

■ **HELP FOR Y2K PLANNING**

■ **CENTRIST POLITICS**

■ **A BISHOP WITH DIRTY SHOES**

IDB AMERICA

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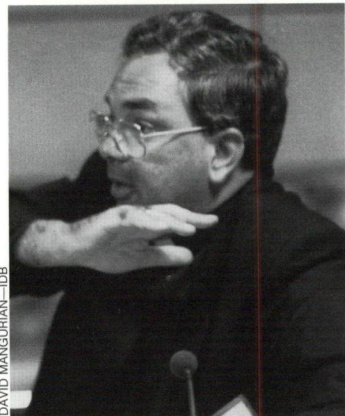


Paulina Burbano de Lara
heads a program to
preserve the historic
center of Quito, Ecuador.

A fresh start for old cities

**How Latin America is bringing
its historic districts back to life**

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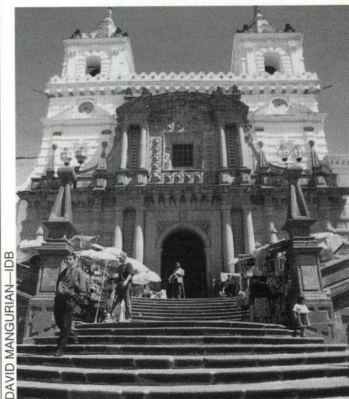
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THE COVER

A fresh start. Economist Paulina Burbano de Lara directs a unique public-private enterprise charged with revitalizing the historic center of Quito, Ecuador. It is a job in which she must draw on expertise in many different fields, from art restoration to traffic planning. But her biggest challenge is convincing investors that this formerly run-down part of the city is the new business frontier.

—IDB photo by David Mangurian


EDITORS' NOTEBOOK

Museum power

THE EARLIEST ART COLLECTORS were not so much interested in aesthetics but in power. Generals showed off war booty to demonstrate the success of military campaigns. Religious leaders assembled precious objects to inspire awe and devotion.

But today, art and other forms of cultural expression in many cases have changed from being mere ornaments of power to being manifestations of power themselves. Culture is a big industry, a major revenue source for many countries and an advance guard in economic globalization.

As a showcase for culture, museums are in a class by themselves. Once stuffy and catering to a self-proclaimed cultural elite, they now strive to be part of their communities. Municipalities look to museums to serve as rallying points for urban revitalization

and tourism. On a previously decaying waterfront in the United States city of Cleveland, a stunning pyramid designed by I.M. Pei housing the Rock 'n Roll Hall of Fame has put that city on the map for rock fans around the world. In Bilbao, Spain, a museum designed by Frank Gehry, which has been hailed as the building of the century, has raised spirits in an economically depressed and politically troubled region. Similarly, in Quito, Ecuador, the new city museum, housed in an impressively old and beautifully restored former hospital, has already become a focus of civic pride and popular education. In a country facing enormous economic problems, citizens can take justifiable pride in a project where teams of Ecuadorian planners, restorationists and museum staff, in just a year

and a half, turned a crumbling ruin into a graceful showcase.

For a glimpse of Quito's new museum, see page 10. Better yet, visit Quito and a few of the other Latin cities whose historic centers are being transformed by a phenomenon discussed in this issue of IDBAmérica.



Encounter across the centuries.

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Old Testament prophets and the fight against poverty

By BERNARDO KLIKSBERG

"...too little has been done to expose to public shame the providers of bribes..."

Former U.S. Treasury Secretary Robert Rubin, in a May 3 speech at a conference on corruption in Latin America and the Caribbean held at Atlanta's Carter Center.

"The global financial crisis is now officially over. So now we can look for the next one."

George Soros, the financier and currency speculator, quoted in The New York Times, April 24. Soros was remarking on Brazil's successful sale on April 22 of \$2 billion worth of bonds on the international market.

"...a time to free slaves, to return land to its rightful owners, and to forgive debts."

Excerpt from "A Jubilee Call to Debt Forgiveness," a document issued in April by the U.S. Catholic Conference's Administrative Board. The board, which represents U.S. Catholic bishops, joined the Pope and other religious leaders in urging debt relief for poor countries in the year 2000.

"Dollarization...is not some means to bypass the types of policies that are required to create stability."

Alan Greenspan, chairman of the U.S. Federal Reserve, quoted in The New York Times on April 23. Greenspan said developing countries would not benefit from adopting the dollar unless they were willing to carefully regulate their financial systems and hold down budget deficits and foreign debt.

"We do not know what will happen in the next rainy season."

Paul Trapido, an official in the IDB's Honduras office, quoted in the Los Angeles Times, April 7. Trapido was referring to concerns that damage caused by Hurricane Mitch has left Central America much more vulnerable to landslides and flooding.

DURING THE LAST DECADE governments in Latin America have begun to recognize and encourage the complementary role that civil society organizations can play in national development.

While nongovernmental organizations active in health, education, microenterprise and environment have long been applauded for supplementing traditional government services, religious organizations are now also gaining recognition for their contributions in these areas.

Religious groups are active in nearly every one of the region's cities, towns and villages. In addition to providing a sense of identity and community, church organizations deliver vital social services. These range from church-affiliated schools and hospitals to orphanages, rural clinics, urban soup kitchens and all manner of emergency assistance. In many of the poorest settings, religious groups are the only source of such services.

IDB President Enrique V. Iglesias has spoken frequently about this dimension of civil society and has encouraged groundbreaking meetings with representatives of religious groups. The most recent of these took place in December, when 70 leaders of Jewish communities from 12 Latin American countries, together with senior officials from the principal multilateral lending institutions and representatives of Israeli and United States Jewish organizations, met at IDB headquarters. At this unprecedented two-day gathering, organized with the help of the Latin American Jewish Congress and cosponsored by

the World Bank, the OAS and American University, IDB specialists offered an analysis of the region's most pressing social and economic challenges, including poverty, inequity, unemployment, malnutrition, school dropout and repetition rates, problems affecting families and crime, among other issues. They also discussed lessons the Bank has learned through its experience in social sector lending.

The Jewish leaders, in turn, described a rich tradition of social engagement and volunteer-

one of the pillars that sustain the world, and that everyone has a duty to work for human justice.

"As Jews we cannot stop being engaged in social problems," Rabbi Israel Singer, secretary general of the World Jewish Congress, told participants. "Not only for ethical reasons, but because we are one of history's most oppressed peoples. For that reason we are especially sensitive to the plight of the oppressed, and we know that poverty is one of the central forms of oppression."

Other speakers described social programs run by Jewish organizations in the region. Many of these initiatives focus on the plight of the "newly poor": families in urban settings whose quality of life suddenly and rapidly has been eroded by economic crises. Speakers profiled programs such as a work retraining center for the newly unemployed run by the Argentine-Israeli Mutual Association (AMIA) in Buenos Aires, a professional volunteer group in São Paulo, the Social Development Corporation in Chile, a health center in Venezuela, and similar undertakings by Uruguayan and Mexican Jewish groups.

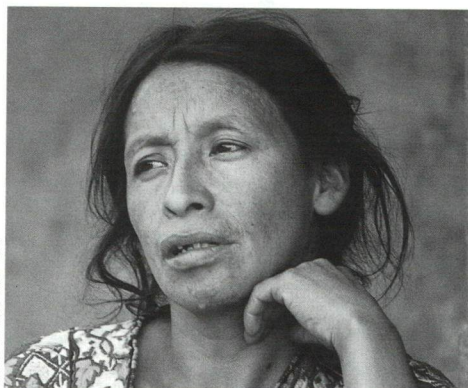
"All my life, your communities and the state of Israel, have impressed me

with the capacity to mobilize thousands of volunteers of all ages and generations for social causes," Iglesias told seminar participants. He urged the religious leaders to join forces with the IDB and develop joint projects that will leverage the Bank's expertise with the unique local know-how of Jewish organizations.

—The author is coordinator of the IDB's Inter-American Institute for Social Development.

"As Jews we are especially sensitive to the plight of the oppressed, and we know that poverty is one of the central forms of oppression."

Rabbi Israel Singer



DAVID MANGURIAN—IDB

ism that is rooted in the Hebrew faith. That tradition includes the prophetic admonition to ensure that there "shall be no poor among you" and the notion that everyone should practice Tzedaka. According to the 12th century Spanish rabbi and philosopher Maimonides, Tzedaka means more than merely helping others and implies an effort to restore the social justice that has been violated by poverty. Jewish teaching also holds that mitzvot, or "worthy deeds," is



Residents unfurl banners expressing thanks for a program to improve social and economic conditions and protect the environment.

Landmark project gets big sendoff

Citizens help design a future for Panama's poorest province

DAYS BEFORE THE HISTORIC LOAN SIGNING, the lone radio station of Panama's province of Darién, housed in a modest concrete block building in the tiny crossroads community of Metetí, was sending out an urgent call:

"Children, men, women, farmers, Indians, organizations, bus and truck drivers, lumbermen, health and water committees, and general public: the Darién needs you. The social and economic development of the Darién is in your hands."

The station, Voz Sin Fronteras (Voice Without Borders), was not exaggerating. The \$70.4 million loan due for signing on Feb. 21 would finance a sustainable development program for the Darién and pave its 184-km-long dirt highway, both long-standing dreams of the province's 60,000 citizens. But even more, it would carry out these twin aims through the participation of many of the

province's people, and in so doing make this forgotten and neglected corner of the Americas a model for the rest of the hemisphere.

And come they did. From humble indigenous, Afro-American and Latino communities throughout the province, some 1,200 people traveled by bus, truck, car, utility vehicle, boat, dugout canoe, horse and on foot to Metetí, the site for the signing. Some journeyed two or three days to be a part of the event. It was the largest crowd ever assembled in the region and probably the largest ever to gather for an IDB loan signing. The cloudy Sunday morning sky threatened rain. Officials from the Darién Children's Foundation, who organized the event, had erected a tent on the recreation court in front of the

Presidents Pérez Balladares and Iglesias listen to a speech by Monsignor Emiliani, a major force behind the new program.

radio station to shelter the scores of officials representing the Panamanian government, nongovernmental organizations, local communities and the IDB. But the weather held; it was a typical oppressively hot and humid Darién day.

In this same town, almost exactly two years before, Panamanian President Ernesto Pérez Balladares and IDB President Enrique V. Iglesias had proclaimed to community leaders their commitment to pave the Darién highway as part of an integrated development project for the region. At the same time, they agreed not to extend the highway the remaining 50 kilometers through the Darién Bimillennial Park to the Colombian border. Now, after two years of economic and environmental studies, intensive consultations by a team of anthropologists with residents in 45 different communities, and the development of a comprehensive land use management plan for the biologically diverse, environmentally



DAVID MANGURIAN—IDB

sensitive region, Pérez Balladares and Iglesias were returning to sign the financing agreement.

But the long-awaited moment would have to suffer a short, unexpected delay. Taking off from Panama City, the helicopter carrying Pérez Balladares and Iglesias hit a pelican, and the two presidents had to transfer to another aircraft. After finally landing in Metetí, in a field about a kilometer from the signing site, a caravan of four-wheel-drive utility vehicles drove them to the radio station. The two presidents, dressed in short-sleeve shirts, walked past photographers through an applauding crowd into the huge white tent. They took their places at a table covered with an embroidered white table cloth from Metetí's Catholic cathedral.

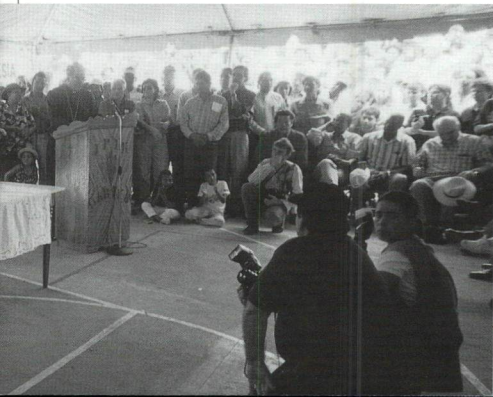
"This project is not just another all-weather highway financed by the IDB," Iglesias told the crowd after the signing. "It's a route to develop the region, to protect its ecology, to exploit its natural resources rationally, and to respect its ethnic communities. I assure you," he added, "that this is the most participatory IDB project ever."

Equally elated was Monsignor Rómulo Emiliani, Catholic Bishop of Darién Province (see article page 29). For years, Emiliani has helped Darién residents lobby the government to pave the existing highway to the town of Yaviza, parts of which are impassable during the nine-month-long rainy season, and to finance development in the region. "After so many years of suffering and marginalization," he told the crowd, "it is about time we received help." But, he warned: "With the signing of this agreement, zero hour has arrived. All of us today have promised to make this project a reality. It now depends on all of us."

The Darién Sustainable Development Program, which will take about six years to carry out, will finance both productive and social projects, land titling and measures to strengthen government agencies, in addition to paving the existing road. An advisory board made up of representatives of local, national and international organizations oversaw development of the program, and will continue to monitor its execution.

—Reported by David Mangurian, Metetí, Panama

 For additional information on the program, go to polux.sdnpp.org.pa/darien2020.



Preparing for the next Mitch

Experts call for strategy to minimize damage

By PAUL CONSTANCE, San Salvador

CENTRAL AMERICAN NATIONS MUST CREATE a culture of disaster prevention and adopt integrated environmental management plans if the damage and mortality caused by Hurricane Mitch are to be avoided in the future.

That was the unanimous conclusion of a regional workshop held last March in San Salvador, El Salvador, titled "Environmental Management and Reducing Vulnerability to Natural Disasters." The workshop, organized by the IDB and the System for Central American Integration, brought together some 130 government officials and environmental experts from El Salvador, Honduras, Guatemala and Nicaragua, along with representatives from other governments and multilateral organizations.

The workshop was designed to highlight the environmental lessons learned as a result of Mitch and other natural disasters in the Central American region, with a view to incorporating those lessons in reconstruction plans then under development by governments in the most severely affected countries. The IDB pledged to organize the workshop last December, during the first meeting of the Consultative Group for the Reconstruction and Transformation of Central America in Washington, D.C.

"Mitch showed us that Central America was sitting on a time bomb caused by environmental abuse," said Miguel Martínez, the IDB operations manager for a group of countries that includes Central America. Uncontrolled deforestation, poor watershed management and inappropriate agricultural practices have severely degraded the water absorption and retention capacity of vast areas of Central America. This multiplied the destructive effect of Hurricane Mitch by increasing flooding and landslides, and will do so again unless preventive measures are taken, according to Martínez and other officials at the conference.

