

■ **The 1990s: A full agenda for the Bank and the region**

THE IDB

Inter-American Development Bank • April 1990

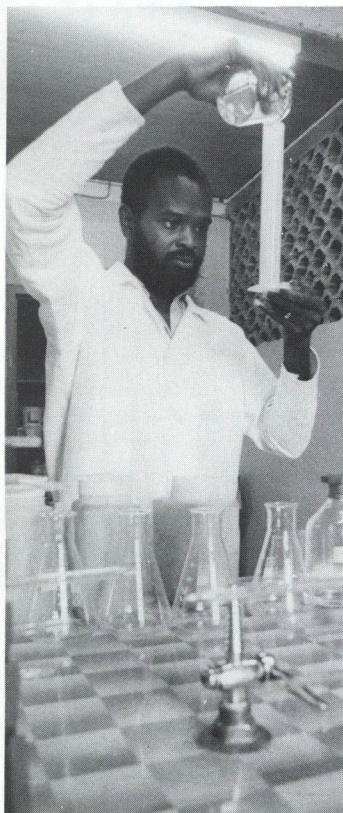


*Neighborhood
friends.
Page 3*

■ **Environmental protection: An opportunity, not a chore**

New assistance for private sector firms . . . Latin American environment commission meets in Washington. . . IDB and Investment Corporation operations signed in Montreal. . .

FOCUS



Environment for development **3**
Environmental issues offer more opportunities than problems.

ANNUAL MEETING

An IDB for the 1990s **4**
The president sets forth an agenda for the coming decade.



THE BANK



IDB governors back expanded Bank role **6**
As "revolutionary change" sweeps Latin America.

THE CORPORATION



New assistance for private firms **7**
Future plans for the Inter-American Investment Corporation.

GAZETTE

Environmental commission **8**
Strategy for Latin America under discussion.

Operations signed for IDB and Corporation **8**
Ceremonies take place during annual meeting.

COVER

Neighborhood friends

The children of Tegucigalpa's Manchén district gather around one of 80 fire hydrants installed in the Honduran capital as part of an IDB-financed water project.

The project, which consisted of replacing 25 kilometers of severely deteriorated main water pipes, is meeting the needs of a rapidly expanding population. The areas served by the new mains contain 46 percent of the city's total population. The cement-lined iron pipe was manufactured in Montreal, Canada. The hydrants were made in Albertville, Alabama. The project also included a study on meeting the city's future water needs.

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The Bank at a glance

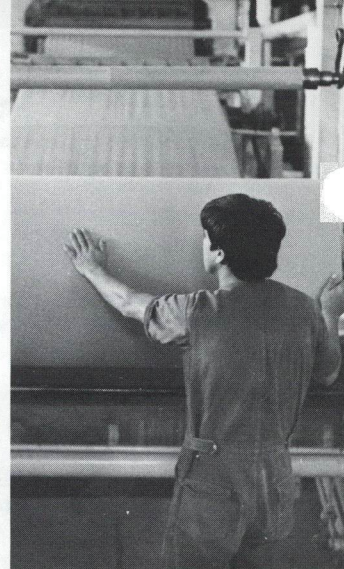
The Inter-American Development Bank is an international financial institution established in 1959 to help accelerate economic and social development in Latin America and the Caribbean. Its headquarters are in Washington, D.C.

The Bank's membership consists of 27 countries in the Western Hemisphere, and 17 from outside the region.

In its 30 years of operations, the Bank has helped to provide, secure and organize financing for projects that represent a total investment of more than \$122 billion. The Bank has also fostered a more equitable distribution of the benefits of development, and has been a pioneer in the financing of social projects.

The Bank's highest authority is its Board of Governors, on which each member country is represented. The IDB's 12-member Board of Executive Directors is responsible for the conduct of the Bank's operations.

The IDB's field offices represent the Bank in dealing with local authorities and borrowers and supervise the implementation of Bank-supported projects.



Environment for development

Environmental protection is not an onerous chore, but rather an indispensable key to maintaining ecosystem productivity and improving the quality of human life.

"Environmental issues in Latin America and the Caribbean offer more opportunities than problems," states Marc Dourojeanni, chief of the Bank's new Division of Environmental Protection. His division is setting out to prove this proposition with a number of new initiatives that will result both in a more comprehensive assessment and mitigation of the IDB portfolio's impact on the environment as well as more IDB projects specially aimed at environmental improvement.

