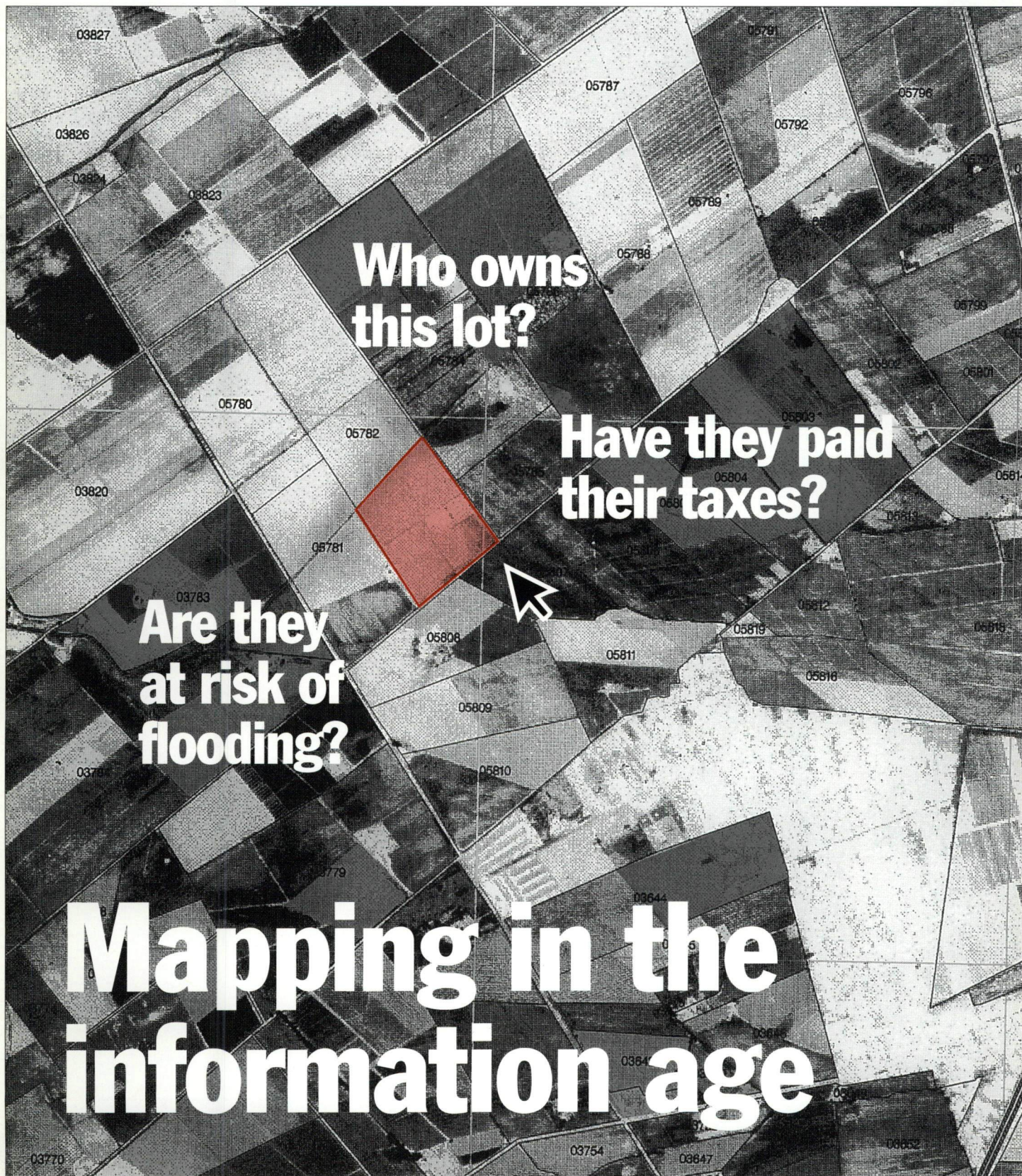


# IDB AMERICA

Magazine of the Inter-American Development Bank

September–October 1998



**Who owns  
this lot?**

**Have they paid  
their taxes?**

**Are they  
at risk of  
flooding?**

**Mapping in the  
information age**

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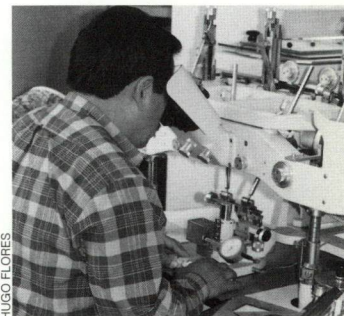
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## THE COVER

**Digital mapping.** This detail of an aerial photograph displays roughly two square kilometers near the Peruvian city of Huaral. The photo has been digitized and overlaid with verified lot boundaries and numbers as part of an IDB-financed land registration and titling program run by Peru's Ministry of Agriculture. The digital maps will be linked to databases containing a variety of information about each lot. See stories on pages 11 and 13. (Map courtesy of the Peruvian Ministry of Agriculture.)



HUGO FLORES

## EDITORS' NOTEBOOK

# The fishing champ of Barú

**S**IERRA, CARITE, COJINUA, pacora, pargo: if it tastes good and swims near Colombia's Caribbean shores, Zenen Zúñiga knows how to catch it.

A traditional fisherman on the island of Barú, just off Cartagena, Zúñiga has spent most of his 36 years pursuing these species in a hand-made boat called a chalupa.

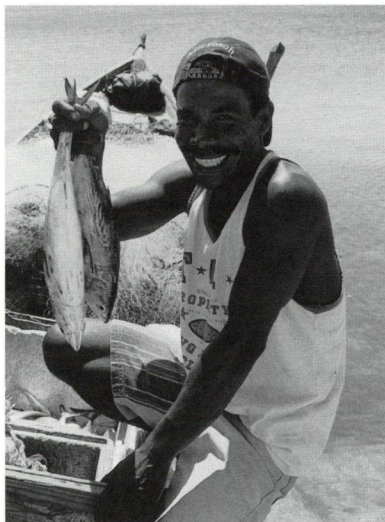
Along the way he has developed what every fisherman longs for: consistent luck. His colleagues at the Santa Ana, Barú and Boca Cerrada Fishing Cooperative call him "El Campeón"—the champ—because he routinely brings in more fish than any of the 56 other members—up to 100 kilos a day.

The cooperative is a vital resource for the fishing families whose homes dot the Barú coastline. While the men fish, the women clean, process and

market the catch. Business is brisk and could be even better were it not for the high cost of replacing outboard motors, buying nets and reaching new customers.

Now, the Mario Santo Domingo Foundation, backed by a \$500,000 IDB loan, is helping the co-op and several hundred other island fishermen to cover those costs with a microcredit program that lets members pay their debts with fish. The program also includes training and technical assistance in marketing and administration for women, who make up 20 percent of the co-op's membership.

Zúñiga, who is married and has five children, was among the first to take advantage of the program. He borrowed



Zúñiga, "El Campeón," nearly always returns with a full boat.

\$3,000 for nets and a new 40 hp outboard that will help him win the daily race to the best fishing grounds. If past is prelude, he will also be the first to pay down his loan.

WILLIE HEINZ—IDB

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# Equal treatment for agriculture

By MUNI FIGUERES

**D**ESPITE ITS BURGEONING cities and booming industry, Latin America's fortunes remain rooted in agriculture. A full 25 percent of the region's population works on the farm or in agroindustries, agricultural products continue to earn a major portion of the region's export revenues, and the sector has proven itself to be a dependable growth engine in bad times as well as good. Moreover, the region's identity and shared cultural values are a product of its agricultural traditions.

Latin America's prospects for sustained economic growth and higher living standards rest to a great extent on its success in selling more agricultural exports on the world market and boost productivity on the farm. But the region's ability to increase exports continues to run into serious obstacles beyond its shores, namely barriers to free trade erected by industrialized countries. While these barriers continue to fall for a wide range of goods and services traded worldwide, free trade and integration agreements routinely exclude agricultural products.

The hindrances to free trade in farm products are legion. They include export taxes and subsidies, government purchasing, stockpiling and trading, burdensome customs procedures, licensing requirements, tariffs, quotas, political pricing and discriminatory rates of exchange, and unscientific sanitary or phytosanitary restrictions.

In the OECD countries in 1997, total payments to farmers through a combination

of direct subsidies, cheap loans and guaranteed prices represented more than \$150 billion, which was close to 34 percent of the value of their agricultural production.

By contrast, since the mid-1980s Latin American and Caribbean countries have, with few exceptions, unilaterally slashed tariffs and other trade barriers, removed export taxes and reduced or eliminated the role of state trading agencies—even though the General Agreement on Tariffs and Trade did not require them to do so.

The region's liberalization moves are irreversible, in large part because they are clearly beneficial. Barriers to trade throttle economic development and are inherently unfair, par-

ticularly to the poor. Taxes on imports are correctly perceived as indirect taxes on exports, while export subsidies encourage inefficiency and provide excuses for retaliation.

Meanwhile, demand for agricultural products will more than double during the next 50 years.

Latin America is ideally positioned to help meet this demand and is now rediscovering its tremendous comparative advantage in agriculture: large reserves of arable land, moderate population growth, and a great potential to continue to raise yields.

For all these reasons, Latin America must continue to be a strong advocate for eliminating agricultural trade distortions, a stance in which it has always had the full support of the IDB.

At the same time, Latin America can take steps on its own to boost agriculture.

Farmers and small-scale entrepreneurs need access to credit, technology, transportation, business know-how and markets. There is a pressing demand for research and development to improve productivity and increase product diversity. And agriculture, like other productive sectors, needs better communications, roads, bridges, ports, airports, and sources of energy to compete effectively in the coming years.

If these goals are met, agriculture will remain the fulcrum of the region's development process well into the next millennium, providing jobs, social mobility and a better quality of life to both rural and urban people.

**“Barriers to trade throttle economic development and are inherently unfair, particularly to the poor.”**



DAVID MANGURIAN—IDB

**While Latin America's farms keep upping yields, the region's trading partners persist in closing their doors to agricultural imports.**

**—The writer is the IDB's external relations advisor and former Costa Rican minister for foreign trade.**

**“Other than praying together, there is little that Latin America's finance ministers can do...”**

Jorge Mariscal, principal Latin America strategist for Goldman Sachs, the investment bank, in a Sept. 1 Reuters report on the regional impact of the global financial crisis.

**“They could take over the Andean forests. They must be eliminated.”**

Alejandro González, an Argentine government biologist, in an Aug. 3 New York Times article on the beavers that have overrun Tierra del Fuego. Introduced in 1946 to promote the local fur industry, the animals now number 50,000 and are causing extensive flooding damage from the dams they build on streams.

**“The presence of women in civil society is what keeps it coherent.”**

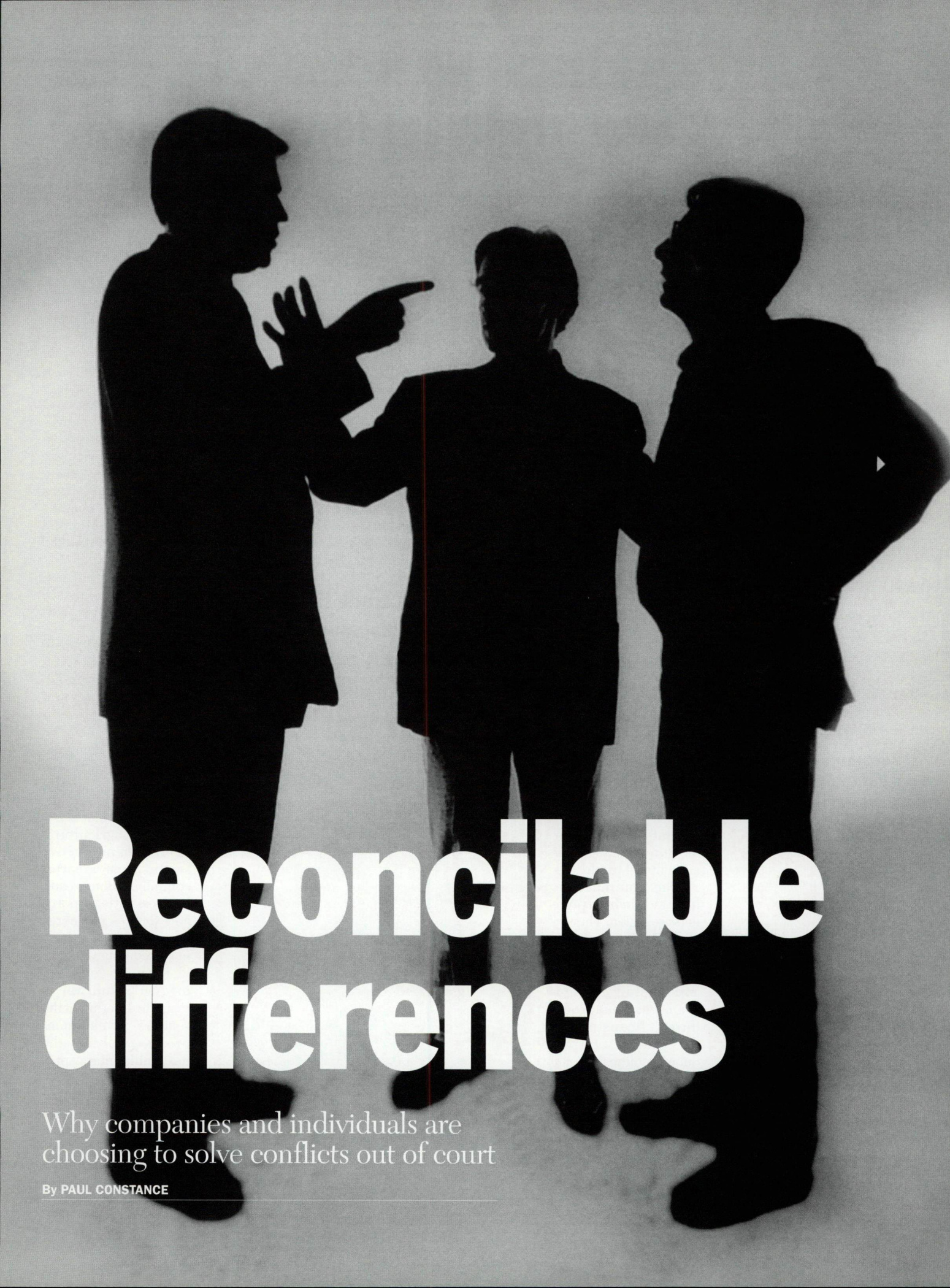
Mexican writer Carlos Fuentes, quoted in Aug. 10 Financial Times article on his latest novel, *The Years with Laura Díaz*.

**“It's remarkable and unusual to have a new flavor do so well.”**

Vivian P. Godfrey, vice president for North America at ice-cream maker Häagen-Dazs, in a Sept. 7 BusinessWeek article on U.S. sales of its “dulce de leche” flavor. Developed at the company's Buenos Aires branch in 1997, the flavor is now the second best selling (after vanilla) in Häagen-Dazs' 700 U.S. stores.

**“We are not going to do single-source contracts with Latin American governments regarding integration services projects.”**

Sebastián Mocerrea, communications director for IBM's Latin American unit, in a July 4 Reuters report. IBM contracts of this type with government entities in Argentina and Mexico are under investigation because of alleged bribery or fraud. IBM denies wrongdoing.



# Reconcilable differences

Why companies and individuals are choosing to solve conflicts out of court

By PAUL CONSTANCE

IT WAS A TYPICAL BUSINESS DISPUTE, EXCEPT for the \$320 million at stake.

Alleging delays in the construction of a natural gas pipeline, Colombia's national oil company, Ecopetrol, was preparing to declare TransGas in breach of contract. TransGas, a joint venture controlled by the Canadian multinational company TransCanada, was building the \$320 million pipeline and had threatened to stop work if Ecopetrol took that step.

The situation reached a tense stand off in the spring of 1997, endangering the completion of a 343-km network of pipes running from Mariquita to Cali that is critical to meeting Colombia's growing energy needs.

The parties could have taken the case to court. But in Colombia, as in almost every country in Latin America and the Caribbean, it can take from seven to 10 years to push a complex commercial dispute through the judicial system. A trial might have generated huge legal bills and negative publicity. And it probably would have ruined a business relationship that could otherwise benefit both parties for decades to come.

Knowing this, Ecopetrol and TransCanada had written a clause into the pipeline contract that bound them to resolve any disputes through arbitration. In March of 1997, convinced that they could not work out their differences, the two sides sought assistance at the Center for Arbitration and Conciliation run by the Bogotá Chamber of Commerce.

"The first two or three meetings were kind of aggressive," recalls Eduardo Zuleta, an attorney who represented TransGas. "Everybody wanted to blame the other party, and no one wanted to budge from their position."

But under the skillful guidance of Adriana Polanía Polanía, a veteran conciliator and head of the arbitration center, both sides were gradually able to narrow their list of disagreements to a few very specific items. Three months later, without even having resorted to a formal arbitration proceeding, Ecopetrol and TransGas signed an agreement that guaranteed the pipeline would be completed in August. The total cost to the companies, not including their attorneys' fees, was some \$6,000 in conciliation service fees paid to the arbitration center.

**Different path, same goal.** Although the stakes were unusually high, the pipeline case was just one of thousands that are resolved through alternative dispute resolution (ADR) methods each year in Colombia (see Mediation for beginners, page 5). With more than 120 arbitration centers across the country, and hundreds of trained conciliators and arbitrators, Colombia is a leader in this area, offering companies and consumers a speedy and efficient way to resolve disputes without going to court.



