

IDB AMERICA

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May 1998



**Small
firms,
big returns**

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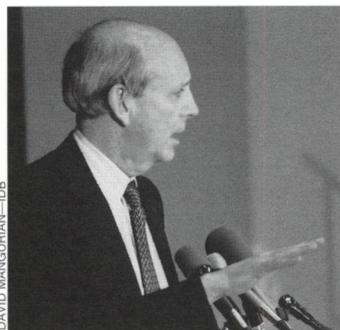
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“[Laws] that are clear on paper may confer rights that are valid only on paper...”

The Hon. Stephen Breyer, Justice of the U.S. Supreme Court



Breyer spoke about judicial independence at a recent IDB seminar. See story on page 8.

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Big returns. Jerry Barnes, a U.S. wholesaler and importer, stands next to Cecilia Balcázar, co-owner of Cerámica Perú. The Lima company, which exports some 14,000 mugs, plates and other ceramic products each month, is typical of the small and medium-sized enterprises in Latin America that are starting to attract private equity investors. See story on page 2.

IDB photo by David Mangurian



DAVID MANGURIAN—IDB

EDITORS' NOTEBOOK

Consensus comes of age

THE HEADS OF 34 WESTERN Hemisphere nations meeting in April in Santiago, Chile, urged action on free trade, poverty reduction, education and judicial reform, among other issues.

So did the IDB governors at their meeting a month earlier in Cartagena, Colombia.

While such coincidences don't seem extraordinary today, until very recently many hemispheric gatherings were marked by contentious debates over a host of political and ideological wedge issues. Many of the most divisive questions of the past have

now been replaced by a mature partnership founded on common interests.

A strong message coming out of Santiago was that the greatest benefits from free trade will flow to the countries with the best prepared people and the strongest institutions. "We all admit that too many of our citizens have not seen their own lives improved as a result of our participation in the global economy," said United States President Bill Clinton.

Similarly, the central themes at the IDB meeting were better

education, poverty reduction, greater equity, a stronger democratic process, and violence reduction. "There is a need for resolute political commitment... to even out social inequities and search for ways of affording equal opportunity to every citizen," declared IDB President Enrique V. Iglesias in Cartagena.

The two meetings had more in common than rhetoric. Many of the initiatives in the summit's 34-page action plan will rely on IDB financing and technical expertise.

See the June issue of IDBAmérica for details.



WILLIE HEINZ—IDB

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"All of us were Pinochios."

Erwin Arrieta, Venezuela's energy minister, quoted in an April 3 Financial Times article on an agreement by the members of the Organization of Petroleum Exporting Countries (OPEC) to cut global oil production by 1.5 million barrels a day. Arrieta was referring to the failure of earlier agreements to limit production.

"Something serious is going to happen."

Alejandro Barros, a member of Chile's Special Commission for the Year 2000, quoted in the April 23 edition of *AméricaEconomía*. Barros was asked to assess to financial and logistical disruptions that are expected to occur on Jan. 1, 2000, because of the inability of many computers to correctly process a date code ending in "00."

"I suggest that everybody take a deep breath and calm down. A hemispheric trade agreement is going to take a while."

Ricardo Ffrench-Davis, an economist at the United Nations Economic Commission on Latin America and the Caribbean, quoted in an April 19 New York Times article on the Summit of the Americas then underway in Chile.

"The skills gap will be a big issue."

Bill Gates, chairman of Microsoft Corp., speaking to a group of Latin American computer industry executives, as quoted in *The Journal of Commerce*, April 17. Gates warned that the shortage of skilled labor could hobble Latin America's information technology industry.

"What we want, and what we need, is more oil and less monopoly."

David Zylbersztajn, head of Brazil's new National Petroleum Agency, quoted in *The Wall Street Journal* on April 20. Zylbersztajn will lead a team of regulators that will manage international competitions for concessions to explore and extract Brazilian oil in coming years.

Judicial reform: a kitchen table issue

Following are remarks made by Thomas "Mack" McLarty, then U.S. special envoy to Latin America, at the conclusion of a conference on judicial reform held at IDB headquarters in Washington, D.C., last March.

EFFECTIVE AND RESPONSIBLE judicial institutions are absolutely critical to sustaining economic growth and democracy. In almost every Latin American and Caribbean country that I have visited, leaders have expressed their concern about the importance of strengthening their respective judicial systems. Four years ago, at the Miami Summit of the Americas, we affirmed the so-called first generation of reforms to strengthen democracy and open markets. Three weeks from now, at the presidential summit in Santiago, Chile, I believe the focus will be on the second

generation of reforms, which will seek to deepen democracy and enhance our respective democratic institutions. In this context, we should and will pay particular attention to strengthening and reforming our systems of justice.

We know from our own history, here in the United States, that justice reforms are difficult to bring about. They require considerable political will, resources and expertise, but the reward is well worth the effort. As a member of the private sector, a business owner who has now had six years in public service in the White House, I can certainly tell you that there is nothing more important in promoting economic development than a

strong court system to enforce the rule of law. The sanctity of contracts is a critical part of any business agreement, and I have seen throughout our hemisphere that countries with the strongest judicial systems attract the greatest amount of both internal and foreign investment.

I think all of us would acknowledge that the rule of law can be a somewhat abstract concept. But it also has a human face and a real impact on what we sometimes refer to as "kitchen table" issues of the hemi-

nesses that have had contracts broken, sometimes even by corrupt government contractors. And yet there is little or no right of appeal. There are family farms that have been stolen by guerrilla groups. And yet without strong property rights and clear land titles, the prospect for relief is remote.

Of course we have many problems of justice that remain to be addressed here in the U.S. as well. And with so many countries in our hemisphere pursuing judicial reform we need to make it easier to learn from one another's experience. Just two weeks ago, during our summit preparation meeting here at the IDB, the government of Argentina proposed the creation of the Inter-American Justice Study

Center for that very purpose. I am very pleased to report that the hemisphere's 34 governments have agreed to have the Santiago Summit consider the creation of this justice center as a resource for educating judges, prosecutors and court officials. We believe the center will provide an important forum for exchanging ideas and experi-

ences in person and of course on the Internet. The center will conduct training events, sponsor research and produce educational materials on a wide range of judicial issues facing the hemisphere.

The stronger justice systems made possible by these efforts will have a real impact on our societies. They will strengthen our efforts to fight narcotics and traffickers, hold our respective governments accountable, and bring criminals to justice. In short, they will help strengthen our democracies.

—A report on the Santiago Summit and judicial reform proposals will appear in the June issue of *IDBAmérica*.



WILLIE HEINZ—IDB

■ **Countries with the strongest judicial systems attract the greatest amount of both internal and foreign investment** ■

sphere—issues that affect people's lives in very real and personal ways. I'm thinking of the mothers and fathers throughout our hemisphere who have been murdered by drug criminals and whose families in some instances have received little or no justice because the courts are influenced or even infiltrated by drug cartels. I'm thinking of local busi-

Investors: think small

Looking for opportunities? Then consider Latin America's enterprising small firms

By DAVID EINHORN

IT SEEMS AS SIMPLE AS A HANDSHAKE. AN investor buys into a company, becomes a partner, and shares in the profits. The company's success benefits everyone involved: owners, investors, employees, families, suppliers and customers.

Yet in Latin America, it has taken a decade of hospitable macroeconomic trends to give investors the comfort level to start buying equity in the region's small and medium-sized businesses. Commercial banks often consider these young, small companies too risky, and many investors still see Latin America as an emerging market. But a handful of venture capital funds today are buying shares and looking to the future. They see virtually untapped investment potential: thousands of innovative businesses waiting to be capitalized and ready to grow.

"A developing economy needs good products and creative entrepreneurs if it wants to compete globally, and both of those usually come from the small and medium-sized business sector," says Andrés Blondet, who heads a venture capital fund in Peru, where 75 percent of the top 5,000 companies have gross sales of less than \$2 million. "That's our market. They're the ones who create the new products to trade, sell and export."

Equity investment holds several advantages for small, young companies. Unlike bank credit, it does not require collateral. It also does not require companies to start paying dividends until the business is developed, freeing them from servicing debt right when they most need capital to build their businesses. Moreover, venture capital funds can bring a wealth of contacts and expertise, ranging from financial know-how to marketing, that can help businesses cope in the critical years of growth and expansion.

"I think venture capital is probably the only attractive funding source available for these kinds of businesses," comments Jerry Barnes, CEO of Mesa International, a U.S. wholesaler that imports from Latin America.

"Banks love you when you have a lot of money; venture capital respects you when you don't. And it's willing to take the risk of investing in your company."