Recommendations drafted during the workshop emphasized the interdependence of Central America's countries and the importance of devising disaster mitigation plans across national boundaries. A bridge closure or a power outage in one of these countries inevitably affects commerce in its neighbors, for example. Likewise, the Lempa River

drains into the Pacific Ocean in El Salvador but has a watershed that includes large portions of Honduras and Nicaragua. Effective policies to stem erosion and control flooding along the Lempa should consequently be coordinated by all three nations.

Workshop participants also stressed the need for environmental policies based on economic incentives in addition to laws or mandates, since the latter are rarely effective on their own. They also called for extensive participation by local communities in the development of disaster mitigation plans, in contrast to centralized, top-down approaches that have failed in the past.

The workshop included representatives from government agencies charged with drafting each country's national reconstruction plan. These plans were to be presented to the international donor community at a May meeting of the Consultative Group in Stockholm, Sweden. Based on the plans, governments and international organizations planned to earmark several billion dollars of aid they have pledged to the countries hardest hit by Hurricane Mitch.



Protecting watersheds was one proposed measure for reducing effects of natural disasters in Central American countries.



The IDB president was among those who urged Latin America to stay the course of integration and social and economic reform.

IDB governors debate tactics for quelling economic storms

Paris meeting reaffirms reforms; fast economic recovery predicted

By ROGER HAMILTON

WHEN THE IDB'S LATIN AMERICAN governors traveled to Paris, France, in March for their annual meeting, they brought with them the concerns of a continent absorbed by currency devaluation, capital flight and even discussion of the merits of using the U.S. dollar as national currency.

Predictably, these were the themes of the meeting, where policymakers from around the world discussed policies for pulling the region out of the current crisis.

"We will have a difficult year," IDB President Enrique V. Iglesias predicted at the close of three days of sessions held in Paris' Palais des Congrès. But he added that it could have been far worse. When the crisis,

which began in Asia, finally made landfall in Latin America, governments reacted swiftly, tightening fiscal and monetary policies as a frontline defense of macroeconomic stability, Iglesias said.

"Countries opted to pay the price quickly in order to get over [the crisis] as soon as possible," he added. Although problems persist, these decisive moves sent international markets a clear message that the region is determined not to fall back into the inflationary spiral that was once its hallmark.

Thanks in large part to its swift and decisive policy reaction, the region will resume its growth in the year 2000, Iglesias predicted.

"This new Latin America is standing by its policies of reform, open markets and institutional modernization in order to be a full

partner in the international community," Iglesias said.

The IDB's annual meeting was attended by 5,200 participants, including government and business leaders from the Bank's 46 member countries, economists, analysts and journalists. The formal board sessions, in addition to an ever growing number of concurrent seminars and conferences, make the meeting the foremost annual event for analyzing economic and social issues related to Latin America and the Caribbean.

The IDB-sponsored seminars included sessions on reducing international financial uncertainty, breaking the cycle of poverty and inequality, the interaction between culture and development, early childhood development, small-scale enterprises and the impact of the euro. Several parallel forums, confer-

ences, and other events were also organized in conjunction with the annual meeting, including seminars on decentralization, pension funds, small business and integration, insurance markets, energy, democracy, and youth in the new millennium.

Also held simultaneously with the Bank annual meeting was the meeting of the Board of Governors of the Inter-American Investment Corporation (IIC), a member of the IDB Group that supports the development of small and medium-sized enterprises in Latin America and the Caribbean. (See article page 6 on the decision to increase the IIC's capital by \$500 million.)

IDB support. A number of IDB governors, along with International Monetary Fund Managing Director Michel Camdessus, praised the IDB's efforts in helping Latin America cope with the financial turmoil. Among the initiatives cited was the establishment late last year of a \$9 billion emergency credit line, which has since been tapped by Argentina, Brazil and Colombia to support their economic reforms and strengthen their social safety nets.

Iglesias stressed that those loans were available to all borrowing member countries, not only to the largest ones. He also reiterated the facility's social objectives: "The entry point for those resources are the social programs," he said. "Our mission is economic and social development. If we can provide help in an emergency to cushion the social impact of a crisis, I believe that is also our task."

New chairman elected. The meeting's inaugural session was attended by three heads of state: French President Jacques Chirac, Chilean President Eduardo Frei, and Uruguayan President Julio María Sanguinetti.

French Economy Minister Dominique Strauss-Kahn was unanimously elected chairman of the Board of Governors, replacing Colombian Finance Minister Juan Camilo Restrepo. Strauss-Kahn will serve as chairman until the next IDB annual meeting, which will be held in New Orleans, United States, in March 2000.

In his speech, President Chirac emphasized the urgency of counteracting global economic volatility that is expected to have a particularly negative impact on Latin

America's economies this year. "The entire international community needs to be mobilized," Chirac said. "We must act together so that the necessary reforms in the international financial system can be implemented in 1999."

The French president also backed proposals to do more to reduce the debt of the poorest countries. "Bilateral debt cancellation should exceed 80 percent for the poorest countries," he said. "Concessional solutions must be worked out for the other countries burdened by unsustainable debt." Chirac called for an "exceptional effort" in this regard by all creditor countries, as well as by multilateral institutions, "even if that means selling off a part of the IMF's gold reserves."

Presidents Frei and Sanguinetti also stressed the need for world action to deal with new pressures of globalization and volatility. They urged Latin America to stay on the path of integration, social and economic reform, and the strengthening of institutions.

Frei said his country was economically battered "by forces absolutely beyond its control" and that international organizations capable of regulating these forces were "nonexistent." He emphasized the need of respect for law, transparency, and quality in government to ensure economic growth.

Sanguinetti said Latin America's difficulties were temporary and were resulting in deeper and more rapid reform efforts that will lead to "re-stabilization" and the abandonment of "outdated mental outlooks."

Both Frei and Sanguinetti urged European leaders to reduce protectionist agricultural barriers, as did Restrepo in his speech to the assembly as outgoing IDB chairman of the Board of Governors.

Other speakers at the inauguration included César Gaviria, secretary general of the Organization of American States; José Antonio Ocampo, executive secretary of the Economic Commission for Latin America and the Caribbean; and France's secretary of industry, Christian Pierret, who represented Strauss-Kahn.

Gaviria said that moves to deepen democracy will enable Latin America to better address its problems, a task that must be undertaken by all sectors of society, "not just economists."

Politics and prosperity

BEFORE A GATHERING OF TOP ECONOMIC policymakers, IDB President Enrique V. Iglesias chose to dwell at length on the theme of politics when he addressed the inaugural session of the Bank's Board of Governors in Paris last March.

While Iglesias vigorously endorsed the economic reforms now underway in Latin America, he called efforts to strengthen Latin America's democratic systems the key to meeting the region's long-term development goals. If governments are to respond effectively to the needs and hopes of their citizens, he said, countries must develop a strong base of democratic institutions.

"Lack of equal opportunity should be one of our great concerns," he said. "Where opportunities are not open to everyone, societies cannot be cohesive or political systems stable. Just as important, the lack of opportunity for broad segments of a country's population is a constraint for its development."

He called for firm action to reform judiciary systems, strengthen parliaments and promote civil society. "There is no way around it: politics is vital to the life of peoples," Iglesias said. He noted that the countries that have achieved the highest levels of development are precisely those that have the most deeply rooted democratic institutions. In contrast, he said, the fundamental reason why Latin America has not resolved the problem of poverty and inequality, in spite of having been one of the regions of the world with the greatest growth in the 20th century, is because of the weaknesses in its political systems.

"Our electoral democracies need to become full-fledged democracies," he said, "in which the various branches of government are truly independent of one another but work in harmony [with] strong regulatory and oversight agencies and a professional civil service that can shield the state and public policy from undue influence of corporate, family, or other interests."

The IDB president also called for decentralizing many services traditionally provided by the public sector. He said that by transferring jurisdiction over certain services from central to state and local governments, citizens can exercise greater input into the decision-making process.

“Our electoral democracies need to become full-fledged democracies in which . . . strong regulatory and oversight agencies can shield the state and public policy from undue influence of corporate, family, or other interests.”

Enrique V. Iglesias
IDB President

A \$500 million vote of support

New funds for IDB Group member will provide support for 10,000 small firms

By DANIEL DROSDOFF

SHAREHOLDERS OF THE INTER-AMERICAN Investment Corporation (IIC) have agreed to a \$500 million capital increase for this private-sector arm of the IDB Group.

The move, which was announced during the joint annual meetings of the IIC and the IDB in Paris last March, more than triples the IIC's capital from \$200 million to \$700 million. The increase must now be approved by the IIC member governments.

The increase successfully concludes a three-year turnaround plan initiated in 1995 when shareholders and management decided to re-evaluate the Corporation and place it on a sounder financial footing. Today, the IIC is acknowledged to be an effective source of support for the region's small and medium-sized businesses.

According to IIC General Manager John Rahming, the increase also "demonstrated what we all know: the small and medium-

sized business sector is the driving force of growth in Latin America and the Caribbean and an excellent investment choice."

"For every dollar that the IIC invests in a project, six additional dollars from the private sector are also invested, generating wealth and employment at a growing rate," said Rahming.

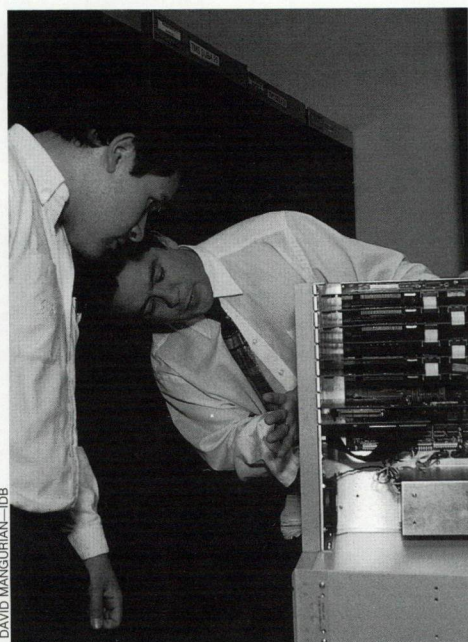
With the additional \$500 million, the IIC expects to assist 10,000 small and medium-sized businesses in the next 10 years, according to Jorge Roldán, the IIC's chief economist.

The IIC resources were further strengthened during the Paris meeting with the signing of a \$50 million credit facility from Caja de Ahorros y Monte de Piedad de Madrid. The Corporation will use the resources from the three-year facility to expand operations and fund loans for development projects.

Focused investments. While the IIC may invest in virtually all sectors, it expects to focus its investment and lending activities on small and medium-sized firms in the areas of exports, technology, environmental protection, and capital market development, said Roldán. Support for local financial institutions, such as credit rating agencies, is also high on the list of IIC priorities. "We also have a deliberate strategy to help companies go public," he added.

Established in 1986, the IIC has used its \$200 million in capital to benefit 1,700 firms in the region through loans, investments, and other financial services. The Corporation now supports a wide range of activities that include small energy projects, small agribusiness, tourism development, manufacturing and leasing. Its loan and investment operations are conducted without government guarantees. In addition, the IIC has established partnerships and alliances with financial institutions to achieve economies of scale and has invested \$100 million in 20 private investment funds that have a combined total capitalization of \$1.3 billion.

Also at the Paris meeting, Belize formally joined the IIC, with the result that all 26 borrowing country members of the Inter-American Development Bank are now IIC members. The IIC total membership of 37 includes nonborrowing countries.



VIRTUAL SWITCHBOARD: Technicians examine digital switching equipment owned by IMPSAT, S.A., an Argentine-Colombian telecommunications firm that has received investment capital from the IIC.

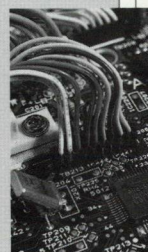
ROUND-UP

Limits of globalization

Despite the growing influence of globalization, the nation state and politics remain the only effective ways to organize society, according to a group of high-level politicians, economists and academics called the Circle of Montevideo, which held its fifth meeting at IDB headquarters in Washington, D.C., in May. According to IDB President Enrique V. Iglesias, globalization represents an opportunity for Latin America to strengthen its links with the rest of the world, but that measures must be taken to prevent closer ties from "poisoning" the region's societies.

A new kind of chip

It used to be that Costa Rican chips came in just two kinds—potato and plantain. But this past April marked the one-year anniversary of the first shipment of a new kind of chip that has revolutionized the country's export industry: microprocessors. Building on a long-term effort to strengthen its technical education, in many cases with IDB support, Costa Rica persuaded Intel Corp. to set up a \$300 million chip plant just outside the capital of San José. In just one year, according to a report in *Wired* magazine, chip exports of \$700 million had surpassed the country's traditional exports of coffee and bananas, were double what the country earned from coffee over the same period, and equaled one-fifth of the country's total annual export revenues.



Warning over deforestation

A United Nations agency based in Chile has sounded the alarm over the accelerating pace of deforestation in Central America. According to the Economic Commission for Latin America and the Caribbean (ECLAC), Central American countries lost between a third and a quarter of their forests between 1980 and 1995 as a result of the expanding cattle industry. The problem became acute in the decade of the 1980s when the region's governments carried out a series of structural adjustment programs aimed at increasing participation in the global economy, ECLAC said. Central America's forests contain an estimated 10 percent of the world's biodiversity, according to ECLAC.



OUR URBAN HERITAGE



DAVID MANGUJIAN—IDB

Workers in Quito, Ecuador, restore the graceful façade of a 1913 building that is slated to house restaurants, shops and an art gallery.

NO SOONER IS THE LAST ROOFING TILE SET in place than a building begins to deteriorate. The paint peels, the foundation settles and the walls crack. Insects with an appetite for wood move in and start raising families. The neighborhood also ages. Roads crumble, water mains begin to leak, and cash-strapped landlords put off maintenance.

This cycle of urban creation and destruction has been going on in Hispanic American cities for more than 400 years. Much has already been lost. But from steamy ports like Cartagena and Salvador to Quito and Cuzco in the snow-peaked Andes, a great deal of the region's urban heritage remains intact. In fact, 24 historic districts in Latin America and the Caribbean have earned the coveted UNESCO designation as World Heritage Sites.

In many cases, UNESCO recognition has helped to awaken local interest in preserving these districts. At first, the job was spear-

A fresh start for old cities

headed by the region's cultural elites, and more recently by enlightened municipal authorities. But though well intentioned, these top-down approaches have not been able to ensure long-term preservation. As environmentalists have learned through bitter experience, broad-based citizen participation—and not government proclamation—is the only way to conserve natural areas for the long term (see IDB América November–December and March–April). This message has not been lost on urban planners.