**“Considering the times our country is going through, it’s almost incredible to be able to resolve a conflict in an average of 15 days.”**

Adriana Polanía Polanía  
Bogotá Chamber of Commerce

"This is a very gratifying line of work," says Polanía. "Considering the times our country is going through, it's almost incredible to be able to resolve a conflict in an average of 15 days. People are always telling us how grateful they are."

The benefits of ADR are not reserved for large companies or government entities. On the day Polanía spoke to IDBAmérica, one of her staffers had just helped to resolve a dispute between a hairdresser and a retail computer store over an allegedly faulty piece of software. Many cases handled by the country's ADR centers involve relatively simple disagreements between family members over property or money. And for the millions of low-income workers in the region's informal sector, where legal contracts are rarely used, ADR can provide an efficient, low-cost means for resolving differences with a contractor or client.

ADR also provides an indirect benefit to a country's judicial system by easing the caseload of courts that are already overburdened. "The courts in most of our countries simply don't have the resources to deal with the volume of cases they are being asked to handle," says Ricardo Posada, an economist with the IDB's Multilateral Investment Fund (MIF). "In some countries there are thousands of cases just waiting to be heard. So if you are interested in resolving a matter expedi-

tiously, and the dispute does not involve issues that can only be handled in court, then ADR can be a very attractive option for both citizens and the judicial system."

**New relevance.** Although laws codifying the validity of some kind of ADR have existed in nearly all the region's countries for most of this century, in practice very few companies or individuals have chosen this option. During the last six years, however, a wave of interest in ADR has led two-thirds of the region's countries to either overhaul old laws concerning ADR or draft new ones, and dozens of new arbitration and conciliation centers have opened their doors.

The IDB's MIF is currently funding programs to either strengthen or establish ADR activities at the request of Colombia, Costa Rica, El Salvador, Ecuador, Honduras, Panama, Peru and Uruguay. Later this year, similar projects are scheduled for approval in Brazil, Chile, Guatemala, Nicaragua and Paraguay. The projects focus on strengthening the institutional capacity of the centers and training mediators and arbitrators so that they have the technical resources to handle a wide variety of cases. The projects also sponsor educational workshops on ADR for professionals in the business, legal and judicial communities.

According to Posada, who has helped design many of these projects, the new interest in ADR is a byproduct of broad economic and social changes in the region. To begin with, the economic recovery of many countries following the debt crisis of the 1980s created a surge in business activity, with a parallel jump in the number of business-related disputes.

At the same time, the democratic opening that has transformed political systems in most Latin American and Caribbean countries over the last decade has fostered a stronger sense of individual legal rights, encouraging people to seek redress in more situations. In most countries, this new demand for conflict resolution services has literally overwhelmed the courts.

Foreign investors, who have flocked to Latin America as a result of economic reform programs and lower trade barriers, have also stimulated interest in ADR. Eager to avoid lengthy and unpredictable court battles, the majority of foreign investors today require some kind of ADR clause in their contracts with national companies and governments, according to Posada. The contracting parties often go so far as to specify where the conciliation or arbitration will take place. If a local source is not available, disputes are typically referred to regional offices of the American Arbitration Association in New York, the International Chamber of Commerce (ICC) in Paris, or comparable bodies.

*(next page please)*

"Arbitration plays a very important role for countries that are trying to attract foreign investment, because it gives investors a measure of protection in situations where the legal environment is still evolving or where they are under contract to government entities," says Posada. Indeed, although most international arbitration cases take place in the private sector, fully 8 percent of the disputes brought before the ICC Court for International Arbitration in 1997 involved public-sector parties.

**New incentives.** ADR clauses are not just desirable to foreign investors, however. Local companies that are beginning to branch out into neighboring Latin American countries or that are trying to raise funds on the stock market also stand to gain.

Maria da Cunha, an attorney who consults for the MIF on ADR and other issues, says that as the region's economies become more diversified and companies become more dependent on a variety of suppliers and investors, the incentive to use ADR increases.

"If you're a publicly traded company, you may have to comply with financial disclosure rules that force you to report the costs of any lawsuit you are involved in," she says. "Shareholders and potential investors see lawsuits as a liability." Likewise, companies that are trying to break into new markets and attract business partners don't want their reputations sullied by press reports of lawsuits.

And there is another risk in going to court: the parties usually have no guarantee that the judge hearing the case will have the expertise to handle complex disputes that hinge on highly specialized or technical issues. "If you are going to court to resolve a software piracy issue and the judge has never used a computer, you might get a surprising decision," says Posada.

By contrast, ADR offers a great deal of control. ADR proceedings are strictly confidential, and detailed procedural rules are agreed to in advance by both parties. Moreover, ADR centers typically maintain a roster of arbitrators and conciliators who are experts in particular areas of industry or technology, or who specialize in sectors such as labor, insurance or construction.

Jorge Suescún Melo, an arbitrator at the Bogotá Chamber of Commerce, says these factors help remove a lot of the uncertainty inherent in a court trial. "In ADR proceedings everything is clear, all decisions are made in the presence of all the parties involved, so normally there are no surprises at the end."

For a business, the swift, confidential and more predictable nature of ADR proceedings makes it possible both to minimize the bad blood arising from a dispute and preserve a valuable commercial relationship. "Because of the agreement we were able to reach, the relationship between Ecopetrol and



DAVID MANGURIAN—IDB



DAVID MANGURIAN—IDB

**LET'S SHAKE ON IT.** Conciliation proceedings at the Bogotá Chamber of Commerce can be tense (left), but in the vast majority of cases, they result in a settlement agreeable to both parties (above).

**Privatizing justice?** Despite these advantages, the use of ADR methods in the region remains very limited. While a few countries, notably Colombia, Chile and Argentina, have made significant strides, in most of the region ADR is still largely unknown. "Many businesspeople, even those belonging to the chambers of commerce that traditionally champion ADR, don't know what ADR is, or they're very confused about how it works," says the IDB's Posada. The same can be said for many practicing lawyers and judges, who sometimes assume that ADR is an attempt to undermine their influence or authority. In some cases, ADR has even been portrayed as an effort to "privatize justice."

"That is an unfortunate misperception," says Posada, "because proponents of ADR have never been interested in competing with the courts. The purpose of ADR is to supplement the judicial system by dealing with cases that don't really require the intervention of a judge." Ironically, when lawyers and judges have a chance to attend an ADR

TransGas today is excellent," reflects Santiago Jaramillo, another Colombian attorney who represented TransGas in the pipeline case. "This is very important for a company that wants to be in Colombia for the long term, because it tells the local business community that we have the will to negotiate and conciliate if something happens in the future."



seminar and ask questions, he added, they almost always conclude that it deserves their support.

In fact, the legal community has come to champion ADR in some countries. In Argentina, for example, after several years of public debate, many lawyers and judges supported the passage of an ambitious law that mandated the use of ADR as a first step in almost all civil cases, starting in 1996. Today, Argentine judges routinely refer tens of thousands of cases per year to 3,300 mediators who are trained and certified at centers managed by the Ministry of Justice. Only if the mediation process fails are the parties allowed to request a trial.

"The judges are very enthusiastic about that law," says Christina Biebesheimer, an IDB legal expert who has worked on a number of judicial reform programs in the region. Figures released last April by Argentina's Ministry of Justice show why: of the 116,660 cases that were referred for mediation in the first

two years after the new law went into effect, only 32,644 ultimately went to trial. The most frequent types of disputes handled by mediators concerned damages from traffic accidents, late payments for services or utilities, landlord/tenant disputes and various breaches of contract. Most mediation proceedings lasted between 60 and 90 days and cost around one-tenth of what a trial would, according to the ministry. Moreover, less than one percent of all mediated agreements were not upheld by both parties—a sign that people consider mediation to be just as official as a court decision.

**Growing support.** Judicial officials in many other countries are interested in the potential for expanding the use of mediation and other ADR methods within the court system. In Peru, for example, approximately 80 percent of all small claim civil cases are already handled by justices of the peace. These officials, who are usually respected local citizens, function essentially as conciliators who attempt to resolve disputes. Only cases that cannot be resolved on the spot are referred to the court system. Under a judicial reform program partially financed by the IDB, the Peruvian government has been sponsoring training programs for justices of the peace that aim to improve their ability to resolve more complicated cases.

"This is an effective way to expand access to justice while keeping pressure off the courts," says Biebesheimer, "because the justices of the peace are available in even the smallest towns and they tend to inspire the trust of local people."

A similar approach is being promoted by the state of Rio de Janeiro in Brazil, which has opened small "Houses of Justice" in low-income urban neighborhoods. The houses are open after hours, so working people can fit visits into their schedules. In addition, the houses are staffed on a rotating, part-time

basis by senior judges from the state's court system. "The idea is to resolve cases quickly for low-income people who can't afford a lawyer or who live in neighborhoods that are too far from a courthouse," says Biebesheimer.

The idea, she might also have said, is to increase people's options.

Whether they are practiced in a chamber of commerce, a courthouse, a community center or even a town plaza, ADR methods are expanding the range of options available to people who need to resolve differences. And that, in the long run, can only help the broader cause of justice.

—With reporting by David Mangurian

## Mediation for beginners



IF YOU'RE NOT SURE WHAT alternative dispute resolution is all about, you're in good company. ADR has been known to confuse even veteran jurists because of the range of slightly different practices it encompasses.

The crucial variable is the degree of control exercised by the parties in a dispute. At one end of this range is **negotiation**, where the parties have total control and work to resolve the dispute without the involvement of an outside advisor.

Next comes **mediation** or **conciliation**, in which the parties enlist the help of a skilled, neutral facilitator in order to reach a voluntary settlement. The choice between these two terms is often determined by the degree of control granted to the facilitator: mediation usually implies a more passive, advisory role, while conciliation is often understood as a more active intervention where the neutral party sets the agenda, assigns tasks and even suggests solutions.

Finally, **arbitration** refers to cases where the parties choose a neutral individual or body (often a three-person panel) to which they present their case for a legally binding ruling. In other words, while successful negotiation or mediation implies that both parties agree to the decision, arbitration necessarily results in a ruling that favors one party over the other.

Negotiation, not counting the man-hours involved, can be essentially free of cost. Mediators and conciliators, or the centers that provide these services, usually charge flat hourly rates that are paid by the parties in a dispute.

By contrast, fees for arbitration services are usually calculated as a small percentage of the amount of money at stake in the dispute. In the case between Ecopetrol and TransGas, for example, arbitration would have been vastly more expensive than conciliation.



# A century of lights and shadows

An economic history of Latin America reveals patterns of inequity and reasons for hope

By PETER BATE

**H**OW WILL HISTORY JUDGE THE ECONOMIC evolution of Latin America and the Caribbean during the 20th century? On the surface, the century appears to have been a spectacular success. Average per capita income in the region quintupled. Life expectancy, a dismal 40 years in 1900, now averages 70 years. And seven out of eight adults will be able to read and write in 2000, up from one in four in 1900.

But despite these gains, Latin America has not been able to gain ground in the developed world. The average per capita income of the region's larger countries was 14 percent of that of the United States in 1900; it now stands at 13 percent. Industry has grown from 5 percent to 25 percent of GDP, but the continent's share of world trade fell from 7 to 3 percent, and commodities still make up more than half its exports. Despite the region's growth, Latin America and the Caribbean continue to be financially dependent on outside capital.

The disparity among incomes in Latin America, perhaps the region's most enduring stigma, was the worst in the world by the 1960s and has become even more skewed in the following decades. Today, two in every five Latin American families live in poverty.

This is a sampling of the paradoxes explored in the newly published *Progress, Poverty and Exclusion*, the first comprehensive economic history of Latin America and the Caribbean in the 20th century. The ambitious project, sponsored by the IDB and the European Union, was written by Oxford University economist Rosemary Thorp based on scholarly contributions (see box).

"The challenge of this book," Thorp writes in the introduction, "is to capture the century, with its lights and shadows—the positive and the negative." The 370-page volume seeks to place in a historical context the development efforts, strategies, choices, successes and failures of countries as radically different as Brazil, with 150 million inhabitants, and the tiniest states in the Caribbean.

Combining quantitative data and political economy—the interaction of political forces, institutional inheritance and economic outcomes—Thorp assesses the re-

gion's achievements and shortcomings during this century and traces their historical roots.

One such force was the transformation of internal economic structures in individual Latin American countries. In 1900, the lack of transportation and communications infrastructure meant that many national economies were divided into regional archipelagos of market activity. Thorp recounts that in 1900, if a thirsty customer ordered a "foreign" beer in Mérida, on the coast of Mexico's Yucatán peninsula, he was sold a Dos Equis from the town Orizaba, in the country's east-central region. Poor roads meant that Peruvian timber destined for Lima was shipped down the Amazon and around Cape Horn rather than over the Andes.

Roads, railroads and telephone networks gradually helped to connect these archipelagos, but Thorp also highlights the integrationist role played by public institutions such as central banks, which became almost universal in the 1920s. Public enterprises and development agencies grew as the role of the state expanded from the 1930s to the 1960s. This was followed by a shift toward free markets that began in the 1970s and 1980s, leading to the more recent restructuring or

privatization of many state-run entities. In the last decade of the century, attention has shifted to strengthening regulatory and legal environments in economies that are increasingly dominated by the private sector.

Thorp also tracks the waves of economic expansion experienced by the region and traces their links to the global economy. She examines the disruptions caused by international episodes such as the two world wars and the Great Depression, regional debacles such as the debt crises of the 1920s and the 1930s, the all-too-frequent intervention of military forces in political and economic affairs and the "lost decade" of the 1980s.

Thorp mines these phenomena for clues to explain why, despite significant growth in per capita income during this century, Latin America still has the world's most unequal distribution of wealth. A crucial part of the answer, she says, can be found in the unexpected persistence of social and economic hierarchies established during the colonial era. For example, during Latin America's first wave of export-led growth, which started in the mid-19th century, labor was scarce. Immigration fulfilled some of the need, but rather than lead to a bigger helping of the economic pie for workers, the growth perversely spawned institutions that repressed labor movements and expanded the labor supply by dispossessing peasants.

"These developments simply extended the colonial inheritance of land concentration and the subjugation of Indian peoples," she writes. "Inequality was thus knit deeply into the fabric of the model and was part of its effectiveness in generating growth."

Income concentration remained a characteristic feature of Latin America throughout the next stages of development, because the expansion of public institutions, despite

## A work of unusual scope

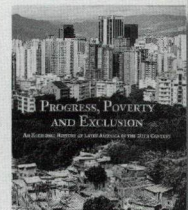
WHILE HER NAME APPEARS ON THE COVER, Rosemary Thorp makes it clear that *Progress, Poverty and Exclusion* is the product of what she calls "corporate authorship," a collaborative process that has resulted in a work of unusual scope and depth.

During its preparation, workshops were held to examine periods of Latin American economic history where Thorp found major gaps in the comparative literature. Those meetings yielded a wealth of papers on the export boom of the late 19th and early 20th centuries, on Latin America during the Great Depression and on the "black legend" of the state's role in the region's postwar industrialization. Thorp filled in other pieces of the puzzle by commissioning a series of

papers on individual countries and issues. Finally, an advisory committee of 20 senior economists from Latin America, the United States and Europe reviewed the manuscript and offered written comments.

The handsomely produced book is generously illustrated with historic photographs, many of them never previously published.

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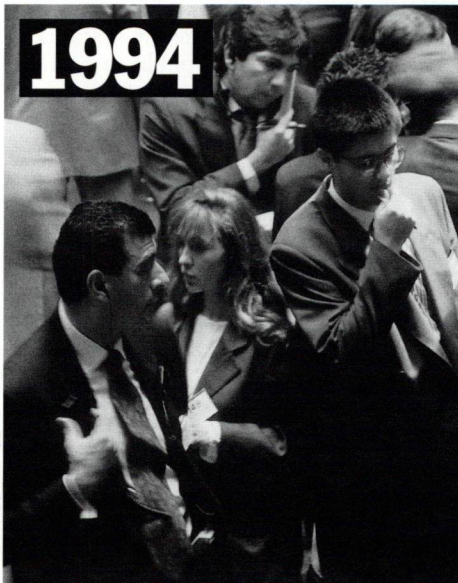
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populist rhetoric, did little to threaten the interests of privileged groups. Even though the region clearly would have profited from having wider national markets, more domestic savings and greater investment in human resources, Thorp notes that the existing power structure and the short-term cost of change worked against decisive policies of redistribution. Efforts in that direction, such as land reform, tended to misfire for political, economic and technical reasons.

Closer to our times, the boom fueled by the quadrupling of oil prices in 1973 and a sudden increase in capital inflows ended abruptly with the debt crisis of 1982. Botched attempts at adjustment led to a major shift in the development model, placing emphasis on private sector-led growth, downscaling the state and liberalizing markets. The new approach, Thorp finds, has exacerbated inequality by worsening income distribution. But the author also sees hopeful signs in the pragmatism increasingly espoused by the region's leaders, particularly in their efforts to tackle social problems.

**MOMENTS GREAT AND SMALL: Workers and tourists mingle along the Panama Canal (above), Bolivian miners (right), and a frantic trading session at the Buenos Aires stock exchange (below).**

1994



DAVID MANGURIAN—IDB

1940



SVO

# View from the executive floor

The IDB's departing executive vice president reflects on the Bank and the region's prospects

*Nancy Birdsall leaves the IDB in September after five years as executive vice president, a period which she has called the most challenging and productive of her professional career.*

*Before taking up her new duties at the Carnegie Endowment for International Peace, where she will manage their economic programs, she talked to IDBAmérica about the future of multilateral financial institutions, the changes taking place in the region, and her achievements at the Bank.*

**IDB AMÉRICA:** What expectations did you have when you came to the IDB five years ago?

**BIRDSALL:** My ambition was to be part of Latin America's second wave of reforms, working with countries that are getting down to the business of making major institutional and social change.