An environmental action plan, now under discussion, will serve as the outline for the Bank's new chapter in this field. The plan's objective is to promote the use of natural resources while preserving options of future generations and to improve living standards, particularly of the poor. It is expected to address the following:

- ▶ Urban environmental problems, especially air and water pollution, but also overcrowding and lack of essential services.
- ▶ Development and protection of tropical woodlands through appropriate farming, agro-forestry, forestry and fishery practices; protection and utilization of genetic resources and promotion of eco-tourism.
- ▶ Soil and water management and conservation in mountainous areas.
- ▶ Control of desertification processes.
- ▶ Development, management and conservation of renewable natural resources on islands and coastal ar-

eas, particularly in the Caribbean.

- ▶ Management of critical watersheds and decontamination of rivers.
- ▶ Incentives for energy conservation and investigation of alternative energy sources.

Action plan will aim at preserving future options and raising standards of living.



These priority issues call for technical and financial solutions, but also people solutions. The countries need strong public and private institutions dedicated to environmental protection and natural resource management, and the IDB will help to train the needed personnel. The Bank will work with local non-governmental groups—including grassroots organizations—and municipal governments. It will help to strengthen universities and technical institutions. Throughout, the Bank will take special care to safe-

guard the natural and cultural heritage of indigenous peoples and to protect the rights of settlers who must be relocated due to the construction of infrastructure.

New classification method. In February the Bank adopted a new procedure for classifying and evaluating the environmental impact of all of its operations. While the former system included only those projects that might significantly affect the environment, the new system embraces the Bank's entire portfolio according to the following classification: Category I, operations specially designed

to improve environmental quality; Category II, operations with no direct or indirect environmental effects; Category III, operations with a moderate, clearly defined impact on the environment; Category IV, operations with a substantial impact.

Environmental impact assessments, which are required for the latter two categories, are prepared by the countries in consultation with the Bank, as part of a project's prefeasibility or feasibility studies.

The Bank's Environmental Management Committee reviews and approves the classification of a proposed project as well as the measures recom-

mended to address points raised in the environmental impact assessment.

For the future, the Bank plans to significantly increase the number of its Category I projects, making a special effort to transform ideas into concrete proposals and to secure the necessary financing.

The IDB, with its recently expanded financial base and its new Environmental Division, is committed to tightening the link between development and the environment.

—the editor

MONTREAL

An IDB for the 1990s

A crucial period for Latin America

The 1990s will be critical years for Latin America and the Caribbean, a time of wrenching economic change that will test the abilities of the region's new democratic governments to create modern and just societies.

The IDB today finds itself in a strong position to help the region in its drive toward modernization and social justice, IDB President Enrique V. Iglesias told delegates to the annual meeting of the Bank's Board of Governors in Montreal, Canada, on April 2.

The Bank's immediate priority is to quickly and efficiently allocate the \$22.5 billion in lending provided by the seventh increase in its resources, Mr. Iglesias stated. The Bank is increasing its dialogue and consultation with national authorities and is helping countries to prepare projects more rapidly. Plans are being made to delegate greater responsibilities in this regard to the field offices.

A second major aim will be to direct special attention to priority areas, especially to make up for unmet social needs. An enormous "social debt" has accumulated during the years of economic crisis, said the IDB president. The Bank will help reduce this debt by lending for urban and agricultural development, large-scale credit programs for microentrepreneurs and increased participation of women in the development process.

Mr. Iglesias called promoting in-

vestment a "fundamental task," particularly in light of the investment decline during the past decade. He also urged more support for the private sector in view of the growing responsibilities assigned to it in the Latin American countries. The recent initiation of the Inter-American



IDB President Iglesias and Canadian Secretary of State for External Affairs Joe Clark.

Investment Corporation's activities was "an auspicious event," said Mr. Iglesias, "which complements the Bank's own objectives."

The Bank will increase its efforts in helping the countries to develop their export capacities. The countries, he said, "cannot afford the luxury of... living isolated from the international economy." The region

must adapt quickly to changing circumstances and new opportunities. "We have to be in the forefront of technological change, not bringing up the rear," he said.

Finally, Mr. Iglesias declared that the development of human resources, particularly to support scientific and technological progress, will receive the IDB's highest priority.

Once again the president stressed the Bank's commitment to natural resource conservation and environmental protection.

"Rational use of the vast and rich natural resource endowment... and concern for the environmental effects of population growth and urban concentrations... must be central issues in the Bank's dialogue with and cooperation for our countries," he said.

Reforming the state.

Another focus of IDB support in the 1990s will be Latin America's process of economic and social reforms. The Bank will support moves to modernize the State, particularly by helping to transform State enterprises from permanent sources of public deficits into net contributors of funds for development. The Bank's support will include technical assistance, funding for investment projects and sector loans.