So today, urban heritage proponents in

Latin America and the Caribbean are turning to local communities and the private sector to help design and carry out preservation programs that will serve their own economic and social interests.

This new participatory approach to urban heritage conservation is already being applied in several cities profiled in the following pages. Perhaps the most trendsetting program is being carried out in Quito, Ecuador, where IDB financing is helping the government, the private sector and civic groups to simultaneously restore the city's historic center and make it a fully functioning part of the urban economy.

"What the IDB is doing in Quito is very pioneering," says Eduardo Rojas, the Bank's senior urban planner. "We are showing that we can turn the vicious cycle of poverty, decay and neglect into a virtuous cycle to create a good place to visit, a good place to do business, and a good place to live."

All dressed up and looking for investors

Ecuadorian capital shows how public-private partnership can preserve urban heritage

By DAVID MANGURIAN

TO DRIVE FROM ONE END OF QUITO, ECUADOR, to the other, you have to pass through the 17th century. Or so it might seem to first-

time visitors negotiating one of the narrow streets in Quito's incomparable historic district. Confined in a long, constricted valley some 9,000 feet above sea level, Quito looks like a bow tie from above. The narrowest point in the valley—the bow tie's knot—is the site of an

ancient Inca city on top of which the Spanish conquerors built one of the most important urban centers of the colonial era. The western hemisphere's first hospital was founded here in 1565 and one of its first universities in 1603. There are 15 elaborately

decorated churches, convents and monasteries in the district's 72-block area, along with dozens of other priceless buildings. So rich is the district's patrimony that in 1978 it became the first urban site in Latin America to be declared a World Heritage Site by UNESCO, which called it "the best preserved and least modified historic center in Latin America."

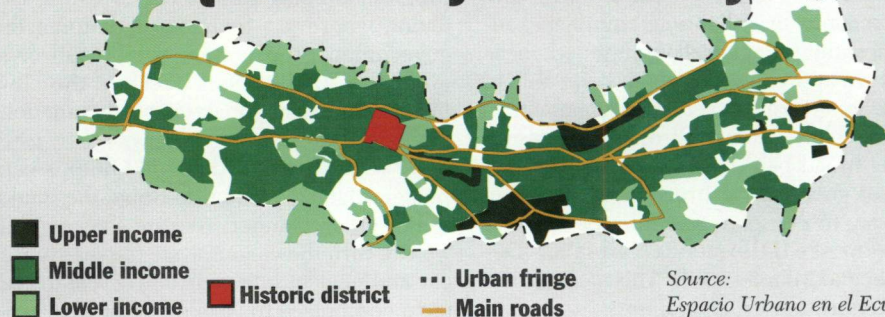
But the district's central location has turned out to be something of a curse. As the valley on either side of central Quito was built up and developed during this century, the old "downtown" turned into a transportation bottleneck. Eventually, an estimated 300,000 people and 85 percent of the city's buses would struggle to pass through each day. Parking places became almost impossible to find, forcing cars to circle endlessly in search of a spot. The district's overloaded streets could barely contain the traffic, which often slowed to a horn-blaring, exhaust-spewing crawl.

In the early 1980s, efforts to preserve historic Quito had also come to a near standstill. Well-intentioned plans to protect the district dated from the 1940s, when it became obvious that things were changing for the worse. The stately patio mansions once owned by Quito's wealthy classes were rapidly being abandoned for modern homes in the suburbs. Many of the old houses were subdivided into as many as 15 tiny dwellings and occupied by poor families. Retail and service businesses gradually followed their wealthy patrons to new neighborhoods. They were replaced by some 5,000 sidewalk vendors who clog the district's narrow sidewalks



Wealthy people have abandoned Quito's historic center. But vehicles traveling through the city must still pass through its bottleneck of narrow streets.

Quito: city in a valley



and three outdoor markets that produce mountains of garbage.

At first, the government attempted to halt the decline by issuing a series of laws to protect specific buildings and monuments and restrict the ways private owners of historic buildings could use their properties. In many cases, the laws backfired. Some owners purposefully neglected their buildings to hasten the moment when the only viable alternative would be to demolish them and build new structures. Others subdivided them into inappropriately small rental units. Meanwhile, practically no meaningful restoration or investment was taking place.

New approach. In the 1980s, government officials at the federal and municipal levels agreed that a radically new approach was needed. Looking at the experience of historic districts in other countries, the government



Patio Andaluz, a colonial-era house in Quito's historic district, is being converted into an apartment hotel and restaurant complex.

order to ensure efficiency, accessibility and transparency, the government delegated the program's management to a new, autonomous, nonprofit development corporation, the Empresa del Centro Histórico de Quito (ECH). Then, in 1994, the IDB approved a \$41 million loan to help finance the ECH's first six years of operations.

Although the ECH was also given funds and properties previously purchased by Quito's municipal government, it operates in many ways like a private company. It has the authority to use streamlined contracting and procurement procedures and can develop business enterprises within the historic center. However, it must eventually divest itself of all such enterprises in order to recoup costs and plow the money back into rehabilitation projects.

The ECH's essential mission is to entice private investors by taking the up-front investment risk in a development project. One of its first undertakings was to acquire the Hotel Majestic, a magnificent building that fronts the central Plaza de la Independencia and which had been subdivided into numerous small offices and mixed-use units. The ECH is planning to restore the building's façade and overhaul its interior after the selection of a private firm that would equip and operate it as a 30-room apartment hotel together with another hotel project underway at the elegant Patio Andaluz.

At the Centro Comercial La Manzana development, the ECH has gutted half a block of historic buildings, retaining their facades and other distinctive architectural features, while building modern retail shopping spaces designed to accommodate a full-fledged mall. A smaller space, known as Pasaje Baca, was redesigned as a complex of restaurants and upscale shops. Interest from potential private investors has been keen: even before the work was completed, the ECH had received more than 4,000 applications for the 110 rentable spaces in these two developments. Also in the works: a four-theatre cinema complex housed in two restored historic buildings.

Not all of the ECH's projects have a commercial dimension. Among the most impressive of its accomplishments to date is the Museo de la Ciudad (see photos on pages 10-11), built in what were recently the ruins of the four-century-old Hospital San Juan de Dios. This beautifully designed museum recreates life in colonial Quito through a series

(next page please)

But where can I park?

MORE THAN JUST AN ARCHITECTURAL MUSEUM, historic Quito is a place where people live, work and do business. So the public-private company charged with preserving the district must concern itself with everything from parking garages to trash containers.

One of the most politically sensitive tasks has been doing something about the **street vendors** that previously crowded the sides of already congested streets, slowing traffic. Agreements have been reached to re-

locate some 5,000 vendors to new commercial complexes in and around the district.

A battery of traffic management plans, ranging from new stop lights to promoting the use of the city's recently completed trolley bus system, is helping to limit **bus pollution**.

In addition, five new parking garages are creating 2,000 parking spaces to be operated as private concessions.

Got a question? The city has assigned 30 bilingual **tourism police** to aid tourists and deter crime.



Old **sidewalks** were irregular and often tapered off into nothing, forcing pedestrians into the streets and slowing traffic. Most of the sidewalks are being rebuilt and 100 **trash receptacles** donated by AT&T will help solve the problem of litter.



decided to develop a comprehensive plan that went beyond mere restoration and aimed to revitalize the historic district's economy by explicitly seeking the participation of the private sector. The scope of the plan, which was developed with technical assistance from the IDB, was ambitious. It sought to overhaul the district's transportation infrastructure, rationalize traffic flow, eliminate trash and substandard housing, retain a mixed resident population, and create investment partnerships with commercial and residential real estate developers.

"The involvement of the private sector and civil society is what was missing from previous projects," says Eduardo Rojas, the IDB's team leader for the Quito restoration program. In contrast to these earlier efforts, which were mandated from above by government officials, the new program was designed to operate at the grassroots level. In

of intricate dioramas that focus on specific crafts and traditions. Other spaces are reserved for exhibits of contemporary Ecuadorian art.

The ECH does not want to turn the historic district into an upper-class cultural and shopping enclave. On the contrary, the goal is to ensure that a representative mix of lower-, middle- and upper-class people have reasons to live and work in the district. To that end, the ECH has pioneered an innovative program to rehabilitate old residential buildings currently inhabited by multiple families (see pages 12–13).

In the last five years the ECH has also paid private contractors to rebuild badly deteriorated sidewalks in the 72 blocks surrounding the main square and to construct 2,000 new parking spaces in enclosed parking centers. Other projects involve upgrading and synchronizing traffic lights, posting new road signs, and optimizing traffic patterns around a recently installed trolley bus system. The ECH is also coordinating the construction of new commercial complexes that will accommodate the thousands of sidewalk vendors that still work on central streets.

Call to come back. Despite these impressive achievements, Paulina Burbano de Lara, the ECH's young director, has found it difficult to attract private investors. "The big investors want a flow of people, tourists, who will spend lots of money in the center," she says. "Many of these investors had their offices here just 10, 15 years ago, but they have all moved to the North. It has been difficult to convince them that the center has economic potential again."

The process has been further complicated by the financial crisis that hit Ecuador following Brazil's currency devaluation in January. Ecuador's currency lost 40 percent of its value and the government had to take radical steps to protect the country's frail banking system. "This is not a great time to interest the private sector in new investments," says Gabriel Montalvo, the IDB sectoral specialist in the IDB's Quito office who is supervising the project. "In times of recession, the private sector does not like to risk capital."

But Burbano de Lara is optimistic. She points out that companies and residents now understand that the ECH is able to work with them in ways that no previous rehabilitation program ever did. The concept of public-private business partnerships, practically unknown when ECH opened its doors, has now proven itself and is beginning to attract interest from serious investors.

"We are laying a solid base," Burbano de Lara says. "We might need six or eight years. But I have no doubt about the future of the historic center and the involvement of the private sector."



For thousands of Quito youngsters, the City Museum has become a school outside of school

A museum for the people

SOME MUSEUMS DISPLAY THE WORKS OF famous artists. Others glorify the deeds of legendary generals and political figures. The subject of Quito's new City Museum is simply people and how they lived over the past four centuries.

The crown jewel of the Quito Historic Center project, the museum is housed in the completely restored 434-year-old San Juan de Dios Hospital. Among its exhibits are life-size dioramas and artifacts that range from colonial sculptures and Amazon forest trees to a 19th century horse carriage and huge *paila* kettles used for cooking on haciendas. Museum goers can also tour the hospital's exquisite chapel and view a patient ward preserved as it was four centuries ago, with straw pallet beds set in arched niches.

The museum was opened last August by Quito Mayor Jamil Mahuad, a strong supporter of the museum and its daily life concept and the Quito Historic Center project, just before he became Ecuador's president. In the race to complete the museum on time, the museum staff and construction workers worked around the clock. "We slept here in sleeping bags," said Patricia von Buchwald, museum director. "People warned us that there were ghosts here, but nothing was going to stop us!"

Ever since its opening, the Quito City Museum has been packing them in. About half the museum's monthly visitors are school children. They are learning to be proud of their past as *Quiteños* and of their world-class museum.



...they can go to learn about the city's past.

Colonial Quito comes to life

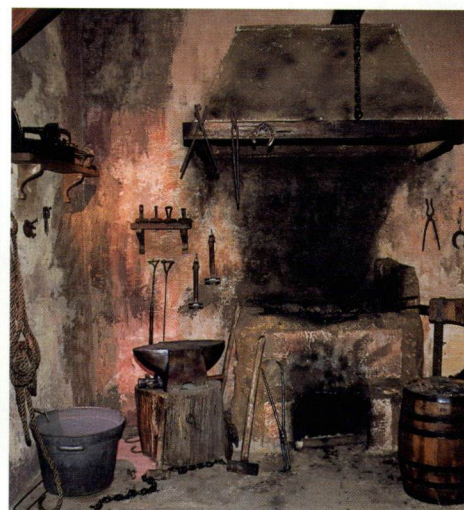
The Quito City Museum shows how daily life in the Ecuadorian capital has changed since its founding in 1543. Museum Director Patricia von Buchwald explains why this theme is important for the Quiteños of today.



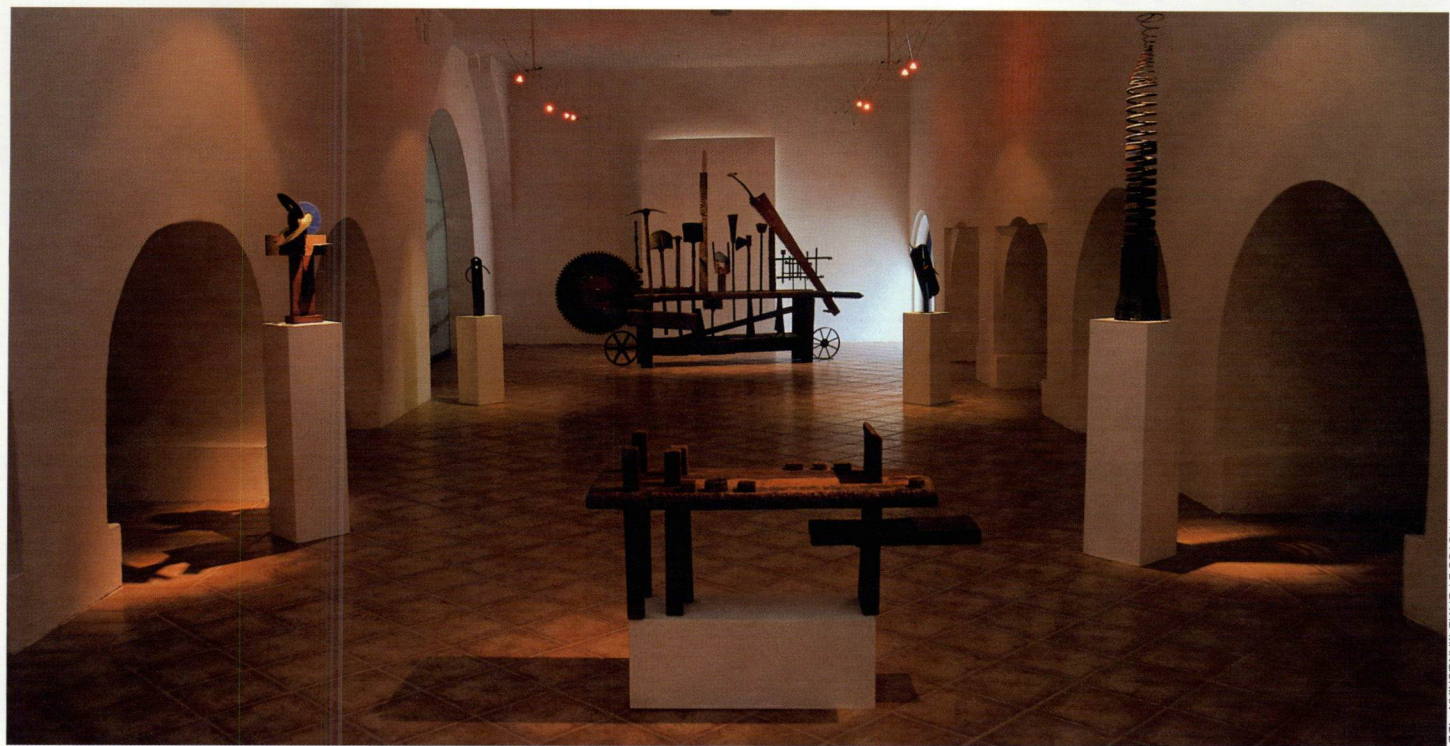
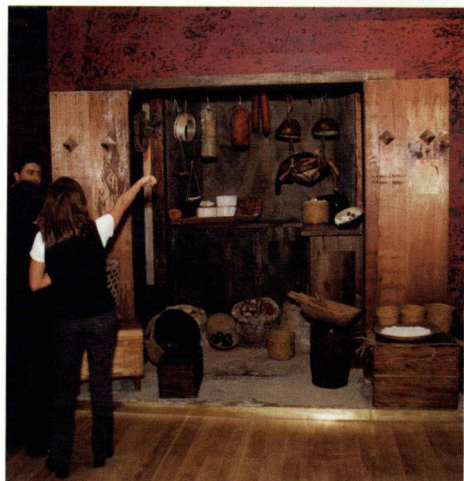
Von Buchwald

"People with knowledge of their past have high self-esteem. They know that they can do what they set out to do. They are people who are going to go far. Before proposing a theme for our museum, we conducted research indicating that the citizens of Quito have very low self-esteem and appreciation for the importance of everyday tasks.

