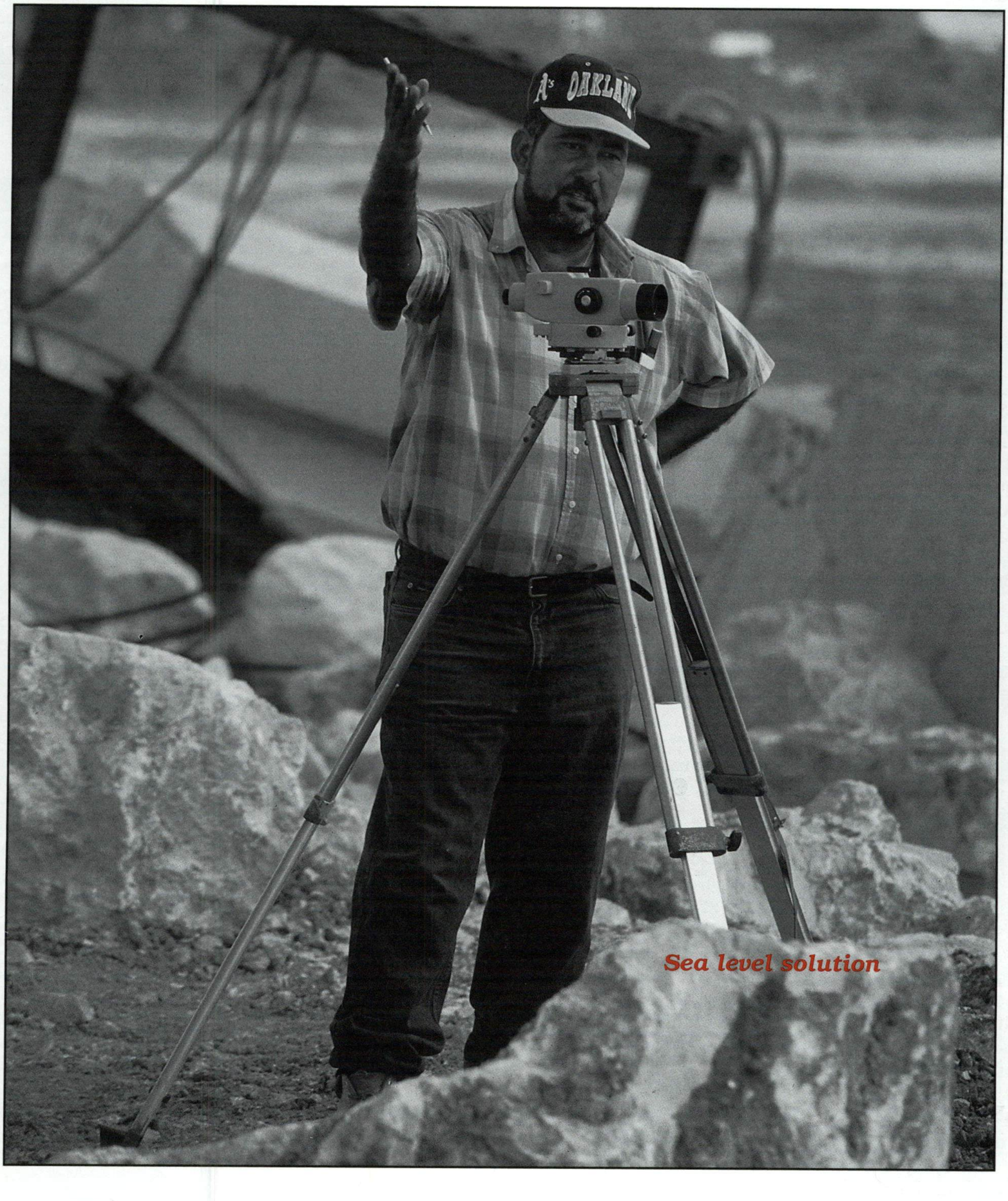
THE IDB

Borderless banking

Inter-American Development Bank • November 1996



Sea level solution

Clean government ▪ Borrowers exercise currency choice
A hemispheric trade boom ▪ Ask a community expert

THIS MONTH

COVER PHOTO

Sea level solution

A surveyor signals to other workers at the Puerto Haina, the Dominican Republic's largest port. An $18 million IDB loan is being used to deepen the port's channels and rebuild its breakwaters, to help protect against hurricanes. *(IDB photo by Willie Heinz).*

Volume 23 **Number 11**

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The Bank at a glance

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

The Bank has 28 member countries in the Western Hemisphere and 18 outside of the region.

In its 35 years of operations, the IDB has helped to provide, secure and organize financing for projects that represent a total investment of more than $194 billion. The Bank has also fostered a more equitable distribution of the benefits of development and has been a pioneer in financing social projects.