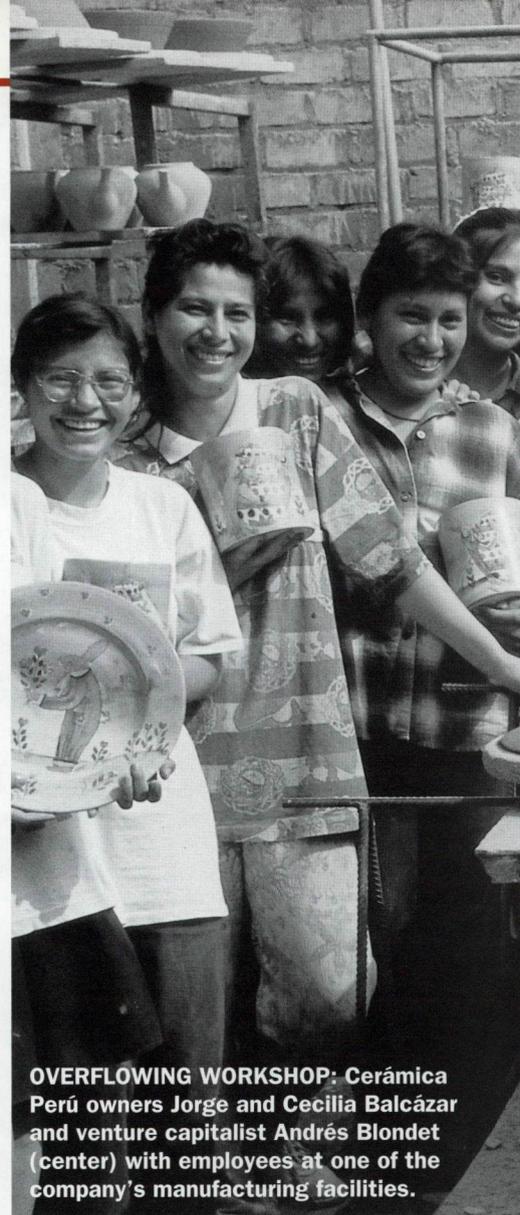
So new venture capital in Latin America, however, that fund directors often find themselves having to explain why and how they're going to invest millions of dollars in local companies. They hold workshops, they take out newspaper ads, they work through business associations. The Fondo de Asistencia a la Pequeña Empresa (FAPE) headed by Blondet is Peru's only venture capital fund for the small business sector. Founded in 1997, FAPE has already made five equity investments and expects to make 55 more over the next decade.

"Most entrepreneurs have no concept of venture capital, so we have to explain it to them," says Blondet. "What gets them really excited is not only the financing but the partnership idea. What makes them think twice is the idea of having an outside partner within the company, of losing absolute control," he says.

The Corporación Financiera Ambiental (CFA)—Central America's first venture capital fund and the only one that invests exclusively in small-scale environmental companies—also has had to slowly educate its clients. Since CFA began operations in July 1996, 120 investment projects have been presented to its Board of Directors, which has approved only eight.

"Many companies approach us with the idea that anything having to do with the environment implies soft money and donations," says Leonardo Ramírez, CFA's president. "The first thing we do is make them understand how our business works. Yes, we can take more risks than traditional banks, but the tradeoff is that the return on the investment has to be higher."

At the same time, Ramírez notes that because potentially successful businesses in sustainable development are often innovative in some way—CFA's portfolio includes companies in such areas as renewable energy and



OVERFLOWING WORKSHOP: Cerámica Perú owners Jorge and Cecilia Balcázar and venture capitalist Andrés Blondet (center) with employees at one of the company's manufacturing facilities.

sustainable forestry—mainstream financial institutions consider investing in them too risky. "The region needs new financial mechanisms like venture capital for companies that have excellent growth potential but depend more on their know-how, their market position, and their entrepreneurial and innovative capacity," Ramírez says.

Institutions such as the Multilateral Investment Fund and the Inter-American Investment Corporation, both members of the IDB Group, increasingly use equity as a development tool because it is profitable, sustainable and beneficial to the broader economy. It also uses the profit motive to bring accountability to the development process.

While a loan provides the lender with interest, returns on equity come in the form of dividends based on performance. So equity in essence makes investors accountable to the companies in which they have shares. "We become partners from the moment we invest to the moment we exit," says FAPE's Blondet. "We can't just make an investment and then wait for the dividend check."



DAVID MANGRIAN—JDS

Local ceramics, global customers

FROM THE OUTSIDE, CERÁMICA PERÚ looks like another nondescript adobe dwelling by the roadside in Ñaña, a bleak, windswept suburb of Lima. But inside is a scene of bustling business activity, as workers urgently but gingerly negotiate their way between stacks of plates, pitchers, mugs and cups in various stages of completion, some clay, some glazed, others bursting with raw handpainted color.

Owners Jorge and Cecilia Balcázar and their 44 employees, working in eight different crammed locations, produce more than 14,000 mugs, plates and other ceramics products each month for export. The Balcázars are happy to work practically around the clock, because they now are realizing their dream of becoming successful exporters.

The couple started Cerámica Perú in 1992

after selling their house to raise capital. Within a few years they had begun supplying hand-painted kitchenware and other ceramics to Mesa International, a U.S. wholesaler and importer whose clients include L.L. Bean, Pier One Imports and Macy's. But in order to fulfill large orders, Cerámica soon needed to expand its facilities, and for this it needed financing. In the beginning, the Balcázars lacked collateral for a bank loan; later, when exports increased, they were reluctant to see their modest profit go to servicing debt.

Then, in early 1997, Cerámica received a \$180,000 equity investment from the Fondo de Asistencia a la Pequeña Empresa (FAPE), a new venture capital fund for small businesses in Peru in which the IDB-administered Multilateral Investment Fund owns a 49 percent equity share. With working capital in hand, the Balcázars doubled sales and exported \$300,000 worth of ceramics by the end of the year. Today they are building a new plant that will enable Cerámica to triple its number of employees in order to keep up with growing export demand.

The agreement for a five-year investment gives FAPE 35 percent of the company's shares, and the fund expects to realize a 32 percent rate of return on its investment. For the Balcázars, sharing their profits with FAPE will be more than offset by revenues from increased sales.

"A bank's business is to give me credit. But FAPE's business is to help me produce more in order to be more profitable," explained Jorge Balcázar. "It's not so much that FAPE helps us technically in producing the product. What they have done is help us become more business-like in our management and administration in everything from accounting to obtaining building permits."

The equity is also key to building Cerámica's relationship with Mesa by enabling the Balcázars to be able to produce wholesale quantity.

"Without the FAPE investment", says Mesa CEO Jerry Barnes, "I would question whether Cerámica could grow to impact the market. I tell all the factories we work with that they must be globally competitive. They have to improve their technology and productivity."

High-tech profits with environmental protection



WHEN THEN-PRESIDENT JOSÉ MARÍA Figueres needed an example of Costa Rica's entrepreneurial spirit for his 1997 State of the Union address, he turned to a young engineer named Guillermo Pereira. Pereira's company, Fortech Química, embodied everything Costa Rica was pursuing in its business promotion policies: private initiative and innovation, government support for research and exports, and collaboration between local and multinational industry.

It was also a great example of the benefits of equity financing.

Fortech is one of eight investments made since 1996 by the Corporación Financiera Ambiental (CFA), the first venture capital fund in Central America and still the only one that invests exclusively in small-scale environmental companies. The IDB-administered Multilateral Investment Fund has a \$4.85 million stake in CFA.

"We're out to show with concrete examples that there is no conflict between the desire to make a profit and a project that will help the environment," explains CFA Director Leonardo Ramírez.

The \$300,000 in equity and loans CFA has invested in Fortech are key to the company's

promising future. Pereira started Fortech in 1994 using facilities provided under a government program to encourage research and development. Working with the Motorola Company plant in San José, he invented an environmentally safe solvent to polish quartz crystals used in cellular telephones, leading Motorola to stop using a more expensive and toxic imported chemical solution. Motorola estimates that the new solvent has saved it \$2 million over the past two years.

"We realized immediately that having a local supplier would save us time in ordering materials and in adjusting the product later as our systems evolve," explained Andrés Montes de Oca, Motorola materials manager in San José. "Even so, it was a little risky for a multinational to entrust something of this magnitude to someone who had never sold us anything before."

By 1997 Fortech was selling 10,000 liters a month of its biodegradable solvent to Motorola, earning annual sales of more than \$1 million, up 50 percent over the previous year. With a new product line on the way and increasing export demands from countries such as Venezuela and China, Pereira needed

Fortech Química President Pereira (right) and Motorola's Montes de Oca.

working capital and a new plant. After several banks said no, he turned to CFA.