I also had ambitions—modest ones—to help strengthen the IDB's ability to carry out analytical work. The IDB was already moving beyond being primarily a bank that finances projects. I thought there was—and I think there still is—plenty of room to strengthen the kind of country analysis and economic, social and political analysis that can make Bank staff more helpful to government officials who are setting and implementing policy. I think we've progressed a great deal in this regard over the last few years with the creation of the Office of the Chief Economist, the Inter-American Institute for Social Development and the Sustainable Development Department.

Our borrowing countries are looking to the IDB not only for money, but also for ideas. It's not a matter of the Bank telling anybody what to do, but rather of being a partner in a very complex discussion.

**IDB AMÉRICA:** The policy framework dubbed the "Washington Consensus" maintains that

the key to creating prosperous and equitable societies in Latin America is fiscal discipline, open markets and private sector-led growth. But critics now argue that after a decade of putting these policy prescriptions in place, many Latin American countries are actually worse off than before. Do the critics have a point?

**BIRDSALL:** I think we are now moving into something that could be called the "Santiago Consensus." In Santiago, Chile, the hemisphere's heads of state met earlier this year and reaffirmed these reforms, but also

called for taking a new look at how some of the changes are being carried out. Rather than create privileges, these reforms must create opportunities. For example, Peru, Bolivia and other countries have developed programs to improve access of the working class to the shares of privatizing companies.

Equally important at Santiago, the heads of state emphasized the need for the second generation of reforms, including education, and the strengthening and re-

form of judicial and other public institutions so that they can better serve the needs of the great majority.

So I would say that the critics are partly right, because there is room to make reforms work better for more people. But they are wrong that countries are worse off.

**IDB AMÉRICA:** You have been outspoken over the need for Latin America to increase equity. What are the prospects?

**BIRDSALL:** Latin American societies are among the most unequal in the world, reflecting that many poor people are being left out of the growth process. Their potential productive contributions are being lost. But this also means that there is considerable potential for increasing growth rates, and in this

**“I think it's very significant that IDB lending and advice continue to be in demand even from countries that receive large capital inflows. More and more, IDB loans are becoming vehicles for creating a policy dialogue.”**



Birdsall's ambition at the IDB was to be part of

way provide more opportunities to the poor. There need be no tradeoff between growth and equity goals. A win-win scenario is possible, and this was implicit in what the heads of state were saying in Santiago.

At the same time, we have to recognize that the situation is not going to change much in the short term. We have to focus on improving opportunities for those at the bottom.

**IDB AMÉRICA:** How about the role of education in the second generation of reforms?

**BIRDSALL:** Of course, education is absolutely critical. After all, education, along with other assets such as land and access to credit, enables people to generate income. When more people have more education, there is a better overall distribution of assets, and in effect, of opportunities for people to be productive.

**IDB AMÉRICA:** Do you think there is a danger that the recent rise of nationalist and populist movements in some key Latin American



America's second wave of reforms.

countries could put the reform process in jeopardy?

**BIRDSALL:** I am not very good at political forecasting. But I find it interesting that Fujimori, Menem and Fernando Henrique Cardoso, each of whom has shepherded his country through major market-oriented reforms, each in some sense also has come from the left. What is happening in Latin America is also happening elsewhere. Clinton and Tony Blair, who understand the benefits of the market, also came from the left.

So it looks as though in certain kinds of democracies, including mature democracies, political leaders are combining a market orientation with an increased commitment to fighting poverty and inequality. But they are doing so by creating opportunities for all in a market setting rather than through populist transfers and redistribution.

**IDB AMÉRICA:** As multilateral lending is dwarfed by huge inflows of private capital into developing countries, how can institutions like the IDB continue to have an impact?

**BIRDSALL:** I think it's very significant that IDB lending and advice continue to be in demand even from countries that receive large capital inflows. More and more, IDB loans are becoming vehicles for creating a policy dialogue about ideas. It goes back to the fact that money is not the IDB's main resource; ideas are.

If anything, the demand for our lending and our advice has increased. While the dollar value of our lending is not rising very much, the number of projects that we are doing every year has exploded, particularly if we take into account the Multilateral Investment Fund.

**IDB AMÉRICA:** Despite changes in the IDB's organization that have speeded the delivery of Bank services, you yourself have noted that borrowers think the Bank is still too slow. What more can be done?

**BIRDSALL:** This matter is under study right now. One part of the solution would be to recognize that different kinds of loans—different products—should be prepared according to different procedures. Today we essentially prepare a \$1 million loan and a \$400 million loan the same way, and have been doing so for the past three decades. So we've got to rethink this—I hesitate to say—"cookie cutter" approach.

The second part of the solution involves the issue of delegation from the Bank's Board of Executive Directors to its management, and within management itself. What level of management should approve loans of different complexity and different cost? I think it's clear that decentralizing those decisions as much as possible is crucial. But this has to be done in a context that takes into account the risks. I believe we can find ways to balance delegation with an appropriate approach to risk.

**IDB AMÉRICA:** How would you like to be remembered at the IDB?

**BIRDSALL:** How I would like to be remembered? I think as having brought a little more of a consistent and analytical focus to social policy issues, to issues of poverty and inequality, and as having tried to ensure that the Bank increase its analytical capacity across a range of areas in order to be more helpful to borrowers. And for having reinforced whatever efforts women were making in the Bank to enhance their status.

I also would like to think that in chairing the IDB's loan committee, which is the bread-and-butter business of the Bank, I made a contribution by emphasizing the quality of our operations and the link between the commitment of the borrower to the project in terms of ownership, accountability and sustainability. ■

## ROUND-UP

### 'Incredibly unjust' trade barriers

In the latest salvo over a long-standing issue between Latin America and the industrialized nations, Mercosur, the customs union made up of Brazil, Argentina, Uruguay and Paraguay, called on the European Union (E.U.) to end agricultural subsidies. In a summit of the presidents of the four countries held in July in Ushuaia, Argentina, Brazilian President Fernando Henrique Cardoso said it was "incredibly unjust" to retain trade barriers on farm products, since this is the area where developing countries have the greatest potential for rapid growth. The summit, attended by IDB President Enrique V. Iglesias, was held to discuss a free trade accord between Mercosur and associate member Chile and the E.U. Mercosur is the world's fourth largest food exporter.

### Strike for women's leadership

A long-time IDB official and later executive director for Venezuela has become the first woman finance minister for her country. Maritza Izaguirre was named to the post in July by Venezuelan President Rafael Caldera in the midst of the most serious economic and fiscal situation to affect the country in recent years. Izaguirre, a sociologist, had been a staunch advocate of social and women's issues at the Bank.

### Education plan underway

Education ministers from the countries of the Americas and officials from international agencies met in July in Brasilia to begin putting together a plan for attaining the ambitious education targets set by the hemisphere's heads of state at the Summit of the Americas earlier this year. The plan includes development of measures to compare education levels across the region, improving the quality of teachers and school administrators, and educational reform. A major portion of the plan will be funded by the IDB and the World Bank.

### Agricultural exchange created

The Central American and Caribbean Agricultural Products Exchange, set to open in October, is gearing up to handle transactions representing an annual \$2 billion during its initial phase. The purpose of the exchange is to foster trade among the region's countries as well as to address problems caused by both scarcity and high production, particularly of grain. The creation of the exchange is being supported by the Canadian government.

# Tables turned

## Japanese and Latin officials reverse old roles in meeting on trade and investment

By DANIEL DROSDOFF, Tokyo

**W**HAT A DIFFERENCE A DECADE MAKES. Ten years ago, when times were "normal," and the world looked to East Asia, and to Japan in particular, for economic leadership, the first in a series of symposiums held by the IDB and the Export-Import Bank of Japan featured presentations about Latin America's painful efforts to emerge from debt crisis and recession.

But this past June, when the fifth such gathering was convened in Tokyo, it was clear that the roles had been reversed. Speakers without exception lauded Latin America's present stability and positive economic performance.

Leaders from the Japanese private sector and government officials from the prime minister on down applauded Latin America's success in cutting inflation from double digits 10 years ago to single digits today. Instead of the high tariff barriers of 15 years ago, Latin American and Caribbean trade regimes are now among the most open in the world. Most government fiscal deficits are under control, and despite the shock waves of the Asian financial crisis, the region is still poised for growth.

In normal times, Latin America's relative economic health would be a magnet for greater Japanese investment. But these times are far from normal. East Asia is now the world's financial trouble spot, suffering from a round of devaluations, spending cutbacks, and banking crises that began last year, and Japan itself is in the midst of a recession and serious banking crisis that require major government intervention. Japan's leaders say they are studying the experience of Latin America and the Caribbean for clues on the best ways to deal with financial crises, especially in the banking sector.

Among the other speakers at the June seminar were the presidents of Peru and Uruguay, numerous ministers and deputy ministers from both Japan and Latin America and the Caribbean, and senior executives from Japan's private sector.

In his address, IDB President Enrique V. Iglesias looked beyond the current Asian crisis to picture a time in the near future when

a resurgent Japan would engage in a greatly expanded economic partnership with Latin America and the Caribbean. He urged Japan to diversify its investments beyond manufacturing and infrastructure, saying that other areas of the region's economy now constitute "an enormous pole of attraction for capital."

Looking ahead to a stronger partnership, Japanese government and private sector leaders urged the region to continue deepening its reforms. They stressed that investors need consistency, predictability, stability in the regulatory framework and a level competitive playing field.

■ **In normal times, Latin America's relative economic health would be a magnet for greater Japanese investment. But these times are far from normal** ■



**In Japan: (l. to r.) Peru's Fujimori, Uruguay's Sanguinetti, Uruguayan ambassador to Japan Zulma Guelman, and the IDB's Enrique V. Iglesias.**

Latin America's leaders, for their part, urged Japan to take decisive action in dealing with its economic and banking crises.

Eisuke Sakakibara, Japanese vice minister of finance for international affairs, said Japan now "can learn from the experience and wisdom of Latin America." The East Asian economic crisis is "the beginning of the global crisis of the financial system," he said. "It is a crisis of capitalism."

Sakakibara said information technology has led to massive, instantaneous shifts in international monetary flows. "Once some

money flows in one direction, all the money goes in one direction. There is a tendency to overshoot. Addressing this situation is a problem for all of us."

Japan is studying the Latin American experience for its crisis management and quick response mechanisms, Sakakibara said, and it is closely following regional and sub-regional trade agreements, such as the North American Free Trade Agreement and Mercosur, which will require adjustments in trade and investment strategies.

Mexican Finance Minister José Angel Gurría said Latin America's economies were "solid" despite the current Asian crisis. "There is no substitute for good economic policy," he said. "A failure to take the right measures in a timely way can raise the costs [of adjustment] exponentially. Fiscal discipline is the rule."

President Alberto Fujimori of Peru highlighted the importance of economic cooperation between the two Pacific regions, and urged Japan to take the initiative in strengthening relations. President Julio María Sanguinetti of Uruguay stressed the need for major economic powers, such as Japan to move rapidly to fix their own financial crises to prevent world contagion. "There is nothing worse than a financial crisis," said Sanguinetti. "Banking crises must be resolved. They are like a hemorrhage. The hemorrhage must be stopped before all else." He also assured Japan that the movements toward integration in Latin America and the Caribbean were being conducted in the spirit of world economic opening rather than regional protectionism. "We don't consider Mercosur a fortress," he said. "Instead, it is a platform for insertion into the world economy."

Giving a view from Japan's private sector, Masayoshi Morimoto, corporate senior vice president of Sony Corp., noted, as did many of the other speakers, that "Japan's presence is low in the region."

Akira Yokoi, executive vice president of Toyota Motor Corp., said he would like Latin America and the Caribbean to have an even better investment climate,

policies that favor faster economic growth, freer trade, and more consistent policy management.

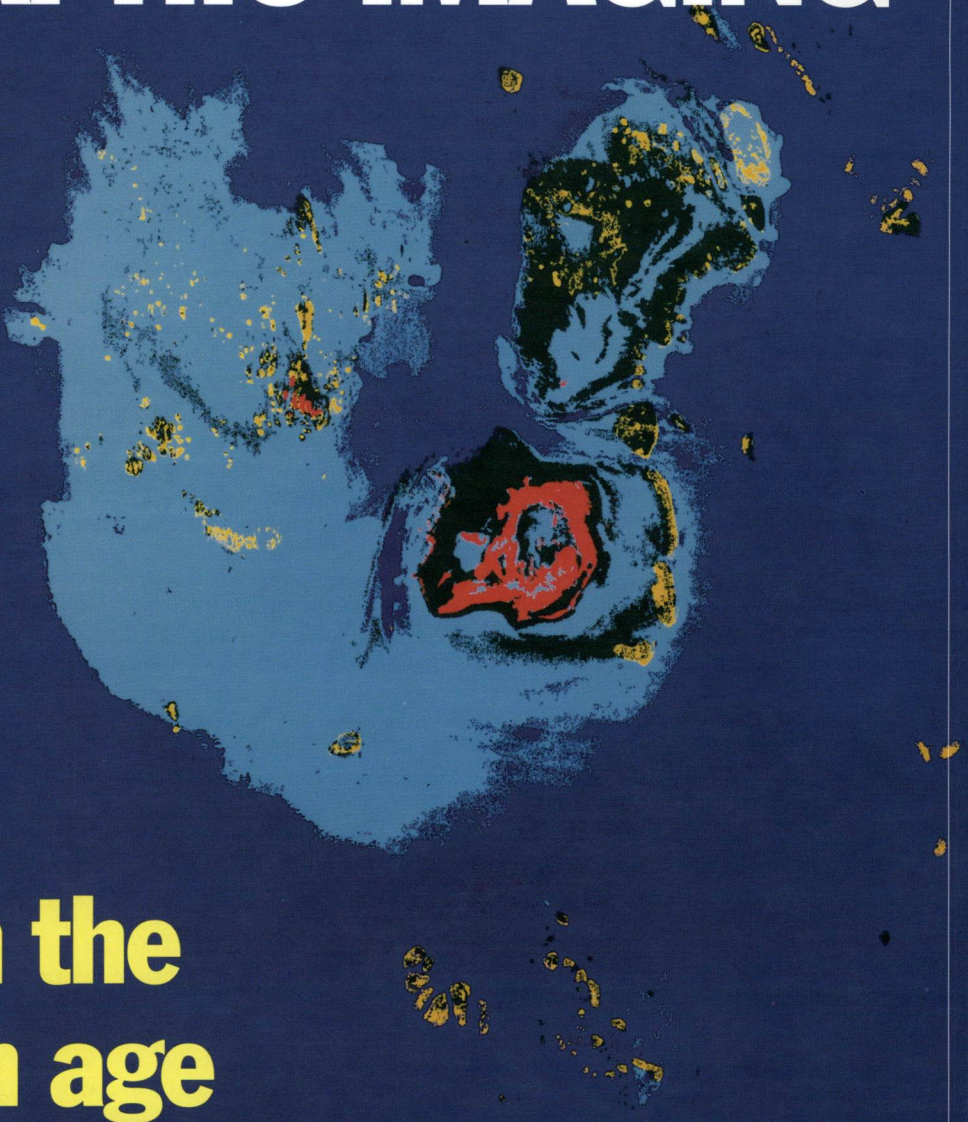
Colombian Finance Minister Antonio José Urdinola, who is also chairman of the IDB Board of Governors, recognized the needs of Japanese investors, but he warned against missing opportunities because too much is expected too soon. "Japanese companies should not wait until we have a perfect set of rules," he said. "We invite you to help us make the rules together. You have the know-how and the technology to help us." ■

# GEOGRAPHIC IMAGING



## CAYOS MISKITOS, NICARAGUA

This group of coral islands off Nicaragua's Caribbean shore is barely visible in a 17th century map (above). The image at right, derived from infrared satellite images taken in 1986, uses color codes to reveal the precise location of mangrove-covered land (red) submerged reefs (yellow) and sea-grass (green). (Image courtesy of Earth Satellite Corp.)



## Mapping in the information age

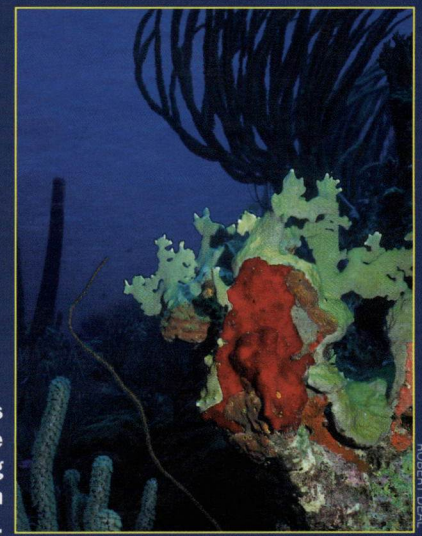
By PAUL CONSTANCE

**E**VER SINCE THE SPANISH CROWN BEGAN AWARDING huge tracts of the New World to favored subjects in the 15th century, conflicts over ownership and land use have plagued the nations of Latin America and the Caribbean.

More often than not, disagreements were sparked and then perpetuated by a lack of information. What exactly were the boundaries of a land grant? How many native Americans already lived on it? How much water did its rivers and aquifers hold? Was there gold or silver underground?

