

■ SOCCER AND SOCIETY

■ ECOLOGICAL HOTSPOTS

■ LATIN AMERICA'S DIGITAL GAP

IDB AMERICA

Magazine of the Inter-American Development Bank

May-June 2000

Lousy deal

Why do governments always seem to pay too much?



VIEWPOINT

1 Can corporations think green?

FOCUS

2 Lousy deal

Why do governments always seem to pay too much?

6 Come see for yourself

8 Make every citizen an auditor

9 Honduras builds a better buying team

NEWSBEAT

10 Fraud fighters

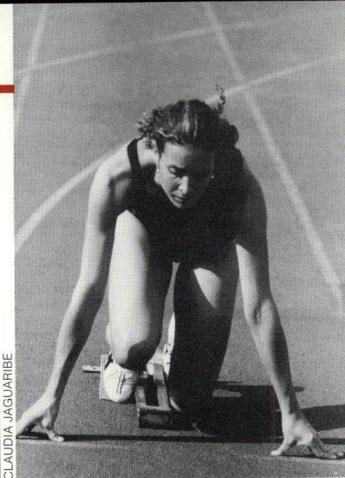
Seminar spotlights proven tactics for stopping corruption.

11 Are we ready?

IDB proposes initiative to stem natural disaster damage.

12 New look at debt relief

A report from the IDB's annual meeting.



CLAUDIA JAGUARIBE

Brazilian sprinter Maurren Higa Maggi, as photographed by Claudia Jaguaribe. See story page 25.

13 Aid for Ecuador-Peru peace

14 Who gains in the information age?

Latin America faces a growing digital divide.

17 Brazil looks ahead

500th anniversary sparks assessment of new challenges.

18 Soccer and society

Pelé and Kissinger consider sports and development.

THINK TANK

20 Rural development

21 Capital risks

21 Democracy and economy

FIGURATIVELY SPEAKING

22 Ecological ground zero

Latin America's most threatened ecosystems.

EXPRESSIONS

24 New Orleans in D.C.

25 Sporting Brazil's best

PROJECT NEWS

26 Project Updates

PROTAGONIST

29 Education for change

A new university flourishes on the Miskito Coast.

THE COVER

Lousy deal. Whether they're buying a desktop printer or a hydroelectric dam, governments and public institutions often seem to be incapable of getting the best price. Latin American societies used to ignore or even wink at the waste in public procurement, but not anymore. Amid a drum-beat of protest over fraud and abuse, governments in a few of the region's countries are taking a hard look at how they buy goods and services. In some cases they are opting to come clean by putting information about public procurement on the Internet, where ordinary citizens keep tabs on how their tax dollars are spent. See stories beginning on page 2. (Cover photo by Willie Heinz)



WILLIE HEINZ—IDB

EDITORS' NOTEBOOK

Advice and dissent

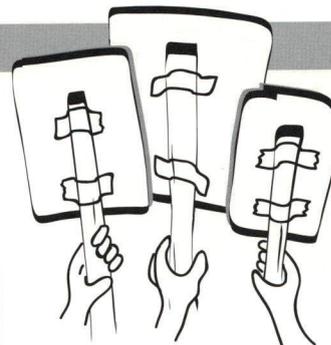
AFTER SEATTLE AND WASHINGTON, street protests have become standard features at big international gatherings, along with the traditional speeches and receptions. So the near absence of demonstrators at the IDB's annual meeting in New Orleans last March came as somewhat of a surprise.

Where were the critics? It turned out that they were inside the convention center. Altogether, some 25 nongovernmental organizations (NGOs) attended the meeting as registered participants. Although NGOs have been coming to IDB annual meetings for years, this time they were provided with computers, telephones, copy machines and meeting space. Through one-on-one lobbying and written statements, they raised concerns about the environmental and social impact of IDB-financed projects, called for debt cancellation, urged more

work to reduce poverty, and demanded a larger NGO role in the Bank's work. "We want greater public participation and debate on big picture strategies, programs and policies," said Margarita Flores of the Colombian-based network Red Bancos.

The groups, based in 11 Latin American countries and the United States, included networks that represent hundreds of NGOs and two labor organizations with millions of members. They reflected the explosive growth of civil society organizations in the region, which has added vitality to democratic institutions and has enriched public debate.

Although their criticism was at times harsh and their expectations were perhaps unrealistic, NGOs such as these have become an important IDB interlocutor. Far from considering them a threat, the IDB welcomes their participation, be-



lieving that they offer perspectives on the issues that can strengthen the Bank's ability to fulfill its mission.

Relations between NGOs and the IDB have grown closer over the years, and will continue to do so. "We have made progress," said K. Burke Dillon, IDB executive vice president, in a meeting with the NGO representatives. "But we need to make more progress." As a step in that direction, Dillon said that the Bank will hold regular meetings with civil society groups, in addition to the ongoing contacts that it currently maintains at its Washington, D.C., headquarters and through its country offices.

IDB AMÉRICA Volume 27 No. 5-6

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.

Can corporations think green?

By EUGENIO CLARIOND REYES-RETANA

The writer is the president and CEO of Grupo IMSA, S.A. de C.V., a major Mexican industrial conglomerate, and chairman of the Business Council for Sustainable Development-Latin America. This article is based on a speech presented during the Bank's annual meeting in New Orleans.

NO ONE DISPUTES THAT THE principal social function of business is to generate wealth, jobs and opportunities. But there are different ways to generate wealth. Our history is full of examples of cases where attempts to make short-term profits have caused serious problems for the future. In some cases, the damage to the environment or to our social fabric has been irreparable. We already have made enough mistakes to know that we have to do things differently.

But in order for us in business to change the way we do things, we must get signals from government and financial institutions that will promote sustainability instead of discouraging it.

Many of the economic signals we now receive are counterproductive. Our countries' fiscal institutions tax what is good for people, such as salaries, savings and wealth creation. Then, they turn around and use that same income to subsidize such things as fuel consumption, water use, pesticide use, and garbage disposal, in this way encouraging overconsumption, pollution, and misuse of resources.

Governments provide large subsidies to citizens of large cities. A striking example is Mexico City, where clean water is pumped more than 1,000 meters in elevation, provided to people almost free of charge, and then discarded without treatment. Public transportation is also subsidized, and education is not financed by the local government, as it is in the rest of the country. The Autonomous University of Mexico, which has some of the

lowest academic standards in the country and the highest cost per student, is also the only Mexican university where even the wealthiest students pay tuition of two cents per semester. Considering all of this, why would any Mexican want to live anywhere but in Mexico City?

Our societies must develop a new set of economic incentives that will lead us to ecoefficiency. For the business community, "eco" refers both to economics, as in increased profitability, productivity, and competitiveness, and also to ecology, or less impact on the environment.

We need market signals that promote ecoefficient performance. We cannot expect people to conserve natural resources whose use is being subsidized. A subsidy is an open invitation to overuse. Can we subsidize the use of water and fossil fuels, and then expect people to cut down on their use? It seems equally contradictory to expect businesses to invest in new ecoefficient technology when the fiscal

system penalizes capital investment.

Governments must provide incentives for the right behavior and the penalties for the wrong behavior. But although governments support sustainable development at the rhetorical level, the rhetoric is seldom translated into real economic decisions. In most cases, the issue of sustainable development is not even addressed by our governments' councils of economic policymakers. So for all practical purposes, the issue does not exist.

The IDB and other international financial institutions have a powerful role to play in promoting sustainable development, even beyond financing projects that are environmentally sound. The IDB, the Multilateral Investment Fund, the Inter-American Investment Corporation and others can use their considerable influence with governments to promote sustainable development policies. This is the central issue, and one where the Bank can make a major contribution.

"We are making important progress on permanent solutions to our budget problems."

Brazilian Central Bank President Arminio Fraga, quoted in *The Wall Street Journal* on April 13. Fraga was celebrating the passage of a fiscal responsibility law that forbids local governments, among other things, from spending more than 60 percent of their budgets on salaries.

"When I was 18, I didn't care if there was freedom of expression in Mexico or not. But in the last decade [the system] opened up to democracy."

Emilio Azcárraga Jean, chairman of Grupo Televisa, a Mexican media conglomerate, quoted in *The New York Times* on April 25. Azcárraga was referring to his commitment to political independence in the news coverage provided by his company's television programs.

"If so many banks are offering so many loans at such low rates, something good is going on in our country."

Argentine President Fernando de la Rúa, in full-page advertisements placed in several international publications, quoted by *The Wall Street Journal* on April 6. The *Journal* pointed out that an Argentine bank recently became the first to offer a 30-year, fixed-rate mortgage in that country since the 1940s.

"In some provinces they are willing to hand over anything other than a detailed copy of the budget."

A senior Argentine government official, quoted anonymously by *Página/12* on April 10. The official was referring to difficulties encountered by officials from the federal auditing authority who were attempting to determine how much provincial legislatures spend on salaries and operating costs.



ILLUSTRATION BY JORGE ILIEFF

Lousy deal

When governments buy goods and services, the price always seems to be inflated; now, some countries are finding better ways to prevent abuse

By PAUL CONSTANCE

SHORTER LINES AND BETTER SERVICE. That is what the customers of the national tax service in a large Latin American country were promised when a multinational computer firm was given a \$250 million contract to automate the service's operations.

The winning bid included a \$30 million subcontract for "software design services" that were to be performed by a local firm.

But the local firm existed only on paper. In fact, the \$30 million was headed for overseas accounts held by senior officials in the tax service, executives from local technology companies, and other individuals who helped arrange the deal. By the time the fraud was detected, it was too late to recover most of the money.

The \$30 million had once belonged to the country's citizens, of course. The money had been paid as taxes by people who hoped it would be spent wisely on urgently needed public services. But this assumption—that government is striving to get the best possible value when it spends public funds—is rarely correct in the countries of Latin America and the Caribbean today. The rough outlines of the hypothetical fraud described above, based on several real contracts that have made headlines in recent years, are depressingly familiar to the region's people. The amounts may not always be so spectacular. But when governments or public institutions buy goods or services, it can seem as

if inefficiency, fraud and abuse are the norm rather than the exception.

Until a few years ago, problems with government purchases were not very high on the public agenda. It has always been difficult to detect such abuses and gauge their cost to taxpayers. The sheer volume of the transactions, the mountains of paperwork, the multiple and overlapping layers of bureaucracy—all conspire to discourage rigorous oversight and control. Besides, in countries where more than 80 percent of the public budget goes to salaries, pensions and social security benefits, worrying about how the remaining 20 percent is spent could seem pointless. In the worst cases this led to a fatalistic assumption that public procurement is one of the perquisites of political power, an internal affair that each succeeding government is allowed to handle as it sees fit.

In recent years, however, indifference has increasingly been replaced by indignation. Possibly because of the greater openness bred by maturing democracies, this once-neglected issue has been dragged into the middle of the public square. "There has never been a time in the world when there was so much scrutiny of public sector officials and public sector life in general," says Jorge Claro de la Maza, recently retired chief of the IDB's Procurement Policy and Coordination Office. "Public service used to be secretive and low quality. Now people are demanding that it be transparent and of a higher quality. The public at large is performing a watchdog role on public affairs."

The result of this new scrutiny is a

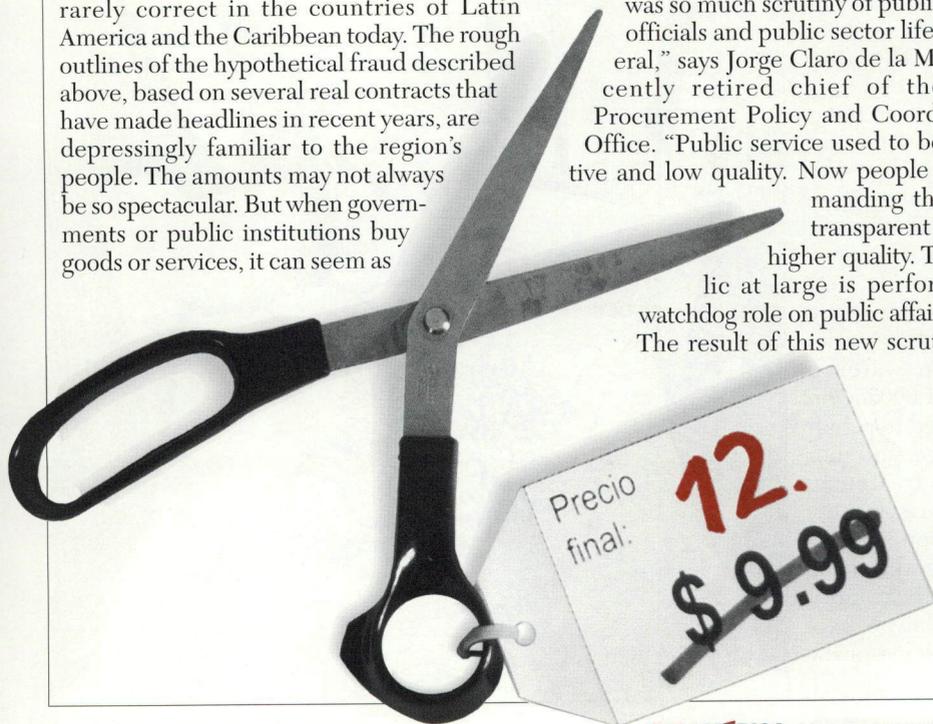
seemingly endless succession of scandals. The administrator of a public hospital is caught paying three times the retail price for disposable diapers from a supplier who, it turns out, is a member of his family. A legislator is found to have given lucrative "consulting" contracts to associates who never showed up for work. A new paved road ends up costing a municipal government 150 percent more than the original estimate, but two years later it is full of potholes because of shoddy construction. The examples are legion, and no country is immune.

Public outrage is fueled by a growing awareness of the real costs of the problem. IDB figures indicate that Latin American and Caribbean governments typically spend between 10 and 15 percent of their GNP on goods and services, for a regional total of around \$250 billion per year. "If the ineffi-

■ Conservative estimates indicate that Latin American governments pay surcharges of 15 to 20 percent on their purchases—or \$40 billion to \$50 billion per year ■

ciency of the state—and only the inefficiency, not the fraud—is forcing governments to pay a surcharge of 15 to 20 percent, then the region could be saving anywhere from \$40 billion to \$50 billion per year by doing things right," says Claro. Another way to look at the magnitude of these squandered resources is to consider that most countries could double their spending on health and education if they could recover the 15 to 20 percent of the public budget that is lost to flawed procurements.

But financial savings are not the only benefits to be reaped from ending fraud and inefficiency in public procurement. Unlike traditional efforts to reduce government expenditures—such as cutting public-sector salaries—savings derived from reforming public procurement do not usually have a



steep social or political cost. On the contrary, a government that can show it has saved taxpayer money by procuring high-quality goods and services at the lowest possible prices will probably fare very well in the next elections.

Inefficient by design? Given the political and economic rewards of cleaning up public procurement, why has so little progress been made? Part of the answer is that the status quo can be very attractive to the companies and individuals that are profiting from government business under the current system. "I don't know if [the system exists] by design or by default," says Claro. "But the truth is that it's a very lucrative process for a lot of people."

The design varies considerably among the region's countries. But according to Claro and other observers, public procurement systems in Latin America and the Caribbean have certain recurring problems. One is the quality of the laws that govern public procurement. In most cases the legislation is old and no longer in tune with modern business practices and concepts. Many countries will not allow sealed bids to be sent via express mail, for example, because the law says bidders must deliver them in person. Procurement laws also tend to be overly specific and complex. "I was recently in a country where each procurement requires 17 separate official clearances," says Claro.

Ironically, many of the countries with the most complex laws have not taken the crucial next step of publishing regulations that spell out how exactly the law is to be applied. Indeed, most countries do not even have a regulatory authority in charge of public procurement. "When I visit the countries I find that I have no counterpart," says Claro. "There is no one with the overall responsibility of formulating procurement policy, interpreting the legislation, proposing new rules or gathering information about government purchases as a whole." The officials in charge of handling procurements, with few exceptions, have no specialized training and little professional prestige.

The result in many countries is the worst



of both worlds. Overly specific legislation begets arcane requirements, blizzards of paperwork and bureaucratic bottlenecks. On the other hand, the absence of clear regulations, a central regulatory authority, and specialized officials encourages inconsistent and arbitrary procurement practices among different government entities. To get things done in this kind of environment, "people have to grease the skids," says Claro. Bribes, commissions, phantom subcontracts and other maneuvers become an almost necessary part of doing business with the government.

Above all, what stands out is the absence of information. In most countries it is nearly impossible to have an overall idea of what goods and services are being purchased, at what price, by what government entities, and from which contractors and suppliers. Outside audits, if they are performed at all, are done after the fact, and usually only as a result of public outcry over an especially egregious abuse.

In fact, Claro thinks stronger auditing and post-facto controls, while important, will not solve the procurement crisis. Though it may seem obvious, he thinks the only solution is

to raise the political profile, the authority, and the technical capacity of those in charge of the procurement process.

One city's experience. This is not as hard as it might seem. Consider the case of the City of Buenos Aires, an urban behemoth with a public budget of well over \$3 billion. When Adalberto Rodríguez Giavarini was named treasury and finance secretary for the city in early 1996, he found a situation that broadly fit the description above. Rodríguez, who recalled his experience at an IDB seminar on procurement held in Washington in 1998, said he and his staff immediately determined that the city was paying surcharges averaging 30 percent on its procurement budget of roughly \$1 billion.