"So we decided that our museum would be about the daily lives of ordinary people. Each hall shows how we are all builders, not just the important people, the heroes, the great artists. If someone does some humble task and does it well, this is a contribution to society. The museum pays homage to the anonymous builders of the city, those individuals who truly gave identity to a people, to a city."



Scenes from the past: A blacksmith's shop (top) and a street vendor's stall (below).

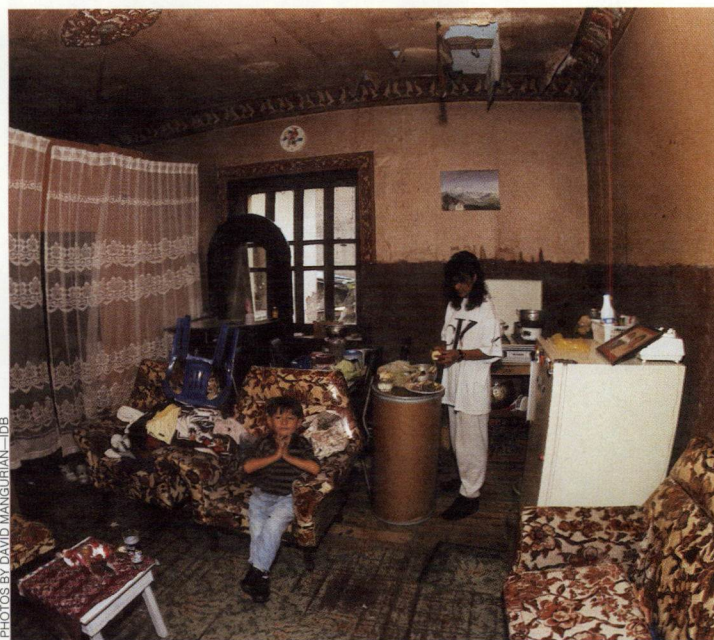


A former patient ward in the hospital now houses exhibitions of contemporary art. The vaulted chambers once held sick beds.

PHOTOS BY DAVID MANGIARIAN—IDB



GRACIOUS LIVING: With fresh paint on the outside and an airy courtyard on the inside, the first renovated apartment building in Quito's historic district will be the model for additional buildings containing a total of up to 1,000 units.



RIPE FOR RENEWAL: Most residents in the historic district still live in crumbling buildings with dingy living spaces. This one has since been renovated.



Modern living, historic home

"THE NEW APARTMENT IS beautiful!" exclaims Genoveva Vascones, shown seated with her mother and father in the photo on the right. Vascones, manager of a school lunch room, her husband and daughter were one of the 13 families that moved into the first apartment building rehabilitated in Quito's historic center.

Her old home, in the same building, consisted of a few small rooms that were "ugly and damp." Several families shared the same electric and water meters, and there were disagreements about payments.

About 4,000 people live in Quito's historic center, many of them families crowded into one or two rooms in the crumbling, dark interiors of old patio houses abandoned by wealthy owners in the 1950s. Today, as many as 15 families may share a single toilet and cold water tap.

One of the goals of Quito's historic center program is to re-

tain 3,000 of these residents by remodeling substandard rental housing and selling it back to current tenants, complete with kitchens and private bathrooms. Tenants must make a down payment equal to at least 25 percent of the cost of the apartment and obtain their own mortgage from a private bank. Up to one-third of the cost can be subsidized by the Ministry of Urbanization and Housing in a project sponsored by the IDB as an incentive for the families to save for the down payments on their unit. The money from mortgages and down payments is recycled by the public-private corporation for the historic center to finance the rehabilitation of more units.

The building where the Vasconeses live was rehabilitated with the help of financing from the government of France at a cost of only \$15,785 per unit. Based on the success of this pilot experience, the city plans to upgrade up to 1,000 units with funds provided by an IDB loan.



PROUD OWNER: Genoveva Vascones and her family bought their renovated apartment in 1997 after years of renting in the same building. Despite what she calls “tough mortgage payments,” she has no regrets. Here she poses with her visiting parents.

CITY CENTERPIECE: Dating from 1535, the church and convent of Plaza de San Francisco are among the earliest and most splendid of Quito's historic buildings.



Historic preservation brought up-to-date

The challenge is to convince many interest groups that saving urban heritage is in their best interest

By **ROGER HAMILTON**

THE DECLINE OF AN HISTORIC NEIGHBORHOOD is a little like the progression of a stubborn illness. One problem leads to another, and pretty soon, whole systems break down and the neighborhood stands defenseless against the inevitable bulldozer.

The process starts when buildings become functionally obsolete. Spacious colonial houses designed for an era of live-in rela-

BLUE RIBBON CITIES

The United Nations Educational, Scientific and Cultural Organization has designated many urban areas in Latin America and the Caribbean as World Heritage Sites. Among them are cities featured in these pages as well as sites that will be the subject of future IDB-financed projects. For a complete listing, go to www.unesco.org under "programs," and look under the "heritage" button.

tives and staffs of servants are too big for today's small nuclear families. Old hospital buildings do not have the space needed for modern medical equipment. Old libraries cannot accommodate ever-growing numbers of books. People do not ride trains as much any more, so graceful old railway stations fall into disuse. Communities can no longer support the dozens of convents and churches that crowd a typical historic district. Maintenance becomes prohibitive and buildings deteriorate.

The death knell comes when the land an old building occupies becomes more valuable than the structure itself. The old walls come down, to be replaced by apartment buildings and offices, and another piece of urban heritage is gone forever.

To a pragmatist, the cycle of urban death and renewal is simply the way a city evolves to meet the changing needs of its residents. But for a growing number of people in Latin America and the Caribbean, historic buildings and neighborhoods are more than mere real estate. In an increasingly homogenized world, these districts—which can be found

in nearly every one of the region's large cities—represent an irreplaceable element of a nation's historical and cultural identity.

In fact, both the pragmatists and the romantics make valid points, says Eduardo Rojas, the IDB's senior urban planner. Although historic preservation and modernization were at one time seen as antagonistic, urban planners in many countries now believe that preserving urban heritage can actually enhance the economic and cultural life of a city, to the ultimate benefit of all its residents. Evidence of this new strategy can be seen in innovative historical preservation programs now being financed by the IDB in a number of Latin and Caribbean countries.

Long-term goal. The strategy Rojas sets forth can be best understood by comparing it with alternative approaches.

In one approach, a city's cultural elite uses its power and prestige to get the funding and legislation needed to protect historic buildings and monuments. But if these leaders lose their interest or their influence, the buildings will once again be in jeopardy.



DAVID MANGURIAN—IDB

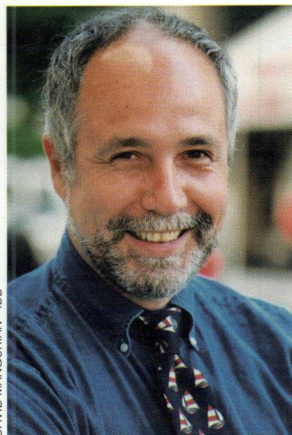
Moreover, by restricting how owners can use historic buildings, preservation laws often eliminate incentives to spend on maintenance and actually hasten deterioration.

In another approach to preservation, the government takes responsibility for urban conservation by enacting legislation, creating heritage conservation boards and earmarking municipal funds for this purpose. But sustainability remains a problem. Confronted with pressing social needs, most governments cannot justify spending tax money to preserve old buildings. And when a government does attempt to operate and maintain a vast array of buildings and public spaces with limited resources, it discourages potential private investments.

The third approach to urban heritage conservation reflects the changes that have taken place in Latin America during recent years, in particular the region's transition to democracy, decentralization, and market-oriented economic policies. The advocates of this approach argue that conservation efforts can be sustained over the long term only if they have the support and participation of a broad spectrum of citizens and interest groups: private businesses, real estate investors, philanthropic organizations and neighborhood citizen groups, as well as the government. The objective is to create an historic center that functions as

a full-fledged part of the city, not merely as a museum or a tourist attraction. It must be a place where people live, work, run businesses and shop.

Rojas emphasizes that increasing the number of groups involved in heritage preservation does not reduce the importance of the role of the government. Only the government has the authority and the long-term perspective needed to create an environment in which "an adventurous" private sector will take the leading investment role, he says.



Rojas: public-private partnership is the key.

How does the government create a good investment climate? First, it must establish regulations that define the participation of various interest groups. Other laws would aim directly at conserving buildings and monuments. But regulations that encourage preservation indirectly also bring important long-term benefits. For example, the government can soften tenant protection rules as a way of strengthening the market for rental housing and spurring the rehabilitation of heritage buildings. Or governments can provide tax credits for investors willing to rehabilitate buildings. The public sector also can encourage private participation by investing in public spaces and infrastructure, such as sidewalks, sanitation, transportation and parking.

Finally, the government can provide the private sector with incentives. For example,

municipal authorities can promise to purchase or lease space in renovated buildings. They can provide developers with services such as parking or access to public transportation. Or they can promise to cut through red tape for obtaining permits and registrations. Families could receive incentives to encourage them to move into renovated buildings, where maintenance costs are usually higher than in new buildings.

All these policies can help the public sector to build a partnership with the private sector. They also make it more likely that historic districts will be treated as an integral part of a city, albeit with special needs, thereby blending heritage conservation with the broader objective of urban rehabilitation.

This strategy looks even better in practice than it sounds in theory. According to Rojas, the historic preservation project in Quito, Ecuador (see page 8), has already proven that the concept of public-private collaboration for urban heritage conservation can be applied elsewhere, allowing for each city's legal, constitutional and institutional realities. For example, in Montevideo, where regulations do not allow for a Quito-style mixed public-private corporation, IDB-financed work to restore an historic railway station will begin only after private interests agree to develop the building and yards (see page 22).

According to Rojas, the IDB is breaking new ground in financing public-private partnerships for urban heritage preservation. "What the IDB is doing is very pioneering," he says. "Here, we don't deal in theories," he adds. "Our aim is to get things moving on the ground."

Where Jorge Amado learned about love

The historic center of the Brazilian city of Salvador becomes a magnet for the arts

By PAUL CONSTANCE and
DAVID MANGURIAN, Salvador, Brazil.

JORGE AMADO CAN TAKE CREDIT FOR MANY things, including *Dona Flor and Her Two Husbands* and a string of other novels that have been translated into more than 40 languages.

Now, Brazil's most famous author can also pride himself for unintentionally helping to revive a singular historic neighborhood.

Most of Amado's novels are set in and around Salvador, capital of the Northeast-

ern state of Bahia and former capital—until 1763—of all Brazil. In Salvador, few neighborhoods capture the city's rich colonial heritage more vividly than Pelourinho, a compact jumble of 17th, 18th and 19th century buildings and alleys where Amado lived as a college student.

Each year thousands of the author's fans, seeking to experience the world that inspired his fiction, make pilgrimages to Pelourinho. Many of them go straight to the Fundação Casa de Jorge Amado, an arts center founded in 1987 that maintains a large collection of

materials on the author and hosts literary and cultural events in a spacious building on the district's main thoroughfare.

Some of these visitors venture into Pelourinho with trepidation, having heard grim warnings about crime and decay. But lately, many of them find that their concerns were exaggerated.

On a typical weekend afternoon, Pelourinho fills with visitors, many of them local residents. They are drawn by some two dozen museums and art galleries, three theaters, 20 restaurants, bars and cafes, three youth hostels and all manner of shops.

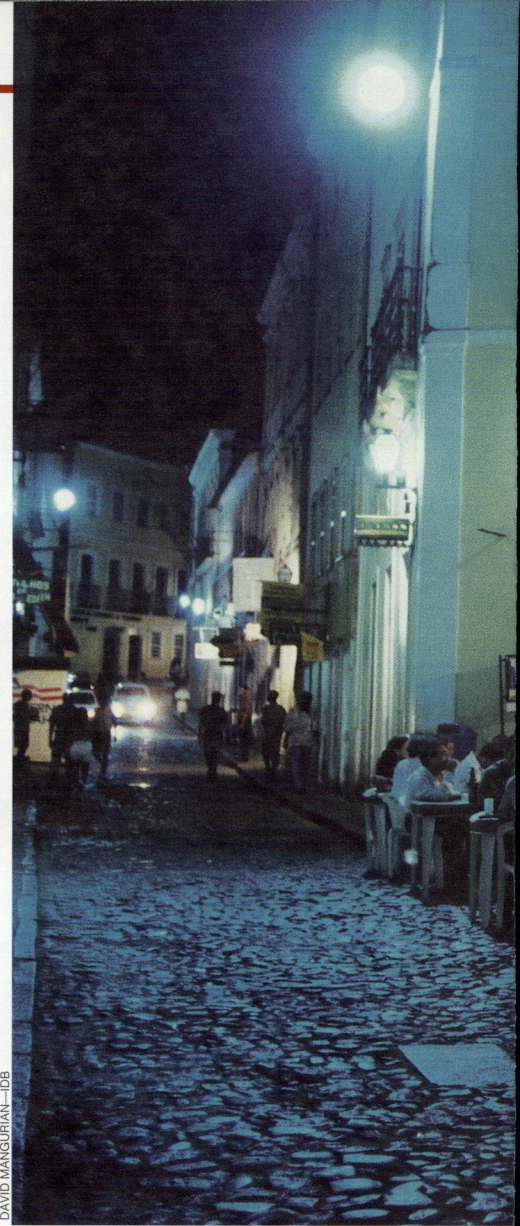
In the evenings, many people stick around, lured by the sound of music emanating from dozens of bars, parks and outdoor stages. The rhythms are contagious, and dances spontaneously break out in the streets when the bands are playing (see sidebar page 19).