"The problem is that our principal activity is know-how. To get a loan through a bank you need real collateral," said Pereira.

As a shareholder and partner, CFA has helped Fortech to reorganize its administrative and accounting procedures, strengthen its international contacts, and obtain a U.S. patent for Biotech, the product it sells to Motorola.

The opening of Fortech's new plant will coincide with its departure from the Enterprise Incubation Center, the government-sponsored R&D industrial park in the province of Cartago. As President Figueres told to the nation, Fortech was the first company to "graduate."

"My dream is to become a company of international scale," says Pereira. "The investment came along just at the right time."



DAVID MANGURIAN—IDB

A new way to do business

WHEN AN INVESTOR PUTS MONEY INTO A COMPANY in return for a share of its earnings, that company will never conduct business the same way again. Now, the investor is a stakeholder in the company, vitally interested that it receives the technology and business and marketing expertise that will grow it into global markets.

It's a tradeoff: greater opportunity, but also greater responsibility. It means unequivocally meeting obligations, getting its financial house in order, adopting international product standards, and opening up what may have been a closely held family operation to outside scrutiny. Members of families that control companies must learn that they can often receive greater benefits from their firm by relinquishing absolute control as a step towards modernizing and increasing revenues.

"Taking on partners is not only about

structure and organization but about learning how to listen," says Guillermo Pereira, president of Costa Rica's Fortech Química, (see above). "When you are immersed in the daily operations of a business, you can get lost in your own little world."

Moving from mom and pop operations to professionally managed companies usually requires improving productivity. For some firms it may mean competing in larger markets with higher standards. Equity financing helps small companies to step up to these challenges.

When Fortech Química developed its solvent to clean quartz crystals, Motorola, its main customer, required that Pereira's company refine the product to meet export regulations established by the International Organization for Standards. To help the company comply, the Corporación Financiera Ambiental, which owns 35 percent of Fortech's equity, provided consulting services and technical assistance.

A similar thing happened in the case of

an herbal tea company in Lima, Peru, called Mushu S.A. As a condition of a 1997 \$180,000 equity investment by Fondo de Asistencia a la Pequeña Empresa (FAPE), the company was asked to use part of the equity to improve administrative and accounting procedures. FAPE provided the firm with assistance on how to do it.

"The owner is a good producer—he knows his teas, he knows his formulas—but he needs more focus, more strategic guidance," says FAPE Director Andrés Blondet. "Right now, he is the happiest entrepreneur in Lima because he hired a good administrator and now he can concentrate on developing his company."

Ancient teas for modern tastes



NATURAL HERBS FOUND IN THE HIGHLANDS and jungles of Peru have been used for centuries for their healing and preventative properties. In 1992, Alfredo and Mónica Menacho took a product sold on corner markets in Lima's poorest barrios and added a new ingredient: entrepreneurship.

With modern packaging, new recipes and a TV marketing campaign, the Menachos parlayed these ancient remedies into Mushu, S.A., an herbal tea company whose annual sales by 1996 topped \$800,000. Mushu's line of medicinal teas for everything from insomnia to colds, flu and upset stomachs is now sold in supermarkets throughout Peru.

"These products have been used locally for years—we've just blended and packaged them to make them attractive to people who are not traditional users," explained Mónica Menacho. "When we started doing trade shows, people would pass by our stand and say to us, 'my grandmother used to give me this when I was young,' and they'd smile and buy it."

Now the Menachos have added yet another modern ingredient—an equity investment—and today Mushu is preparing to launch a line of teas onto the international market.

Mushu is typical of the kind of medium-sized businesses sought after by the MIF's new venture capital funds: an up-and-coming firm with a solid track record and dynamic ownership. The Peruvian venture capital fund Fondo de Asistencia a la Pequeña Empresa (FAPE) bought 40 percent of Mushu with a \$150,000 equity investment in 1997. The money is being used primarily for working capital, production equipment, market studies, visits to trade shows, and packaging and marketing for export. Current plans call for expanding the product line from 5 to 19 products, both teas and capsules, and marketing under the name "Inca Secret" in three U.S. cities, as well as in four Latin American nations.

"An equity investment enables you to take a deep breath on the beach after you've been swimming by yourself for a long time," explains Alfredo Menacho, an anthropologist by trade whose studies led him to start Mushu. "It gives you the solvency and peace of mind to push your projects ahead."

The Menachos continue to think ahead, just as they did when they took the leap of faith to start their business six years ago. Mushu currently purchases two to three tons of herbs monthly, but anticipating a poten-

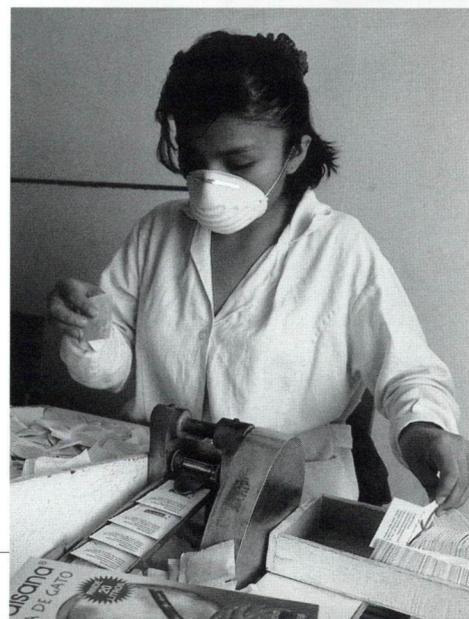


PHOTOS BY DAVID MANGURIAN—IDB

Mushu, S.A. owners Alfredo and Mónica Menacho (standing above) oversee employees who sort and pack teas (right).

tial export windfall, the Menachos are consolidating long-term supply arrangements with peasant farmers in the Cañete Valley, 200 km south of Lima.

"If you want to sell to international markets, you have to be ready to meet the demand. It isn't incremental; it takes off in a flash," explains Mónica Menacho. "Right now, we're more concerned about getting our roots down as a company than in making bigger profits. Our goal is to have a highly respected and well-positioned product on the market. And we're having a lot of fun just making it work." ■



Education gets strong backing

IDB urged to double financing for sector

By ROGER HAMILTON, Cartagena

THE IDB SHOULD SHARPLY STEP UP ITS financing for education as a basic step toward building stronger economies and more equitable societies, according to Bank governors meeting in Cartagena, Colombia, in March.

Calling education a "main political priority," Chilean Finance Minister Eduardo Aninat told delegates to the Board of Governor's 39th annual meeting that improvements in schooling will be "just as important to the region's future as the structural reforms in the economic sphere." He cited IDB figures indicating that raising average schooling by one year would raise average economic growth potential in the coming decade by 1 percent annually.

Representing the United States, Lawrence H. Summers, U.S. deputy treasury secretary, called on the IDB "to more than double the share of new lending to primary and secondary education in the next three years—to more than \$3 billion."

Summers also proposed the establishment at the Bank of a Special Fund for Hemispheric Education that would speed the education reform process already underway in a number of countries. The fund would provide loans and grants to "plug the gaps" in reforms—"when teachers are trained but have no books, when schools are built but have no teachers," said Summers. It would also finance the development of performance standards, programs to reach the very poor, rural people, minorities, and initiatives to be carried out on a regional level.

Other governors emphasized the importance of education in advancing the region into the 21st century, and urged the Bank to fully back the education initiatives that were to be announced at the Santiago Summit of the Americas in April. (See the June issue of IDBAmérica for details on the expanded IDB role in this area.)

Also in Cartagena, the IDB's governors reaffirmed the Bank's mandates of poverty reduction, investments in social sectors and infrastructure, and support for the private sector and small business.

The board agreed to provide \$1.15 bil-

lion in soft loans from the Bank's concessional lending window, the Fund for Special Operations, to the region's poorest countries for the next two years. It also agreed to provide \$500 million in interest rate subsidies from the Intermediate Financing Facility during the same period.

A committee of the Board of Governors is expected to meet in the next six months to take a closer look at future policies for concessional financing as well as other Bank moves to increase the flow of resources to borrowing member countries and make operating mechanisms more flexible.

In another closely watched issue, several governors supported an IDB management proposal to increase direct lending to the private sector without government guarantees, from the present 5 percent of total loan approvals to 10 percent of the Bank's sustainable lending. A decision on this proposal is expected to emerge from a series of upcoming discussions on the Bank's future policies and programs.