With a strong mandate to find immediate savings, Rodríguez assembled a highly qualified team and took several surgical strikes at the procurement system. First, he eliminated "closed procurements," where only a limited number of companies were allowed to bid for a contract, and greatly expanded commercial advertising of upcoming contract opportunities. The result was an immediate surge in the number of compa-

(continued from page 3)

nies submitting bids, and a corresponding drop in prices paid by the city.

Second, Rodríguez created a single, centralized account to pay for all procurement contracts. His team set up a database of "reference prices," based on frequently updated averages of market prices for goods ranging from office furniture to sewerage pipes. Before awarding a contract, procurement officials now had to justify accepting any prices above the reference price. At the same time, the city decentralized the purchasing side of the procurement process. Why? Because letting each division within the city government control the purchases of the goods and services that it needed eliminated several layers of bureaucracy and made the procurement process more agile.

These changes began to yield concrete dividends almost immediately, Rodríguez said. When the city of Buenos Aires requested new proposals for an expiring contract to provide food services to 29 metropolitan hospitals, 34 companies offered competitive bids. The new contract was awarded for just under \$32 million, or 47

percent less than the \$59 million paid to the previous contractor for the same services.

Comparable savings materialized as the city awarded new contracts in other sectors. Rodríguez said Buenos Aires saved 37 percent on food services for public schools, 45 percent on garbage collection and public lighting maintenance, and 60 percent on contracts to run communal kitchens. Overall, the city saved \$200 million in the first full year following the procurement reforms.

The irony, of course, is that the reforms that produced these savings were neither radical nor particularly innovative. What made them a success was a political decision to prioritize procurement, both by giving it strong and competent oversight and by centralizing key information about contracts and prices.

In this respect, the Buenos Aires experience goes to the heart of a long-standing debate over how best to stamp out procurement abuses. On one side are experts who claim that too much centralization is the source of procurement corruption in many countries, because it puts too much discretion in the hands of a small number of unac-

■ **The year after it reformed its buying procedures, Buenos Aires saved 37 percent on food services for public schools and 45 percent on garbage collection ■**

countable bureaucrats. They argue that local jurisdictions are more likely to be responsive to taxpayers and that procurement should consequently be decentralized as much as possible.

Critics of this approach argue that local officials often do not have the skills and experience necessary to run efficient procurements. Indeed, the IDB's Claro warns that decentralization can actually increase corruption if it is not accompanied by effective local-level training and controls (See interview, page 8).

But the Buenos Aires example shows that these two perspectives are not mutually exclusive. By combining centralized oversight and control of information with decentralized purchasing decisions, governments can both reduce corruption and increase efficiency. While political and bureaucratic resistance to such an approach can be considerable, these barriers are being gradually eroded by the growing influence of information technology and, more specifically, of the Internet.

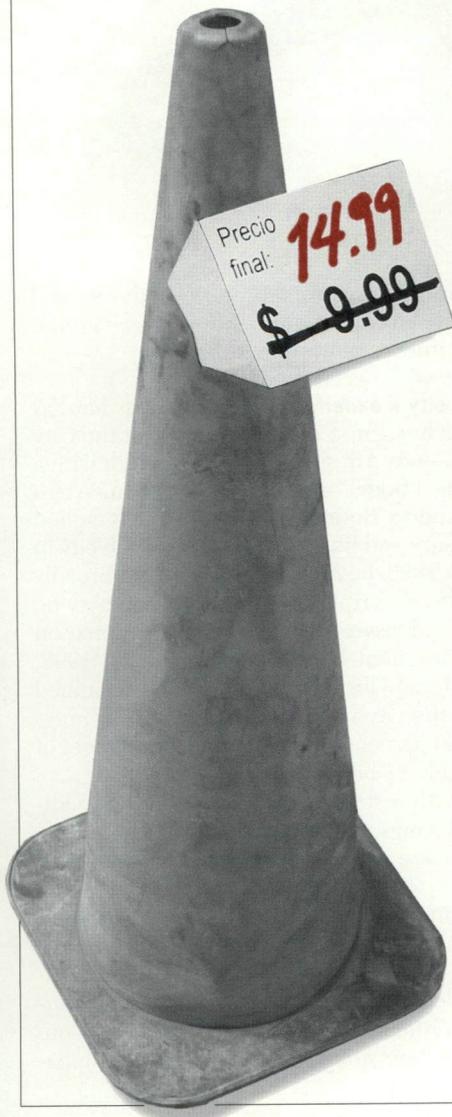
The online imperative. Once a rarity in Latin American government offices, computers and the Internet are quickly becoming standard bureaucratic work tools. Although they do not necessarily increase efficiency, these technologies do reduce the logistical and financial barriers to sharing information. Sensing an opportunity, a few of the region's governments are pushing their agencies to put procurement-related information onto the Internet—even as they leave purchasing decisions in the hands of individual entities.

Mexico was first in this regard, launching www.compranet.gob.mx in 1996. Since then, some 25,000 companies have downloaded procurement documents from the site, at the rate of about 150,000 requests per month. Users can find past or upcoming procurement opportunities, track the proposal evaluation and award process, read clarifications and amendments, and learn who won a contract and at what price. Companies that purchase technical specifications online save 30 percent over the price charged for printed versions. Starting this summer, users will also have the option of submitting bids electronically and handling virtually every aspect of the procurement process via electronic mail. According to Mexican government figures, approximately 40 percent of the federal administration's procurement budget is now handled through Compranet.

Antonio Schleske, head of the Mexican federal government's procurement policy division, says Compranet is now offering customers the option of conducting procurement transactions entirely through the website. Speaking at a recent seminar on transparency and development held at the IDB's Washington, D.C., headquarters, Schleske described digital signature and authentication technology that makes such "paperless" transactions safe and secure.

Now, several other Latin American and Caribbean countries are also hitching their procurement reform efforts to the Internet. Last year, Brazil (www.comprasnet.gov.br) and Chile (www.compraschile.cl) launched sites, and the Argentine government has announced plans to do so this year. In a recent interview Gastón Concha, coordinator of the Chilean government's public procurement reform project, said the decision to use the Internet was based on a diagnostic study conducted several years ago. "The study found that even though Chile's procurement system did not have a serious problem with corruption, it was not very transparent. There was very little information about government purchases, and a lot of it was very inaccurate." The study also concluded that Chile's procurement system was not drawing enough bidders to ensure optimum competition, leading to inefficiency.

The study led to an overhaul of procurement laws and regulations that has put the



PROCUREMENT AND THE IDB

PUBLIC PROCUREMENT IS MORE THAN AN academic interest at the IDB. The Bank itself disbursed almost \$9 billion in loans and grants for projects in its borrowing member countries last year, and much of that was used to pay for goods or services.

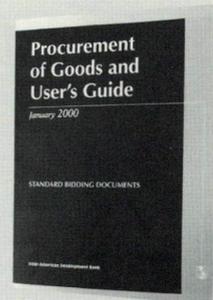
To ensure that none of the money ends up in the wrong hands, the IDB applies a rigorous set of procurement regulations to any projects it finances. For example, the rules require international competitive bidding for civil works contracts worth more than \$5 million and for goods worth more than \$350,000 for any projects jointly or exclusively financed by the Bank. Project executing agencies in borrowing countries in Latin America and the Caribbean must abide by the IDB's procurement regulations in advertising contract opportunities, preparing bid documents, evaluating bids and awarding contracts. IDB staff review all procedures, decisions and contract awards.

The Bank also offers a compendium of its procurement rules in the recently published *Procurement of Goods and User's Guide*, which is widely used as a reference by executing agencies managing IDB-financed projects.

"The importance of clear, unambiguous and transparent procurement policies and procedures such as those described in this compendium and used by the IDB cannot be overemphasized," says Jorge Claro de la Maza, recently retired chief of the IDB's Procurement Policy and Coordination Office. "It is only under such procedures that large numbers of vendors, contractors and suppliers participate, thus fostering competition and better prices."

Claro says the compendium described above is useful for projects financed by other multilateral institutions as well, because many of these institutions have harmonized their procurement procedures in recent years.

New English and Spanish versions of the Standard Bidding Documents can be ordered from the IDB bookstore at ids-books@iadb.org. They are also available online in the Procurement Section of the Business Opportunities button on the Bank's home page (www.iadb.org).



Internet at the center of Chile's procurement system. "We decided that the Internet would give us the broadest possible reach, both by increasing the number of potential suppliers and letting each citizen see how the government's funds are being spent," Concha said. "The software you need to use the Internet is practically free and it is not proprietary, which makes it easier for small and medium-size firms to participate."

Chile opened the doors to its procurement website last year, even though a law regulating the use of the Internet for such activities is still being debated in its Congress. Some 700 private companies have signed up to use the service so far, according to Concha, and nearly \$700,000 worth of goods have been purchased through the system by the 25 government agencies that are currently participating. Concha says the government hopes to sell \$2 billion worth over the Internet by 2002, but he acknowledges that a great deal of "missionary work" among reluctant government ministries will be required before that target can be met.

Ironically, one of the frequent reasons for

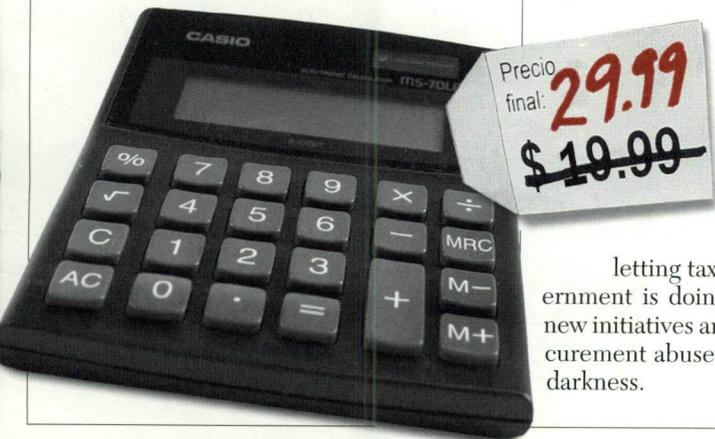
resistance is the added competition that results from exposure on the Web. "Many procurement officials were used to simply calling three providers, as required by law," he says. "Now, they have to process 50 offers for each procurement. So we're working on ways of filtering the offers so that we can weed out the inappropriate ones early on."

There are other obstacles. To fully capture the efficiency of the Internet, procurement offices need the ability to accept official documents electronically. Digital signature technology, which allows such documents to be authenticated and handled securely, is already being used by some Chilean government offices to conduct some transactions electronically. But a law that would make such transactions legal is still a long way from being passed, according to Concha. So for the time being, the Internet will be used only to inform citizens about procurement—and not necessarily to speed up its execution.

Will exposure on the Internet eliminate abuse in government procurement? Obviously not. Strong political leadership, clear regulations, better training and concurrent

auditing are all required to end this unfortunate legacy. Indeed, if these other improvements don't occur, procurement sites on the Internet might ultimately have a merely cosmetic effect on the problem. But simply by

letting taxpayers know what the government is doing with their money, these new initiatives are making it harder for procurement abuses to remain under cover of darkness.



Come see for your

The Buenos Aires city legislature hopes the Internet will erase doubts about how it spends taxpayer money

A problem of perceptions

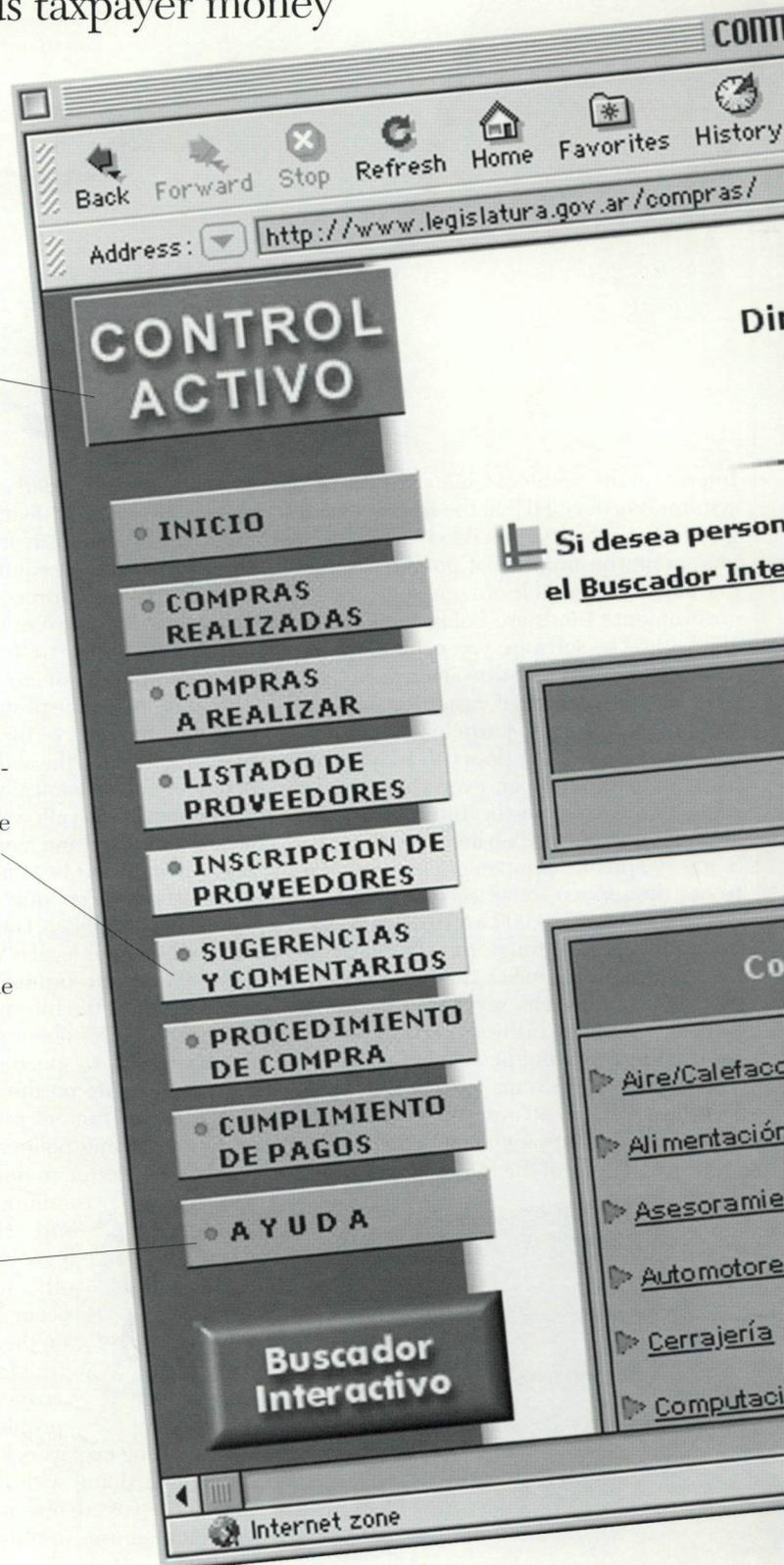
Five years ago, the Buenos Aires city council was "a dirty word," says Juan Alemany, its current head of procurement. The council had become synonymous with unbridled corruption, and much of its \$120 million operating budget was known to end up in the hands of phantom employees and politically favored contractors. In 1996, when the city became fully autonomous and began electing its own mayor, the council was abolished and replaced by a new city legislature amid public demands for a vigorous housecleaning. Under Mayor Fernando de la Rúa (subsequently elected president of Argentina), the legislature set out "to erase that negative image in the collective memory of our constituents," says Alemany. One of the many measures was the adoption of Control Activo, a software system to track all procurements.