What a turnaround! "Most of this activity didn't exist a few years ago," says Paulo Gaudenzi, Bahia's secretary for culture and tourism. "What you had in Pelourinho was abandoned lots, houses without roofs, shanties."

Like historic districts in many other Latin cities, Pelourinho fell into neglect by the middle part of this century, burdened by the lack of modern infrastructure and the cost of upgrading its aging buildings. Many structures were abandoned outright or taken over by squatters. Crime flourished and tourists were often warned to stay away.

Then, in 1992, Bahia's state government launched a program known as Recovery of Salvador's Historic Center. The goal was to restore key sections of Pelourinho and a few other historic areas in Salvador; to encourage tourism and investment by businesses and home owners. The program took a novel approach: the city would offer to completely renovate residential buildings for free, so long as the owners would let the city rent the ground floor of the property for 12 years following the renovation. Rental revenues would help the city recover some of the costs of the renovation.

After devising a comprehensive renewal plan for the district, the government began restoration works on a block-by-block basis.

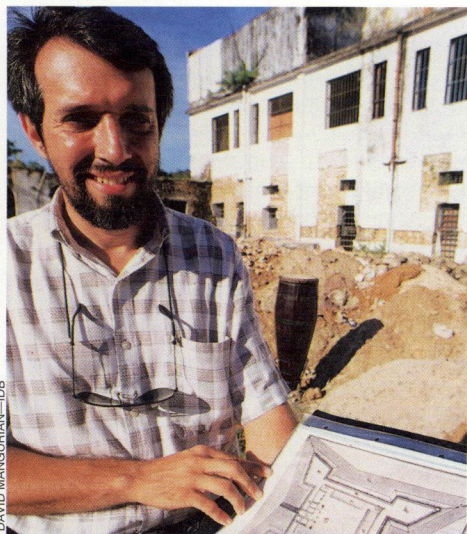


DAVID MANGURIAN—IDB

Eight years and some \$50 million later, the program is nearly complete. Some of the most recent work, including the restoration of eight historic churches and the construction of a large new parking lot, has been financed under a tourism program partly funded by a \$400 million IDB loan approved in 1994. Designed to make this region more attractive to private tourism investment, this Northeastern Tourism Development Plan has focused on building and upgrading infrastructure works such as water supply, sewerage and solid waste disposal. It has also financed projects to upgrade the area's five most important airports and build or improve access roads to key tourist areas.

So far, more than 500 structures in Pelourinho have been restored, and visitors to the district's central area are immediately struck by the bright pastel façades and beautiful architectural details on the buildings.

"Today this area is generating jobs and has been transformed into a social focal point for the city," says Gaudenzi. "In addition to all the restaurants, shops, galleries and other businesses that have come in, we have a pro-



Archeologist Nuno José de Souza Rego displays floor plans of a 17th century Salvador fort that is being restored to house a music academy.

DAVID MANGURIAN—IDB



DAVID MANGURIAN—IDB

‘ROUND THE CLOCK: Greeting midday diners, Augusta Passos Galvão Sampaio Reis, owner of Pelourinho’s Casa da Gamboa restaurant, proffers a menu that features local seafood specialties. At night (left), people gather in sidewalk cafes to eat, drink and enjoy live *chorinho* music.

gram known as Pelourinho Dia e Noite (Pelourinho Day and Night), that sponsors more than 1,000 concerts, plays, poetry readings and other artistic events each year.”

The crown of the restoration program is the Praça das Artes, da Cultura e da Memória. Here, the government has taken over an entire block of crumbling 17th and 18th century residences that once served as the city’s red light district. Based on an integrated design, the city is restoring and adapting each building to specific uses. Eventually, the complex will include a museum, a theater, an art cinema, a bookstore, a restoration workshop and school, several art galleries and a hospitality institute. Traffic problems will be relieved by a three-level underground parking garage that is topped with a terraced sculpture garden.

“The goal was to support the grassroots cultural activities that were already taking place in Pelourinho,” says Vivian Lene de Correia Lima e Costa, a consultant to the state tourism secretariat who helped design the complex. “For example, although the district has numerous performance spaces,

there are not enough facilities designed for theater and dance troupes who need to practice and rehearse. So we built a rehearsal space above the art cinema.”

The road ahead. It is still too early to determine how much the restoration program has helped Salvador’s tourism industry, but there are some promising indicators. In a recent survey conducted by Gaudenzi’s staff, for example, 32 percent of tourists said Salvador’s historic heritage was the main motive for their visit. This level puts Pelourinho on a par with the area’s perennially popular beaches as a stated reason for visiting the city.

“In a survey conducted before the restoration program, only 7 to 8 percent of visitors named historic attractions as their main motive,” says Gaudenzi.

On the other hand, Gaudenzi recognizes that the program has fallen short in some areas. For example, it has proven difficult to lure home buyers into Pelourinho. “We have plenty of businesses, but since there aren’t too many residences, parts of the district can become a ghost town at night,” he says.

“We’re worried about this, because ultimately residents are the ones who sustain economic activity on a daily basis.”

Other observers have pointed out that budget constraints will make it difficult for the state of Bahia to continue investing in restoration works in Pelourinho, and that the funds needed to sustain the program over the long term will have to come from the private sector. Up until now, there has been relatively little private investment on the scale needed to build much-needed hotels, for example. Gaudenzi says the government has extended special lines of credit to new businesses who invest in Pelourinho, but he acknowledges that more must be done.

It will take time and more money to turn Pelourinho into a fully integrated mix of residences, businesses and tourism facilities. “You can’t transform a place like this in a few months,” says Augusta Passos Galvão Sampaio Reis, owner of the popular Casa da Gamboa restaurant in Pelourinho. “But the word is getting out. People are no longer afraid to come, and today we are getting visitors from all over the world!”

Beloved church gets a face-lift

SALVADOR'S SPLENDID HISTORIC CHURCHES DRAW tourists from around the world. But foreign visitors to the famous Igreja do Nosso Senhor do Bonfim in the city's western suburbs are often crowded out by local believers.

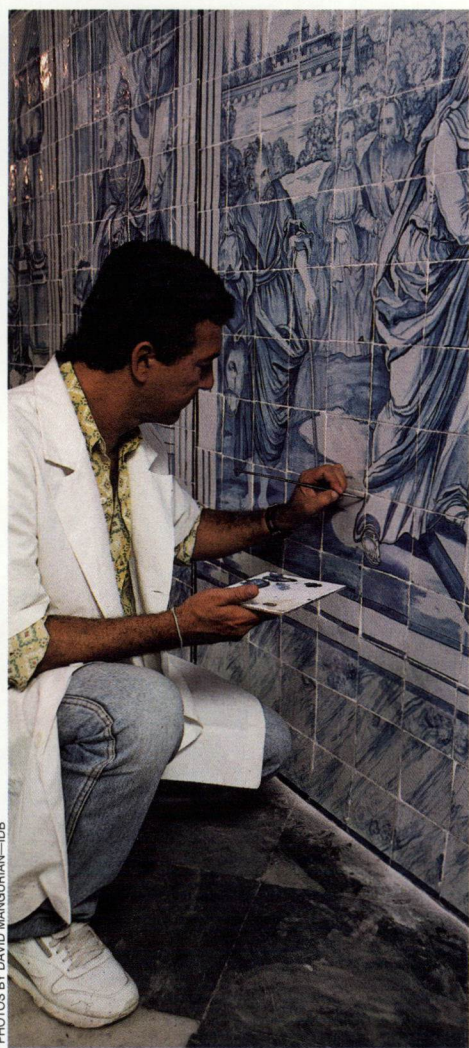
No other church in Salvador, or indeed in the whole state of Bahia, attracts as many devotees as the Igreja do Bonfim, which was completed in 1745. In addition to serving as the gathering point for a number of elaborate religious festivals, Bonfim is the preferred destination for people with specific prayer requests, from help on a final exam to successful surgery. Wrought iron fences

around the church are festooned with thousands of *fitas*—colorful ribbons purchased by visitors who have prayed there. The Museu de Ex-Votos do Senhor do Bonfim, housed inside the church, contains more graphic mementos to answered and pending prayer requests: photos of loved ones, hand-written testimonials, carvings of limbs and paintings of miraculous rescues.

Two hundred and fifty years of use have taken their toll on the celebrated building. Bonfim's beautiful frescoes and mosaics are now being repaired as part of the city's IDB-supported preservation program.



ALL SHADES OF ART: At Salvador's historic Bonfim cathedral (right), believers tie thousands of prayer ribbons to the gates (above), restorationist Shirley Alcantara touches up a fresco (below), and restorationist Cesar Davila repairs tiles near the sacristy (left).





The street is their concert hall

IF VISITORS NOTICE ONE THING ABOUT PELOURINHO, it is usually the music. People gather day and night in this historic district to hear performances that reflect the rich heritage of Brazil's Northeast, a region that has been the source or inspiration for much of the country's best-known music.

In his youth, Heitor Villa-Lobos spent three years traveling around Bahia state, studying the traditional folk music that would profoundly influence his vast output of compositions. In the 1960s, composers and singers such as Gilberto Gil, Caetano Veloso and Tom Zé met as university students in Salvador. They would go on to become seminal figures in the avant-garde pop music movement known as Tropicália.

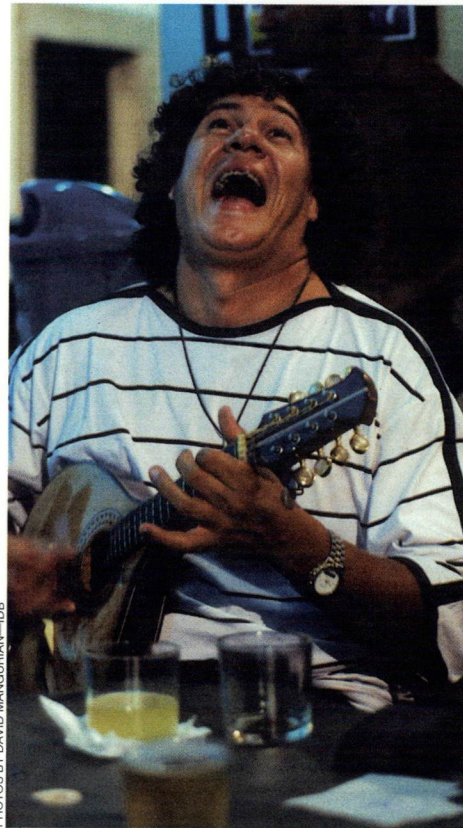
Today, visitors to Pelourinho can hear perennially popular samba and bossa nova numbers, all kinds of classical and jazz repertoires, and examples of several other uniquely Brazilian musical traditions. Among the most conspicuous are the *olodum* percussion bands, whose thundering rhythms frequently echo up and down Pelourinho's narrow streets and alleys. At night, sidewalk cafes draw fans of *chorinhos*, jaunty tunes usually

played by five-piece instrumental bands that feature a bandolino soloist. Formed as a fusion of Brazilian folk tunes, native dance rhythms, and European styles during the last two decades of the 19th century, *chorinhos* reached their heyday in the middle of this century but continue to have a devoted and increasingly international following.

On special occasions, Pelourinho is also host to colorful *filarmônica* marching bands. These uniformed ensembles play only brass, wind and percussion instruments and have their roots in the military marching bands introduced by Portugal during the colonial era. Over the centuries, the original marching music was blended with Brazilian sambas and other local influences, and *filarmônicas* evolved into well-organized community bands that play at special events and religious festivities.

Fred Dantas, a trombonist, band leader, and owner of a music school in Pelourinho, says *filarmônica* music continues to be popular because it reminds many people "of their roots, of their personal history, particularly for those of us who grew up in small towns."

A CITY OF SOUND: "Swing do Pelô," one of several *olodum* percussion bands in Pelourinho, hammers out the kind of beat that has made Brazilian music famous worldwide. Fred Menendez (below), a local performer of *choro* music, plays the mandolin-like bandolino at a local cafe.



PHOTOS BY DAVID MANGURIAN—IDB

Old Panama blooms again

An elegant neighborhood is being revitalized by private investors

By PAUL CONSTANCE

WHEN RUBEN BLADES BUYS A HOUSE IN PANAMA City, people notice. That is especially true if the famous singer, actor and former presidential candidate chooses a neighborhood that is supposed to be less than fashionable.

Blades' three-story home, which he bought and beautifully renovated starting in 1993, stands on a prominent corner in Casco Antiguo, a historic district on a small peninsula that juts out into the Pacific Ocean at the southwestern end of the city. Founded in 1673, the district boasts numerous old mansions and public buildings such as the Presidential Residence and the National Theater. In addition to Spanish colonial and neoclassical architecture, it has several unique French colonial buildings that date from that country's failed attempt to build a trans-isthmus canal in the 19th century.

For centuries, Casco Antiguo was the most fashionable residential area in Panama. But by the 1950s, the district had fallen out of favor as wealthy families moved to neighborhoods offering new houses with modern amenities. Valuable buildings quickly fell into disrepair, and many were taken over by squatters.

Local leaders soon began looking for ways to restore Casco Antiguo to its old glory. In

1977, with help from a \$24 million IDB loan for an urban tourism development project, Panama became one of the first countries in the hemisphere to invest seriously in historical preservation. Some \$7 million were devoted to restoring historical monuments in Casco Antiguo and upgrading the district's water supply network.

Today, Casco Antiguo is undergoing a new wave of revival. But this time, much of the money is coming from private citizens like Blades and companies that see big potential in the area's rebirth.

