

IDB AMERICA

Magazine of the Inter-American Development Bank

January-February 1999

Honduran college students
dig out sanitation supplies



A time to rebuild

The lessons of
Hurricane Mitch

VIEWPOINT

1 This time, let's do it right

FOCUS

3 The worst in living memory

The lessons of Hurricane Mitch

5 A place to call home

6 Lessons learned or lessons lost?

7 Thirst follows the flood

8 Farmers without soil

9 A hard life gets harder

10 A future built on solidarity

NEWSBEAT

12 New credits help to stem financial crisis



WILLIE HEINZ/IDB

The IDB lent a record \$10 billion to Latin American and Caribbean countries in 1998. See story on page 15.

13 IMF economist named Bank vice president

14 Peru wins support for fight against drugs

15 IDB lends a record \$10 billion in 1998

16 1,800 teachers, one classroom

18 From wasteland to profit center

THINK TANK

20 Home buyers fuel high finance

21 Essential plumbing for securities markets

22 Geography and economic destiny

FIGURATIVELY SPEAKING

23 Digital trade barriers

EXPRESSIONS

24 Bright threads of a cultural tradition

PROJECT NEWS

26 Latest approvals

PROTAGONISTS

29 A mayor to remember

THE COVER

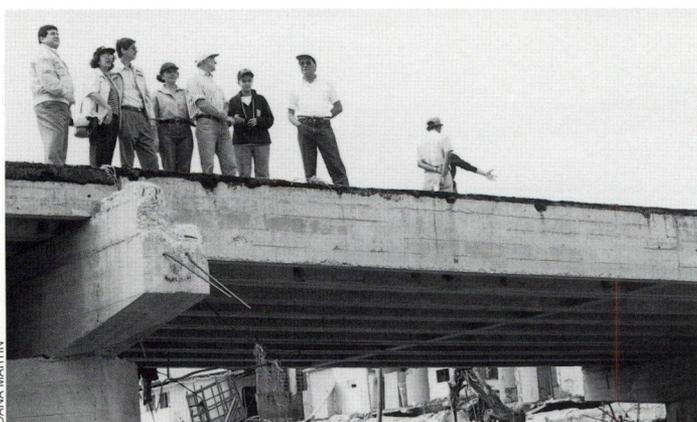
A time to rebuild. College students in Tegucigalpa, Honduras, pass along pipe sections belonging to the national water and sewerage company after one of the company's largest warehouses was buried under several feet of mud by Hurricane Mitch. Students were conscripted by the government to help dig out, sort and wash an estimated \$5 million worth of supplies that were urgently needed to repair the city's devastated water system. See stories beginning on page 3.

—IDB photo by David Mangurian



DAVID MANGURIAN—IDB

EDITORS' NOTEBOOK



DANA MARTIN

IDB officials survey flood damage from a battered bridge.

Optimism in adversity

THE CATASTROPHE THAT struck Central America in the wake of Hurricane Mitch produced shock at the IDB, particularly among staff members who have worked with the region for many years. Bank staffers have labored long and hard on IDB operations designed to help these countries move forward

and create a better life for their people. They worried about the fate of colleagues and friends and lamented the loss of so much of what they had strived to achieve.

The experience was particularly moving for members of an IDB emergency mission that arrived in Tegucigalpa just days after the storm. They

described scenes and conversations they will never forget.

"It was eerie," recalled sanitation specialist Chris Jennings. "People were digging in the mud in places where their homes had stood just days before."

At a sports complex where some of the 240,000 city residents left homeless by the storm were being housed, legal specialist Dana Martin found scores of families sleeping on floors and one woman with a television wrapped in a piece of cloth, probably the only possession she was able to save.

"It broke your heart just to see that place," he said.

But the mission members also discovered a solid vein of strength and optimism beneath the debris the flood waters left behind. "They lost everything," said agriculture specialist Hugo Villarroel, "but they still had a positive spirit. When I talked with them, they seemed happy. I would have been crying."

IDBAMERICA Volume 26 No. 1-2

EDITOR: Roger Hamilton
ASSOCIATE EDITORS: Paul Constance, Peter Bate
ASSISTANT EDITOR: Claudia Estrada
CONTRIBUTING EDITOR: David Mangurian
ON-LINE EDITOR: Iris del Carpio
DESIGNER: Cecilia Jacobson
PHOTOGRAPHER: Willie Heinz

IDBAmérica reports on economic and social development trends in Latin America and the Caribbean and on the activities of the IDB. It is published six times annually in Spanish and English.

IDBAmérica On-Line is available in English, Spanish, Portuguese and French at <http://www.iadb.org/exr/idb/indexeng.htm>. It includes automatic links to related Bank documents.

All material may be reproduced if credit is given to IDBAmérica.

Comments? Our editorial department can be reached at editor@iadb.org or at the address appearing below.

For a **free subscription**, contact the IDB Bookstore, E-0105, Office of External Relations, IDB, 1300 New York Ave., N.W., Washington, D.C. 20577.
 Tel. (202) 623-1753.
 Fax (202) 623-1709.
 E-mail, idb-books@iadb.org.

Quotable

"I want to prevent the global capitalist system from destroying itself."

George Soros, the currency speculator and financier, in his recently-released book "The Crisis of Global Capitalism." Soros has acknowledged losing hundreds of millions of dollars in emerging market investments since the Asian financial crisis began in 1997.

"Despite the window shopping that a lot of them do, they don't have the resources."

Richard F. Grimmett, an international arms trade analyst for the U.S. Congressional Research Service, in a Dec. 3 New York Times article on why a Latin American regional arms race has not materialized. Many experts had predicted a buying spree by regional governments after 1997, when the U.S. loosened restrictions on the sale of advanced weapons to the region.

"We have a social imperative to work together to address this basic inequity."

Bill Gates, chairman of Microsoft Corp., in a Dec. 2 Washington Post article about his gift of \$100 million to help immunize children in developing countries against leading childhood diseases.

"If corruption could be measured, it could probably be eliminated."

Vito Tanzi, an International Monetary Fund official, quoted in the Dec. 31 edition of *AméricaEconomía*. Tanzi argued that cash bribes are only part of a wide range of corrupt practices that bedevil Latin American and Caribbean nations.

"The adversary is no longer the state, as it once was, but modern society."

Soledad Loaeza, a religion expert at the International Studies Institute of the Colegio de México, in *The Christian Science Monitor*, Jan. 21. She was commenting on Pope John Paul II's visit to Mexico, which she termed as a "cultural crusade."

VIEWPOINT

This time, let's do it right

By EDMUNDO JARQUIN

THE OVERWHELMING LOSS OF life and material damage caused by Hurricane Mitch has produced an outpouring of international assistance. Some has been used to help people get through the immediate emergency. Far more will be used to rebuild the countries' devastated economies.

How will this future aid be used? If the result of rebuilding leaves these countries exactly where they were before the hurricane, a great opportunity will have been lost, particularly in the cases of Honduras and Nicaragua. Both these countries were already extremely poor. A history of civil war, foreign intervention, revolution and dictatorship has left their democratic systems very fragile. Their governmental institutions remain rife with cronyism, corruption and inefficiency. The still-modest private sector mirrors the inefficiencies and corrupt practices of the public sphere.

These countries have been the victims of catastrophes caused by nature and by man. While natural disasters cannot be averted, their effects are magnified by the actions of people.

For example, after the Nicaragua earthquakes of 1972-1973, Anastasio Somoza, Nicaragua's former dictator, said that the event was a "revolution of opportunity" since it opened the way for massive investment and the aid flows to finance it. But the "opportunities" flowed directly into the pockets of Somoza and his cronies, and seven years later another type of revolution broke out, this time triggering a civil war with U.S. and Soviet involvement. Today, two decades later, the country's per capita gross domestic product stands at the level of 40 years earlier.

If we hope to break the cycle of natural and man-made disas-

ters, international aid must be channeled to these countries with much greater care than in the past. Although humanitarian assistance cannot be made conditional, the long-term rebuilding must start from the premise that traditional aid reconstruction programs will not work.

We know, for instance, that much of the damage caused by the hurricane was due to massive deforestation. Therefore, the international community should help to promote massive reforestation plans in these countries and insist on a supervised ban on lumber exports until rational forest management programs are in place. The reconstruction program could include a substantial component of international aid

imaginable would be if inefficient or corrupt management of aid were to deepen the distrust of the citizens of these countries in their democratic institutions. Similarly, aid money must be spent where it is most needed. It should be used to rebuild poor districts, not middle- and upper-class neighborhoods.

Reconstruction should also be an occasion for rationalizing the role of the military. For the first time in history, the Nicaraguan and Honduran armed forces are under civilian authority. But their equipment still consists of tanks and other weapons which are useless in a democratic society with no external threats. They have no bulldozers or transport vehicles. Outfitting and training the armies and the police to work in reconstruction and protection of natural resources would help to consolidate one of the most sensitive aspects of the transition to democracy.

Finally, the incoming aid could help advance the process of Central America's economic and political integration. The destruction of bridges in Honduras and Nicaragua has disrupted trade within the region. Increased poverty could swell the already alarming flows of refugees to Costa Rica. We should seize this opportunity to establish supranational authorities for development of border areas; such programs have been on the drawing board for years, and are strategically important for development in Central America.

These are only some ideas. Our challenge is to transform tragedy into opportunity and make a virtue of necessity.

—The writer is chief of the IDB's State and Civil Society Division and a former Nicaraguan legislator. This article was adapted from a piece that appeared in the Spanish newspaper *El País*.



CHRISTOPHER JENNINGS

■ Inefficient or corrupt management of aid could deepen distrust in democratic institutions ■

to swap for natural-resources conservation and restoration.

The present emergency should not sidetrack the process of strengthening democratic institutions, particularly those that bring order, security and trust, such as the judiciary and regulatory agencies. The worst thing



The worst in living memory

After the shock of Hurricane Mitch, Central America gets down to the difficult job of rebuilding

By ROGER HAMILTON

MOST HURRICANES VENT THEIR FURY and then quickly move on. But Hurricane Mitch did its destructive work slowly. Traveling northwest across the Caribbean, skirting Jamaica and Cuba, its winds reached a peak of 157 knots on Oct. 26 just off the northeast coast of Honduras, making it one of the strongest storms of this century. It stayed at this intensity for the next 24 hours before beginning to weaken.

But the emergency continued. On the morning of Oct. 28, the storm stalled just north of Honduras. Now the big danger was not the winds, but the rain, which increased in intensity and coverage, particularly in Honduras and Nicaragua. Altogether more than one meter fell, causing catastrophic flooding and mudslides in the two countries and leaving an estimated 10,000 dead, 9,000 missing and more than one million homeless and billions of dollars lost in material damage. Then the storm continued through Chiapas, Mexico, traveled back across the Caribbean, and dissipated over Florida.

Although the people of Central America are used to misfortunes, both natural and man-made, this one left them numbed. No other event in recent memory has caused such devastation in terms of lives lost and property destroyed.

Mitch was the final blow in a year marked by weather-related catastrophes. Just a month before, Hurricane Georges had left massive destruction and hundreds dead in

Their ordeal etched on their faces, Tegucigalpa residents get immunized against tetanus. Thanks to such measures, a serious health emergency was averted.

several Caribbean nations, including Haiti and the Dominican Republic. Earlier, El Niño had caused record flooding and droughts in Ecuador, Peru and other countries.

After each disaster, and particularly after Mitch, national governments and the international community of agencies, charitable groups and private citizens quickly mobilized to care for the injured, the homeless and the hungry. At the same time, work began on long-term efforts to rebuild shattered lives and restore destroyed economies.

had already set up conference rooms in a hotel and assigned work tables by sectors: roads, social programs, water and sewerage, education, etc. Each afternoon, after spending the first part of the day visiting the stricken areas, IDB staff and representatives of other donor agencies met there to compare information and coordinate relief efforts.

Back in Washington, the IDB had already made small emergency grants to Honduras and Nicaragua, as well as to El Salvador and Guatemala. Preparations began on a \$1 million grant to hire the consultants that Honduras would need to prepare its national reconstruction plan. Work also began to map out the long-term relief effort (see page 10) in which the Bank would provide new loans to the affected countries, raise funds from the international community and assess the need for debt relief.

Several days after the IDB mission returned from Honduras, a second team left for Managua, the capital of Nicaragua. There too, the hurricane had left a fearsome toll, particularly at the base of Casitas Volcano where mudslides swept away whole villages.

The shattering blow Hurricane Mitch dealt to Central America was not an isolated event. The isthmus has the dubious distinction of lying in the path of many tropical storms. In fact, the word "hurricane" probably comes from the language of the Taino people who inhabited the Caribbean area in pre-Columbian times. During the colonial period, maritime records of Spain and other European powers relate the enormous losses of ships to storms, many of them hurricanes. Over the years, hurricane losses on the open water declined as ships grew more seaworthy. But onshore damage increased as a func-

(next page please)



DAVID MANGURIAN—IDB

More than one million people were left without homes.

The IDB mobilizes. As reports on Hurricane Mitch started coming in from Central America, the IDB put together a team of project specialists who would go to Tegucigalpa, Honduras, to evaluate the damages and determine priorities for Bank assistance. Arriving just four days after the storm had abated, the group, headed by IDB Central America veteran Andrés Marchant, found a city where more than 240,000 people were without shelter and where drinking water and basic services were largely unavailable.

By the time the team arrived, the Bank's country office, headed by Fernando Cossío,



DAVID MANGURIAN—IDB

(from previous page)

tion of demographics and changing land use. In 1950 the region's five countries had a population of 8.3 million. The Latin American Demographic Center estimates that by 2025 the region's population will swell to more than 55 million. Many more people are at risk today than decades ago, and many more will be at risk in the future. Moreover, large numbers of these people, for the most part poor, end up in the cities, where they must resort to building on precarious hillsides and in flood plains. Those remaining in the countryside convert forest into agricultural fields and firewood, thus reducing the absorptive capacity of the land and its ability to reduce the impact of heavy rains.

After Mitch, former Honduran Environment Minister Carlos Medina stated that extensive deforestation in his country had compounded the impact of the storm by some 30 percent.