You tell us how

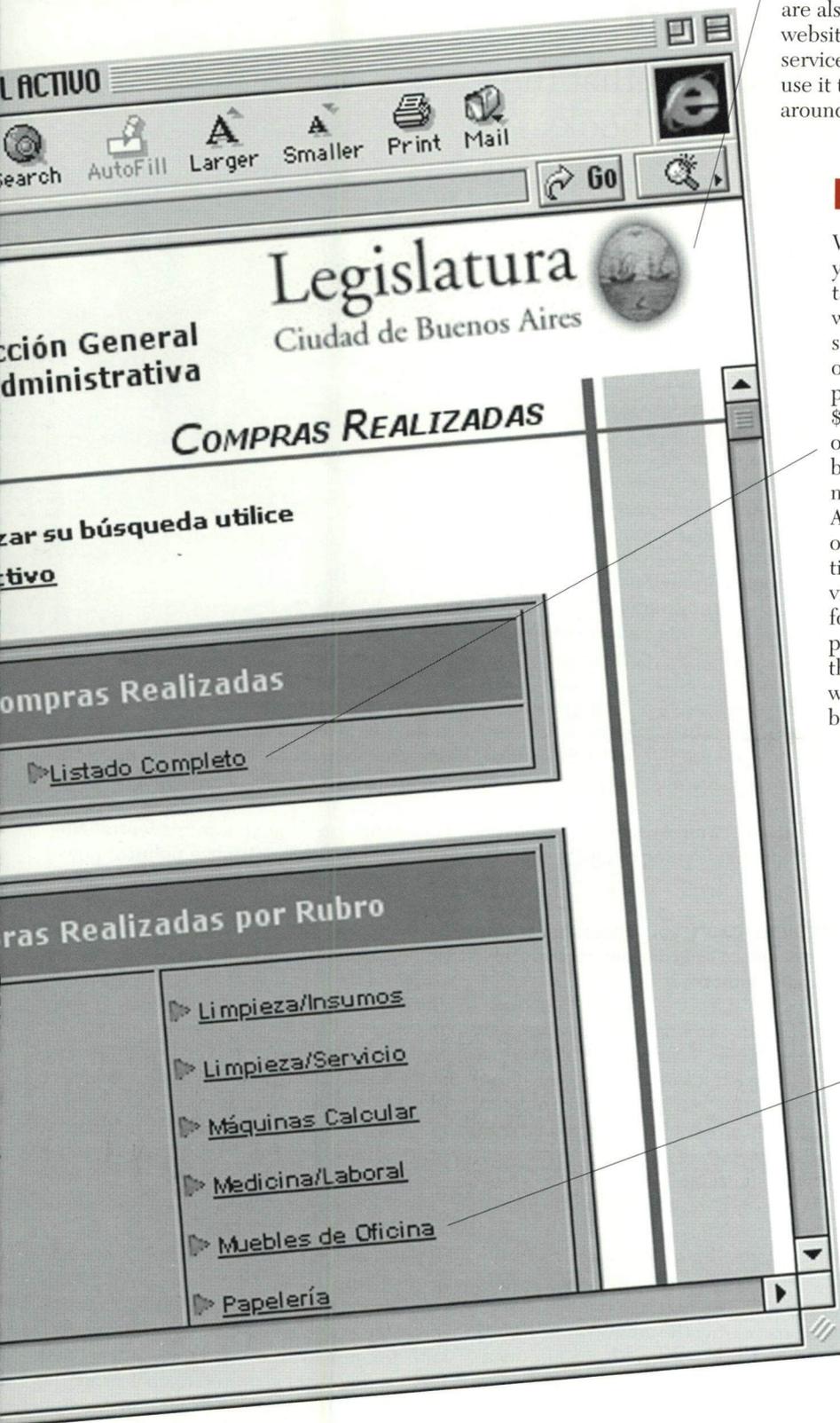
"We wanted our work in this area to have credibility," says Alemany, "so instead of doing it all in-house we went to the Transparency Forum." This coalition of Argentine anti-corruption and consumer rights groups has been providing technical advice to the government on how to publish procurement information on the Internet in a way that is useful both to businesses and taxpayers. One of the groups, Transparencia en la Administración de los Estados, designed Control Activo, the software interface shown here. Control Activo automatically extracts data from the legislature's procurement database and posts it on the World Wide Web, where it can be viewed without restrictions.

Get it for free

The Control Activo web interface is being distributed at no cost to government entities in Spanish-speaking countries. Fernando Tocchettón, an attorney who helped develop the software, says many government agencies have neither the time nor the money to design their own reporting interface from scratch. "This software can be easily adapted to work with all the main commercial database programs so that procurement data is 'uploaded' to the Web automatically," says Tocchettón. For details on obtaining Control Activo, e-mail focchetton@afip.gov.ar.



self!



Who's the most transparent?

The Buenos Aires city legislature is only one public institution in Argentina that is attempting to improve perceptions of how it spends public money. According to Tocchettón, several provincial and municipal governments are also preparing to install Control Activo on their websites, and the federal government's tax and customs service (known for the Spanish acronym AFIP) will soon use it to show it spends an annual procurement budget of around \$400 million.

No place to hide

When the legislature launched Control Activo last year, posting procurement opportunities was voluntary. Anticipating criticisms that some contracts would stay off the site, the legislature's president issued a decree last April that made such postings an obligation. The new, leaner legislature has a smaller procurement budget than its predecessor (around \$8 million per year, out of a total operations budget of \$56 million). But according to Alemany, the number of suppliers bidding on the legislature's procurements has more than doubled since the Control Activo site went up. For an example of the benefits of greater visibility and competition, Alemany mentions the cost of the legislature's Internet access service. "Two and a half years ago we had three bidders for this contract, and the winner came in at \$6,000 per month. We just finished a new competition for the same service where we had 15 bidders. Now, we're paying \$4,000 a month for four times the bandwidth we had before."

Details, please

By clicking on the "Office Furniture" option within the "Previous Purchases" section of the site, a taxpayer can verify that on Dec. 11, 1999, the legislature bought 40 office chairs, at \$82,35 pesos each, from D. Groisman y Cia. S.C.A., a company located at 1448 Sarmiento Street in the capital district of Buenos Aires. In the past, it was almost impossible for ordinary citizens to get this kind of information. "Every procurement was something of a mystery in those days," admits Alemany. Control Activo also offers notices of upcoming procurements, a list of 1,700 suppliers who have registered on the site, online registration forms for new suppliers, user guides, and e-mail addresses for Alemany and two other officials (there are no telephone numbers, however). Future versions will let users track the status of government contract payments, which according to Alemany are made within 20 business days after invoice receipt.

Make every citizen an auditor

A veteran of public procurement argues that the people need access to the government's books

JORGE CLARO DE LA MAZA, RECENTLY RETIRED chief of the IDB's Procurement Policy and Coordination Office, has played a central role in both modernizing the Bank's internal procurement procedures and designing programs to assist procurement reform in Latin American and Caribbean governments. Prior to joining the IDB in 1992, Claro established and managed a United Nations-sponsored procurement agency for Bolivia during the governments of Jaime Paz Zamora and Gonzalo Sánchez de Lozada. His staff oversaw the awarding of government contracts worth more than \$1 billion and generated millions of dollars in savings. Before that Claro served in various management positions with the United Nations.

IDB AMÉRICA: Procurement used to be an obscure subject. Why is it so much in the news these days?

Because corruption in general is the subject of discussion in the world today. Open a newspaper and you'll almost always find an accusation of corruption in government. And where does corruption happen in most cases? It happens within fiscal affairs, customs or government procurement.

Procurement represents a huge amount of money—between 10 and 15 percent of GNP in many countries. And while in the past it took months or even years to find out what was going on with a government contract, today you know almost instantaneously, because of the explosion of communications and the constant scrutiny of government affairs. Whatever happens in the public sector is now in public domain.

IDB AMÉRICA: Why is public procurement so prone to abuse?

First, because procurement is not treated as a public policy issue. It is perceived merely as a purchasing process, and therefore it is not given priority as a policy issue, as a problem of governance. In most industrialized countries procurement is very high on the policy agenda, but in most Latin American and Caribbean countries it is not. Few countries have a senior government official with overall responsibility for procurement, and

the people assigned to manage procurement have very little training or professional prestige. Most of them have just learned on the job.

Second, there are problems with the procurement laws, which tend to be outdated, overly specific, and not in tune with modern business practices. Many countries have not even published regulations that determine how the procurement law is to be applied. So each government ministry tends to handle purchases more or less as it sees fit. And also in many countries you have a very cumbersome process, full of bottlenecks. So if you're a contractor and you're trying to move your papers along, you have to grease the machine. Although a number of countries have passed new procurement laws in recent years, most of them don't address these issues.

Third, in most countries there is no accurate database to tell us what's being procured, at what price, from what sources. It's very difficult to get precise figures or to exercise effective control during the procurement process.

Put all these elements together, and you have a system that is going to give you problems.

IDB AMÉRICA: Can't you compensate for these weaknesses by giving auditors and controllers more authority?

Auditors are an essential element, but the problem is that in most cases the control mechanisms are put into operation ex-post. In most countries you audit what has happened, so basically you have a dead patient and you're trying to determine how he died and who's responsible for the death. There is very little concurrent audit, although that is beginning to change.

In my opinion the weakest link here is the lack of capacity of the executing entities, and therefore I think we need to concentrate our efforts on increasing the ability of the ministry of public works, of health, or of education to do things properly. And then we can audit them. Because if you just audit you'll keep finding that things are done wrong, and then what will we do? Throw people in jail and try to recover the funds?

Claro: Decentralize purchasing, but centralize information.

WILLIE HEINZ—IDB

IDB AMÉRICA: Many people think this kind of corruption happens because too much discretion is given to the central government. Can procurement be improved by decentralizing it to lower levels of government?

It depends on what you are decentralizing. Most countries decentralize political power and money. They don't decentralize procedures and controls. So the question is, are we decentralizing opportunities for corruption and mismanagement?

If you have a ministry of health that is inefficient and that purchases medicines poorly and pays too high a price, and then you decentralize that to the regional hospitals, the mere fact that you have decentralized doesn't mean that you have improved anything. On the contrary, you might have atomized the process and therefore end up paying more because you have less volume, and you've probably increased the opportunities for mismanagement and fraud.

The challenge for us is to empower people to do things right. There's no point in decentralizing purchasing capacity to a municipality if you don't empower that municipality with the money, the human resources, and the training that's required to do it properly. Otherwise, you're going to end up sending in your auditor and he'll probably find that the decentralization process only resulted in their paying higher prices for your products.

How to buy a bridge

Honduras sees Hurricane Mitch as a chance to modernize its procurement system

AT NO TIME IS AN EFFECTIVE PUBLIC procurement system more crucial than in the aftermath of a natural disaster. Relief services and supplies such as medicine must be purchased, specialized engineers must be hired to assess damage, and construction firms must be contracted to rebuild roads, electricity networks and other infrastructure. All of this has to be done in haste, with little time for careful oversight and deliberation. The opportunities for price gouging and inefficiency multiply in such a setting.

Such was the challenge faced by Central American countries hit by Hurricane Mitch in late 1998. In the rush to rebuild, government procurement offices in Honduras, Nicaragua, El Salvador and Guatemala were suddenly overwhelmed. In addition to processing a surge of contracting requests generated by their own governments, these offices were asked to handle millions of dollars in relief funds sent by charities and international organizations. The inevitable delays caused frustration on all sides and focused attention on the need to modernize national procurement systems.

Now, even though the reconstruction process is already well underway, Honduras has asked the IDB to help finance an ambitious Program to Strengthen and

Modernize the National System of State Procurement. The \$22 million program, which is under active consideration by the Bank's Board of Executive Directors, is designed to address both short-term reconstruction needs and the long-term goal of improving financial management throughout the Honduran government. According to Jorge Claro de la Maza, recently retired chief of the IDB's Procurement Policy and Coordination Office, the short-term goals will be met through activities focused on reconstruction project oversight and direct support for purchasing and contracts. A second set of project activities will develop and install a permanent training program for procurement officials and lay the groundwork for a new National Purchasing and Contracts System.

"This is the first time that the Bank is considering a comprehensive program of this nature, specifically geared to the improvement of the procurement system of a country," says Claro. "Up until now, most efforts in this area have been piecemeal and have not been carried out as an integral part of the reform of the state."

The project will be carried out by Honduran government officials with the help of specialized international consulting firms jointly chosen by the government and the international community.

IDB AMÉRICA: How can information technology improve the way procurement is done?

I'll give you a simple example. If your government was to create a procurement database that was connected directly to its integrated financial management system, and you were the minister in charge of public works, then you'd be able to decentralize all procurement within your ministry. Your only requirement could be that whoever buys something would have to submit a request to the database. Only then would the money be disbursed. They would also have to give information on every contract signed. Any contract that is, say, 2 or 3 percent above the average price for a particular good or service would be detected by the system, and whoever signed it would have to explain why they're paying the surcharge.

This is a relatively simple thing to do with today's technology. If we had that, then the decentralization process would not have to become a corruption process. You don't have to procure centrally; you just have to have information.

The next step is to immediately publish all contracts signed, which some countries are beginning to do on the Internet. Now, if I'm the minister and I'm awarding a contract to my brother, for example, it will show up immediately, and people will start asking questions.



Honduran government and IDB officials inspect a bridge damaged by Hurricane Mitch.

DANA MARTIN—IDB



DAVID MANGIARRANI—IDB

The poor are corruption's biggest victims, says OAS Secretary General Gaviria.

From black box to glass house

Seminar on transparency and development reveals strategies for combating corruption

By PAUL CONSTANCE

CONCERN OVER CORRUPTION IN THE public sector has become an almost routine item on the public agenda in recent years.

Yet despite all the hand wringing, relatively little is known about the experiences of governments and institutions that are successfully fighting this problem. To help fill this gap, the IDB recently hosted a seminar on transparency and development that focused on case studies and best practices gleaned from anti-corruption efforts in several countries.

The three-day event, held at the IDB's Washington, D.C., headquarters in May, gathered experts from across the region to discuss case studies of legal, institutional and technological strategies for increasing transparency and efficiency in public administration. Attendees included government officials from the Bank's member countries, representatives from civil society, nongovernmental organizations and foundations, scholars, and private sector officials.

"The IDB is concerned about corruption because we see that it undermines people's confidence in public institutions and in democracy as a whole," IDB President Enrique V. Iglesias told the participants.

The Bank is working to fight corruption in an increasing number of areas, said Iglesias. The IDB's own ethical guidelines are constantly being updated, and transparent accounting practices are demanded for Bank-financed projects. The IDB is also underwriting a wide array of reform projects in the areas of justice, tax administration, customs, and legislative institutions, among others. He stressed that corruption involves not only governments but also citizens and the private sector, and he emphasized the need for collaboration among all these groups in crafting possible solutions.

Iglesias praised the role of the Organization of American States in crafting and promoting the Inter-American Convention Against Corruption. During remarks at the conference, OAS Secretary General César Gaviria said his organization, in conjunction with the IDB, is working with 12 of the region's countries to update their legislation as a step toward implementing the convention, which calls for criminalizing corruption domestically and for international cooperation to enforce relevant laws. "The fight against corruption is a fight for social justice," he said, "because the poor continue to be corruption's biggest victims."

In addition to examining the status of the convention, panels at the conference focused

on national and regional case studies in the areas of procurement, the legislative process, money laundering, financial management and so-called "integrity pacts." The latter consist of written agreements between government institutions, civil society organizations and private companies to abstain from bribery and take specific transparency measures during the course of an individual public sector project or contract.

Rosa Inés Ospina, executive secretary of *Transparencia Internacional Colombia*, a nongovernmental organization, described how her group has helped to broker 51 such pacts in Colombia. Although they do not guarantee the absence of corruption, she said the agreements create a powerful incentive for probity among the participants and help make the financial aspects of procurement accessible to the general public.

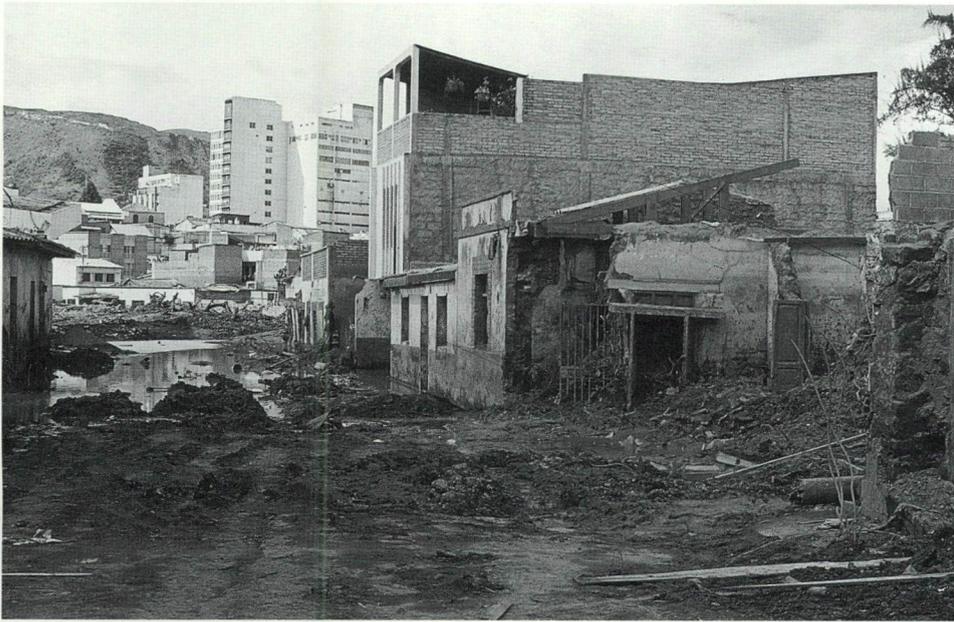
Online option. At another panel, representatives from Mexico, Chile and Canada described how their governments are using the Internet to increase transparency of public procurement (See article page 3). Antonio Schleske, head of procurement policy for Mexico's federal government, said more than 3.5 million individuals have used the online *Compranet* service to purchase bidding documents, track procurements, look up contract awards and compare prices, only a few of the resources available on the site.

Representatives from Chile and Canada explained how their governments have opted to outsource their procurement websites to private companies who provide a fee-based intermediary service at no cost to the government.

The Internet has also emerged as a cost-effective way of increasing citizens' access to the legislative process. Regina Celia Peres Borges, head of information management in the Brazilian Senate, reported on how *INTERLEGIS*, an online legislative information system partly financed by a \$25 million IDB loan, has ended the former isolation of federal, provincial and municipal legislatures. In addition to increasing cooperation among legislators, the system has made it easier for ordinary citizens to reach their representatives and intervene in the lawmaking process.

Several panelists warned that technology on its own does not increase transparency and foster greater public confidence in government. Reforms on many fronts, including clear conflict-of-interest rules, stronger auditing bodies, and updated legislation in the areas of procurement and public finances, must go hand-in-hand with greater public access to information.