The Board of Governors, the IDB's maxi-

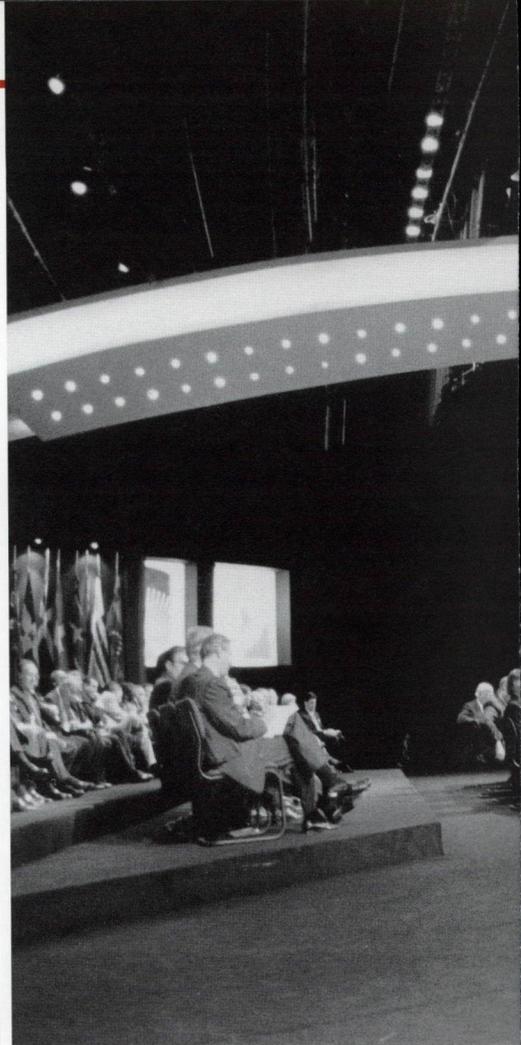
■ Increasing average schooling by one year would boost average economic growth potential by 1 percent annually in the coming decade ■

mum policymaking body, is made up of finance ministers, central bank presidents and other senior officials from each of the Bank's 46 member countries. In addition to its annual meeting, a working committee of the Board of Governors meets occasionally to discuss specific issues.

The IDB meeting was held in conjunction with the annual meeting of the governors of the Inter-American Investment Corporation (IIC), a member of the IDB Group that invests in small and medium-sized businesses.

In Cartagena, the IIC's governors agreed to consider a capital increase that would enable the Corporation to expand its program of lending and equity investments.

In his summation of the meeting, IDB President Enrique V. Iglesias pointed to the optimistic climate that prevailed in Cartagena, which he said was primarily due



to evidence that Latin America could withstand the worst effects of the Asian financial crisis, thanks largely to economic reforms pushed through in recent years.

Iglesias also highlighted the Bank's involvement in new areas such as violence prevention, citing recent IDB loans to support peaceful coexistence in Colombia and Uruguay. In addition, he noted Bank support for countries that are rebuilding after civil strife, such as Guatemala, and its funding of emergency relief in several countries for weather-related catastrophes caused by El Niño.

Finally, Iglesias emphasized the need for civil society to join with the public and private sectors in the region in planning and carrying out development projects. His remarks echoed the conclusions of a two day seminar on the role of civil society held in Cartagena before the start of the meeting.

The meeting was formally closed by Colombian Finance Minister Antonio J. Urdinola, in his role as chairman of the Board of Governors. He was followed by Rosita Solís, an African-American poet from Colombia's Pacific port city of Buenaventura, who delivered a whimsical interpretation of the week-long proceedings.

The next IDB annual meeting will be held in Paris, France.



Colombian President Ernesto Samper addresses delegates at the inaugural session.

Risks and Opportunities.” One particularly fertile investment field is infrastructure: the region will need to spend between \$500 billion and \$1.5 trillion to close the infrastructure gap with the developed countries, according to the managing director of one major investment firm.

Asset laundering The practice of legitimizing earnings from illicit activities, such as drug trafficking, bribery and arms smuggling, is threatening the stability of some of the region’s governments and economies, according to participants in the seminar “Banking Supervision and Asset Laundering.” They recommended training for regulatory and financial officials, better data networks and tougher measures to prevent illegal financial transactions. (See article page 10.)

Pension reform The region’s capital markets will be a major beneficiary of Latin America’s pension system reforms, according to participants in the seminar “Pension Reform: Nature, Achievements and Challenges.” Among the recent reforms examined was that of Peru. Income from pension funds in that country has increased from \$29 million in 1993 to more than \$1.5 billion last year, and is now contributing several points to Peru’s annual GDP.

Banking Although Latin America has resisted the worst effects of the Asia crisis, it must do much more to strengthen its banking systems in the face of increasing globalization, competition and volatility. Among the problem areas identified by participants in the seminar “Banking in Latin America: Stability and Efficiency” were shallow national financial systems, investor volatility, loopholes in certain regulatory areas, and temporary euphoria produced by credit booms and large, short-term inflows of foreign capital.

Smorgasbord of seminars

Living up to its reputation as the region’s foremost annual forum on development issues, the IDB annual meeting this year featured seminars on subjects ranging from violence to investment. Participating in the panels and discussion groups were decision-makers who will shape economic and social policies in the region for years to come.

Civil society Neither governments nor the private sector on their own can reduce poverty, the region’s foremost problem. It will also take the collaboration of millions of citizens working in thousands of civil society organizations, according to speakers at the seminar “Social Programs, Poverty and Citizen Involvement.” Participants presented case studies of instances in which civil society groups have helped to resolve social problems. They

also discussed specific opportunities for citizen participation, such as education, health, protection of vulnerable groups, urban services, philanthropy, environmental protection and IDB-funded projects.

Preventing violence Even more than a social problem, violence is a major drain on the Latin American economies, costing the region 2 percent of its gross domestic product, according to participants in the seminar “Building Peaceable Societies: A Frame of Reference for Action.” An IDB paper, which described Latin America as one of the most violent regions in the world, recommended information campaigns for schools and homes, measures to prevent alcohol and drug abuse, and programs to control weapons.

Joblessness Better education is the first step to improving wages and reducing unemployment, and Latin America has

before it a unique opportunity. Speaking at the seminar “Employment in Latin America: What is the Problem and How to Address It,” the IDB chief economist pointed to a drop in the number of children per worker and a higher proportion of economically active people in the region as a window of opportunity to boost spending on education without increasing taxes (see article page 12). Other subjects were the macroeconomic environment, labor supply, labor laws, the role of unions and collective bargaining.

Investment The region offers many new opportunities for investors, including thousands of promising small firms. But realizing this potential will depend on success in deepening financial market reforms that can protect the region from external shocks, such as the Asian crisis, according to participants in the seminar “Investing in the Emerging Markets of Latin America and the Caribbean:



Waiting for justice: courts in much of Latin America are plagued by chronic delays.

Cleaning the courts

Judicial independence called a key challenge

By PAUL CONSTANCE

POLITICIANS, LAWYERS AND JURISTS TRYING to reform Latin America's national judicial systems often voice frustration over how slowly the process is moving forward.

But from the perspective of two of the most influential legal officials in the United States, Latin America has already made some impressive advances.

Janet Reno, the U.S. attorney general, and the Hon. Stephen Breyer, justice of the U.S. Supreme Court, reflected on the region's judicial reform programs at the conclusion of a recent workshop at the Bank's Washington, D.C., headquarters.

"Based on the conferences I have attended throughout the Americas, I can tell you that the progress that is being made in this area is outstanding," Reno told participants. She said she has been struck by the "tremendous and enthusiastic commitment to making fundamental, sometimes controversial, changes in legal structures in order to improve the performance, efficiency and basic fairness of judicial systems.

Justice Breyer, who was recently in

Panama to meet with his counterparts from 13 of the region's countries at a meeting of the Organization of Supreme Courts of the Americas, added that the U.S. faces challenges similar to those of Latin American countries when it comes to ensuring that judicial systems are effective.

"This is a problem we all really face," said Breyer. "Systems of law that are clear on pa-

per may confer rights that are valid only on paper unless those rights are enforceable in courts that are fair and efficient and are staffed by well-trained and unbiased judges."

Breyer called judicial independence the most difficult challenge facing justice in the Americas. "By independence I mean that both the general public and the branches of government not only let judges make decisions, but then respect the decisions and cooperate in their implementation."

Breyer said Latin American jurists at the Panama conference had given him a vivid sense of the problems they face in trying to create that kind of independence.

"Those problems include the threat of physical violence. We've heard that in one nation, more than 300 judges have been killed. They include problems of corruption and of societal and governmental indifference that leads to inadequate resources, inadequate training to the point where the system becomes seriously demoralized from having to struggle continuously."