Meanwhile, countries today have a greater lead time for warning their citizens of approaching storms (see article on page 6). Modern communications have come a long way since 1909, when for the first time

a ship in the Caribbean was able to provide advance warning on an approaching hurricane in order to help coastal preparations.

However, the usefulness of advanced warning is greatly diminished unless it has been preceded by long-term preparation that really makes a difference, such as discouraging building in high-risk areas, reforestation and creating agencies charged with emergency preparedness. In Central America, these measures had not been taken, a fact that became tragically evident just three weeks after the United Nations celebrated World Disaster Reduction Day.

As the rebuilding gets underway, the countries are determined to learn from their mistakes and forge the framework for long-term development. "This is the only country we have," said Honduras President Carlos Flores, "so we have to pick it up, and we will."



Several dozen websites offer information about Hurricane Mitch relief efforts. A useful portal for sites in both Spanish and English can be found at www.hurricanemitch.org.

URGENT ARCHEOLOGY. Weeks after the storm, residents of Tegucigalpa were still digging out their homes and businesses. An IDB water sector specialist (below) and an official from the Honduran national water company studied blueprints of pipes destroyed during the flood.



DAVID MANGURIAN—IDB

New records for charity

HUMAN CATASTROPHES IN DEVELOPING countries can claim only the briefest hold on the world's attention, if television news coverage is any indication.

But evidence of solidarity and concern for Hurricane Mitch's victims was visible long after news programs moved on to other stories. Thousands of tons of food, medicine and clothing, along with all manner of relief experts, were sent by governments in Asia, Europe and the Western Hemisphere.

Even more impressive was the outpouring of charity from private individuals and organizations. Records kept by some of the world's largest charities and relief organizations indicate that the response to Mitch was without precedent. As of mid-December, for example, the American Red Cross in Washington, D.C., had received \$18 million in donations for Mitch victims, allowing it to mount what a spokesman called the largest international relief effort in the organization's history. Although official figures were not available, tens of millions of additional dollars are believed to have been donated to other Red Cross and Red Crescent affiliates worldwide.

Canine search and rescue teams from the U.S. volunteered in Honduras.

Catholic Relief Services, the U.S. member of the Caritas network of Catholic relief agencies, received donations for Mitch totaling \$12.6 million in the month of November alone. By mid-December, Caritas Spain had received \$40 million, Caritas Germany had received \$10 million and Caritas Canada had collected nearly \$4 million.

Donations were made by mail, fax, phone and—perhaps for the first time on this scale—the Internet. CARE International, the U.S.-based relief organization, enabled its website to accept credit card donations on-line and received \$10,000 a day during the week following the hurricane.



DAVID MANGURIAN—IDB



DAVID MANGURIAN—IDB

The Cruz family stands before a shack built with lumber salvaged from their destroyed house.

A place to call home

“ON THE FOURTH DAY OF RAIN WE WOKE UP AND found our house split down the middle.”

That's how Kenia Elisabeth Cruz, mother of two, remembers her last moments in a modest wood dwelling that Hurricane Mitch reduced to splintered planks. “Things started tearing apart,” recalls her husband, Juan Carlos Cruz, a construction worker. “Walls were falling over and getting swept down the street. We ran out without taking a thing and went to a nearby school. We lost everything we owned.”

The four members of the Cruz family are typical of the more than one million people in Central America who were left homeless by Hurricane Mitch. They lived in a precarious home on a steep, unstable slope that had been stripped of the trees needed to prevent mud slides. But three days after the storm, the Cruzes were back on the hill, desperate to collect and guard the wooden planks that

were their only remaining possessions. With his father's help, Juan Carlos has already built a one-room hut with the salvaged lumber (shown in photo above). But the hut is only a few feet further up the hill than his previous home, and it will undoubtedly be vulnerable in the event of another large hurricane.

In this respect the Cruz family is also typical among hurricane victims. Until they have enough money to meet their basic food, clothing and health needs, they cannot even think of moving or attempting to purchase land and materials to build in a safer location. In order to keep tens of thousands of other families from reestablishing themselves in flood- and landslide-prone areas, the Honduran government must quickly mobilize enormous resources in the form of land, building materials and credit.

—reported by David Mangurian.

Lessons learned or lessons lost?

Unless preventive measures are taken, the tragedy of Mitch is likely to be repeated

By PAUL CONSTANCE

IT MAY HAVE BEEN THE WORST STORM TO HIT Central America in living memory, but for Bruce Baird and many others, Hurricane Mitch provoked a vivid case of *déjà vu*.

Baird, a U.S. citizen who is today an expert in flood disaster prevention and relief, was leading a filmmaking expedition in Honduras in September 1974 when a freak storm hit the country's northern coast. Hurricane Fifi baffled meteorologists by "stalling" over Honduras, where it dumped 25 inches of rain in 24 hours and caused flooding and landslides that killed an estimated 8,000 people.

"Whole villages were swept away," recalls Baird, who now works for the Office of Emergency Services of the State of California. "The Sula valley [home to San Pedro Sula, Honduras' main industrial city] turned into a giant lake." Baird worked on Fifi relief efforts as a volunteer, and was later awarded a training grant by the Organization of American States to spend a year in Honduras documenting disaster response and hazard mitigation efforts.

"From the start, there was a debate between what you might call the ostrich group, who thought Fifi was an aberration that would probably never happen again, and those who thought it probably would," says Baird. Twenty-four years later, the latter group was proved tragically right. Hurricane Mitch, like Fifi, "stalled" over northern Honduras. It deposited at least twice as much rain as the earlier storm, producing more flooding and landslides further inland than those caused by Fifi, and it killed more people.

The parallels between these two storms, and their relative proximity in time, are a stark example of the importance of including prevention and mitigation efforts during reconstruction after a natural disaster. According to Baird, in the months following Fifi, officials inside and outside Honduras called for all kinds of mitigation efforts that would reduce mortality and physical damage in the event of another severe storm. The United Nations and other international organizations funded several hazard mitigation pilot projects, including one that helped subsistence farmers on steep slopes to plant trees

and choose crops that would restore fertility to their eroded land while making landslides less likely in the future.

But in the rush to put export-oriented agricultural plantations back into production and repair critical bridges and roads, comparatively little attention was ultimately paid to prevention activities, according to Baird. "There were lots of projects, but no coordinated program," he says. "Because efforts were so ad hoc, a unified national mitigation strategy did not develop."

As a result, too many houses were rebuilt along the shores of rivers that had earlier swept them away. Too many bridges were rebuilt without the structural features

■ The loss of life and property could have been greatly reduced with proper mitigation measures ■

needed to withstand another large flood. Too many slopes that were already unstable because of deforestation continued to be intensively farmed. Although Mitch would have been a hugely destructive storm no matter what precautions were taken, Baird and other disaster experts believe the loss of life and property would have been greatly reduced with proper mitigation measures.

Protecting investments. Disaster planning is not a luxury that only industrialized countries can afford. According to Caroline Clarke, an IDB specialist who has studied disaster prevention in developing countries, "it comes down to thinking about the safety of the investments you are going to make during the reconstruction period, before you actually start work." Buildings and facilities that were damaged can be moved to lower-risk areas or left in the same place—with stronger structural protections. It may be safe to rebuild some bridges on the same spot, for example, so long as the pilings are protected with bundles of rocks that can effectively prevent "scouring" or undermining of the bridge's foundation during a bad flood.

Some of the most effective mitigation measures are within the budgets of local

communities. Baird says that every flood-prone Central American village should designate a nearby building or high ground feature as a safe haven. If necessary, simple platforms or berms can be built inexpensively with local manpower—a strategy that has saved countless lives in flood-prone Bangladesh, for example. "Sometimes all you need to survive is three to six feet of elevation," says Baird. In a similar vein, Clarke says that villages can set aside land closest to rivers for community gardens or "green strips" where building is prohibited.

Baird also advocates creating a locally based emergency information broadcast system that can reach even the tiniest hamlets with up-to-the-minute weather information. "There are dozens of radio stations in rural Honduras and every family owns a transistor radio," says Baird. "It should be possible to develop a low-cost procedure for using this existing infrastructure to let villagers know when they should evacuate."

Since more than one million people were displaced by Mitch, governments in the affected countries are under enormous pressure to find new locations for residential areas to prevent people from rebuilding on dangerous land. Clarke says government grants for the purchase of land, relocation and basic construction can be conditioned to act as incentives that keep people out of dangerous areas.

Local communities, however, generally need help in evaluating risks and identifying low-cost mitigation measures. That is where government support, in the form of detailed hazard vulnerability assessments conducted by professionals, is essential. Both Baird and Clarke believe such studies should be carried out with each village, town and city through a coordinated, national effort, so that all key reconstruction investments are made with a view to reducing risk.

"If you build levees at one point in a river, it's going to affect the volume of water during a flood at some point downstream," says Clarke. "It is critical to coordinate efforts."

The degree of success this time will depend largely on the region's governments, their reconstruction agencies, and the international donor community. Baird and Clarke say they are impressed with the efforts of individual governments to date, and they applaud plans to strengthen the resources of CEPREDENAC, the body that since 1988 has been working to coordinate disaster mitigation planning among Honduras, Nicaragua, El Salvador, Guatemala, Costa Rica and Panama. "Honduras and much of Central America will remain flood-prone," says Baird. "It's up to all of us to make sure the damage is never this bad again. This is an opportunity for the countries of Central America to set an example in disaster mitigation for all of Latin America." ■



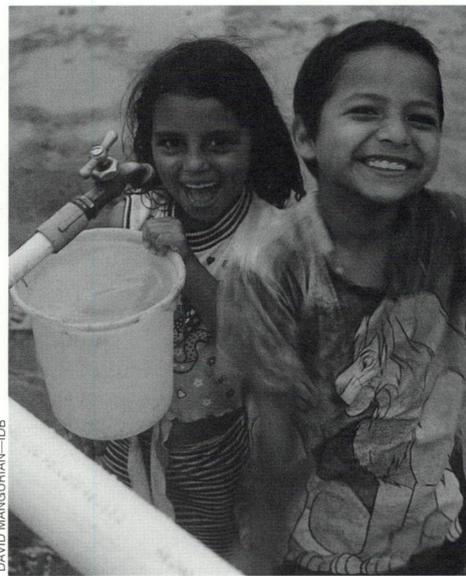
DAVID MANGURIAN—IDB

Thirst follows the flood

AFTER PUNISHING HONDURAS WITH TOO much rain, Hurricane Mitch perversely deprived the country of drinking water. The storm destroyed critical segments of Tegucigalpa's potable water system, leaving practically all of the city's 1.9 million residents without safe water for domestic use.

The national water and sewage company, SANAA, scrambled to make repairs, but it was hampered by the fact that many of its spare pipes, pumps and other supplies had been stored in a warehouse that the storm had buried under several feet of mud. University students were conscripted to help dig out and rinse the estimated \$5 million worth of parts.

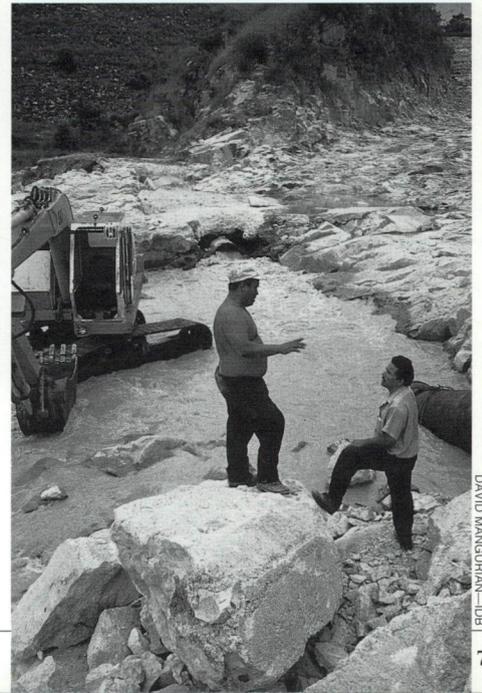
While repairs were underway, SANAA sent a steady stream of water trucks to delivery points throughout the city. Elsewhere, it improvised service for neighborhoods with



DAVID MANGURIAN—IDB

plastic pipes fitted with taps. Meanwhile, crews worked to repair the damage to the water mains. Financing that the IDB had provided through an earlier loan to help extend the city's water service will now help pay for its restoration.

WORTH THE WAIT: Residents of Tegucigalpa line up to fill buckets with drinking water trucked in by the city's water company. In other neighborhoods, people had access to temporary plastic pipes and faucets (left). Difficulties in repairing a shattered water main (below) prolonged shortages.



DAVID MANGURIAN—IDB



WILLIE HEINZ—IDB

Farmers without soil

MANUEL HERNANDEZ SCRAPES UP A handful of dirt and shows a visitor how quickly it runs through his fingers.

"It's just sand and gravel," he says. "You can't grow anything here." Hernández, owner of Finca El Carmen in Honduras' Comayagua department, is standing on what was once his most valuable land—six hectares of rich, loamy soil along the banks of a stream. Like many of the area's farmers, he had planted it all in export-grade tobacco. "The flood didn't just take the plants," he says, surveying a desert-like landscape of bleached stones and shattered tree limbs. "It took the fences, the irrigation equipment, and finally all the soil."

Farmers all over Honduras were telling similar stories in the wake of Hurricane Mitch. Never mind that most lack the means to replant ruined crops, replace equipment or repay loans to banks. Even if they did, many of them would have to move and buy new land, because their best parcels were eroded beyond the point of recovery.