The president acknowledged that although the external debt problem is not a direct IDB responsibility, the institution can make a contribution by helping to turn net resource flows back into the region. The Bank's fast-disbursing sector loans, for example, will support reforms leading to debt reduction and restructuring. In addition, Mr. Iglesias proposed that the

Bank help the Latin American countries find ways to reduce debt owed among themselves.

Other IDB contributions to Latin America's reform effort will be to increase cofinancing with international commercial banks and support regional integration and cooperation.

These are the kinds of cooperative relationships the Bank will seek to establish with its member countries, concluded Mr. Iglesias. Doing so will expand the "traditional Bank," he said, and pave the way for a truly "innovative Bank."

Lessons from the '80s. In the same address, the IDB president presented his view of Latin America as a region which has lost a great deal, but which has also achieved some noteworthy successes.

The restoration of democracy in the vast majority of Latin American countries was a "net gain of tremendous importance," he said. Other gains have been fiscal reforms, macroeconomic adjustment programs, measures to reform the

State, and the development of an "export culture."

The 1980s also have taught Latin America some valuable lessons.

First, the countries learned that periodic economic adjustments are essential for increasing efficiency and competitiveness, and for resolving the debt problem. "There can be no solution to the problem of indebtedness without profound internal adjustments," said the IDB president.

The region has also learned that sustained, efficient development can be achieved by deregulating markets and allowing them to work.

Another lesson is that Latin America needs a profound reform of the State. "There must be a State," said Mr. Iglesias, "but it has to be efficient." The State should focus on improving market mechanisms and establishing clear, equitable rules.

New pragmatism. The bitter but instructive experiences of the past have prepared Latin America for the next decade, said Mr. Iglesias.

"I sincerely believe that a new re-

The bitter experiences of the 1980's have prepared Latin America for the next decade.

alism has taken root in Latin America," said Mr. Iglesias. "Virtually the entire region is in the midst of a process of profound and painful changes, which are being introduced by dynamic and reinvigorated political leadership, with a large measure of pragmatism and political courage." The critical factor in all of the adjustment processes, he continued, is to secure credibility in public action.

"That credibility, based on consistency of policy and perseverance in implementation, is essential for encouraging public and private domestic savings and preventing capital flight, while promoting the return of capital and encouraging private investment to flow in from abroad."

Throughout Latin America, he said, enlightened public opinion has concluded that macroeconomic balances are fundamental, that realistic policies on prices, interest rates and exchange rates are essential for stabilization and development, and that Latin America is irrevocably committed to being a full-fledged participant in an increasingly competitive international market.

After two years of change: a summing up

In March 1988, in his first address before the IDB's Board of Governors, Bank President Enrique V. Iglesias called for a "bigger, more dynamic, and more efficient" Bank. At last April's Montreal meeting he enumerated the measures that have been carried out as follows:

A bigger bank. . .

► The approval of a \$26.5 billion increase in the IDB's resources.

► New trust funds established at the Bank by Japan and Spain.

► A 57 percent increase in loan approvals in 1989

over the previous year, along with the highest level of disbursements in the Bank's history.

► Parallel financing operations in 1989 with the Export-Import Bank of Japan, the Organization for Economic Cooperation and Development and other official agencies.

. . . more dynamic. . .

► Authorization to initiate sector lending to support countries' economic, social and institutional reforms.

► A substantial increase in the portion of an investment project that can

be financed by the Bank.

► Modifying regulations for the Bank's concessional Fund for Special Operations and Intermediate Financing Facility to allow use of this fund for economic as well as social projects.

► Renewed momentum of the country programming process by which national authorities and the Bank identify investment and technical cooperation programs.

► Approval of a new method for determining lending rates to permit a more equitable distribution of these charges.

. . . more efficient

► Implementation of a reorganization plan to carry out new functions, improve operating policies and increase the Bank's responsiveness.

► The reduction of Bank staff by 17 percent through a voluntary retirement program.

► Restaffing nearly all top management posts.

► New policies carried out to decentralize Bank operations, and the completion of a study on the role of the Bank's field offices.

► Progress in streamlining internal administration and personnel policies.



Brazilian Economy Minister Zélia Cardoso de Mello and Canadian Prime Minister Brian Mulroney at the annual meeting in Montreal.

ANNUAL MEETING

IDB governors back expanded Bank role

As 'revolutionary change' sweeps Latin America

The profound changes occurring in Latin America and the IDB's role in promoting the region's economic recovery were the central themes of the 31st Annual Meeting of the Bank's Board of Governors in Montreal, Canada, April 2-4.

The meeting was attended by some 2,500 persons, including official delegations, representatives of private banks and firms, international organizations and the media.

