these changes. He urged new rules that safeguard worker rights while allowing for greater competitiveness and productivity.

"We have different starting points, different jargon, and a different history," IDB Executive Vice President Nancy Birdsall told participants at the conclusion of the meeting. "But we need more of these meetings because it is clear that we also have a great deal in common. We support open negotiations between business and labor. We support social protections, developing better safety nets and better unemployment insurance arrangements." ■



"Public workers often have very creative ideas about how to improve productivity and service quality...but they are rarely consulted."

Tim Beatty
Public Service International

ROUND-UP

More El Niño aid pledged

As torrential rains produced by the El Niño weather phenomenon continued causing massive human suffering and material losses in Peru, IDB President Enrique V. Iglesias announced in February that the Bank was prepared to lend the country an additional \$150 million to help recovery efforts. Many of Peru's rivers were flowing at volumes four or five times greater than during the last El Niño, which occurred in 1982-83.

Praise for Ecuador-Peru accord

The IDB has declared its willingness to support the recent efforts of Ecuador and Peru to resolve their territorial dispute. Hailing a diplomatic agreement reached in Rio de Janeiro in January as a "historic step and a lesson in inter-American maturity," IDB President Enrique V. Iglesias said that the breakthrough will enable the two countries to focus their energies on social and economic development needs. The Bank will consider "with interest" any initiatives that may spring from the bilateral agreement.

Conservation venture capital

The world's largest nonprofit conservation organization, The Nature Conservancy, signed a landmark agreement in February with the IDB-administered Multilateral Investment Fund to create a new venture capital fund that will invest in environmentally responsible businesses in Latin America and the Caribbean. The new fund, Fondo EcoEmpresas, will invest up to \$800,000 in start-up ventures in fields such as organic agriculture, non-timber forest products, sustainable forestry and ecotourism.

'It's your money'

As Latin America continues down the road of privatization and private pension funds, increasing numbers of ordinary citizens for the first time are becoming players in the capital markets. But the Council of Securities Regulators of the Americas thinks that what these new investors don't know could hurt them badly. So the council is carrying out a region-wide investor education campaign with the slogan, "Get informed. It's your money. It's your future." The program, which has the backing of the IDB, will be carried out in 21 countries.

Stumping for consensus

Aylwin commission promotes multi-party dialogue

By CHRISTINA MACCULLOCH

THE CROWD STARTED FORMING EARLY ON an October morning last year in the quiet rural hamlet of Villa Tapia, 145 km north of Santo Domingo.

News of the planned "town hall" meeting had been circulating among villagers in this lush part of the Dominican Republic for weeks. Although people in the area were used to community debates and had gathered many times in Villa Tapia to discuss community projects involving drinking water, health promotion and housing, this meeting promised to be exceptional.

None other than Patricio Aylwin, former president of Chile, would be arriving at Villa Tapia with a delegation of international social development and civil society leaders. Their purpose would be to learn first-hand about effective community development strategies in a country that has seen a flowering of citizen participation and civic activism over the last few years.

Aylwin's delegation got an earful—from farmers, municipal officials, congressmen, business people, labor unionists, priests, scholars, urban activists and senior government officials they encountered during several other meetings throughout the island nation. The tales and opinions they heard were as vivid and varied as the Dominican Republic itself, but the theme was consis-

tent: how to get past traditional partisan and class-based animosities to build a national consensus for enacting lasting social reforms.