Erosion has long been a serious problem in many areas in the tropics where topsoil is typically composed of a thin layer of decaying leaves and organic matter formerly de-

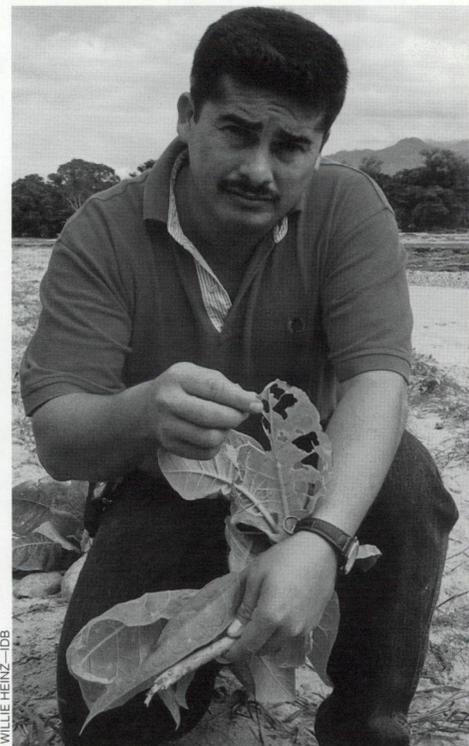
posited by the forest cover. When forests are cleared, this "mulch layer" can be quickly depleted by intensive farming and erosion, ultimately exposing an infertile substrate of clay, rock and sand. The problem is most severe on the steep hillsides where most poor farmers plant their subsistence crops, since denuded slopes are more prone to landslides during heavy rains.

Some agricultural experts predict a new Central American crisis in the years ahead, as thousands of small farmers fail to find sufficiently productive land to meet their needs. Emergency loans and grants of seed and fertilizer will not solve the problem, because degraded land does not respond well to traditional agricultural inputs. The solution—a radical shift toward farming practices and crops that rebuild and maintain the mulch layer instead of depleting it—will require massive education and investments.

Despite his losses, Manuel Hernández is among the more fortunate farmers. He is able to shift his crops to higher ground that was not washed away and is planning to plant 1,000 fast-growing trees along the eroded edges of his property as a protection against future floods.

—reported by Willie Heinz.

POST-MITCH LANDSCAPE: Until last October this land in Comayagua, Honduras, was covered with rich topsoil ideal for growing export-grade tobacco. Farmer Manuel Hernández (below) shows how his few surviving tobacco plants have succumbed to disease.



WILLIE HEINZ—IDB

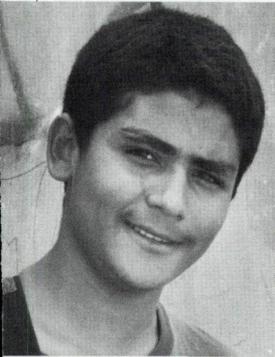
A hard life gets harder

EDGARDO RODRIGUEZ WAS SLEEPING IN Tegucigalpa's La Concordia Park when he was awakened by flood waters.

Within minutes the water was up to the 14-year-old's waist. "I went a little crazy at first, because I was scared for myself and for my friends," he recalls. Eventually Edgardo, who has lived on the streets of Tegucigalpa since he was 10, found a few of his companions who had been sleeping nearby. Together they made their way to higher ground and later helped to rescue five children stranded in a nearby building.

Hurricane Mitch has been especially cruel to children like Edgardo, Carla and Héctor (see photos), three of the several thousand kids who live on the streets of Tegucigalpa.

During the day they beg, steal or prostitute themselves for drugs. At night they take refuge in parks, under bridges, and in the thresholds of residential and commercial buildings, according to Alvaro Conde, national director of Casa



Edgardo Rodríguez, 14

Alianza, a Catholic charity in Tegucigalpa that has provided shelter and rehabilitation services to around 1,300 street children. "Most of what they get goes to support drug habits, either glue sniffing or, among the older ones, marijuana and crack cocaine," he said.

Even in the best of times, these children have never been welcomed in most neighborhoods. But following the hurricane, the streets have become particularly inhospitable. According to Conde, many of the street kids' most popular gathering places—open markets, parks and bus terminals—were either essentially wiped out by the storm or are now more heavily patrolled by police, who keep the children away. Even the damp shelter found under bridges—a favorite sleeping place for hundreds of children—was destroyed by flooding.

Edgardo has noticed another change. "There is no



NO PLACE TO LIVE: The floodwaters that swept through Tegucigalpa destroyed many of the markets, storefronts and bridges that were home to the city's street children.

food or money on the streets now," he said. "Everything is more expensive, and people are not giving anything away."

As a result, Casa Alianza and other shelters have seen a surge in children seeking help. "Many of the kids that have come here in recent weeks are saying that they're living on the streets because their houses were destroyed or because they don't know where their parents are," says Rebeca Perdomo, a Casa Alianza employee. "Others are saying that their parents don't have any money, so they are sending [the children] out

to scavenge for food and clothing."

After the storm, many veteran street kids asked Conde and his staff for help in locating family members that they had not seen in years. "They know that their families lived in areas that are vulnerable, and they are worried about them," says Conde. "Their experiences on the street have made these children very tough and stoical, but they are still just children."



Carla Patricia Ríos, 10



Héctor Donaldo Jiménez, 14



COMMON CAUSE: (l. to r.) World Bank President James Wolfensohn, Guatemalan Vice President Luis Alberto Flores Asturias, Nicaraguan President Alemán, Honduran President Flores, IDB President Iglesias and Costa Rican President Miguel Angel Rodríguez.

A future built on solidarity

Central America aid totaling \$6.2 billion pledged at IDB meeting

By **PETER BATE**

HOW DOES A COUNTRY START TO PICK UP the pieces after natural disasters of biblical proportions destroy nearly all its physical infrastructure, raze the homes of more than one million of its people and flatten virtually all its cash crops in less than one week?

That was the question facing some 400 delegates from donor countries and multilateral agencies who attended the Dec. 10–11 meeting of the Consultative Group for the Reconstruction and Transformation of Central America at the IDB's Washington, D.C., headquarters.

During their deliberations with officials from the nations devastated by Hurricane Mitch, donors reviewed damage evaluations, discussed the coordination of relief efforts and analyzed how they could contribute to

the development of a new and better Central America.

In the consultative group's first round of pledging, donors promised \$6.2 billion in emergency aid, long-term financial support and debt relief for Honduras, Nicaragua, Guatemala and El Salvador.

"This effort has sent a clear message of the international community's solidarity," IDB President Enrique V. Iglesias told reporters after the close of the conference, which the Bank organized just weeks after one of the worst hurricanes on record swept through the Central American isthmus and the Caribbean.

Iglesias also pointed out that the meeting was just an initial step. The consultative group will meet again on May 25–28 in Stockholm, Sweden, under the auspices of the Swedish government and the IDB. By that time, Central American nations will have pre-

pared master reconstruction plans, and donors will be expected to make firm commitments to support those programs.

According to the organizers, the funding commitments could produce a record level of international support for a developing region and, with it, a unique opportunity for helping Central America to overcome its legacies of poverty and inequality.

However, as the December meeting demonstrated, the region must still deal with the terrible aftermath of Mitch, an emergency that spawned numerous crises that could dash all expectations of prompt recovery.

The destruction wrought by the hurricane was even more bitter because it hit four nations that were getting their first taste of success from recent economic reforms and hard-won peace after decades of civil wars. The momentum for regional integration seemed unstoppable, and even social indicators such as infant mortality were improving.

All of this progress was wiped out in a matter of days. As Honduran President Carlos Flores pointed out at the meeting, the floods not only ruined most of his country's export and domestic consumption crops but also valuable arable land, washing vast areas clean of topsoil and leaving behind barren fields of rock and sand (see article, page 8).

The flooding and the mudslides destroyed 50 years of efforts to build Honduras' infrastructure and forced nearly one-quarter of its people out of their homes. More than one

million took refuge in schools and sports facilities around the country.

Flores warned that this catastrophe could jeopardize Central America's peace and democracy and urged the world to help his region avoid a relapse into instability.

"To lose now the ground Central America had gained would be an inexcusable step back for us and for the international community, and it would be an inadmissible punishment for the next two or three generations," he added.

The international community showed its readiness to help during the emergency and the reconstruction phases. The United States deployed one of the largest foreign relief campaigns in its history, sending hundreds of millions of dollars in food, medicine and rescue equipment, along with some 5,000 military and civilian personnel. European and Latin American nations also participated in the rescue efforts, providing equipment and supplies such as helicopters, tents and Bailey bridges.

Recognizing the impact of the hurricane on Honduras' and Nicaragua's export sectors, bilateral creditors were quick to offer debt relief that would consist of deferring service payments or writing off obligations. These gestures, coupled with a trust fund established by the World Bank to help those countries meet their multilateral debt commitments, will free up hundreds of millions of dollars for emergency and reconstruction efforts over the next few years. In addition, it is expected that creditors will accelerate their review of both Central American nations as candidates for the international debt relief initiative for heavily indebted poor countries, known as HIPC.

Nevertheless, International Monetary Fund Managing Director Michel Camdessus told the donors' meeting participants that debt relief should not be seen simply as a panacea. "Much more important will be the continuity and certainty of a flow of concessional external resources in the months and years ahead," he said.

Donors applauded the Central American leaders' intentions of involving the private sector and civil society organizations in the planning and execution of these national programs, which will benefit from decentralization and management by local communities. Looking further ahead, they warmly received a proposal by Mexico that an international meeting on disaster prevention and mitiga-

tion be held in coordination with the IDB, an exercise that could yield valuable lessons for developing countries.

But despite the wealth of good intentions, Central America's recovery still could fall victim to events. The director of the Pan American Health Organization, George Alleyne, called on the international community to protect the health of the citizens of the affected countries, pointing out that diseases such as cholera could hobble the whole reconstruction effort.

"There exists today the risk of a reappearance of outbreaks of infectious diseases in Central America, whether caused by the damage in some countries to the water and basic health services, limited access especially in rural areas, or the risks from crowded shelters and the movement of people between countries," Alleyne said. "Waterborne diseases, leptospirosis, dengue and malaria, can return, but I want to put special emphasis on cholera because of the damage it can cause."

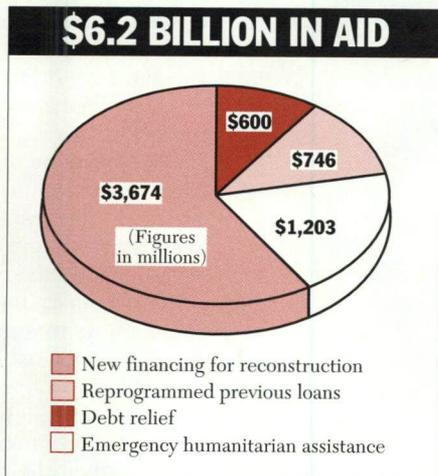
Another factor that could quickly dampen international and domestic support would be corruption, and the Central American leaders showed they were keenly aware of this issue. Nicaraguan President Arnoldo Alemán stressed that foreign donations must be managed with the utmost accountability.

"The best counterpart contribution we can make to those who have been so generous with their support is to guarantee transparency," he said. ▀

The IDB mobilizes

EVEN BEFORE THE WINDS HAD DIED AWAY, THE IDB was drawing up plans to support the victims of Hurricane Mitch. Aid to date includes the following:

- ▶ Approval of nearly **\$370 million in fresh financing** for Honduras, Nicaragua, Guatemala and El Salvador.
- ▶ Plans to channel some **\$3 billion in loans and debt relief** to Central American countries over the next five years.
- ▶ Redirection of up to **\$310 million in previously approved loans** to Central America to support reconstruction efforts.
- ▶ Contribution of **\$100 million to the recently established Central America Reconstruction Fund**.
- ▶ Help for microenterprises affected by the hurricane through the creation of a **\$12 million fund for Central American microcredit institutions** established by the IDB-managed Multilateral Investment Fund.
- ▶ **Emergency grants totaling \$400,000** to the countries hit by the hurricane.
- ▶ Preparation of a **\$1 million grant to plan a reconstruction program** for the Honduran government.
- ▶ Together with the International Monetary Fund and the World Bank, assessment of the external debt situation of Honduras and Nicaragua and analysis of the requirements for providing them with **debt relief** under the initiative for Heavily Indebted Poor Countries (HIPC).
- ▶ Chairmanship of a consultative group of donors that resulted in **pledges totaling \$6.2 billion**, that the IDB will convene again in Stockholm from May 25 to 28.



Presidents Iglesias and Alemán visit flood-ravaged areas in the Nicaraguan capital.



Traders at the Buenos Aires stock exchange react instantly to financial news from Asia.

New credits help to stem financial crisis

Argentina, Brazil and others are eligible for emergency IDB loans

By DANIEL DROSDOFF

THE POLICYMAKING COMMITTEE OF THE IDB's Board of Governors set a historic new course for the Bank in November by approving procedures by which the Bank will join with other multilateral institutions to counteract the negative effects of worldwide monetary speculation and volatile financial flows.

The assistance program, which was subsequently approved by the full Board of Governors, is designed to support countries that have already put in place effective economic and social reforms but are nevertheless suffering from the contagion of financial shocks that have originated outside the region.

To meet the challenge, the committee in a special Nov. 12-13 meeting in Washington, D.C., recommended that the board authorize the Bank to increase its lending by

up to \$9 billion for a one-year period over and above its normal levels, which in recent years has been between \$6 and \$7 billion.

The emergency lending will enable the Bank to join with the International Monetary Fund and the World Bank in providing financial assistance to countries whose fiscal balance is threatened by the recent Asian financial crises and the Russian debt default. These events have induced investors to withdraw resources from all emerging markets, often without regard to the economic and political profiles of specific countries.

The resulting volatility in financial markets is threatening to undo a decade of reforms in Latin America and the Caribbean. These reforms, which have been carried out with great sacrifices, are now showing very favorable results.

With the purpose of supporting governments' efforts to maintain stability and con-

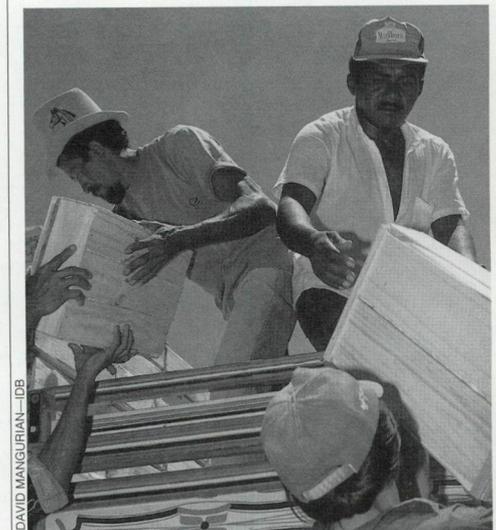
tinue reform programs during the crisis, the Bank has offered emergency loans of up to \$3.4 billion for Brazil, \$2.5 billion for Argentina, and \$1.25 billion for Colombia.

