

■ HONDURAS REBUILDS

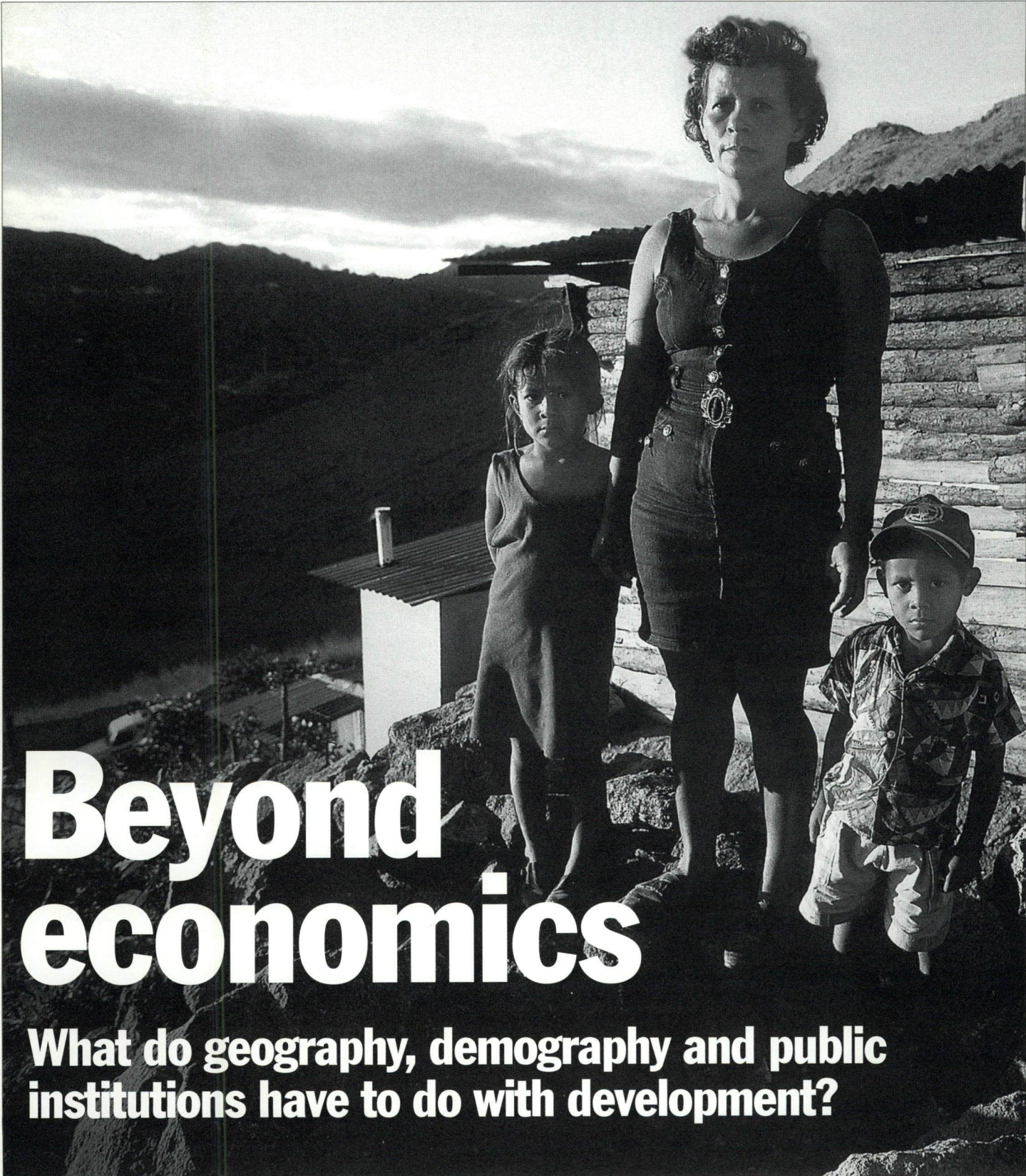
■ INTERNET COSTS DROP

■ URUGUAY'S HIGH-TECH FRUIT

IDB AMERICA

Magazine of the Inter-American Development Bank

March-April 2000



Beyond economics

What do geography, demography and public institutions have to do with development?

VIEWPOINT

1 In Paraguay, who will get water?

FOCUS

3 Beyond economics

Fresh explanations for Latin America's lagging development.

4 Is geography destiny?

Yes, but destiny can be changed.

8 Demographic windfall

The region is entering an era when more workers will provide for fewer children and retirees.

10 Playing by new rules

Bolivia makes government cleaner, more efficient.

NEWSBEAT

14 On the right path

Honduras makes steady progress in reconstruction after Hurricane Mitch.



Panama's San Blas Indians sell embroidered *molos* on the Internet. See story, page 29.

16 Banner year for IIC

IDB affiliate approves \$192 million for projects to support private firms, create jobs.

17 Just-in-time fruit

Technology makes the difference for apple growers in Uruguay.

THE BANK IN ACTION

18 Some come to shop

At a Uruguayan bus terminal, hassle-free travel is only one of the attractions.

THINK TANK

20 Indigenous land titles

21 The effects of a road

22 Postal service reform

FIGURATIVELY SPEAKING

23 Don't call, send e-mail

A survey of communication costs in Latin America.

EXPRESSIONS

24 A look at Norway's arts and crafts

25 The Golden Age of Buenos Aires

PROJECT NEWS

26 Updates and new project approval

Bolivian roads; Honduras, El Salvador share power.

PROTAGONIST

29 E-commerce comes to the San Blas Islands

Indigenous crafts find new markets on the Internet.

THE COVER

Beyond economics. Policy experts often portray development in strictly economic terms. Though crucial, economic considerations do not tell the whole story. This issue explores three frequently overlooked areas—geography, demography and public institutions—that reveal a great deal about the source of Latin America's problems and point to potential solutions. See articles on pages 3 through 13.

—Cover photo by David Mangurian.



DAVID MANGURIAN-IDB

EDITORS' NOTEBOOK

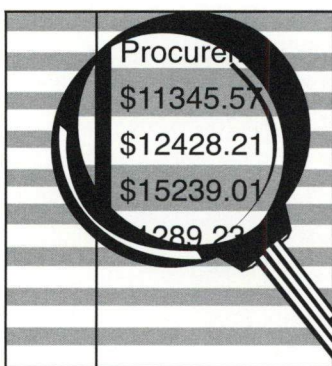
How much did they pay?

SUNLIGHT IS THE BEST DISINFECTANT, say advocates of clean government. In areas that tend to breed corruption, exposure to public scrutiny can be the most effective deterrent against abuse.

Public procurement is certainly one such area. When governments purchase goods or services, the threat of behind-the-scenes negotiations, inflated invoices and rigged contracts is never far behind. Governments the world over struggle to stamp out these abuses. But the mountains of paperwork, the sheer volume of items, and the large sums of money involved all conspire against effective control.

Now, governments are adding the Internet to their arsenal of fraud-fighting weapons. The logic is simple: by requiring that information about competitions, contracts and prices be easily obtainable

on the World Wide Web, a government can make it harder for unscrupulous officials to conceal improper arrangements. Internet disclosure makes it easier for business people, journalists, and ordinary citizens to watch how public funds are being spent—thus supplementing the government's limited capability for oversight.



Several Latin American

countries are gradually migrating their procurement systems to the Internet. Mexico was one of the first, launching www.compranet.gob.mx in 1997. Last year Brazil's federal government opened www.comprasnet.gov.br. And last month, the Chilean government announced an international competition, on the Internet, for a contract to operate www.compraschile.cl, its recently launched procurement site. The goal, according to the terms of reference of the Chilean program, is to ensure that the service will be as efficient and transparent as possible and that its users will have access to the best possible technology.

For a look at how these services are illuminating what has long been a dark corner of public administration, see the next issue of IDBAmérica.

IDBAMÉRICA Volume 27 No. 3-4

EDITOR: Roger Hamilton
MANAGING EDITOR: Paul Constance
ASSOCIATE EDITOR: Peter Bate
PRODUCTION EDITOR: Claudia Estrada
CONTRIBUTING EDITOR: David Mangurian
DESIGNER: Giselle Goicochea
ON-LINE EDITOR: Iris del Carpio
PHOTOGRAPHER: Willie Heinz

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

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

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

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

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

Who will get water?

By **RAUL BAGINSKI**

"I have my skirt on straight and I accept my responsibilities."

Rosario Robles Berlanga, mayor of Mexico City, quoted in the New York Times on Feb. 27. She was referring to her decision to publish a statement of her personal finances as a sign of her commitment to transparency in public administration. A traditional Mexican aphorism defines macho men as "having their pants on straight."

"What Spain did was to step in during the economic crisis, when most U.S. investors took a step back."

George Muñoz, president of the Overseas Private Investment Corp., a U.S. government agency, quoted Feb. 17 in the Miami Herald. He was remarking on the rapid growth of Spanish direct investment in Latin America during the last three years, which has surpassed U.S. investment in the region.

"Like it or not, people who have never seen a computer are going to be doing things on the Internet."

Wenceslao Casares, the 26-year-old CEO and cofounder of Patagon.com, a Latin American financial services website, quoted in Clarín on March 10. Casares was explaining why he thought Banco Santander Central Hispano paid \$528 million for a 75 percent stake in his four-year-old Internet company. He and Constanancio Largaña, also 25, started Patagon.com during their last year at a university in Buenos Aires.

"We are very conscious that our banks need to become more efficient."

Hernán Somerville, president of Chile's Association of Banks and Financial Institutions, quoted in El Mercurio on Feb. 24. He was referring to the need for additional improvements after Moody's, the credit agency, ranked Chile's banks as the world's 15th most solvent, ahead of countries such as France, Italy and Hong Kong.

SHOULD GOVERNMENTS HAVE a monopoly on providing water service?

In most countries this question is not even on the agenda. But in Paraguay, a country where only 43 percent of the population has running water, a lively debate over the issue has emerged in recent years.

On one side is CAPA, a trade association that represents some 400 small, privately owned providers of water service known as *aguateros*. These entrepreneurs have sprung up as a natural response to the lack of public water service in many districts. They dig their own wells, install pumps and run pipes into people's homes, all for a fee of around \$250 that can be amortized over three years. These companies serve around 7 percent of Paraguay's population.

The *aguateros* have won plaudits from development experts as an example of how an unfettered private sector can sometimes provide public services more efficiently than governments. So when the Paraguayan legislature recently proposed a new law regulating competition in the water sector, CAPA and its supporters were understandably

alarmed. In a February 4 editorial in the Wall Street Journal, Paraguayan journalist Porfirio Cristaldo claimed that the new regulations will shut down the *aguateros* and create an inefficient regulatory bureaucracy that will stifle competition.

The IDB helped to finance preliminary studies on which the new law is based. One of those studies was commissioned by CAPA, and a look at the new law shows that the *aguateros'* concerns were clearly addressed. The law offers existing private water providers the option of obtaining renewable 10-year operating permits. After that, the *aguateros* will be able to bid in open competitions to provide service for even longer periods. Providers who do not win a concession will be compensated by the government for the loss of their assets.

Although this last point has been seized upon by critics of the law, it is important to remember that the legislators' goal is to extend water and sewerage service to as many Paraguayans as possible. This goal can never be reached by merely perpetuating the status quo. The *aguateros* only operate in areas where the water table is high enough to supply a well

and where customers are concentrated enough to keep pipeline costs low. They also cater only to customers who can afford the \$250 connection fee, a prohibitive figure for most low-income Paraguayans.

The *aguateros* have already covered the areas that meet these conditions. Under the old regulatory framework, the rest of Paraguay was simply not an attractive investment for private water providers, large or small. The new law combines financial incentives with legal guarantees that will make it feasible for private companies to offer affordable service to the millions of Paraguayans who still lack water. It is intended to ensure that sewerage service, which is not provided by the *aguateros*, will be included along with water service—thus addressing a critical public health problem. It will also begin to ensure minimum water quality standards and continuous supply services.

In this respect the new law reflects the IDB's commitment to flexible policies that fit local conditions and encourage private sector participation. In Haiti, for example, the IDB is financing the expansion of "water committees" that have devised a profitable fee-based service in the slums around Port-au-Prince. And in Bolivia and Argentina, the Bank has helped to finance large-scale water concessions to private providers who are rapidly extending service to hundreds of thousands of low-income homes. Paraguay's balanced approach also promises to vastly increase the number of people with water service—while preserving a role for the *aguateros*.

—The writer is the IDB's representative in Paraguay.

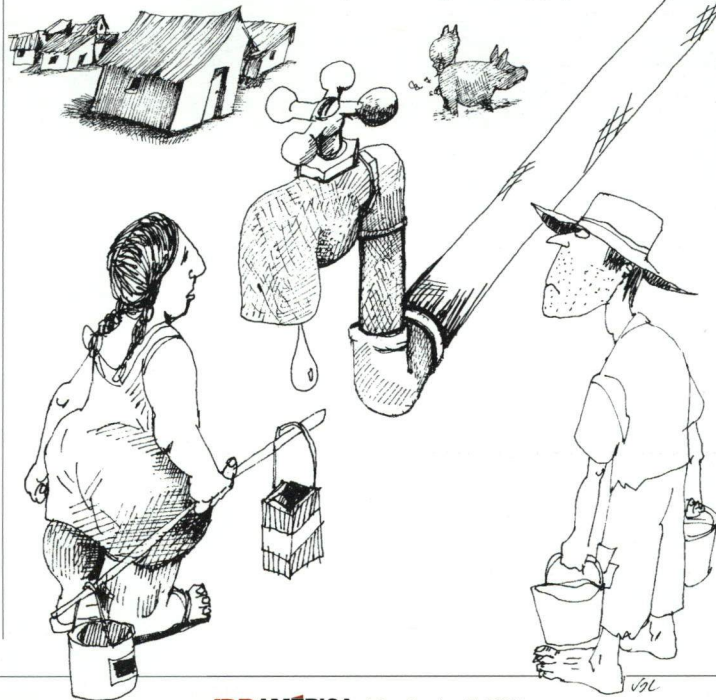


ILLUSTRATION BY JORGE ILIEFF



Geography will shape the future of this Quechua girl in the Bolivian altiplano.

Beyond economics

In considering the puzzle of Latin American development, it helps to look deeper than currencies and capital flows

By ROGER HAMILTON

HOW CAN WE MAKE SENSE OF LATIN America?

By some measures, the peoples of this vast land, stretching from the icy outposts of Tierra del Fuego to Mexico's blistering hot Sonoran desert, have made undeniable economic progress.

But other regions have done better—far better. Per capita income in Latin America today is not even 30 percent that of developed countries, and it is lower than the average in East Asia, the Middle East and Eastern Europe. In recent polls, nearly half of the Latin American respondents said they consider their current economic prospects to be either bad or very bad.

The same holds true for social conditions. In the area of health, Latin America has made more progress than most of the developing world. Since the 1950s, for example, infant mortality in the region has dropped from 106 to 31 for every 1,000 live births. In education, nearly all children in the region today go to primary school, and illiteracy has dropped significantly. But again, other regions have made much more significant advances in health and education during this period.

And when it comes to crime and violence, many Latin American countries have actually experienced a significant worsening of the problem in recent decades. Homicide and kidnapping rates in the region are now among the highest in the world.

Given Latin America's mediocre economic and social performance, one would expect that its political development would lag as well. But this is not the case. Despite the region's former reputation for dictators and military coups, the majority of its citizens today enjoy higher levels of civil and political freedom than those of any other developing region. Democratic governments are the rule, and Latin American media are among the world's most dynamic and aggressive.

What can explain this seemingly disjointed pattern of development? Why does Latin America lag behind other developing regions? What explains the wide range of fortunes among the countries even within Latin America and the Caribbean?

Today these questions are almost always answered from the standpoint of economics. For obvious reasons, poor economic policies and weaknesses in the region's economies turn up in almost every analysis of Latin America's challenges. This kind of analysis inevitably suggests that economic solutions, particularly those derived from the free-market policies that have come to predominate in recent years, are the best hope for accelerating the region's development.

Tool for policymakers. But the enigma of underdevelopment can also be approached by looking at fundamental factors that go deeper than current economic policies and trends. This is the perspective employed by a major new IDB report entitled *Development Beyond Economics* (For ordering information, see page 28). Focusing on what it calls Latin America's "entrenched problems," the report argues that they are to a great extent products of structural factors such as demography, geography and institutions. An understanding of these factors and their role in Latin America's development will both clarify the nagging problems the region continues to face and help policymakers devise strategies to overcome them.