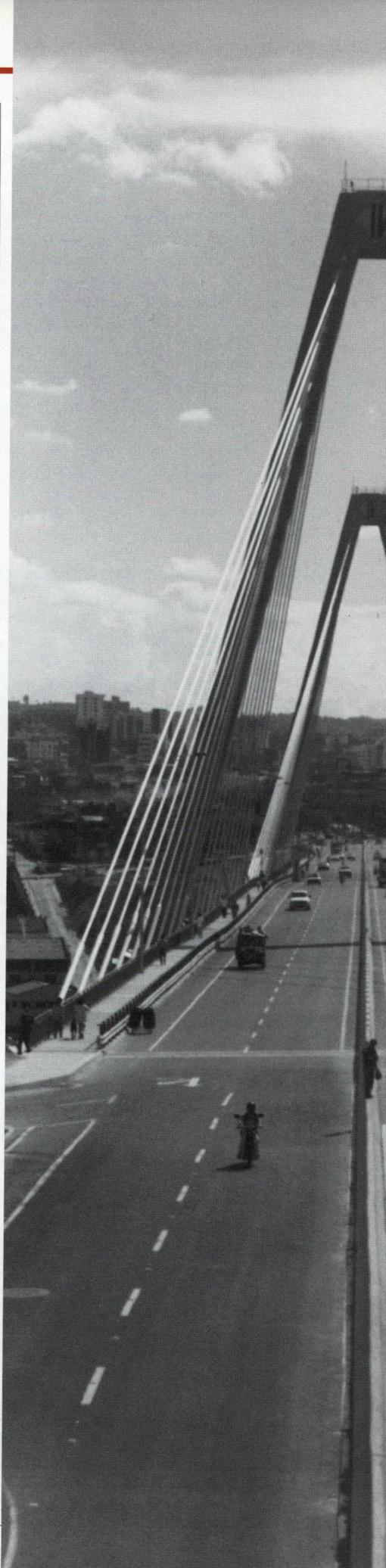
Aylwin can appreciate the enormity of that challenge better than most leaders. As Chile's first civilian president following a long military dictatorship, he had the unenviable job of building consensus in a society marked by deep ideological rifts. After he left the presidency, Aylwin played a key role in the World Summit for Social Development, held in Copenhagen in 1995. He now heads an initiative, proposed by IDB president Enrique V. Iglesias in the aftermath of that summit, to help interested countries follow up on commitments they made in Copenhagen by formalizing constructive dialogues between political parties and various interest groups and social actors.

"To ensure that interventions are effective, concrete and sustainable," says Aylwin, "it is essential to involve the various actors and sectors of a country in a social development process that is conceived with a long-term vision and based on consensus building." This, he said, is the only way to avoid short-term efforts that are dictated by political expediency.

With IDB support, Aylwin and his collaborators have already taken that message to Ecuador and Guatemala in addition to the Dominican Republic, and they plan to visit additional countries this year. ■



Former Chilean president Aylwin and community leaders in the Dominican Republic.



Graceful span with a heart of steel

New bridge is built earthquake tough

By DAVID MANGURIAN



THERE'S NO DENYING IT. PEREIRA'S STRIKING new red and white "cable-stayed" bridge far outshines the city's other landmark—the infamous statue of independence war hero Simón Bolívar riding horseback nude through the city's central park.

This "Pearl of the Otún River," as the newspaper *El Tiempo* described it, promises not only to stand as a stunning visual landmark, but also to solve some very real transportation problems here in the heart of Colombia's coffee-growing region.

The four-lane structure, complete with sidewalks for pedestrians, links Pereira (pop. 350,000) with Dosquebrados (pop. 100,000), and eliminates a major traffic bottleneck between the country's second and third largest cities, Medellín and Cali. Previously, vehicles had to cross the river via a two-lane roadway that descended to the floor of the river valley. The new bridge cuts up to 40 minutes off the driving time for the 35,000 vehicles that cross it daily.

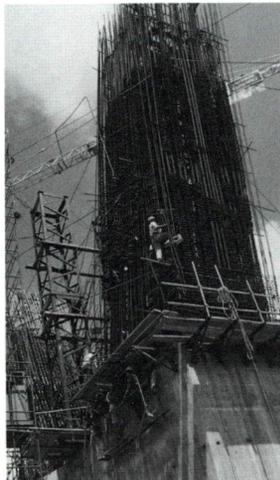
Nearly two-thirds of the \$45.4 million cost of the bridge and access roads was funded as part of a \$1.7 billion program to upgrade the country's major highway and rail corridors. The program was financed with the help of a \$300 million IDB loan approved in 1995.

The bridge's candy-cane color scheme was the backdrop for a festive inauguration last November that included bands playing salsas and cumbias, dance troupes and parade floats. Present were Colombian President Ernesto Samper, Minister of Transportation Jorge Enrique Rizo and Organization of American States Secretary General César Gaviria Trujillo.

"Who cannot be optimistic about Colombia's future now," said Gaviria, "after seeing the beauty of such a gigantic structure that not only unites two cities but also all Colombians."

More than 3,000 tons of steel rebars were used to reinforce the two huge concrete pylons upon which the bridge rests.