Brazil has already received a \$1.1 billion IDB loan to support microenterprise and small business. This financing would be included as part of an IDB package for that country that could reach \$4.5 billion. The IDB funds would be part of a \$41.5 billion package for Brazil, to which the IMF will contribute \$18 billion; the IDB and the World Bank, \$4.5 billion each; and leading industrial nations, \$14.5 billion.

"The progress that Brazil has made under the Real Plan is historic," IDB President Enrique V. Iglesias said during remarks on the emergency financing offered to that country. "We are committed to continuing our efforts over a broad front in supporting the government to ensure that the gains made by the poor are sustained and improved in the years ahead and that the process of stability and development will resume with dynamism very soon," he added.

The primary purpose of the emergency financing is to support programs that are designed to assist the poor and to enable countries to continue structural reforms. The new loans are designed to be quickly disbursed in order to help beneficiary countries to strengthen their monetary reserves. The \$2.5 billion emergency loan for Argentina, for example, was approved by the Bank's Board of Governors on Dec. 16 and signed by Argentine government and IDB officials on Dec. 21. By Dec. 22 the first \$1 billion of the loan had been disbursed.

The interest rates, terms and fees of the new loans (to be established by the Board of Executive Directors) will be more stringent than regular Bank loans. These conditions, said the Committee of the Board of Governors, will maintain "the basic indicators that ensure the Bank's financial soundness." ■



The crisis also affects Brazilian workers.

IMF official named Bank vice president

K. Burke Dillon headed the Fund's Moscow office

A SENIOR INTERNATIONAL MONETARY Fund (IMF) executive who has been in the forefront of some of the major economic policy challenges of recent years took up her duties in January as the IDB's executive vice president.

K. Burke Dillon, a United States citizen and formerly head of the IMF's Administration Department, replaces Nancy Birdsall, who left the Bank in September to join the Carnegie Endowment for International Peace.

Dillon joined the Fund as a program economist for Peru and Kenya in 1973. During the debt crisis of the 1980s, she was responsible for debt rescheduling and balance of payments assistance for Argentina. Later, as head of the External Finance Division, she oversaw debt rescheduling and program financing for the IMF as a whole. Following that, as Southern Africa division chief, she served as mission chief in Zambia, which was a key case for developing IMF policies on countries with arrears to the Fund.

In 1979-80 Dillon took a leave of absence from the IMF to join U.S. President Jimmy Carter's Council of Economic Advisers as senior staff economist for finance, money, housing and urban policy.

In 1993, after the breakup of the Soviet Union, Dillon was named to head the Fund's Moscow office.

New mission. Recalling her initial Latin American assignments with the IMF, Dillon described her move to the IDB as a kind of "coming back home." She said she particularly looks forward to being a part of the Bank's project-oriented mission.

"Such IMF concerns as money supply, growth rates and fiscal deficits are critical, but abstract," she said. "I am eager to work on projects where you can actually know the people who are benefiting."

She expressed a special interest in microfinance and in designing ways to improve the environment for small business.

"One thing that has always struck me in developing countries," she said, "is how many ways small business can be impeded by regulations and other interventions."

From her vantage point at the IMF, she has been impressed by what she called the "incredible progress" Latin America has achieved in the last decade. "The challenge

now is to make sure that what's happening on the financial side, along with the hurricane disasters in Central America and the Caribbean, don't undo the excellent gains the countries have made.

"We must do everything possible to support the countries through this exceptional period," she said.

A self-described "former staff association activist," Dillon championed women's causes in her early years at the Fund. "We had a lot of issues of unequal benefits then, written right in the rules," she said.

Her activist inclinations remain intact. "At



Dillon: 'coming back home' to Latin America.

the IDB I intend to give a very high priority to fairness," she said. "People should work under the same rules and the same conditions. If a rule is bad, you should change it. But if it exists, it should apply to everyone."

A native of Minneapolis, Minnesota, Dillon has a degree in economics from Northwestern University and graduate degrees in economics from the London School of Economics and Yale University. ■

A day of records

It was one of the biggest days in the 40-year history of the IDB: on Dec. 16 the Bank's Board of Executive Directors approved the largest lending amount for one session, \$3.5 billion, as well as the largest single loan for a country, \$2.5 billion to Argentina. The Argentina loan will help the country to strengthen its banking sector, deepen macroeconomic reforms and make improvements in education, health and jobs. Other loans approved that day were for Colombia, Mexico, Guatemala and Panama.

Volunteerism against poverty

The IDB in December hosted an unprecedented meeting of 70 leaders of Jewish communities from 12 Latin American countries who explored ways religious organizations can mobilize to fight poverty. Among the issues discussed was the role of volunteerism in finding solutions to violence and insecurity, child malnutrition, poor school attendance, health problems, lack of social services, and inequities. The meeting followed similar discussions with representatives of the Vatican and the Latin American Catholic Bishops Conference.

Quality in the schools

In its annual report, UNICEF praised Latin America for achieving a primary school attendance rate of more than 90 percent. It further said that girls have been attending primary school at the same rate as boys for decades, and that women make up three-fourths of the primary teaching staff. However, a quarter of children who start primary school drop out before reaching the fifth year, according to the report. Also, in a region with great disparities between rich and poor, low-quality instruction is a serious problem for children who must attend public school.

Colombian peace plan

Colombia has unveiled an ambitious plan to fund development projects in areas of the country beset by conflicts between government and rebel forces. The plan is part of efforts to end civil conflicts that have claimed more than 35,000 lives in the last decade alone. According to President Andrés Pastrana, government programs will include aid for refugees and projects to help poor farmers switch from growing coca leaf to legal crops. Present at the plan's unveiling was IDB President Enrique V. Iglesias, who promised substantial Bank financing for the program.

Donors back Peru's fight against drugs

By **ROD CHAPMAN**, Brussels

THE INTERNATIONAL DONOR COMMUNITY pledged \$277 million to help Peru intensify its fight against drug production and trafficking at a November meeting in Brussels, Belgium. Of this amount, \$140 million will be for new programs presented to the meeting, and \$137 million will be used to support and consolidate existing programs.

The first meeting of the Consultative Group in Support of the Fight Against Drugs in Peru, organized by the IDB in conjunction with the Organization of American States, the European Commission and the U.N. International Drug Control Program, was held at the Brussels headquarters of the EC from Nov. 10 to 11, and attended by more than 100 delegates representing more than 40 countries and international institutions.

Donors' pledges will mainly take the form of donations and debt swaps. Their new support will enable the Peruvian government to target all coca-growing areas of the country, providing nationwide coverage for its Comprehensive Alternative Development and Prevention and Rehabilitation Programs. The IDB will finance the rehabilitation and improvement of trunk roads into these alternative development areas, as well as schools, health posts and other infrastructure projects.

Participants at the meeting examined different means for supporting a raft of new Pe-

ruvian anti-drug programs that will cost some \$244 million over the period 1999–2003. In addition, Peru is already planning to invest \$435 million over this five-year period in social support programs to reduce poverty among families whose livelihoods currently depend on coca. The goal is to promote alternative productive development in the coca-growing regions and enhance environmental conservation.

The Peruvian government has been implementing a comprehensive strategy to deal with illicit drug trafficking since 1990.



Peruvian farmers will have new incentives to cultivate legal crops.

During that time, the coca-producing area has been cut from 121,300 hectares to 69,000 hectares, many coca cultivation and trafficking groups have been broken up, and shipments have been reduced. As a result, coca growers' income has shrunk from \$500 million in 1990 to \$130 million last year—with a concomitant exacerbation of poverty. During this period, Peru also has seen an increase in the domestic use of drugs, and the government is seeking international support to boost its efforts to counter this trend.

The Brussels meeting looked at alternative development programs in six new regions of Peru—Monzón, Tocache-Uchiza, Pozuzo-Palcazu, Satipo-Ene, Palmapampa and Tambopata-Inambari—whose total population of 280,000 is cultivating 20,600 hectares of coca and where 37,600 hectares of abandoned coca could be put back into production. The new programs will strengthen community organizations, build basic economic and social infrastructure such as health stations, classrooms, water services, rural roads, and power transmission; regularize property titles; support farm loans; protect the environment and promote sustainable forest production.

The Peruvian drug control agency Contradrogas will coordinate the alternative development program, which will be executed with the help of public, private and community development agencies in Peru.

Donors at the Brussels meeting praised the high priority given to the fight against drugs by the government of President Alberto Fujimori. "The Peruvian government has shown us that it is committed to continuing the program to suppress illegal drug trafficking, in order to achieve long-term benefits for Peru and for the international community," said one donor country representative, "despite the social cost that this entails in the short term."



PEACE IN HAND: (l. to r.) Former U.S. special envoy to Latin America Thomas McLarty, Argentine President Carlos Menem, Ecuadorian President Jamil Mahuad, Brazilian President Fernando Henrique Cardoso, Peruvian President Alberto Fujimori and

Chilean President Eduardo Frei in Brasilia, Brazil, last October, moments after the signing of an agreement to end the Peru-Ecuador border dispute. The IDB has pledged \$500 million to help finance development projects in the border region in coming years.



WILLIE HEINZ/IDB

Projects in education and other social areas accounted for much of last year's lending.

IDB lends record \$10 billion in 1998

Despite emergency assistance, poverty reduction remains Bank's lending focus

By DANIEL DROSDOFF

THE IDB APPROVED \$10 BILLION IN LOANS in 1998, a record that included operations to help protect Latin America from worldwide financial volatility and aid for relief and rebuilding in countries hit by natural disasters.

Disbursements to the region also reached a record of \$6.6 billion.

Quick response by the IDB and other multilateral banks this past year was instrumental in easing the effects of the Asian and Russian financial crises on Latin America, Bank President Enrique V. Iglesias told the IDB's Board of Executive Directors in his year-end report. He said the region was generally succeeding in managing the effects of those crises.

He also pointed to the substantial IDB assistance for countries suffering from the effects of the El Niño weather phenomenon and hurricanes Georges and Mitch. But despite the unusually large amount of emergency lending last year, for both financial crises and natural disasters, the IDB kept its lending focus on poverty reduction, Iglesias said.

Thirty-three percent of the year's lending and 53 percent of the number of operations went for social programs, substantially exceeding the Bank's goal. In addition, lending for microenterprises totaled \$215 million.

Other major IDB lending areas in 1998 included programs for state reform and improved public management, national and international peace processes, small and medium-sized business, regional integration, and gender and ethnic equity.

For the fifth year in a row the IDB remained the chief source of multilateral credit for Latin America and the Caribbean. Its financing for the smaller and least developed countries in 1998 totaled \$2 billion, double the amount approved by any other single multilateral institution for these nations.

Programs for peace. Among the new operations the Bank approved in 1998 were a \$57 million loan to Colombia to promote national peace and citizens' security and a \$57 million loan to Uruguay for citizens' security and the prevention of violence and crime.

Operations for information technology included an \$85 million loan to Barbados to modernize the education system and to give

primary and secondary students the computer skills needed to compete in an information- and technology-based world economy.

The IDB chaired two new international consultative groups of donor nations in 1998: the Consultative Group for the Reconstruction and Transformation of Central America and the Consultative Group in Support of the Fight Against Drugs in Peru.

In a trendsetting operation, in which local groups played a large part in the planning phase, the Bank approved a \$70.4 million loan to Panama to support a program for the sustainable development of the environmentally fragile Darién region.

The Bank increased its private sector loan and guarantee approvals to a record \$566.2 million in 1998, compared with \$320.3 million in 1997. It also approved a record total of \$783 million in syndicated loans.

Private sector operations included loans for the world's first privatized postal system in Argentina and a fund designed to provide long-term subordinated debt financing for infrastructure projects.

The IDB-administered Multilateral Investment Fund increased its grants and investments by 130 percent in 1998, for a total of \$142 million to support private sector development in Latin America and the Caribbean. Projects approved included eight investment funds that support small businesses and environmental protection, as well as a \$12.9 million program to assist the recovery of Central American microenterprises that suffered heavy losses due to Hurricane Mitch.

IDB governors to meet in Paris

THE IDB'S BOARD OF GOVERNORS WILL HOLD its annual meeting this year in Paris, France, March 15-17.

The meeting will draw an estimated 3,500 participants, including representatives of the Bank's 46 member countries, banks, private businesses, international agencies, nongovernmental organizations and the media.

Along with the meeting, seminars will be held on culture and development, the problem of inequality, small and medium-sized business, income distribution, poverty, the impact of the euro, and other subjects.

Also meeting in Paris will be the Board of Governors of the Inter-American Investment Corporation, the private sector member of the IDB Group.

 For more information, see the Bank's home page at www.iadb.org.



Sister San Luis, a teacher at Colegio Belén in Caracas, Venezuela, sends a question by e-mail during a break in a televised lecture.

1,800 teachers, one classroom

Satellite-based teacher training lets
hundreds learn from their home schools

By PAUL CONSTANCE

LAST OCTOBER, VENEZUELAN PRIMARY school teacher Alfonso Morales began a nine-month professional development course offered by education experts in Monterrey, Mexico.

But Morales, who lives in the Venezuelan state of Miranda, never boarded a plane. Instead, he and 1,800 other teachers from 115 primary schools in seven Latin American countries used a combination of personal computers, televisions, satellite dishes and the Internet to embark on an unprecedented experiment in distance learning.

For six days each month, Morales and 14 other teachers in the Unidad Educativa Municipal Andrés Bello, a public primary school with 700 students, gather around a television in the school's computer lab for a live broadcast of a lecture at the Monterrey

Institute of Technology and Advanced Studies. While they listen to the professor, Morales and his colleagues also type questions on personal computers and e-mail them to the institute. During pauses in the broadcasts, the professor reviews the questions and then answers them live.

Following the broadcasts, teachers take two weeks to complete demanding group study projects assigned by professors in Monterrey. The results of their work are posted on a website to be read and critiqued by professors and teachers in other countries—all via e-mail.