Conjecture about the impact of structural

factors has had a long intellectual history. In some cases, observers came up with theses that today strike us as naively deterministic, such as the notion that hot climates cause laziness. But the work of others has proven to be enduring and influential. In his pioneering work, French historian Fernand Braudel cast new light on the evolution of European societies by dissecting such seemingly mundane facts as trade routes, what people ate and what peasants owned. In recent years, ecologist Jared Diamond has made a provocative case linking things such as the geographical alignment of continents and a region's biological endowment with the march of human history.

But for the most part, development institutions look at development issues from a predictably economic point of view, paying very little attention to the factors examined in the new IDB report. This must change, says Ricardo Hausmann, IDB chief economist and head of the Bank's Research Department, which produced the report.

"Development is not just economics," he says. "These relatively forgotten areas of development are essential for understanding what is happening in Latin America today and the challenges the region will face in the new century."

How structural factors can hurt your wallet

IT DOES NOT TAKE MUCH OF AN INTUITIVE LEAP to conclude that demography, geography and institutions affect the pace of development. But how much?

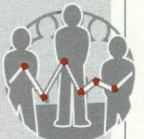
The authors of *Development Beyond Economics* caution that pinning numbers on the complex effects of these factors can be tricky. But even imprecise statistical results give some sense of their importance. For example, it is estimated that per capita income in developed countries is \$10,600 higher than in Latin America. According to econometric analysis performed for the IDB study, nearly all of that difference can be traced to the following structural disadvantages.

Geography. Much of Latin America is tropical, access to transportation is limited, and distances to centers of world trade are great—all of which adds to the cost of trade.



Page 4

Demographics. The younger average age of Latin America's population means that a larger proportion of people are not working and contributing to national revenues.



Page 8

Institutions. Latin American public institutions are less effective and less transparent than those in developed countries. The resulting inefficiency hobbles economic growth.



Page 10

Is geography destiny?

Yes, but with good planning and wise policies, destiny can be changed

By ROGER HAMILTON



IF PEOPLE DON'T LIKE WHERE THEY live, they have two options. First, they can move. They can go from places that are too dry, too remote, too disease-ridden, too infertile or too crowded, to a new place where the grass seems greener. This is the story of the great human diaspora of the past 50,000 years.

Or people can stay where they are and change their surroundings. They can dig irrigation canals, span rivers, control disease-bearing mosquitoes and overcome other obstacles that stand in the way of a better life. This story of man's efforts to change nature is the underlying theme of civilization.

Either way, the subject is geography, a grand discipline that once stood in the front ranks of academia. But over the years, a whole new array of scientific disciplines arose, pushing geography to the sidelines. Today, many regard geography as old-fashioned, evoking images of well-worn textbooks and grim schoolteachers discouraging before maps in pastel colors. Others even view geography with suspicion, citing its misuse in earlier times to confirm Eurocentric prejudices such as the one linking tropical climates to "inferior races."

But the value of geography as an explanatory tool cannot be denied. In the hands of serious researchers, data on topography, soils, climate, population distribution and other factors shed light on why human societies have evolved as they have. While the expla-

nations might be tentative and open to debate, they are based on real facts that exist in the real world. The inescapable conclusion is that where people live does indeed make a difference.

But while geography matters, it does not compel, any more than a child's genetic endowment determines the course of his future development. Geographical conditions do not translate into predictable outcomes. For example, some countries with relatively high living standards are located in tropical areas; a good example is Costa Rica. Conversely, there are poor countries located in

■ Geography does not compel, just as a child's genetic endowment does not determine his future ■

the geographically favored temperate zones. The exceptions confirm the fact that the influences of geography act in concert with other factors, such as political institutions, education and technological development. Still, the better a society understands its geographical constraints, the better it will be able to devise strategies to overcome them.

For all these reasons it is worth recognizing that many nations in Latin America do, in fact, labor under a series of geographical handicaps compared to the developed countries in cooler latitudes (See box next page). This is the conclusion of the newly released IDB report *Development Beyond Economics*. A chapter in the report, prepared by John

Gallup of Harvard University's Center of International Development, and Eduardo Lora of the IDB's Research Department, shows that many of the nagging development problems faced by Latin American countries are the result of location.

But the report also shows how once these problems are clearly identified and put into context, they can be largely overcome by adopting good policies and employing sound technologies.

Standing up to geography. One way a country overcomes geographical isolation is to improve its transportation infrastructure. Better roads, ports, railways and airports provide access to world markets. But a country can only derive full benefits from these investments against a backdrop of good trade and macroeconomic policies. These relationships are well-known, and in fact a central purpose of the IDB over its 40 years of operations has been to finance programs both to build infrastructure and to help reform economies.

Because of the enormous geographical diversity that characterizes many Latin American countries, regions within individual countries can also suffer economic disadvantages. But the authors of the IDB report caution against repeating the mistakes of past development programs designed to help these regions. A major problem is that bringing infrastructure, such as electricity and roads, to isolated areas is very expensive. These investments can be justified only if local residents can be assured substantial benefits. For example, any attempt to attract



CARLOS CONDE—IDB

industries to an isolated area must recognize the need to overcome the enormous competitive advantages a city has in terms of transportation, communications, skilled labor and the proximity of suppliers of materials, equipment and expertise. The report describes it as a chicken and egg problem—firms will not go where there is no infrastructure and services, but it is not cost-effective to provide these enticements unless many firms make the move. Nobody wants to be the first, and many industrial parks in disadvantaged regions have remained empty. “They were built, but nobody came,” state

the authors.

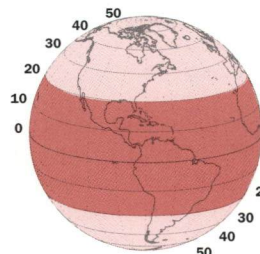
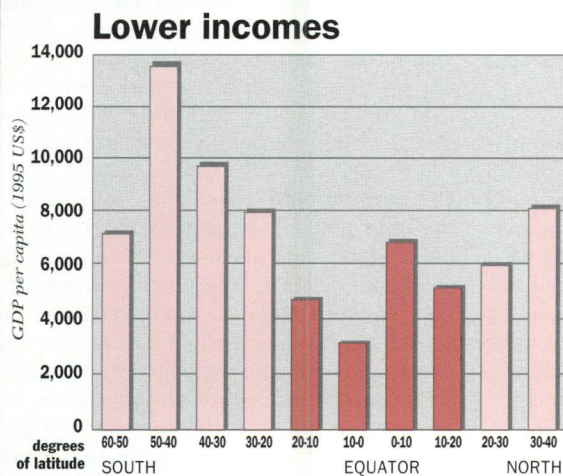
Even when carried out on a gigantic scale, regional development programs have not been able to create the complex economic networks needed to lift regions out of poverty. In Brazil, decades of programs to help the poverty-stricken Northeast have yielded very modest results. In 1960, the poorest Brazilian state was Piauí, with a per capita GDP 11 percent of São Paulo’s. In 1995, the GDP of Piauí had risen to only 16 percent of that of São Paulo. So too with the Amazon. Opening up this vast forested area to settlers has caused major environmental damage

while producing very limited economic benefits.

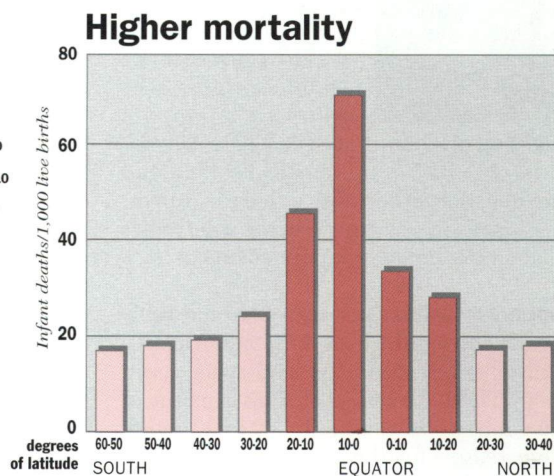
Instead of big infrastructure investments, a better answer for isolated areas would be a “basic needs” approach to reducing poverty, according to the report. Programs would emphasize rudimentary feeder roads, electricity and telecommunications—and not just their construction, but their maintenance. Ideally, local people would plan and manage projects to ensure local needs are met.

Turning to the area of health, the report describes the serious problems encountered in breaking the link between diseases and

People in tropical latitudes pay a price



Many geographical, climatic and biological factors make life harder for people in the tropics.



SOURCE: WORLD BANK (1998), ESRI (1992)

A blessing and a curse



LATIN AMERICANS CAN THANK THEIR geography for much that is useful and beautiful in their diverse region. But in several crucial ways, geography has presented this part of the world with some major challenges that it must work to overcome.

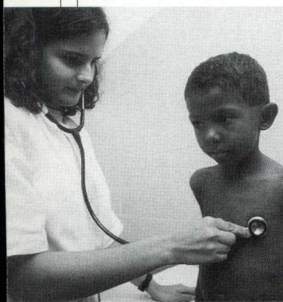
Agriculture. Tropical crop yields are “starkly lower” than temperate yields, according to the new IDB report. The authors concede that the phenomenon can only partly be attributed to natural causes. In fact, some of the world’s most productive and important food crops, such as maize and potatoes, originated in the American tropics. Therefore, a good part of the reason for low yields must be the low level of technology used to produce them—the lack



Off to market.

of fertilizers, improved seed, and mechanization. Poor agricultural output, the report says, is at least in part caused by poverty rather than being a cause of poverty.

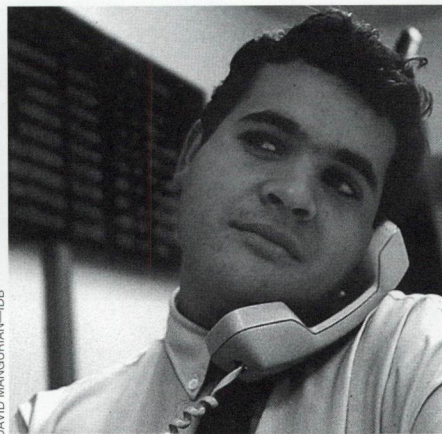
Health. Tropical areas are poorer than temperate areas in part because of a heavier disease burden. The authors cite vector-borne diseases such as malaria, hookworm and schistosomiasis which cause great suffering and loss of productivity in the tropics, but which have been relatively easy to control in temperate areas because of clearly defined seasons. Although poverty is a cause of poor health, direct geographical influences also have a powerful effect. Controlling for female literacy and income, the authors found that life expectancy is seven years lower in the wet tropics than in the humid temperate zone.



Fighting disease.

Natural disasters. Between 1900 and 1995, nearly 640 natural events in Latin America caused severe economic and social hardship. These accounted for 23 percent of disasters worldwide; only Asia had more. One reason for this disproportion is the region’s location on four active tectonic

plates, which cause earthquakes and volcanic eruptions. Another reason is a volatile climate, where the El Niño weather phenomenon produces severe droughts and flooding, and tropical storms cause catastrophic damage. Here again, poverty magnifies the destructive power of these events, as do migration to vulnerable areas, poor quality housing and environmental destruction. But the decisive influence of location cannot be denied.



DAVID MANGURIAN—IDB

Commodity prices depend on location.

Access to markets. “Only world markets provide the scale, degree of competition, and access to technological and organizational changes needed to efficiently produce most goods,” states the IDB report. A country’s proximity to Europe, North America and Japan, and the access of its manufacturers to the sea, are vitally important. Landlocked Bolivia and Paraguay are obviously at a disadvantage. But less obviously, Colombia, with coastline on both the Atlantic and the Pacific, until recently lacked good roads linking its geographically separated regions. As late as 1930 the main link between the country’s capital and the outside world was a 12-day boat trip down the Magdalena River.

Urbanization. Latin America is a region of “primal” cities. The percentage of each country’s population living in its main cities is larger in Latin America than in any other region. These are the urban giants that give nightmares to city planners because of their pollution, traffic jams and high crime. But large cities also create economies of scale, providing education, health and other basic services at lower cost for more people. They also give rise to large markets, which encourages division of labor and lowers transport costs.



LOREN A. MCINTYRE—IDB

(continued from page 5)

climate. For example, a vaccine for malaria is still years away. Even with millions of malaria-related deaths annually, practically no malaria research is being undertaken by private pharmaceutical firms. Much of the \$84 million spent worldwide to combat malaria in 1993 came from wealthy countries concerned about their soldiers overseas.

A major reason for the scant progress achieved against tropical diseases is that even industrialized countries are not willing to carry out the necessary biomedical and pharmaceutical research. Giant international pharmaceutical firms are not interested in developing cures for tropical diseases, because the markets would not be large enough to justify the investment. What to do?

A possible solution has been put forward by Jeffrey Sachs, a Harvard economist and colleague of report author Gallup. Sachs proposes that rich countries pledge a guaranteed minimum purchase price or fixed amount per dose for a malaria vaccine as a way of creating an attractive market for a firm that succeeds in developing it. Similar pledges could spur cures for other diseases.

The need for data. Given the complexity of the links between geography and development, good data are essential for making good policy choices. The need is particularly great in Latin America, where geographical conditions vary markedly from one country to the next and from region to region within each country. As a result, the yield from investments in infrastructure or healthcare initiatives, for example, may differ greatly depending on location. Similarly, sophisticated climate and weather information, as well as



MOUNTAIN VIEW: Roads cost a great deal to build and maintain in this rugged terrain.

geologic data, are needed to focus efforts to prevent natural disasters in areas most at risk.

While some of the region's larger countries have world-class geographical and statistical institutes (see box), such massive data collection efforts are just beginning in other countries. In the smaller countries, geographical considerations are still not being factored into spending decisions involving infrastructure, healthcare, urban development or disaster prevention.

Even in countries that do have reasonably good statistical institutions, however, the relevant information often does not trickle down to the levels where it is most needed. While policymakers produce impressive reports, ordinary citizens are often denied timely access to information that could save their lives or their property. People build homes on unstable slopes or too close to river floodplains, for example, because they are not aware of the risks involved. Farmers make costly mistakes in their use of fertilizers, pesticides and irrigation because they lack information on soil composition, insect behavior and historic weather patterns. In the worst cases, vital information that can affect the health and safety of millions—such as data on water contamination, industrial pollution or deforestation along riverbanks—is purposefully manipulated or withheld from the public for political reasons.

In other words, while gathering and processing statistical information is a costly and complex task best suited to central government agencies, these agencies are not always the ones best qualified to put the informa-

tion to use. To prevent these distortions, the authors of *Development Beyond Economics* suggest that both access to information and related decision making be decentralized as much as possible. Armed with good information, lower levels of government such as states, municipalities, and even individual communities, are much more likely to make good decisions about housing and productive activities, for example. There is growing evidence that development projects that are designed and implemented at the local level are more likely to succeed than those imposed from above.

How not to decentralize. Are open access to information and decentralized government the key to overcoming geographic disadvantages? That depends. The politics of decentralization in countries with long traditions of centralized government are delicate, and they raise all kinds of questions. Should responsibilities for infrastructure development be vested only in governmental bodies, for example, or can they also be delegated to entities such as regional coffee growers associations or oil companies? Should certain problems be tackled cooperatively by groups of municipalities? And if so, how are the inevitable political rivalries to be managed? Compounding the problem of cooperation at the local level is the excessive number of political jurisdictions in many Latin American countries. Panama, for example, with a population of three million has just 67 municipalities, while El Salvador, with a population only twice as large, has 262.

Political decentralization may be an essential instrument for taming geography, but it is not a simple instrument. The report lists three conditions needed for decentralization

to succeed: (1) local decision making must be transparent; (2) the costs of carrying out development projects must be borne by those making them, not by other units of government; and (3) all of the benefits must go to the local community.

But according to the report, in most cases these conditions are not met. For example, although municipal governments are now popularly elected in much of the region, decision making at the town hall level is not necessarily transparent, because patterns of political patronage there can be just as corrupting as they are in national governments. As a result, other kinds of democratically organized groups, such as local producers, must often take the initiative to carry out a project.

The transfer of central government funds to lower jurisdictions also tends to suffer from a lack of accountability. Such transfers are often made automatically on the basis of reported costs, rather than being based on an independent assessment of the quality and reach of the goods or services being paid for. In some countries the amount of federal transfers is based on precedent, as an acquired right, or on a fixed percentage of central government revenues. Finally, lower level governments in many countries have been allowed to borrow funds with little regard to their actual ability to generate revenue and remain solvent.

All of the potential pitfalls of decentralization can be avoided, however. With a better division of responsibilities between central and local governments, improved data collection and dissemination, and the political will to make tough policy choices, countries can work to overcome geographical obstacles and provide better opportunities for their citizens.

To defeat geography, get the facts

WANT TO KNOW WHAT IS THE AVERAGE HEIGHT of Brazilians? Need a map of a Brazilian city? Curious to know how many colored television sets Brazilians own?