 Copies of conference papers are available at www.iadb.org/leg/transparencia.asp. For additional information contact Rosina de Souza at rosinads@iadb.org.



Better planning could have reduced the impact of Hurricane Mitch on Honduras' capital.

Are we ready?

IDB proposes a regional planning initiative to mitigate damage from natural disasters

THE IDB HAS PROPOSED AN ACTION PLAN that would help Latin America and the Caribbean countries improve preparation for natural disasters before they happen.

The plan, which was presented at a seminar on natural disasters held during the Bank's annual meeting in New Orleans, would incorporate risk management in the financial operations of the Bank by applying prevention and mitigation concepts and evaluating vulnerability and social and environmental impacts.

The plan was drafted after the Bank adopted a disaster prevention strategy in March 1999. In the past four years the IDB has approved \$1.5 billion in loans for natural disaster prevention and reconstruction.

As part of the plan, the Bank will help establish information networks and strategic alliances with other international organizations, scientific institutions, and nongovernmental organizations.

The IDB is also proposing new financing to address natural disasters. For example, the Bank, together with bilateral donors, would provide grants to the poorest countries to study the risks of investing in specific disaster-prone areas and sectors. Grants would also help develop policy frameworks for preventing and responding to disasters. In another proposed action, each country would receive up to \$10 million annually in loans

to reform natural disaster prevention systems, strengthen risk management, and create natural disaster insurance programs.

At the seminar, Honduran President Carlos Flores expressed support for a comprehensive regional action plan. "To prevent rather than to regret should be the slogan to unite us," said Flores. Honduras was the country most affected by Hurricane Mitch in 1998.

Belize Prime Minister Said Musa recommended that the donor community establish regional centers of attention for disasters to prevent international humanitarian aid from arriving too late in affected areas. Belize, with support of the IDB, is establishing its first national office to manage emergencies.

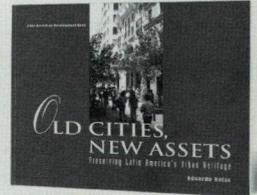
Prime Minister Owen S. Arthur of Barbados said that natural disasters are costing countries more than mistakes in public policy or turbulence in financial markets. He said the development of new financial instruments, such as insurance against disasters, should be considered immediately.

Mexican Secretary of Social Development Carlos M. Jarque gave a detailed description of the disaster prevention and response systems that his country developed following the tragic earthquake that hit Mexico City in 1985. The Mexican model includes risk insurance, temporary work programs to rehabilitate roads, subsidies for construction of homes and a detailed map of risk areas.

IDB BOOKSHELF

Urban heritage preservation

"Use them or lose them," say physical fitness advocates about the need to exercise one's muscles. Urban preservationists say largely the same thing: if people don't use their city's historic center, they will have little incentive to maintain it. In *Old Cities, New Assets*, IDB urban development specialist Eduardo Rojas looks at ways that various stakeholders—particularly the private sector—can be encouraged to help preserve historic buildings and neighborhoods based on experiences in the cities of Cartagena, Colombia; Quito, Ecuador; and Recife, Brazil.



Privatization up close

During the last decade, Latin American countries gained a great deal of experience in privatizing state enterprises. *Can Privatization Deliver?*, edited by Federico Basañes, Evamaria Uribe and Robert Willig, contains analyses and recommendations by private sector specialists, academics and financial experts on reforms needed to further promote the participation of the private sector in the building of infrastructure. It also examines strategies for harmonizing national legislation with international standards. Case studies look at the privatization of electricity services in Central America and public water systems in Trinidad and Tobago and Chile.

Good government

How can modern management techniques be enlisted to solve serious problems in the delivery of public services in Latin America? *¿De burócratas a gerentes?* (Spanish only) presents a series of essays that examine a wide range of topics, including public marketing, personnel management and new techniques for providing services.



Books can be ordered through the IDB Bookstore at www.iadb.org by calling 1-877-782-7432, or writing to IDB Bookstore, Stop E-0105, 1300 New York Ave., N.W., Washington, D.C. 20577.



Madeleine K. Albright, the first U.S. Secretary of State ever to participate in an IDB annual meeting, delivers closing remarks as IDB President Iglesias looks on.

Donors debate debt relief proposals

Capital increase for Investment Corporation also finalized at Bank's New Orleans annual meeting

By **ROGER HAMILTON**, New Orleans

A WORKING GROUP CREATED TO COME UP with a formula for funding debt relief for Bolivia, Guyana, Honduras and Nicaragua held its first session on the eve of the annual meeting of the IDB's Board of Governors in New Orleans last March.

Participants in the session agreed to hold subsequent meetings to examine possible solutions for funding a \$1.2 billion debt relief package in present value terms (pv) based on shared responsibility among official creditors. Debt relief under discussion involves only official debt from multilateral and bilateral sources. (See next issue of IDBAmerica for details).

The task facing the working group is to determine how to raise the IDB's share of \$730 million (pv) needed to deepen debt relief for Bolivia and Guyana and initiate relief for Honduras and Nicaragua. An additional \$540 million (pv) will be provided by subregional institutions, including \$420 million (pv) from the Central American Bank for Economic Integration. Other institutions represented in the working group meeting were the Andean Development Corporation, the Caribbean

Development Bank and the Cuenca del Plata Development Fund. The IDB already provided debt relief to Bolivia and Guyana under the initial Heavily Indebted Poor Countries (HIPC) initiative in 1998 and 1999, respectively. These countries, plus Honduras and Nicaragua, are the four Latin American countries being considered for debt relief under the enhanced HIPC initiative. Some 40 countries are eligible worldwide.

The HIPC initiative, originally proposed in 1996 by the World Bank and the International Monetary Fund, was designed to reduce debts to sustainable levels for poor countries that have demonstrated a commitment to economic and social policy reforms. The initiative was updated in 1999 to provide deeper and faster debt relief to more countries.

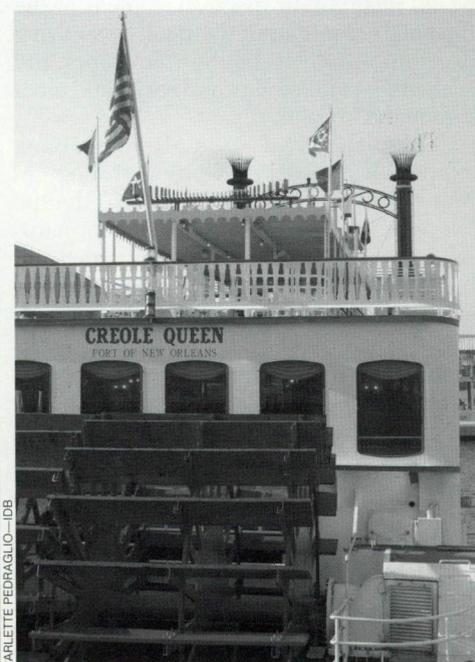
Forum on development. The Bank's annual meeting, which followed the working group session, was attended by some 5,000 delegates. Included were official delegations, business people and bankers, representatives of international and nongovernmental organizations, and the media. The Board of Governors, the IDB's highest authority, is made up of central bank presidents or ministers of

finance, economy, or planning from the Bank's 46 member countries.

The three days of official sessions were complemented by a large number of other events, including 11 seminars that brought together experts from around the world to discuss subjects relating to economic and social development in the region.

Also held in New Orleans was the 15th annual meeting of the Board of Governors of the Inter-American Investment Corporation (IIC), the IDB Group member that supports the private sector with loans and equity investments.

At the IIC meeting, the Corporation concluded subscriptions for a \$500 million capi-



Graceful icon of a gracious host city.

tal increase and accepted five new members: Belgium, Finland, Norway, Portugal, and Sweden.

In his inaugural speech before the governors, IDB President Enrique V. Iglesias set forth an agenda for the coming years consisting of four priority areas:

- ▶ Social reform to reduce the gap between rich and poor.
- ▶ Sustainable growth, including promoting greater competitiveness and smoother functioning of markets to mobilize capital and labor more efficiently.
- ▶ Modernization of the state to increase efficiency and fight corruption.
- ▶ Regional integration to link countries' economic and commercial relations.

Iglesias also proposed a series of goals for the region during this decade, including reducing poverty by half, doubling the economic growth rate to at least 6 percent, and speeding up public access to new technologies. "These are the pillars of an attainable utopia," said Iglesias, "a region of prosperous economies in which social justice and democracy hold sway, well positioned in the global marketplace."

'Bank brings change.' In a videotaped message to the meeting, U.S. President Bill Clinton reflected on the work of the IDB dur-

ing the past four decades.

"The Bank not only helps bring this hemisphere together; it brings real change and real results to its citizens every single day, helping us all to build a future of promise and prosperity across the Americas."

Clinton said that he will work to ensure that the IDB fully participates in the HIPC program. "No country that is committed to lifting its people out of poverty should have to

“No country... should have to choose between paying its debt and educating its children.”

BILL CLINTON
U.S. President

choose between paying its debt and educating its children," he said.

The Bank governors unanimously elected U.S. Treasury Secretary Lawrence H. Summers as chairman. He replaces French Finance Minister Laurent Fabius, who was represented at the ceremony by the secretary of state for foreign trade, François Huwart.

Summers stressed the role of interna-

tional financial institutions in making sure that globalization does not provoke economic insecurity and local disintegration.

"For all these reasons, international institutions that can help to promote more rapid and inclusive growth within countries—and a more stable flow of capital between them—may be the most effective and cost-effective investment that we can make in forward defense of America's core interests. And among the international financial institutions, the IDB continues to make a crucial contribution," Summers said.

At the close of the meeting, U.S. Secretary of State Madeleine K. Albright stressed the need to strengthen democracy in the region, boost social investments, and build greater bonds among the members of the inter-American community.

Problems of crime, violence, corruption, and social inequality must be overcome, she warned, or the region's democracies may "again be lured down the dead-end roads of protectionist policies and authoritarian rule."

Albright said the IDB has played an "indispensable role in bringing the American nations to the new century more united on agenda, approach and action than we have ever been."

The next IDB annual meeting will be held in Santiago, Chile. ■

More funds pledged for Peru-Ecuador peace

Commitments for border development program made in New Orleans

MEMBERS OF THE CONSULTATIVE GROUP FOR PERU and Ecuador pledged \$160 million in additional support for the Binational Development Plan that is a part of the peace accords signed in October 1998.

The plan will fund development programs along the formerly disputed border area between the two countries that will combine economic and social development with environmental protection. Of the \$3 billion estimated cost of the plan, some \$2.4 billion would come from official and multilateral sources and \$600 million from the private sector. Of the \$2.4 billion from official and multilateral sources, approximately \$600 million is to be provided during the 10-year period in the form of grants.

The consultative group held its first meeting in New Orleans in March prior to the IDB's annual meeting. Some 120 delegates representing 22 countries and 17 international agencies participated in the meeting, which was chaired by the IDB.

The \$160 million pledged at the meeting will help finance investment projects and feasibility studies in the areas of health, edu-



DAVID MANGURIANI—IDB

Projects will help protect the Amazon forest region between the two countries.

cation and human development, transportation, and small business and microenterprise. Other areas under consideration are biodiversity and environment, water basin management, potable water and sanitation, electricity services and institutional develop-

ment of local government organizations.

The IDB and the Andean Development Corporation (CAF) reaffirmed their commitment to provide \$500 million each in the form of loans to fund economic, social, and environmental projects. The CAF funds will be used to finance rural roads in Ecuador and a preinvestment loan for Peru. The IDB is considering financing for roads, border infrastructure and other social and economic integration projects in the area. The World Bank has indicated that it plans to provide an additional \$200 million for border programs.

Some 85 percent of the 400,000-square-km border area is made up of Amazonian lowlands; of the remainder 10 percent is coastal and 5 percent mountainous. The area has a total population of 4.5 million, of which 1.6 million is Ecuadorian and 2.9 million Peruvian.

The Binational Plan will aim to harmonize development policies for the sustainable use of ecosystems along the border while providing infrastructure and services to meet basic human needs. ■



WILLIE HEINZ—IDB

Using a teleconferencing link, Costa Rican President Miguel Angel Rodríguez addresses a seminar at the New Orleans meeting.

Who gains in the Internet age?

As it eagerly embraces new technologies, Latin America also worries about competition and a growing digital divide

By PETER BATE, New Orleans

THE STAGE WAS SET FOR A STELLAR PERFORMANCE: Miguel Angel Rodríguez, president of Costa Rica, a country bent on transforming its farm-based economy into a regional technology powerhouse, was scheduled to deliver the keynote speech at an international seminar on information technology.

The event, organized by the Inter-American Development Bank prior to the annual meeting of its Board of Governors in New Orleans, was intended to showcase the use of new technologies in projects designed to accelerate sustainable development and equitable economic growth in Latin America and the Caribbean.

However, as Rodríguez himself was to acknowledge in his presentation, the seminar was hobbled by the sort of obstacles the region will have to overcome in order to take full advantage of the technological revolution that is changing how the world works, trades and communicates.

The president could not come to New Orleans due to an outbreak of demonstrations against his government's plans to fos-

ter competition in telecommunications and energy, two sectors monopolized by state-owned companies. Rodríguez had to make his presentation via a teleconferencing system installed in his office in San José, Costa Rica. But while the audience in New Orleans could see him at his desk, it could hardly un-

■ Costa Rica plans to link half its schools to the Internet within two years ■

derstand his badly distorted voice. After several attempts to fix the glitches at both ends, the president finally resorted to a speakerphone to transmit his message.

Rodríguez described Costa Rica's huge bet on the oft-repeated prediction that information technology will touch nearly every aspect of the lives of people lucky enough to have access to those new tools. His government plans to hook up half of its schools to the Internet within two years. In that time, access to the World Wide Web should rise to at least 25 percent of the population. "In

the future," he added, "all Costa Rican citizens will have their own email address, just as today they have identity documents."

While such a rise in the rate of connectivity would be an impressive achievement for a country where only one percent of the population now has access to the Internet, it would still leave it far behind industrialized nations like the United States. In fact, the gap between the U.S. and Latin American countries like Brazil is forecast to grow even wider over the next few years, pointed out David Katz, director for Global Market Development at the 3Com Corporation and one of the panelists of the seminar.

Katz, a former educator, said it was crucial for developing countries to invest in technological development in order to bridge that gap, as the global economy is becoming more and more dependent on knowledge-based technologies. "Sixty percent of all new jobs created today in the U.S. require high tech skills," he said. "By the year 2015, it will be 90 percent."

In order to take full advantage of the information revolution, countries should invest more in training older workers, students and teachers so they may acquire the sort of skills

required in the new economy, Katz said. In turn, governments should scrap any barriers that stunt the development of high tech enterprises, such as regulations that stifle competition in the telecommunications sector, import duties that make equipment more expensive and restrictions that limit access to the broadband spectrum.

Costa Rica has long made education and training top national priorities. Those investments paid off handsomely when U.S. semiconductor giant Intel chose San José to build a new computer chip factory. Largely thanks to the output of that plant, the value of Costa Rica's high tech exports has soared past the earnings brought in by such traditional exports as coffee and bananas.

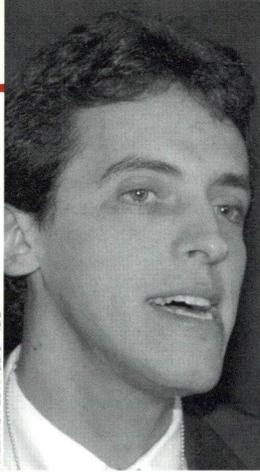
However, the country faces structural bottlenecks that could hamstring its efforts to develop a world-class information technology industry. According to a report by the U.S. consulting firm Toffler Associates, Costa Rica has fallen behind even some of its Central American neighbors in key areas such as regulatory framework reform and digitalization of its telephone network.

Contrary to many other Latin American and Caribbean countries that have liberalized their telecommunications sectors and encourage competition among service providers, Costa Rica's telecommunications are run by a state-owned monopoly, the Costa Rican Institute of Electricity (ICE). Internet service is monopolized by an ICE subsidiary called RACSA.

According to the Toffler report, which was commissioned by Costa Rica's Coalition for Development Initiatives and the General Secretariat for Central American Economic Integration, ICE and RACSA are encumbered by laws and rules that prevent them from reacting more swiftly to the constant changes and innovations in the telecommunications arena. Purchase orders can take up to two years to wend their way through the bureaucracy—an eternity in the age of the Internet.

The rate of digitalization of Costa Rica's telephone network is an especially weak point, the Toffler report notes. "In this area, Costa Rica's low rate generates higher operation costs for ICE and RACSA, besides reducing the range of added value services available throughout the country for Costa Ricans and for multinational firms weighing the possibilities of investing here," it says. Corporate customers such as banks frequently complain that Internet service is unreliable and slow in Costa Rica. It is also considerably more expensive than in other Latin American countries.

In a bid to address these and other structural shortcomings, Rodríguez's government drafted legislation to modernize ICE and gradually introduce competition in the telecommunications and energy sectors. The



ARLETTE PEDRAGLIO-IBD

Rodrigo Baggio's nonprofit group has opened 117 computer schools in shantytowns in 14 Brazilian states; more than 35,000 people have already been trained.

bill, which ruled out privatization, won broad bipartisan support in the legislature. Nevertheless, it sparked some of the most heated demonstrations Costa Rica had seen in decades, bringing the country to a near standstill for almost two weeks. The public outcry prompted lawmakers to shelve the bill and establish a special committee, with representatives from labor unions, university students and the Catholic Church, to discuss a new bill. In May, a constitutional tribunal ruled that the original bill was null and void, charging that legislative procedures had been breached during its passage.