"This has been a revolution for us," says Morales. "In the past, the only option we had for continuing our professional education was enrolling in a pedagogical institute, which required more time and money than most of us could spare. Besides, the courses at the institutes are all very theoretic-

cal. Now we're taking these classes right where we work, and the focus is on practical solutions to real teaching problems. It's so immediate—as soon as we learn a new technique, we turn around and try it out in the classroom."

The idea for the program, known as Continuing Education for Teachers (or AME, its initials in Spanish), was born in July 1997 at an IDB-sponsored conference in Cartagena, Colombia, entitled "Education in the Information Age." Much of the seminar was devoted to assessing what kinds of technologies are most promising for the region's schools. According to Claudio de Moura Castro, the senior IDB education advisor who helped organize the event, one conclusion was that several Latin countries—Mexico and Brazil in particular—have developed outstanding track records in television-based distance education. (See "Wired Schools" in the June 1998 edition of IDBAmérica.) "We concluded that distance learning in the region is world-class, mature and very inexpensive on a large scale, and that new projects should capitalize on that legacy," recalls Castro.

Also at the seminar were representatives from private companies including the Cisneros Group, Venezuela's leading media conglomerate; Galaxy Latin America, a satellite television concern; and Microsoft Corp. Enthused by the potential applications of television, computers and the Internet in the classroom, senior executives at the Cisneros

Group solicited support from a number of public and private entities to develop a pilot project. Galaxy Latin America, which transmits educational and entertainment programming to most of the region via digital broadcasts that are picked up on small, roof-top satellite dishes, agreed to provide free transmission time and reception equipment for schools. Microsoft offered word-processing and Internet software. And the Monterrey Institute agreed to lend its well-known education faculty and extensive experience in distance learning.

In each of the seven countries, AME organizers invited promising schools, both public and private, to take part in the pilot project and made arrangements to obtain computers, televisions and Internet connections for those who lacked them. "The entire project is based on donated resources," says Harris Edelman, a Cisneros Group official who helped coordinate AME.

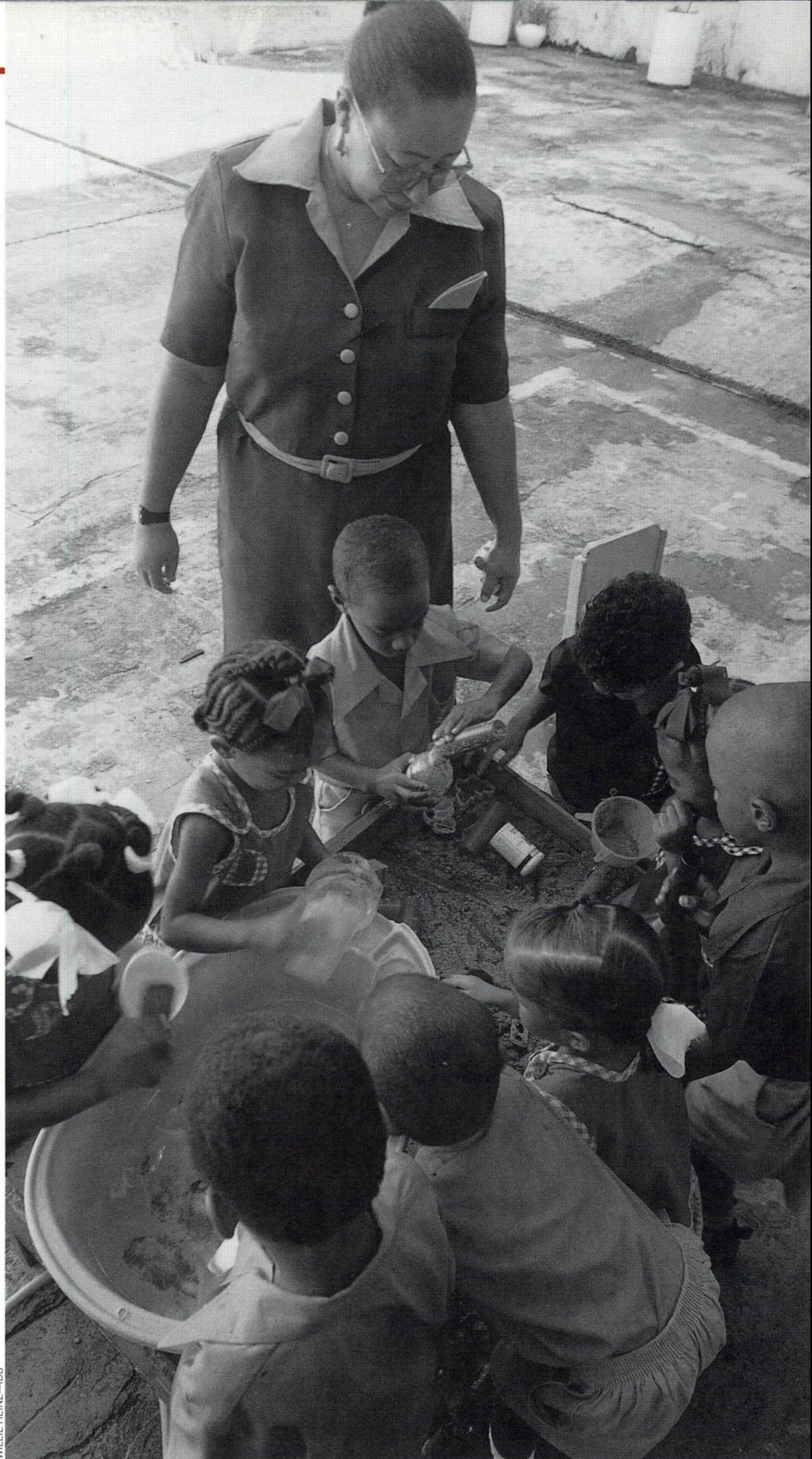
For the pilot project, the Cisneros Group wanted subject matter that would cross international boundaries easily and show short-term payoffs. Teacher training, with an emphasis on practical solutions to everyday classroom challenges in a typical Latin American school, emerged as an ideal subject, according to Edelman.

Creative thinking. Until May 1999, the pilot project will put participating teachers through a demanding series of courses on everything from classroom quality models to critical and creative thinking. Then a team of education specialists from UNESCO will use financing from the IDB's Informatics 2000 Initiative to conduct a thorough evaluation of the project and provide recommendations to school officials and policymakers for future applications of these technologies.

"Distance teacher training is one of the most important ways we can use information technology to improve the quality, equitable distribution and cost of educational services," says Warren Buhler, coordinator of the Informatics 2000 Initiative and organizer of the Cartagena conference.

Morales, however, is not waiting for an outside evaluator to draw his conclusions. "This has had a tremendous motivating effect on both students and teachers," he says. "As teachers, we've been given a chance to upgrade our skills and exchange ideas with colleagues in other countries. Students and parents are also pleased because they find themselves in a public school that is at the cutting edge of technology, at least as good as private schools. Our students come from poor homes, and this is a modest school. But this program lets us get world-class training."

 For more information, go to <http://www.cisneros.com> or click on the Informatics 2000 button at www.iadb.org.



WORLD'S OLDEST TOYS. Preschool children at a nursery school in Port of Spain, Trinidad and Tobago, play with water and sand. Teachers at the school received training through a program financed by a \$28 million IDB loan, approved in 1995 that is helping to improve early childhood care and education for the poor.

From wasteland to profit center

Costa Rican palm oil cooperative revitalizes abandoned banana plantation

By PAUL CONSTANCE

IN THE EARLY 1980S MANY OF THE 10,000 RESIDENTS of Coto Sur, a lush chunk of Costa Rica next to the Panamanian border, felt like they had been dealt a bad hand by history.

A few years earlier, a combination of wage disputes, plant disease and sinking banana prices had led the area's biggest employer, a foreign fruit concern, to sell its 28,000 hectares to the government.

Costa Rica's Institute for Agrarian Development (IDA) had distributed much of the land in parcels to the former banana workers and landless peasants, who then built precarious dwellings and turned to subsistence agriculture. But things were not going well. Roads and drainage systems crucial to cultivating the rain-soaked land were falling into disrepair for lack of capital. Much of the land had been damaged by industrial fertilizers used on the former banana plantations, and the corn, beans and rice planted by the new owners were doing poorly.

That's when the IDA, working with a fledgling local farmers' cooperative and officials from the IDB, devised a plan for large-scale commercial production of cocoa and African

palm oil for national and export markets. Some 13,000 hectares, divided among local farmers in lots averaging 19 hectares, were selected for extensive rehabilitation work on drainage systems, bridges and roads. Of these, 3,900 hectares were deemed ideal for growing African palms and 500 hectares for cocoa, two crops that were known to thrive in the region.

The plan also called for installing a palm-oil extraction plant capable of processing the anticipated maximum yield of the plantations and for providing technical advisers to draw up production and marketing plans. All the facilities and related equipment were to be owned by local farmers via the cooperative, which was subsequently named Coopeagropal R. L. Farmers would also be given official title to their land so that they could eventually use it as collateral for loans. The IDB agreed to finance \$33 million of the \$51 million project with a credit channeled through the National Bank of Costa Rica and the IDA.

Today, Coopeagropal generates domestic and international sales of \$20 million per year and is one of Costa Rica's five most profitable businesses, according to a recent report by the EFE news agency. The cooperative has grown from 60 landholding members to 435, and the total area planted in palm has expanded to 5,740 hectares. Co-op members are planning to plant an additional 4,000 hectares in coming years with seedlings from their own nursery. Although it started out simply supplying raw palm oil to outside companies, Coopeagropal now refines and processes oil into 15 different products, including edible and industrial oils, margarine and palm-nut flour.

While succeeding as a business, Coopeagropal has transformed the lives of Coto Sur's residents. Clean drinking water, practically unavailable in the early 1980s, now runs through taps in 75 percent of the region's homes. Access to residential electricity and telephone service now averages 93

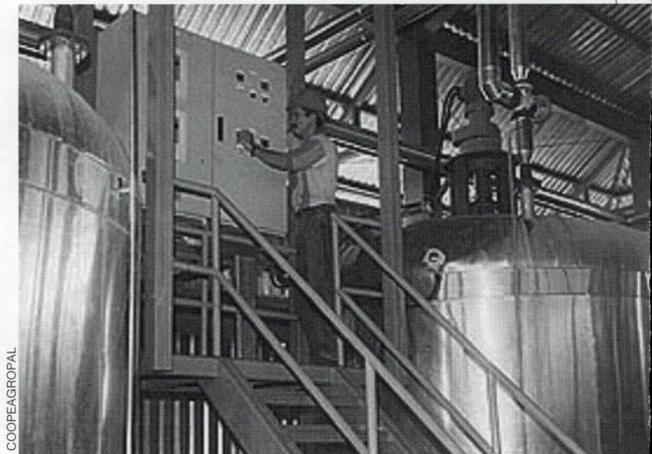


DAVID MANGURIAN—IDB



Coto Sur co-op member Miriam Barbosa confers with an agriculture official

DAVID MANGURIAN—IDB



COOPEAGROPAL

percent, up from 30 percent and 3 percent, respectively. The area is currently served by five health clinics instead of one, and usable roads have increased to 250 kilometers from the original 20.

The co-op supplies its members with technical assistance and training, agricultural inputs, credit and infrastructure maintenance services. It also finances medical care, housing and schools for member families.

Not surprisingly, Coopeagropal's share-



PRODUCTIVE CYCLE: Palm oil plants are prepared for planting by a cooperative member in Coto Sur (above) as clusters of ripe palm nuts are harvested (below right). The nuts are rendered into oil and other products at the co-op's refinery (left).

holders are determined to make their venture succeed. "In less than 15 years, local farmers went from fighting against corporations to becoming entrepreneurs themselves," Israel Avila, a former congressman who serves as president of Coopeagropal's administrative board, told EFE in October. Edwin Oviedo, a former labor leader who now owns 22 hectares planted in palms, said, "We started without even basic education, but today we have property, credit, know-how, better living conditions and responsibility."

News of Coopeagropal's success has generated interest outside Costa Rica. According to EFE, Colombian Agriculture Minister Carlos Murgas recently met with officials from IDA and the cooperative to learn about how its business model might be applied in parts of Colombia that are attempting to rebuild after guerrilla conflicts.

 For more information, visit Coopeagropal's home page on the Internet, www.coopeagropal.com.



DAVID MANGURIAN—IDB

Home buyers fuel high finance

By DANIEL DROSDOFF

THESE DAYS, THE LATIN AMERICAN HOME buyer who makes a down payment on the house of his dreams may be doing a lot more than buying shelter. He also could be helping to create vast financial empires that compete to buy his mortgage, or even turn his mortgage into securities to trade as stock.

The average home buyer is probably not aware of it, but he might be a participant in a sophisticated financial process called secondary mortgage market development and securitization. New for Latin America, this innovative way of incorporating mortgages into the financial system is both creating investment opportunities and reducing housing costs.

How this is happening and what can be done to extend the use of these financial instruments was the subject of a conference titled "The Development of Mortgage Securitization in Latin America and the Caribbean," held in November 1998 at the IDB's Washington, D.C., headquarters. According to participants, the growth of secondary mortgage markets already has brought down housing costs and extended home ownership in the United States. Now the concept is gaining ground in Latin America and the Caribbean, Europe, and Asia.

In his opening address, IDB President Enrique V. Iglesias said the new mortgage-based financial instruments can supply the three elements the Latin American housing market currently lacks: private sector participation in mortgage financing, more efficient housing finance systems and a competitive building industry.

Iglesias described these opportunities as added benefits for countries that have already carried out extensive reforms and achieved macroeconomic stability, which are prerequisites for entering into this new financial field.

The IDB's traditional work in the housing sector has focused on the primary market, that is, providing decent shelter for those who lack it. Now the Bank is helping countries to develop the underpinnings that secondary mortgage markets require, such as the ability to perform consumer credit analyses; develop data bases with mortgage credit histories; and strengthen legal, regulatory

and institutional frameworks.

Conference participants also heard from Martin Levine, managing director of international housing finance services for Fannie Mae, the now privately owned mortgage financing company that was founded by the U.S. Congress in 1938. According to Levine, Latin America and the Caribbean might be able to "compress history" and develop in a few years what it took decades to achieve in the U.S.—a highly liquid secondary mortgage market that allows a greater number of low-income families to own affordable homes.