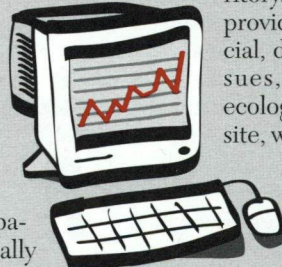
The Brazilian Geographical and Statistical Institute has it all, from detailed census data, to topographical maps, to up-to-date economic data. It amounts to a high-resolution statistical snapshot of the country that individuals, companies and governments continually use to make informed decisions.

Much of these data are available at the institute's website (www.ibge.gov.br).

Another statistical powerhouse is Mexico's National Institute of Statistics, Geography and Informatics. The Institute's

data collection and dissemination services cover the country's almost 93 million inhabitants and nearly 2 million square km of territory. The institute's seven bureaus provide statistical information on social, demographic and economic issues, along with geographic, ecological and territorial data. The site, which contains materials in English as well as Spanish, is at www.inegi.gob.mx.

Unfortunately, information institutes such as these are the exception in Latin America. In most of the smaller countries, individuals, firms and governments needing data for setting policy and making decisions must obtain it on their own or rely on private sources.



A demographic opportunity

Latin America is entering an unusual era when proportionately more workers will provide for fewer children and retirees

By ROGER HAMILTON



STROLLING THROUGH THE DUSTY streets of a Central American village, a visitor gets the overwhelming impression of children: children playing soccer in an empty lot, children peering from doorways, streets full of children in school uniforms, mothers holding children, children holding children.

Latin America is famous for being a demographically young continent. But that impression is in the process of becoming obsolete. Over the last three decades the region's fertility rate has dropped by half, from an average of six children per woman to three. In some countries, such as Uruguay, Barbados, and Argentina, ratios among the young, adults and the elderly are already similar to those of many industrialized countries. Fertility is forecast to continue its steady decline in the coming two decades.

This evolution will produce a unique demographic phenomenon in Latin America. As today's still-energetic teenagers and children enter the work force in the coming 20 years, the number of working-age adults will temporarily exceed the number of dependent children and the elderly (because the new generation of workers will tend to have smaller families than their parents did). Eventually, as these workers retire and a comparatively smaller number of young people enter the work force, dependents will once again outnumber workers.

Therefore, during the next 20 years, Latin American countries have the potential to benefit from a very favorable "dependency ratio," because proportionately more workers will be earning money and paying the taxes necessary to educate children and support the elderly. The impact of this phenomenon could be at least as profound as the rise of globalization and the spread of information technology. But according to *Development Beyond Economics*, a recently published IDB report, only those countries that make the right policy choices now will be able to benefit from this so-called "demographic window of opportunity."

"Even if demographic conditions are right," the report's authors state, "wrong policies or unexpected negative shocks could counteract any potential benefits." For example, if the growing numbers of young people entering working age do not find jobs,



1970

High birth rates result in a ratio of 1.5 dependents per working-age adult.

many will turn to violence and crime. If countries and families do not save enough, they won't have the resources to support the elderly. If children do not get a better education, they will not qualify for productive jobs and will miss the chance to improve their living standards.

Policymakers who ignore demographics will do so at their peril. "Without understanding what demography is telling them, they are piloting their countries blindly, without instruments or even charts. And they will almost certainly end up planning for yesterday's world and not tomorrow's," the report states. If Latin America does not take advantage of this window of opportunity, it could pay the price for much of the 21st century.

Faster growth. Economic reform heads the policy agenda for translating the changing age structure into higher living standards for the region's people. By 2020, 70 percent of Latin America's people will be of working age, and a large portion of them will be in

their most productive years. The key to absorbing these individuals into the economy is keeping markets open and encouraging growth.

The effect of economic liberalization can be dramatic. In an econometric analysis, the report describes a scenario in which a country's working-age population is growing at 3 percent a year. If the country had a closed economy, the increasing number of workers would only boost its GDP by 0.5 percent a year. But if it were open, the new workers would boost growth by 1.5 percent. Sound policies, says the report, can triple the size of the demographic dividend.

The cost of not embracing these policies will be high. Workers will be condemned to low-productivity jobs and low incomes, says the report, "with the resulting frustration and potentially dramatic consequences for social cohesion."

Worker protection. As economic reforms proceed and Latin America becomes more open and competitive, the region's economies will become more dynamic. More people will be changing jobs at any given time, so the risk of becoming unemployed will become more widespread. Labor reforms will be needed to accommodate this increasing work force mobility. At present, only a minority of workers with regulated labor contracts enjoys what the IDB report calls "notoriously high" levels of employment protection, even compared with workers in developed countries. But the vast majority of workers have no job protection whatsoever.

How can countries protect more of the work force without stifling the creation of new jobs in the most dynamic and productive sectors? First of all, new systems to support incomes must recognize that all workers, and not just the poor, need help in coping with economic shocks that can put them out of a job.

Crime prevention. There is another reason to create jobs and provide employment security: crime prevention. The number of young people—the age group most apt to commit crimes—peaked during the 1990s and will remain high over the next 20 years.

Creating economic opportunities for young people is one way to prevent crime. But there are others. Instead of focusing almost exclusively on expensive measures to control criminals, such as police and prisons,

A sharp drop in the dependency ratio



dependent

The curve flowing through these pages shows the number of dependents per working-age adult in Latin America, starting in 1970 and projected through 2040. This so-called dependency ratio is calculated by dividing the number of children under 15 and people over 65 by people of working age. The ratio is adjusted to reflect the much larger public expenditures on the elderly than on children.

public agencies should attack the roots of the problem. Promising approaches include helping individuals and families by providing prenatal and postnatal care for high-risk single mothers, education programs for high-risk children and teens, and training in conflict resolution. Several Latin American cities have had success with programs that increase citizen involvement such as neighborhood-watch groups and business improvement districts aimed at increasing vigilance and providing work opportunities. Other relatively cost-effective measures include installing better street lighting, controlling access to weapons, passing and enforcing drinking-age laws, making police more visible and increasing the probability of punishment.

Finally, the machinery of law enforcement needs an overhaul. In nearly every Latin American country, says the IDB report, corruption, brutality and repression have resulted in low trust, low reporting rates, few crimes solved, and an overall perception of impunity.

Better education. While the changing age profile might make the streets a little less secure, it could be a boon for the classroom. As the proportion of children in the overall population shrinks, countries will have a golden opportunity to improve education. Instead of merely trying to keep up with constantly rising enrollment, school systems will be able to focus on raising the quality of instruction for a student population that should begin to stabilize. Similarly, parents will be able to spend more on their children's upbringing, because they will have fewer dependents, and also because women with diminished child-raising responsibilities will be able to go out and get jobs. Meanwhile, proportionately higher numbers of working-age people will be paying more taxes, some of which can be spent on education.

But spending more money per student will not improve education automatically. The IDB report calls for a concerted drive to improve quality in the schools, a campaign in which parents will occupy the front lines. But first, parents must be armed with better information about their schools' performance, from both on-site evaluations and standardized national test scores. With this



Children entering the work force today will have fewer dependents to support.

data in hand, parents can lobby for improvements and take an active role in running the schools.

Local school administrators also need more control over how money is spent and in hiring, training and promoting staff. According to the report, the central government, long the lone decision maker in the business of running school systems and concentrate on generating information about educational performance, evaluating progress and setting quality standards.

Healthcare reforms. The changing age profile will also expose the need to reform health systems in the region. Latin America will be experiencing a rapid epidemiological transition in which a greater proportion of people will suffer from noncommunicable diseases, such as diabetes, heart disease and cancer, which are more expensive to treat. As workers age, countries will face additional expenditures for treating the elderly, a category of care that costs roughly three times more on a per capita basis than care for the rest of the population.

What can be done to avert the health care squeeze? As with the issue of public safety, prevention must be a watchword in the coming years. Countries where young people still make up a large part of the population will have to continue campaigns against infectious diseases and intensify nutritional education, prenatal screening and other health

promotion activities. Countries with aging populations will need to step up education about the risk factors leading to diabetes and high blood pressure and take steps to reduce smoking and alcohol abuse.

Another response must be to decentralize health services. National health ministries must continue to shift from providing healthcare services to regulating and leading a health sector landscape populated with a variety of providers—public, nonprofit and for-profit. For example, rather than establish more health facilities to help the poor, the public sector should subsidize the demand side, by buying insurance for the poor as a means of providing incentives to private sector providers.

Latin America is not the only region with an enormous stake in the outcome of its demographic transition. Latin America's working-age population is increasing at the same time that populations in developed countries

2000–2030: A window of opportunity

Thanks to a declining birth rate, relatively few retirees and a large number of workers, the ratio of dependents per working-age adults will temporarily dip below one. During this period, the region will have a historic opportunity to expand economies and improve living standards.



2040

As retiree population swells, dependency ratio rises to 1.3.



are aging. In the coming years, Latin America will have a large and expanding work force, while in the developed countries the stock of savings will increase. In a globalized world, both groups of countries will benefit from flows of capital entering into Latin America. In Latin America, this capital will raise the productivity of a growing number of workers while in the developed countries, investors will receive good returns to help finance their retirement years.

In today's world, even demography is a global subject. How Latin America manages the enormous changes already underway will mean a great deal for the people of the region as well as for countries around the world.

Playing by new rules

One country's evolution toward cleaner, more efficient government and stronger institutions

By PAUL CONSTANCE



WHAT MAKES SOME GOVERNMENTS better than others?

Better politicians, of course. In democratic countries this explanation is appealing because it points to a solution if the current government falls short of the ideal. Voters can always "throw the bums out" in the next election, and hopefully the new bunch will be better.

This most basic referendum on the quality of government has been taking place with impressive regularity in Latin America. With few exceptions, the peaceful transfer of power through fair and open elections has become a point of civic pride in the region during the last 15 years.

Yet something is still amiss. Although opinion surveys indicate that Latin Americans prefer democracy to other forms of government, polls also reveal deep disillusionment with democracy as currently practiced. Incessant reports of corruption in the public sector, combined with the widespread failure to reduce poverty and inequality, have led many people to lose faith in politicians and political parties in general. Some are even questioning the usefulness of democracy as a whole.

Are politicians to blame for this disenchantment? Historically the answer might well have been yes. Strong personalities, in the form of caudillos, party bosses or military autocrats, have traditionally defined and controlled political life in Latin American countries. Even during the transitions from dictatorship to democracy that took place in the 1980s, charismatic party leaders dominated the political scene. These shrewd politicians set their parties' agendas, forged coalitions with other party heads and brokered agreements with the military—all with relatively little input from the rank and file.

But in recent years, as elections have become more routine, the status of party leaders has gradually been diminished by the persistence of problems—such as corruption and influence-peddling—that seem to resurface with each new government. The media are devoting unprecedented energy to exposing abuses within public institutions such as legislatures, electoral commissions, courts, customs and the police.

In other words, while Latin Americans have won the right to punish bad govern-

ments by voting them out of office every five or six years, they have not gained the ability to control politicians' behavior while in office. A major new IDB report, *Development Beyond Economics*, takes a close look at how this absence of accountability can prevent democracies from increasing economic growth and advancing social justice. One way to think about the relationship between political accountability and development, according to the authors, is in terms of a contract. Before an election, candidates and political parties pledge to provide certain services (i.e., better health care, honest and efficient administration, etc.) in exchange for votes. But after the election, voters find not only that the "contract" is often ignored, but that they have no way of enforcing it until the next election. At its worst, this sense of powerlessness generates a perverse cycle. Cynical and apathetic voters turn their backs on a

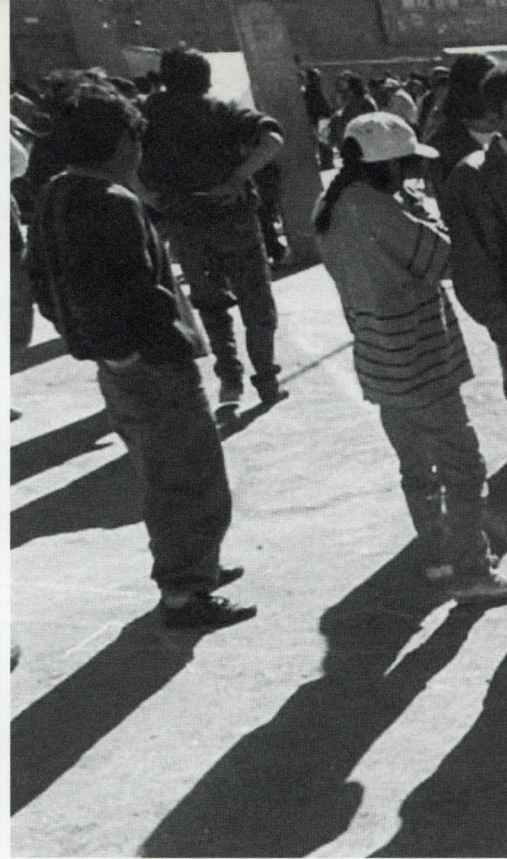


Quiroga: Better rules lead to better government.

political system they consider out of control; the absence of public scrutiny then gives corrupt politicians even more leeway for abuse.

Ironically, this situation has led many observers to conclude that politicians are not, in fact, the principal source of the problem. Instead, they blame the absence of rules, laws and institutions capable of restraining politicians and forcing them to account for their actions while still in office.

This shift in emphasis—from political personalities to the quality of laws and institutions—is apparent to some degree in virtually every Latin American and Caribbean country. In some cases it has taken the shape of general anti-corruption campaigns run by civic groups, the government, or both. In



others the focus is on ending abuses in individual public services such as customs or the police. Several countries have undertaken large-scale programs to reform their judicial systems. Others are experimenting with ways to make their legislatures more transparent and responsive to the interests of citizens.

To illustrate how one country is attempting to improve the quality of government, this article profiles the Andean nation of Bolivia.

Stages of governability. In 1982, after decades of political instability and military dictatorships, Bolivia began what has since become one of Latin America's longest uninterrupted periods of democratic rule. During a recent interview at his office in La Paz, current Bolivian Vice President Jorge Quiroga described that milestone as the first stage in his country's evolution toward governability. "That year we restored democracy, but it was a completely ungovernable democracy," he recalled. Bolivia's numerous political parties had little experience in the art of government, and the legislature turned into a chaotic free-for-all where each group tried to impose its agenda and few were willing to compromise. "There were no public budgets, and absolutely no laws were approved," Quiroga said.

The second stage of governability, according to Quiroga, emerged when the heads of the principal political parties agreed to form parliamentary alliances that would enable them to pass laws and carry out some "minimal programs to benefit the public." But these agreements involved almost no input from the party rank-and-file, according to



PEDRO USARTE—AFP

Quiroga. They also tended to exclude any concessions to political parties or interest groups that were not part of the governing coalition. In fact, it was virtually impossible for legislators from the opposition to chair any significant legislative commissions or hold any other meaningful posts within the government coalition. "It was all or nothing," recalled Quiroga.

Despite their flaws, these agreements broke up the partisan logjam in the legislature and cleared the way for a series of crucial structural reforms. During the 1980s the legislature pushed through a massive privatization program, overhauled the tax system and closed money-losing state-owned banks, to name a few of the measures that would have been impossible without the coalitions.

Though Bolivian voters generally supported these reforms, the political system still had very little credibility. Because they were essentially shut out of the process, opposition parties tended to discredit every government policy and to promise a radically different agenda once they were in office. A bigger problem was posed by the electoral process itself. The institution that administered elections was controlled by the political parties and election results were routinely annulled or manipulated in closed-door negotiations. During presidential elections in 1989, abuses were so flagrant that the hierarchy of the local Catholic Church joined dozens of civic groups in calling for a radical reform of the electoral system.

New ground rules. That crisis led to what Quiroga describes as the third stage of

Bolivia's experience with governability. In a series of unprecedented summits in 1990 and 1991, leaders from the entire political spectrum agreed to forge a new set of ground rules for politics and public institutions. "These were global agreements between majority and minority parties, between government and opposition, to make permanent changes to the country's institutions," says Quiroga.

The most immediate change was in the electoral system, where the political parties agreed to turn over the management of elec-

“That year we restored democracy, but it was a completely ungovernable democracy.”

JORGE QUIROGA
Vice President of Bolivia

tions and all related issues to a new and fully independent electoral court (See sidebar, page 12). A key aspect of this new court was the requirement that each of its five directors foreswear any political affiliation and be confirmed by a two-thirds majority in the legislature. Because no political coalition has ever approached a two-thirds majority in Bolivia's legislature, the latter provision essentially guaranteed that opposition support would always be needed to confirm these officials.