In the United States, Breyer said, the history of judicial reform shows that "a strong system requires independence, training and resources." He said successful reform efforts require the support of lawyers, businesspeople and others "who understand that it is important for the economy that there be an independent judiciary, and who can explain to the public why this odd institutional thing is capable of making their lives better."

Breyer, Reno and IDB President Enrique V. Iglesias, who also spoke at the meeting, praised an Argentine government proposal to create an inter-American judicial education center for exchanging ideas and experiences (see Viewpoint, page 3). "It seems to me that these kinds of educational links represent an important way through which our legal systems can learn from and strengthen each other," Breyer said.

 Read more about IDB-financed judicial reform programs at www.iadb.org.



Impressed: (l. to r.) Justice Breyer, Attorney General Reno, former Special Envoy McLarty and IDB President Iglesias praised progress in the region's judicial reforms.



Arched for strength: construction workers in northern Nicaragua prepare a support beam for the walls of a tunnel for an energy project.

Support pledged for Nicaragua

International community to help finance development

By **ROD CHAPMAN**, Geneva

INTERNATIONAL DONORS PLEDGED \$1.8 billion to support Nicaragua's efforts to accelerate growth and reduce poverty at an April meeting in Geneva of the Consultative Group for Nicaragua.

The meeting, which was co-hosted by the IDB and the Swiss government, was attended by more than 100 delegates representing 40 countries and international organizations. The financial commitments are for the period from 1998 to 2000.

Donors commended the government on its accomplishments during the first 15 months of the administration of President Arnoldo Alemán, in particular its steps to integrate the country more closely into the global economy. They noted that Nicaragua last year achieved the highest economic growth rate in Central America.

The donors also pointed to major remaining challenges: achieving sustainable public finances; combating poverty; completing the transition to a market economy; improving governance, particularly through building a professional civil service; and working in partnership with civil society.

The meeting, which was chaired by Miguel E. Martínez, IDB regional operations manager, included presentations by many of the country's most senior government lead-

ers. These included Vice-President Enrique Bolaños and Iván Escobar Fornos, president of the National Assembly; Guillermo Vargas Sandino, president of the Supreme Court; Rosa Marina Zelaya, president of the Supreme Electoral Council; and Noel Ramírez, president of the Central Bank.

■ Nicaragua posted the highest economic growth rate in Central America last year ■

The Nicaraguan delegation presented strategy papers for addressing social problems, modernizing the rural sector, and promoting good governance.

Half of Nicaragua's population and three-quarters of its rural population is classified as very poor, so the government is making the fight against poverty the keystone of its strategy. It plans to give high priority to investing in rural infrastructure and providing new forms of credit for small farmers, while expanding and improving social services.

The government's fiscal program aims at increasing public savings and improving the efficiency of the public sector by modernizing state institutions and privatizing selected government services. A good beginning was made with the passage of a tax reform package last year that broadens the tax base and

increases the system's transparency by eliminating a large number of exemptions and increasing collections. A financial sector reform program that includes the closing of state banks is expected to improve public finances. The government also plans to privatize public utilities including electricity and telecommunications. A number of steps have been taken to stimulate private investment in other sectors as well.

A Property Rights Law passed in December 1997 was seen as a major step in solving property disputes, which have been a serious impediment to new private investment.

The Nicaraguan delegation expressed appreciation for the generous external assistance received to date. Members stressed the need for continued support from the international donor community to help implement programs for accelerated growth and poverty reduction as well as to cover the fiscal and balance of payments gaps during the 1998-2000 period.

The donors urged steps to improve the country's civil service and implement reforms, including a law to guarantee professionalism and continuity. They pointed to the strategic role of the Comptroller General's Office and the need to enable this position to fulfill its mandate. They also called for a coherent decentralization strategy that will ensure that local mandates are fulfilled. ■

How to stop the money washers

IDB backs moves to plug financial loopholes

By PETER BATE, Cartagena

ANTI-CORRUPTION EFFORTS TO MOVE against asset laundering received a pledge of support from IDB officials participating at a seminar held during the Bank's annual meeting in Cartagena, Colombia, last March.

"This subject, which is a worldwide problem, does not find Latin America and the Caribbean either unprepared or unconcerned," said IDB President Enrique V. Iglesias at the close of the seminar.

Possible IDB actions would include financing to train regulatory and financial officials, establish banking information networks, strengthen financial systems, and prepare diagnostic studies to determine the magnitude of the problem. Asset laundering—defined as legitimizing earnings from illicit activities, such as drug trafficking, bribery and arms smuggling—involves 2–5 percent of the world's gross domestic product, or \$100–300 billion annually, according to some estimates. Left unchecked, it can undermine the credibility of a country's institutions and financial systems and compromise the integrity of judicial and law enforcement agencies, said Iglesias.

Other seminar participants described the serious impact asset laundering has on many

Latin American and Caribbean countries. International Monetary Fund economist Alfredo Leone described how asset launderers evolve their operations, using innovative off-the-books financial operations as well as offshore institutions and trade in goods, real estate investments, and other sectors of the real economy.

"Money launderers continue to take advantage of the lack of solid legislation and regulations against laundering money in some countries," he said.

James Spinner, IDB deputy general counsel, noted that some countries have passed legislation to enable authorities to confiscate laundered funds, and moves have been taken to step up cross-border cooperation. He also pointed to a recent program financed by the IDB-administered Multilateral Investment Fund to train financial regulators in the detection and prevention of asset laundering.

But despite the progress, countries need to do more to expand regulatory provisions for preventing, controlling and identifying illegal financial transactions in such sectors as banking and trade, said Spinner. At the same time, he cautioned that financial and commercial regulations to address the problem of asset laundering must not obstruct the movement toward trade liberalization in the region. ■



Banks in the region often are unable to determine the true source of deposits.

ROUND-UP

Data from space

A Brazilian telecommunications satellite that will provide television, telephone and data transmission services to Mercosur countries went into orbit in January. Brasilsat-B3, the fifth satellite belonging to the Brazilian state telecommunications company Embratel, will remain in service for 12 years.

Data on earth

An atlas for Latin America and the Caribbean that brings together more than 200 indicators on topics such as agriculture, deforestation, biodiversity, fresh water resources and economic development has been produced by the Colombia-based International Center for Tropical Agriculture and the United Nations Environment Program. Available on CD-ROM, the atlas will enable policymakers to visually compare many kinds of data from reputable but different sources on a single map. One feature is the land use model, which simulates the future of a particular life zone according to selected variables.

Andean biodiversity

The five Andean countries—Bolivia, Colombia, Ecuador, Peru and Venezuela—have agreed to develop a common action plan to preserve biodiversity. The plan, which will be financed with a \$740,000 grant from the IDB-administered Japan Special Fund, will seek to stem the continued degradation of natural systems through burning, excessive grazing, settlements, removal of trees, exploitation of ornamental plants, mining and petroleum production. Preservation of the Andean ecosystems has been identified as a world biodiversity conservation priority. It is estimated that the region, which is the home of ancient cultures that have lived in harmony with nature for hundreds of years, has more species than any other place in the world.

Technology and education

"In the future, the big difference will be between those who know and those who do not," declared IDB President Enrique V. Iglesias recently before a major hemispheric conference on technology in Boca Raton, Florida. Calling education the "bottleneck" for the region's development, Iglesias urged the use of technology to reduce the time needed to carry out educational reforms.

Cracking the Brazil nut market

Bolivian company boosts income and jobs

By DAVID MANGURIAN

ONE PROMISING APPROACH TO PRESERVING tropical forests is to market their naturally occurring products to provide income and jobs for local residents, in this way reducing the incentive to cut down trees. But all too often, good ideas run headlong into harsh economic realities.

Not so in the Bolivian Amazon near the town of Cobija. There, a company called Tahuamanu S.R.L. has parlayed an invention for automating the separation of Brazil nuts from their bone-hard shells into a thriving, sustainable business and a major source of employment.

Tahuamanu began production four years ago. Since then, with the help of a loan and equity investment from the IDB's Inter-American Investment Corporation (IIC), it has captured 10 percent of the world's Brazil nut market. The company now employs nearly 300 people year round at its processing plant and provides seasonal employment for about 800 others who gather the nuts when they ripen and fall from the tall jungle trees during the rainy season.



Tahuamanu's Brazil nuts bring top dollar on the world market because they are top quality. Instead of cracking the shells by hand, which often results in damage, the company uses a combination of high-pressure steam, a mechanical cracker and vibration. Its quality control lab certifies that the nuts are free of contamination, and the company has earned the "organic" label from the United States Organic Crop Improvement Association.

As the demand for Brazil nuts grows, intermediaries are paying the nut gatherers four times more than they used to get, according to Enrique Nelkenbaum, Tahuamanu's general manager. Nut collectors now average \$1,200 per season, he says.