"This reform is indispensable for our country," Rodríguez told the daily *La Nación* shortly after the demonstrations. "If others forge ahead and gain competitive advantages, we will become poorer; if we stay behind, companies will no longer come to generate jobs."

A work in progress. The IDB seminar showed that, notwithstanding the region's relative scarcity of resources, the new information and telecommunications technologies can help Latin American and Caribbean countries overcome old barriers to development. Using modern tools, they may start to overcome such hurdles as the low quality of public education, the poor access to health services, and the low productivity of small and medium-size enterprises. Applied to government, information technology can make public sector management more efficient and transparent, reducing the opportunities for corruption. These new technologies could even bridge such social problems as the exclusion of women and young people from the benefits of economic progress.

"Our region cannot ignore this revolution," said IDB President Enrique V. Iglesias. "It should particularly take advantage of it to achieve three concrete goals: grow more, grow in a better way, and strengthen systems of democratic government."

As in other parts of the world, one of the chief concerns in Latin America is to avoid making its deeply skewed income distribution patterns even worse by the adoption of modern technologies. At the conference, speaker after speaker addressed different aspects of the "digital divide," the gap between those who have access to these tools and those who do not.

Many of the initiatives showcased in New

Technology will drive Latin America's growth

LATIN AMERICA'S ECONOMIC SUCCESS IN THE coming years will depend far more on the region's ability to embrace new technology than on advances in manufacturing, according to the results of a survey of 200 senior business executives and money managers in the United States.

When asked which Latin American country will best exploit the Internet for business, respondents put Mexico first at 39 percent, followed by Brazil at 30 percent, Argentina at 6 percent and Chile at 5 percent.

The survey, which was made public during the IDB's annual meeting in New Orleans, was commissioned by Fleet-Boston Financial, a U.S. bank holding company. It was conducted by Strategy One, an international polling firm.

When asked to identify the greatest barriers to entry of U.S. investment in the region's technology sector, 26 percent



of the respondents cited "unstable economic conditions," 19 percent cited "the need to upgrade communications infrastructure," and 17 percent said "unstable political conditions."

Fifty-three percent of respondents said that technology/telecommunications will be most important for driving Latin America's economic growth over the next five years, while 22 percent chose manufacturing and 6 percent said the service industry.

(continued from page 15)

Orleans are aimed precisely at allowing poor people to secure the benefits of the information revolution. These programs are flourishing thanks to efforts made by the public and private sectors as well as by not-for-profit civil society organizations.

E-commerce is a case in point. Even in remote places where telephones—let alone computers—are rare, e-commerce allows indigenous people to market their handicrafts far beyond their villages. Samajel B'atz', a cooperative formed by nine groups of Guatemalan artisans, has set up its own webpages with the help of PEOPLink, a U.S.-based nonprofit organization. Through the Internet, the cooperative can deal directly with consumers and retailers, ensuring that a greater part of the revenue goes to the weavers, potters and producers in the field rather than to middlemen. This technology allows the artisans to generate more sales and helps them keep abreast of consumer tastes and trends. While in the past their production was driven by the marketing equivalent of a shot in the dark, the artisans can now tailor their wares to customers' specifications. The increased cash flow has even made it possible for the cooperative to offer small loans to its members.

Another example of how these new technologies can empower even the poorest communities is the crusade led by the Brazil-based Committee for Democracy in Information Technology (CDI). Founded in 1995 by Rodrigo Baggio, a young Rio de Janeiro entrepreneur, CDI has opened 117 computer schools in shantytowns in 14 Brazilian states. More than 35,000 people have already received training in technologies that can make them more employable. Baggio, who has also taken his computer classes to

prisons and Indian tribes in Brazil, announced at the New Orleans seminar that he would expand his program to other Latin American countries with the help of the IDB and funding from the StarMedia Foundation.

On a larger scale, Mexico's Telesecundaria program is using modern telecommunications technology to bring high school education to its most remote areas, at a fraction of the cost of building, staffing and maintaining a traditional school. With just three teachers and \$2,500 for a satellite dish and a few television sets, Telesecundaria can serve students in rural hamlets such as San José de Avino, in the state of Durango, where the closest high school is a two-hour drive away. One million people, from teenagers to adults,

“Wiring every Latin American school and town to the Internet is not a utopia, not a panacea; it is \$1 billion.”

FERNANDO ESPUELAS
StarMedia Network

are enrolled in the Mexican distance-learning program. According to test results, Telesecundaria students' scholastic achievements are on a par with those of their peers in traditional high schools.

Information technology can also help countries run their public sectors more efficiently. Across the region, governments are deploying online systems at the federal, provincial, and municipal level, to handle such tasks as state procurement and contracting,

tax collection, and payments. In the case of public sector purchases, governments can fuel more competition among providers and make the process more transparent.

While enthusiastic about these new tools, leaders in the region are also quick to underscore that information technology is no silver bullet. Offering some historical perspective, José Octavio Bordón, education minister of the Argentine province of Buenos Aires, read at the conference the congratulatory telegram Argentine President Domingo Sarmiento sent when the first trans-Atlantic cable was laid over a century ago. In his message, Sarmiento hailed that achievement as the first step toward creating a truly global community.

Countries are keenly aware of the need to guarantee the broadest access possible to the new technologies' benefits. Barbados Education Minister Mia Amor Mottley said that one of the guiding principles of her nation's education reform was to ensure that the information revolution transforms its citizens into technology producers, and not simply end consumers.

“Technology on its own will not generate equality,” Mottley said. “But it does offer opportunities to countries like Barbados, because now geographic size or location doesn't matter.”

For further information see: Costa Rica's ICE (www.ice.co.cr), RACSA (www.racsa.co.cr), Toffler Associates report (in Spanish at www.casapres.go.cr), 3Com Corp (www.3com.com), Samajel B'atz' (www.peoplink.org/partners/), Committee for Democracy in Information Technology (www.cdi.org.br), Mexico's Education Ministry (www.sep.gob.mx), IDB Information Technology for Development Unit (www.iadb.org/regions/itdev).

Internet proposed for all schools and towns

URUGUAYAN MEDIA ENTREPRENEUR Fernando Espuelas has called for a massive program to connect every town and school in Latin America and the Caribbean to the Internet within 24 months.

“We are living in a moment of incredible opportunity,” Espuelas told a seminar on youth development held in March in conjunction with the IDB's annual meeting. He said the impact on the region of the coming of the Internet is “nothing short of the impact of the arrival of the Spanish and Portuguese.”

Espuelas is chairman and CEO of StarMedia Network Inc., a global online network for Spanish- and Portuguese-speaking audiences.

The Internet, Espuelas said, represents the “end of the age of monopoly” and the “beginning of the age of competition.” It will bring about huge educational and economic opportunities that did not exist before and strengthen democracy, he added.

“Wiring every school and town to the Internet is not a utopia, not a panacea,” he said. “It is \$1 billion.”

Internet for the poor. The nonprofit StarMedia Foundation, created by StarMedia Network, Inc., has formed an association with the IDB's Youth Development

and Outreach Program to support programs that train underprivileged youth in information technology.

The foundation is also supporting a project to connect 117 schools to the Internet in poor neighborhoods in Brazil. The project is being carried out by the Committee to Democratize Information Technology, led by youth entrepreneur Rodrigo Baggio, who also attended the seminar.

The seminar was organized by the IDB, StarMedia, and the Japan Program. Attending were 64 youth leaders from the Americas and Japan who had been selected from among thousands of candidates who had applied to participate.

—Daniel Drosdoff



Espeulas

COURTESY OF STARMEDIA



DAVID MANGURIAN—IDB

An IDB-financed highway speeds traffic on the outskirts of bustling Rio de Janeiro.

Brazil looks ahead at 500th anniversary

Leaders assess the accomplishments and pending challenges of South America's giant

By DANIEL DROSDOFF

BRAZIL CELEBRATED THE 500TH ANNIVERSARY of the arrival of Portuguese explorer Pedro Alvares Cabral on its shores with all the country's superlatives intact. It is the world's fifth largest nation in territory and the eighth in terms of industrial output. It is the leading producer of many agricultural commodities, such as coffee and sugar, and the source of 90 percent of the world's gems. Its Amazon forests are the world's largest single biological reserve.

Yet much remains to be done to improve social equity, mass education, and human welfare, according to Vilmar Faria, a senior advisor to Brazilian President Fernando Henrique Cardoso. He listed some of these social challenges at a recent seminar at the IDB's Washington, D.C., headquarters: 32.7 percent of Brazil's population lives below the poverty line, income distribution is among the most unequal in the world, and the average person has only five to six years of schooling.

Making matters more complicated are "enormous regional differences," Faria explained. In the rural Northeast, for instance, the poverty rate is 73 percent, but in the urbanized south, it is 19.9 percent.

On the positive side of the ledger, macroeconomic stability has been achieved in recent years, reform of the state is in full swing, and inflation has been tamed, according to Faria. Infant mortality dropped from 179.4 per thousand in 1960 to 36.1 per thousand in 1998. In 1981 child labor affected 19.3 percent of minors, but by 1998 the figure had dropped to 12.3 percent.

While Brazil invests 20.9 percent of its gross domestic product in social programs—about the same percentage as Costa Rica—the well-off get a disproportionate share of the benefits, Faria said. He estimates that Brazilians in the bottom 20 percent of the income scale get only 15 to 16 percent of the social benefits, while the richest 20 percent of the population receives 37 to 38 percent.

Roberto Martins, president of the Institute of Applied Research, said targeted in-

vestments will be needed in job training and education to break the poverty cycle that is transmitted from generation to generation. He noted that from 1977 to 1998—despite variations in per capita income, differing growth rates, and extreme volatility in inflation levels—there was one glaring constant: inequality. During that 21-year period, 10 percent of Brazilians held 50 percent of the wealth, whereas 50 percent of the population received only 10 percent of the wealth.

One of the most dramatic distortions was highlighted by Eduardo Jorge, congressional deputy and representative of the opposition Workers Party. Addressing the issue of social security reform, he complained that some individuals in the public sector, including judges and retired congressmen, receive pensions of up to \$25,000 a month. His party is proposing a cap on public sector pensions at the level of the salary of the president of the republic, some \$4,500 per month. A low-income pensioner presently receives between \$42 and \$65 per month.

Vinicius Carvalho Pinheiro, Brazil's secretary of social security, said several steps to reform social security have already been taken to put the system on a more equitable and sustainable basis.

The private sector pension system has been reformed and is now sustainable, he said. What remains to be completed is pension reform for the public sector, which he expects to take place gradually over the course of a year. Government figures show that pensions cost the country the equivalent of 6 percent of its gross domestic product, but revenues to support the system amount to only 5 percent of the GDP. This deficit will become more pronounced unless additional reforms are carried out.

Referring to the controversial issue of land ownership, Raul Jungmann, Brazil's minister of agrarian development, described government efforts to provide land for 872,866 families between 1995 and 1999. But Congressman Francisco Graziano of the Brazilian Social Democratic Party expressed serious doubts about the effectiveness of the program. While recognizing that the country had completed "the largest agrarian reform in the contemporary world," he cautioned that follow-up and technical assistance was inadequate. A large number of families had been settled on unproductive land, creating "rural favelas." He suggested that more attention be paid to rural education and creating rural family units with greater potential for economic sustainability.

Professor Aécia Gomes de Mattos of the Federal University of Pernambuco recognized the need to increase the agricultural productivity of families resettled under the land reform program. But past deficiencies, he cautioned, "should not be a cause for abandoning the program." ■



DAVID MANGURIAN—IDB

Brazil's most famous sports ambassador meets enthusiastic soccer fans outside the IDB's Washington, D.C., headquarters.

Soccer meets economics

Pelé and Kissinger highlight seminar on sports and development

By PETER BATE

SOCCKER AND DEVELOPMENT BANKING found some common ground at the Inter-American Development Bank's first-ever seminar on sports and development, held in Washington, D.C., in May.

The event featured an impressive lineup, starting with Edson Arantes do Nascimento, or Pelé, as the world's greatest soccer player is universally known. Backing up the former captain of the Brazilian national team was one of the world's most famous soccer fans, former U.S. secretary of state Henry Kissinger.

Other speakers included the presidents of the football confederations of South America, North America, and the Caribbean; U.S. Major League Soccer Commissioner Don Garber; and top executives from international sports marketing firms that have

helped turn soccer into a huge business in the industrialized world.

"Soccer is a sport with multiple dimensions," IDB President Enrique V. Iglesias told the participants. "It offers opportunities because of its economic return, but it also is a sport whose popularity transcends class, race, religion, gender and educational background boundaries.

"This is why soccer is an important instrument for regional development and integration," Iglesias said.

According to participants, soccer in Latin America has been a victim of the region's political instability, financial crises and social tensions. While South American countries have won the World Cup as many times as Europeans have, they have derived only minimal economic advantage from their excellence in this field.

According to participants at the IDB seminar, Latin America can do much to make

soccer a more profitable business. Pelé, for example, sees potential for turning soccer into a major industry, largely by following the playbooks written over the past decade by the professional leagues in Europe and the United States.

But Pelé, who rose from grinding poverty to become one of the world's best-paid athletes and later Brazil's sports minister, also highlighted the potential of sports to promote social as well as economic development.

"In the United States, the sports industry generates about four percent of GDP. In Latin America, it barely represents one percent of output. If we could get to two percent, we could create a lot of jobs and opportunities," he said.

However, Pelé added, while Latin America is quick to embrace changes in areas such as technology, it continues to regard soccer as a pastime ruled by raw passion rather than reasoned planning. Latin Ameri-

can soccer clubs are usually run as nonprofit organizations. Major teams may give great performances on the field, but the clubs are constantly courting bankruptcy. Traditionally, the sport's officials tended to stave off financial ruin by selling off their best players to richer teams in other countries. In the worst cases, the teams become involved in shady or even illegal financial dealings.

One of Pelé's main goals while he was sports minister was to professionalize soccer club management in Brazil. "If you have professionals running the sport as a business, it is much easier to stamp out corruption. Professional managers are held accountable, and they must account for every penny," he said.

According to Pelé, Latin America's soccer federations are not much better run than the individual teams. Even seemingly straightforward duties such as setting a reasonable schedule of matches can turn out to be a daunting task in some countries.

Nevertheless, there are some encouraging signs of change. A few Brazilian clubs have started to choose the business model followed by major European teams.

Flamengo of Rio de Janeiro has signed a management contract with ISL, a Swiss sports marketing company, and Corinthians of São Paulo has brought in two U.S. firms as partners, The Muller Sports Group and the private investment company Hicks, Muse, Tate & Furst.

By signing up partners with deep pockets to run the financial side, clubs can concentrate on what they do best: training teams to win. Meanwhile, business-savvy entrepreneurs can negotiate lucrative contracts with

broadcasters, advertisers, sponsors and companies interested in merchandising licenses.

However, the sports business model may not generate phenomenal results in every single country. Heinz Schurtenberger, CEO of Switzerland's ISL, noted that in his own country top professional soccer players earn but a fraction of the princely sums their colleagues command in the British, Italian, or Spanish leagues.

How does the IDB fit into this picture? At the close of the conference, Iglesias said the Bank would have to draft its own game plan before it can start playing a larger role. However, he noted that soccer

seemed like a natural fit in the myriad of social programs the IDB is promoting throughout the region, especially in the programs for at-risk children and youth it helps to finance in more than 30 cities.

In partnership with clubs and other civil society organizations, these programs could be expanded to include sports, which, as Pelé underscored, can be one of the best strategies to keep kids

out of trouble.

On the business side, Iglesias noted that the IDB supports for-profit ventures through its own private sector department and the Inter-American Investment Corporation, as well as in its lending through national development banks in the region. These could be potential sources of financing for professionally managed clubs.

Soccer authorities were quick to pick up on the Bank's interest. The first request came from Costa Rica's Football Federation, which would like the IDB to support the creation of a regional soccer training center in San José.

■ **While Latin America is quick to embrace changes in technology, it continues to regard soccer as a pastime ruled by raw passion rather than reasoned planning** ■

THE BUSINESS OF SOCCER



From modest roots, a major industry.

IT IS DIFFICULT TO EXAGGERATE ABOUT THE scope of soccer as a social and economic phenomenon. FIFA, the sport's Zurich-based international federation, has more than 200 member associations and estimates that there are some 200 million registered players worldwide.

In Latin America soccer is the overwhelmingly dominant sport in all but a few countries. Even small countries have dozens of stadiums, established professional leagues, enormous club and amateur leagues, and innumerable school-, church- and neighborhood-based soccer associations.

By all accounts, soccer is a big business as well. Billions of dollars are earned by professional teams through sponsorships, ticket sales, television broadcasting rights and—most notoriously—the sale of talented players.

Yet hard figures are almost impossible to come by. For the reasons described in the article on these pages, soccer club finances are rarely disclosed outside the tight-knit world of soccer dealmakers. Even team fans, known for loyalty that can border on violent obsession, are often left in the dark. Inevitably, this leads to the scandals, player strikes, and fan insurgencies that fill newspaper sports pages throughout Latin America.