The Bank's governors elected Canada's Secretary of State for External Affairs Joe Clark as the Board chairman. Canadian Prime Minister Brian Mulroney addressed the meeting's inaugural session.

The IDB meeting took place concurrently with the 5th annual meeting of the Inter-American Investment Corporation, the IDB's merchant banking affiliate.

The "revolutionary change" taking place in Latin America and the Caribbean rivals the events of Central Europe, declared IDB President Enrique V. Iglesias in his summation of statements made by the governors on the meeting's final day. Many governors of the Bank's nonborrow-

ing countries affirmed that relations with the countries of Eastern Europe will not jeopardize their ties to Latin America and the rest of the developing world. World Bank President Barber Conable made a similar pledge in his address.

In supporting this process of modernization, the IDB must not put quantity of lending ahead of quality, continued Mr. Iglesias, again summarizing statements made by the governors. The quality of Bank projects will be ensured by the institution's specialized programming and planning mechanisms, which were strengthened in the recent IDB reorganization.

Among the other views of the governors, summarized by Mr. Iglesias, were the following:

► The Bank was urged to become more involved in resolving the region's debt problem, and should study the possibilities of directly supporting the process of debt renegotiation. Mr. Iglesias called this proposal of "great importance," and said the Bank will conduct a study on increasing its role.

► The governors also emphasized

the Bank's responsibility for helping to reduce the countries' "social debt." The president noted that reducing poverty is the Bank's "great mandate," and that it has a formal obligation to direct 50 percent of its operations to low-income people.

► On the subject of cofinancing, the president noted the governors' interest in developing closer ties between the private banks and the IDB. Mr. Iglesias stressed that the aim of cofinancing must be to provide additional resources, and not to substitute existing resources.

► Many governors voiced their support of the Bank's work in the field of environmental protection, and urged still greater efforts. The president indicated his interest in a proposal that the Bank provide support for debt-for-nature swaps.

► Several governors called attention to the absence of the Bank in the population field. Conceding that the subject is a difficult one, the president said the Bank will study the range of its possible actions.

Open economies urged. In his address before the inaugural session, Canadian Prime Minister Mulroney called on nations to create an open economic system. Canada's "unequivocal" commitment, he said, is toward "a world where technologies can move freely, where goods and services are exchanged without impediment, where investments flow where they can most productively be used." He urged a successful conclusion to the Uruguay Round of trade negotiations as a "vital line of defense against the formation of exclusionary blocs."

Mr. Mulroney welcomed the possibility that Mexico may conclude new trading arrangements with its neighbors, and encouraged other Latin American countries to follow suit. "They, like Mexico and our other trading partners, can count Canada as a steadfast friend in their quest for economic growth and stability," he said.

Prime Minister Mulroney also

noted the priority his government places on environmental protection. "No economy can enjoy long-term prosperity without a healthy environment," he said, "and no country will ever have the resources required to wage an effective war against pollution without a strong environment."

Closer NGO ties. In his speech, Canadian Secretary of State Clark also emphasized the need for environmental protection, urging the Bank's governors to give "strong support" to President Iglesias' efforts in this regard. He called for closer ties with nongovernmental environmental groups: "they are here, not as adversaries, but as partners, seeking approaches which will honor the commitment to both parts of the phrase 'sustainable development'," he said.

Mr. Clark also noted the continuing high rate of population growth which "must be addressed quickly and in a collective rather than in a national spirit. . . . Overpopulation and underdevelopment constitute a vicious circle whose management will be key to the success of this hemisphere in moving toward prosperity and justice for all," he said.

He hailed the region's advances toward democracy and economic adjustment, but cautioned that these gains remain clouded by the debt burden.

Some countries have inherited "grossly inequitable" social and economic structures," Mr. Clark continued. These structures inhibit economic growth and investment, and pose a long-term challenge to the viability of the democratic processes.

Accompanying the meetings were four seminars which addressed the subjects of the environment, adjustment policies and economic reforms in Latin America, financing development in the region, and the private sector.

Next year's meetings of the governors of the IDB and the Corporation are scheduled to take place in Nagoya, Japan, April 7-9.

ANNUAL MEETING

New boost for private firms

Future plans for Investment Corporation

The Inter-American Investment Corporation is moving ahead with plans to provide advisory services in matters relating to financial engineering. Corporation General Manager Gunther Muller told the institution's Board of Governors at its fifth meeting in Montreal, Canada, on April 3.

The Corporation has been holding preliminary talks with businesses and governments on subjects such as debt restructuring, privatization and debt conversion or debt-for-equity swaps, especially intra-Latin American debt, Mr. Muller said.