The booming business is also bringing important secondary benefits to the local people. Before, truckers hauling merchandise to Cobija charged retailers double the transportation costs because they had to return empty to La Paz. But now, according to

Rolando Apanza, Tahuamanu's administrative and financial manager, truckers know they'll have Brazil nuts to take back—13 to 14 loads a month—so they charge normal rates. So Cobija's consumers now find a greater selection of goods in local shops at lower prices. "We're getting products that we never had before, like fresh vegetables," says Apanza.

Although Cobija is only about 615 km north of Bolivia's capital, La Paz, by air, it still takes nearly four days to make the 1,300-km trip by land in the dry season and up to two months during the rainy season, when rivers swell. Several years ago, a truck ended up in a river soon after leaving Cobija

■ **Nut gatherers now earn four times more than they did before** ■

for La Paz and lost its entire load of Brazil nuts. "The driver returned to Cobija in tears," remembers Apanza. "He had no insurance and nobody to help him, and it was the first time he had come here. We helped him get his truck out of the river. After we washed the truck's motor it worked, and he left with another load of nuts."

Even with automated shelling, collecting and processing Brazil nuts is a labor intensive operation. Gatherers spend more than half of their time carrying heavy loads of nuts by foot—one 30-kilo sack at a time—through the jungle to collection points, says Tahuamanu's Nelkenbaum. In the process, they can lose a third of their nuts to rot.

Drop-off points for collectors can be up to 170 km from Cobija, and the trip to the processing plant can take several days. Trucks carry chain saws to cut apart the huge trunks that often block their way. Only an estimated 10 percent of Brazil nuts produced in the forests actually reach markets. Due to these



Shelled nut kernels are graded and packed by hand.

difficulties, world sales of Brazil nuts have been stagnant since 1992. Moreover, burning in the Amazon forest has reduced the number of Brazil nut trees. "Deforestation has really cut into the Brazil nut tree population," says Scott Mori of The New York Botanical Gardens. He adds that there is evidence that the smoke is reducing the population of pollinating bees.

But increased demand from United States and European candy and nut companies has driven export prices up from a low of about \$0.95 cents a pound for shelled medium Brazil nut kernels in 1992 to more than \$1.70 in 1997, according to the trade publication *Edible Nut Market Report*.

Brazil nuts are not grown in plantations because they need the natural forest's pollinating insects to produce a large number of nuts. The trees, which number from three to six per hectare, are found in the rain forests of Bolivia, Brazil and Peru. ■

City hall's new bargain hunters

DOES YOUR LOCAL GOVERNMENT GET A GOOD deal when it buys paper clips, computers, or garbage collection services?

That depends on how such goods and services are procured. If contracts are awarded without competition, with little publicity and inconsistent rules for bidders, chances are good that prices will be inflated.

That was essentially what Adalberto Rodríguez Giavarini found when he accepted a

Big savings from competitive bidding

job as treasury and finance secretary for the City of Buenos Aires in early 1996.

With a procurement budget of around \$1 billion, or 30 percent of the total city budget, the city government had reason to be concerned. Based on evidence that prices on many municipal contracts were as much as 30 percent higher than what was available on the open market, the city leadership ordered Rodríguez and other officials to implement a sweeping overhaul of procurement practices.

In a paper presented at a recent IDB conference on "Efficiency and Transparency in Public Sector Acquisitions," Rodríguez described the city's new procurement rules and provided some startling evidence of their impact. First, officials set out to eliminate "closed procurements," where only a limited number of companies were allowed to bid for a contract, and greatly expanded commercial advertising of upcoming contract opportunities. The result, said Rodríguez, was an immediate surge in the number of companies submitting bids.

Second, officials began using a database of "reference prices." Before awarding a contract, procurement officials can now quickly check the latest market prices for any product or service and compare it with bid prices.

The results of these changes were immediate, Rodríguez said. When the city requested new proposals for an expiring contract to provide food services to 29 metropolitan hospitals, 34 companies offered competitive bids. The new contract was awarded for just under \$32 million, or 47 percent less than the \$59 million paid to the previous contractor for the same services.

Comparable savings materialized as the city awarded contracts in other sectors. According to Rodríguez, Buenos Aires saved 37 percent on food services for public schools, 45 percent on garbage collection and public

lighting maintenance, and 60 percent on contracts to run communal kitchens. Overall, the city saved \$200 million in the first full year following the procurement reforms.

Rodríguez said the city has also improved its relationship with suppliers by overhauling its payment system so that contractors are paid on time. Deficiencies in the previous system, in which payments were decentralized and issued by the unit that had purchased a service, led to chronic payment delays that contractors ultimately used to justify their higher prices. The city has now centralized the payment system through the creation of a single account managed by the General Treasury Office.

"The financial integration allowed by a single account favors transparency and tends to reduce discretionary powers," Rodríguez states in his paper. At the same time, the city is in the process of decentralizing the purchasing side of the procurement process. Why? Because letting each division within the city government control the purchases of the goods and services that it uses eliminates several layers of bureaucracy and makes the procurement process more agile.

 For more information on this subject see www.buenosaires.gov.ar.

Demographics and jobs

A demographic window of opportunity will give Latin America unique chance to reduce unemployment, increase savings and improve education over the next two or three decades, IDB Chief Economist Ricardo Hausmann said at a seminar on labor markets held in Cartagena, Colombia, during the IDB's annual meeting last March.

During this period, the number of children per worker will fall rapidly in the region, while the number of pensioners will remain relatively low. As a result, an unusually high proportion of Latin America's population will be economically productive, a factor that should allow for substantial increases in education spending per child—perhaps without even having to increase tax



CARLOS CONDE—IDB

Cities can often cut the costs of garbage collection

rates. Better schooling, he said, is the key to both reducing unemployment and increasing wages.

While the window remains open, countries that switched from pay-as-you-go pension systems to fully funded schemes should be able to boost domestic savings rates and accumulate funds to cover the retirement of their own "baby boomers," according to Hausmann.

Prime time for training

In this scenario, those retirement nest eggs would finance the investments needed to bolster growth and build the sort of economic future in which workers are spared the anguish and limits of the current conditions in Latin America's labor markets.

But despite the good demographic news, governments will still have to deal with a serious accumulation of problems: high rates of unemployment, the growth in informal



Social security's tricky numbers

Does big spending mean high coverage?

WHEN POLITICIANS AND INTEREST groups do battle on the controversial subject of social security reform, statistics are often the favored ammunition. Numbers, usually big financial numbers, are used by all sides to knock down arguments for or against tampering with the current system. In the process, innocent bystanders are sometimes hit with misleading information.

In Latin America, critics of state-run social security systems often portray them as fiscal sinkholes that consume a huge portion of public spending and discourage job creation because too much of each worker's paycheck is deducted for social security contributions.

This is only partly true. The percentage of direct wage costs represented by social security contributions is indeed very high in some of the region's countries: in 1995 they amounted to around 30 percent of each paycheck in Mexico, Brazil and Colombia, and just over 40 percent in Argentina and Uruguay. These figures include programs for old age, disability, death, illness and maternity, work injuries, and unemployment.

But contrary to popular perceptions, public spending on social security in Latin America is actually very small when com-

pared with industrialized countries. In the graphic below, the vertical axis indicates the size of social security spending as a percentage of each country's GDP. Latin American countries, which between 1990 and 1995 spent an average of only 2.5 percent of GDP on social security, are clustered near the bottom left. Industrialized countries, which spent 16.4 percent, appear in the upper right. That contrast is even starker when social security is measured as a percentage of all public expenditures: Latin American countries devoted an average 9 percent of the national budget to social security, compared to a whopping 35.9 percent in the industrialized world.

There are two basic explanations for the small size of Latin America's social security systems. First, in most countries social security benefits are received only by former public employees and other "formal" employees. Tens of millions of informal workers receive no benefits at all. Second, as the horizontal line on the graphic indicates, the region (with the notable exceptions of Argentina and Uruguay) has a much smaller proportion of people over age 65 than industrialized ones. It is these older citizens who account for the bulk of social security expenditures.

through competitive bidding.

sector jobs and a yawning wage gap between skilled and unskilled labor.