The region's problems have a distinguished heritage, however. In Leicester, England, some 100 years ago, one of that country's earliest "football clubs" ran into financial difficulties because it had overpaid its players and overestimated ticket sales. Ardent fans of the club, now known as Leicester City, formed a support organization and mounted fundraisers to bail out the management. But once the problem was solved, the managers rejected the fans' efforts to influence decisions, leading to a nasty and protracted squabble that was gleefully reported in the local press.



Head table: ardent soccer fan Henry Kissinger with IDB President Iglesias and Pelé.



A fresh look at rural development

YEARS AFTER IT WENT OUT OF VOGUE, THE RURAL economy is again emerging as a priority for boosting national performance and reducing poverty, according to experts at a seminar held in New Orleans in March during the IDB's annual meeting.

"Today we realize that it is not possible to produce sustained growth and sustainable development without investing in the agriculture sector," said IDB President Enrique V. Iglesias at the seminar, entitled "Development of the Rural Economy and Poverty Reduction in Latin America and the Caribbean." "It is not possible to reduce rural poverty, nor urban poverty as well, without investing in the rural economy," he said.

On and off the farm

The seminar participants were assembled to consider a new IDB strategy on rural development that is based on a broad, multisectoral vision. The strategy acknowledges the great diversity of conditions from one area to another in Latin America and the Caribbean, as well as alternative economic opportunities in rural areas. In addition to agriculture, these alternatives include tourism, industry and handicrafts. Rural development policies must also take into account migration to urban areas, as well as social networks for those who remain and the need

to reduce inequities due to gender and ethnicity. In many countries, agriculture accounts for a third of economic output.

The seminar, which was sponsored by the Government of Denmark, included presentations by civil society representatives, public and private sector experts as well as ministers of agriculture from several Latin American countries.

Rural residents must contend with serious and often worsening poverty, according to Waldemar W. Wirsig, manager of the IDB's Sustainable Development Department. Between 1994 and 1997, he said, the percentage of rural households in the region living in poverty dropped only slightly, from 56 percent to 54 percent. Overall, rural poverty is worse now than in 1980.

"This shows that we have not achieved convincing gains in the fight against rural poverty," said Wirsig. "The slight improvements achieved in some cases have been due more to high rates of migration than to a closing of the gap between living conditions in rural and urban areas."

From these failures, a number of lessons can be drawn, said Wirsig. For one, rural poverty can not be reduced through global strategies or mere economic growth. Another lesson is that rural development programs do not produce results without economic

IN THE NEWS: Overseas television viewers will learn how Ecuadorian villagers plant trees on steep slopes to stem erosion. The IDB-financed plantation will also produce salable products for local people.



policies that permit profitability in the agricultural sector.

"And we have particularly learned that limited participation by beneficiaries in development programs resulted in projects that did not address real needs," he said.

Wirsig described a series of measures needed to reverse the trend, such as:

- ▶ Reform public policies that discriminate against rural development.
- ▶ Strengthen the public sector and finance basic agricultural services such as technology and animal and plant health.
- ▶ Promote nonagricultural productive activities in rural areas through tax and financial incentives.
- ▶ Provide secure land ownership and promote access to land.
- ▶ Strengthen rural financial services.
- ▶ Improve natural resource management.

Also speaking at the seminar was Torben Brylle, undersecretary of the Royal Danish Ministry of Foreign Affairs, who emphasized the need to promote agricultural development and protect the environment. "Degradation of the land does not only result from agricultural practices by small farmers, but also from overexploitation by large farms," he said. He called for stronger measures to protect the environment from agricultural, forestry and mining operations.

The risks of a capital surge

EXPERTS PREDICT A REBOUND IN CAPITAL FLOWS to Latin America and the Caribbean this year, but warn that countries must build and maintain sound financial systems and improve the institutional environment to make the flows sustainable.

"We're looking for a resumption of growth [in 2000]," Inter-American Development Bank Chief Economist Ricardo Hausmann told participants at the seminar "The New Wave of Capital Inflows: Sea Change or Just Another Tide?," which was held

Sound financial systems in conjunction with the IDB's annual meeting in New Orleans. He added that the challenge is to avoid another "boom and bust cycle."

Hausmann said that total capital inflows declined in 1998-99, while foreign direct investment (FDI) rose to constitute almost 100 percent of the net private capital inflows. He welcomed the increase in FDI, but noted that it took place in the context of collapsing overall capital flows.

Countries need to attract portfolio capital flows as well as direct foreign investment, Hausmann said, adding that FDI accounts for a larger share of the investment mix in developing countries than in industrial countries in part because FDI is seen as less risky.

Ernest Stern, managing director of J. P. Morgan, told seminar participants that portfolio investment in Latin America and the Caribbean is expected to double this year, reflecting recovery from the 1999 slowdown. As for foreign investment as a whole, "I do not expect a tidal wave," he said.

Shahid Javed Burki, chief executive officer of EMP Financial Advisors, said "we are at the beginning of an economic boom." He predicted "a long expansion that will not be interrupted by systemic busts." But he warned that individual countries will fail to benefit if they "go off the track" and fail to adopt or maintain sound financial policies.



Participants urged more economic reforms.



Pollsters say the Latin American public is dissatisfied with the quality of government.

Strong democracy for strong economy

A PANEL OF INTERNATIONAL EXPERTS RECENTLY urged Latin America to strengthen its democratic institutions in order to better meet the challenges of economic growth and stability.

"You cannot have a healthy economy when the political system is sick," said IDB President Enrique V. Iglesias at the start of the seminar "Politics and Governance in Latin America," held in conjunction with the annual meeting of the Bank's Board of Governors in New Orleans.

Politics and prosperity Carlos Ruckauf, governor of the Argentine province of Buenos Aires, warned that Latin America is still haunted by authoritarianism of past years despite recent democratic gains. While public spending is indispensable in such areas as roads and education, "we have to spend in a better way," he said.

Dieter Nohlen, deputy director of the Institute of Political Science at the University of Heidelberg, Germany, said it was important that a political system—be it

presidential or parliamentary, centralized or decentralized—be accepted by the citizenry as legitimate. That means that each system must be evaluated in the historical context of a given country, he said.

According to Ricardo Hausmann, IDB chief economist, there is a strong relationship between good governance and economic success. But in measures of the rule of law, control of corruption, government effectiveness, and quality of the regulatory environment, Latin America ranks behind Asia and far behind the most developed countries, he said.

Opinion polls show that Latin Americans are dissatisfied with the quality of their governments and think corruption is getting worse, Hausmann said.

Political problems confronting Latin America include fragmentation of parties, volatility in voting patterns, low levels of popular participation, governments elected by a minority of voters, lack of transparency in government, and lack of cohesion and coordination between the legislative and executive branches, he said.

Ecological ground zero

Seven of the world's most biodiverse—and threatened—areas are in Latin America and the Caribbean. What can be done to protect them?

By ROGER HAMILTON

ACCORDING TO MANY BIOLOGISTS, THE EARTH is in the midst of a mass extinction, a dying off of plants and animals on a scale seen only a few times in the planet's 4.6-billion-year history.

The most recent mass extinction, which wiped out the dinosaurs 65 million years ago, was probably caused by the explosive impact of a meteorite. In contrast, the present extinction is taking place quietly, a result of the wholesale destruction of natural habitats by people around the globe. Most of the species that are disappearing have not even been discovered, let alone described by science. A rare orchid here, a tiny arthropod there: when the last member of a species dies, it goes unseen and unrecorded.

Species are disappearing today at a rate estimated at from 100 to 1,000 times the normal extinction rate. Unless something is done, this century will mark the end of the present Cenozoic Era, says Harvard biologist Edward O. Wilson. The next phase of the earth's history, he says, might best be called the "Ereozoic Era," or the Age of Loneliness.

But the situation is not hopeless. Biodiversity is not evenly distributed across the earth, but rather is concentrated in certain areas. A decade ago, British ecologist Norman Myers created the concept of "biodiversity hotspots" to identify these critical areas and help guide the work of conservation organizations. In a recent article appearing in the British journal *Nature*, Myers, along with Conservation International President Russell A. Mittermeier and others, presented a comprehensive case for focusing conservation efforts on these hotspots, in order to get the most protection for the money.

"The hotspots concept can turn a profound problem into a magnificent opportunity," says Myers. "I can think of no other biodiversity initiative that could achieve so much at comparatively small cost."

Rich and under siege. The *Nature* article identifies 25 hotspots that cover only 1.4 percent of the earth's land area (the study does not include aquatic habitats) yet account for a staggering 44 percent of all vascular plant species and 35 percent of four vertebrate groups. The authors used two factors for determining hotspots: number of en-

demetic species (i.e., found nowhere else) and degree of threat.

To qualify as threatened, an area must retain less than 30 percent of its original natural habitat. So while the Amazon basin holds an immense number of endemic species, much of it remains intact, and so it does not qualify as a hotspot. But Brazil's Atlantic forest, also a treasure trove of species, today exists only as remnants amounting to some 5 percent of its original area.

The article identifies seven hotspots in Latin America and the Caribbean (see map). Of these, three rank among the world's five most critical hotspots: the tropical Andes, Brazil's Atlantic forest and the Caribbean. The tropical Andes qualifies as one of the world's two "hyper-hot" areas for its "exceptional" numbers of endemic plants—some 20,000 in all—as well as its number of endemic vertebrates, the highest in the world.

Some 38 percent of the total area of the

world's hotspots have been designated as parks and reserves, although real protection is often very limited. The remaining area has no protection whatsoever. Although outright protection is the best option where possible, say the authors, multiple use in places with extensive human settlements could still be effective.

The cost of reversing the trend is high, but not unrealistic. The authors estimate that \$20 million per hotspot annually over the next five years would go far toward achieving effective protection. While this is far more than is presently being spent, the authors point out that it is only twice the cost of a single mission to Mars, which is justified in large part on biodiversity grounds—the search for extraterrestrial life. It is also far less, they say, than the \$1.5 trillion that they estimate is spent annually worldwide on subsidies that encourage environmental degradation. ■

Biodiversity and the IDB

PROTECTING BIODIVERSITY ON ANY MEANINGFUL scale will require considerable money and leadership. Marc Dourojeanni, IDB principal environmental advisor, believes that the Bank can do a great deal to stem the growing wave of extinctions.

IDB AMÉRICA: Why should the IDB be concerned about species extinction?

The Bank's mission is to promote sustainable development and improve living standards. Species of plants and animals are essential to people both as goods, such as food, medicine, and construction materials, and as providers of indispensable services, such as carbon fixation, the hydrologic cycle, and soil protection. Every plant or animal represents natural capital. Every species has a role, although we may not know what that role is or give it proper recognition.

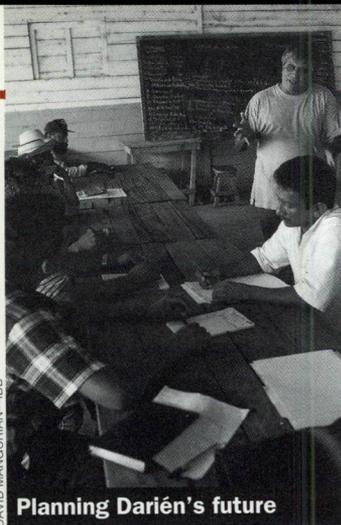
But there is also something else. The IDB is deeply committed to the region's cultural and ethical development. The extinction of the creatures with which we share the earth amounts to an affront to humanity, comparable to acts of violence or the destruction of works of art.

IDB AMÉRICA: What can institutions such as the IDB do to protect biodiversity?

A great deal! Most IDB operations include, or should include, measures to protect the environment and endangered species. In Brazil alone, the IDB and its counterparts invested \$69 million over the last decade for 76 protected areas, most of which are located in biodiversity hotspots. Moreover, the IDB uses information from the originators of the hotspots concept in designing safeguards and funding protected areas.

IDB AMÉRICA: What are the priorities for biodiversity conservation in the region?

The first priority is to create protected areas. The problem is that governments neither have money to buy the land nor people to manage it. Many experts believe that the multilateral banks must revise their policies to enable them to finance the purchase of land for reserves. On the second point, the World Bank and the Global Environmental Facility have created funds to finance the management of protected areas. ■

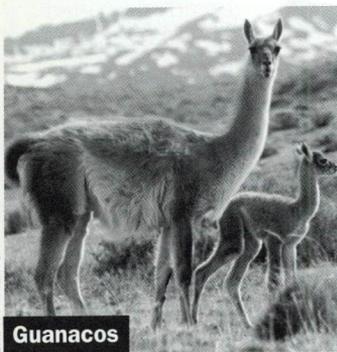


DAVID MANGURIAN—IDB

Planning Darién's future

Bridge between the continents.

The Darién and Choco regions of Panama and Colombia, along with western Ecuador comprise a relatively small area with a disproportionately large number of endemic species. Panama's Darién province is the focus of an innovative IDB program to protect vast forest preserves, legalize land tenure for indigenous communities, and improve social and economic conditions in this poverty-stricken area. International conservation organizations, civil society groups and local communities helped to design the program.

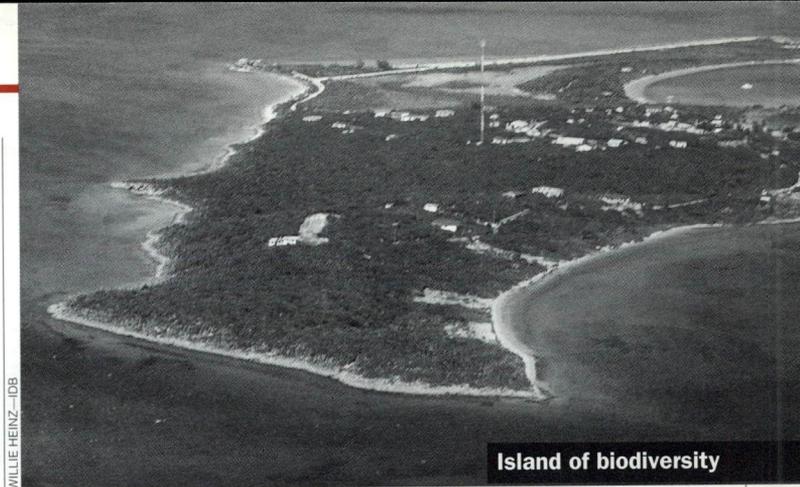


BRIAN PINKERTON

Guanacos

Tropical Andes: From snow-capped volcanoes to forested slopes, the Andes ranks as one of the world's two "hyper-hotspots." In Peru, one biologist found 43 ant species living in a single tree—as many as in all of the British Isles. But expansion of the agricultural frontier, as well as logging, road-building, mining, fossil fuel exploitation and colonization, are shrinking natural areas. "These countries have the potential to be the world's biological superpower," says Eduardo Figueroa, who heads a new IDB program to forge a biodiversity strategy for the region.

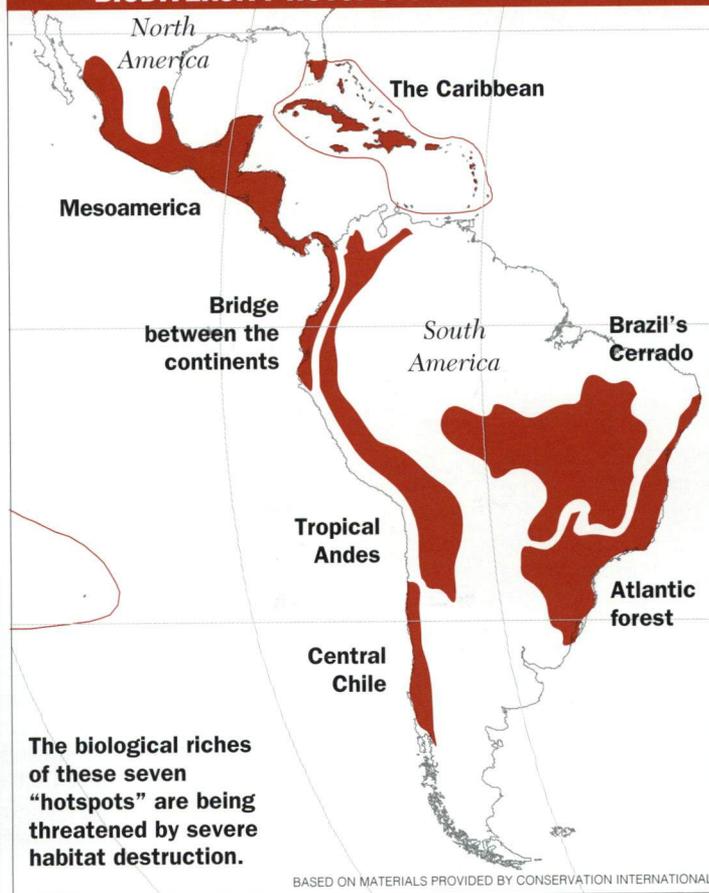
Mesoamerica: Widespread conversion of rain forest to cattle pasture in Central America in the 1970s to spur beef exports gave rise to the expression "rain forest hamburger." But despite the destruction, an impressive number of habitats remain intact. In Guatemala's Petén Forest, the IDB is financing a project that gives local communities an economic stake in biodiversity preservation.



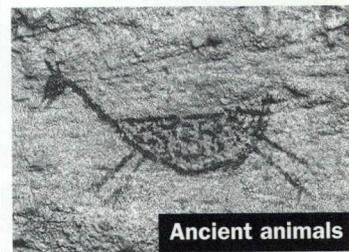
WILLIE HEINZ—IDB

Island of biodiversity

BIODIVERSITY HOTSPOTS IN THE REGION



The Caribbean: While tropical islands are famous for their marine life, they are also hotbeds for terrestrial endemic species. Despite its small land area, the Caribbean has more unique reptile species than any other biodiversity hotspot. But the islands are also highly vulnerable because they are small and accessible.