According to Carlos Toranzo, a political scientist based in La Paz who has written extensively about Bolivia's institutional reforms, the notion of an explicitly depoliti-

VOTES THAT COUNT: Voters in La Paz wait outside polls during the 1997 presidential election. A radical reform of the electoral system in the early 1990s has virtually eliminated voting fraud in Bolivia.

cized electoral court was so appealing that it quickly became "one of the most legitimate institutions Bolivia has ever had." Indeed, the electoral court was so successful, according to Toranzo, that it forced the legislature to overhaul the appointment procedure for the heads of nearly all of Bolivia's public institutions. In the past, appointments to these posts were considered one of the spoils of victory enjoyed by the ruling coalition, and each new government would replace virtually all the upper echelons of the public sector with its allies.

Today, the two-thirds confirmation requirement is applied to justices of the Supreme Court and the directors of the Central Bank, Customs, and the regulatory bodies that oversee energy, banking and other vital sectors. It also applies to several recently created institutions, such as the Constitutional Tribunal, the National Judiciary Council (which appoints lower court judges) and the Public Ombudsman. Moreover, all the new appointments are designed to serve beyond the term in office of the current government, in order to ensure continuity and prevent political interference.

Vice President Quiroga said that the most singular aspect of this institution building process is the depth of support it enjoys in a political environment where no single party ever has more than 25 percent of the votes in Congress.

(continued from page 11)

"Over the last two years we have installed 76 officials with this new procedure," he said. "On average, 85 percent of the votes were in favor of confirmation."

A congress that works. Monitoring the credentials and performance of senior public servants is a new role for Bolivia's legislature, and it points to what Vice President Quiroga calls the pending "fourth stage" of governability in Bolivia. "Until recently, Congress was little more than a line of transmission for decisions made by the party leaders and laws drafted by the executive," Quiroga said. While this may have been acceptable during the period of urgent structural reforms in the 1980s, he believes voters now expect more from their representatives. "The challenges we face today are poverty, housing, education, health, and the need to reform institutions like the judiciary and our criminal, commercial and civil laws," he said. "These are issues that, according to our Constitution, should be worked out in the legislature. So the imperative now is to get our legislature to function fully, to give people a means of influencing legislation and enforcing accountability."

This imperative was also apparent to the government of Gonzalo Sánchez de Lozada, who was president prior to the election of Hugo Banzer Suárez in August 1997. As part of its reform program, the Sánchez government sought IDB financial support to create a National Governability Program. Launched in early 1997 with a \$12 million IDB loan, the program is working to modernize the legislature and strengthen the administrative ca-

capacity of the National Electoral Court, among other activities. In a notable example of political continuity, the Banzer administration embraced the governability program and has aggressively promoted its goals. Vice President Quiroga, who is also president of Bolivia's Congress, serves as chairman of the program's executive committee and is an outspoken advocate of its goals. (See "A legislature with glass walls," page 13).

According to Quiroga, the Banzer administration sees the governability program as part of a broader policy to combat corruption in the public sector. Known as the Integrity Plan, this initiative is targeting three areas: judicial reform, public administration systems, and so-called "vulnerable areas." The last category was based on a government survey in which people were asked to identify the public services they considered to be most corrupt. "The most frequent answers were customs, government procurement, tax administration and the police," said Quiroga. "So we have reform programs for each."

In the customs sector, for example, the legislature approved a new set of regulations and confirmed a new, highly professional leadership. "We have also overhauled our procurement system and have introduced controls and an appeals system that is very transparent," said Quiroga. Reforms of the police and the tax system are also progressing, although at a slower pace.

Will Bolivians interpret these measures as evidence that the quality of their government is improving? Quiroga said it is too early to make that judgement, but he suspects the question will ultimately be decided less at the central level of government than at the



ROGER HAMILTON—IDB

municipal one. Bolivia has been systematically transferring budget authority over infrastructure and social service spending to regional and local governments. "Ten years ago 70 percent of all public investment was controlled by the central government," he said. "Today, that same percentage is being transferred to departmental and municipal governments."

This is arguably the most radical aspect

Cleaner elections, but what about party finance?

ALTHOUGH ELECTORAL COURTS HAVE RISEN to prominence in many Latin American countries since the return to democracy in the 1980s, few countries have placed as much power and responsibility in this institution as Bolivia has.

Under a new electoral law approved in 1998, the court, along with its 31 regional branches, carries out all the traditional activities associated with elections, from certifying candidates to ensuring an accurate vote count. But the law also gives the court extraordinary responsibilities such as running Bolivia's civil registry and, eventually, issuing national identity cards. According to Jorge Lazarte, one of the court's five vocales or directors, political parties in the past manipulated the civil registry and identity cards in order to permit one individual, for example, to

vote several times for the same party under false identities. Public outrage over such abuses led Bolivia's Congress to put the Electoral Court in charge.

With support from the IDB-financed National Governability Program, the court is in the process of purging the civil registry of false or redundant entries, while at the same time transferring paper records to a computer database that will be available at regional branches. "Eventually," said Lazarte, "we would like our voter registry to be based on the computerized civil registry," a move that will eliminate much of the paperwork that still burdens Bolivians while further limiting opportunities for fraud.

The Electoral Court also has an unusual ability to oversee political parties' internal affairs. Parties must report all

their assets and revenues to the court, along with externally audited accounts of their campaign spending. If the court is not satisfied with these accounts it can order its own audits. "The law even allows a party's members to file a complaint with the court if they believe their own leaders are mismanaging funds," said Lazarte.

Although the Electoral Court enjoys extraordinary prestige in surveys of public institutions, some critics claim that it is being overwhelmed by excessive responsibilities. Indeed, during recent municipal elections several parties complained that it took far too long to rule on the validity of a few contested candidacies. Lazarte agrees, and he and his colleagues are planning an administrative overhaul that would allow the court to delegate administrative manners and increase efficiency.



ON THE STREETS: Interest groups are increasingly taking their demands to Congress.

of Bolivia's evolution toward a new conception of government, considering that it breaks with a centuries-old tradition of highly centralized administration. Bolivians both inside and outside of government say the results so far have been uneven. While municipalities have jumped at the chance to decide exactly how their budgets should be spent, many have made questionable use of public funds. Few public officials at the municipal level have the management skills required to plan and execute budgets properly. And the old specter of clientelist politics—once confined largely to the federal level—has now reared its head in small towns as political parties jockey for control of municipal finances.

"It won't do us much good to have transparent procurements and a good civil service at the central level if the system doesn't work at the municipal level," warned Quiroga. Carlos Toranzo, the political scientist, agreed, adding that "the biggest problem is the lack of citizen oversight and control in the municipalities." Although most local jurisdictions now have audit committees made up of local residents who are charged with monitoring the management of public funds, in practice many of these committees have become politicized and have been less than zealous in performing their watchdog role, according to Toranzo.

Better laws, better institutions, and better legislators will all help, but in the end Bolivia's citizens are the only ones who can improve their government. ■

A legislature with glass walls

WHEN BOLIVIA'S CONGRESS FIRST CONVENED under democratic rule in the early 1980s, floor sessions were colorful and chaotic.

"Democracy meant talking as long as you wanted—no one had the right to interrupt anybody!" recalled current Bolivian Vice President Jorge Quiroga, who also serves as president of the Congress. Legislators could speak for hours on end, or simply read aloud from a book, in order to obstruct debate on a law they opposed. All 130 representatives in the Lower House of Congress were required to convene to work on any piece of legislation, no matter how specialized it might be. There were no formal mechanisms for soliciting public input or technical advice on a law. The congressional library had deteriorated to the point where it was practically unusable.

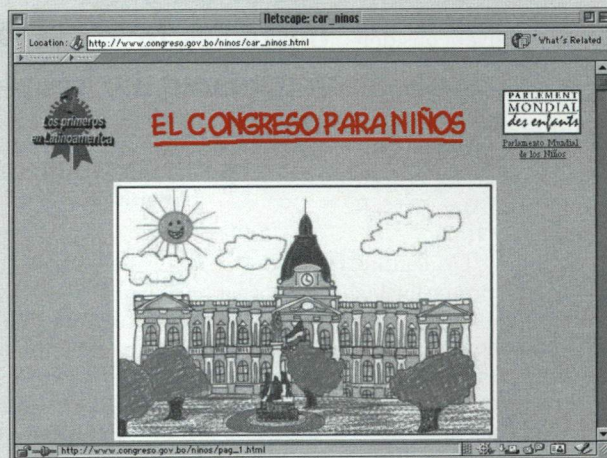
Moreover, tradition allowed the members of the governing coalition to reserve for themselves all the senior positions within the legislature, including the chairmanships of all significant legislative committees. According to Quiroga, this created a state of permanent deadlock: "The logic was, one group works, the other obstructs."

So one of the first goals of the IDB-financed National Governability Program was to draft a set of clear rules concerning debates and procedures in the Senate and the Lower House of Congress. The new rules, adopted in 1998 and 1999, divide leadership positions and committee appointments in the legislature so that opposition parties are guaranteed meaningful participation along with the governing coalition. They also structure and limit debates to ensure efficiency.

The committees, which in the past did little more than rubber stamp laws produced by the executive, now have permanent technical secretaries with expertise in sectors such as health or finance. New laws are analyzed and discussed by the committees in special glass-walled chambers that are accessible to the general public, not just to lobbyists. Plenary sessions of Congress consider bills only after the committees have finished work on them—a change that has improved the quality of legislation while vastly reducing the amount of time required to produce it.

"There is no question that the new regulations have made Congress much more efficient," said José Navia, an IDB sector specialist who works with the National Governability Program in La Paz. Navia also praises the government's efforts to turn the legislature into a leaner, more customer-oriented organization. Congressional support staff has been cut by around 600 in the last few years. The congressional library has been completely refurbished and is in the process of incorporating computer-based research tools for use by legislators and the general public. Housed partly inside fireproof vaults that once belonged to Bolivia's National Bank, the library is home to priceless historical documents including the first manuscript score of the national anthem and numerous letters from Simón Bolívar. A new congressional website (www.congreso.gov.bo) allows citizens to read legislation, e-mail their representatives, and submit complaints on-line.

In addition to increasing the efficiency of legislative activities, Quiroga said these changes have brought the lawmaking process closer to the people. "Today Bolivia's most important laws—be it next year's budget or the new law governing political par-



Even children can follow the legislative process on-line.

ties—are being crafted right here, in the committees," he said. Recognizing that few people have the time to attend these sessions, however, Quiroga said that he hopes the debates will eventually be broadcast over television in a system similar to C-SPAN in the United States. "Technology makes it possible for these sessions to be truly open," Quiroga said. "Using television and the Internet, we'd like people in every part of the country to participate."

On the right path

Hondurans make steady progress in reconstruction after Hurricane Mitch

By PETER BATE

HUNDREDS OF MILES OF ROADS REPAIRED. Bridges, schools, hospitals and water systems rebuilt. A gradual recovery in farming and manufacturing output. Inflation under control. Reforms underway in key areas of the state. A revitalized democracy in which civil society groups are playing an increasingly active role. All in all, it is quite a showing for a poor country that had been brought to its knees late in 1998 by Hurricane Mitch.

These are some of the achievements the Honduran government and its people exhibited at a February meeting with delegates from donor countries and multilateral institutions chaired by the Inter-American Development Bank. The gathering, known as the Consultative Group for the Reconstruction and Transformation of Honduras, assembled in Tegucigalpa to gauge how Hondurans were recovering from the worst natural disaster in their history.

The international community's assessment was largely positive, considering the destruction wrought by the massive flooding and mudslides triggered by Mitch and the adverse weather conditions Central America suffered during 1999.

"Honduras has legitimate reasons to feel proud of the promising beginning its national reconstruction and transformation plan has had," said the meeting's chairman, Miguel E. Martínez, the IDB's manager for regional operations for a group of countries that include Central America. "We have also seen that the international community's solidarity is turning into concrete accomplishments. Certainly, much remains to be done, but I am sure that I am not mistaken when I say that Hondurans and their friends from around the world are building solid foundations for a better Honduras," he added.

Nearly 6,000 Hondurans died and 8,000 were listed as missing due to the hurricane, which caused more than \$3.6 billion in economic losses and infrastructure damage. In less than one week, hundreds of thousands of Hondurans lost their homes, their land or their means of making a living, as the floods ruined crops and washed away the topsoil.

In May 1999, the international community, at a meeting held in Stockholm, pledged to provide some \$2.8 billion in humanitarian aid, long-term financing for reconstruction, and debt relief to support Hondurans' efforts to rebuild and modernize their nation. In return, Honduras pledged to observe the principles of the Stockholm Declaration, which binds donors and beneficiaries to work together to fight poverty and promote growth within a framework of democracy and respect for human rights, transparency and good governance, decentralization and the reduction of social and environmental vulnerabilities.

Progress updates. In Tegucigalpa, the Honduran government offered detailed reports on the national reconstruction and transformation plans. The presentations included abundant information on the steps taken to secure financing for the projects and the

progress achieved so far in implementing them in such areas as education, health, housing, agriculture, forestry, manufacturing, mining, tourism, financial services, roads, ports, airports, water and sanitation, energy and telecommunications.

Honduran officials also briefed the visitors about the country's efforts

to reduce poverty and environmental vulnerability and modernize its government institutions. They stressed the urgency of negotiating further relief of Honduras' \$3.9 billion external debt, which President Carlos Roberto Flores called "one of the biggest obstacles to redeeming our people socially."

Delegates also received a report from a follow-up group formed by donor nations and multilateral agencies to monitor the implementation of the Honduran plan. The report praised the fact that social spending was being targeted to benefit the most vulnerable sectors, especially in rural areas; nevertheless, it urged the government to adopt specific policies to protect indigent women and children and indigenous groups. In the case of environmental vulnerability, it commended the draft legislation for land use and forestry management and the improvement of emergency preparedness, but found that Honduras still lacked the policies needed to

“ [External debt is] one of the biggest obstacles to redeeming our people socially.”

CARLOS ROBERTO FLORES
President of Honduras



DAVID MANGURIAN—IDB

prevent people from settling in high-risk areas.

Another notable aspect of the February meeting was the enthusiastic participation of Honduras' civil society. While representatives of the private sector, organized labor, peasants, indigenous and Afro-Latin groups that took part in the discussions often took issue with the government—and with each other—their interventions were viewed by many as an indication of an invigorated democracy at work. In fact Honduran authorities acknowledged that civil society groups have called for sweeping reforms in the leg-



COURTESY OF THE HONDURAN GOVERNMENT

International donors meet in Tegucigalpa.



ROUND-UP

IDB meeting features technology

Information technology was among the subjects explored in a series of seminars held in conjunction with the annual meeting of the IDB's Board of Governors at the end of March in New Orleans.

The meeting, the principal forum for analyzing economic and social development issues in Latin America and the Caribbean, drew some 4,500 participants, among them government officials, business executives, bankers, representatives of nongovernmental organizations and international agencies, and journalists.

See the next issue of IDBAmerica for a full report.



Needed: Data on race

Calling race and ethnicity "absolutely defining factors in poverty in Latin America," Inter-American Dialogue President Peter Hakim called on multilateral development banks to tackle this issue head on. "The MDBs say there is no good data on ethnic and racial causes of poverty," said Hakim at a Black History Month roundtable at the IDB in February. "It's the job of the MDBs to get the data."

Support for Ecuador

The IDB and other multilateral financial institutions have pledged to come to the aid of Ecuador with a package of \$2 billion to support that country's economic and structural reform program. The funds, which will be made available over the next three years, include \$620 million from the IDB, \$300 million from the International Monetary Fund, \$425 million from the World Bank Group, and \$700 million from the Andean Development Corporation. If approved by the executive boards of the institutions, \$900 million will be made available in the next 12 months to help the country implement dollarization, resolve its banking crisis and strengthen public finances, including measures to minimize the impact of the present economic difficulties on the poor.



WILLIE HEINZ—IDB

islative, judiciary and executive branches of government, as well as the use of plebiscites and referendums.

However, the limited disbursement of aid so far, compared with the sizeable pledges made in Stockholm, pointed to some bottlenecks. The IDB's Martínez urged donors to work with Honduras to strengthen its ability to manage projects to speed up implementation.

Need for transparency. The Bank is working with the Honduran government to promote transparency and good governance. A central concern for Hondurans as well as for donors, the issue may weigh heavily in the Central American country's prospects of attracting more capital to modernize its economy. Last year, Honduras ranked low in the annual survey on perception of corruption conducted by Transparency International, a Berlin-based nongovernmental organization.

The IDB and several donor nations plan to support Honduras' efforts to make its state procurement and contracts system more efficient and transparent. As initially drafted, the program would have two phases: a temporary one to monitor projects during the post-Mitch reconstruction period and a permanent one to promote the modernization of the Honduran system of checks and balances.