The sketchy and sometimes fantastical maps of the colonial era did little to answer these questions. Even the precise cartographic surveys of the 19th and 20th

*(next page please)*



Satellite images like the one above are useful in monitoring the health of ocean ecosystems.

## GEOGRAPHIC IMAGING

(from previous page)

centuries could not reveal whether the dwellers of a particular lot had legal title, whether they had paid their taxes or whether they were cutting trees. Obtaining that sort of information has always required time-consuming legwork: field surveys to verify a boundary, tedious searches for public records at scattered government agencies, or costly on-site inspections by regulatory officials.

These obstacles, which are certainly not unique to the region, have made it difficult for governments to draft rational plans for developing either urban or rural lands. In the absence of sound planning based on accurate information, chaotic slums have grown up around major cities and huge tracts of forest and pasture land have been degraded because of inappropriate agricultural practices.

Ironically, misuse is still taking place at a time when our knowledge of the land is growing richer by the hour. Much of the new information is based on satellite imagery that until recently was either restricted for military purposes or simply too expensive for all but the richest governments and corporations. With the end of the Cold War, many governments have privatized most of their satellite imagery services, and the resulting companies are flooding the market with affordable, up-to-date images of virtually every part of the earth. Many of these satellites are equipped with sensors that can detect light in more than one spectrum—a capabil-



**A technician armed with a GPS receiver records the location of a storm drain using a mapping system developed by GeoResearch, Inc. The system is used in many Latin countries to create precise digital maps and land-use databases.**

ity that reveals an astonishing amount of information about the earth's surface and subsurface that could never be seen on the ground.

Another unexpected legacy of the Cold War is the Global Positioning System (GPS), a network of satellites built by the United States military to provide precise navigational bearings for missiles. Since it was commercialized early this decade, GPS has made it possible for land surveyors and even hikers to determine their location anywhere on the planet to within a meter or so—simply by holding a telephone-sized receiver. GPS has led to an explosion in low-cost precision mapping, allowing even modest municipal governments to convert old paper surveys into digital maps that can show the exact location of every streetlight, fire hydrant and sewage outlet in a city.

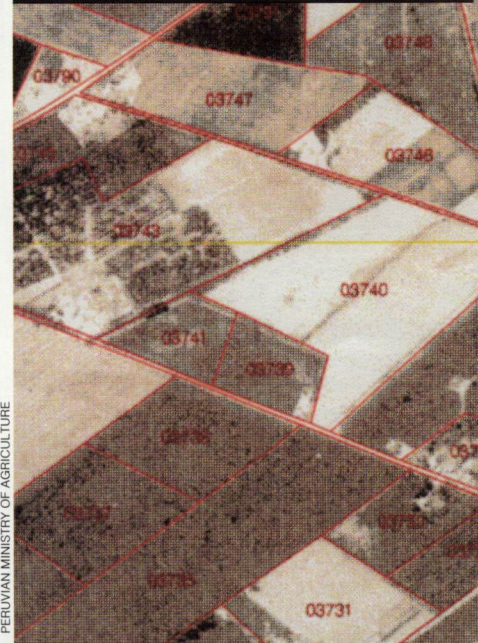
Finally, affordable digital maps have greatly enhanced the utility of geographical information systems (GIS), software programs that allow information from many different sources to be linked to items on a computerized map. A typical urban GIS might let users view an aerial photograph of every building in the city by simply clicking on a lot number in a digital map. The lot number can also be linked to a database of census data, zoning classifications, tax assessments, traffic patterns and crime reports related to that building's block. Armed with that kind of information, city administrators can make informed decisions about where to beef up police patrols, expand subway service, or authorize the construction of new clinics, schools or hotels, to name just a few applications.

In a rural setting, GIS software can turn an ordinary map into a trove of information about the legal status of a parcel, its geology, vegetation and water sources, and the type of agriculture that is being practiced on it. In the industrialized countries, agricultural GIS systems are being used for what is known as "precision farming." Here, data on the soil type and moisture content of individual fields is combined with information on specific crop requirements and weather updates. The resulting maps can show farmers where to plant seeds more or less densely and where to boost or hold back irrigation, pesticides and fertilizers throughout the growing season. Computer-assisted farm machinery and aircraft that are equipped with GPS receivers can then use those digital maps to place fertilizers and pesticides in precise amounts, just where they are needed. The net result is higher yields and fewer wasted resources.

Satellite imagery and GIS have been used by large petroleum and mining companies in Latin America for many years. More recently, local companies in agriculture, forestry, telecommunications, logistics and transportation have adopted GIS to increase



**A cartographer checks lot boundaries that will be digitized and incorporated into Peru's land registry system.**




**After a lifetime of work on the land, an elderly Quechua farmer in Peru's Ancash department (right) fingerprints documents that will be used to certify ownership and obtain title to his lot.**

efficiency and productivity.

But in the public sector, GIS technologies are only now beginning to have an impact. "Five years ago, these tools were just too expensive for most governments to use on a large scale," says Kevin Barthel, an IDB specialists who has helped design numerous Bank projects that apply GIS. "But with the growth in competition and the drop in computer and GPS technology prices, GIS is now cost-effective enough for most governments to apply it to concrete problems." He cautions that technology is never a cure-all, but that in the right conditions, GIS can help accelerate the process and lower the cost of solving difficult land-management tasks.

The following pages offer a small sample of the ways in which satellite imagery and GIS are being used to answer questions about the land and the people who use it.

 For more information, visit the Bank's Internet home page at [www.iadb.org](http://www.iadb.org) and type "GIS" in the search window.

# Who owns this lot?

MILLIONS OF PEOPLE IN LATIN AMERICA AND THE Caribbean lack legal title to the land they live on or cultivate. They can't use their property as collateral to obtain credit, can't request basic public services and utilities, and consequently have little incentive to take good care of the land or make improvements. Meanwhile, local governments cannot collect taxes from unregistered landholders, which undermines their ability to provide services.

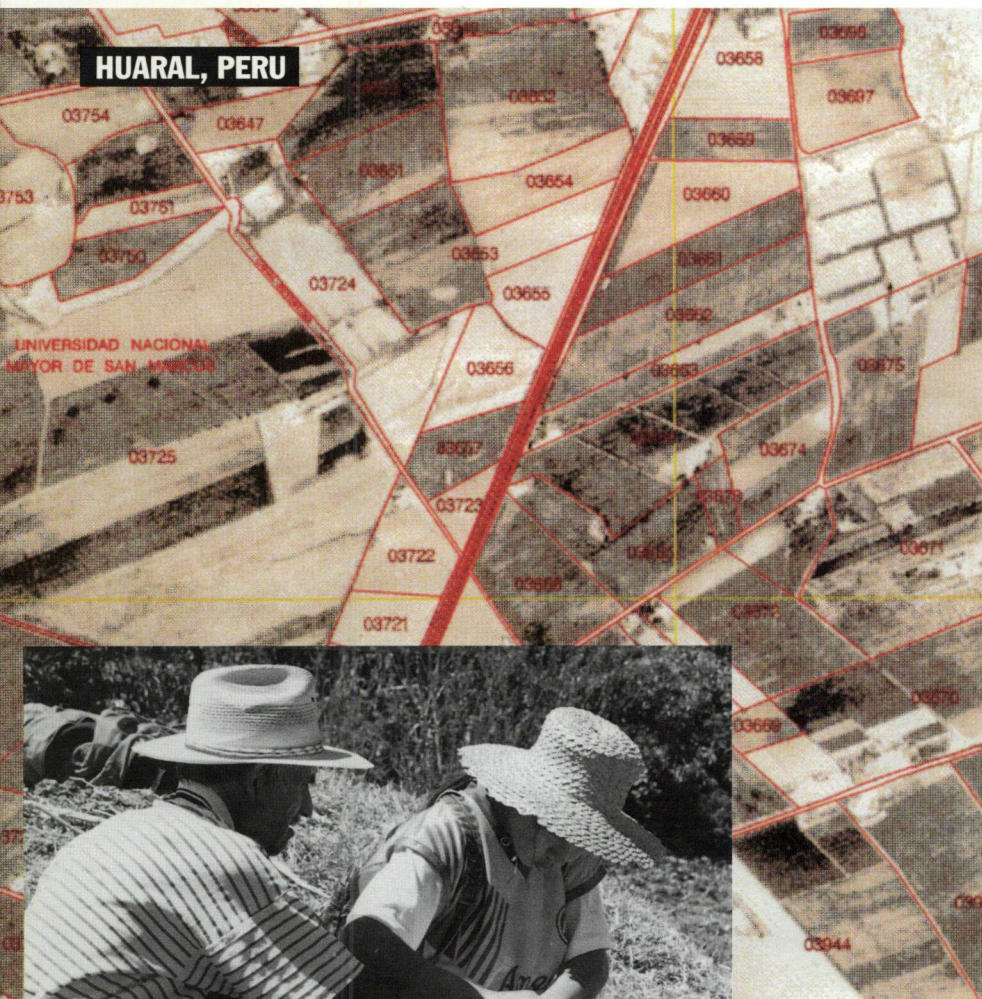
To help end this vicious cycle, governments in Colombia, Peru, Guyana, Belize, Brazil, the Dominican Republic and Guatemala are using IDB financing to regularize the legal status of millions of parcels and build state-of-the-art land registries.

In Peru, for example, the Ministry of Agriculture is using IDB funds for a program to produce accurate and up-to-date records for some six million rural landholders. Equipped with aerial photographs, field teams from the ministry's land titling unit are fanning out across the countryside to visit individual land owners. The teams verify lot boundaries by walking along the perimeters with owners, and they obtain records and testimony from neighbors to certify ownership.

Correct lot dimensions and landowner information are then entered into a GIS software database and linked to digitized versions of the aerial maps. Landowners ultimately receive accurate cadastral certificates and land titles. If they have questions about boundaries or tax assessments they can visit public registry offices, view a digital image of their lot, and get print-outs of relevant records.

In Rio de Janeiro, similar technology is being used to remap the entire metropolitan area, including low-income neighborhoods that have never been accurately mapped before. When completed, the IDB-financed project will combine aerial photographs with detailed digital maps for 600 square km of municipal

land. Streets will be named and houses numbered so that owners can apply for legal titles.

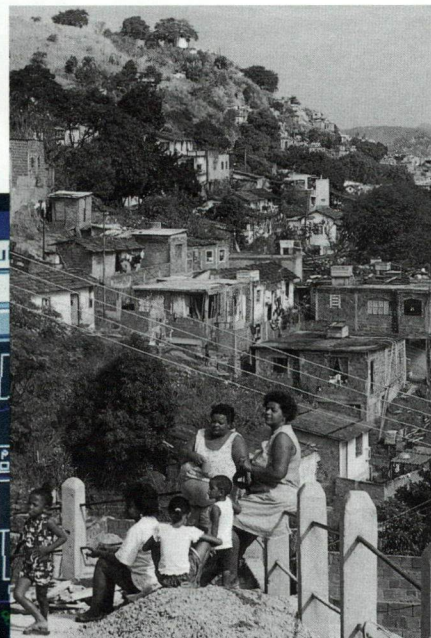


**HUARAL, PERU**

UNIVERSIDAD NACIONAL MAYOR DE SAN MARCOS

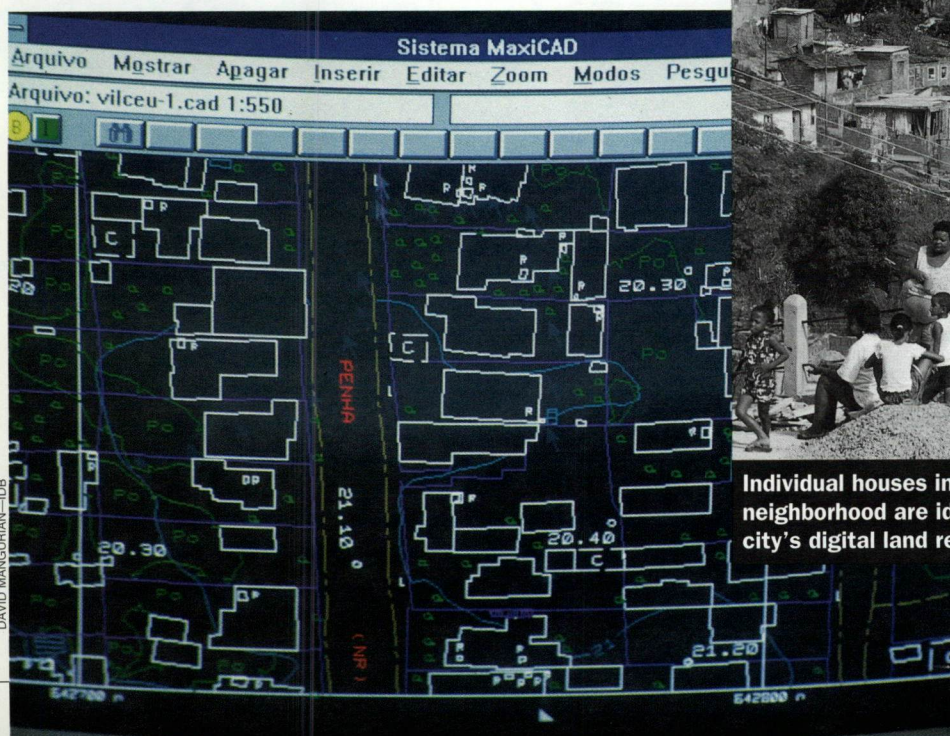


HUGO FLORES



DAVID MANGURIAN—IDB

Individual houses in a Rio de Janeiro neighborhood are identified in the city's digital land registry.



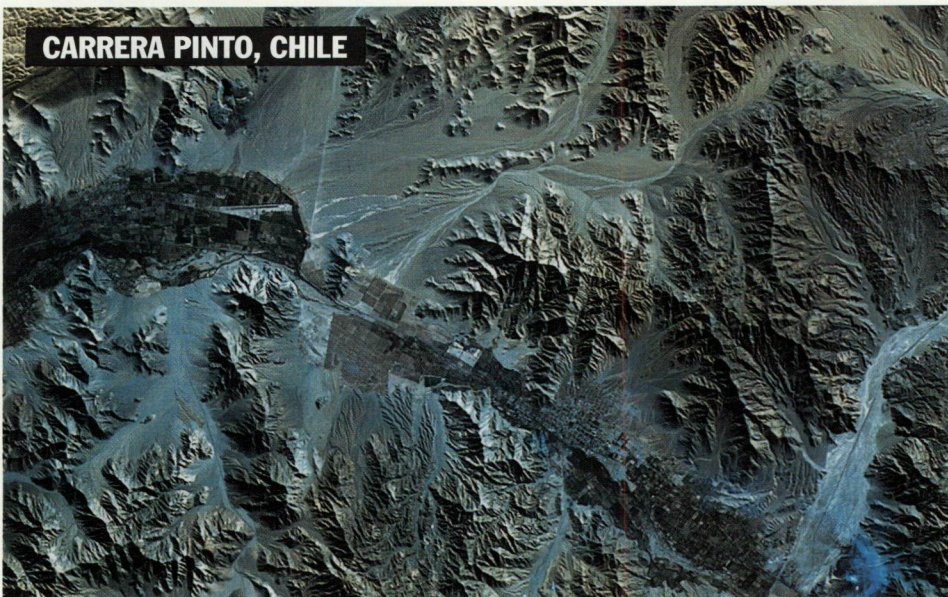
DAVID MANGURIAN—IDB

# What's underground?

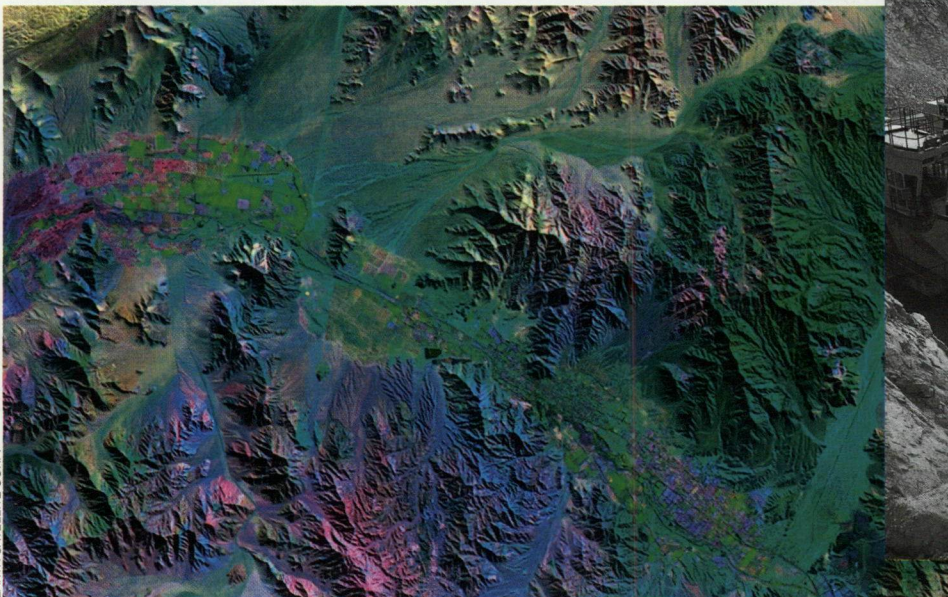
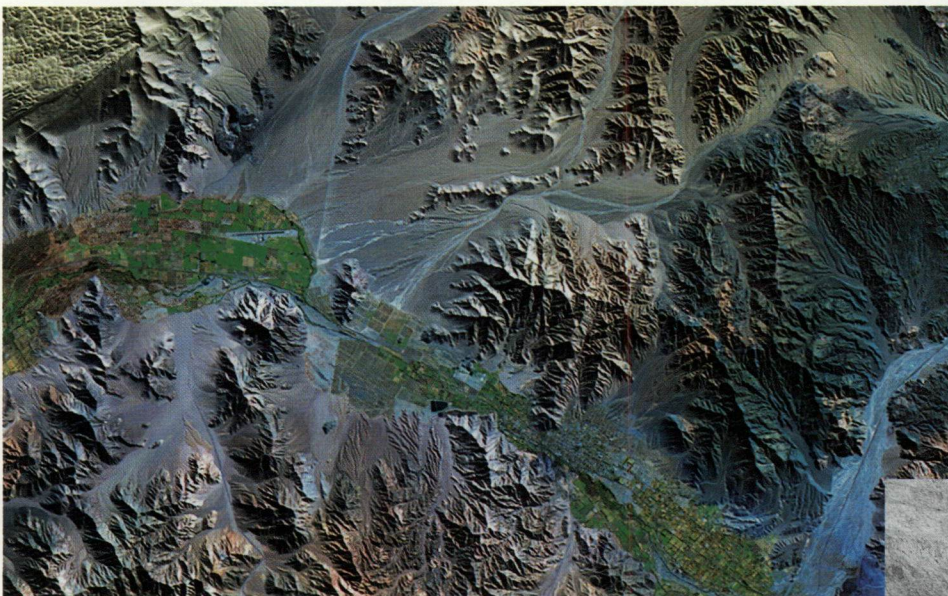
THE EARTH'S SURFACE IS FULL OF CLUES TO where oil and minerals lie buried. Rock formations hint at the presence of valuable ores, and the folds, faults and fractures that form along the boundaries of tectonic plates are often good sites to drill for oil.