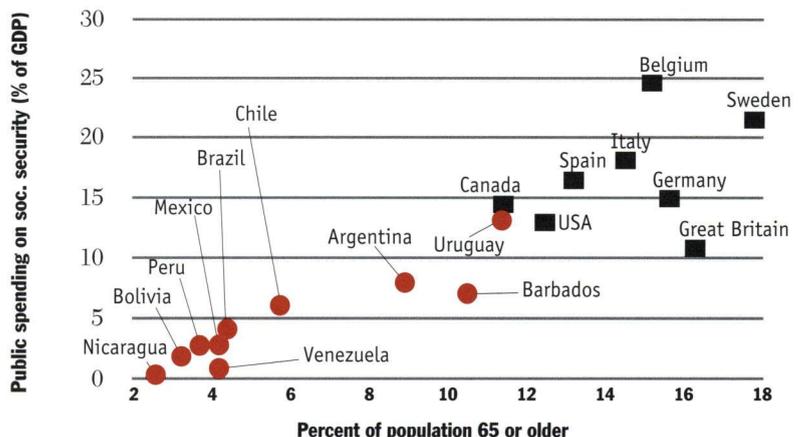
Rigid labor regulations have remained largely untouched in most Latin American countries. Burdensome payroll taxes deter businesses from recruiting new employees and prompt others to resort to informal job arrangements. More than half of all young Latin Americans leave school without finishing their secondary education and will have no chance of earning the sort of wages their college-educated counterparts can command.

Resolving these problems will require labor law reforms as well as a mixture of expanded educational resources and facilities for young people, coupled with more comprehensive and effective job training programs for adults, Hausmann said.

For additional information, visit www.iadb.org/oce/index.htm.

Paying for the golden years

Latin America, with its youthful population, spends much less on social security than richer and older industrialized countries



Source: IDB calculation based on International Monetary Fund data.

PROJECT UPDATES

CHILE

Neighborhood gets new start

After most social development projects are completed, a ribbon is cut, speeches are made, and the beneficiaries go back to their jobs of making a living and raising families. But in the city of Viña del Mar, Chile, Marta Fernández de la Fuente, president of the Gabriela Mistral Neighborhood Council, took the time to write about what an IDB-financed urban development project has meant to her and her community. An abridged version follows:

Our neighborhood was established only recently, the houses going up on the hill because the people needed to live somewhere. All of the families here are rich in love, good will and effort, but not in financial matters. So we were not able to pay for suitable housing when we started our families, and for this reason, the majority of the people were initially squatters.

The years passed, and our children grew and went to school. But we never lost hope about improving our community. So at the beginning of the decade six neighborhood groups united and raised the banner of a campaign to carry out a program to realize our dream.

Many neighbors told us that they would only believe it when it became a reality. . . and then the reality arrived. Our neighborhoods were invaded by technicians, workers, inspectors, machines, concrete tubes. Great machines sliced into the earth to install sewage lines.

It took a lot of effort and ingenuity. When the firm saw that it would be impossible to use machines to haul construction materials to the last houses on the top of the steep hill, it bought donkeys to do the work.

But everything was not "honey on pancakes," and we felt called upon to express our points of view and object forcefully but respectfully when we felt we were being pushed around.

As community representatives, we made suggestions and

provided support in every way possible, and in the end, more works were carried out than were in the original program.

We are profoundly grateful to all those who helped our neighborhood make such progress: to the municipality, to the sub-secretary of development, to the regional government, to the central government, and particularly to the IDB, without whose efforts and interest nothing could have been achieved.

Were it not for all of them, we would perhaps still be wandering in public offices searching for solutions to our problems. We would still have septic pools, sewage running through our streets, still causing disease in our children. The rains in the winter would still make it difficult for us to reach our work places, and the heat and dust of the summer would still cause lung problems in the elderly and the young.

We believe in Latin America, and in this country and in this city of Viña del Mar, where there are people who are concerned about others who have fewer resources.

PERU

Tourists return to Ayacucho

Among the victims of Peru's terrorist violence of the 1980s and early 1990s was the country's tourism industry, and few places were hit harder than Ayacucho. In 1992, this graceful Andean city had only 250 visitors, compared to 13,000 in 1980.

But today, tourism in Ayacucho has turned around along with the country's economic and political fortunes. Numbers of visitors have regained and surpassed its previous levels, and if current growth trends continue, could top 150,000 annually by 2002, according to official estimates.

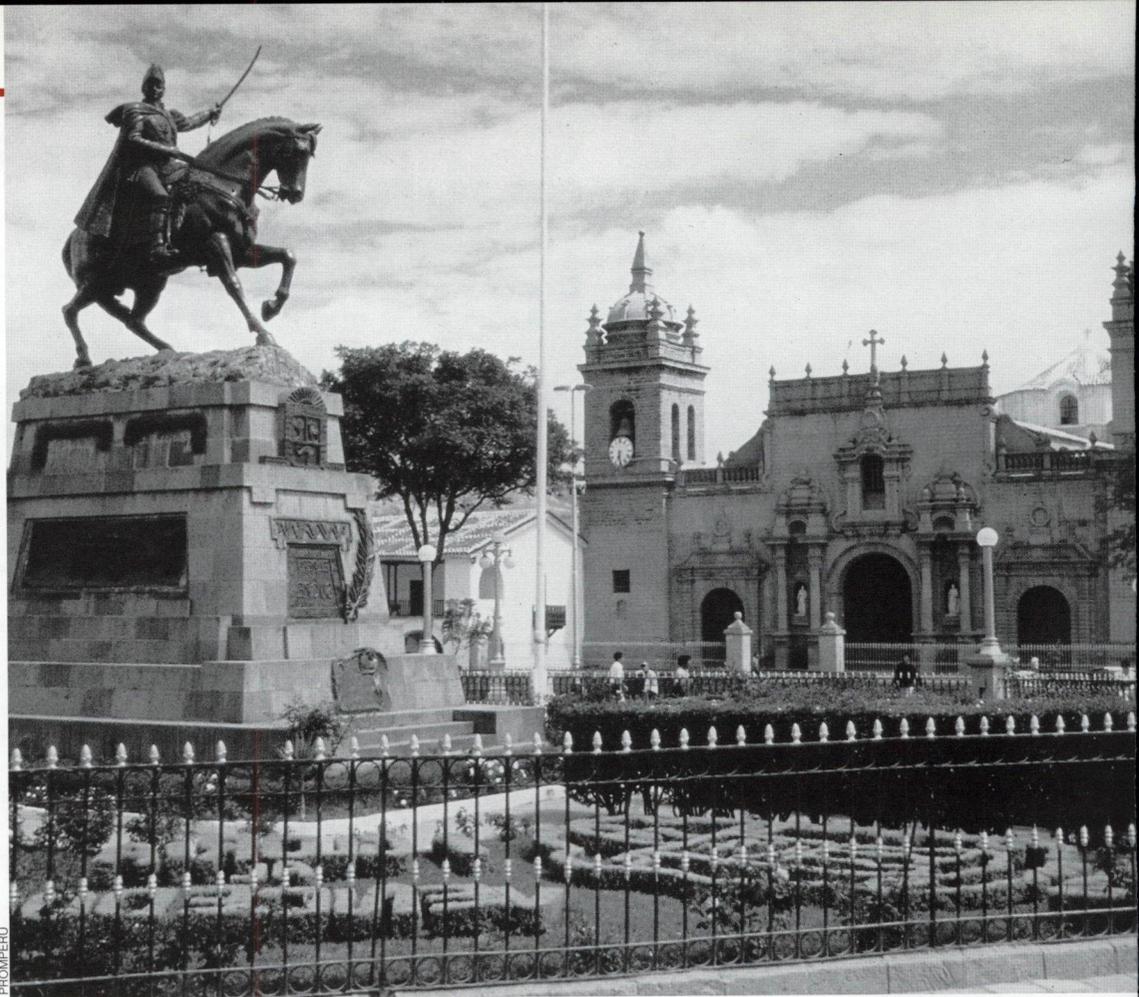
Such a tourism rebirth would generate at least 3,000 full-time jobs for trained workers, up from 1,230 today—a significant number for a city of Ayacucho's size.

A rich trove of religious art and architecture remain Ayacucho's principal tourism attraction. In addition to a 17th century cathedral, the city has 32 other colonial churches, many of

them filled with spectacular paintings, carved altarpieces, stone engravings and ceramics. The churches are the focal point of numerous liturgical traditions and festivals that culminate each year in elaborate Holy Week celebrations.

In the last six years, the Archbishopric of Ayacucho has launched several restoration and repair projects at local church buildings with the help of national and foreign donors. But despite these efforts, only a small fraction of the city's artistic heritage can now be viewed by visitors because of limited resources and a widespread need for restorative work.