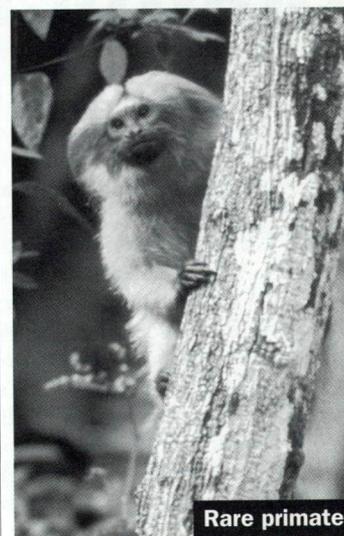
ROGER HAMILTON—IDB

Ancient animals

Brazil's Cerrado: Natural habitats in this savanna are rapidly falling victim to high tech agriculture, fire and invasion by exotic species. Endangered species include Lear's macaw and the Brazilian three-banded armadillo. The IDB is financing a network of private reserves in the Cerrado as well as a social development program at Serra da Capivara that protects the *caatinga* ecosystem and galleries of ancient rock art.

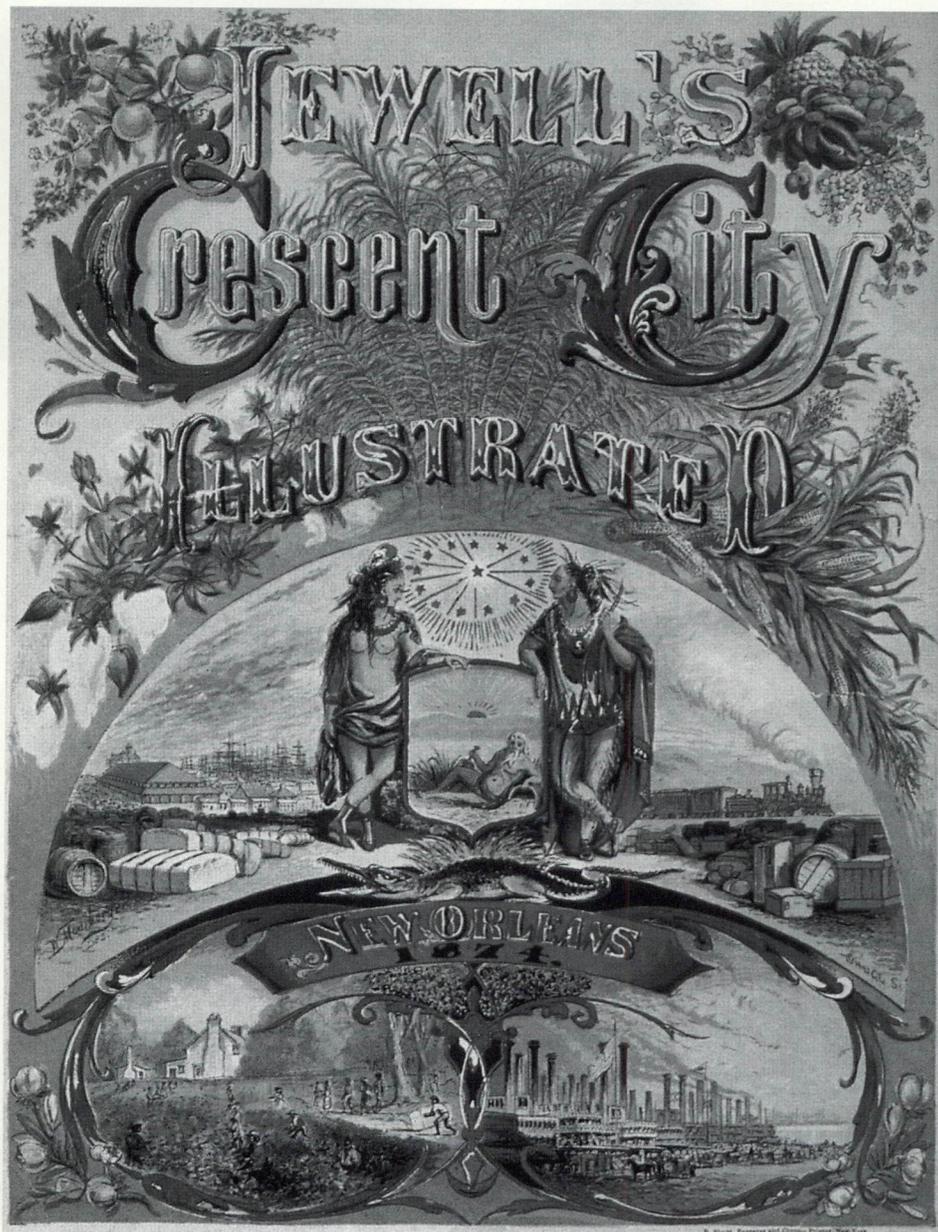
Central Chile: While this temperate region lacks the species richness of many tropical areas, it boasts a very high number of endemic species. One notable ecosystem, the vine-draped *ruil* forest, was reduced by more than half between 1981 and 1991, mainly due to expansion of plantations of the exotic Monterey pine. Only fragments of the original forest remain, and of these, only 45 hectares have been granted formal protection. At the current rate of deforestation, it is estimated that the *ruil* forest will disappear as a recognizable biome in this decade.

Atlantic forest: Brazil's "other" rain forest, this great swath of trees once covered more than a million square km from Recife in the north to the border with Uruguay. Today only 5 percent of the original forest has survived urban and agricultural expansion. Some 54 percent of the region's trees and 80 percent of its primates—including the golden lion tamarin—are found there and nowhere else. Through Brazil's National Environmental Fund, the IDB is helping nongovernmental groups to work with local communities to save remaining forested areas.



CONSERVATION INTERNATIONAL

Rare primate



Southern culture

WITH ITS BLEND OF ROMANCE AND UN-abashed civic pride, the cover of Jewell's Crescent City Illustrated reflects the optimism of a growing city. The magazine cover was part of a collection of paintings, lithographs, maps and other objects making up the exhibit "New Orleans: A Creative Odyssey." The showing at the IDB Cultural Center gallery in Washington, D.C., coincided with the Bank's annual meeting in that city in March.

The exhibit spanned the city's four centuries and spotlighted the diversity of peoples and nationalities that make New Orleans the unique cultural blend it is today. Among the works on display were a color lithograph depicting the discovery of the

Mississippi River, a map from 1712 showing a North American continent controlled largely by France, and a sweeping canvas commemorating the United States victory over England in the bloody Battle of New Orleans. On a lighter note, the exhibition included paintings and prints that reveal the rich cultural and architectural heritage of New Orleans as well as fine local examples of portraiture, ceramics and silverwork. Photographs of the Madewood Plantation illustrated the opulent neoclassical style favored by the city's 19th century tobacco, sugar and cotton barons. Other photos celebrated what are arguably New Orleans' most recognizable cultural contributions: jazz music and Mardi Gras. ■

Art NEWS

Venezuelan rhythms

For centuries, musicians have been in the vanguard of globalization, and they continue to be. An example is Aquiles Báez, leader of a Venezuelan quintet whose members have been trained in performance styles ranging from Renaissance music to fusion, pop and Latin jazz. Their recent program at the IDB Cultural Center included Báez's own jazz compositions inspired by Venezuelan rhythms.



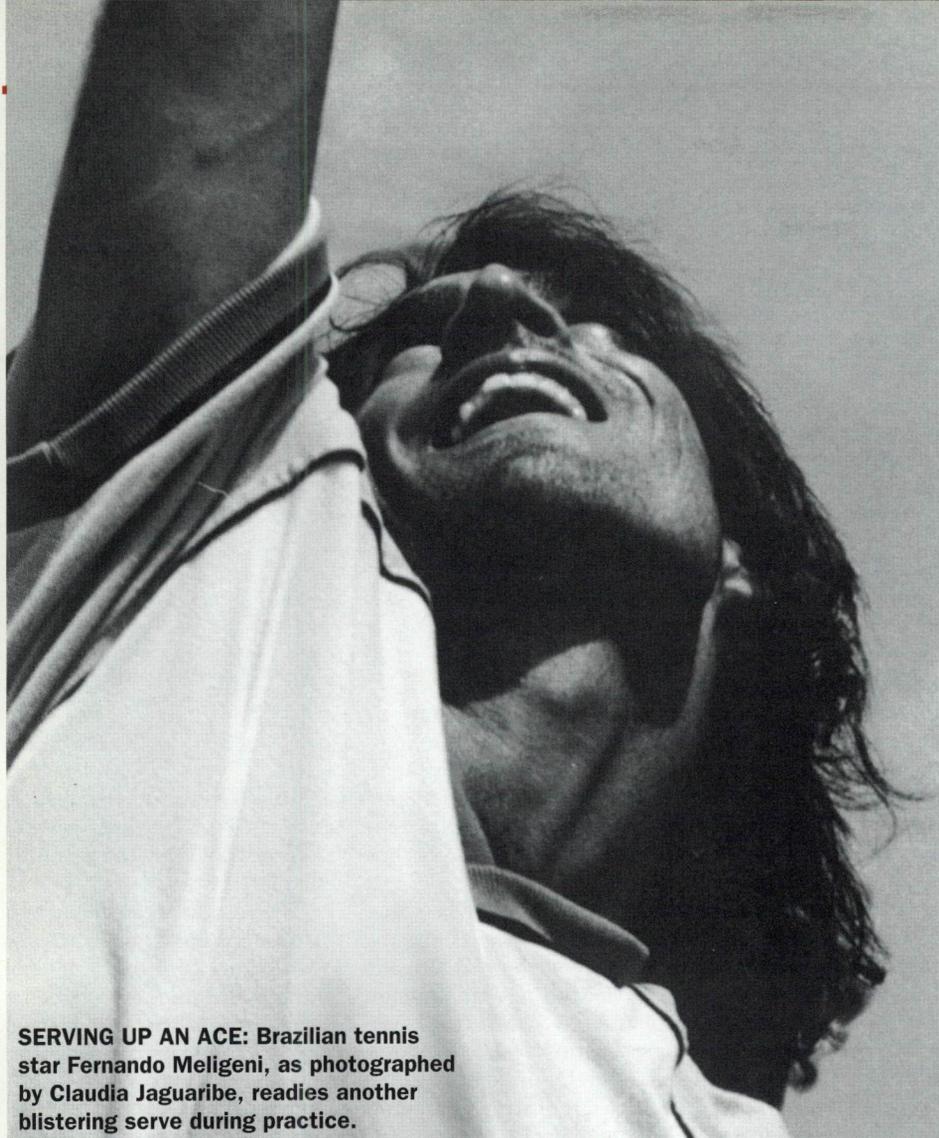
Tribute to a legend

Astor Piazzolla applied his musical genius to Argentina's legendary tango, and in the process became a legend himself. Not only jazz greats, such as Gerry Mulligan, but also classical musicians, such as Yo-Yo Ma, have recorded his works, and now the first full-scale English language biography of this controversial visionary has come off the press. One of two authors of *Le Grand Tango: The Life and Music of Astor Piazzolla*, María Susana Azzi, recently presented a lecture at the IDB's Cultural Center that described the composer's revolutionary fusion of the tango with jazz and classical influences, the opposition from traditionalists, and Piazzolla's subsequent self-exile in Europe. The lecture was followed by a performance of tango music by Uruguayan bandoneonist Alejandro Muzio and Puerto Rican pianist José Cáceres.

Music of Brazil

Two young Brazilian artists brought the music of their countryman Heitor Villa-Lobos to an enthusiastic audience at the IDB Cultural Center in April. The concert, which was held in conjunction with the Brazil 500 celebrations, was performed by cellist Tania Lisboa and pianist Miriam Braga. The duo has been together for five years and received enthusiastic reviews for their recording of the complete piano-cello works of Villa-Lobos. Their IDB performance included four of these compositions.





SERVING UP AN ACE: Brazilian tennis star Fernando Meligeni, as photographed by Claudia Jaguaribe, readies another blistering serve during practice.

“Sports is a natural means for acquiring self-confidence and perseverance.”

CLAUDIA JAGUARIBE
Photographer

and present. Today's competitors were shot while practicing their particular sport. In contrast, retired athletes were featured in relaxed studio poses.

Icons from the past. Brazilians are well-known for their athletic talent, particularly in sports such as soccer, basketball, and volleyball. Pelé in soccer, Oscar Schmidt in men's basketball, and Hortência de Fátima Marcari Oliva in women's basketball are just a few of the athletes who made their mark around the world, opening doors for new generations of Brazilian athletes.

Soccer remains the dominant sport in Brazil, and in the years since Pelé became a household name many other players have inspired international followings. Established players like José Roberto Gama de Oliveira, known as Bebeto, and up-and-comers like Felipe Jorge Loureiro are among the growing roster of Brazilian soccer superstars.

But the success of Brazilian athletes in other sports, and particularly in the Olympic Games, has broadened the variety of sports pursued by this country's youth.

Tennis, a sport that gained exposure in Brazil in the 1960s because of Maria Esther Bueno (a Wimbledon singles and doubles champion), is enjoying new popularity thanks to players like 23-year-old Gustavo Kuerten, who won the 1997 French Open.

Brazilians are distinguishing themselves in an ever-wider number of Olympic sports such as track, gymnastics, and beach volleyball. Jaguaribe's photos feature Soraya Ida de Carvalho, a 21-year-old gymnast who represented her country at the 1996 Olympic games in Atlanta, and Sandra Tavares Pires, a 26-year-old Olympic gold medalist in women's beach volleyball.

The IDB photo exhibit is only a sampling of the many photos Jaguaribe shot of Brazilian athletes, all of which were published in the recent book *Atletas do Brasil*. The book features 194 sepia-toned photos of professional and aspiring athletes ranging from a 14-year-old gymnast to an 86-year-old Jujitsu instructor.

Jaguaribe believes that the struggle to succeed as an athlete has universal appeal because it echoes an essential aspect of all human endeavor. "Sports is a natural means for acquiring self-confidence and perseverance [that can be used] in any circumstance," she said. ■

Sporting Brazil's best

Photo exhibit explores the personalities behind the country's athletic idols

By GISELLE GOICOCHEA

WHAT DOES IT TAKE TO BE A WINNER? Brazilian photographer Claudia Jaguaribe tries to answer that question by shifting her lens away from competitions and instead focusing on the everyday routines of Brazil's most talented athletes.

An exhibit of Jaguaribe's photos was featured at a recent commemoration of the 500th anniversary of the Portuguese arrival in Brazil, which was held at the IDB's Washington, D.C., headquarters.

Jaguaribe chose the sports theme when she first took portrait photos of Brazilians participating in the 1996 Olympic games for a leading Brazilian newspaper. She says she was not attracted by the spotlight placed on the competition itself, but rather wanted to

look into the physical and emotional work that goes into building an athletic career.

"This type of theme had never been done before, and it needed to be done since Brazilians are increasingly important in world sports," says Jaguaribe. In an abrupt departure from her previous work, which had been predominantly fashion photography, she contacted most of Brazil's top athletes and many promising newcomers and asked to take photos of them in noncompetitive settings.

One-on-one. Even when the subject is team sports, Jaguaribe's photos examine the athletes as individuals.

"I was more interested in how each was able to develop as people, how each came into his own, on a human level," Jaguaribe explains. In her photos, she made a point of distinguishing between athletes of the past

PROJECT UPDATES

GUATEMALA

Guatemalan e-commerce

DESPITE ALL THE TALK ABOUT ELECTRONIC commerce, few Latin American countries have yet to see concrete examples of this new way of doing business.

In Guatemala, however, one of the most time-consuming aspects of the current, paper-based system of international trade is about to get much quicker, thanks to a program run by the Association of Non-Traditional Product Exporters (Agexpront). The new initiative will consist of an Internet-based Electronic Authorization of Exports Service (EAES), which will make it possible for Guatemalan businesses to acquire export licenses online, eliminating a big piece of the paperwork that has traditionally slowed international trade.

The EAES, which will be connected to governmental agencies that control the license authorization process, will be available to users 24 hours a day everyday, year-round. Arnoldo Beltrán, an IDB specialist at the Bank's Guatemala City office, says the new system will free exporters from

having to travel to the limited number of governmental offices that offer such licenses, thereby saving a great deal of time. The EAES system will also help fulfill the government's long-promised "one-window" service goal by centralizing license requirements through the Internet.

"This system will definitely help promote Guatemala's economic development," says Beltrán. Guatemala's government will also benefit because the system will generate a detailed and up-to-date export database. "The system is connected to the central bank, known as Banguat, the Superintendence of Tax Administration, and any other agency or ministry involved in the process," says Jorge Cruz, general manager of Agexpront. This interconnection means that if a certain export product requires authorization from the Ministry of Health, for example, the ministry can issue its approval online, without having to print and handle its own forms.

The EAES initiative is being underwritten by the Guatemalan government through its Food and Agriculture Sector Program, which is financed by the IDB. Other initiatives financed by this program will complement the EAES. The government is developing an electronic monitoring

system for trucks transporting imports across the borders, for example. And an IDB-financed Technological Innovation Program for Guatemalan Microenterprises includes the installation of Community Information Centers with Internet access. Through these centers, even small business people who cannot afford telephones or computers will be able to access the EAES system.