BRISTLING WITH STEEL: Rebars are the reason why this "Pearl of the Otún River" can withstand earthquake shocks of up to 8.0 on the Richter scale.



BRIDGE FACTS

Length	703 meters
Height	105 meters
Steel rebar (for earthquakes resistance)	3,000 tons
Vehicles/day	35,000
Cost	\$45.4 million
Repayment time (in transport savings)	9 years

lons upon which the bridge rests. In addition, the diamond-shaped pylons have small "footprints" where they meet the ground, another feature that provides earthquake resistance.

Earthquakes are a real concern in a city that was hit by a 7.5-Richter-scale earthquake in 1995. This was the main reason engineers chose the uncommon cable-stayed bridge design, whose flexibility enables it to withstand shocks.

Construction supervision by an Italian-Colombian engineering consortium was especially rigorous; every batch of concrete had to pass a 130-ton hydraulic pressure test.

"The flexibility of this steel and concrete structure should guarantee its ability to withstand earthquakes up to 8.0 on the Richter scale," says Vincenzo Gozzi, who was chief of construction supervision.

Figg Engineering of Florida, world experts in cable-stayed bridge design, created a step-by-step construction plan in which the two pylons would be built first and the steel and concrete road surface would be extended outward from them.

"It was a very delicate operation," says Figg bridge engineer Juan Goni, who worked on the project. "We actually built the bridge in the computer step by step by step, and computed the stresses for each step. Everything had to go just right to make sure that forces were kept within limits and that the two halves of the bridge surface would meet at the center."

The bridge was built by a German-Brazilian consortium, with assistance from firms from Portugal and France for geometry control and cabling. Construction took more than three years and employed 550 people at times. In an additional safety measure, computerized sensors from Italy and Switzerland costing \$3 million were installed to monitor any changes in the bridge's physical condition caused by settling or earthquakes that would need to be corrected by adjusting cable tension. Colombia's National Highway Institute estimates that the bridge will pay back its \$45.4 million cost in just nine years through savings in transportation expenses.

Grown-up problems with preschool roots

"THE MOST POWERFUL MEASURE OF THE DEVELOPMENT OF AN ECONOMY IS THE HEALTH OF ITS POPULATION," J. Fraser Mustard, founding president of the Canadian Institute for Advanced Research, said at a recent IDB seminar on the socioeconomic consequences of early childhood nutrition and stimulation.

Health risk may be set in infancy

Mustard made a compelling case for Latin American and Caribbean societies to invest heavily in mothers and infants, and in education and adequate nutrition for preschool children. His arguments are based on research on death and disease rates in countries with national health insurance systems, recent findings about the development of brain functions and studies on underprivileged children.

A 1970s study in Britain, for example, found that the gap in quality of health across social classes had actually widened since the National Health Service was created in 1948. People at the top of society still had the lowest mortality rates, which increased gradually at each successive level down the social scale. That same pattern tends to be found in countries that lack Britain's nationalized health services, such as the United States, suggesting that access to medical services does not determine health levels as much as underlying factors such as unemployment, income and education.

Another study cited by Mustard showed a similar pattern among British civil servants, a group that is not subject to industrial hazards, unemployment, poverty or excessive affluence. In this case, people in the bottom tier of the bureaucracy were at a higher risk of dying from coronary heart disease, strokes, smoking-related cancer, accidents and suicides than those higher up in the hierarchy.

One possible explanation was that civil servants in the lower grades had not been as well nourished during their childhood as those in the higher grades. Mean heights seemed to correlate with individuals' position in the hierarchy, their sickness-absence rates and their risk of dying of disorders that included suicide and accidents.

Mustard cited evidence from psychological and neuroscientific studies that points to how nurturing or stimulation influences the development of brain functions during the first few months of life and early childhood.

Studies of a program for working class

preschoolers in Michigan and a program to boost nutrition and nurturing among high-risk, poor children in Jamaica revealed stark differences between kids who received better care and those in control groups. When followed up at age 27, the U.S. preschoolers who received better care had higher employment levels, half the rate of criminal convictions and far lower drug use levels than their less cared for peers.