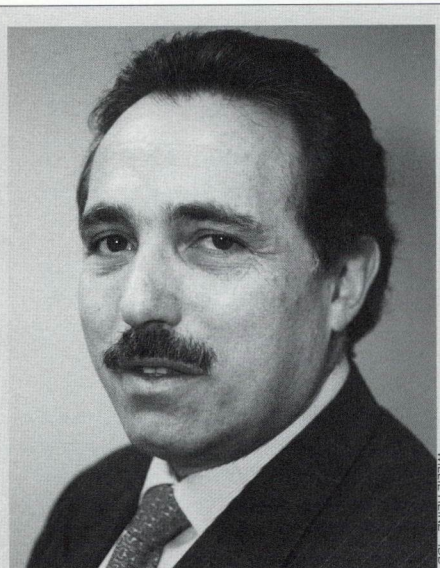
During the temporary plan, an international consulting firm would be hired to per-

ONE BLOCK AT A TIME: Honduras is still in the process of rebuilding housing and infrastructure in the aftermath of Hurricane Mitch.

form random audits of reconstruction projects and check their technical, financial and administration performance. These inspections would be carried out in parallel to the existing controls that individual donors have for the projects they finance. The results of the audits would be released to the Honduran government, donors and the public. Given that some \$2 billion could be spent on reconstruction efforts, such an auditing exercise could cost up to \$30 million, the chief of the IDB's Procurement Policy and Coordination Office, Jorge Claro de la Maza, told delegates.

The other phase—to which the IDB could eventually commit some \$14 million in soft loans—is aimed at allowing Honduras to acquire as much know-how and technology as possible from the international auditors. Under that part of the program, local officials involved in procurement and contracts would receive training, and new purchasing procedures would be developed and enforced across the Honduran public sector.

While the potential cost of the project gave some delegates "sticker shock," Claro de la Maza explained that the estimate was based on a survey of auditing firm fees. He also conceded that such controls are expensive—except when compared with the alternative of not doing them. ■



Jacques Rogozinski, IIC General Manager

Mexican named manager of IIC

JACQUES ROGOZINSKI, A MEXICAN CITIZEN, has been named general manager of the Inter-American Investment Corporation.

Rogozinski, who joined the IIC in January 1999 as deputy general manager, played a key role in the design and preparation of a three-year business plan that will be carried out with a \$500 million capital increase recently approved by the Corporation's 37 member governments. Before joining the IIC, Rogozinski served for two years as senior advisor for private sector issues in the IDB's Office of the Executive Vice President.

In 1989-93, Rogozinski headed the Office of Privatization of State Industries in Mexico. Under his direction, more than 220 Mexican companies, including giants such as Teléfonos de México and Mexicana Airlines, were sold to the private sector. Rogozinski has also served as head of Banobras, the Mexican National Public Works Bank, and Fonatur, the National Fund for Tourism and Development. He is the author of a book on privatization and economic development in Mexico. In 1993, the World Economic Forum named Rogozinski one of the Global Leaders of Tomorrow, a group that meets regularly to discuss international topics.

Rogozinski has a business degree from the Instituto Tecnológico Autónomo de México and an M.A. and a Ph.D. in economics from the University of Colorado.

Banner year for IIC

IDB affiliate approves \$192 million for projects to support private firms and create jobs

THE INTER-AMERICAN INVESTMENT CORPORATION last year approved a total of \$192 million in financing for 22 projects in 12 countries.

Included were lines of credit for private companies in the Dominican Republic, Guatemala, Honduras, and Nicaragua, which were hard hit by hurricanes Georges and Mitch. The credit lines will help the countries to rebuild by creating 14,000 jobs and generating \$100 million in foreign currency revenue.

Eleven percent of the 1999 funding was for equity investments and the remainder for loans. Two of the year's three equity investments went to investment funds with a total capitalization of \$175 million, giving the Corporation's financing a leverage of 10 to 1. Six of the loans will be cofinanced; \$56 million of the Corporation's own resources will thus mobilize a total of \$78 million in funding from banks and other third parties.

More than 75 percent of the total amount of IIC funding approved this year will go to the less-developed countries in the region.

The IIC is the member of the IDB group that provides financing in the form of equity investments, loans, guarantees, and other instruments, as well as advisory services, to private enterprises in Latin America and the Caribbean. The IIC's 37 member governments recently approved a \$500 million capital increase for the institution.

During its past 10 years of operations, the IIC has approved a total of \$1.2 billion for 223 projects. Net commitments total \$722 million; \$621 million have been disbursed to 144 projects, and 112 projects are now completely disbursed. Twenty-seven projects have completed the cycle, the borrowers having repaid their IIC loans. During this period, the IIC has provided direct or indirect financing for more than 2,000 small and medium-size enterprises.



One beneficiary of IIC financing is SANEFOR, a waste recycling company in Fortaleza, Brazil.



Uruguayan orchardist Felipe Reyes (left) shows off high-yielding apple trees.

Just-in-time fruit

Technology makes the difference for award-winning apple growers in Uruguay

By CHRISTINA MacCULLOCH

WHEN FELIPE REYES AND OSVALDO Moizo formed a partnership in the early 1980s to grow apples and pears in the Melilla region near the Uruguayan capital of Montevideo, they never imagined that they would have to compete with producers around the world.

But with the 1990s came the new era of open markets, when even medium-scale farmers like Reyes and Moizo would have to keep up with the latest technical innovations and consumer demands. If their 39-hectare farm, called Zanja Honda, were to succeed, they would have to learn about the best crop varieties and the latest production systems, and search out buyers at home and abroad.

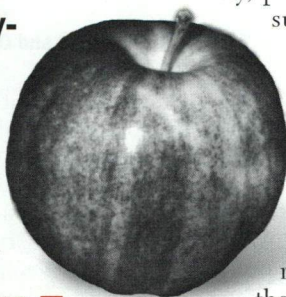
Luckily, one of the world's premier fruit producing countries was practically next door, so Reyes and Moizo traveled to Chile on a fact-finding mission. Back home they applied what they learned with such success that their operation caught the attention of

officials in Uruguay's Ministry of Agriculture who were running a new initiative called the Program for Farm Conversion and Development (Predeg). The IDB-financed program was established to provide technical assistance and marketing support to small and medium-size farms, such as Zanja Honda, as well as to agroindustries and nurseries.

That same year, Predeg awarded Reyes and Moizo a prize for innovation and quality, particularly citing their success in integrating production and marketing. "These producers stand out for their technological capabilities as well as for their business management," declared Carlos Sammarco, Predeg chief, at the awards ceremony.

Encouraged, Reyes and Moizo set out to change over from the traditional orchards to high-density plantings with quick-growing, early-ripening varieties that would result in higher yields and less damaged fruit. With financing from Predeg, Reyes and Moizo traveled to Italy, France and Spain to learn about new fruit varieties with the best flavor, color and texture, and get a feel for potential markets.

■ **15 early-maturing trees fit into the space previously used by one** ■



"The trip marked the starting point for a new approach to raising fruit, a trip to the future," recalled Reyes. "The fruit producer of the future is the person who can rapidly adapt to change with new varieties and cutting-edge production systems. It is the only way," he added.

Soon, the two partners had joined a group of other Uruguayan farmers to import 12,000 Australian hybrid apple plants from a supplier in Brazil. Called "Pink Lady," the crisp, flavorful new variety was specifically developed for high-density planting and early maturity.

"Things are changing so fast that in two years we won't have any fruit trees left that we had when we won the Predeg prize," said Reyes. The full-size apple trees used in years past were spaced the traditional distance apart and would begin producing fruit after five years at the rate of 15 boxes per tree. With the new variety, 15 small, early-maturing trees are planted in the same space that would have been taken by a single tree in the previous production system. Each new tree produces one box of fruit at much lower cost and higher quality in a shorter period of time.

"It is incredible, but the apples that I have on my table today are the first fruit from a tree we planted three months ago," said Reyes. But while the Pink Lady variety is well received by growers and consumers alike, it comes with strings attached. Royalties must be paid to the Australian Ministry of Agriculture for each tree purchased. Further payments must go to the Pear and Apple Export Association of Australia for each apple sold. But by using the latest varieties and production systems, Reyes and Moizo have met the competitive challenge.

The Predeg program that helped Reyes and Moizo to compete came at a crucial moment for Uruguay. "Our farm sector was lagging," said Sammarco, "and after our domestic producers lost tariff protection, they became vulnerable to competition, particularly from neighboring countries."

Predeg currently works with some 3,000 farmers organized into 260 producers' groups along with 900 individual fruit producers. It provides the farmers with training and cofinances innovative operations, such as the establishment of new plantings and drip irrigation systems. The program also provides technical assistance and marketing support to some 30 agroindustrial firms and commercial agents and 25 nurseries. In a pilot program that now includes some 200 producers, Predeg is helping farmers to reduce the use of agrochemicals by introducing alternative disease-control methods.

For more information, contact Predeg at predeg@adinet.com.uy or choose Rural Development under www.iadb.org/sds.

Some come to shop

At this innovative Uruguayan bus terminal, hassle-free travel is only one of the attractions

By DAVID MANGURIAN

JUST 10 YEARS AGO, DOMESTIC AND INTERNATIONAL bus service in and out of Uruguay's capital of Montevideo was a mess.

The problem was serious because buses are the most important means of public transportation in a country in which large numbers of small cities and towns make commercial air travel economically impractical. Moreover, Uruguayan buses carry not only passengers, but small cargo as well.

The problem was that Montevideo had no central bus terminal. Instead, more than 30 bus companies operated out of open-air curbside "terminals," often on main streets, at more than 20 different locations in the city.

"There were no bus connections," recalls Luis Muñoz, who was director of one of the larger bus lines at the time. Someone who needed to transfer from one line to another had to walk several blocks, or even go to another part of the city.

"Everything was very complicated—for tourists who had to catch another bus, and for people sending packages to different

places," says Muñoz. Moreover, the big passenger buses created traffic problems and pollution. "It was practically a national emergency," he says.

So Muñoz and his counterparts from eight other bus lines formed a group to pressure the government to build a terminal. But right away they ran into a roadblock: initial studies indicated that such a terminal would not be economically viable by itself. It needed something more.

The group then sought out Luis Lecueder, a successful shopping center developer. Lecueder proposed combining a bus terminal with a shopping center, a mixed-use concept that had never been tried in Latin America.

Passengers on all of the country's bus lines were surveyed. The results indicated that the concept would work if the shopping center included the kinds of stores and eateries that travelers wanted.

The nine bus companies, together with Lecueder's firm and two Chilean investors, formed a joint-venture company called Galado. In public bidding, Uruguay's Ministry of Transportation and Public Works awarded Galado a concession to operate the terminal for 30 years and the shopping center for 50.

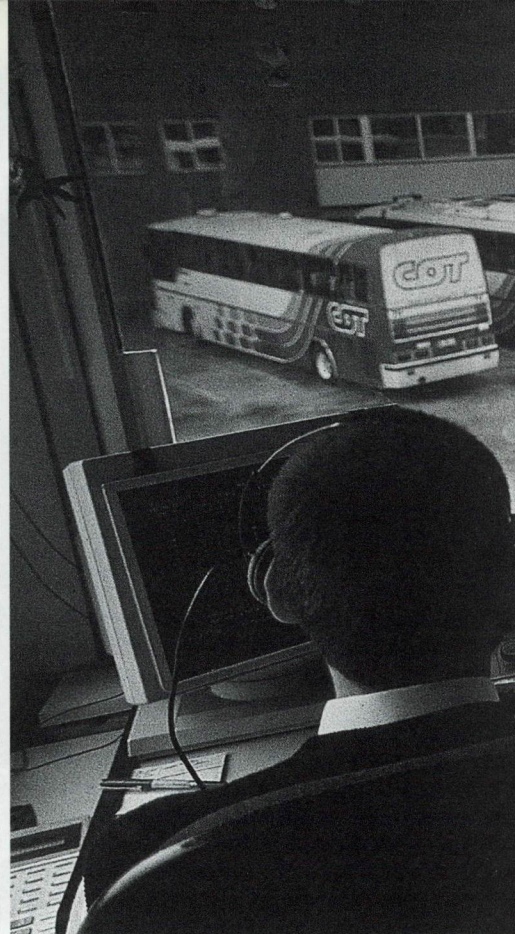
But financing the \$18.5 million project was a problem. Private banks were skeptical. But an investment officer for the Inter-American Investment Corpora-

tion, Roldán Trujillo, was intrigued. He was convinced that the project would be good for Montevideo and turn a profit besides.

In 1992, the IIC, the private sector member of the IDB Group, agreed to loan Galado \$4.5 million, syndicate a \$6.6 million "B" loan through its cofinancing program, and make an equity investment of \$300,000 in the company. The Galado partners provided the rest of the money.

Built on four blocks of land near downtown Montevideo, the Tres Cruces bus ter-

CENTRAL HUB: The Uruguayan capital of Montevideo is both the destination and departure point for passenger buses that cover the entire country.



terminal and shopping center opened in 1994. What replaced virtual chaos is one of the most modern bus terminals in the Americas. It has been a moneymaker for its investors from the beginning and stands as a model for private sector management of public facilities.

Tres Cruces' 90 stores and restaurants are 100 percent leased, and the 1,000 buses that enter and leave its 33 loading slots are dispatched with airport precision. In fact, three controllers in a tower overlooking the Tres Cruces terminal direct the movement of buses

with computer software designed for airport traffic control.

One of the terminal's architects, Oscar Carlazzoli, remembers one election day when 1,500 buses passed through Tres Cruces in 24 hours—more than one every minute. "Seeing the movement of these buses gave one the impression of a mechanical ballet," he says.

The Tres Cruces terminal is like a city within a city. On average, 45,000 persons pass through it every day, 30,000 of them bus passengers and the remainder shoppers and people looking for a bite to eat. The terminal offers a 24-hour medical center staffed with a doctor and nurse, a post office, a telephone company office with facilities for local and long-distance calls, a bank, a money

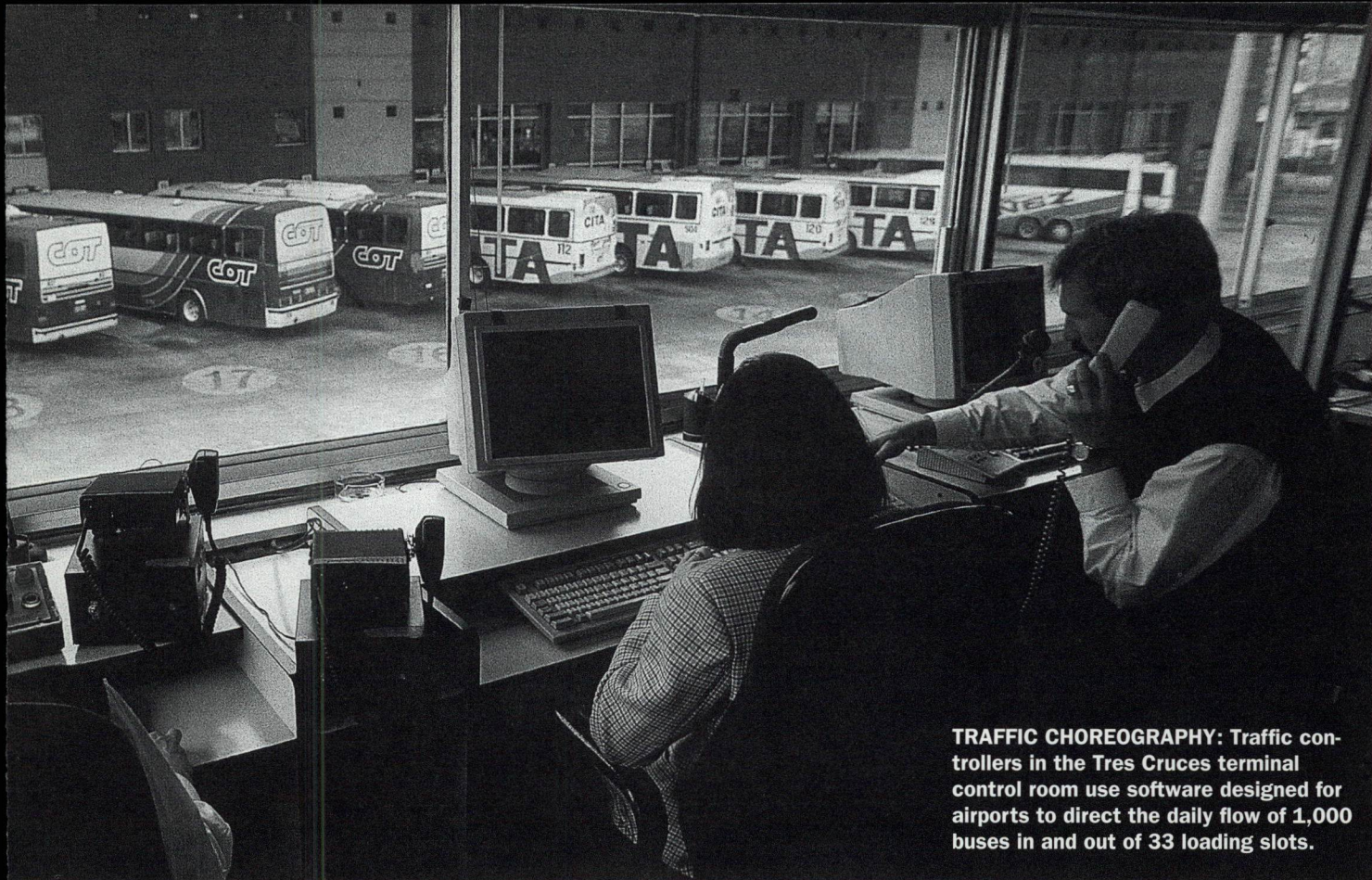
“ More than one million people pass through this terminal in a month. ”

CARLOS GUTIÉRREZ

Tres Cruces Terminal and Operations Manager



DAVID MANGURIAN—IDB



TRAFFIC CHOREOGRAPHY: Traffic controllers in the Tres Cruces terminal control room use software designed for airports to direct the daily flow of 1,000 buses in and out of 33 loading slots.