Unfortunately, few of these features are visible to the naked eye. If a geologist could look down on the mineral-rich area of Chile around Carrera Pinto from space, she would see the drab gray landscape pictured above left. But unlike humans, the U.S. Landsat satellite that recorded these images in 1985 also perceives light in the near-infrared and mid-infrared bands of the spectrum. These bands detect differences in the way light is reflected by pasture land, forests, and different kinds of soil and rock. By assigning an artificial color (green in this case) to the portion of the infrared band that detects vegetation, image-processing specialists at Earth Satellite Corp. produced the middle image. By assigning several other contrasting colors to light reflected by different types of rock, they produced the third image, which emphasizes the differences in the area's lithology.

If the geologist knows that a spot that shows up as bright pink on the map is the site of a rich copper mine, she can look for other spots with the same color "signature"—and use this information to zero in on new deposits.



**CARRERA PINTO, CHILE**

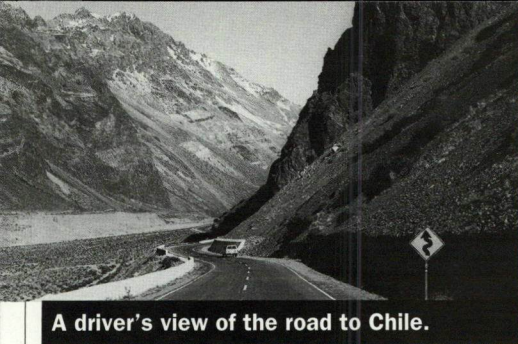


**Copper mining can begin in space.**

EARTH SATELLITE CORP.

DAVID MANGIRIAN-IDB





A driver's view of the road to Chile.



# Where are the faults?

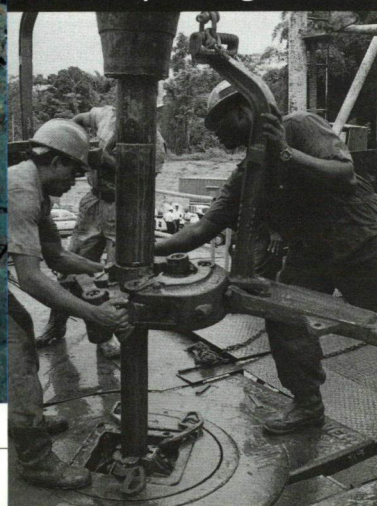
GROWING TRADE BETWEEN ARGENTINA AND Chile is overwhelming the main road link between the two countries, which runs through the Cristo Redentor mountain pass (above). For an IDB-financed study of the feasibility of upgrading and paving passes at 11 other points along the border, engineers needed a precise, detailed image of the region's geologic features. Taking aerial photographs of such a vast area would have been prohibitively expensive and time-consuming. Instead, consultants at the Berger Group, a U.S.-based engineering firm, purchased Landsat images processed with "false colors" that reveal vegetation types, watershed locations and other features used to identify optimum road locations and conduct environmental impact assessments.

The ability to bring out contrasts in the earth's lithology makes infrared satellite imagery useful in oil exploration as well. Viewed from the air, the portion of Colombian jungle pictured on the right would appear as a blue-green haze. After processing, this infrared satellite image "sees through" the haze and brings into sharp focus a variety of geological features that scientists can label as faults or folds in the earth's crust—features that often indicate petroleum deposits. Combined with seismic tests and other data, these maps are used to pick promising drilling sites.



CUSIANA, COLOMBIA

The last step in a long search.



## SANTA ROSA DEL PALMAR, BOLIVIA



Logging is visible from space.

EARTH SATELLITE CORP.

DAVID MANSURIAN—ICB

# Who is cutting trees?

NEARLY ALL THE REGION'S COUNTRIES HAVE LAWS that prohibit unauthorized cutting and burning of forests. But government officials charged with enforcing these regulations have long been hobbled by the difficulty of monitoring activities over thousands of square kilometers.

Infrared satellite imagery can be processed to detect subtle differences in the light reflected by healthy or degraded forests, cleared areas and other types of vegetation. That makes it ideal for tracking changes caused by logging and many other kinds of land use.

The Landsat image above, taken over Santa Rosa del Palmar, Bolivia, in 1994, was processed to highlight forested areas (dark green) and areas that have been logged and converted to various types of agricultural use (pink and light green). According to engineers at Aeroterra S.A., an Argentine firm that analyzed the image for a client, three distinct types of land use are visible in relatively close proximity. The large, rectangular plots in the lower right-hand corner belong to a Mennonite community that is practicing intensive, mechanized agriculture. The pattern of rounded, light-green clearings in the upper left-hand corner is probably the result of a planned land develop-

ment program that established settlements at 5 km intervals. The more chaotic pattern of smaller plots in the lower left-hand corner indicates an older, ad hoc settlement with mixed agricultural uses.

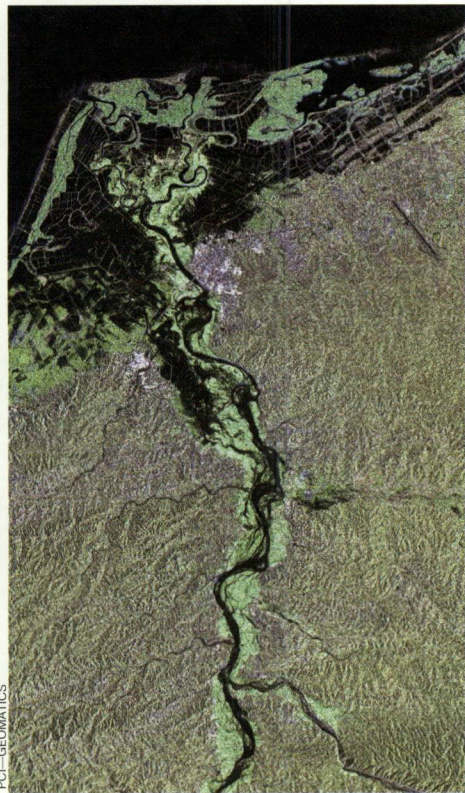
The image on the right shows a 1991 view of the reservoir behind the Salto del Guairá hydroelectric complex on the border between Paraguay and Brazil. The image shows that forests (color-coded in brown) have been cut right up to the water's edge in many places despite regulations that require a wide forest buffer along the entire perimeter of the reservoir. Without adequate forest cover, run-off erosion from farmed land can fill the reservoir with silt, endangering its future operation.

By combining images such as these with a GIS that includes land use regulations and ownership information, government officials stand a much better chance of detecting and stopping inappropriate land use. While up-to-date Landsat images formerly cost close to \$5,000 each, not including processing fees, the price is expected to drop to less than \$500 starting late 1999 when the latest Landsat satellite enters service. At that price, continuous satellite monitoring of land use will become an affordable option for many governments.



SALTO DEL GUAIRA

EARTH SATELLITE CORP.

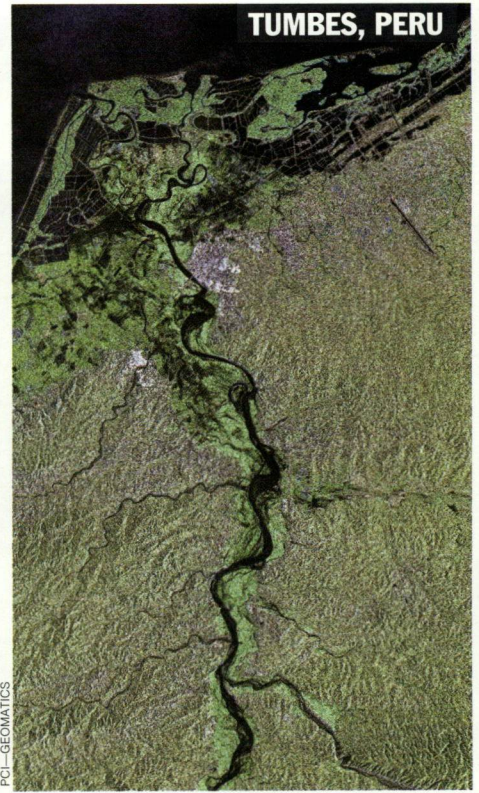


PCI-GEOMATICS



CARLOS CONDE-IDB

**A recurring threat: floodwaters endanger a bridge near Tumbes in 1983.**



PCI-GEOMATICS

**TUMBES, PERU**

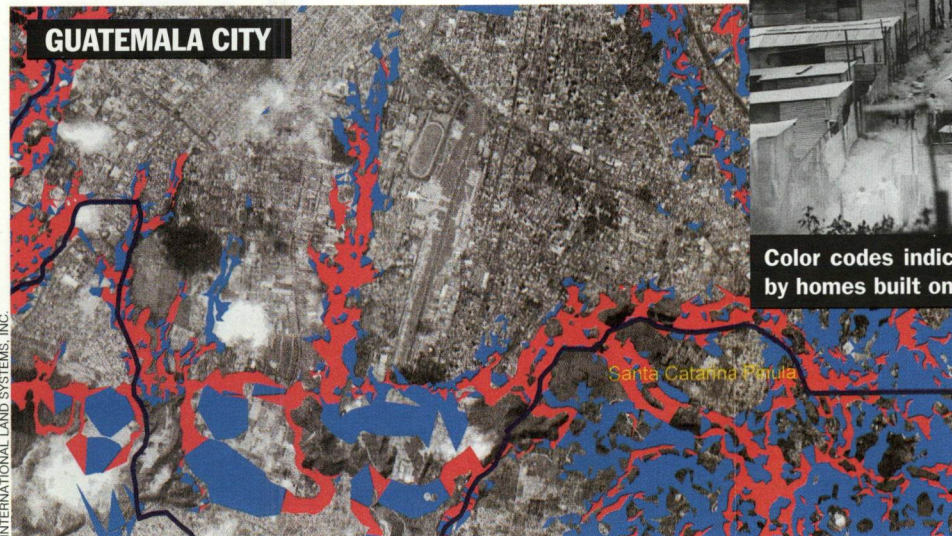
## Who's at risk?

EVIDENCE OF EL NIÑO'S DESTRUCTIVE POWER could be seen all along Peru's northern coast last February, but it was impossible for disaster management officials at the Instituto Nacional de Defensa Civil to determine the exact extent of the flooding. The IDB proposed a demonstration project to see if satellite imagery and GIS methods could be used for this purpose. Canadian consulting firm PCI-Geomatics produced the maps above by superimposing images taken by two satellites: the U.S. Landsat and Canada's RADARSAT. The latter satellite is equipped with a synthetic

aperture radar than can "see through" thick cloud cover—a crucial capability since most of Peru was overcast during the flooding. In the resulting image, (above left), flood waters around the city of Tumbes, near the Ecuadorian border, are visible as dark areas on Feb. 10. The second image, taken on March 6, shows changes along the edges of local floodplains after the waters receded. Image processing experts subsequently produced maps showing the exact extent of the damage and indicating which roads, bridges, pipelines and neighborhoods

will be at risk in the future.

In earthquake-prone Guatemala, landslides pose a constant threat. So when the government launched an IDB-financed program to provide low-cost housing loans to families in Guatemala City, municipal officials wanted to make sure they did not pay to build houses on slopes that were at high risk of a landslide. Classifying each of the hundreds of hillsides already under development in the metropolitan area would have been hugely expensive. But by creating a GIS that combined a detailed satellite image with data on existing housing use, bedrock geology, and areas damaged in the infamous landslides of 1976, consultants from ISL, inc., were able to quickly produce the map displayed on the left.



INTERNATIONAL LAND SYSTEMS, INC.



DAVID MANSURIAN-IDB

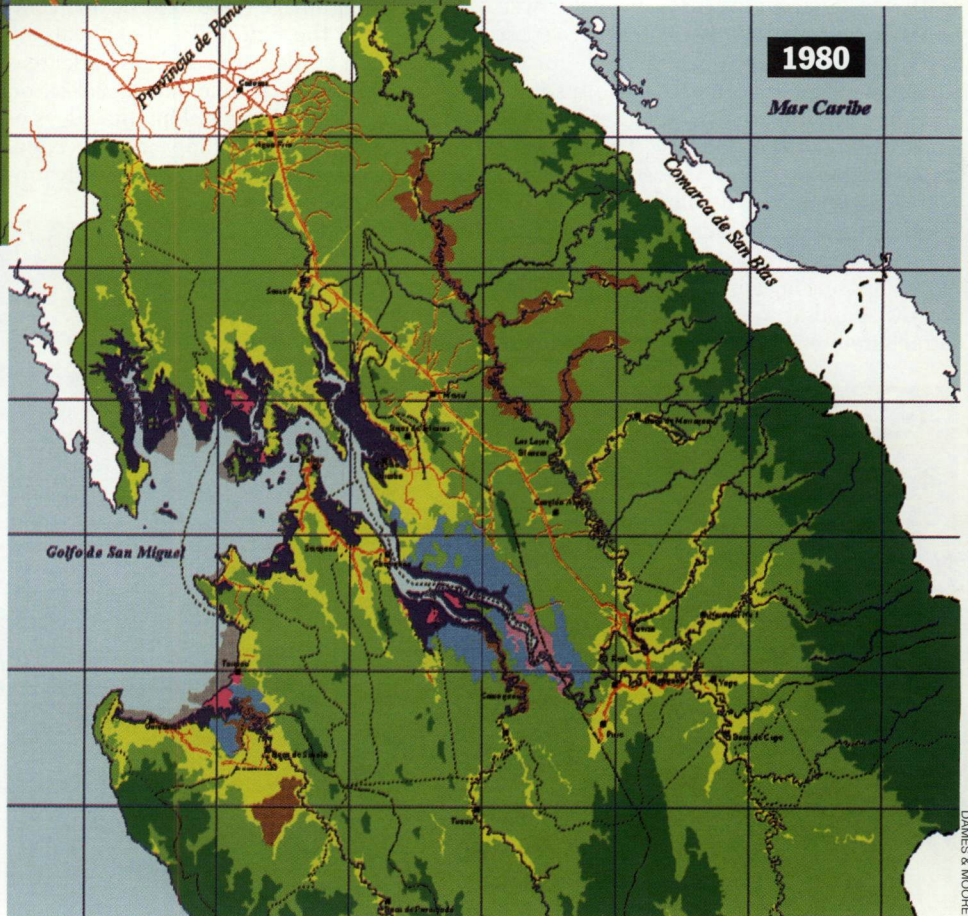
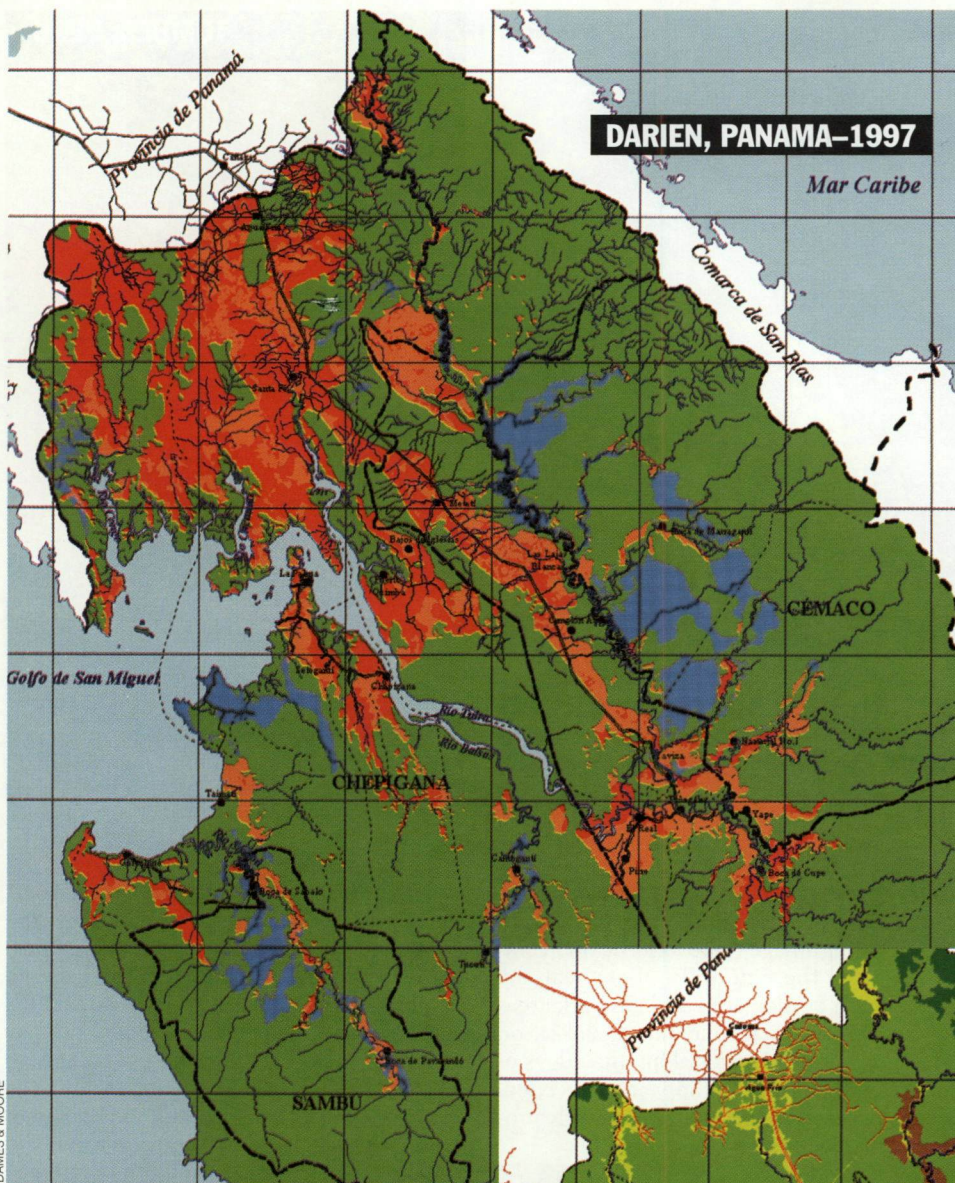
**Color codes indicate landslide risk faced by homes built on the city's slopes (left).**

Areas shaded in red are considered to be at high risk of landslides; blue represents medium risk. Red areas are excluded from future development. People wanting to build in blue areas could still obtain a loan, but they had to build retaining walls and other safeguards.