In the 1980s, the United States learned a painful lesson in mortgage finance with the failure of many savings and loans institutions that had borrowed short-term but loaned long-term, according to Robert Van Order, chief economist of Freddie Mac, the sister institution to Fannie Mae. It is precisely this kind of credit exposure that mortgage securitization and secondary market development seeks to correct, he said.

To meet new challenges, U.S. mortgage-based financial institutions now limit their risk through "unbundling," a process whereby different firms carry out different functions in the mortgage delivery process, such as originating the mortgage, servicing, accepting risk of default, and funding, Van Order explained.

Vicente Lozano, president of the Inter-American Housing Union, outlined some of the problems that need to be overcome before a secondary market and mortgage securitization can be achieved in most Latin American and Caribbean countries: lack of standardized documentation, lack of historical records on loan performance, unstable macroeconomic conditions and lack of a critical mass of mortgages, especially in the smaller countries.

Kenroy Dowers, IDB financial specialist, told conference participants that Latin American and Caribbean countries should develop mortgage-based financial systems to fit their own needs. He noted that recent reforms in the region, in such areas as pensions, insurance and capital markets, are resulting in more interest in long-term mortgage-based financial instruments.

"There is an appetite," he said. "There is supply and demand in the area of housing and mortgage markets."

Countries that already have taken steps toward developing secondary mortgage mar-



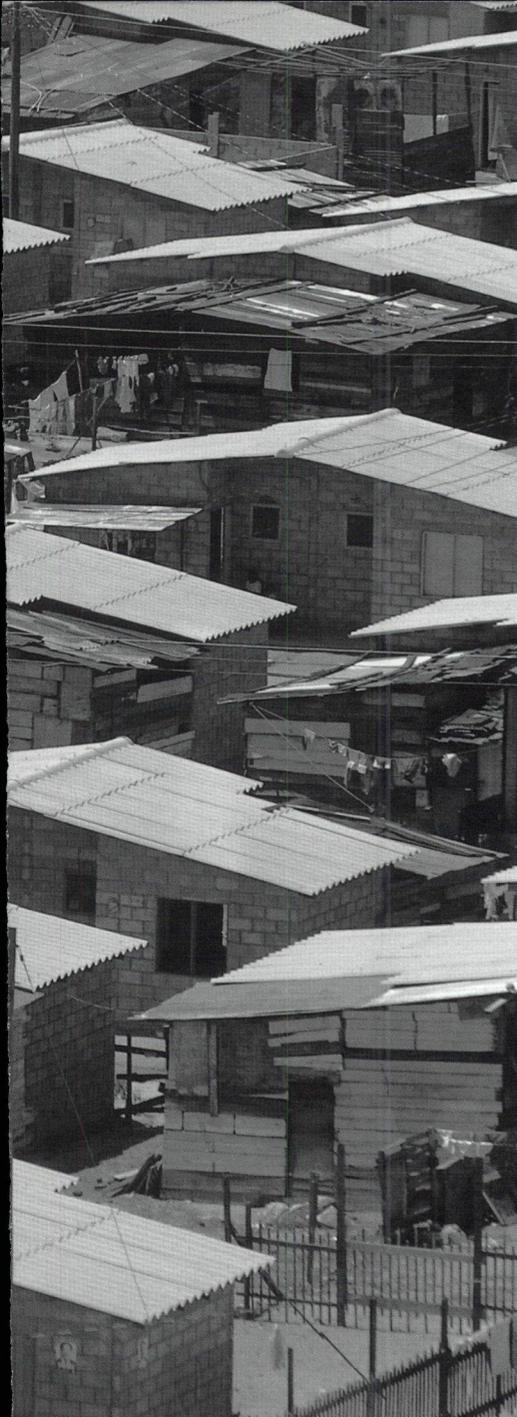
A house is more than a home after a country

kets and securitization are Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico and Trinidad and Tobago.

Tobias Mackie, head of economic affairs for the European Mortgage Federation, said mortgage securitization in Europe so far has had only limited results. But he expects that to change with the introduction of the euro as the common currency for 11 European countries. The single currency will bring about "a culture of low inflation, low interest, long-termism and stability," he said. Such developments will make "large-scale development of mortgage-backed securities more likely."



For more information, go to housing-finance.org/index.html, and www.mbia.com.



ops a system of mortgage securitization.

New plumbing for securities markets

BUILDING A SAFE AND SOUND SECURITIES SYSTEM for capital markets is like putting plumbing in a house.

"If a house doesn't have plumbing, who will buy?" asks Antonio Vives, deputy manager of the IDB's Sustainable Development Department. Similarly, if a stock market doesn't have the mechanisms to guarantee that brokers will get their money and buyers will get their stock in a timely and efficient way, who is going to invest?

Vives was the opening speaker at an October 1998 conference at the IDB's Washing-

ton, D.C., headquarters on building safe and sound clearance and settlement systems for Latin America's expanding capital markets. The subject is particularly relevant for emerging economies that complete for investment resources that can rapidly evaporate during a financial crisis. Secure capital markets are fundamental for attracting resources needed to fuel economic growth, according to experts from the public and private sectors attending the conference.

William F. Jaenike, chairman and CEO of the Depository Trust Company (DTC)—a co-sponsor of the conference— noted that a goal for the securities industry in the United States is to reduce the time of clearance and settlement from the present three days to one day by 2003. Completing the transaction in less time, he explained, increases certainty and reduces the risk. "Certainty is the enemy of risk," said Jaenike.

Clearance, settlement and confidence

Dennis Earle, managing director of the DTC's Resource Company, said that Latin America and other developing nations must set different and more stringent standards than those used by the Group of 30, the international group of experts that recommends rules for clearance and settlement. "The rules of the Group of 30 were really written for the major stock markets of the industrial countries," he said. "A market like New York is very liquid, and it can absorb shocks that a smaller market can't handle."

In a low-income developing country the basic regulatory structure must be in place to make the capital markets safe and sound, he cautioned, and the Group of 30 standards do not provide sufficient assurance that basic regulatory infrastructure will be in place. If investors suffer a loss because of a systems irregularity in a small emerging market, they will not return to that market, said Earle. "The regulatory framework must be in place to prevent this from happening," he said.

Jesse Wright, an IDB capital markets specialist, told participants that demand was strong in Latin America and the Caribbean to build tighter, more efficient regulatory systems and to achieve greater regional standardization and harmonization for capital markets and clearance and settlement.

The IDB and the Multilateral Investment Fund, a member of the IDB Group, have worked on improving and modernizing clearance and settlement systems in 21 stock exchanges in 16 countries in Latin America and the Caribbean. The national and regional programs aim to strengthen market infrastructure by standardizing public debt, creating securities registries, developing trading systems and central securities depositories, and strengthening supervision.

—D. D.

THE BANK'S WEBSITE (WWW.IADB.ORG) IS loaded with more than 20,000 pages of reports, statistics, and studies not available anywhere else. Here is a selection of items of interest.

➤ **Does child care pay?** Ruthanne Deutsch, an IDB economist, answers this question from the perspective of working women in the favelas of Rio de Janeiro. To read her paper, choose OCE under the "Departments" bar and then go to Publications.

➤ **Will the IDB's computers crash on Jan. 1, 2000?** We hope not, but worried observers can find reassurance by reading the Bank's official statement on preparations for the new millennium, available near the bottom of the website's English home page.

➤ **The IDB's Poverty and Inequality Advisory Unit's** home page (www.iadb.org/sds/pov.htm) describes research in this area, including the Bank's Household Surveys Initiative, and provides links to working papers. "The Use of Social Investment Funds as an Instrument for **Combating Poverty**," is among the recent additions.

➤ **Want to know how the recent financial crises affected commerce in Latin America and the Caribbean?** The **Periodic Note on Integration in the Americas**, an annual study published by the Bank's Integration, Trade and Hemispheric Issues Division, tracks total and intraregional exports by regional trade grouping. The latest version, which includes **estimates of trade during 1998**, is available through the INT bar under "Departments."

➤ **Institutional watchdogs who want to keep tabs on the IDB** can save time by looking under the ONG resources button on the Bank's home page. These pages describe the Bank's **information disclosure** and environmental impact assessment policies, and provide links to abstracts of reports published by the Bank's Evaluation Office.

➤ **Need to know the latest from Tegucigalpa, Brasilia or Asunción?** Click on "**Links of the Americas**," near the bottom of the IDB home page, and choose from several hundred newspaper sites.





DAVID MANGURIAN—IDB

Exporters in landlocked Bolivia who depend on ground transport must go through neighboring countries to reach overseas markets.

Geography and economic destiny

REAL ESTATE AGENTS ARE FOND OF SAYING that the three most important things to look for in buying a house are location, location and location.

Geography matters a great deal, and not just in real estate. A growing number of economists and historians are using the tools of this venerable academic discipline to plumb the mysteries of why some nations achieve great economic success, giving their citizens high standards of living, and why others do not. They contend that conventional analyses based exclusively on socio-economic factors only reveal part of the story.

Among the proponents of giving geography its due are John Luke Gallup and Jeffrey D. Sachs of Harvard's Institute for International Development. A paper they prepared on the subject "Geography and Economic Development," was presented by Gallup at a recent seminar at the IDB's Washington, D.C., headquarters.

In their analysis, Gallup and Sachs identify a number of geographic factors that constrain a country's efforts to achieve economic success. They include:

- ▶ A tropical location, with its greater burden of disease and reduced agricultural productivity;
- ▶ Lack of access to the coast or to navigable

waterways, increasing costs of transporting products to market and standing in the way of the migration of labor to areas of greater economic opportunity;

- ▶ High population density, a negative factor in interior areas although not necessarily so in coastal regions.

In the light of these factors, it is no surprise that the coastal, temperate Northern Hemisphere countries—Western Europe, Northeast Asia, the eastern and western seabords of the U.S. and Canada—are home to the world's largest financial and productive centers.

Although geography has a strong influence on a society's economic fate, Gallup and Sachs stress that other factors, such as economic policy and quality of institutions, must also be taken into account. They cite the example of North Korea, a geographically favored country whose economy has suffered under misguided policies.

An understanding of geographical realities could persuade policymakers to rethink some development assistance priorities, say the authors. For example, they could give higher priority to solving the transport needs of landlocked countries, a move that would often require the cooperation of neighboring countries. They also could pay more attention to the likelihood and desirability of future large-scale migrations from geographically unfavored regions.

Population must be another major part of the policy equation. Gallup and Sachs note that future population increases are likely to be largest precisely in countries that are most geographically and economically disadvantaged, and where such increases may further depress per capita income.

Finally, the study suggests that economic policies, as well as foreign aid, should take into account a country's geographical strengths and weaknesses. More resources should be directed to removing constraints to agricultural production and improving health. At present, research on tropical agriculture is seriously underfunded, according to the study, and tropical health problems are receiving even less attention.

—Roger Hamilton

For more information, go to www.hiid.harvard.edu/research/newnote.html#geogrowth.



The port of Buenos Aires gives Argentina a crucial trade advantage.

WILLIE HEINZ—IDB

Digital trade barriers

The region's high international phone rates could hold back commerce and Internet growth

By PAUL CONSTANCE

IMAGINE A SMALL MANUFACTURER OF HAND-PAINTED ceramic plates in the United States who has just clinched an important sale to a housewares retailer in England. The deal required five telephone calls to London, each four minutes long, that cost the manufacturer a total of \$5.40.

In Mexico City, another ceramics maker may also be trying to break into the London retail market. But for the same long-distance calls, the Mexican competitor will pay \$25.20. From Peru, the calls will cost \$31.20; from Bolivia, \$43.60; and from Venezuela, the total will come to \$53.60—nearly 10 times the U.S. rate.

Faced with such costs, many small Latin American businesses probably make fewer calls to prospective clients overseas, risking the loss of business to competitors in countries with cheaper telephone rates. These figures, compiled in a recent study by Philip Peters, a senior fellow at the Alexis de Tocqueville Institution (ADTI) in Arlington, Virginia, shed light on an aspect of competitiveness that is often

eclipsed by discussions of wages, education and tariff regimes. High telephone rates have always raised business operating expenses and inhibited relationships with foreign clients. Now they are also limiting people's ability to access the Internet, a medium that has become an essential source of professional and trade-related information.

Nearly all the region's governments have taken steps to improve telephone service and lower rates. Many have done so by privatizing, or planning to privatize, state-owned telephone companies and setting time lines for introducing competition into the sector. Two years ago, 20 of the region's countries signed the 1997 World Trade Organization agreement on basic telecommunication services, which commits signatories to open their telecommunications markets.

From a consumer's point of view, these steps have had mixed results. On the one hand, the ADTI study shows that rates for local domestic calls, measured in dollar terms, are on average 34 percent cheaper in Latin America and the Caribbean than rates in the United States. That difference is relative, of course, because per capita income in the developing countries in ADTI's sample is a small fraction of the U.S. level. According to Peters, the lower domestic rates are partially explained by the widespread practice of subsidizing local service with revenues from more-lucrative long-distance service (both

domestic and international). In Chile, Mexico and Argentina, countries that have undergone "rate rebalancing," or the process of eliminating such cross-subsidies, local calls are either as expensive or much more expensive than in the U.S.