But help is on its way with a \$1.6 million technical cooperation grant from the IDB's Multilateral Investment Fund (MIF). The grant will fund a program to train young workers in architectural restoration techniques and skills such as plastering, carpentry and electrical wiring. In addition, courses will be offered in hotel management and other traditional tourism skills for up to 2,000 new and veteran tourism workers in Ayacucho. The pro-



Ayacucho's Plaza de Armas and one of the 32 colonial churches that grace this historic city.



gram will be carried out by Caritas Ayacucho through the Tourism Training Center and the Development and Employment Workshop School of the Lima Restoration Program.

Program officials hope the training activities will spark additional tourism investments by private sector firms. Banks, airlines and hotel developers are already expanding their operations in Ayacucho, and the Peru Promotion Commission believes the city could eventually be second only to Cuzco as a tourist destination.

—Jorge Zavaleta Alegre, Lima.

LATEST APPROVALS

Chile

An IDB grant of \$255,000 to support environmental protection plans, policies and initiatives at the local level.

Dominican Republic

A MIF grant of \$2.5 million to support a public enterprise reform program and promote private sector participation in state-owned companies.

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.

Two IDB grants totaling \$2,020,600 for technical management and conduct of international trade negotiations.

El Salvador

A \$71 million IDB loan for rehabilitation, reconstruction and expansion of the country's school infrastructure.

A \$500,000 IDB loan and a \$150,000 technical cooperation grant to facilitate access to credit by microenterprises assisted by the Agencia de Desarrollo Local de Morazán.

A \$2 million IIC equity investment in Bon Appetit S.A. to enable the producer of juices and noncarbonated beverages to modernize and expand.

Honduras

A \$500,000 IDB loan and a \$175,000 technical cooperation grant to facilitate access to credit by microenterprises in the departments of Ocotepeque, Copán, and Lempira.

Panama

A \$18.9 million IDB loan to improve the quality of judicial services and to strengthen the rule of law.

Venezuela

Two loans totaling \$395 million to help finance a comprehensive reform of the social security system.

An \$8 million IIC loan to Inversiones Selva, C.A., a producer of high-quality disposable plastic products, to improve operational and productive efficiency.

Toru Kodaki, formerly director general of Fukuoka Local Finance Branch Bureau in Japan, has been elected IDB executive director for Japan, Croatia, Slovenia, Portugal and the United Kingdom.

Bruno Mangiatordi, formerly head of privatization of Italy's Ministry of the Treasury, has been elected IDB executive director for Belgium, Netherlands, Germany, Switzerland, Italy and Israel.

Elcior Santana, who was the IDB's senior counsellor for Brazil and Suriname, has been named alternate executive director for the same countries.

Raúl Boada has been appointed alternate IDB executive director for Bolivia, Paraguay and Uruguay. He was most recently the general advisor to the controller general of Bolivia.

CAPITAL MARKETS

The IDB issued its first Swedish Kronor bond in April for a total of SEK500 million (about \$63 million). Banque Paribas of Luxembourg led a syndicate of international banks placing the issue, which was priced at 102.30 percent. The bond, which matures May 15, 2003, pays a 5.25 percent annual coupon.

GAZETTE

New IDB directors

Pedro Aguayo Cubillo, who was most recently executive director of Fundación Ecuador, has been elected IDB executive director for Chile and Ecuador.



SAFETY FIRST: Senior officials and mayors from Colombia and Uruguay gather for a ceremony to sign the first IDB operations to reduce and prevent violence. The event came at the end of a seminar "Building Peaceable Societies" held during the Bank annual meeting in Cartagena.

Trade data in the round



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GAZETTE

New fund for agriculture research

The IDB is managing the start-up of a Regional Fund for Agricultural Technology in Latin America and the Caribbean that was formed by 12 Western Hemisphere nations in March.

The fund is designed to finance regional research activities that will increase the region's agricultural competitiveness while protecting the natural resource base and contributing to poverty reduction.

So far more than \$75 million in pledges for the fund have been received from Argentina, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Nicaragua, Panama, Paraguay, Peru, Uruguay, and Venezuela. The fund is expected to reach \$200 million and generate at least \$10 million annually.

The fund will award grants for research projects on increasing the productivity of food crops and the sustainable management of natural resources. It will target both regional and subregional research efforts, and will encourage international cooperation, especially where the needed scale of operations and skills are not easily available in one country.

In its initial phase, the fund's capital will be administered by the IDB. Its Technical-Administrative Secretariat will be based in IDB headquarters in Washington, D.C.

Funding for women's leadership

The IDB will provide a \$3,250,000 grant for a program to increase women's leadership and representation in Latin America and the Caribbean.

The program, to be carried out by the IDB's Women in Development Unit, will fund organizations that support and

promote the active participation of women in the economic, social, and political processes of their communities.

Organizations that demonstrate potential in advancing women's leadership and citizen participation would receive technical assistance to strengthen their institutional capability.

Networks will be established to facilitate the exchange of information among current and potential women leaders and women's organizations in the region and elsewhere.

An 11-member council formed by women leaders, representatives of governmental and nongovernmental organizations, academics, and representatives

of the mass media, will provide strategic guidance and support to the program's fund-raising efforts.

The council will also include representatives of the Inter-American Commission on Women of the Organization of American States, the United Nations Children's Fund, the United Nations Development Programme, and the United Nations Development Fund for Women.

Of the program's total cost, \$350,000 will be contributed by the Norwegian Fund for Women in Development and \$120,000 by the Swedish Technical Cooperation Trust Fund for Consulting Services.



WILLIE HEINZ—IDB

READY TO RAISE. Stevedores at Terminal 3 in the New Port of Buenos Aires, Argentina, slip steel cables around outbound crates. Privatization and new investments in container-handling equipment over the last few years have turned Buenos Aires into one of Latin America's most modern ports.



JEFFERSON COLACICCO

Brazil's Quinteto D'Elas (l. to r.): Betina Stegman, Marialbi Trisolio, Helena Scheffel, Adriana Schincariol and Ana Valeria Poles.

A big break for young musicians

Budding artists bring fresh sounds to Washington

By PAUL CONSTANCE

IT CAN'T GET MUCH BETTER THAN THIS, thought Gustavo Daniel Cardinal when he was invited to perform at IDB headquarters in Washington, D.C.

The 27-year-old Uruguayan pianist was keenly aware that in the crowded and ultra-competitive world of classical music, a United States debut in the nation's capital could help jump-start an international career.

But in fact, things did get better. Minutes before he took the stage in the IDB's Andrés Bello Auditorium on July 31, 1997, to play pieces by Bach, Liszt and Pons, Cardinal learned that the audience included a music critic from *The Washington Post*, the city's most influential paper.

"That motivated me even more," jokes Cardinal. Two days later, in an article headlined "Cardinal's Soaring Debut," the critic praised the pianist's "note perfect performance," "deft lyricism" and "seemingly innate ability to open up classical music."

"The concert and that review were a tremendous reaffirmation for me," said Cardinal, who is now continuing his music studies at the University of Indiana under an all-

expenses-paid Fulbright Scholarship.

Cardinal is one of several dozen young classical musicians from Latin America and the Caribbean who have performed at Bank headquarters as part of the IDB Cultural Center's Concert Series. Since 1992, the series has organized a total of 60 concerts featuring soloists, small ensembles and chamber



DAVID MANGUBRAN—IDB

Uruguay's Gustavo Daniel Cardinal.

orchestras. Although most of the concerts feature artists whose careers are just beginning, the series also has attracted stars like Chilean soprano Verónica Villaroel and Jamaican jazz pianist Monty Alexander.

"We feel it is important to introduce these talented young artists to an American audience," says Cultural Center Director Ana María Coronel de Rodríguez, who launched the program as a complement to the center's lecture series and ongoing visual arts exhibitions. "The concerts give them an opportunity to show what they're capable of."

They also help to correct a misperception. "American audiences often don't realize that there is a lot of classical music going on in Latin America and that we take it very seriously," says Antonio Rincón, a young Dominican violinist who performed at the IDB last October and who now plays in chamber and symphony orchestras in the U.S., Puerto Rico, and his homeland.

Anne Vena, who runs the concert series, says they also help raise awareness of the region's composers, because almost all the performers make it a point to include works by composers from their home country.

The program offered at a concert last February by Quinteto D'Elas, an ensemble from Brazil known for playing works by women and Latin American composers, was a case in point. Along with pieces by Johann Hummel and Louise Farrenc, they played Ney Vasconcellos' *Suite Veridiana*, Tom Jobim's *Samba de uma nota só* and Paquito D'Rivera's *Wapango*.

"This is not the kind of music your typical Washington concert-goer gets to hear!" says Vena. ■



THEY KNOW THE ANSWER: Children in a low-income neighborhood in Tegucigalpa, Honduras, gather for an IDB-funded “Sports for Children” program combining play and advice on health, domestic violence prevention and other issues.