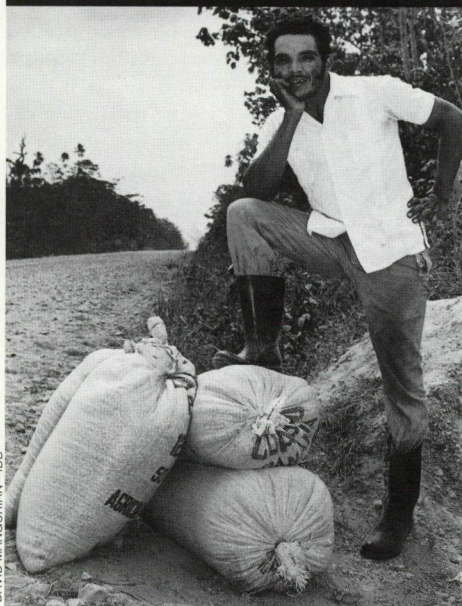
# How should land be used?

AS PART OF AN AMBITIOUS IDB-FINANCED PROJECT to promote conservation and enhance economic development in Panama's Darién province, project officials needed to conduct a baseline assessment of the land use trends in the region. After considering numerous options, they concluded that the most accurate way to do so would be to purchase multi-spectral Landsat satellite images of the area taken in 1980, 1987 and 1997—and then analyze them for evidence of change. In the image below, which depicts the situation in 1980, areas that were already under some kind of agricultural use were color-coded yellowish green (other colors in this image refer to different types of forest cover).

The image at left combines 1997 satellite data with information on soil, rainfall and slope to determine the suitability of present land use patterns. Areas considered strongly over exploited are color-coded red, lightly over exploited are orange, and under utilized are blue. Program officials in Panama are now using this data to develop a land use plan that will preserve the area's unique ecosystems while permitting sustainable development.



Better roads enable this Darién farmer to get his corn crop to market.



DAMES & MOORE

DAVID MANGURIAN—IDB

DAMES & MOORE

# The euro and Latin America

## New currency will simplify transactions

By DANIEL DROSDOFF

**W**ITH EUROPE'S NEW MONETARY UNIT a done deal, a question for Latin America is what impact the euro will have on the region.

Don't look for any major economic effects, at least in the short term, says Charles O. Sethness, manager of the IDB's Finance Department. He believes the immediate effect will probably be slight and limited mainly to a greater ease in conducting foreign exchange transactions. With the euro, a given country will no longer have to engage in many foreign exchange and hedging operations as has been the case when making transactions in the

multiple pre-euro currencies.

But in the future, some Latin American and Caribbean countries and financial institutions may find financial transactions in the euro market as attractive and easily accessible as the dollar or the yen markets, according to Sethness.

The euro market could become larger and more liquid than today's individual Euro-

■ **What will be the impact on the region's export and financial markets?** ■

pean currency markets, complete with higher yielding and lower rated instruments," Sethness says.

At the same time, European exports could become more competitive in world markets because of lower foreign exchange fees and transaction costs. Also, more exports from Latin America could eventually be priced in euros rather than dollars, he added.

Europe is the region's second most important trading partner, with annual exports of about \$30 billion and imports on the order of \$40 billion. European investments in Latin America represent nearly 23 percent of total foreign investments in the region.

In a recent study on the euro's impact, the Latin American Economic System (SELA) found that the new currency will not necessarily bring greater financial stability to the world's financial markets. "It is important for developing countries to remain alert in their management of monetary policy and reserves," SELA said.

Shortly after its adoption on Jan. 1, 1999, the euro will represent 30 to 35 percent of all the outstanding world loans and will replace the German mark as the second most widely used currency in world trade, after the dollar, according to SELA.

With regard to the interest rates on external debt, the introduction of the euro will not affect countries with interest rates tied to dollar Libor (the London Interbank Offered Rate for U.S. dollars, a world benchmark lending rate), SELA says. However, countries with debts tied to Pibor (Paris Interbank Rate) or Deutsche Mark Libor will receive a new benchmark for interest payments that will be linked to a French franc/euro or Deutsche mark/euro quotation.

European capital markets will grow significantly with the introduction of the euro and achieve greater importance in financing the growth of enterprises, having a similar role as capital markets in the United States, says SELA. "The euro bond and European stock markets will rival those [markets] of the United States, reducing the costs of capital and increasing the efficiency of placements."

Following the euro's introduction next year, the IDB and the French government will hold a high-level conference on the international impact of the new currency on March 16 in Paris during the IDB's annual meeting.

Meanwhile, at a July summit of the leaders of the Mercosur countries held in Argentina, that country's president issued a call for a common currency among the four member nations. President Carlos Menem predicted that accomplishing monetary union will take Mercosur much less time than the half century it has taken the Europeans.

 For more information, go to <http://www.bloomberg.com/emu/index.html>.



# Paint these doors green

## Costa Rican manufacturer profits while protecting the rainforest

By DAVID EINHORN, San José, Costa Rica

**F**OR YEARS, SUSTAINABLE COMMERCIAL forestry has been touted as a Holy Grail of development programs, but rarely has the ideal come closer to reality than in the case of Portico, S.A.

From humble beginnings as a small shop producing for the local market, this innovative Costa Rican manufacturer of hardwood doors has grown into a \$20 million per year export powerhouse with 700 employees. And it has done so while becoming one of the first tropical wood companies anywhere to obtain an independently certified "green seal" for environmentally sound forest management.

Portico's story began in 1983 when current chief executive Leopoldo Torres Barrera and several associates bought a small local door manufacturer with a view to exporting high-quality doors to the United States. Through a trade-promotion program supported by the U.S. Agency for International Development, Torres and his partners visited numerous U.S. trade shows to learn about product specifications and styles.

"Those trips showed us that our product was not right for the U.S.," Torres recalled during an interview at his plant in San José. So the first thing Portico did was to overhaul its entire production process to meet U.S. quality standards and size specifications. "It took years of effort for us to be able to compete at an international level, to find our niche, cultivate relations with the large chains, and try to understand their needs," he adds. "It goes far beyond just selling the products."

The company's start-up years were made all the more challenging because it aimed for the high end of the market, building solid, fully assembled doors from *carapa*, a durable tropical hardwood in the mahogany family. The doors, which are available in dozens of styles with beveled glass windows, are meticulously crafted and carry a 10-year warranty. Though the early years were tough,

Portico's continual focus on quality eventually won it the loyalty of leading U.S. retailers such as Home Depot and Lowe's, and a number of national distributors. Today, marketed under the name of its U.S. subsidiary, Royal Mahogany Products, the company sells 80,000 doors a year and supplies a substantial percentage of all the solid mahogany doors sold in the United States.

Portico's success is even more impressive in light of its unusual commitment to sustainable forestry. In its early days the company purchased raw logs from independent loggers on the open market. But as national forest resources dwindled by the mid-1980s, the company decided to begin purchasing its

own land and to implement a forest management plan based on selective logging, natural regeneration, sustainable yields, stability of the ecosystem and conservation of flora and fauna.

In 1993, Portico became one of a handful of tropical wood product companies worldwide that voluntarily submits to independent certification of sustainable forestry practices. Sustainable forestry involves extracting wood in a way that assures that the forest can regenerate without planting more trees. The largest and oldest trees are cut so that their

fall doesn't damage other trees, and their removal from the forest is done in such a way that tractors cause minimal damage to surrounding vegetation.

Portico hired Scientific Certification Systems (scs), an independent environmental inspection firm based in Oakland, California, to conduct a thorough audit of harvesting operations on its 6,000 hectares of forest. scs is accredited to conduct such inspections by the Forest Stewardship Council, an international organization formed by leading environmental groups and industry representatives to promote sustainable forest management. The council's criteria for certification, which measure both environmental impacts and benefits to the local community, are considered extremely rigorous

**“It is our way of showing our clients and our local partners that we aren't harming local forests.”**

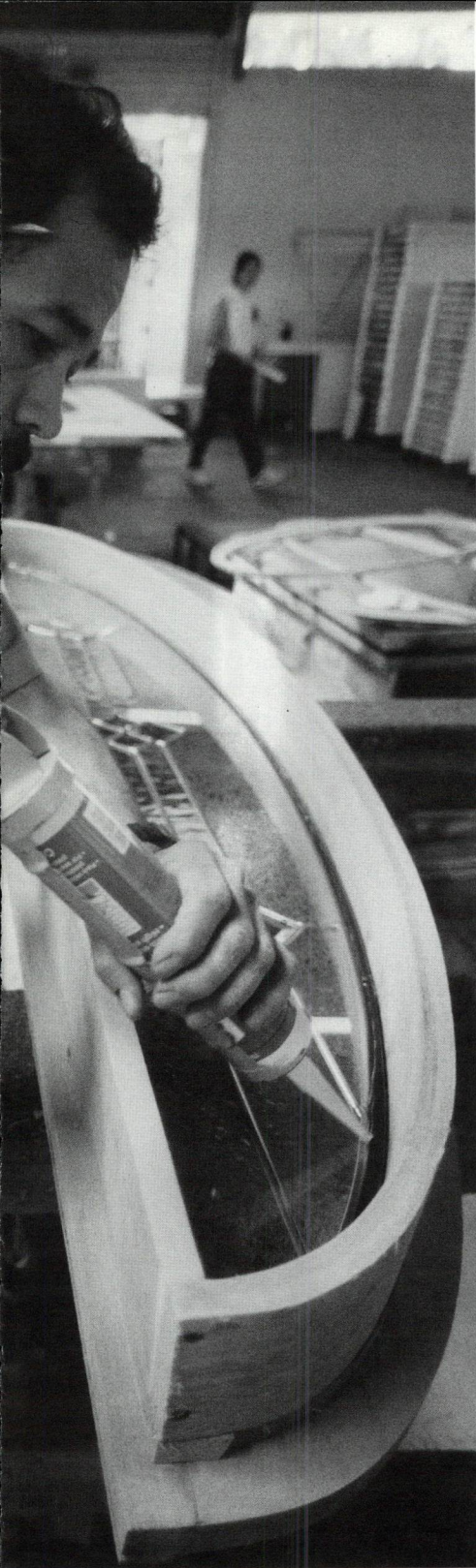
Portico President Leopoldo Torres, commenting on the company's environmental certification.



DAVID MANGURIAN—IDB

and have won endorsements from the world's leading environmental groups.

Portico spent around \$60,000 to fly in and host scs inspectors in 1993, and each year since then it has paid for follow-up inspection visits necessary to maintain its certification. "We see it as an investment in the future," Torres said of the cost of certification. "It is a way of showing our clients and our local partners that we aren't harming local forests. On the contrary, we want to be a factor in preserving that resource." Portico



DAVID MANGURIAN—IDB

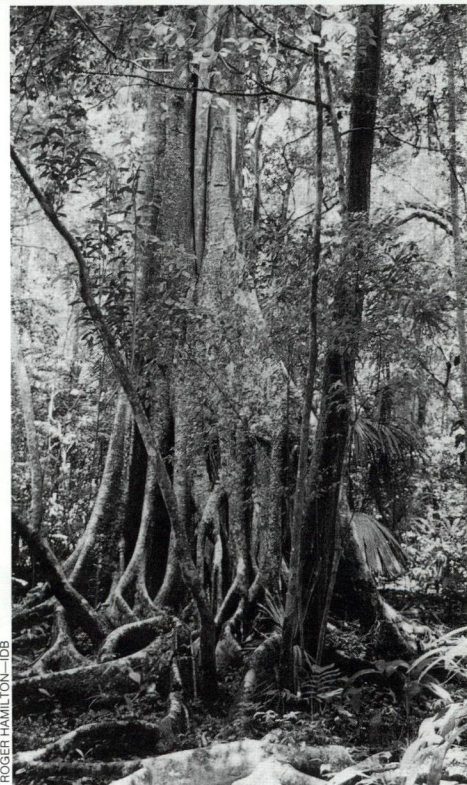
**PRODUCING WHILE PROTECTING: Careful craftsmanship together with sophisticated management to protect the forest have earned Portico accolades from both accountants and environmentalists.**

ers are interested more in the design, the price, the quality and the service. All things being equal, certification that the product is environmentally friendly might sway someone's decisions," he says.

In 1993, to reduce the need for carapa, Portico also switched to veneer operations, a process that makes it possible to use wood more efficiently. Production and sales dipped while the company incorporated the new technology, but by the end of the following year Portico was back on its feet.

Portico must still buy between 25 percent and 50 percent of its wood on the open market in order to keep up with demand, according to Torres. However, the company insists on buying from loggers who have valid permits that are issued only to companies that comply with Costa Rican government logging regulations.

With the goal of decreasing its reliance on wood from outside suppliers, Portico has also continued to buy land. In 1995, the company expanded its holdings with a \$200,000 loan from what today is known as the Corporación Financiera Ambiental (CFA), a venture capital fund based in San José that invests exclusively in small environmental companies in Central America. CFA is administered by the Environmental Enterprises Assistance Fund, a Washington-based nongovernmental organization, and has received \$4.85 million in equity financing from the IDB's Multilateral Investment Fund. Most recently, Portico announced a joint venture



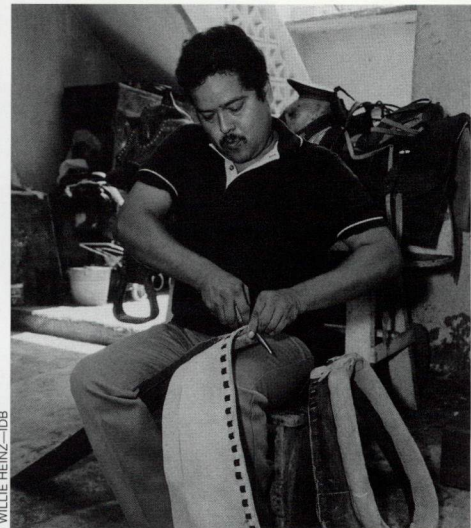
ROGER HAMILTON—IDB

was also the first company to receive an award from the Tropical Forest Foundation, a Washington, D.C.-based institution that promotes low-impact logging.

Though Portico has received accolades for its environmental policies, Torres is quick to point out that certification has not yet given the company a meaningful marketing advantage over noncertified competitors. "I don't think anyone is going to buy a door they don't like or that isn't well made simply because it has a green seal. Wholesalers and consum-

with Premdor, a Canadian multinational that is one of the world's largest door manufacturers. The agreement will allow Portico to increase its forest holdings, expand its production, and sell through Premdor's global distribution network.

"Ten years ago the issue was whether forests could even be managed sustainably," says Torres. "Would the cash flow allow dividends? Was it technically and financially feasible?," explains Torres. "Today we are viable in all of those areas." ■



Microenterprises range from small businesses with a number of employees (left) to a solitary crafts person (above).