The Bank's highest authority is its Board of Governors, on which each member country is represented. The IDB's 14-member Board of Executive Directors is responsible for the conduct of the Bank's operations.

The IDB's country offices in Latin America and the Caribbean represent the Bank in dealing with local authorities and supervise the implementation of Bank-supported projects.

Governance: the region's next challenge

Even as the nations of Latin America and the Caribbean enjoy unprecedented consensus in their strategies for development, they face a growing concern over an old problem: the quality of governance and public administration.

Market-driven economic reforms and democratic systems have been embraced throughout the region, leading to robust economic growth. But these accomplishments rest on a precarious foundation of weak judicial institutions, outdated legal frameworks, corruption and inefficiency in public administration.

Leaders in government and civil society are now warning that these problems of governability threaten further growth and hinder the equitable distribution of the benefits of economic reform. At its worst, poor governance can undermine public confidence to the point of provoking a backlash against reform policies.

Not surprisingly, public and private sector participants in a conference last month in Montevideo, Uruguay, were nearly unanimous in declaring governability and state reform the next great challenge for the region. The meeting, "State, Government and Markets," which was organized by the IDB and the UNDP, was a first attempt to lay the groundwork for a uniquely Latin American approach to governance. Later in October, a World Bank/IDB meeting in Madrid addressed the same issue and reached a similar conclusion. November's Ibero American Summit in Santiago, Chile, also focused on the topic.

Though individual countries approach the issue of good governance with different priorities in mind, they agree on several central points.

One is that efficient market economies cannot take root without robust and effective legal systems that protect the rights of investors and consumers. Given a choice, people will tend to invest in countries with the greatest stability, strongest legal protections and a solid rule of law.

Another is that stability and the rule of law, along with honest management of public funds and institutions, are requirements for sustained domestic savings, investment and technological innovation.

Still another point is that, in order to ensure that economic growth resulting from market reforms is sustainable and equitable, all socioeconomic groups must share in the opportunities and benefits. This is achieved when civil society collaborates with government so that traditionally marginalized groups increase their participation in the changing political and economic realities. The result is more social stability, which in turn makes possible further political and economic advancements.

WILLIE HEINZ—IDB

Clean government and the rule of law are essential to securing public support for economic reform.

Seen in this light, efforts to reform governance are not a luxury, but instead an investment in human and social capital that can yield concrete returns.

Good governance begins with strong institutions, and near-term efforts should focus on reforming and modernizing inefficient public sector bureaucracies. Governments must create an atmosphere of confidence, security and predictability by adopting legal frameworks that ensure honesty and transparency in the handling of public funds.

In short, the region needs a political model that is consistent with its economic one. Open, well-managed markets must be complemented by robust, efficient judiciaries and legislatures supporting sound and responsive democratic institutions.

International cooperation and development assistance is gradually being redirected to reflect these concerns. The IDB's Eighth Capital Replenishment placed government reform, institutional strengthening and civil society at the center of its development strategy. The Organization of American States, the World Bank and other international institutions are also promoting good governance and pledging to combat corruption.

Free markets don't necessarily guarantee competition or produce social equity. To preserve the legitimacy of liberal economic policies and democratic politics, governments must engage in partnerships with civil society to build institutions that encourage genuine competition, protect and promote equity, and inspire confidence with the rule of law.

—Fernando Carrillo
Advisor, IDB State and Civil Society Unit

FINANCE

A warmer welcome for international banks

Foreign players could benefit Latin America

by Samuel Silva

Money is scarce and expensive in Latin America. Local companies and households frequently lack access to long-term credit, and national equity markets are unable to satisfy the region's growing need for domestic capital investment.

Although foreign direct investment in the region has increased in recent years, it does not solve the problem. Latin America's integration with global financial markets remains limited, hindering consumers' ability to shop for financial services from the industrial world.

The relative isolation of the region's financial systems has serious implications, according to a paper by IDB Chief Economist Ricardo Hausmann and Lead Economist Michael Gavin presented at a recent IDB conference on sound financial systems (see box). "Just as shallow ports are more sensitive to tides, the shallowness of Latin America's integration in world financial markets may make the region particularly vulnerable to fluctuations in international capital flows," the authors say in their paper, "Make or Buy: Approaches to Financial Market Integration."

To help solve the problem, Hausmann and Gavin suggest that Latin American nations reduce barriers to trade in financial services, letting banks from countries with strong supervisory and regulatory structures offer financial products on terms comparable to what is available to consumers in the United States, Europe and Japan.

Today, numerous multinational banks have subsidiaries in Latin America, but foreign participation in domestic financial systems remains circumscribed. That is because subsidiaries are essentially local banks subject to local regulations and conditions. Full branches, on the other hand, offer access to the products of the parent bank, plus a guarantee of financial backing from the parent if local conditions should sour.