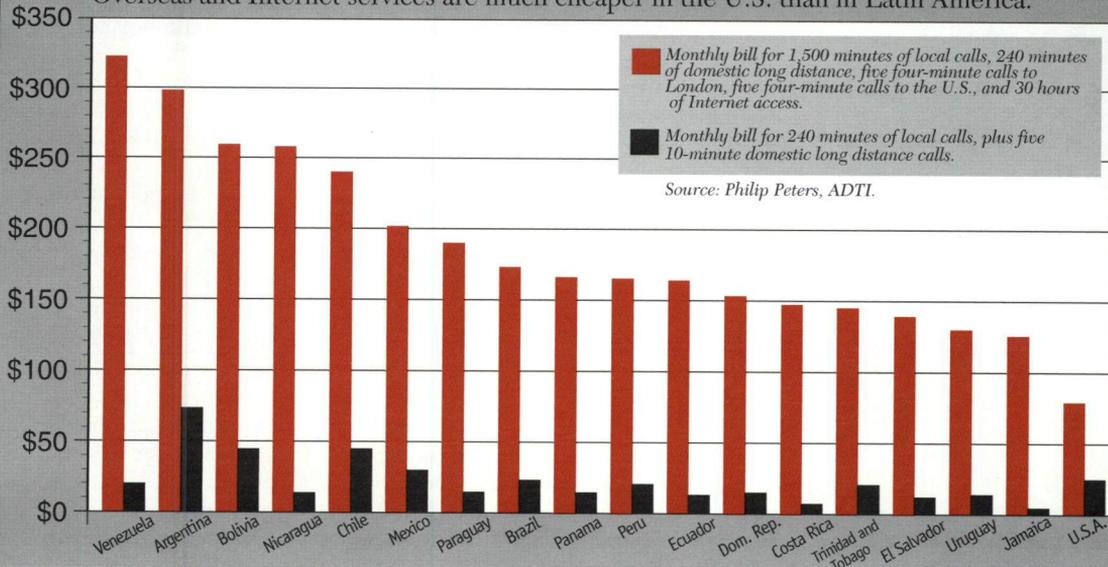
But for people who make heavy use of the telephone, who place calls overseas and access the Internet from home, Latin America is not a good place to be. The graph below shows average charges for 1,500 minutes of local calls, 240 minutes of domestic long distance, five four-minute calls to London, and 30 hours of Internet access. In the U.S., consumers can have all that for an average cost of \$78.97—less than one-third of what customers in these 17 Latin and Caribbean countries must pay.

Internet access service, in particular, remains much more expensive in Latin America than in the U.S., where the average monthly fee for unlimited use is less than \$20. While subscribers in the U.S. pay a low flat rate for the domestic calls they use to connect to the Internet, in most Latin American countries local calls are charged by the minute, a cost users must bear in addition to Internet fees. According to a September report based on country surveys conducted by IDC Latin America, a U.S. market-research firm, "Basic telephone costs remain the single largest inhibitor to greater growth in Internet usage in Latin America."

To read the complete study, go to www.infoamericas.org.

Sorry, I can't talk for long...

Overseas and Internet services are much cheaper in the U.S. than in Latin America.



Bright threads of a cultural tradition

Guatemalan weavers change in order to endure

By ROGER HAMILTON

ON THE EDGE OF A SUNLIT PATIO, THREE generations of women kneel on mats, creating intricate patterns with colored thread. The two older women, on hand looms, one end *huipiles*, to straps around their waists and the other to roof-support poles. The granddaughter, dressed like any schoolgirl, is there to learn.

Traditional weaving remains alive and well in Santo Domingo Xenacoj and many other villages in the highlands of Guatemala. This is true despite television and the global economy, centuries of war and poverty, and even opposition from the "modernizing" elements of society, such as one Guatemalan historian who has called the textiles evidence of "an archaic and backward mentality."

Today we celebrate these women (backstrap weaving is done exclusively by women), not just for the beauty of their creations but also as transmitters of cultural values.

But traditional does not mean static, in the Guatemalan highlands or anywhere else.

Any genuine artistic expression is dynamic, and the world of Guatemalan textiles, how they are produced, and their role in society, is ever-changing.

This point was clearly brought home in a recent lecture at the IDB's Washington, D.C., headquarters by Ann Rowe, curator of Western Hemisphere textiles at the city's Textile Museum. Her talk on weaving and women's dress from Chimaltenango, Guatemala, was presented in conjunction with an exhibition of textiles and woodcarvings from that country on view at the Bank's Cultural Center Art Gallery.

Less spinning, more weaving. One major change has been in the area of materials. Although modern Guatemalan weavers use cotton, as did their pre-Columbian predecessors, the commercially produced thread that became available to them after World War II is now used almost exclusively. The women no longer must spend time laboriously spinning and dyeing thread with natural plant, animal and mineral substances. While non-Indian connoisseurs may mourn the loss of the warmth and subtle imperfections of the natural dyes, the weavers themselves do not. "The less spinning they have to do, the more time they can spend weaving," said Rowe. The result has been bigger, more elaborate designs, sometimes entirely covering the underlying fabric.

Like many traditional artisans, the Guatemalan women have few qualms about adopting new designs. Using a brocading technique, where the threads line up evenly in rows, the weavers can easily duplicate graph paper-drawn designs from European pattern books. Lest this seem a corruption of cultural traditions, it should be pointed out that some of the designs for the very expensive and highly celebrated rugs made by the Navajo tribe in the United States were copied from Middle Eastern carpets.

The women also have been influenced by European fashions in dress. In the old days, said Rowe, women preferred their *huipiles* cut straight down the sides, producing a stockier look that denoted prosperity and an abundance of food. Today, the preference is for narrower *huipiles* that may taper at the waist, and that are further drawn tight with a narrow belt, rather than the old-style wide sash.



ROGER HAMILTON—IDB

Custodians of cultural identity: The art of trad

The technology for producing textiles has also changed. The treadle loom, still operated by hand, but much faster than its backstrap counterpart, has long been used to make cloth for women's skirts on a commercial basis. Weaving on the treadle loom is an exclusively male occupation, a division of labor that Rowe said had a counterpart in medieval Europe, where women wove on a vertical hand loom at home until the treadle loom came on the scene, after which weaving became a male profession.

While fabric woven on a treadle loom can still be considered handmade, other manufacturing innovations hold less aesthetic promise. Designs are increasingly produced by machine embroidery, for example, and many mothers are buying *huipiles* for their daughters rather than making them at home, said Rowe. The reason is something any modern mother can relate to: they're cheap, and nowadays, with everyone always in a hurry, who has the time to weave? ■



ROGER HAMILTON—IDB

Working the treadle loom has traditionally been mostly a male occupation.



weaving is passed from mother to daughter.



For the Mayas, the patroness of weaving was Ixchel, the moon goddess. Her daughter was the patroness of embroidery.

Exotic festivals, just a click away

Tour the region's cultures via the Internet

FROM PARK AVENUE SOCIALITES TO ANDEAN villagers, all peoples hold festivals to express their cultural values and to mark important events. Their role is particularly important today, when globalization and modern communications threaten the identities of different cultures.

In February, anyone with a link to the World Wide Web will be able to visit festivals from around the Western Hemisphere and gain an understanding of other peoples' ways of life.

"Festivals of the Living and the Dead in the Americas" will be a virtual exhibition drawing on the rich traditions of celebrations in Mexico, Costa Rica, Brazil, Canada and the United States. Coordinated by the Canadian Heritage Information Network, the exhibits will showcase the contributions of local dance clubs and musical groups, festival organizers and educational institutions through pictures, text, sound and video—in short, the next best thing to being there.

The idea for the virtual exhibit was proposed at the Summit of the Museums of the Americas, a gathering of 150 museum professionals from all countries in the Western Hemisphere held last April in San José, Costa Rica. The purpose of the meeting, which received IDB financing, was to take a new look at the role of museums in their communities. No longer should such institutions limit themselves to education, said participants. Today, they must become directly engaged with local community members to work in promoting their cultural heritage.

The festival's virtual exhibit, the first of a number of interregional initiatives to emerge from the meeting, will initially feature the following:

- ▶ The Samba School in Porto Alegre, Brazil, a foundation of the all-important Carnival tradition.
- ▶ The Quebec Winter Carnival, a colorful event that will be showcased by the Musée de la Civilisation in Canada.
- ▶ A youth festival in Costa Rica, presented through commentary and photographs.
- ▶ The Day of the Dead ceremonies in Mexico that help communities to remember previous generations.
- ▶ The Mardi Gras of Louisiana that weaves together African-American, Indian and Acadian traditions.
- ▶ Frontier Days of Wyoming, a unifying force for dispersed rural communities.
- ▶ Celtic festivals presented by the University College of Cape Breton, Nova Scotia.
- ▶ Cultural and agricultural festivals in Manitoba, Canada, presented by the Manitoba Museum of Man and Nature.
- ▶ The Calgary Stampede, by Canada's Glenbow Museum, which honors the region's ranching past and today's rodeo tradition.

The exhibition will be available in English, Spanish, Portuguese (for the Brazilian section) and French.

—R.H.

 Other virtual exhibits produced by the Canadian Heritage Information Network can be seen at www.chin.gc.ca/exhibits.



The excitement of Brazil's samba schools will be explored in a new virtual exhibit.

NEW APPROVALS

Argentina

A \$2.5 billion IDB emergency loan to strengthen the banking sector, deepen macroeconomic reforms, and improve the social safety net in such areas as education, health and employment.

A \$250 million IDB loan for an innovative program to support reform in the area of potable water and sanitation by promoting investment by commercial banks.

A \$250 million IDB loan to support the sustainable development of municipalities.

A \$207 million IDB guarantee for Trenes de Buenos Aires, S.A., to substantially improve both the quality and quantity of service for the city's passenger train system.

A \$75 million IDB loan from ordinary capital and a \$54 million syndicated loan to support the modernization and competitiveness of Correo Argentino, S.A., the world's first fully privatized national postal system.

Barbados

An \$85 million IDB loan to support the modernization of the education system and to prepare primary and secondary students for an information- and technology-based economy in the 21st century.

Bahamas

A \$660,000 MIF grant to enhance the availability of financial services to small businesses and microenterprises.

Bolivia

A \$50 million concessional loan from the Fund for Special Operations to assist the government in continuing its program of reforms, social investments, and poverty reduction.

A \$35 million concessional loan from the Fund for Special Operations to promote the comprehensive development of small business and microenterprise.

A \$15 million IDB loan to Aguas del Illimani S.A., a private com-

pany, for the expansion and rehabilitation of water and sewerage systems.

Brazil

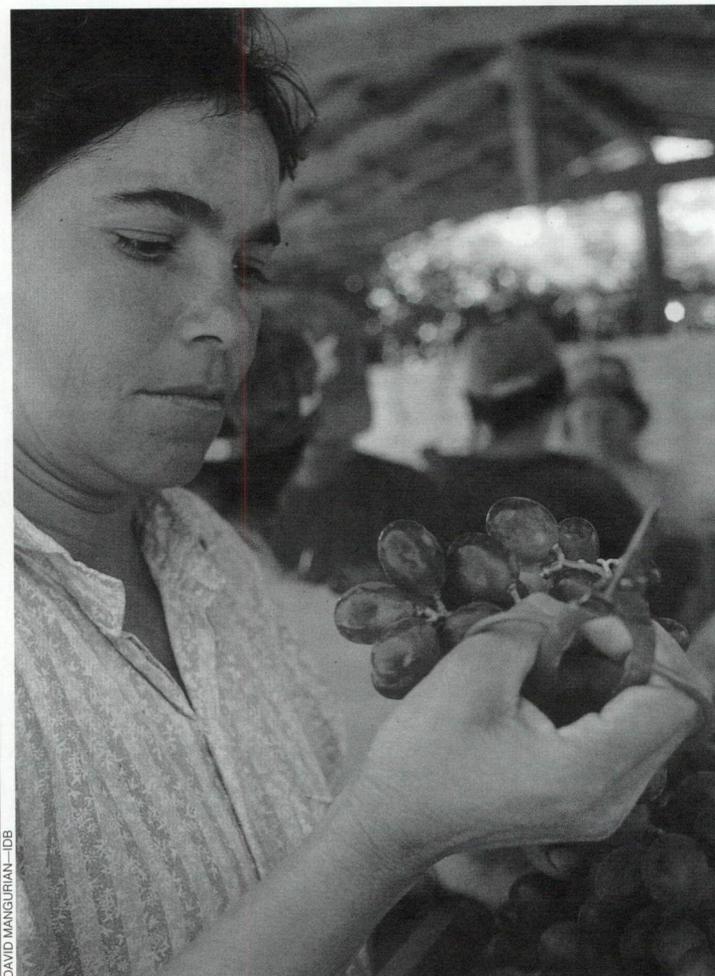
A \$75 million IDB loan from ordinary capital and a syndicated loan of \$55 million to support the construction, upgrading, operation and maintenance of approximately 156 kilometers of toll road linking the city of São Paulo

grama Comunidade Solidária.

An \$8 million IIC loan to Leasecorp El Camino Arrendamento Mercantil, S.A., to provide small and medium-sized companies with medium- and long-term financing through leasing for the acquisition of capital goods.

Colombia

A \$350 million IDB emergency



GOOD ENOUGH? A farm worker in Pernambuco, Brazil, inspects freshly picked table grapes bound for foreign markets.

with Sorocaba and Araçoiaba da Serra.

An \$8 million IIC loan to Banco Industrial do Brasil, S.A., for credit to medium-sized companies for purchasing fixed assets and equipment.

A \$5.15 million MIF grant to enhance the job skills of young men and women, primarily in the Northeast of Brazil, through the Capacitação Solidária program of the Associação de Apoio ao Pro-

loan to consolidate the modernization of the electric power sector.

A \$6.5 million IDB loan to promote better employment opportunities for women and to reduce barriers to their participation in the economy.

A \$1.8 million MIF grant to increase the productivity and competitiveness of microenterprises, a program to be carried out by the Corporación Acción por

Antioquia-Actuar Famiempresas de Medellín.

Costa Rica

A \$1.67 million MIF grant to support small enterprises that contribute to preserving biodiversity.

An Ecu 215,250 loan and Ecu 85,110 grant from the European Community Special Fund for Microenterprises to the Asociación de Propietarios de Talleres de Mantenimiento Industrial to support microenterprise and small enterprises in the metal working industry.

Dominican Republic

A \$105 million IDB loan and a \$750,000 technical cooperation grant for reconstruction and relief from the damage of Hurricane Georges.

Ecuador

A \$48 million IDB loan to assist the rehabilitation and the reopening of main coastal roads that were damaged by heavy flooding during the climatic disruption that resulted from the 1997-98 El Niño weather phenomenon.

A \$45 million IDB loan to support improvement in rural education by organizing school systems with greater autonomy and parental participation.

A \$13.5 million IDB loan to support the development and consolidation of regulatory agencies in the infrastructure sectors and to finance technical studies and specialized consulting services for structuring concession and privatization processes.

El Salvador

A \$1.3 million MIF grant to promote the cultivation and marketing of organic fruits and vegetables and other nontraditional products.