The Corporation is also initiating consultations to create a donor-assisted fund to defray certain costs incurred with the presentation of bankable transactions submitted by small-scale enterprises, continued the general manager.

The Corporation is the merchant banking affiliate of the IDB. Its Board of Governors met concurrently with that of the IDB.

Ten new projects. Reviewing the Corporation's accomplishments, Mr. Muller estimated that 10 new projects

will be submitted for approval by the Executive Committee in the first half of this year. The Corporation could approve 20 projects by the end of the year, he said.

The Corporation is also beginning negotiations on coinvestment and cofinancing for its projects, although Mr. Muller noted that his agency has encountered difficulties in this regard. International banks are reluctant to invest in the region, partly because their countries' regulatory authorities impose severe requirements on the establishment of reserves. The amounts of these reserves are so great, said Mr. Muller, that the attractiveness of the investment to the financial institution is diminished.

Mr. Muller noted that most of the Corporation's member countries have not included the obligations of multilateral lending institutions in their debt moratoriums or refinancing arrangements. Therefore, the reserve requirements in joint operations with multilateral organizations should be substantially less, he said.



In Montreal: Contracts for a loan and equity investment to expand fruit production in Uruguay are signed by Martín Apariquian, director of MIGRANJA, S.A., IDB President Iglesias and Corporation General Manager Muller.



Discussing the draft document are (l. to r.) Marc Dourojeanni, chief of the Bank's Environment Protection Division, Mr. Lizárraga, Mr. de la Madrid, and Mr. Iglesias.

ENVIRONMENTAL COMMISSION MEETS IN WASHINGTON

A group of noted political and scientific leaders from the region met at Bank headquarters on March 19 for the second working group of the Latin American and Caribbean Commission on Development and Environment.

The commission members discussed a document setting forth the continent's principal environmental problems and a strategy for their resolution.

The document, which is scheduled for completion in September, will be disseminated throughout Latin America for discussion by governments, private organizations and the public. The commission is carrying out its mission within the framework of the resolutions of the World Commission on the Environment and Development, known as the Brundtland Commission.

The Latin America commission was formed last October at the initiative of IDB president Enrique V. Iglesias and the Director of the Regional Office of the United Nations Development Programme, Augusto Ramírez Ocampo.

Attending the second meeting were the former presidents of Colombia, Mexico and Ecuador, Misael Pas-trana, Miguel de la Madrid and Oswaldo Hurtado, respectively; Brundtland Commission members Paulo Nogueira Neto and Margarita Marino de Botero; CEPAL Executive Secretary Gert Rosenthal; United Nations Environmental Program Regional Director José Lizárraga, Costa Rican Environment Minister Alvaro Umaña, former Venezuelan Environmental Minister Arnaldo Gabaldón, and the president of the Bariloche Foundation (Argentina), Carlos Enrique Suárez.

The commission members also held a special session to exchange views with members of the United States Congress, representatives of nongovernmental organizations and U.S. government officials.

OPERATIONS SIGNED IN MONTREAL

The recent annual meetings of the IDB and the Inter-American Investment Corporation in Montreal, Canada, provided the occasion to sign a number of contracts for Bank and Corporation operations. The IDB operations were as follows:

Barbados. . . \$4.8 million loan for a student loan program.

Bolivia. . . \$51.2 million loan for a global agricultural credit program and \$18 million loan to improve the efficiency of the mining sector.

Costa Rica. . . \$45.5 million loan for an agricultural credit program and a \$552,000 financing for a feasibility study for a road rehabilitation and maintenance program.

El Salvador. . . \$1,540,000 grant to im-

prove the taxation system.
Guyana. . . \$27 million loan for an agricultural rehabilitation program.

Haiti. . . \$44.5 million loan for a road improvement project.

Paraguay. . . \$18.8 million loan for highway rehabilitation and paving.

Uruguay. . . \$1,722,000 grant to improve the country's tax system.

Regional. . . \$250 million loan for the construction of the Yacyretá hydroelectric project between Argentina and Paraguay.

Operations signed for the Investment Corporation were as follows:

Dominican Republic. . . \$3 million loan to expand factory and office facilities of the firm Zona Franca San Isidro S.A.

Uruguay. . . \$2,350,000 loan and a \$1 million equity investment to finance fruit production.



Bilateral accord. Pedro Aspe and Benjamín Villanueva Tabora, finance ministers of Mexico and Honduras, sign agreements to expand economic and commercial cooperation and exchange Honduras' debt to Mexico for equity in Honduran state enterprises. The ceremony took place during the Bank's annual meeting in Montreal.