—Peter Bate



J. Fraser Mustard can be reached via e-mail at fmustard@ciar.ca.

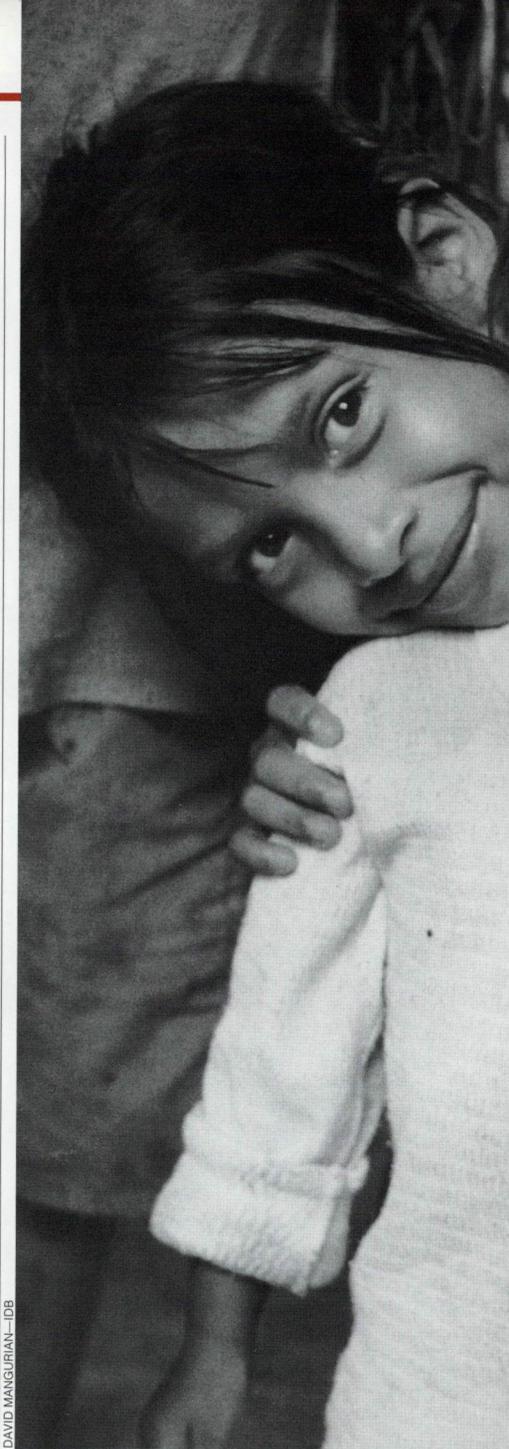
A better test for sick banks

Now that poorly managed banks have been exposed as a central cause of the current Asian financial crisis, governments and investors are asking why the problems weren't spotted earlier. More specifically, they are taking a fresh look at techniques used to diagnose banks' health and anticipate problems. Such "early-warning" indicators are used by government regulators to prevent financial crises and by credit rating agencies to alert customers to the risks of investing in a particular country.

Present methods not reliable

In both industrialized and developing nations, three key criteria have traditionally been used to measure banks' health: capital adequacy (measured as the risk-weighted capital-to-asset ratio), asset quality (an assessment of the quality of a bank's loans), and liquidity (a bank's holding of cash and ability to sell assets).