Guatemala

A \$90 million IDB loan to meet the most pressing social and economic needs of the poorest sectors of the rural population.

A \$40 million IDB loan for reconstruction and repair of public works from hurricane damage

and for preventive measures against future flooding.

A \$33 million IDB loan for a program to support the restructuring of food and agriculture production to increase the sector's competitiveness.

A \$20 million IIC loan package to Compañía de Jarabes y Bebidas Gaseosas La Mariposa, S.A.; Industrias del Atlántico, S.A.; and Embotelladora del Sur, S.A. to acquire new equipment and distribution centers as well as to improve the group's current financing structure.

Guyana

A \$20 million IDB concessional loan from the Fund for Special Operations to improve infrastructure and basic services for the urban population.

Honduras

A \$63 million IDB concessional loan from the Fund for Special Operations for hurricane damage reconstruction and municipal development in Tegucigalpa and San Pedro Sula.

A \$50 million IDB concessional loan from the Fund for Special Operations for hurricane relief, reconstruction and community development.

A \$45 million IDB concessional loan from the Fund for Special Operations to support a family allowances program designed to promote better nutrition, health and education among the poorest of the poor.

Mexico

A \$310 million IDB loan to improve rural water supply and sanitation services.

An \$8 million IIC loan to Manatí, S.A. de C.V., to help finance the construction of an all-inclusive resort hotel dedicated to nature and archeological tourism in the Quintana Roo region of south-eastern Mexico.

A \$1 million IDB reimbursable guarantee and \$500,000 MIF grant to Fundación Mexicana para el Desarrollo Rural to strengthen the institution's ca-

capacity to deliver high quality and sustainable financial services to rural entrepreneurs.

Nicaragua

A \$50 million IDB concessional loan from the Fund for Special Operations for hurricane relief, reconstruction, and community development.

Panama

A \$70.4 million IDB loan to support a pioneering program for the sustainable social and economic development of the Darién region and to help protect its natural resources and fragile ecosystems.

A \$4 million IIC loan to Grupo Financiera Delta Corporation to finance leasing operations for small and medium-sized companies in sectors including industry, commerce, agriculture and construction.

NEED DETAILS?

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

Paraguay

A \$5 million IDB loan to consolidate the public investment system and prepare preinvestment studies that will assist the establishment of budget priorities and channel resources in priority areas such as poverty reduction and modernization of the state.

A \$5 million IIC credit line to Multibanco S.A.E.C.A. for on-lending to small and medium-sized enterprises, mainly for ex-

port-related import substitution or small infrastructure projects.

A \$622,100 MIF grant to strengthen the country's anti-trust system.

Peru

A \$300 million IDB loan for the third stage of a highway rehabilitation and improvement program.

A \$200 million IDB loan to provide credit to the private sector to assist the country's plan to continue its program of economic growth and poverty reduction.

A \$46.6 million IDB loan to support the first stage of a two-stage, \$149 million program, known as Wawa Wasi, that will provide integrated day care to children under three years of age from low-income families.

A \$10 million IIC loan to Banco del Progreso to provide credit to small and medium-sized enterprises engaged in the industrial, manufacturing, fishing, mining, construction, chemical, energy, tourism or agribusiness sectors.

Suriname

A \$30 million IDB loan to support a reform program that will stimulate growth and reduce excessive governmental costs.

Uruguay

A \$155 million IDB loan to assist the development of financial markets to better meet the investment needs of private businesses.

A \$1.25 million MIF long-term subordinated loan and a \$250,000 grant to support microenterprises and small businesses.

A \$340,000 MIF grant to assist the Asociación Nacional de Micro y Pequeños Empresarios in improving the competitiveness of microenterprises.

Venezuela

A \$400 million fast-disbursing IDB loan to support government efforts to promote sustainable macroeconomic stability and increase productivity and economic growth.

A \$100 million IDB loan to improve the quality and increase the coverage of water and sanitation services.

A \$10 million IIC loan to Degas-Tropiven, C.A., to increase the company's production capacity in order to expand its distribution of liquified petroleum gas.

A \$2.2 million IDB loan to improve the ability of the Public Finance and Statistics Office to provide complete, timely and reliable statistics.

Regional

A \$75 million IDB loan to the Darby LAMF, a private sector emerging markets fund designed to address shortfalls in the availability of long-term subordinated debt financing for infrastructure projects in Latin America and the Caribbean.

A \$20 million IIC loan and an \$80 million syndicated loan funded by international financial institutions to finance investee companies of Caribbean Basin Power Fund, Ltd., which will focus on investing in small power projects located in Central America and the Caribbean.

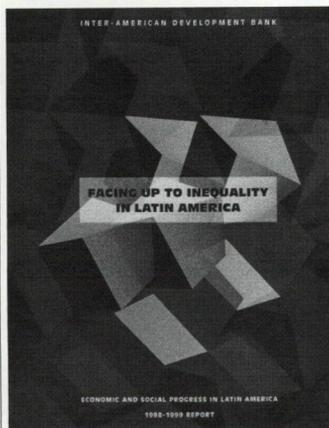
A \$10 million MIF loan and \$2.9 million in grants to support the recovery of microenterprises in areas damaged by Hurricane Mitch.

A \$10 million MIF investment in a regional trust fund that will invest in small enterprises in Argentina and Chile.

A \$3 million MIF subordinated loan, \$600,000 equity investment, and \$115,000 technical cooperation grant to the Latin American Challenge Fund to support institutions that lend to microenterprise.

A \$2,364,000 MIF grant to promote the active participation of workers and their families, as well as employers, in the social insurance and pension reform processes. The project will be carried out by the Fundación Interamericana para el Desarrollo y Formación de Fondos de Pensiones Laborales.

Facing Up to Inequality in Latin America



"May turn out to be one of the most influential reports on Latin America in many years."

**Moisés Naím, Editor,
Foreign Policy Magazine**

"In-depth analysis reveals the most serious problem awaiting the region in the 21st century and shows what must be done to correct it."

**César Gaviria,
Secretary General of the
Organization of American States**

"Comprehensive documentation... delves deeply into causes and possible solutions."

**Rudi Dornbusch,
Massachusetts Institute
of Technology**

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

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

New funds for microenterprise

THE IDB LAUNCHED A NEW SOCIAL Entrepreneurship program designed to support small productive, social and community development projects for the poorest sectors in Latin American and Caribbean countries.

The program was announced at a December 1998 conference entitled "Twenty Years of Small Projects: Strengthening Social Entrepreneurship in Latin America and the Caribbean." The meeting, held at IDB headquarters in Washington, D.C., was devoted to exploring the lessons learned in nearly 500 microenterprise projects financed by the IDB with some \$209 million over the last 20 years.

The new program differs from existing Bank microenterprise finance vehicles in that it is specifically focused on the poorest sectors of society. Projects funded under this effort will emphasize simpler financial instruments and wider and more flexible conditions for borrowers.

During the conference, the IDB's Multilateral Investment Fund and the U.S. Agency for International Development (USAID) also signed an agreement to promote the strengthening of financial institutions that support microenterprises in Latin America, in order to help them become self-sustainable.

CAPITAL MARKETS

The IDB on Nov. 10, 1998, launched a \$1 billion global bond issue. The bonds pay a semiannual coupon of 5.375 percent and mature on Nov. 18, 2008. JP Morgan Securities and Morgan Stanley Dean Witter were the joint lead managers of the issue. Proceeds of the issue will be used to finance the social and economic development of the IDB's Latin American and Caribbean member countries.

APPOINTMENTS

Oswaldo Zavala has been named the IDB's alternate executive director for Chile and Ecuador. He was executive president of



WHAT ARE YOU STARING AT? An alpaca endures the indignity of annual shearing at a workshop for farmers hosted by Chile's National Institute for Agricultural Research (INDAP) in Hidalgo, some 130 km southwest of Santiago. With partial assistance from a 1992 IDB loan, INDAP is helping to reintroduce alpacas as a commercial species in arid areas not suitable for raising other livestock. Alpaca wool is spun into luxury fabrics.

Cointegra, S.A., in Guayaquil, Ecuador.

John C. Rahming has been named general manager of the Inter-American Investment Corporation. He had been serving in that post on an interim basis.

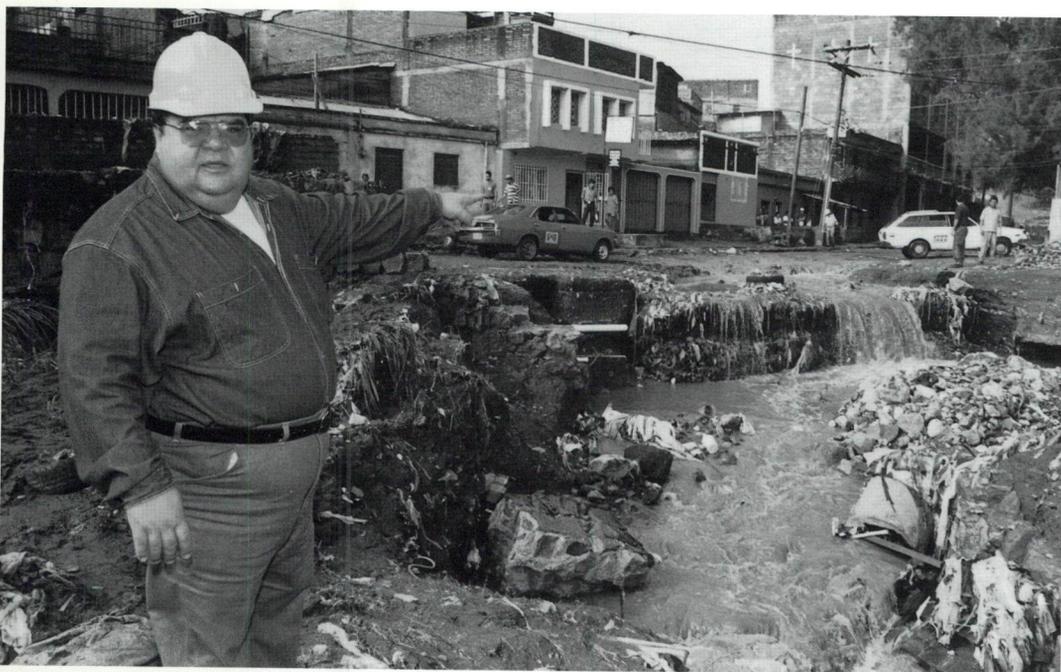
Jacques Rogozinsky has been named deputy general manager of the IIC. He most recently served as special advisor for private sector issues in the office of the vice president of the IDB.

Marta Tvardek, who was previously in charge of the Policy,

Planning and Support Office of the IDB's Human Resources and Administrative Services Department, has been named chief of the Employment Division within the same department.

Tvardek succeeds **Ezio Vermiglio**, who has been appointed senior advisor to the IDB's human resources manager.

Joel Riley, previously senior deputy manager of the Human Resources and Administrative Services Department, has been named chief advisor in the Office of Executive Vice President.



ALCALDIA MUNICIPAL DE TEGUCIGALPA

In the storm's aftermath, Castellanos took to the streets to plan relief measures and raise morale.

A mayor to remember

THE DESTRUCTION CAUSED BY Hurricane Mitch robbed millions of people in Central America of their loved ones, their homes and businesses, sometimes even the very soil under their feet.

It also took away the mayor of Tegucigalpa, the Honduran capital. This would have been bad enough in normal times, or if César Castellanos were a normal mayor. But for many in Tegucigalpa, his death on Nov. 1 was an especially tragic loss.

After taking office last January, Castellanos quickly established himself as a hands-on activist, totally committed to making his city work. ¡A trabajar! (Let's get to work!) was his often repeated call to arms.

He was also a compelling personality who called himself "El Gordito" (Fat Man) as a way of breaking down barriers between his office and his constituents.

As Hurricane Mitch battered Tegucigalpa, residents could at least take comfort in having a leader that they had come to

trust and respect. Castellanos threw himself into the job of doing what he could to reduce the tragedy, even going from house to house in high-risk areas, warning people to evacuate.

On Nov. 1, as the hurricane continued dumping record-setting amounts of rain, Castellanos boarded a helicopter to visit a spot on the Choluteca River where debris was dam-

ming up the water and threatening to cause even more damage. But his helicopter was only a few meters off the ground when an electrical malfunction touched off a fire. Castellanos, a city official, a cameraman and the pilot died in the crash.

Eulogized by El Heraldo columnist Mario Posas as "one of the most enthusiastic and popular mayors in recent times," Castellanos was also one of the most theatrical. Determined to reach all levels of society with his message of civic betterment, he served plates of spaghetti to poor people, took personal charge of the campaign to clean up the city's markets, and called for the

creation of a "Pigs' Club" for those who ignored his exhortations to keep themselves and their city clean.

Just two hours after his inauguration as mayor, he and hundreds of his followers showed up at a poor neighborhood to inaugurate a new soccer field.

Castellanos ordered crews to fix up the streets and plant trees in the parks. He personally met with owners of bordellos to persuade them to move to areas where they wouldn't be a nuisance to the community. He cracked down on street vendors, vowed to fine property owners that didn't take measures to prevent fires, and launched programs to help children.

Although Castellanos was a natural politician with clear presidential ambitions, he spent most of his professional career in the field of medicine and public health. With a degree in neurosurgery, he held positions in national and international professional associations, meanwhile performing more than 3,000 operations. Appointed his country's health minister, he was voted for three consecutive years as the country's best government official. He served as president of the Executive Committee of the Pan American Health Organization, and was president of the Latin American Neurosurgery Federation.

He was the kind of person whose loss would be deeply felt even in the best of circumstances. His call *¡a trabajar!* will be sorely missed.

—Roger Hamilton



ALCALDIA MUNICIPAL DE TEGUCIGALPA



Castellanos offers advice and supervises the making of piñatas for a Children's Day celebration.



WILLIE HEINZ—IDB

LIGHTS ON? Marlena Frazier, station operator, checks gauges at a 1,670 Kw diesel-powered generator that began operating on Bahamas' Bimini Island in early 1998. It is one of several new Bahamian generators financed with a \$31 million IDB loan.

Inter-American Development Bank
1300 New York Ave., N.W.
Washington, D.C. 20577