A second look. "This neighborhood is going to bloom again," says José Carranza, director of the National Theater. "It is going to be known as it was years ago, as an elegant neighborhood full of beautiful houses, and it is going to add an important tourist attraction to Panama."

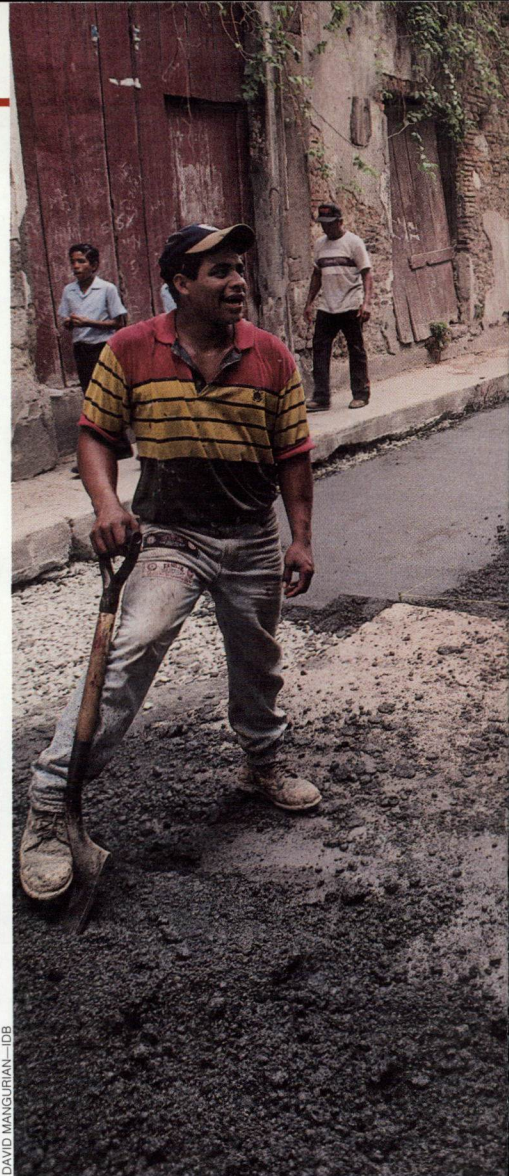
The most concrete evidence of change, according to Carranza, is the current boom in the Casco Antiguo real estate market. "Broken-down houses that couldn't be sold a few years ago are now selling for \$50,000," he says. "A finished two-bedroom apartment costs \$80,000. This shows that wealthy people are coming back."

There are other signs: trucks loaded with construction supplies rumble up and down narrow streets on their way to renovation sites. The streets themselves, once infamously potholed, are gradually being repaved with bricks to match the originals.

Fresh coats of paint are beginning to brighten formerly drab façades. Even the imposing National Theater has received a face-lift. "The Panama division of the Glidden paint company donated supplies and paid for the entire building to be painted," says Carranza.

A few blocks away, in Plaza Bolívar, the grand old Hotel Colombia is swarming with workers. Restaura S.A., an architectural and construction firm that specializes in restoration projects, is converting the old building into an upscale apartment complex while preserving its unique original façade.

Several factors have fueled the revival. One was Casco Antiguo's designation as a World Heritage Site by UNESCO in 1997, a development that increased awareness of the



DAVID MANGURIAN—IDB

area's riches among Panamanians themselves. Another was the passing of a law later that year that offers tax breaks and low-interest loans to people who buy properties in Casco Antiguo and begin restoring them within two years. Restoration plans must be approved by a public committee that ensures that proposed works meet historical, architectural and design criteria.

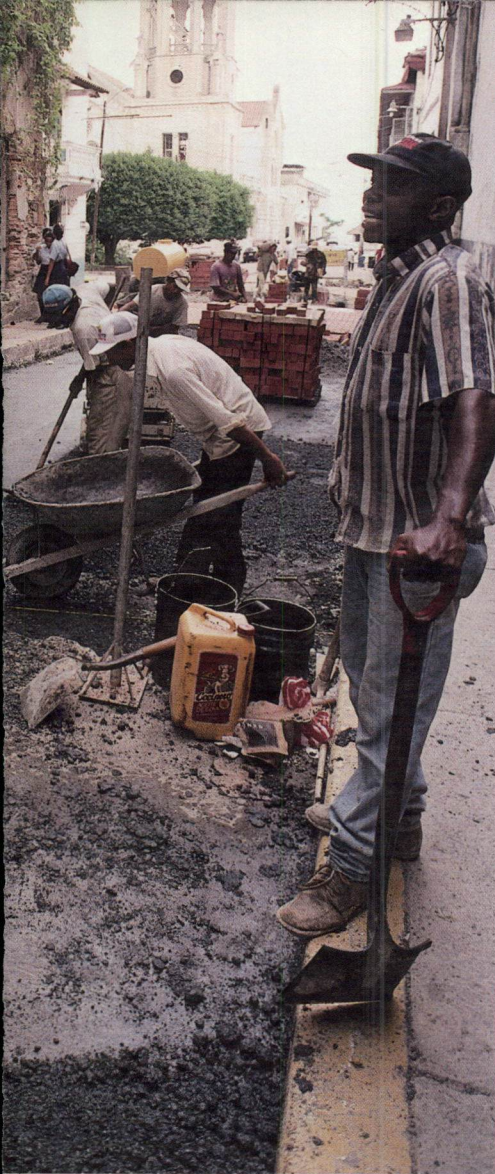
"The government is very interested in turning Casco Antiguo into a significant tourist attraction," says Francisco Rodríguez, a consultant to the Panamanian Tourism Institute. Recognizing the success historic districts in cities like Cartagena, Colombia, and San Juan, Puerto Rico, have had in drawing visitors, Panamanian officials hope to use Casco Antiguo to encourage foreigners to stay longer in Panama City.

"Around 60 percent of the foreign tourists visiting Panama today come to shop or do business," says Rodríguez. "The average stay for these visitors is very short, between 2.5 and 2.8 days. Our goal is to increase that average to five days, but in order to get there, we need to offer them something unique, something they can't get anywhere else." With the help of a \$2.5 million IDB loan ap-



The house of singer Rubén Blades (on the right) was among the first to be renovated.

DAVID MANGURIAN—IDB



URBAN OVERHAUL: With streets of brick, Casco Antiguo will feel the same underfoot as it did in colonial times.

proved in 1998, the Panamanian Tourism Institute is now developing a national tourism strategy that will integrate Casco Antiguo with other attractions including ecotourism, the country's ethnic and indigenous communities, and under-exploited Caribbean and Pacific beaches.

To date, only around 5 percent of the buildings in Casco Antiguo have been restored, and the district still lacks the kinds of hotels necessary to attract most foreign visitors. The area's residents know that a great deal remains to be done, but they are emphatically upbeat in their outlook.

"We're very optimistic about the future," says Mery Troya, manager of Las Bóvedas, an upscale restaurant and jazz club housed in a building that once served as a Spanish munitions depot. "At first we had trouble getting people to come here," she says, "but now the streets are well lighted and there are good police patrols, and each day we're getting more customers. They like the food, they like the music, and they love this one-of-a-kind setting."

The oldest Panamanians

HENRY MORGAN'S BUCCANEERS WEREN'T SATISFIED just making off with gold and treasure. So as they plundered the city of Panama in their famous 1690 raid, they also set fire to the buildings. The city burned to the ground and was never rebuilt. All traces of life in what had been a jewel of the Spanish colonies were buried under the ashes.

Almost 310 years later, a team of archeologists is unearthing the hidden history of Panamá Viejo, as these seaside ruins on the edge of modern Panama City are known.

Among the first discoveries was the fact that Panamá Viejo's human history is older than anticipated. "We began by trying to find the original level of the city's plaza during colonial days," says Tomás Mendizábal, an archeologist with Patronato Panamá Viejo, a local nongovernmental agency. "But in the process we dug up six tombs that date from a pre-Columbian level."

The tombs, from the 5th century A.D., have added excitement to what Mendizábal calls the largest archeological project ever undertaken in Panama by national archeologists. Financed by the Patronato, which in turn is funded by public and private donations, the project employs three archeologists, seven assistants and five conservation technicians working in on-site laboratories.

"In this first stage, we've been basically buttressing buildings and doing 'band-aid' preservation to slow down decay," says Mendizábal. "Later on, we will carry out more conservation activities. We also hope to identify and dig down to all the original levels of the plaza as it was in the colonial era."

In the 1970s, a \$7 million IDB loan helped finance basic tourist infrastructure in Panama Viejo as part of a broader effort to lure



LAYERS OF CIVILIZATION: Archeologists have discovered burial chambers from the 5th century A.D. under the ruins of Panamá Viejo. Previously, the site's urban history was thought to date only to Spanish colonial times.

visitors to the country's historic and natural treasures. Today, the archeology project provides a new reason to visit the ruins.

For Mendizábal, who studied archeology at the University of Liverpool in England, the project is a dream come true. "Many of my friends from university weren't able to get jobs in archeology. This site is so rich, it has so many layers, that I and a number of archeologists could spend 30 years exploring it. I could retire here!"

—Reported by David Mangurian, Panama City



The race is on to slow down the decay of Panamá Viejo's ruins, which date to 1690.



New life for an old train station

FIVE MINUTES FROM DOWNTOWN MONTEVIDEO, near the heart of Uruguay's capital, lies a choice piece of real estate with one of the country's lowest population densities.

Known as La Aguada, this quiet neighborhood boasts a spectacular view of the city port and the River Plate, ornate 19th century buildings, and the kind of wide open spaces coveted by urbanites. Soon, it could

also have people.

Fifty years ago, La Aguada bustled with factories, warehouses and marshaling yards that served trains converging at the massive General Artigas Railway Station. But subsequent changes in Uruguay's economy and its transportation infrastructure reduced the volume of cargo and passengers, and La Aguada became a shadow of its former self.

Today, the shell of the Artigas station is being carefully restored under a program partly financed by a \$28 million IDB loan approved in 1998. Known as "Plan Fénix," the program aims to turn the station into a multiple-use cultural and commercial center and

all of La Aguada into a dynamic commercial and residential district, primarily by attracting private investment.

During the first stage, an autonomous development corporation owned by Uruguay's National Mortgage Bank is restoring the exterior of the station and soliciting proposals from private developers. The winning contractor will overhaul the station's elegant interior, build a variety of cultural and shopping facilities, and operate the building under a multi-year concession. Contractors will also have the option of converting warehouses into residential units. The development corporation is currently reviewing proposals from domestic and international bidders.

Future stages of the project would finance infrastructure investments to make La Aguada attractive to residential and commercial real estate developers. Improvements would include new streets, parks, lighting, water and sewerage services. IDB funds would also be used to equip the new headquarters of the National Radio, Television and Entertainment Service (SODRE, after its name in Spanish). That renovation would turn the future SODRE cultural center and concert hall,

A grand monument to the era of rail transportation, Montevideo's General Artigas Railway Station could soon be filled with shops and theatres. Members of the project's architectural staff show how the station's interior space will be transformed.



DAVID MANGURIAN—IDB

located about five minutes away in downtown Montevideo, into a world-class facility for theater, dance and music performance, and film exhibition. Together, the renovated Artigas station and the SODRE concert hall and opera house would constitute the two poles of a "cultural corridor" offering numerous other entertainment opportunities.

"The challenge in a project of this size and scope is to ensure sustainable financing," says Héctor Salazar, an IDB specialist who helped craft the program. "By looking for private-sector participation from the start, the Uruguayan government is ensuring the long-term viability of the project."

Dollars for everyone?

By PETER BATE

TOP FINANCIAL OFFICIALS FROM THE AMERICAS and economists from multilateral institutions joined in an intense debate over dollarization at a recent seminar on how countries can deal with turbulence in world markets.

During the seminar, "New Initiatives to Tackle International Financial Turmoil," finance ministers from Mexico, Chile and El Salvador, and senior economic officials from Argentina, Brazil and the United States, analyzed the advantages and drawbacks of keeping flexible or fixed exchange rates in the face of persistent market volatility. The event, which was held in Paris last March, in conjunction with the IDB annual meeting, was designed to provide technical support for countries formulating positions on these issues.

In his presentation, IDB Chief Economist Ricardo Hausmann argued that exchange rate flexibility had not been much of an asset for Latin America, resulting in higher real interest rates and smaller financial systems. An analysis of how interest rates behaved in 11 Latin American countries between May 1997 and October 1998—a period that included major shocks caused by the Asian financial crisis, the collapse of key commodities prices and the Russian debt crisis—indicates that interest rates moved the least in countries with rigid exchange rate policies, such as Argentina and Panama. Such a result flies in the face of conventional theory.

Also, Hausmann said, the credibility of minor Latin American currencies, whether floating or fixed, is limited. This is proven by the fact that none of them has managed to create long-term debt markets denominated in their local currency. The result is that firms are forced to make a dangerous choice: borrow in dollars and be exposed to exchange rate mismatches, or borrow short term in local currencies and risk maturity mismatches and liquidity crises.

The presentation prompted both strong endorsements and criticism. Salvadorean Finance Minister Manuel Hinds clearly favored dollarization.

"You need to have a standard of value," said Hinds, who said he planned to recommend to the incoming administration of president-elect Francisco Flores to fully dollarize El Salvador's economy. "The population of Latin

America already has a standard of value: it's the dollar."

In a paper he prepared for the seminar, Hinds called flexible exchange rates "a curse" for Latin America, and likened devaluations to leg amputations. "If you don't believe me, go ask common citizens in Mexico or Brazil who cannot pay their mortgages, who have lost their savings, who face sky-high interest rates and a drastic uncertainty," he stated in his paper.

Hind's Mexican counterpart, José Angel Gurriá, vehemently opposed dollarizing, calling it inappropriate and ill-advised. "Would a dollar bill with the face of Columbus be the solution? The answer is no," he said. While he acknowledged that Argentina had benefitted from a rigid exchange rate system that ties its peso to the dollar, Gurriá argued in favor of the floating rate regime Mexico has followed ever since the 1994 peso crisis.

Chilean Finance Minister Eduardo Aninat also voiced skepticism about dollarization. Until a recent slowdown triggered by a plunge in the price of copper, Chile's leading export, his country had managed to grow impressively during more than a decade while keeping a policy of exchange rate bands that affords its peso some flexibility.

"I am very skeptical about extremes in exchange rate regulations," he said.

Argentine Economy Secretary Pablo Guidotti, whose country has successfully maintained a currency board-like exchange policy since 1991 and has analyzed the possibility of switching to dollarization, said other countries should weigh the costs of sticking to national currencies. Arguing that in an increasingly globalized economy it made little sense to have to deal with 180 different national currencies, the Argentine official suggested that emerging countries

will eventually have to come to terms with a dwindling demand for such a diversity of currencies. "Current fi-

"Would a dollar bill with the face of Columbus be the solution?" quipped Mexican Finance Minister Gurriá.