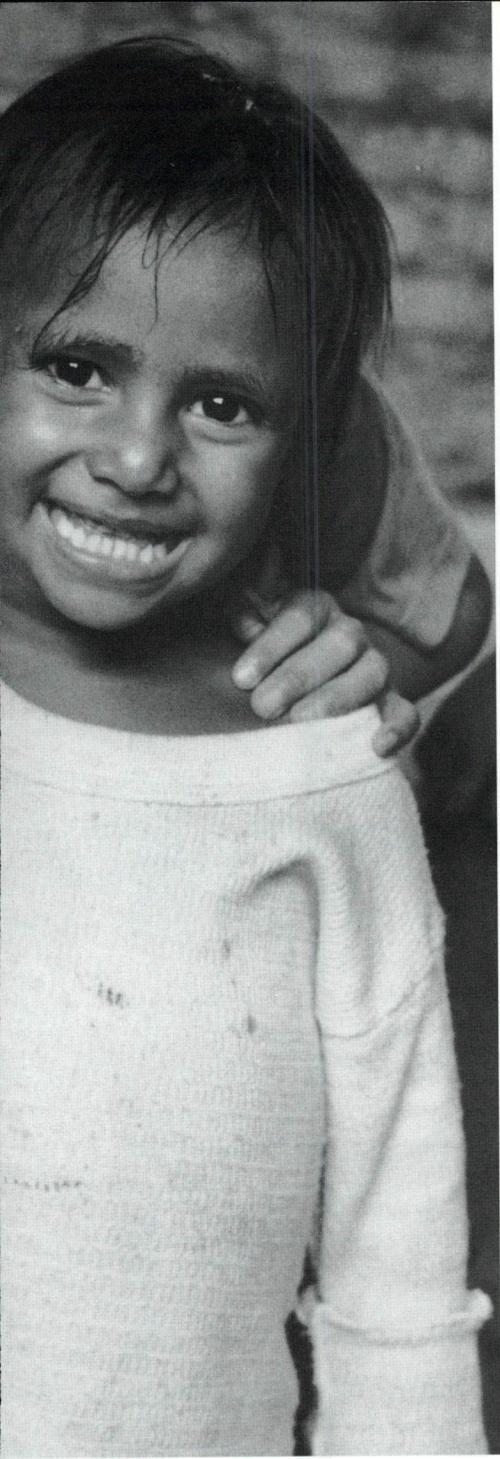
These criteria have proven quite reliable in assessing the mature financial systems of the industrialized world. But according to Liliana Rojas-Suárez, former IDB economist and present chief economist for Latin America and the Caribbean at Deutsche Morgan Grenfell, they may not be the best way to evaluate banks in developing countries. In a recent paper Rojas-Suárez shows that prior to the Mexican peso crisis of 1994–1995, customary "early-warning" criteria failed to predict almost all of the subsequent



DAVID MANGURIAN—IDB
The quality of stimulation in the first three years

crises at individual banks. In fact, many of the banks that got into trouble actually satisfied some of these criteria.

Rojas-Suárez argues that these errors are largely due to the inadequacy of accounting standards and financial reporting requirements in many developing countries. These weaknesses allow banks to publish figures that give the appearance of greater financial health than may actually be true. The highly concentrated ownership of real and financial assets in many developing countries also subverts the ability of regulators to discern the true financial condition of banks, she says. That is because wealthy investors can shift assets and lend to each other through unregulated "nonfinancial" entities.



Industry's tiny titans

Small and medium-sized firms play big role in manufacturing

WE GENERALLY ASSOCIATE SMALL companies with service industries, such as dry cleaning and auto repair, where smallness is not necessarily a liability. But in Latin America and the Caribbean, small and medium-sized firms also dominate manufacturing, a sector most often associated with large companies.

According to SMESTat, a new database on the region's small and medium-sized enterprises (SMES), these smaller firms account for more than 90 percent of the manufacturing companies in most Latin American and Caribbean countries. This holds true regardless of the different thresholds that each country uses to define SMES. Definitions range from companies employing 5-49 workers (Bolivia) to those with 11-250 employees (Argentina).

Even when measured as a percent of total employment and production in the manufacturing sector, SMES are dominant in the region (see graphs below). In most of the surveyed countries, SMES account for around half of all manufacturing employment and one-third of all production.

"These figures show how important the region's small enterprises are in job generation," said Jorge Roldán, head of the SMESTat project and chief economist of the Inter-American Investment Corporation, member of the IDB Group that supports small and medium-sized enterprises. "The majority of Latin America's SMES employ less than 50 workers," he added. "In some manufacturing subsectors, particularly in the smaller countries, all companies are SMES."

Although SMES are active in all the main manufacturing subsectors, four categories account for 71.2 percent of all SMES in the region. They are: food, beverages and tobacco (22.9 percent); textiles, apparel and leather (18.4 percent); fabricated metal products (17.2 percent) and chemical products (12.7 percent).

The SMESTat database includes figures on 150,000 companies gathered in national business surveys between 1988 and 1995. Roldán said the report focuses on manufacturing because that is the one sector for which most Latin countries have enough detailed information to allow for meaningful comparisons.