Credit without borders. Letting foreign banks operate full branches in the region has several advantages, according to the authors. Full branches let Latin American consumers purchase financial products derived from the savings and investments of industrialized nations—an essential component of "deep" financial integration.

More specifically, international banks strengthen domestic financial systems by bringing in expertise that may not exist yet in the local market. They also tend to sharpen local competition for financial products, giving consumers more choices and improving service.

International banks let the local banking system benefit from a parent institution's capital and liquidity, resources that can be relied on to pull through hard times. Since a substantial portion of their assets are invested in regions

Chief Economist Ricardo Hausmann

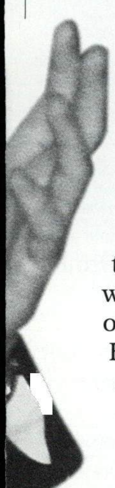
unaffected by local volatility, international banks have a stabilizing effect on the local economy.

Moreover, by allowing full foreign branches, a host country can indirectly import supervisory services, because primary oversight responsibility for these branches remains with the parent's regulatory authorities. This can ease the regulatory burden of local authorities and complement their efforts.

Hausmann and Gavin cite several regional countries that have opted for deeper financial integration.

After it "dollarized" its economy, Panama lacked the financial resources to back up the banking system as a lender of last resort. Panamanian banks were consequently encouraged to form strong ties with foreign banks to increase their financial strength. Today, domestic bank lending to Panama's private sector exceeds 80 percent of GDP, a rate that is impressive even by industrialized nation standards.

In Uruguay, the bank crisis of the early 1980s prompted authorities to open the door to foreign banks. Uruguay's financial market has since been enriched with subsidiaries of international banks that have made the total system stronger, according to the authors.



Imported supervision. On the controversial question of who should oversee the activity of international branch offices, Hausmann and Gavin propose a bold departure from current practice.

Today, nearly all foreign banks in Latin America are supervised by local authorities in accordance with national laws. The authors believe international bank branches should instead be supervised by their home or parent country authorities based on the principle of consolidated home country supervision used by major industrial countries. Such an approach would "relieve domestic authorities of responsibility for detailed oversight of the branches' activities," Hausmann and Gavin say.

An example of the benefits of this arrangement is provided by New Zealand, where all private banks are international and supervised by the regulatory authorities of the parent institutions. As a result, authorities in New Zealand can concentrate less on inspection and control while increasing efforts in public disclosure and market discipline.

Obviously, host countries need to have information-sharing agreements with each international bank's home country, and they must retain the right to carry out their own local supervision. The authors also favor the creation of a regional structure to support Latin American bank regulations and, once the local regulatory capacity is improved, the expansion of local banks in neighboring markets.

Need more stability. Hausmann and Gavin warn that opening local financial markets to competition by foreign banks will require macroeconomic stability and broad improvements to national agencies charged with regulating the financial sector and adjudicating contracts.

The authors also acknowledge that most Latin American countries are putting a higher priority on trade liberalization and infrastructure integration than on financial integration. Some countries even favor postponing financial integration, fearing it could lead to short-term instability. But the authors point to several countries, including Ireland, Puerto Rico and Canada, where "deep" financial integration preceded and stimulated industrial development. Hausmann and Gavin believe these examples demonstrate that "greater financial market integration should not be thought of as a long-term objective, to be achieved after industrialization has occurred, but rather as an instrument for accelerating it."

DAVID MANGURIAN—IDB

Keynote speaker Lawrence Summers, deputy secretary of the U.S. Treasury.

How to make safer banks

"Safe and Sound Financial Systems: What Works for Latin America?," a conference held in September at the IDB's Washington, D.C., headquarters, gathered an impressive cross-section of banking regulation experts and practitioners from around the world.

Keynote speaker Lawrence Summers, deputy secretary of the U.S. Treasury, urged countries in the region to establish strong supervisory regimes, independent bank examination processes, a framework to deal with problem banks or systemic threats, and a strong credit infrastructure.

Banks in Latin America need closer supervision than those in industrial countries, said International Monetary Fund Managing Director Michel Camdessus, because they must operate in more volatile and vulnerable economies.

Many Latin American countries took steps to strengthen their banking systems after the Mexican peso crisis of early 1995, but much more must be done, he warned.

Liliana Rojas-Suárez, principal advisor in the Office of the Chief Economist at the IDB, observed that in the recent banking crises of Venezuela, Mexico and Argentina, troubled banks gave clear signs of their problems by offering above-market interest rates to lure investors. She said governments should pay greater attention to these early warning signals, while assisting banks in building institutional strength to prevent future crises.

REPORT

Ask a grassroots expert

Projects need more local input

■ Although preliminary consultations with communities affected by development projects can be difficult and expensive, they are also crucial to a project's success, according to Anne Deruyttere, an IDB anthropologist, and Norman Schwartz, an anthropology professor at the University of Delaware.