—By Carlos González, Guatemala

JAMAICA

A better way to fly

JAMAICA PASSED ANOTHER MILESTONE in its ongoing effort to spur tourism and foreign investment with the completion of major runway upgrades at Norman Manley International Airport last March.

The airport's newly reinforced 2,600-meter air-side runway, taxiway and apron were put into service during a ribbon-cutting ceremony on March 10. Airports Authority of Jamaica Chairman Dennis Morrison, Minister of Industry, Commerce and Technology Phillip Paulwell and Minister of Transport and Works Peter Phillips were in attendance. Refurbished airfield



JUNIOR DOWIE—THE GLEANER

lighting and improvements to an underground fueling system were also part of the recently completed work.

The Airport Reform and Improvement Program was proposed in 1993 to upgrade outdated facilities and make Jamaica a more attractive destination for both tourist and commercial air traffic. The IDB helped finance the program, which has a total estimated cost of \$47 million, with a \$26 million loan approved in 1995.

The airport program also includes the \$1.2 million renovation of the headquarters of the Jamaican Civil Aviation Authority to house a new air traffic control center, an air traffic school and additional administrative space. These works, which are being funded by the Japanese Ex-Im Bank, include state-of-the-art navigational and communications equipment for the Norman Manley International Airport and the Tinson Pen Aerodrome, both in Kingston, Sangster's International Airport in Montego Bay, the Air Traffic Control Center, and other sites. Renovation of the Norman Manley terminal building is being funded by the Jamaican government.

The runway reconstruction work presented complicated logistical challenges because of the need to keep the airport open for business. The contractor devised an intensive nighttime work sys-



WILLIE HEINZ—IDB

Guatemala is developing an electronic monitoring system for commercial trucks on its borders.



tem in which short lengths of runway were torn up, rebuilt, tested and paved between midnight and 6 a.m.

At the ribbon-cutting, Transport and Works Minister Peter Phillips praised Danish contractor E. Pihl and Son A.S. for completing the complex job on time and within budget. "We have witnessed an accomplishment worth noting," he told reporters.

REGIONAL

Promoting youth leadership skills

ENTHUSIASM ABOUNDS AMONG Latin American youth, but the hard skills required to lead successful social and business enterprises are relatively rare.

The Partnership for Promoting Youth Development and Participation, a recently concluded project partly financed by a \$750,000 IDB grant, was designed in part to address the need for better management skills among Latin American youth leaders. The project, which also had financing and management support from the International Youth Foundation and the Inter-American Foundation, worked through established nongovernmental organizations in Ecuador, Paraguay, Guatemala, and Trinidad and Tobago. These entities provided a variety of management training workshops for

Senior Jamaican government officials look on as Peter Phillips, transport and works minister, cuts the ribbon to inaugurate recent runway improvements at the Norman Manley International Airport.

youth mentors and leaders, along with technical and financial assistance to young, lower-income entrepreneurs. They also helped to disseminate "best practices" for program management.

In Ecuador, the Esquel Foundation provided training to some 3,335 young people through 13 individual projects that covered 24 cities and 22 rural districts. In Paraguay, the Centro de Información y Recursos para el Desarrollo organized 11 social enterprise projects, two participation workshops and two youth leadership training seminars.

In Guatemala, the Asociación Cristiana de Jóvenes used project funds to finance nearly 100 microenterprises. It also created several youth information centers and provided leadership training to 740 young people. In Trinidad and Tobago technical assistance was provided to 32 representatives of various youth-led or youth-serving organizations. The IDB's country office in Trinidad and Tobago also used project funds to create the Youth Advisory Board, which consists of youth representatives who advise the country office on youth affairs on a permanent basis.

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).

Argentina

A \$1 million MIF grant to establish a national network of commercial mediation and arbitration centers and to build up their institutional capacity.

Bolivia

A \$34 million loan from the Fund for Special Operations to strengthen agricultural technology and plant and animal health.

An \$840,000 MIF grant to consolidate insurance market operations and to strengthen the Office of Insurance Oversight.

A \$5 million loan from the Fund for Special Operations to support the reform and modernization of the Customs Administration.

Brazil

A \$1,534,000 MIF grant for a trade union leadership program to be carried out by the Departamento Intersindical de Estadísticas e Estudos Sócio-Econômicos.

Chile

A \$7 million IIC loan and \$1 million IIC investment in Delta Leasing Habitacional, S.A., to finance the purchase of low-cost housing and to develop lease-backed securities, a new financial instrument for the country.

Colombia

A \$1.5 million grant from the Japanese Trust Fund for Consultancy for prefeasibility studies for geothermal electricity development

Costa Rica

A \$4.2 million IIC loan to Consorcio Celsa Dimmsa Telepsa Limitada to expand telephone service by installing and maintaining 15,000 public telephone booths and leasing them for six years to the Instituto Costarricense de Electricidad,

the national telephone and electric company.

El Salvador

An \$850,000 MIF grant to support the introduction of mechanisms to facilitate and promote the development of microenterprises and small businesses.

Honduras

A \$7.5 million IIC loan to Zona Industrial de Exportación Buena Vista, S.A., to expand facilities and improve environmental conditions in an industrial park in the town of Villanueva.

A \$4 million IIC loan to Banco Financiera Centroamericana, S.A., to provide financing for small and medium-size enterprises.

Nicaragua

A \$9 million loan from the Fund for Special Operations to support the first phase of a \$32.2 million program to provide a social safety net to the country's poor.

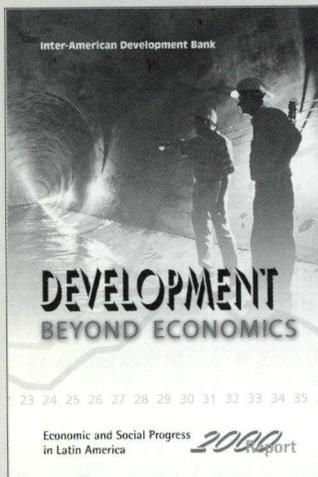
Regional

A \$15 million IIC purchase of operating lease receivables from El Camino Resources de América Latina, Inc., to support small and medium-size companies seeking to modernize and expand in Costa Rica, El Salvador, and Guatemala.

A \$1,400,000 MIF grant to support job training programs for the blind in Argentina, Uruguay, and Chile.

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 listing of planned projects and procurement opportunities, is on the home page under "Business Opportunities." The Public Information Center can provide **further information** at (202) 623-2096, or e-mail pic@iadb.org.

ON
SALE NOW

a detailed analysis
produced by a
multidisciplinary team
of experts

Latin America is entering
the 21st century with a mod-
est 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 economics and 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*, a detailed analysis produced by a multidisciplinary team of experts.

Development Beyond Economics can be ordered through the IDB Bookstore at www.iadb.org; or by calling 1-877-782-7432. Or write to the IDB Bookstore, Stop E-0105, 1300 New York Ave., N.W., Washington, D.C. 20577.

Environmental group honors IDB

THE IDB'S MULTILATERAL INVESTMENT FUND has received an award for helping to create the EcoEmpresas Fund, a Costa Rica-based venture capital organization that will finance environmentally responsible private business projects in Latin America and the Caribbean.

The award was given by The Nature Conservancy, a United States environmental organization. It was presented in February at a ceremony at the Organization of American States.

Projects in the EcoEmpresas pipeline include organic agriculture in Bolivia and Ecuador, agribusiness in Paraguay, ecotourism in Peru, production of natural products in Bolivia, Ecuador and Peru, sustainable forestry in Mexico, and nontimber forest products in the Dominican Republic.

The \$10 million fund was created in 1998 with an agreement between the MIF and The Nature Conservancy.

The Nature Conservancy buys and manages environmen-

tally sensitive land with the help of partner organizations. The more than 4.5 million hectares of endangered habitats it has brought under protection constitute the largest private system of nature sanctuaries in the world.

Italy considers MIF support fund

IDB PRESIDENT ENRIQUE V. IGLESIAS and Giuliano Amato, Italy's treasury minister, signed a letter of intent on April 15 to establish a trust fund that will expand Italy's commitment to support the economic and social development of Latin American and Caribbean countries.

Under the agreement, Italy will consider establishing a trust fund, to be administered by the IDB, that will provide resources for preparing innovative projects managed by the Multilateral Investment Fund, an autonomous IDB fund that promotes private sector growth.

Information on Italian-IDB joint activities can be obtained by contacting Enrica Murmura at the IDB at (202) 623-2125, or e-mail: enricam@iadb.org.

APPOINTMENTS

Roman Mayorga has been appointed representative of the IDB's country office in Venezuela. Mayorga, was the principal social development specialist in the Education Advisory Unit of the Bank's Sustainable Development Department. He succeeds **José Agustín Riveros**, who is now senior advisor to the IDB's Regional Operations Department 3.

Eloy García, formerly chief of the Cashier's Division in the Finance Department, has been named senior deputy manager-treasurer of that department. **Fernando Rossel**, chief of the Loans and Technical Cooperation Operations Section, will head the Cashier's Division.

Ira J. Kaylin, who was chief of the Strategic Financial Planning, Policy and Risk Management Division in the Finance Department, has been named deputy manager of the Cashier's and Accounting Subdepartment.

Neville Olivier Beharie has been named chief, Country Division 6, in the IDB's Regional Operations Department 3. He was a regional economic advisor in the same department.



PROUD OWNERS: Jaquelin Sánchez and her daughters Melani (left) and Marikena often gather in the kitchen of their home in Ciudad Piedras Housing Project in suburban Montevideo, Uruguay. Sánchez and her husband moved into the house in 1996 when a low-income housing program partly financed by the IDB made it possible for them to get a subsidized mortgage.



Children from Nicaragua's Atlantic Coast can now go to college in their home region.

A college for real life

By PETER BATE

“WE LITERALLY STARTED IN THE streets,” says Myrna Cunningham, recalling the early days in 1995 of one of Latin America’s first indigenous universities. “Little by little, we’ve built our own buildings,” says Cunningham, the university’s president. “It’s been a lot of hard work, but we keep marching on.”

With an annual budget of merely \$2 million, the University of the Autonomous Regions of the Atlantic Coast of Nicaragua (URACCAN, after its initials in Spanish) is training potential leaders for one of the most disadvantaged regions in one of the most impoverished countries in Central America.

URACCAN now has four campuses and six extension centers, as well as a junior college for rural students who need remedial courses. Of the 4,000 students enrolled this year, about 60 percent pay no tuition; the rest pay the equivalent of \$30 a year. Nearly half of the university’s 250 teachers were born in the region, which is largely Creole in the south and Miskito Indian in the north. It has four research institutes, supports a network of radio stations, and publishes its own magazine. But most importantly, it has deep roots in its own communities.

The university’s study programs are dictated by the development needs of the region. Nicaragua’s constitution has recognized the Caribbean Coast as an autonomous region since 1987. Subsequent laws have delegated new responsibilities to local governments. But Cunningham says that the local people are not trained to carry out these responsibilities and therefore do not have the



WILLIE HEINZ—IDB

“We are offering our students what they need most.”

MYRNA CUNNINGHAM
President, URACCAN

skills and experience needed to exercise their autonomous rights.

Cunningham herself is a member of the fiercely independent Miskito indigenous group. The daughter of a banana company mechanic and a homemaker, she was raised in a community on the Coco River, which separates Nicaragua and Honduras. She

worked first as a teacher but later moved to the city of León to study medicine. After training as a surgeon in North Dakota, she returned to Nicaragua to practice. Her interest in public affairs dates from that time. “Surgery does not cure all ills,” she says. “There were serious problems related to prevention, so I became involved in public health issues.”

In 1981, the revolutionary government appointed Cunningham as a delegate for the regionalization of health services. In 1984, she became the regional government’s coordinator, and in 1990 she ran a successful campaign for a seat on the National Assembly, where she served until 1997. Along the way, Cunningham found time to marry and give birth to four children.

In 1991, Cunningham and other regional leaders resurrected a long-standing dream of establishing a local university. After securing national recognition for URACCAN’s charter, they established an association with representatives of the region’s indigenous and multiethnic communities. During the following years of preparation, the fledgling university forged strong ties with foreign donors, whose contributions represent about half of URACCAN’s budget.

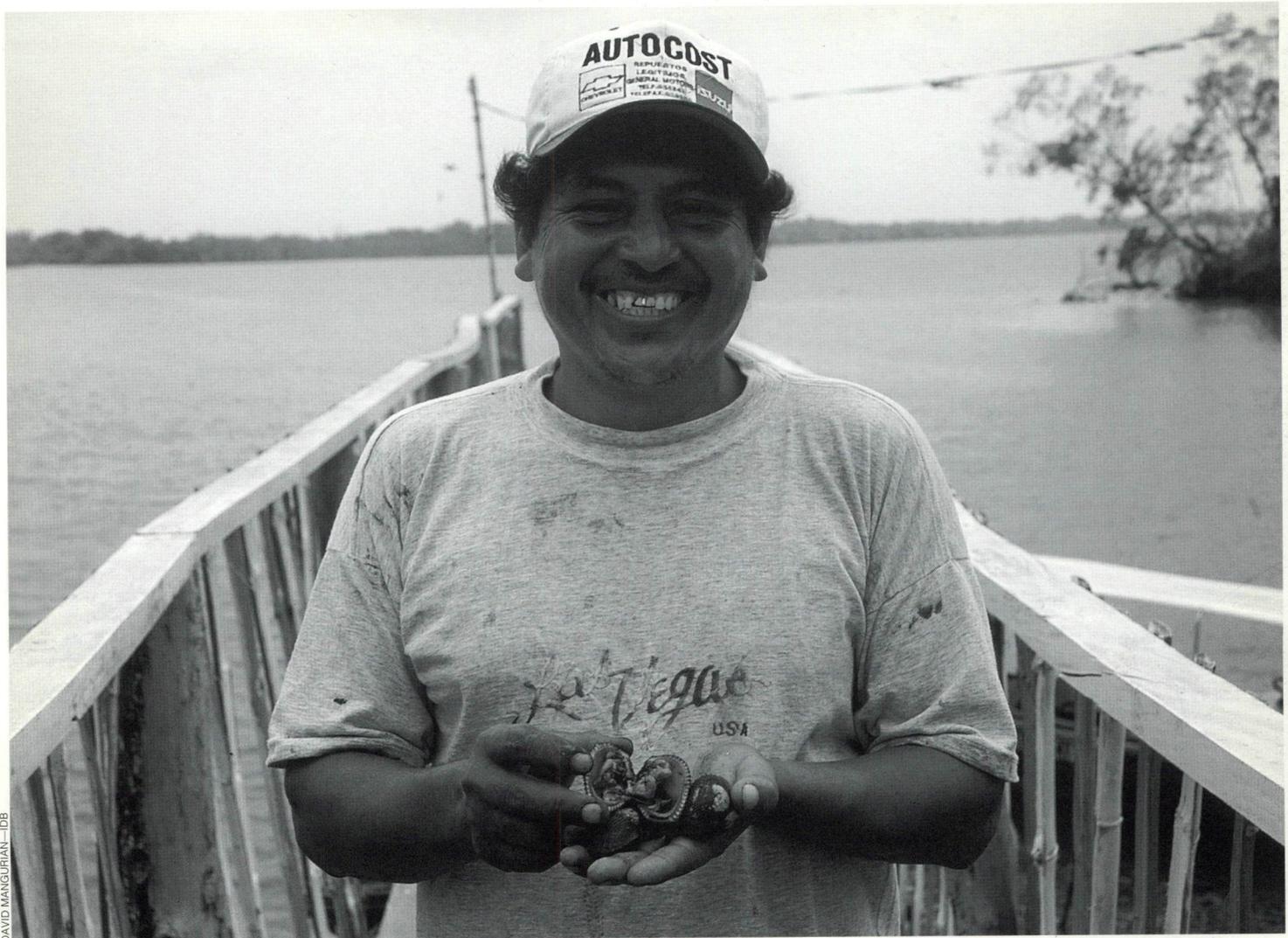
By 1995 the university had opened its doors. It offered practical courses to meet pressing local needs: natural resources management, forestry, fisheries, nursing, bilingual and multicultural education, public sector and regional autonomy administration and accounting. Its research departments focus on traditional medicine, community development, linguistic and cultural studies, natural resources and autonomy issues. URACCAN students are required to learn an indigenous language if they do not already speak one.

Cunningham underscores the particular advantage of her university’s graduates: they are steeped in the culture of the region and understand the needs of its peoples. “The companies and institutions that hire them are getting a doubly valuable resource. They used to bring in people who were not familiar with the region, who did not speak the languages and who frequently quit because they could not cope with local conditions,” she says.

What URACCAN does not offer are degrees in law, medicine, engineering, psychology, literature and philosophy. “Once in a while our students will say that we are educating them to remain in the region,” Cunningham says. “But we have conducted studies to determine what sort of resources our region needs to develop. We are offering our students what they need most.”



For more information on URACCAN, see http://www.kepa.org.ni/espanol/uraccan/index_uraccan.htm.



DAVID MANGURIAN—IDB

CARE FOR A TASTE? A shellfish harvester in El Oro, Ecuador, displays a sample from the day's take. An IDB-financed coastal resource management program is helping to reconcile conflicting commercial interests in the country's fragile mangrove swamps.

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