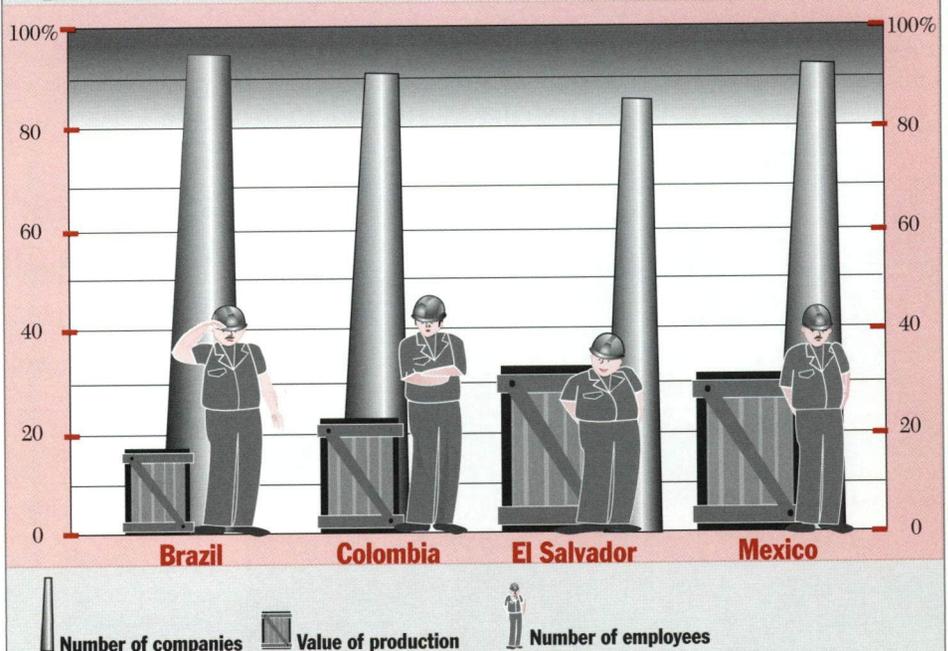
Life can determine future well-being.

Rojas-Suárez proposes an alternative set of criteria based on the interest rates that banks in developing countries charge borrowers and offer depositors. According to her analysis, weak banks often try to gain market share by offering high rates to depositors and comparatively low rates to borrowers. She believes looking at the "spread" between these two rates can give regulators a better reading of a bank's health than traditional means. Rojas-Suárez says that this approach would have predicted between 70 and 80 incidents of bank problems during the Mexican crisis.

To obtain a copy of Rojas-Suárez's paper please call (212) 469-2629.

Small players, big impact

No matter how you measure them,* small and medium-sized companies represent a substantial percentage of the region's manufacturing sector.



* The graph illustrates the impact of SMEs as a percent of each country's total manufacturing sector, measured by the number of manufacturing establishments, their employees and the value of their production.

IDB GRAPHIC BY CECILIA JACOBSON

PROJECT UPDATES

EL SALVADOR

Road to the border

A recently rehabilitated 27-km stretch of the Pan American Highway in El Salvador that runs to the border with Guatemala was inaugurated in February in a ceremony attended by the country's president.

The roadway, which links the communities of El Portezuelo, near the city of Santa Ana, and San Cristóbal, is part of a national program to improve major roads that received a total of \$120 million in IDB financing approved in 1991.

According to El Salvador President Armando Calderón Sol, the newly rehabilitated segment will substantially reduce operating costs, prevent accidents, and help local farmers get their corn, beans, coffee and other crops to market. Another gain will be to strengthen economic ties with neighboring countries. The works included repaving, restoring shoulders and drainage ditches, placement of road signs, expansion of four bridges, parking at the border customs facility and planting 7,000 trees.

In the meantime, crews have begun work on a 52-kilometer stretch of roadway that also runs to the Guatemala border, linking Santa Ana with Ahuachapán, and the latter with the El Jobo bridge

over the La Paz River. The project is set for completion at the end of 1999.

The Ministry of Public Works, which is carrying out the rehabilitation program, is using a second IDB loan approved in 1994, for \$225 million, to strengthen its ability to administer the highway system and to carry out other projects to improve roads and streets.

NEW PROJECTS

COLOMBIA

New program to reduce violence

The IDB has approved a \$57 million loan to Colombia to finance a program designed to reduce levels of crime and violence.

On the national level, the new operation will help Colombia improve crime reporting and information gathering. It will also make judicial services more accessible to the public and develop alternative methods for resolving conflicts.

Also included is training for police in community relations, research on ways to reduce violence, evaluation of existing legislation, and the development of an anti-violence communications strategy enlisting the participation of the news media and entertainment industry.