WILLIE HEINZ—IDB

CARLOS CONDE—IDB

# Myths about microentrepreneurs

By PETER BATE

ARE ALL MICROENTREPRENEURS POOR? IS THE lack of access to credit the biggest constraint facing microenterprises? Do high interest rates charged by microlenders stunt these

**How poor really are they?**

firms' growth? These questions and others testing frequent assumptions about microlending were tackled by Norwegian economist Hege Gulli in her recent paper "Microfinance and Poverty: Questioning Common Beliefs," which will be published in November.

Gulli, who took on this assignment as a consultant to the IDB's Microenterprise Unit, points out that development agencies usu-

ally consider assistance to microfinance institutions (MFIs) as a time-tested means to reduce poverty. While there is a good deal of truth in that notion, the tenets behind those intentions are not always corroborated by the facts.

Her September presentation of the paper at the IDB was made just prior to the release of a U.N. report that raised questions about how effective microcredit is as a tool to fight poverty.

"Microfinance should be seen as the provision of small-scale financial services to businesses and households traditionally kept outside the financial system rather than the more narrow view of microfinance as services for poor microenterprise owners," Gulli argued in her paper.

Take, for instance, the idea that micro-entrepreneurs are poor and in need of assistance. A recent IDB study of the poverty profile of people working in urban microenterprises in six Latin American countries indicates that not all microentrepreneurs are living on the edge of poverty. In fact, such tiny businesses include firms ranging from survival tactics to highly sophisticated entrepreneurial activities, Gulli writes. As such, urban microenterprise development programs may need to make a special effort to target the poor. At the same time, many microenterprises are dynamic businesses with considerable growth potential.

Other studies cast doubts on the validity of the notion that the greatest constraint microenterprises face is lack of access to credit. While it is often an important obstacle, it is not always the main concern cited by microentrepreneurs themselves. These studies suggest that there is an often greater demand for access to other financial services, such as deposit services to protect their savings.

And what about the interest rates charged by MFIs? Some advocates find them "too high" for microenterprises to earn enough income and grow. Gulli found that financing costs constituted an insignificant portion of microenterprises' total costs, even in programs that demand effective real interest rates of almost 10 percent a month. The explanation is that microenterprises usually carry low levels of debt. Nevertheless, the best strategy for reducing interest rates and overall costs would be for microlenders to improve their own operational efficiency. Competition for clients among MFIs should have a similar outcome.



The above study will be posted on <http://www.iadb.org/sds/mic>.



# Sudden surge in women's representation

Region is now a world leader at the congressional level

By PAUL CONSTANCE

**W**HEN IT COMES TO THE PROPORTION of women holding public office, change tends to happen at a glacial pace. Despite decades of activism and advocacy, women today hold only 12.9 percent of the seats in lower or single houses of national legislatures worldwide, a modest improvement over the 8.1 percent they held in 1965.

Until recently, the nations of Latin America and the Caribbean have been typical in this respect. As of May 1997, women held just over 10 percent of the seats in the lower or single houses of congress in the region's countries. And that figure was significantly skewed by Argentina, an oddity in the region by virtue of a 1991 quota law that helped women gain 28 percent of the country's Chamber of Deputies (the law does not apply to Argentina's Senate, where women still hold only 3 percent of the seats).

In the last 18 months, however, voting behavior on this issue has shifted from foot-dragging to what looks like a sprint. In nine of the region's countries that have held parliamentary elections during that period, the proportion of women in the lower or single houses of congress has risen by an average of almost five percentage points, a nearly 50 percent gain on the level in early 1997. According to the Inter-Parliamentary Union, which tracks the number of women legislators, this unprecedented leap has brought the Latin American and Caribbean average up to 15.4 percent—a level that is exceeded by only a handful of individual countries and is more than two percentage points higher than the global average. In the upper house or senate, the Latin American and Caribbean regional average is now 14.1 percent, compared to 10.4 percent globally. It is as if the political gains that took place over three decades worldwide had been compressed into a single election cycle.

What is behind this change? According to Mark P. Jones, a political scientist at Michigan State University who studies the region's elections, "quota laws are the principal factor." Although it has many critics, Argentina's 1991 law pushed the issue of quotas to the forefront of public debates over women's representation in many of the region's coun-

tries. Says Jones: "People started asking, 'Does women's representation matter more to Argentina than it does to us?' It had a very visible impact, and along with some of the quota laws in European countries, it provided a model."


Starting in late 1997, Argentina was joined by Bolivia, Brazil, Costa Rica, the Dominican Republic, Ecuador, Peru, Panama and Venezuela in adopting some type of national law requiring political parties to reserve a fixed percentage of their candidate lists for women. The requirement ranges from a high of 40 percent in Costa Rica to a low of 20 percent in Ecuador, and there are significant other differences in the laws that will make some much more effective than others, according to Jones.

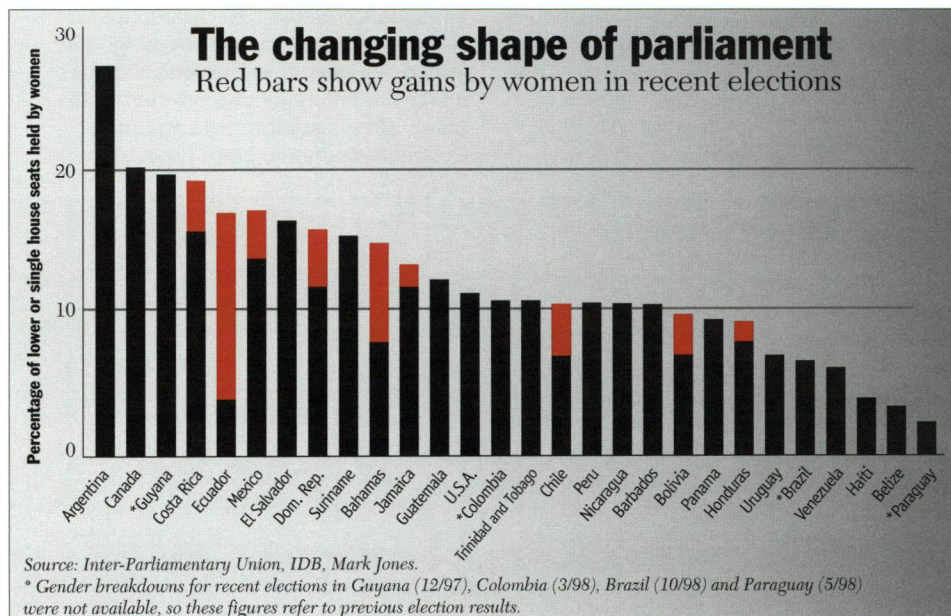
As of September 1998, not all the countries that have adopted quota laws had held parliamentary elections, but among the four that had, the results were striking. Ecuador, where the proportion of women in the lower house of congress jumped from 4 to 17.4 percent, showed the biggest gains, followed by the Dominican Republic (12 to 16.1 percent), Costa Rica (16 to 19.3 percent), and Bolivia (7 to 10 percent). Mexico (14 to 17.4 percent) does not have a national quota law, but its two largest political parties have each voluntarily adopted internal quotas that went

into effect before the last congressional election.

The proportion of women parliamentarians also increased in the Bahamas (8 to 15 percent) and Chile (7 to 10.8), neither of which have quota laws. (Gender breakdowns of recent elections in Brazil, Colombia, Guyana and Paraguay were not available at press time.) Although it is impossible to determine the reasons for such outcomes in countries without quotas, Mayra Buvinić, head of the IDB's Social Programs Division, sees what she calls an "imitation effect." "The success of women in countries with quotas helps to undo stereotypes and change people's ideas about women's roles," she says. "It helps break the unwritten rule that women shouldn't be in power."

Whatever the causes, Buvinić says the growing representation of women in the region is "very promising in terms of democratic progress. This shows that there is no shortage of highly qualified women who can make a contribution. Their presence will help to ensure that women's concerns are addressed by policymakers and help consolidate democracy as a whole."

 The Inter-Parliamentary Union's web site ([www.ipu.org](http://www.ipu.org)) regularly updates statistics on women's representation.



# Visions of ancient pots

Images tell a story that spans the centuries

By ROGER HAMILTON

**T**HE SIMPLE PATTERNS ON A PRE-Columbian clay pot may well be more than a pretty design. They could be the stuff of visions, demons and hallucinogenic drugs, and a window on ancient cultures and religions. They could even be new evidence supporting current theories about the workings of the human brain.

These were some of the intriguing notions set forth in a talk innocently titled "The Iconography of Painted Archeological Ceramics from the Colombian Northern Andes," presented by Colombian Archeologist Felipe Cárdenas-Arroyo at the IDB's Washington, D.C., headquarters last July.

A specialist in mummification and the analysis of human bone, Cárdenas-Arroyo has led field expeditions throughout Colombia and Ecuador. He gave his talk at the conclusion of a four-year fellowship, financed in part by the IDB, at the Center for Advanced Studies of Visual Arts at Washington, D.C.'s National Gallery of Art.

Analyses of objects and human remains found in tombs—some of them buried at the end of 25-meter-long shafts—document the pervasive use of drugs in pre-Columbian societies. The evidence includes traces of cocaine and nicotine in the human remains and the abundance of what we today would call drug paraphernalia, such as snuffing spoons.

Cárdenas-Arroyo described how the ritual use of hallucinogens by shamans and priests was central to religious and medical practices, as well as to the preservation of power structures and the formation of political alli-

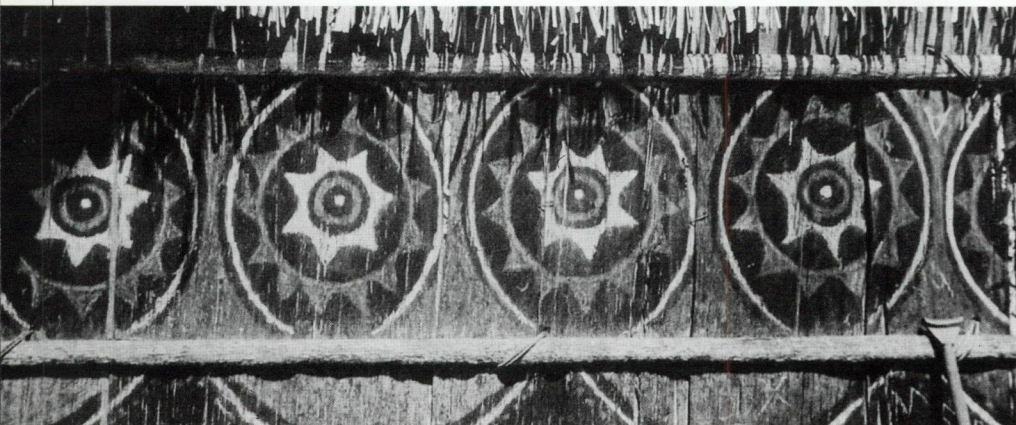
ances. But early Spanish chroniclers, and particularly Catholic priests, found these practices frightening: the vomiting, excessive salivation and frantic behavior of the users looked to them like the European practice of witchcraft, which is also known to have a strong hallucinogenic element.

Cárdenas-Arroyo observed that the Spaniards view of drug use was similar to present-day attitudes. "In ancient times," he said "psychotropic substances were a powerful element of social unity and a reason for social gathering. But today they are one of the main sources of social disruption."



FELIPE CÁRDENAS-ARROYO

**Patterns on a present-day ceremonial house in Colombia's Barasana Indian territory (below) are described by the Indians as part of the visions they have under the influence of a psychotropic plant. Their similarity with the pre-Columbian ceramic plate (above) is clear.**



GERARDO RIECHEL-DOLMATOFF

While the Spanish succeeded in stamping out the use of hallucinogens in the highlands, it remains widespread today among Amazonian groups.

**Images across the ages.** Perhaps the most intriguing evidence of pre-Columbian drug use has emerged through comparisons of images produced by the use of hallucinogens and the designs on ancient pottery.

In the first stage of hallucination—which can be brought on by deep states of meditation, extreme heat, fever or starvation as well as by drugs—the subject experiences light patterns known as phosphenes. In the 1930s, a German scientist named Max Knoll carried out an extensive investigation of phosphenes induced through electric shocks. He reported that his subjects described a series of light patterns that took the form of concentric circles, semiconcentric circles, spirals, stars, diamonds, dots and different types of lines ending in a characteristic curvature.

Then, 40 years later, Austrian-born ethnologist G. Riechel-Dolmatoff carried out an in-depth study of hallucinogenic plants used among Tukano Indians in the Colombian rain forest. He found that the images produced by drug-induced visions were extremely similar to decorative patterns on ceramics, walls of their ceremonial houses, bark paintings, basketry designs and other objects.

"But what turned out to be truly amazing," said Cárdenas-Arroyo, "was that many of the patterns made by the Tukanos were nearly identical to the phosphene patterns described 40 years earlier by Knoll." Moreover, he showed how phosphene-inspired patterns used in contemporary indigenous cultures are very similar to designs on ancient pottery (see photos).

"It is very intriguing to think about possible universal patterns of design produced by neurological and chemical phenomena in humans," he said.

This observation supports a growing body of evidence that human behavior, including artistic expression, is molded by man's biological nature to a far greater extent than has been generally believed. For example, Harvard biologist Edward O. Wilson, the foremost proponent of this widely discussed view, maintains that human evolution has strongly influenced how the human brain processes information and makes aesthetic judgements.

To Cárdenas-Arroyo, archeology is more than a study of the past; it's also a way of discovering links among cultures, both past and present. "I believe that many of these design patterns were like an unspoken language that held symbolic meaning through their iconography, which transcended linguistic and cultural barriers," he said. "Archeologists should make a greater effort to decode the symbolism beyond the art."

# Getting a grip on gov • er • nance

An obscure term acquires star status

By ALEXANDRA RUSSELL-BITTING

**O**PEN A PUBLICATION CONCERNING SOCIAL or economic development these days and you will almost certainly trip over the terms “governance” and its tongue-tying derivative, “governability.”

Both words seem to allude to a positive process. Indeed, governance generally refers to how power is exercised in managing a country’s economic and social resources. But more often than not, these words pop up in discussions of *bad* government, *poor* management, and social and economic failures. At times, they become tactful ways of referring to the generic evils of lawlessness and corruption.

Why have these obscure terms acquired such star status in recent years? Their prestige was made all but official in 1996 when the 23 heads of state from Ibero-American countries, meeting for a summit in Chile, gave top billing to the issue of “governability” in their final agreement, the Declaration of Viña del Mar.

According to Edmundo Jarquín, chief of the Bank’s State and Civil Society Division, the new prominence of these words reflects a growing awareness of the link between economic development and the quality of government.

Since early this decade, says Jarquín, the IDB has worked to introduce a broader meaning to the idea of “governability” or “good governance.” Specifically, the Bank has sought to reinforce the connection between good governance and political stability, which is in turn dependent on domestic socioeconomic conditions, the strength of democratic institutions and citizen input into the public decision-making process. Stability also requires an effective, reliable legal system, efficient management of public funds, government accountability and social equity. In this context, “governability” means not whether a country can be governed, but how well it is governed.

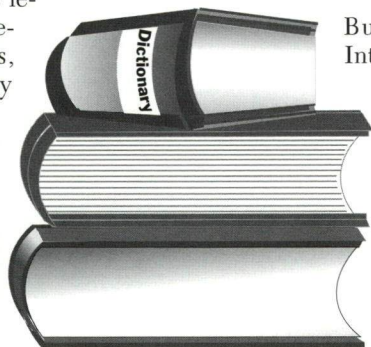
This broader interpretation was evident in the Declaration of Viña del Mar, in which the signatory

countries pledged to uphold democracy, political pluralism and respect for human rights by strengthening political institutions, reforming public administration and decentralizing the state.

Ten years ago, most Latin American and Caribbean governments were consumed with the challenge of reforming financial systems, lowering trade barriers, and integrating their economies into the global market. Now that a comparatively broad consensus on the need for those changes has taken root in many countries, attention is shifting to problems in national institutions and internal affairs. These problems usually grow out of weak judicial and legislative institutions, outdated legal frameworks, corruption and inefficiency in public administration. Known as “problems of governability,” they have taken center stage in the public arena, and gained a prominent place in the political lexicon.

Among people who are neither politicians nor development experts, conversations about governance usually end up being about a subject that will never go out of fashion: the rule of law. In fact, one possible measure of governability—a “governance index,” if you will—might be derived by measuring the extent to which different aspects of the rule of law are upheld in a particular country. Is the integrity of the Constitution respected? Does everybody abide by the same “rules of the game,” be it in business or politics? Are the courts consistent, independent and impartial?

These are tough questions for any society to answer, and that helps explain why newspaper editors in Paris and Hong Kong are looking up “governability” just as often as their peers in Quito and Brasilia. ■



Buzzwords thrive on the Internet, as evidenced by the hundreds of items that crop up in a search for “governance.” The United Nations Development Programme’s Management & Governance Network ([magnet.undp.org](http://magnet.undp.org)) is a good place to start. It offers articles and links to related web sites.



WILLIE HEINZ—IDB

## St. Francis at the IDB

A fine example of the late work of noted Brazilian sculptor Victor Brecheret joined the IDB’s permanent art collection last June in a ceremony attended by the IDB president and the Brazilian executive director. The bronze St. Francis of Assisi was donated by the sculptor’s daughter, Sandra Brecheret Pellegrini, in honor of her father’s memory. The work was created in 1950 in the modernist style Brecheret used to treat religious themes.

## PROJECT UPDATES

PERU

## How to finance a five-star view

BUSINESS PEOPLE ARRIVING AT THE First Forum on Options for Long-term Financing held in Lima, Peru, last spring, expected to talk about cash-flow, balance sheets and the like. But at the end of the day, conversation was mostly about the view.