DAVID MANGUIRIAN—IDB

exchange open from 8 in the morning to 11 at night, around-the-clock luggage storage, a government tourism office, restaurants and a food court. The terminal employs approximately 1,500 workers.

"There are provincial capitals in Uruguay with fewer people than pass through here every day," says Carlos Gutiérrez, Tres Cruces Terminal and Operations Manager. "More than one million people pass through this terminal in a month!"

In 1998, the IIC sold its stock in the venture at a profit equal to a 45 percent annualized return on its investment. The profit from IIC equity investments is plowed back into other projects. "This project was a win-win situation," says Trujillo, now chief of the IIC's Corporate Finance Division. "There was a pent-up demand from the bus companies needing a solution to the mess and passengers needing better service. The project was well conceived and well designed."

In October 1999, Tres Cruces went on line with its own Internet website (www.trescruces.com.uy) offering bus routes and schedules and information about its shopping center stores, including special sales. According to Gutiérrez, the website will contain information on Uruguay's 30-plus bus companies, including departure and destination points and departure and arrival times. The information will help people arriving from other countries and destined for towns in Uruguay's interior to schedule their best bus connection. Eventually, the website will handle ticket reservations. ■



Terminal shops and restaurants draw 15,000 customers per day, not counting travelers.

DAVID MANGUIRIAN—IDB



ROGER HAMILTON—IDB



ROGER HAMILTON—IDB

A father and son walk to their garden plot in an indigenous reserve in the Amazon. The community's land was demarcated (top) with the help of IDB financing.

communities, in part as a means of increasing agricultural productivity and to remove ambiguities over ownership from earlier reforms.

According to the study's authors, land titling programs specifically designed for indigenous communities have been few and far between, Colombia being the country that has progressed the farthest. In Bolivia and Ecuador, vast areas have received title by decree, although further steps to resolve problems of overlapping land claims have yet to be taken.

Plant and Hvalkof make a number of policy recommendations. They start with the proposition that, despite the opposing views of many market-oriented economists and "communitarians," indigenous land systems can take the form of private tenure, and can be adapted to market opportunities. But each group must be treated as a special case; mainstreaming land tenure policies for indigenous groups will not work.

They also stress that land titling for indigenous people is a complex issue that requires input not just from legal experts, but also from economists, anthropologists, ecologists, topographers, and even historians.

Plant and Hvalkof insist that consultation on project design take place not only with national level indigenous organizations, but with local organizations and individual community members as well. Where organizations do not exist, they must be created, as was done in the case of an IDB-funded sustainable development program in Panama's Darién Province. These local groups must be provided with training in land registry and mapping and a relationship with government institutions to ensure continuity.

Finally, the authors recommend that the IDB set up a trust fund—possibly under the Bank-financed Indigenous Peoples Fund—to purchase land for indigenous communities in areas where land ownership is a source of conflict.

—Roger Hamilton



For details, go to www.iadb.org/sds/ind.

Modern titles for ancestral lands

LIKE LANGUAGE AND RELIGION, A PERSON'S relationship to land defines his cultural identity. Land is far more than a place to build one's house and make one's living.

This is why the issue of legal title to land can be so difficult for indigenous peoples and other groups. These communities need legal title in order to more fully participate in the market economy, but land ownership laws often do not reflect their deep-rooted traditions. How can indigenous people benefit from national development and at the same time retain their cultural values?

Balancing economics and culture

This was the subject of a study prepared by political economist Roger Plant and anthropologist Soren Hvalkof for a December IDB workshop on land titling and indigenous people.

The authors point out the tremendous diversity of indigenous land tenure systems. The most basic distinction is between the "horizontal" economies of the Amazon lowlands and the "vertical" economies of the

Andean and Central American highlands. In the former, indigenous groups have historically used vast contiguous territories. In the latter, families farm and graze small parcels at different altitudes and ecosystems as a means of supplying a variety of products and reducing risks.

These systems are poorly understood. For example, the Andean model is often misrepresented as collective land tenure systems, whereas ownership by individual families is recognized within the community. When policymakers misunderstand culturally based forms of land ownership, their attempts to liberalize land ownership can cause unforeseen problems, such as the lifting of traditional restrictions on land transfers and the ultimate loss of land to outsiders.

The subject of indigenous land titling is drawing growing attention as countries increasingly affirm their societies' multiethnic and multicultural character. New constitutional provisions and laws often provide special protection for indigenous lands and resources. But their intent tends to be subverted by new agrarian legislation to promote titling of individual parcels within indigenous

Build it and they will come

FOR BETTER OR FOR WORSE, NOTHING IN THE development arsenal can match the power of a road to transform the land and the lives of its inhabitants.

Particularly in frontier areas, roads often set off a chain of events that are difficult to anticipate. New residents clear the land and establish new production systems. While the changes create jobs and opportunities, they

Analysis predicts land use

can also destroy the environment and threaten the culture and livelihood of people already living there.

This was the scenario that planners sought to prevent in a new IDB-financed sustainable development

project in Panama's province of Darién. A significant part of the project consisted of paving a dirt highway that ends in the town of Yaviza, well short of Panama's southern border with Colombia. The so-called "Darién Gap," a wide swath of forest along the border, has remained largely pristine and is now a national park.

For many of the local residents, the need to pave the road is compelling, since much of it is only passable during the brief dry season. But others fear that an improved road would hasten the influx of newcomers into the region, threatening the cultural integrity of indigenous peoples and destroying fragile ecosystems. In response to these concerns, the road-paving plans were made part of an integrated sustainable development project that will include protected areas, land titling, and resources to help local governments properly manage land use and development.

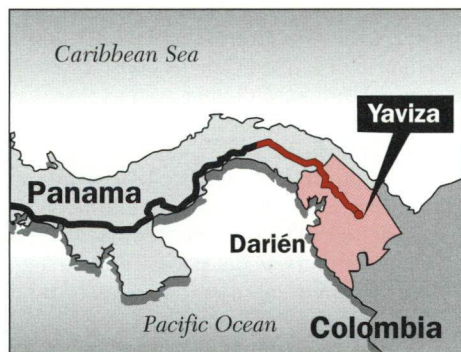
These goals raised important questions: How are forest resources being used? What parts of the Darién most need protection? Where should enforcement and mitigation efforts be focused?

In order to get some of the answers, the IDB financed a series of studies to predict how land use would change following the paving of the road. Among them was a spatial analysis study in which geographical and socio-economic data were used to build a model that would indicate changes resulting from reductions in transport costs and other factors. The study was carried out by Gerald Nelson and Virginia Harris, both of the University of Illinois, and Steven Stone, an IDB environmental specialist.

Overall, they found that the road resurfacing would have relatively little effect on deforestation in the province, especially in the national park. Nor would it hasten the extraction of high value timber, largely because most of the valuable timber was re-

moved after the dirt road was completed in 1984.

However, paving the road could dramatically reduce forests of catio trees, a commercial species used to make plywood. The forests would most likely be replaced by pasture and later by forests dominated by cuipo trees, a species with little commercial value. Paving the road would also probably increase the area devoted to pasture by nearly 500 square km. Similarly, adding a ferry to the town of La Palma would increase pastureland at the expense of catio forest, brush and agriculture.




The road to Yaviza (above, in red) will be paved with funds from the new IDB program, which will also strengthen environmental protection measures.

In another scenario, the authors attempted to predict what would happen if the same system of property rights and land use practices currently in use on an indigenous reserve located in the northeast portion of the province were to be extended to the province as a whole. The result, they found, would be to dramatically reduce all kinds of human intervention in the landscape. The area covered by catio forests would gradually triple, and regions now used for pasture and agriculture would revert to forest dominated by cuipo trees.

"Clearly, cultural land use ethics as well as effective property rights make a difference in land use in Darién province," write the authors of the study. As a result of these findings and a range of other studies undertaken to prepare the project, a phased approach—linking gains in land titling and demarcation to paving individual sections of the road—is being adopted to ensure that the shape of the land and its inhabitants is preserved into the future.

—Roger Hamilton

 The paper can be found at www.iadb.org/sds/utility.cfm/488/english/pub/1355. For updates on the status of the Darién project see www.sdn.org.pa/darien2020. For more information on the Darién National Park go to www.unesco.org/.



Most of the Darién's valuable timber was removed after the dirt road was built in 1984.

A future for stamps in the Internet Age

POST OFFICES OF THE WORLD TAKE HEART!

Despite challenges from e-mail and the Internet, postal systems represent a growing industry that is vital to both developing and developed countries, say senior postal officials of the United States, Canada, and Latin America.

'This is not a dying industry.'

Take the case of the United States Postal Service. With its 800,000 employees and 40,000 offices, the business takes in \$63 billion a year, making it the eight largest enterprise in the United States. Projections show the service will grow 2.3 to 2.5 percent annually until 2010, according to Richard Porras, the service's chief financial officer.

"This is not a dying industry," he said recently at the IDB.

Moreover, postal systems in developing countries will grow even faster, at an annual rate of 5.8 percent. In Latin America, many postal systems are in need of modernization and reorganization to meet the challenges of a more competitive century, and this "presents a fertile area of activity for multilateral financial institutions," Porras said.

The U.S. Postal Service is interested in helping postal systems around the world become more competitive and economically viable and is ready to cooperate with the countries of the region and with the IDB to help carry out reforms, Porras said during a recent briefing on "Postal Reform in Latin America and the Caribbean" at the Bank's Washington, D.C., headquarters. The event was hosted by Larry Harrington, executive director for the U.S. on the IDB Board of Executive Directors.

Gary Halprin, director of international business relations for Canada Post Corporation, noted that a strong and efficient postal service has a multiplier effect on a country's economy, assisting small business, banking, insurance, manufacturing, retailing, and processing industries.

In a strong economy, consumers spend a lot more money on postal services, measured as a percent of gross national product, than

do poor countries, he said, and that is an indication that the stronger a nation's postal service, the better its economy and the better off its population.

In the United Kingdom, every \$1,000 in gross national product brings in \$8.40 in postal revenue. Other developed countries, such as the United States, Canada, and Italy, have similarly high postal income levels, Halprin said.

On the other hand in Turkey every \$1,000 in GNP brings in 86 cents in postal revenue; in Brazil, the measure is \$2.69 per \$1,000.

Halprin described Canada's postal system as a case study of an ailing system that was turned around by reform and converted into a viable enterprise.

In the late 1970s and early 1980s, "everything that could go wrong, did go wrong," Halprin said. The system lost money, faced union conflicts, had a poor public image, low customer and employee satisfaction, and poor service.

In a five-year turnaround program, the Canadian system was converted into a state enterprise with a focus on customer service, new products and technology, according to Halprin.

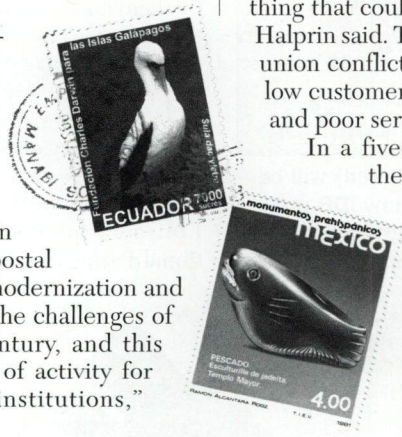
Mario Felmer Klenner, secretary general of the Postal Union of the Americas, Spain, and Portugal, described an efficient postal system as an "economic engine," providing a "significant return" to productive investments in the sector.

In addition to Canada, he described Chile, Costa Rica, New Zealand and Uruguay as countries that have carried out successful postal reforms. Argentina has recently become the only country in the world with a privatized postal system, a project supported by \$129 million in IDB financing approved in 1999.

Ricardo Toledo Carranza, general manager of Correos de Costa Rica, S.A., said that a recent postal reform in that country converted a system that had a deficit of \$6 million a year from salaries alone into a state enterprise with a budget surplus.

Despite the growth of e-mail and the Internet, the public relies on the postal system to "deliver a package, a physical package," Toledo Carranza said.

—Daniel Drosdoff



Not endangered species.

THE BANK'S WEBSITE (www.iadb.org) contains thousands of pages of reports, statistics, studies and other information not available anywhere else. Here are some noteworthy recent additions.

➤ Hard-won improvements in the quality of primary education in many Latin American countries have led to an increased demand for secondary schooling. In "**Secondary Education in Latin America and the Caribbean: The Challenge of Growth and Reform**," IDB education experts Claudio de Moura Castro and Laurence Wolff explore the need for increased focus on learning and measuring achievement; more effective instruction; management reform; and other issues affecting the prospects of Latin American high schoolers. E-mail sds/edu@iadb.org to request a copy.

➤ Everybody knows that the El Niño weather phenomenon is to be feared. But we are only beginning to understand the full spectrum of its effects. In "**Economic and Social Effects of El Niño in Ecuador, 1997-1998**," IDB specialists Margarita Velasco and Edgar de Labastida offer a sobering assessment. E-mail alexanderk@iadb.org to obtain a copy.

➤ Why do some societies prefer to save while others would rather spend? The **low savings rate** in most Latin American countries is considered a serious constraint to economic development. A multicountry study undertaken by the IDB's Research Network in 1997 examined the determinants of domestic savings rates in Chile, Colombia, Uruguay and Venezuela, along with the link between trade liberalization and private savings in Spain. These studies are now available online at www.iadb.org/occe.

➤ Just how **autonomous should public institutions be?** When it comes to central banks and regulatory agencies in sectors such as telecommunications and energy, that question is never quite settled. In another regional study, the IDB's Research Network examined the degree of administrative autonomy of government institutions in Argentina, Chile, Colombia, Venezuela and Peru, and its consequences for development. See the website above for details.



Don't call, just e-mail

Competition is reducing communication costs in Latin America, especially for Internet users

By PAUL CONSTANCE

FOR YEARS NOW, TECHNOLOGY PUNDITS HAVE been heralding the age of ultralow-cost communications, thanks to ever-increasing competition and lower equipment costs. Does the prediction apply to Latin America?

The answer depends on what country you live in and what services you use, according to a new study by the Alexis de Tocqueville Institution, a research group in Arlington, Virginia. For the second time in two years, ADTI recorded the cost of telecommunication services in 21 countries in the region and the United States (see chart).

The new survey shows that Latin Americans who don't make a lot of calls continue to enjoy low costs. In 14 of the region's countries, the cost of 200 minutes of local calls is

lower than in the U.S., which has very low prices by global standards. However, most Latin American countries do not offer a flat rate, unlimited-use package for local calls (a standard feature in the U.S.). Charges accumulate on a per-minute basis, leaving heavy users of local service with bills much larger than the U.S. average. The price of domestic long-distance calls is also relatively low in Latin America: 50 minutes' worth costs well below \$10 in every surveyed country except Venezuela (\$12.50), Argentina (\$16.50), Uruguay (\$23.50) and Bolivia (\$24).

The picture is not nearly as bright for Latin Americans who use the telephone a lot, make domestic and international long-distance calls, and like to surf the Internet. As the graph shows, the cost of a "high use" basket of services is almost half as low in the United States as in Jamaica, the next lowest-cost country in the survey. Everywhere else in Latin America and the Caribbean the "high use" basket of services costs several times more than in the U.S.—a serious competitive disadvantage for companies that are attempting to enter the burgeoning world of electronic commerce. These higher costs are partly due to

the practice of cross-subsidizing local and domestic long-distance fees with high international long-distance and Internet access fees. They may also be due to a lack of competition: according to ADTI, the six most expensive countries in the "high use" category allow monopolies in domestic and long-distance voice telephony. (Honduras is described as having "partial competition.")