At the municipal level, in the capital of Bogotá as well as in Cali, Medellín and other depart-

Beneath Mexico city's busy streets, water is gradually disappearing.



mental capitals, the program will finance the improvement of local crime reporting, programs to teach respect for the law and reduce alcohol consumption and domestic violence, and police education in human rights and maintaining law and order.

Youth programs will include early prevention measures at home, school recreational facilities, training, and the rehabilitation and social reintegration of young offenders.

MEXICO

Plan to recharge capital's aquifer

Mexico City, a large part of which occupies land that in historic times lay underwater, now finds itself running out of the groundwater needed by its expanding population.

Moreover, removing the groundwater has caused the earth to subside in many places, damaging water and sewerage systems and in some cases threatening buildings.

With no major nearby source of surface water, the city—one of the world's biggest—is develop-

ing a strategic plan to recharge its aquifers and conserve the resource.

The plan, which will be financed with the help of a newly approved \$960,000 IDB grant, will propose options that take into account the area's topography, geology, and land use, and identify ways to improve flood control, water supply, drainage and sanitation systems.

Most of the rain the Valley of Mexico receives falls during severe storms, just one of which can account for as much as 10 percent of the city's mean annual precipitation. Seventy-seven percent of all rainwater returns to the atmosphere before sinking into the soil.

With limited aquifer recharge taking place, barely half of the groundwater withdrawn in recent years is being replenished.

The strategic plan, which will be financed by the Japanese Trust Fund, will give particular importance to the 860-square-mile Federal District Conservation Area in the southern part of the city. The area's 15 sub-catchments and the permeability of its geological formations would make it a natural aquifer recharge area.



President Calderón Sol and officials do the inaugural honors.



DAVID MANGIRIAN—IDB

LATEST APPROVALS

The following operations were approved in recent weeks by the Inter-American Development Bank (IDB), the Inter-American Investment Corporation (IIC) and the Multilateral Investment Fund (MIF).

Brazil

A \$76.5 million IDB loan to help finance improvements in public services, infrastructure and administration in Porto Alegre, capital of Rio Grande do Sul. The program will finance road construction and efforts to strengthen municipal financial management and tax administration.

Dominican Republic

An \$11 million IDB loan to establish an integrated financial management system that will improve the government's handling of assets and liabilities and lead to greater administrative transparency.

Ecuador

A \$1.1 million MIF grant to support improvements in the country's national highway concession program.

A \$706,000 MIF grant to strengthen the regulatory and supervisory framework of savings and loan cooperatives.

El Salvador

A \$73.2 million IDB loan to expand and improve basic education through the use of new technologies.

A \$20.7 million IDB loan to support the modernization of the national health system and finance two pilot projects that will provide integrated health care services to the poor.

Colombia

A \$57 million IDB loan to help reduce crime and prevent violence in major urban centers at both the national and municipal levels.

A \$24.3 million IDB loan to help finance a project to improve water and sewage systems in Cartagena.

Haiti

A \$440,000 grant to help the Ministry of the Environment create a national integrated coastal management program.

Mexico

A \$1.74 million MIF grant to support training for professionals in financial institutions specialized in providing financial services to microentrepreneurs.

A \$960,000 grant to help the Department of the Federal District develop a plan to replenish aquifers serving the capital.

Peru

A \$330 million IDB loan to finance the rehabilitation and expansion of a power plant owned by Energía del Sur S.A., a private company. The plant, which will supply electricity to Peru's largest mining region, will be the first independent power project to serve the nation's power grid.

A \$1.6 million MIF grant to Cáritas Ayacucho to support tourism development in the department of Ayacucho.

A \$1.3 million MIF grant to the Peruvian Bank Association to support a variety of training services with a special emphasis on small business issues.

Uruguay

A \$28 million IDB loan to help finance urban restoration and cultural enhancement of Montevideo's historic La Aguada district.

A \$17.5 million IDB loan to help finance a citizen safety program based on public, private and community efforts.

Regional

A \$1.3 million MIF grant to support training programs for securities markets regulators in countries in Latin America and the Caribbean.

A \$3.25 million IDB grant to support a women's leadership and representation program in Latin America and the Caribbean.

NEED DETAILS?