That's because the forum was held at the new Miraflores Park Plaza, a luxurious five-star hotel overlooking the Pacific Ocean just outside Lima. "The hotel offers a breathtaking vista, especially in the evening," recalled Jorge Zavaleta, an IDB press representative who attended the meeting.

The topic of the forum could not have been more appropriate. That's because the Miraflores Park Plaza was itself the beneficiary of long-term financing that is still hard for many medium-sized businesses in the region to obtain. The developers of the hotel, Inversiones Malecón de la Reserva S. A., financed the \$13 million project with a combination of their own funds, loans from private banks, and long-term credit provided by Peru's Corporación Financiera de Desarrollo (COFIDE). COFIDE administers PROBID, a \$167 million vehicle for loans to medium-sized businesses that is 60 percent capitalized by an IDB loan.

The Miraflores Park Plaza is among the most visible fruits of an unprecedented boom in new hotel construction in Peru. Drawn by the country's economic and political recovery, the number of foreign visitors to Peru has exploded in recent years, from 485,000 in 1995 to an estimated 750,000 in 1997. To meet new demand, some 20 new hotels have been built in the country in the 1990s. Several of these hotels are catering to the growing percentage of foreign business people who demand top-of-the-line accommodations and service.

PROBID has helped finance several other hotel and tourism infrastructure projects in Peru's



MIRAFLORES PARK PLAZA HOTEL

**TOP-OF-THE-LINE:** Guests at Lima's new Miraflores Park Plaza hotel can combine meetings on balance

principal cities, according to Zavaleta. Another IDB loan program, known as Micro Global, for the last two years has been providing credit for the country's smallest businesses. Now, the IDB and COFIDE are negotiating the terms of a new \$35 million microcredit program to succeed Micro Global, along with \$70 million to support businesses somewhat larger and more established than microenterprises.

## NEW PROJECTS

ARGENTINA AND PARAGUAY

### Loans to repair El Niño damage

THE IDB IN AUGUST APPROVED \$335 million in loans to help Argentina and Paraguay recover from the destruction caused by torrential rains and flooding triggered by El Niño.

This recurring phenomenon, scientifically known as El Niño/Southern Oscillation, consists of a series of disruptions of normal oceanic and atmospheric conditions in the Pacific. These episodes radically influence wind and rain patterns around the globe.

The ravages caused by the 1997-1998 recurrence of El Niño are judged to be the worst in memory. In Argentina the flooding forced 100,000 people to flee

their homes and caused losses of more than \$1 billion in farm output and \$750 million in infrastructure damage.

In neighboring Paraguay, the severe weather killed 49 people and some 100,000 others either lost their homes or their belongings to the floods. The country's government estimates that it will have to spend at least \$40 million to repair destroyed and damaged roads, bridges and embankments.

The Bank, which last year had extended loans totaling \$255 million to assist Peru's and Ecuador's reconstruction efforts after they were hit by El Niño-related droughts and floods, seeks to cushion the economic and social impact of this year's natural disasters in Argentina and Paraguay.

A \$300 million loan will support Argentina's efforts to repair and rehabilitate public transportation, housing, and infrastructure in six provinces affected by the flooding: Misiones, Corrientes, Chaco, Entre Ríos, Formosa, and Santa Fe.

Funds will also be used for environmental protection, drainage systems in urban and rural areas, and to cover temporary resettlement costs.

Paraguay received a \$35 million loan to help it rebuild feeder and local roads, drainage and flood protection works, and repair bridges, public buildings and outfit shelters.

Both programs have components to help the Argentine and Paraguayan governments develop better preventive and protective systems, focusing on dredging and drainage, watersheds, early flood warning, personnel training, and beefing up their emergency response agencies.



For additional information on response to problems caused by El Niño in Argentina, go to [www.jgm.gov.ar](http://www.jgm.gov.ar).

CENTRAL AMERICA

### Oil and gas integration

IN A FURTHER STEP TOWARDS THE economic integration of Central America, the IDB is supporting a plan to create a regional market for oil and natural gas products among Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama.

Although imported oil is the main source of commercial energy in those six countries, their markets are relatively small and fragmented. Early in the 1990s, several Central American governments started to liberalize their oil industries, which usually were controlled by the state and subject to fixed prices and margins. Nevertheless, three multinational firms dominate the



with visits to the nearby beach.

sector, except in Costa Rica, where a state monopoly still exists. While demand for oil grew at a vigorous average of 11 percent a year during the first half of this decade, infrastructure constraints and weak regulatory frameworks still thwart efficiency and competition.

The Bank's Multilateral Investment Fund (MIF) in August approved a \$1.1 million grant to support the Central American hydrocarbons market harmonization program, which dovetails with other initiatives designed to integrate the transportation and electricity systems of the isthmus.

The chief goal of the new project is to establish conditions that will foster an efficient and competitive market for oil and natural gas products and spur further investments in Central America.

The countries hope that a regional market with harmonized policies and regulations will attract larger investments and en-

courage new private sector enterprises.

A parallel project financed by the German Technical Cooperation Agency and supported by the UN Economic Commission for Latin America and the Caribbean (CEPAL), will promote the rational use of fossil fuels and stronger environmental protection in Central America.

At the same time, the governments of the isthmus are looking into the possibility of piping in natural gas from Mexico for power generation and other uses.

## LATEST APPROVALS

### Argentina

A \$300 million IDB loan to assist recovery and reconstruction in areas affected by floods associated with the El Niño phenomenon (see article on previous page).

A \$30 million IDB loan in national currency to support a program that will create a services network for tens of thousands of children and teenagers at risk.

### Bahamas

A \$14 million IDB loan to the Water and Sewerage Corporation to increase the efficiency and quality of potable service in the Family Islands.

A \$1,240,000 IDB grant from the Japan Trust Fund for Consultancy Services to improve reproductive health education for teens.

### Bolivia

A \$1,540,000 MIF grant to develop mechanisms for export and investment promotion.

A \$1.39 million MIF grant to the Instituto para el Desarrollo de la Pequeña Unidad Productiva to provide urban microenterprises in nine cities with business development services.

### Brazil

A \$132.8 million IDB loan to AES Uruguaiana Empreendimentos Ltda. to help finance the construction and operation of an electricity plant in Uruguaiana, Rio Grande do Sul, that will be

fueled with natural gas from Argentina.

A \$4,690,000 IDB nonreimbursable loan in national currency to support the strengthening of child and maternal health care in five cities.

A \$2.5 million MIF grant to the Hospitality Institute for the development of a skills standards and certification system in the tourism sector.

### Colombia

A \$9 million IDB loan from ordinary capital and \$9 million in syndicated funds to Sociedad Concesionaria Tibitoc S.A.E.S.P. to help finance the rehabilitation of the Tibitoc water treatment plant and 31 kilometers of the Tibitoc-Casablanca water main in the city of Bogotá.

### Dominican Republic

A \$48 million IDB loan to enhance the transportation system by ensuring sustainable maintenance of rural roads.

### Guatemala

A \$25 million IDB loan to help finance reform of the judicial sector to improve efficiency and public access to justice.

### Haiti

A \$54,965,000 IDB loan and a \$965,000 MIF grant for technical cooperation to improve potable water and sanitation services and establish a regulatory framework for the development of a waste water service.

### Mexico

A \$3 million MIF equity investment in Fondo de Capital de Riesgo para Agronegocios to establish a venture capital fund that will provide direct long-term financing to small agroindustrial companies.

A \$1.5 million MIF grant to help create a securities clearinghouse to help strengthen the country's capital markets.

### Panama

A \$235 million IDB loan for the repair and rehabilitation of rural roads and bridges and to increase the capacity and reliability of

electric power transmission.

A \$156 million IDB loan to support the rehabilitation of 1,260 kilometers of secondary and local roads, replacement of 30 bridges and drainage works, and strengthening of the administrative and management capacity of the Ministry of Public Works.

### Paraguay

A \$35 million IDB loan to assist in recovery from the El Niño weather phenomenon.

### Peru

A \$1.5 million IDB loan to improve the public sector's financial management system.

### Uruguay

A \$610,000 MIF grant to Asociación Empretec Uruguay to provide assistance and training to small exporters.

### Venezuela

A \$1.5 million MIF grant to assist the government in promoting private sector participation in providing, operating, and maintaining transportation infrastructure as well as developing a system for awarding public works concessions.

### Regional

A \$1,100,000 MIF grant for a program to harmonize and integrate the oil and gas market in Central America.

## NEED DETAILS?

To read **press releases** on newly approved projects on the Internet, go to: [www.iadb.org/exr/prensa/releases.htm](http://www.iadb.org/exr/prensa/releases.htm). For related **project documents**, go to: [www.iadb.org/exr/english/projects/projects.htm](http://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](mailto:pic@iadb.org).



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For information on ordering, contact the Institute for the Integration of Latin America and the Caribbean, Esmeralda 130, 16th - 17th floors, (1035) Buenos Aires, Argentina. Tel. (54 1) 320-1871. Fax (54 1) 320-1872. E-mail: INT/INL@iadb.org.

## Business workshop held in Miami

SOME 60 BUSINESS PEOPLE GATHERED at the Wyndham Miami-Biscayne hotel in Miami on Sept. 10-11 for a briefing on business opportunities related to IDB projects. It was organized in cooperation with the Greater Miami Chamber of Commerce.

The briefing included an overview of the Bank's mission, activities, members, structure, and lending record; the sectors in which the Bank is presently lending, and the Bank's project development and approval cycle and procurement and contracting procedures.

In one panel, representatives from several companies that have worked on IDB-financed projects shared their experiences. "It's not rocket science," observed Jim Padilla, an associate at White & Case, a Miami law firm that has won several consulting contracts to provide advisory services for IDB-financed projects. "You just have to do your homework."

Cal López, Latin American sales director for Cooper Power Systems, said businesses need to start tracking the projects they're interested in through *IDB Projects*, the Bank's monthly procurement magazine, as early as possible. He also suggested that interested companies introduce themselves and their capabilities to the project executing agencies in the field.

Information on upcoming business seminars can be found on the Bank's web site, [www.iadb.org](http://www.iadb.org).

## Clarification

A photo caption on page 8 of the April, 1998, edition of *IDB-América* could have been interpreted to imply that workers at Southern Peru Ltd., a large mining concern, are dissatisfied with their employment conditions. This was not the intent of the caption, and IDBAmérica sincerely regrets any misunderstanding that may have been caused.



**SWEET AND SOUR:** Alma Leticia Martínez checks acid levels in grapefruit sections at Exportadora de Cítricos de Linares, some 130 km south of Monterrey, Mexico. The company, which sells processed fruit, purchased a cold storage facility in 1993 with a \$68,000 loan through an IDB-financed credit program.

## IDB NEW DIRECTORS

**Javier Bonilla Saus**, previously technical advisor in the office of the executive director for Bolivia, Paraguay and Uruguay, has been named alternate director.

**Helge Semb** has been named alternate executive director for Austria, Denmark, Finland, France, Norway, Spain and Sweden. He was a senior counsellor in the same section.

**Luis Raúl Matos Azócar**, who was until recently Venezuela's Minister of Finance, has been elected IDB executive director for Panama and Venezuela.

**George Reid**, previously the IDB's alternate executive director for Bahamas, Barbados, Guyana, Jamaica and Trinidad and Tobago, has been elected executive director for the same countries. The new alternate director is **Roderick G. Rainford**, who was an advisor to the International Monetary Fund's executive director for Canada, Ireland, and the English-speaking Caribbean.

**Rene Legrand**, formerly the deputy auditor of the Belgian Ministry of Finance, has been elected alternate executive director for Belgium, Germany, Israel, Italy, The Netherlands and Switzerland.

# An expert in passions and hatreds

WHEN ADRIANA POLANÍA POLANÍA FIRST STARTED giving seminars on alternative dispute resolution (ADR), the lawyers in attendance would sometimes ask for a refund before she had a chance to speak.

"I guess they didn't expect a 26-year-old," recalls Polanía. Now all of 31, Polanía no longer needs an introduction. As the founding director of the Center for Arbitration and Conciliation of the Bogotá Chamber of Commerce, she has emerged a leader in Latin America's growing ADR community (see article on page 3). Last year her staff handled some 2,000 conciliation proceedings and 300 arbitrations, resolving disputes worth around 2 billion Colombian pesos. The center also runs six ADR training programs in countries throughout the region and is helping to strengthen 60 smaller Colombian conciliation centers with funding from the IDB.

None of this existed when Polanía took an entry-level position at the Chamber of Commerce right out of law school. An academic interest in ADR led her to volunteer at what was then an ad hoc conciliator center at the chamber, and she immediately fell in love with the role.

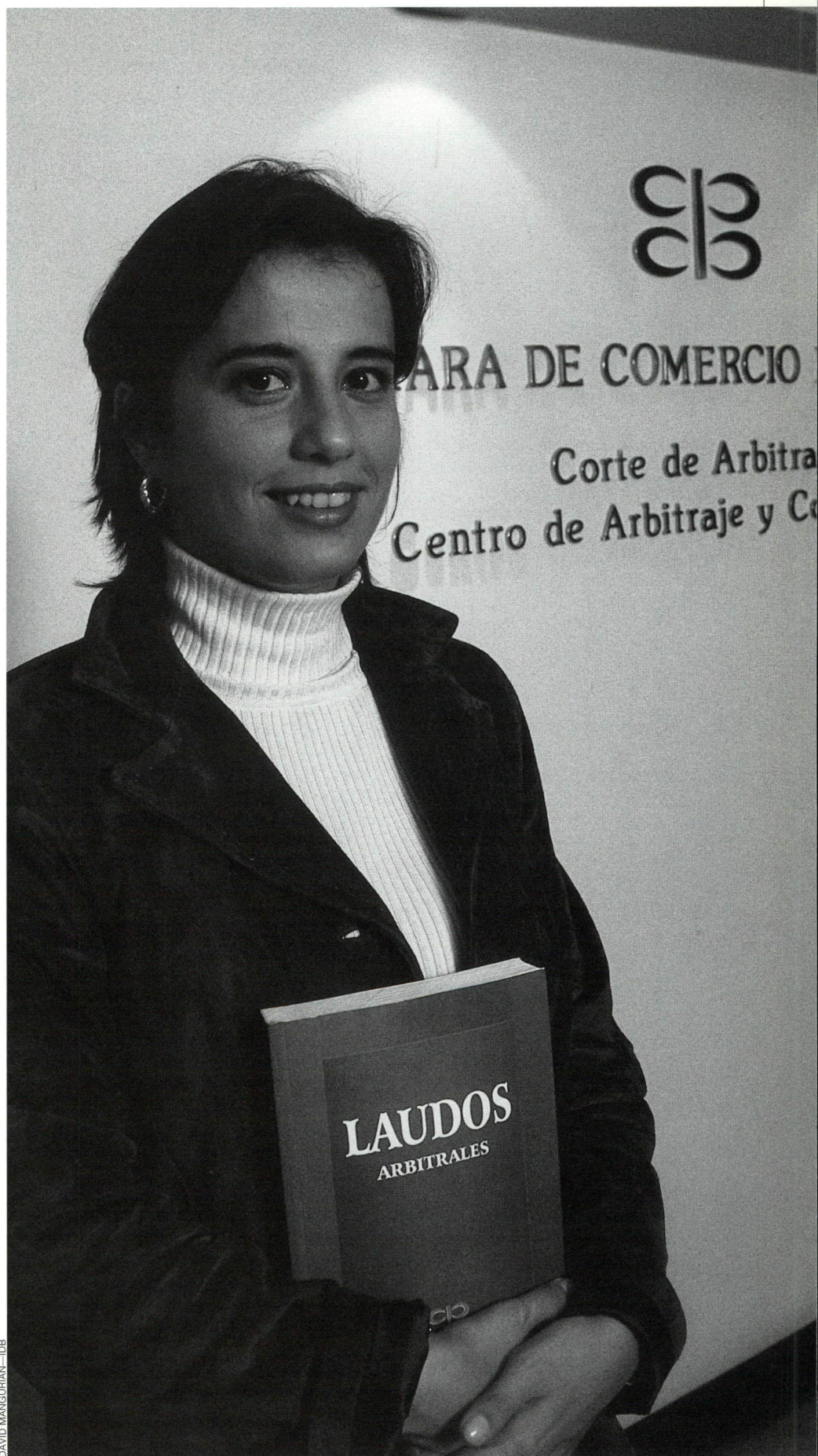
"People would show up very angry," she recalled. "Some would cry, scream, pull out weapons, threaten to call guerrillas. I had no training, and anyway, lawyers aren't really taught how to deal with human passions and hatreds."

Nevertheless, Polanía quickly developed a knack for extracting voluntary agreements from even the most intransigent parties. In 1993, the chamber decided to create a formal conciliation center. Polanía was named director, "but I was also mediator, secretary and everything else," she recalls. Within a few years, the center was handling multimillion dollar disputes involving the government, foreign investors and Colombia's largest corporations.

Despite her busy schedule and the help of some 40 staffers, Polanía still personally handles some 100 conciliation sessions each year. "I keep doing it because I love it," she says. "Two furious, bitter people come in, and then you perform this magic of helping them to see things differently. You are doing something positive in people's lives."

—Paul Constance

**Although she's the boss, Polanía still likes to roll up her sleeves and mediate disputes.**



DAVID MANGIURIANI—IDB



**LIZARDS TO LILIES.** Traditional pottery makers in Oaxaca, Mexico, show off one-of-a-kind wares they are marketing with the help of an IDB-financed microcredit program. With small loans, such producers can increase production and raise incomes.

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