The lack of competition in fixed-line voice communications may also affect a cost factor that is not measured in the ADTI survey: the price and waiting period for a new telephone line. In many Latin American countries, connection fees are still high and waiting periods long. As a result, "teledensity" (or the number of fixed phone lines per 100 people) is still very low. The difficulty of getting a new line has fed the spectacular growth of cellular telephony in the region. From virtual nonexistence a decade ago, cell phones have multiplied to the point where they now equal at least 30 percent of all fixed telephone lines in 11 Latin American countries. And prices for 200 minutes cell service are, on average, only 70 percent higher in Latin America than in the

WHAT DOES IT COST?

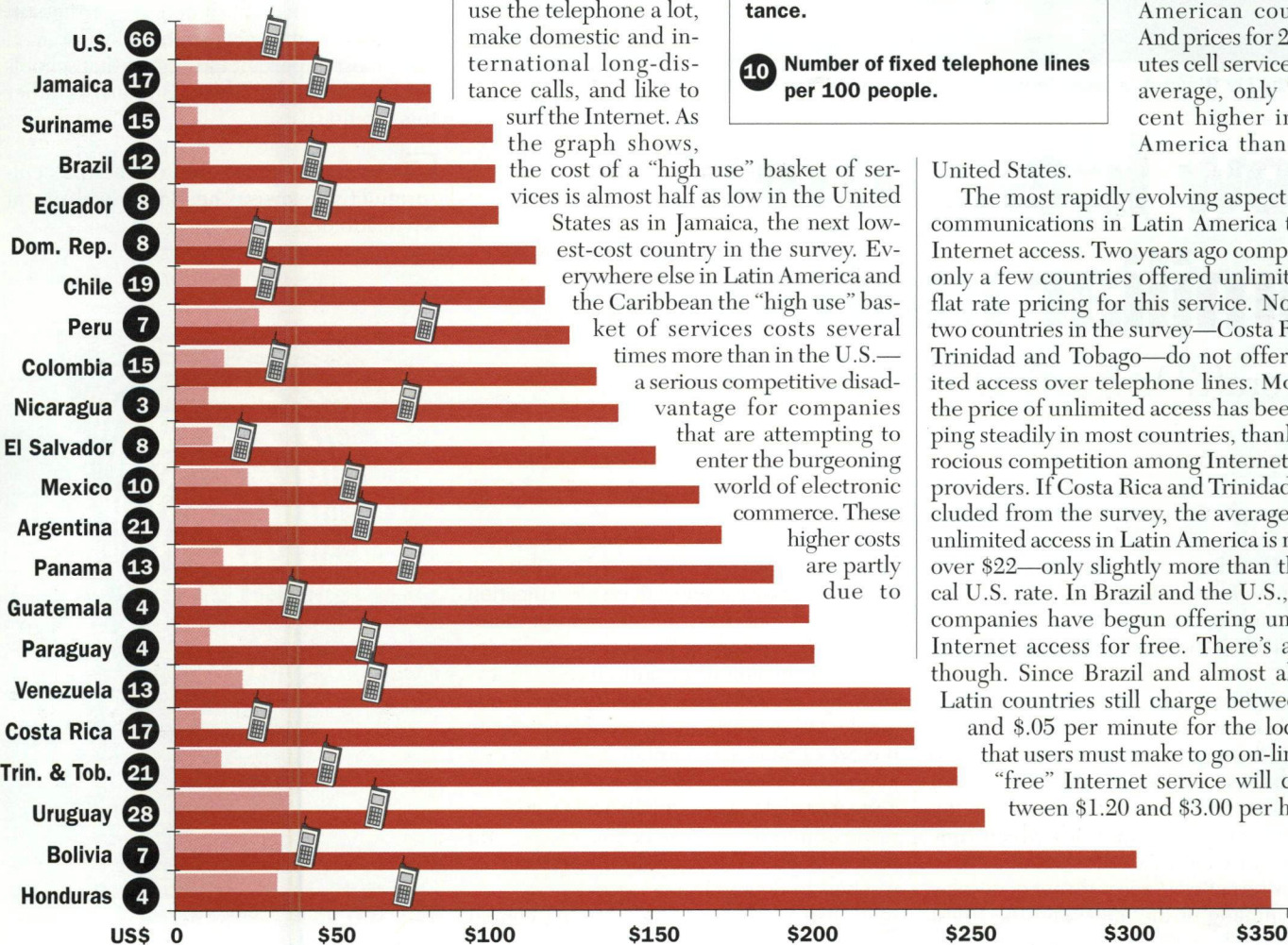


200 minutes of cell phone time.

1,500 minutes of local calls, 200 minutes of domestic long-distance, 60 minutes of international long-distance and unlimited Internet access.

200 minutes of local calls and 50 minutes of domestic long-distance.

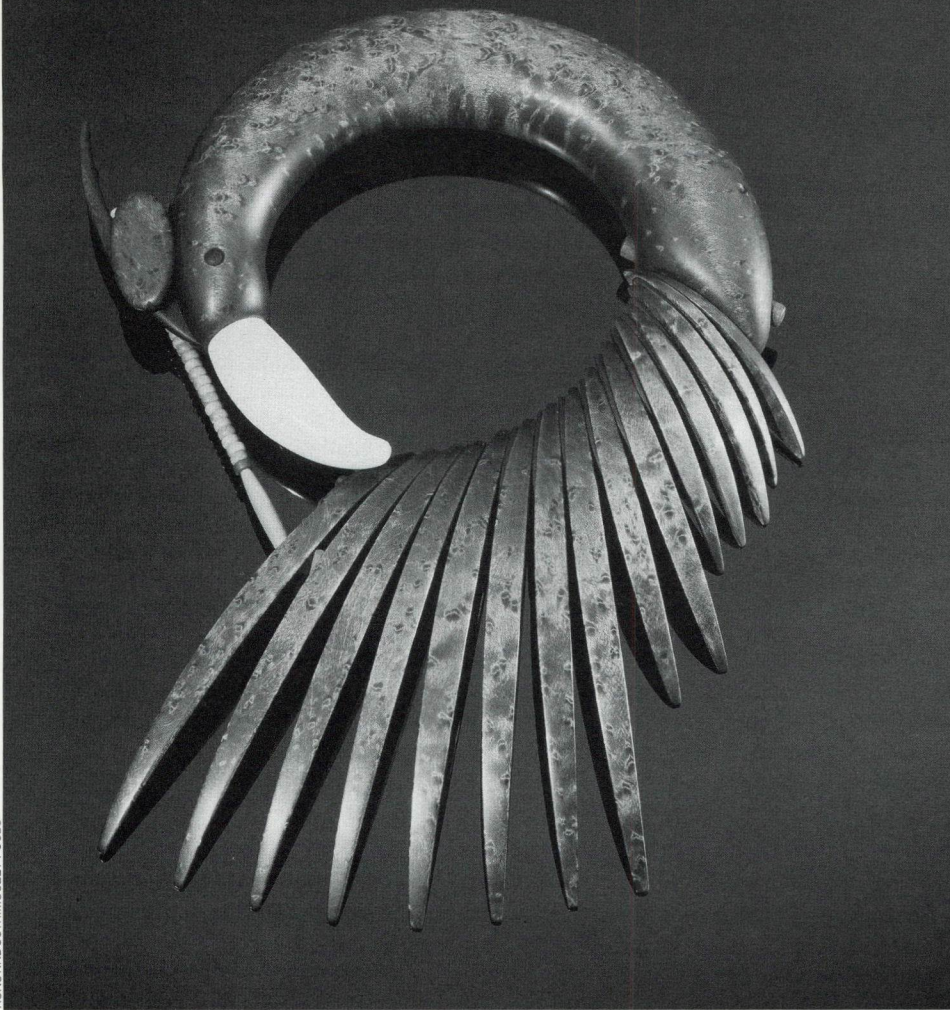
10 Number of fixed telephone lines per 100 people.



SOURCE: ALEXIS DE TOCQUEVILLE INSTITUTION, www.adti.net

United States.

The most rapidly evolving aspect of telecommunications in Latin America today is Internet access. Two years ago companies in only a few countries offered unlimited-use, flat rate pricing for this service. Now, only two countries in the survey—Costa Rica and Trinidad and Tobago—do not offer unlimited access over telephone lines. Moreover, the price of unlimited access has been dropping steadily in most countries, thanks to ferocious competition among Internet service providers. If Costa Rica and Trinidad are excluded from the survey, the average cost of unlimited access in Latin America is now just over \$22—only slightly more than the typical U.S. rate. In Brazil and the U.S., several companies have begun offering unlimited Internet access for free. There's a catch, though. Since Brazil and almost all other Latin countries still charge between \$.02 and \$.05 per minute for the local calls that users must make to go on-line, even "free" Internet service will cost between \$1.20 and \$3.00 per hour. ■



"Bird," by Liv Blåvarp, a work in wood accented with a whale's tooth.

New ideas from familiar materials

Is it craft? Is it art? Does it matter?

By ROGER HAMILTON

JUST AS ARTISTS TAKE TIMELESS IDEAS AND PERCEIVE them in new ways, craftspeople take familiar materials and render them in new forms. Wood, fiber, clay, glass: In the hands of masters, humble materials achieve a resonance that bridges cultures and ages.

In a sophisticated, industrialized society such as Norway, crafts have a particularly vital role in linking traditional forms of expression with the avant-garde. Using the tools of advanced technology, but always paying homage to the materials with which they work, the IDB Cultural Center's exhibit "Norwegian Alternatives," recently put on display a fine sampling of the latest and the finest from this Bank member country. Most of the

pieces were created in the 1990s, and most were intended to serve poetic, not practical, purposes.


As a nation of forests, a land from which graceful oaken ships sailed into the unknown, Norway has always had a deep identification with wood. The spirit of this natural material comes through in the pieces on display at the IDB, including a wondrous bird by Liv Blåvarp, its feathers made of bird's-eye maple. Other works in the exhibit celebrate the art of weaving, another activity with a long Norwegian tradition. A wall hanging by Tone Saastad, "The Devil's Yellow Fly," is made of fine strands of silk interwoven with such skill and to such mysterious effect that it seems to float in its own aura.

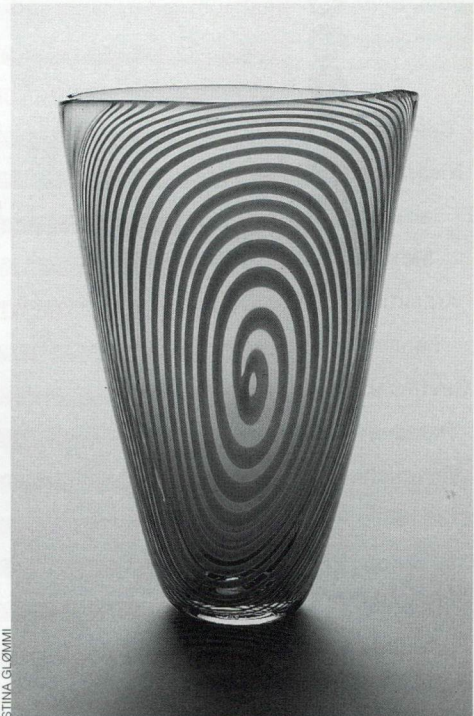
Unlike woodworking and weaving, ceramics and glassmaking have a very short history

in Norway. Norwegian ceramists have drawn from the technical and artistic traditions of Asia and elsewhere in Europe, creating objects of humor and elegance. The glassworks on display give the IDB exhibit a final burst of color. Most of these pieces come from the Hadeland Glassverk. The oldest blown-glass factory in northern Europe, the firm started producing art pieces only in the last 30 years. Among the artists is Ulla-Mari Brantenberg, creator of a piece presented by the King and Queen of Norway to U.S. President Clinton.

In Norway as elsewhere, the term "craft" has been criticized as vague and open to misinterpretations. Lately, that country's National College of Art and Design decided to sidestep the issue by organizing its institutes according to materials, such as clay art, textile art and metal art. Arne Ase, professor of ceramic art at the college, whose works are also represented in the IDB exhibit, has gone further by eliminating words such as cup, pot, vessel, etc. from his course descriptions, believing that they inhibit students' creativity and freedom to experiment.

"Ase's statement must be understood strategically," writes Jorunn Veiteberg, Norwegian art historian, in the catalogue produced for the exhibit, "both as an ironic tilt at the hierarchical traditions of art life and as a deliberate provocation aimed at getting students to rise above conventional wisdom. . . . Ase's most important message is that schools wish to train and produce visual artists rather than craft artists."

 For more information on the IDB's cultural activities, see the Bank's website at www.iadb.org.



"Venice," by Lena Hansson.

Guide for museums

A standard tool for museum managers in the United States and Europe planning to borrow artworks from other institutions is now available in Spanish to art institutions in Latin America. The Standard Facilities Report, produced by the American Association of Museums, provides a format for recording information about the care artworks will receive from a borrowing institution and covers issues such as a physical plant, security, and environmental controls. The manual, whose translation was financed by the IDB Cultural Center, will raise awareness of the need to update museum procedures and improve physical facilities.



Theater behind bars

"When prisoner number 33 . . . looks towards the outside and talks of liberty, one sees a painful longing that transcends mere acting," wrote a reviewer in the newspaper *Panama América*. This theater adaptation of the famous Panamanian novel *Bamboza Road Gang* was particularly poignant because it was performed by prisoners in Panama City's El Renacer Rehabilitation Center. The work, produced by prison educator Juan Gómez with financial support from the IDB Cultural Center, touches on themes such as racial prejudice and loyalty, with the underlying message that belief in eventual justice provides the faith to go on.

Celestial sonorities

The visual and tonal elegance that belongs uniquely to the harp came to the IDB in March with the performance of 17-year-old Dutch musician Gwyneth Wentink. Playing before a full house, Wentink displayed both the harp's virtuosic and interpretative potential, playing music ranging from the early classical period to the modern era. Among her numerous international prizes was first prize in the 1999 Young Concert Artists International Auditions, the first harpist to win a place on the YCA roster.



Streetcars line up by the Constitución train terminal in 1910; today taxis and buses do.

A city's Golden Age

How Buenos Aires got its European architecture

By PAUL CONSTANCE

IN 1880, WHEN BUENOS AIRES OFFICIALLY BECAME the capital of Argentina, the city still betrayed its origins as a modest entrepot that had only recently emerged from the shadow of Lima and other centers of colonial power. There were few paved streets or multistory buildings. The primitive port required passengers and cargo to be carted up a muddy bank to dry land.

But during the next 50 years, the city's fortune took a rapid turn for the better. European investment and immigration exploded as Argentina's fertile pampas became one of the world's principal sources of beef and leather. The sudden prosperity launched a building boom that would come to define the city's architectural personality. According to Pablo Güiraldes, an Argentine architect and lecturer at the University of Maryland School of Architecture who recently spoke at IDB headquarters in Washington, D.C., Buenos Aires' landed elites set out to transform the city based on an unabashedly European ideal. "They wanted to show that Buenos Aires was as big, as magnificent and as elegant as the most important capitals of the world," Güiraldes said.

The ruling class hired the services of some of the best European urban planners and architects, along with thousands of craftsmen. A state-of-the-art port, known as Puerto Madero, was one of the first undertakings. The English contractors responsible for building most of Argentina's immense rail system also constructed the soaring Retiro terminal.

Francisco Tamburini, a noted Italian architect, designed the presidential palace, known as Casa Rosada, and the Colón Theater, still considered one of the world's finest

opera houses. The imposing National Congress and the Courts were also built during this period.

City planners also sought to fill Buenos Aires with broad avenues and parks. The 10-block long Avenida de Mayo, built in the 1880s, connects the Casa Rosada and the Congress. French landscape architect Charles Thays, Buenos Aires parks director from 1891 to 1911, designed the city's Botanical Gardens and numerous plazas.

Güiraldes ended his lecture by describing a rebirth of local interest in Buenos Aires' architectural history. As an example he mentioned Puerto Madero, which was abandoned years ago when its docks became obsolete. Today, the old port's magnificent brick warehouses have been refurbished and converted into a fashionable waterfront.



A view of Avenida de Mayo in 1910.

PROJECT UPDATES

JAMAICA

Awards for self-help projects

THE IDB'S COUNTRY OFFICE IN JAMAICA decided to take a novel approach to celebrating the Bank's 40th anniversary: It held a contest to recognize the work of communities that have solved problems without the help of the IDB, or any other outside agency.

The call went out for applications from community projects that demonstrated a high level of participation and produced concrete benefits. The winners would receive small cash awards and a commemorative plaque. From the 24 projects that applied, the judges chose four, including two projects tied for third.