To read **press releases** on newly approved projects on the Internet, go to: www.iadb.org/prensa/releases.htm. For related **project documents**, go to: www.iadb.org/english/projects/projects.html. IDB Projects, a monthly listing of planned projects and procurement opportunities, is also on the home page, under "Business Opportunities." For a sample printed copy, call (202) 623-1397, or fax x1403. The Public Information Center can provide **further information** at 202-623-2096, or e-mail PIC@iadb.org.



WILLIE HEINZ—IDB

INDIGENOUS FUND GAINS MOMENTUM: Victor Hugo Cárdenas, chairman of the Indigenous Peoples Fund, and IDB President Enrique V. Iglesias sign an agreement under which the Bank will administer an endowment for the fund. The fund will be used to promote the economic, social and cultural development of the 40 million indigenous people in Latin America and the Caribbean.



Samba to success

Favela children dance to new beat

By DAVID MANGURIAN

THERE PROBABLY ISN'T A BOY UNDER five in Rio de Janeiro's Serrinha favela who cannot beat out the complicated syncopated rhythms of the Brazilian samba. After all, Serrinha claims to be the birthplace of the samba—the music and dance of Rio's renowned carnival.

So it was not entirely odd that Arandi Cardoso dos Santos, who was born and raised in Serrinha, abandoned his plans for the priesthood to become a samba musician, and then founded a samba "school" for children. Rio has 77 adult samba schools, which are troupes of up to 4,000 dancers, singers and musicians, most of them from the favelas, who practice all year long and spend heavily on elaborate costumes to compete against other samba schools during carnival week.

Cardoso dos Santos, who is affectionately known by his nickname "Careca" (baldy), although he's not bald, wanted to tap into the energy and cooperative spirit of the adult samba schools to help the children of the Serrinha favela. But he was unsuccessful. "They all turned me down."

So in 1983 he formed Rio's first children's samba school, the "Empire of the Future Samba School Recreational Cultural Club"

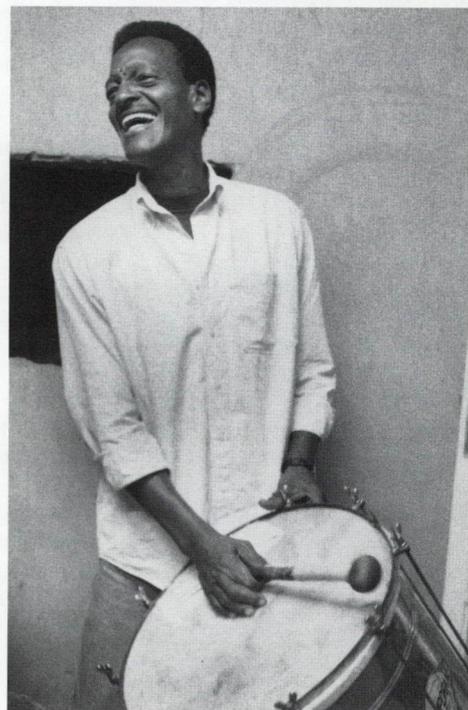
with 250 kids from the Serrinha favela. Today, the school has 1,200 kids ages 7 to 17 from Serrinha and neighboring favelas. Thousands more participate in nine other children's samba schools that have since been founded. The children have their own parade day, Carnival Tuesday, and perform before judges. Three-fourths of the children join the adult schools when they turn 18.

Cardoso dos Santos' goal in founding the school was twofold: to teach children the African roots of the samba, and to use the classes as an incentive to keep favela children in regular school. He has a simple rule: to participate in carnival, a child has to stay in school and pass his grade. Last year, only 10 percent of the kids in the Empire of the Future school failed their grade, a low rate by Rio standards.

"The kids who fail in school are the saddest kids in the world," says Germinal Domínguez, coordinator of Rio's IDB-financed program for children at risk, "because the carnival parade is the biggest thing in their lives."

In 1996, the Empire of the Future samba school used \$48,000 from an \$8 million IDB grant to purchase tools and materials for a new carnival costume workshop in Serrinha. Some 52 children are learning the costume

Kids from Serrinha favela learn the samba tradition under the dynamic leadership of Arandi Cardoso dos Santos (below).



PHOTOS BY DAVID MANGURIAN—IDB

craft, and some of the best adult samba schools have commissioned the shop to make welded-wire headpieces for their costumes.

"There is never enough money" laments Cardoso dos Santos. "But when I see the children parading down the streets during carnival, the word 'happy' is not enough to express how I feel." ■