WILLIE HEINZ—IDB

"Consult with us first," advised Summers.

ancial trends tell us that the markets point toward an eventual decrease in the number of currencies," Guidotti said. "Something in the financial markets is asking us to find ways to reduce risk and uncertainty."

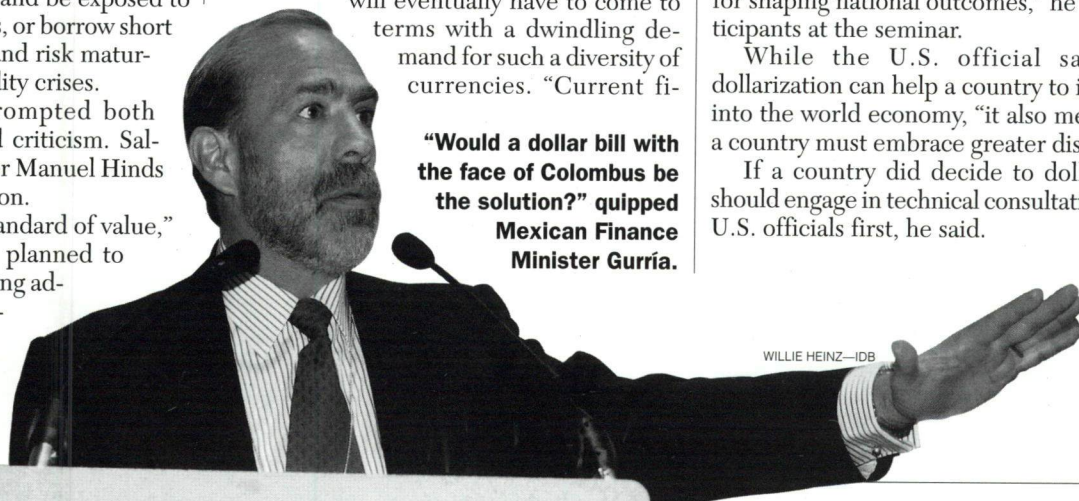
Brazil's Central Bank president, Armínio Fraga Neto, noted that a fixed exchange rate had worked for Argentina just as well as a more flexible regime had worked for Chile. The Brazilian government, which last January devalued its currency after keeping it on an exchange rate band system for several years, has since adopted a floating exchange rate. Fraga said the new regime is well-suited for a country of Brazil's geographic and economic size. "We've now had decades of experience with the gold standard, fixed exchange rates, floating rates, and to me the answer is really not so obvious. There is nothing telling me that Latin America is different from any other region," he said.

In his speech, U.S. Treasury Deputy Secretary Lawrence H. Summers said that dollarization may attract some governments with the promise of stability, but noted that countries embarking on such a course would have to be prepared to accept the outcomes.

"There is no substitute for national policy for shaping national outcomes," he told participants at the seminar.

While the U.S. official said that dollarization can help a country to integrate into the world economy, "it also means that a country must embrace greater discipline."

If a country did decide to dollarize, it should engage in technical consultations with U.S. officials first, he said.



WILLIE HEINZ—IDB



A child's chances of making it out of poverty depend largely on the family environment.

Why do some beat poverty?

ACCORDING TO A GROWING BODY OF RESEARCH, a child who completes secondary school generally will have sufficient upward momentum to permanently break out of poverty. Then arises the question: Why do some fortunate children manage to complete this level of schooling while the vast majority do not?

The primary reasons can be found in the family environment, according to economists Tarsicio Castañeda and Enrique Aldaz-Carroll in a study distributed at a seminar on investing in childhood development held last March in Paris in conjunction with the IDB's annual meeting.

While others don't? In their examination of the family background of persons aged 20–24 years in 16 Latin American countries, Castañeda and Aldaz found that the higher the number of siblings, the lower the chances for completing secondary school. In several countries, the sibling factor was important only in low-income households.

They further found that in nearly all countries, the mother's education, no matter how modest, significantly increases the likeli-

hood that a child will complete secondary school. The educational attainment of the father was found to have considerably less impact. In addition, in nearly all countries, girls were found to complete secondary school at a higher rate than boys.

Other major factors were, as expected, household income and place of residence. In most countries, the probability of a child completing secondary school is over twice as high in urban areas than in rural ones, although the effect was less noticeable in better off families.

Castañeda and Aldaz concluded that the family should be a focus of programs to break the intergenerational cycle of poverty. They cited as a model Mexico's Progresá program, which integrates education, health and nutrition (including reproductive health measures that support family planning), and income support. Since such integrated programs are expensive, the authors urge that beneficiaries must be carefully targeted.

—Roger Hamilton



To see the complete study, go to www.iadb.org/sds/soc.

THINK TANK

Positive impact seen for euro

THE INTRODUCTION OF THE EURO AS THE common currency in 11 European Union countries will lead to rapid growth of the bond market, create a new reserve currency, contribute to Europe's competitiveness and growth prospects, and have positive repercussions around the world, including the countries of Latin America and the Caribbean.

Could help stabilize prices That was the consensus among senior government and private sector financial leaders at a seminar on the new currency held in conjunction with the IDB's annual meeting in Paris last March.

Reflecting on the first 100 days of the new currency, IDB President Enrique V. Iglesias described the introduction of the euro as another major advance in Europe's approach to integration and a possible model for Latin America.

"We are following this very closely," said the IDB president.

Eugenio Domingo Solans, a member of the executive board of the European Central Bank, called the launching of the euro "fully satisfactory." He cautioned that the success or failure of the currency should not be measured in terms of its value compared with other currencies "but in terms of price stability," which he said was "the priority objective."

Charles de Croisset, president of Crédit Commercial de France, after acknowledging that the euro's introduction had resulted in high transition costs for the banking sector, said that many financial institutions will be tempted to seek growth through mergers and acquisitions to compete in the new, enlarged financial market.

French Finance Minister Dominique Strauss-Kahn said the euro opens new prospects for growth of a "high-value service" economy in Europe, while Jacques de Larosière, former president of the European Bank for Reconstruction and Development and managing director of the International Monetary Fund, predicted an explosive growth of the European bond market.

Jacques Delors, former president of the European Commission, and Roberto Zahler, president of the Board of Siemens of Chile S.A., both supported the idea of common currencies as an eventual objective that can help discipline and deepen the integration process in Latin America and the Caribbean. But Zahler argued that neither Latin America nor its respective subregions are ready for a common currency.

Left and right, but mostly center

Even in the heat of crisis, Latin America's political climate is increasingly moderate

By PAUL CONSTANCE

WHEN THE ASIAN AND RUSSIAN FINANCIAL crises blind-sided Latin America last year, analysts immediately predicted a popular backlash against free-market policies.

Their argument was hard to refute. For the better part of a decade, people in Latin America's biggest economies had been adjusting to the effects of liberalized trade, privatizations, increased foreign investment and diminished government subsidies. These free-market reforms had in many cases increased prices, unemployment and the gap between rich and poor. But voters tended to support the reforms because they preferred the resulting stability and low inflation, and because they hoped to eventually benefit from rising prosperity.

Then, as the financial crisis threatened to cripple one Latin economy after another in 1998, that prosperity suddenly seemed more distant than ever. Would frustrated voters conclude that free-market policies could not deliver on their promise and start calling for a return to greater state intervention in the economy?

Answers to that question can be glimpsed in the results of a survey of people's views on politics and the economy in 14 Latin countries and the United States, released earlier this year by The Wall Street Journal's Americas edition. The survey, entitled "Mirror on the Americas," indicates that even though most Latin Americans are pessimistic about the current situation, a clear majority continues to support market-oriented economic policies.

According to the survey, 61.2 percent of all Latin Americans believe their parents lived better than they do. And yet they do not want a return to the statist policies under which most of their parents lived. On the contrary: 58 percent of survey respondents said prices of products should be determined by free competition, 64 percent said the market economy is best for the coun-

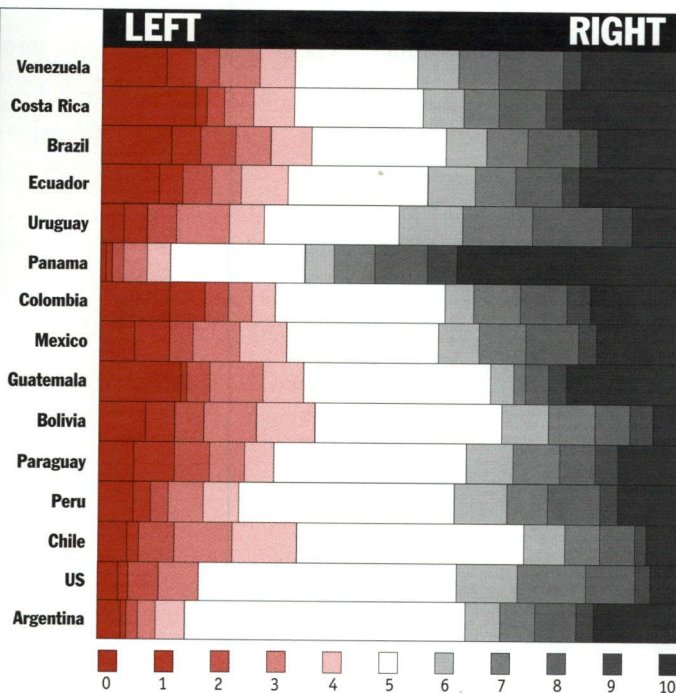
try, and 69 percent said foreign investment in their country should be encouraged.

Eduardo Lora, an IDB senior research economist who has written about public perceptions of economic reforms, thinks these replies show that people are distinguishing more clearly between the appropriate roles of the state and the private sector. "Other surveys have shown that people still believe that the government should provide a safety net of essential services in areas such as health and education," he said. "But they no longer think the state should try to participate in the economy as a whole. Instead of criticizing capitalism, they are criticizing the failure of government to meet basic needs."

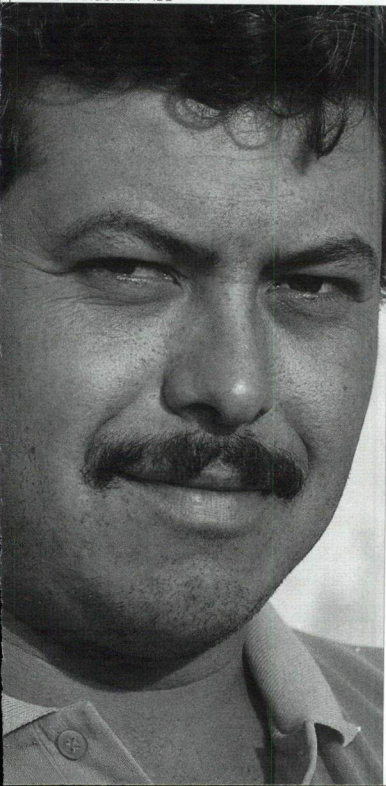
The survey also reflects another much-discussed trend: the retreat from Left-Right extremes of the political spectrum to more moderate, centrist views. Latin countries that as recently as the 1980s were perceived as being politically polarized are now showing a majority in the center. The graph below shows where people placed themselves on a political scale of 0 (Left) to 10 (Right). Notice that the white and light-shaded sections near the middle predominate, although the balance in all countries is slightly in favor of the Right. Indeed, in several Latin countries, the percentage of people identifying themselves as politically neutral (white) is now similar to the level in the famously centrist United States.

People can mean different things by "Left" and "Right," of course, and those meanings have evolved following the end of the Cold War and the era of dictatorships and armed conflicts. But what this graph shows is that most Latin Americans, even during a period of acute economic distress, are no longer attracted to radical solutions.

■ People were asked: 'On a political scale where 0 is Left and 10 is Right, where do you stand?' ■



Source: Wall Street Journal



DAVID MANGURIAN—IDB

PROJECT UPDATES

BRAZIL

A foot in the job-market door

ON A ROCKY INLET NOT FAR FROM Rio de Janeiro, a group of teenagers in swimsuits is learning the fine points of mussel cultivation.

Also in Rio, project "Surfavela" teaches young people to refurbish used surfboards, which are then sold on neighboring Ipanema Beach.

And in Porto Alegre, capital of the southern Brazilian state of Rio Grande do Sul, young people are practicing computer maintenance and repair techniques.

Many of the students at these courses have never completed high school, and all come from low-income neighborhoods on the margins of the cities in which they live. This would normally disqualify them from typical vocational or job-training programs, but not from Capacitação Solidária. Created in 1996, this innovative program specifically seeks out young people aged 14-21 who are not likely to have the resources or the qualifications for more formal job training. So far more than 15,000 young adults, over half of them women, have benefitted from over 100 types of professional courses including gardening, surfboard manufacturing, video production and graphic arts.

Now, with \$5.15 million from an IDB affiliate and \$10 million in financing from the IDB, Capacitação Solidária will train an ad-

ditional 18,000 young men and women, as well as strengthen the institutional capacity of at least 500 participating private training organizations (PTOS).

Capacitação Solidária does not offer training itself. Instead, it solicits bids from PTOS that compete for contracts to offer courses. The PTOS are mostly nongovernmental organizations, unions, community associations, and small businesses that have a proven track record in training urban youth and promoting partnership with the private sector. Courses cover dozens of areas. Along with those mentioned above, participants can acquire skills necessary to work as photographers, electricians, dental assistants, mechanics, heavy equipment operators, seamstresses, bakers, hairdressers and musical instrument makers.

In addition to providing job placement services, the Capacitação Solidária program explicitly encourages its beneficiaries to either return or remain in school to complete their formal education requirements. It also requires students to take part in a mandatory apprenticeship equivalent to one-third of the total course hours, with the remaining two-thirds dedicated to technical instruction and sessions focused on basic life skills such as self-esteem, leadership and team work, work ethics, problem solving and communications.

To compensate for their time in the program, students are awarded monthly stipends the equivalent of slightly less than

half the minimum salary (US\$40/month).

Many participants see the income-generating potential of their new job skills only as a first step. In a Capacitação Solidária video about participants in its 1997 courses, a young woman taking a seamstress class in Porto Alegre tells an interviewer: "This course will help put me through college. I'll be able to sew part-time and study at night."

Others appreciate the chance to simply broaden their horizons. "You meet new people, and you learn to be more sociable," says a young woman at a computer maintenance workshop in Rio. "You also get to know professionals in the field, and that can help you to find a better job."