The New Garden Youth Club, in the parish of St. Andrew, took first prize for a water supply and road project. When the club was formed a decade ago, its members decided that the community's main problem was the poor condition of its principal road. It was so bad that buses would not enter the community, making it difficult for children to go to school, adults to get to work, and farmers to sell their produce. The Jamaica Social Investment Fund agreed to finance repairs, but the community had to make its contribution. The youth club took responsibility for maintaining the roadway, clearing drains and storing roadworking equipment.

The S-Corner Development Council, in the Bennetlands Community, won second place for its initiative to reduce gang violence. The council, which had long been active in health, education and community outreach, appointed a committee charged with bringing warring gangs together. After months of mediation, the factions agreed on a code of conduct. For the past two years, peace has reigned practically uninterrupted.

The Rising Star Community Club, in the village of Broadleaf, shared third place for a project in which young people grew and marketed sweet potatoes. De-



Icilda Dalmage of New Garden Youth Club with first prize plaque.

spite inexperience, drought and transportation difficulties, the potato plants came up and the fields greened. Today, the young people sell produce both locally and to the export market.

The Sligoville Institute, shared third place for a project to help young people prepare for the workplace with job skills and courses in personal development. The institute currently has more than 80 students on its rolls, and its graduates have gone on to study at Jamaica's University of Technology, schools of nursing and teachers colleges.

BOLIVIA

Road opens to the Pacific

THE BOLIVIAN PORTION OF A MAJOR new paved highway linking La Paz, Bolivia, with the Peruvian port of Ilo is scheduled to be completed in June.

The new road is the second linking this landlocked country with the Pacific. A 600-km road between La Paz and the Chilean port of Arica was completed three years ago. The Bolivian portions of both roads were built with the help of IDB financing.

The new road, which crosses the Bolivian border at the town of Desaguadero near Lake Titicaca, was constructed by the Brazilian firm Queiroz Galvão. The highway construction includes measures to protect the environment as well as archaeological sites, in particular the ruins of the pre-Inca ceremonial center of Tiwanaku.

The \$95 million in IDB financing for the road also includes a highway to the country's northeast lowlands, a major agricultural area.

Completion of the road will help Bolivia export nontraditional products and reduce domestic transportation costs of staple goods such as meat, rice, soybeans, corn, bananas, coffee, cacao and fruits.

The Peruvian side of the new highway, measuring 397 km, was completed last year.

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.



CREDIT READY: A U.S. Peace Corps volunteer reviews a savings passbook with the members of a women's communal bank in the Guatemalan village of Panajachel. Under a \$500,000 IDB loan approved in 1993, a local nongovernment organization was able to launch communal banks in 63 Guatemalan communities. Most members use the loans to buy materials for handcrafts.

WILMER ROMERO—EL TIEMPO, HONDURAS



Spanish Ambassador in Honduras Carlos Gómez Mugica (l.) and power company officials sign contracts for new transmission line.

CENTRAL AMERICA

Contracts signed for power link

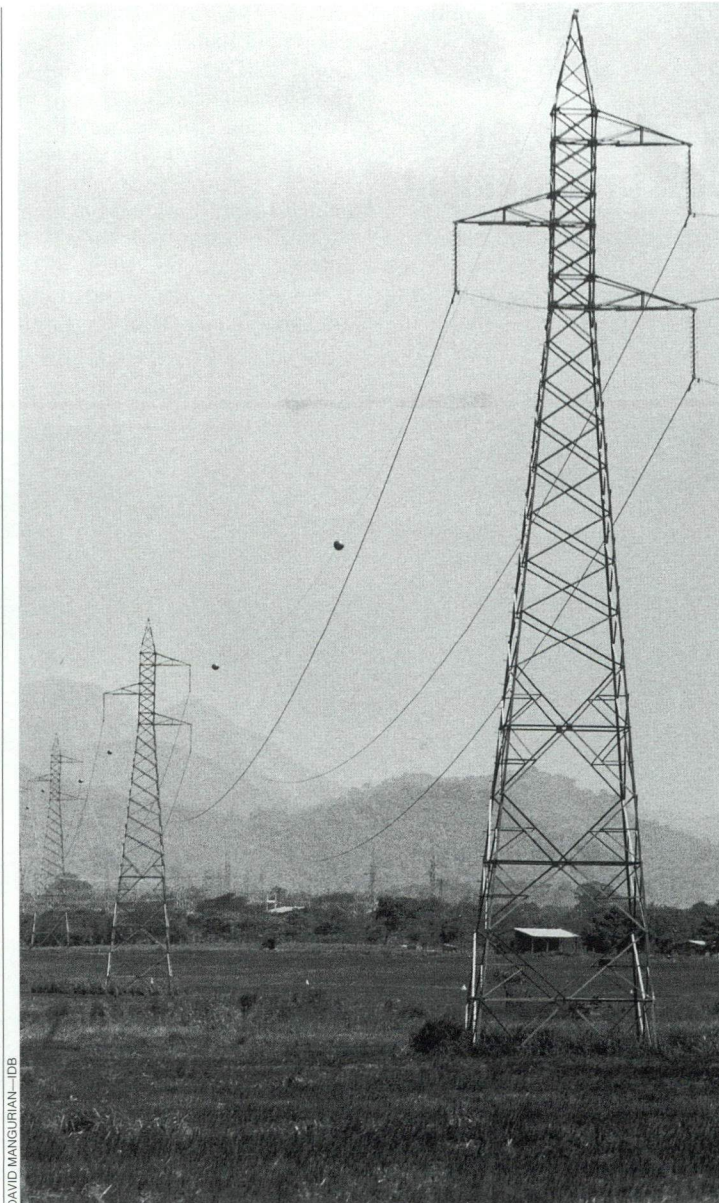
HONDURAN AND SALVADORAN OFFICIALS signed a series of contracts in January in Tegucigalpa that will help pave the way for an eventual electrical interconnection among the six Central American countries.

The contracts will launch construction on a 230-kilovolt transmission line that will connect the Pavana substation in Honduras and the 15 de Septiembre substation in El Salvador. Totalling 148 km, the project will cost \$21.4 million and is scheduled to be completed in 18 months.

The new line is part of an ambitious IDB-financed plan to interconnect the electricity grids of all six countries in the isthmus.

The aim of the interconnection is to enable countries to sell power to each other when they have a temporary surplus, and buy it in times of shortage. The result will be increased energy security as well as savings in operating and expansion costs for a regional market of 35 million people.

The interconnection is already in operation in Central America's so-called southern bloc, which is made up of Panama, Costa Rica, Nicaragua and Honduras. But there is still no link with the northern countries of El Salvador and Guatemala.



Electric lines in Costa Rica could soon connect with Honduras.

LATEST APPROVALS

THE FOLLOWING OPERATIONS WERE approved in recent weeks by the Inter-American Development Bank (IDB), the Inter-American Investment Corporation (IIC) and the Multilateral Investment Fund (MIF).

Guyana

A \$1 million IDB grant to help finance the preparation of a public sector reform program that will aim to improve efficiency in government.

A \$900,000 loan from the IDB's Fund for Special Operations to help improve health and sanitary conditions in Georgetown.

Honduras

A \$26.8 million loan from the IDB's Fund for Special Operations to rebuild roads that were damaged by Hurricane Mitch.

Mexico

A \$2 million MIF grant to strengthen nongovernmental organizations in the country.

Peru

A \$206.5 million IDB loan for an ongoing government public finance sector reform program designed to promote prudence, transparency and accountability of fiscal policy and improve investor confidence.

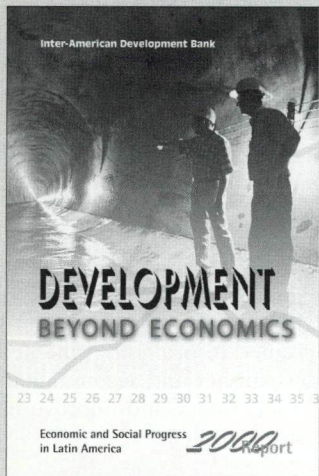
A \$120 million IDB loan to support the first three-year phase of a six-year, \$367 million program to improve the quality and coverage of secondary education.

Regional

A \$40 million IDB ordinary capital loan and a \$30 million syndicated loan to Transportador de Gas Mercosur, S.A., to support the development, construction, operation, and maintenance of a 437-km natural gas pipeline in northern Argentina that will supply fuel to a 600-megawatt thermoelectric power plant in Uruguaiana, Brazil.

BIDDING INFORMATION

Firms and consultants interested in business opportunities on IDB-financed projects have a new source of information. *Standard Bidding Document for the Procurement of Goods* and its *User's Guide* are the first in a series that will also cover prequalification and the contracting of works and consulting services. The publications, are available in English and Spanish. Portuguese and French will follow shortly. For a printed copy, contact REI/PRM@iadb.org, or print it from the Bank's Internet site www.iadb.org under "Business Opportunities," then "Procurement." It may also be ordered from the Bank's bookstore by contacting IDB-BOOKS@iadb.org.

ON
SALE NOW

a detailed analysis
produced by a
multidisciplinary team
of experts

Latin America is entering the 21st century with a modest economic performance that is profoundly unequal and unstable.

It has made notable gains in health and education...

achievements
...but not nearly enough.

It has advanced rapidly in the area of civil and democratic freedom...

failings
...but many of its citizens
live in fear of violence.

What is the explanation for this mix of achievements and failings?

Many cite:

- government policies
- the mood of the electorate
- influences from overseas developments

But there are deeper structural factors that help to account for the enormous differences in economic, social and human development that separate Latin America from other regions and its countries from one another.

These demographic, geographic and institutional factors are the subject of *Development Beyond Economics*.

Development Beyond Economics can be ordered through the IDB Bookstore at www.iadb.org; or by calling 1-800-782-7432. Or write to the IDB Bookstore, Stop E-0105, 1300 New York Ave., N.W., Washington, D.C. 20577.

Italy joins IDB fund

ITALY HAS BECOME THE 26TH MEMBER of the Multilateral Investment Fund, an autonomous fund administered by the IDB that promotes private sector growth in Latin America and the Caribbean. Italy's representative on the IDB's Board of Executive Directors, Bruno Mangiatordi, said Italy's decision confirms the traditional support of his country to the IDB Group and its commitment to support small and medium-size enterprises in Latin America and the Caribbean.

Italy's participation in the fund became official with the ratification by its Parliament on Feb. 3 of a \$30 million contribution to the MIF, to be allotted over a period of five years.

Workshop on IDB procurement

THE IDB'S PUBLIC INFORMATION Section will host a workshop on IDB procurement and consulting business opportunities at the IDB on May 18-19 at the Bank's

Washington, D.C. headquarters. It will include guidelines on how to bid on IDB-financed contracts for goods, equipment, works and consulting services; the roles of the IDB country office and executing agencies in the procurement process; tips from firms that have participated in IDB procurement; and opportunities to network with project team leaders. A registration fee of \$465 includes the workshop and a one-year subscription to IDB Projects, which lists Bank-related business opportunities. Call (202) 623-1397 for details.

Risk management in the Caribbean

THE IDB AND THE CARIBBEAN Development Bank (CDB) held a Regional Risk Management Symposium for financial institutions in Trinidad and Tobago from February 21-22, 2000. Risk management is the process by which financial institutions manage their exposure to the risks they face and the strategies they use to mitigate those risks. Trinidad and Tobago Finance Minister Brian Kuei Tung, the IDB Executive

Vice President K. Burke Dillon, and the president of the CDB, Sir Neville Nicholls, inaugurated the Symposium, which was part of a wider program of the IDB and CDB on risk management for the Caribbean.

IDB appoints new directors

THE FOLLOWING HAVE RECENTLY been elected or named to serve on the IDB's Board of Executive Directors: **Fernando Tenjo-Galarza**, alternate executive director for Colombia and Peru; **Eduardo Linares**, alternate executive director for Panama and Venezuela; **José Carlos Quirce**, alternate executive director for Belize, Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua; **Michael Power**, alternate executive director for Croatia, Japan, Portugal, Slovenia and the United Kingdom; **Marcel Masse**, executive director for Canada; **Federico Alvarez**, alternate executive director for Brazil and Suriname; and **Mirja K. Peterson**, alternate executive director for Austria, Denmark, Finland, France, Norway, Spain and Sweden.



ROYAL GATHERING: Felipe de Borbón, Spain's Prince of Asturias, opened a February meeting in Madrid where 2,000 representatives from 26 countries and 23 international organizations were briefed on reconstruction efforts being undertaken in the wake of last December's disastrous flooding in Venezuela. At the head table (l. to r.) were IDB President Enrique V. Iglesias, Venezuelan President Hugo Chávez and Spain's Foreign Affairs Minister Abel Matutes.



PEOPLink founder Salcedo and Martínez Kantule discuss on-line product descriptions.

E-commerce comes to San Blas Islands

Isolated communities go global thanks to a pioneering Internet marketer

By PETER BATE

ONE COULD ARGUE THAT DANIEL SALCEDO was destined to have one foot in Latin America and the other one in the United States.

The Texas-born son of a Colombian father and an American mother, Salcedo was raised in Bogotá and went to college in his native state. After obtaining a Ph.D. in operations research, he worked in anti-poverty projects for such agencies as the U.S. Peace Corps, USAID, the OAS, PAHO and the UNDP in several Latin American countries.

Today, Salcedo heads an organization that is helping indigenous artisans in Latin America and elsewhere enter the era of electronic commerce. Called PEOPLink, this nonprofit organization is helping microentrepreneurs who may not even have access to telephones and electricity to stake out their own "space" on the Internet.

Salcedo and a representative of the Kuna people from Panama were at the IDB recently to showcase PEOPLink and to explain how the project will expand with help from the Bank-administered Multilateral Investment Fund. Under the plan, MIF will channel the funds to PEOPLink through the Trust for the Americas, a foundation chartered under the Organization of American States.

Beyond catalogue sales. Salcedo and his Colombian-born wife Marijke Velzeboer established PEOPLink in 1995 to take their previous experience in marketing handicrafts through catalogue sales to a higher level.

The Salcedos had learned early on that it takes more than good intentions to capture consumers' imaginations. In their very first business deal they ended up with 200 dozen woven palm leaf hats which they had bought from artisans in a Guatemalan mountain village. The hats did not start to sell until the day Salcedo happened to adorn his stand at an arts and craft fair with pictures of the weavers at work. When people stopped to look at the photographs, he engaged them with stories about how the hats were made and how the villagers lived, the problems of poverty and the opportunities offered by fair trade.

In that spirit, PEOPLink's website offers not only products, but glimpses into the lives of the people who make them. Salcedo started by buying products in bulk, typically from artisan cooperatives, in order to keep a stock in the United States and thus be able to fill orders quickly. He then took digital pictures of the products and displayed them on his website, along with as much information as he could gather about their origin and their makers. Later, Salcedo began giving simple

digital cameras to the cooperatives so they could snap pictures of their wares and send them via e-mail to PEOPLink's office in Kensington, Maryland, in the United States. In the many cases where the artisans have no telephones or computers, PEOPLink struck "trading partner relationships" with like-minded NGOs to provide the service.


With the help of grants and donations, Salcedo has built up a network that already serves some 100,000 artisans and small business owners in 20 countries.

One of the groups that is already using PEOPLink's services is Cooperativa de Productoras de Molas, which includes 1,500 Kuna Indian women in the San Blas islands, off Panama's Caribbean coast. The women sew molas, intricately designed and colorful embroideries that have been used to decorate Kuna dresses for generations. Rosita Martínez Kantule, the cooperative's marketing manager, said that the Internet offers the Kuna artisans a chance to bypass the middlemen who usually demand huge discounts to buy their handicrafts in bulk. "We are always looking for ways to cut our costs and improve our margins," Martínez Kantule said. "Travel is very expensive for us, and the Internet offers us a way to keep down our marketing costs."

While PEOPLink has demonstrated that its model works, Salcedo would like to take the idea to the next level: empowering the artisans themselves with the technology needed to succeed in international electronic commerce. "It is vital for indigenous groups and artisans to stake their ground before it is all taken up by others," he said.

Multilateral Investment Fund General Manager Donald F. Terry predicts that an expanded PEOPLink program will bring a number of benefits, including encouraging entrepreneurship among indigenous groups and women, providing artisans with access to international markets and bridging a gaping technological divide.

"Countries are moving into the new economy at very different speeds and in very disparate conditions," he said. "By using Internet technology, this project helps to network indigenous populations and microentrepreneurs, putting them in closer contact with other people and with markets around the world."

 For additional information see www.peoplink.org/kuna or www.trustfortheamericas.org.

Intricately embroidered molas command good prices in the folk art market.





DAVID MANGURIAN—IDB

REASON TO SMILE: An employee of Trinidad and Tobago's national oil company pauses on his way to work. A \$260 million IDB loan approved in 1991 helped to finance the company's refinery expansion and upgrade the program.

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