PROJECT UPDATES

BRAZIL-BOLIVIA

Bolivian gas now flows to Brazil

BRAZILIAN PRESIDENT FERNANDO Henrique Cardoso and his Bolivian counterpart, Hugo Banzer, officially opened a 3,146 km natural gas pipeline between their countries last February, culminating a 25-year process of negotiations and planning.

The \$1.7 billion project, which is partly financed by a \$240 million loan from the IDB, will help meet Brazil's growing energy needs well into the next millennium, transporting up to 30 million cubic meters of gas per day to industrial and residential centers.

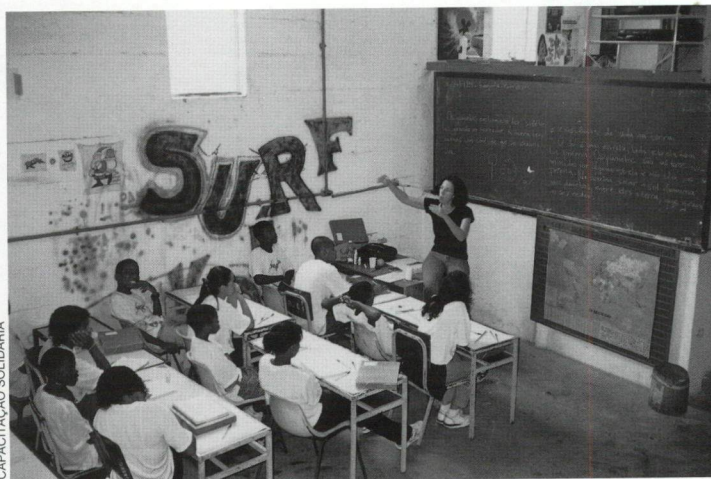
The pipeline, described as one of the largest civil engineering projects ever undertaken in Latin America, is still under construction. The north branch, spanning 1,966 km from gas fields in central Bolivia to Campinas in Brazil, is now operational. The 1,180 km southern branch, which will take gas from Campinas to the city of Porto Alegre, is scheduled for completion in October. The pipeline will have intermediate distribution points in São Paulo, Curitiba, Florianópolis, and other cities.

Estimates indicate that Bo-

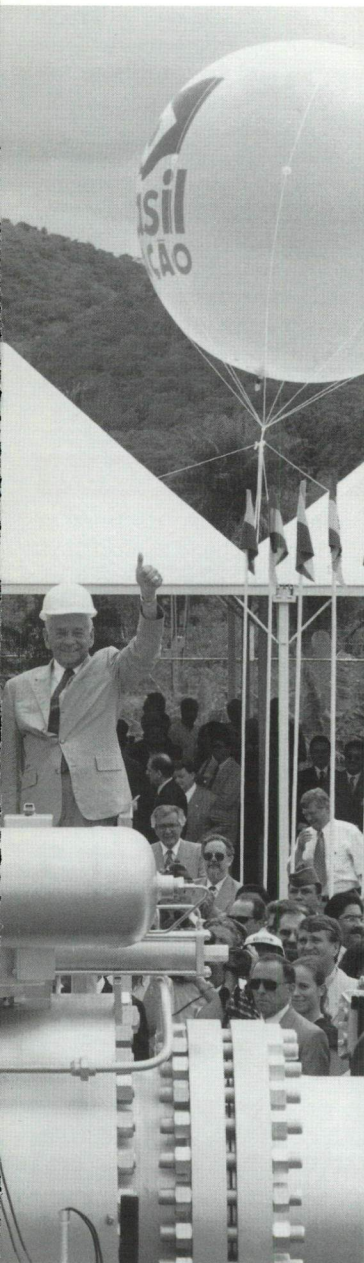


livia will earn some \$1.6 billion over the next 20 years from gas sales to Brazil. Those revenues will provide sorely needed funds for social programs and other public investments while helping to balance Bolivia's trade deficit with Brazil.

Some 540,000 tons of 32-inch to 16-inch pipe, buried one meter underground, will have been employed when the pipeline is completed. The project will enable Brazil to achieve its strategic plan of diversifying energy sources to include the cleanest of fossil fuels, helping to meet the expanding needs of its industrial south and reducing the use of high-sulfur fuel oil.



Students learn skills that will open doors into the world of work.



THUMBS UP! Brazilian and Bolivian presidents Cardoso and Banzer (above) inaugurate the 3,146 km pipeline that will transport natural gas between their two countries (below).



DAVID MANGUJIAN—IDB

NEW PROJECTS

Bank offers help for Y2K

DECLARING THE YEAR 2000 computer problem a "technological emergency" in Latin America and the Caribbean, the IDB opened a \$200 million emergency line of credit to assist the region's countries in repairing computer systems and preparing for anticipated problems.

The Bank warned in a May statement that many countries in the region were behind in reprogramming existing data systems or purchasing new systems capable of handling the date change on Jan. 1, 2000 (See "Will they fix the millennium bug?" IDBAmérica, Nov.-Dec. 1998).

The emergency line of credit will allow for rapid disbursement of funds to countries that are preparing contingency plans to manage system failures that might occur on that date. The credits could also be used to finance training of computer personnel in preparing and implementing upgrades in computerized systems, crisis management and recovery, testing, and procurement of new programs, equipment and consulting services through December 31, 2000.

The so-called Y2K problem could affect nearly all areas of daily life, including surface, air and maritime transportation; electric power production and distribution; potable water and solid waste treatment; hospitals; manufacturing; finance and insurance; public sector operations such as tax collections and police; and social services.

Last year, the IDB organized and participated in several awareness seminars and meetings, at both regional and national levels, to alert authorities to the impending emergency. In addition, the Bank has collaborated with a number of countries in the region to evaluate the capacity of their executing agencies to deal with the Y2K problem and to survey financial needs related to it.



For more information go to www.y2k.gob.mx



Honduras: repairing the damage.

LATEST APPROVALS

Brazil

A \$2.2 billion IDB emergency loan to support government efforts to protect social spending levels during the economic downturn. The loan will also help to maintain macroeconomic stability thereby increasing confidence in the country's capital markets.

A \$1.2 billion IDB emergency loan to Banco Nacional de Desenvolvimento Econômico e Social to offer medium- and long-term financing to small and medium-sized businesses that require capital for restructuring, expansion, or operational improvements.

Chile

A \$240 million IDB loan to strengthen the availability of medium- and long-term credit for small and medium-sized enterprises.

Dominican Republic

A \$21.5 million IDB loan to strengthen the government's capacity to effectively respond to challenges in the areas of macroeconomic and social policy, institutional reform, and human resources enhancement.

El Salvador

A \$3.8 million IDB loan and \$3 million MIF grant to strengthen the supervisory agencies of the financial sector.

Honduras

A \$1 million grant from the Fund for Special Operations to strengthen managerial and planning capacity in the reconstruction effort following devastation of Hurricane Mitch.

Nicaragua

A \$2.1 million concessional loan from the Fund for Special Operations to help develop social policies that will be compatible with economic policy, with special emphasis on poverty reduction.

Paraguay

A \$1.2 million MIF grant to Unión Industrial Paraguaya to help build business links between small and large companies and promote the use of clean technologies.

A \$500,000 grant from the Fund for Special Operations to strengthen the legislative process through staff training. The grant will also be used to enhance communication between the Paraguayan Congress, the general public and the private sector.

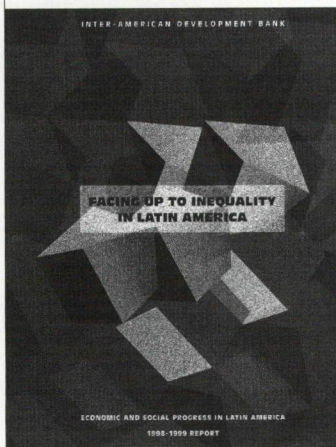
Regional

A \$200,000 IDB grant and a \$175,000 grant from the Norwegian Fund for Microenterprise Development to improve prudential norms, regulations, and supervisory practices for micro-finance institutions.

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.

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 Naim, 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, according to the authors.

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.

Grants for women's leadership

THE PROGRAM FOR THE SUPPORT OF Women's Leadership and Representation (Prolead), an IDB initiative to help advance women to positions of leadership in Latin America, in April awarded 40 grants to organizations that will advance this mission.

The grants, ranging from \$5,000 to \$100,000 each, went primarily to nongovernmental organizations in Latin America and the Caribbean that work to promote women's civic participation and leadership in government, business, the media, and community organizations.

A total of 326 proposals were received and reviewed by Prolead's staff in Washington, D.C., and by a number of external consulting reviewers with expertise in individual countries. "Because of the unmet demand for grants in this area, it was important to give each proposal the attention it deserved and a fair chance to be selected," said Ana María Brasileiro, Prolead's director.

A short list of proposals was then submitted to Prolead's Council, a committee composed of accomplished women from the fields of business, politics and international development. The council recommended 56 of the best proposals for funding, but Prolead's budget allowed for only 40 grants.

For information on the grant recipients, visit Prolead's website at www.iadb.org/sds/prolead.

IDB, OAS push anti-corruption

THE IDB AND THE ORGANIZATION OF American States (OAS) signed an agreement in March to promote the prompt ratification and implementation of the Inter-American Convention Against Corruption.

The two organizations are co-financing the project with a contribution of \$105,000 each. Among the activities of the program will be a series of work-

shops in several countries to raise awareness of the importance of ratifying and implementing the convention, which was signed in March 1996.

Signatories of the convention pledged to take several steps to curb corrupt practices, including extradition and limitations on bank secrecy. The signatories also pledged to punish acts of international bribery.

Only 11 out of 34 states in the Americas have ratified the convention.

Accord signed to preserve historic sites

THE FRENCH MINISTER OF CULTURE and Communications, Catherine Trautmann, and IDB President Enrique V. Iglesias signed an agreement on March 10 in Paris to cooperate in restoring and re-

vitalizing historic sites and their surrounding urban areas in Latin America and the Caribbean.

According to the agreement, France will provide technical assistance for IDB projects designed to help countries of the region to design and plan policies to maintain historic sites and protect monuments, public spaces, and the environment, as well as rehabilitate housing for people near the sites and refurbish museums and hotels, in some cases.

CAPITAL MARKETS

THE IDB LAUNCHED ITS THIRD \$1 billion global bond issue of 1999 on April 13. The joint lead managers for the bond, which pays a coupon of 5.625 percent, were Lehman Brothers and Morgan Stanley Dean Witter. The 10-year issue, which matures on April 16, 2009, has a re-offer price of 99.022 percent.



PORTRAIT IN POSTER PAINT: Not only art, but games, stories, and even weekly trips to the swimming pool are offered to the 50 preschoolers at this nursery in Port of Spain, Trinidad and Tobago. The nursery received financing through an IDB loan to support infrastructure and social services for the poor. Local community groups participated in designing the projects.



DAVID MANGURIAN—IDB

Emiliani makes a point during one of the Washington meetings of the Darién Sustainable Development Program's advisory committee.

The bishop with the dirty shoes

By PAUL CONSTANCE

AMONG MANY OF HIS PARISHIONERS, Rómulo Emiliani is known as the bishop who gets covered in mud.

Mud is a defining part of life for the people who live along the single dirt road that connects Darién, Panama's southernmost province, to the rest of the country. During the rainy season, the road turns into an infamous quagmire that can stop even the toughest vehicles.

Yet even among veteran *Darienitas*, as the locals are known, the sight of a senior church official on his knees in the muck, wrestling with the punctured tire of a vehicle he drives himself, is worth a second look.

Since he was named Bishop of Darién in 1988, Emiliani has traversed this road innumerable times. On the way he has acquired a twin reputation for informality and a willingness to take matters into his own hands. "Whenever I'm riding with him and we get stuck, I always tease him and say 'It's your turn to push!'" says Rosario Aguilar, a longtime friend and collaborator.

Emiliani pushes, and not just stuck vehicles. When he arrived in Darién a decade ago, he found a region that felt like it was no longer a part of Panama. The problems were legion: extreme poverty, malnutrition, barely functioning schools, uncontrolled logging,

crime, woefully deficient services and infrastructure, and a single road nearly impassable for much of the year.

Emiliani, who was well known in Panama's social and political circles prior to arriving in Darién, launched an all-out campaign to put the needs of his new parishioners on the national agenda. He organized demonstrations demanding government assistance in a plaza near the presidential palace in Panama City. He issued impassioned pleas in hundreds of radio, television and newspaper interviews. He peppered foundations and charitable organizations around the world with requests for aid. And he made personal appeals for help to many of Panama's wealthiest and most influential families.

Shrewd fund-raiser. "He is devoted to the cause of the most disadvantaged," says Rogelio Novey, the IDB's alternate executive director for Panama and Venezuela. "But he is also very sophisticated when it comes to raising funds and getting civil society to respond and contribute."

It is impossible to visit Darién today without seeing evidence of Emiliani's efforts. "In 1990 it used to take me up to two days to make the road trip to Metetí," says Aguilar, referring to the province's largest town. "Today, thanks to the attention the bishop brought to the problem, the government

maintains the road well enough that I can get there in four hours."

Aguilar is executive director of the Fundación Pro Niños de Darién, which Emiliani founded in 1990 to address the chronic malnourishment he saw among the province's schoolchildren. Today, relying entirely on private-sector donations, the foundation distributes school lunches to some 7,000 children while offering a variety of health, nutrition and farming programs to their parents.

Emiliani also founded a farmer's cooperative that teaches improved agricultural techniques and promotes reforestation, a home for the elderly, a prison ministry, and "Cristo Sana," an organization of volunteer doctors that travels to remote parts of Darién offering medical care.

But perhaps the most ubiquitous reminder of his influence can be heard on transistor radios in practically every home in Darién. The area's first regional radio station, also created through Emiliani's efforts, provides a folksy mix of Christian programming, news and personal message hours that are the principal means of communication for the province's scattered communities.

Given all this, it was perhaps natural that Emiliani should become one of the architects of the IDB-financed Darién Sustainable Development Program launched last February in Metetí (see story, page 2). As a member of the program's advisory committee, Emiliani helped shape priorities from the start. Even more valuable, according to the IDB's Novey, was Emiliani's role as a mediator among Darién's numerous and often conflicting interest groups. "He was crucial to ensuring that no one was excluded from the project," says Novey.



DAVID MANGURIAN—IDB

DOUBLE IMAGE: Workers make the windows sparkle at the elegant Hotel Majestic in the historic center of Quito, Ecuador. The building, currently used for office space, is being prepared for a joint venture with private hotel developers as part of an IDB project.