Consultations between development banks, governments and local residents take time and add to a project's overall cost. But by uncovering controversial issues early on, they can also prevent future conflicts that tend to be far more expensive to resolve, Deruyttere and Schwartz argue in a recent paper.

Moreover, effective consultations can turn local residents into genuine stakeholders in a project, increasing their commitment to its success. Residents are often the ultimate "experts" in local affairs, and a project design team can draw upon their knowledge to correct flawed assumptions about the target community's needs.

The two anthropologists provide several guideposts to effective consultations. First, there must be a prior understanding of who the stakeholders are and what sociocultural factors may affect their participation. In addition, consultations must take place while projects are still being defined and continue through implementation. A variety of media, including visual aids such as maps, photos and scale models, should be used to ensure that local residents truly comprehend the implications of a project. Workshops, focus group sessions, and even dramatizations could be used to stimulate input from local residents.

Deruyttere and Schwartz suggest that consultations be institutionalized, on both the project and policy levels, by setting up permanent exchanges between multilateral banks, NGOs and state and local organizations in borrowing countries.

☎ *To order a copy of "Community Consultations. Sustainable Development and the Inter-American Development Bank: A Concept Paper," contact María Eugenia Kyburz, tel. (202) 623-1852, fax x1463, or e-mail: mariak@iadb.org*

SEMINAR

Jump-starting capital markets

A dormant source of capital?

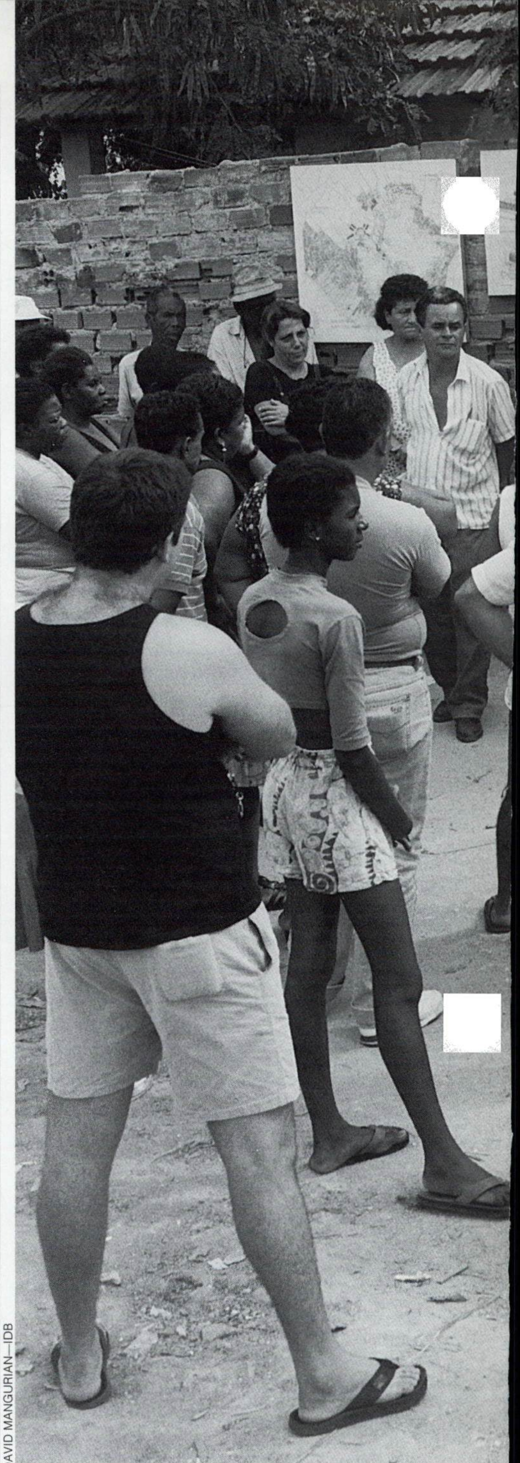
■ As Chile demonstrated in the early 1980s, money accumulated by pension funds can be used to jump-start a local capital market. Papers presented at a recent IDB seminar examined how another source of savings—insurance company reserves—can be used for the same purpose.

Papers examined the issue from the Chilean, Argentine, Brazilian and Uruguayan perspectives. In the case of Chile, the growing reserves of insurance firms, pension funds and other institutions fueled demand for new and more diverse investments. As a result, the country's fledgling capital market was encouraged to innovate and expand.

The free operation of market forces does not guarantee the efficiency of financial markets, according to the Chile study. Markets need rules and supervision to reduce distortions and improve the competence of participants. However, market regulations should not be so inflexible as to increase costs and discourage investment. When carried out well, financial market reform promotes savings, reduces risk and makes markets more flexible.

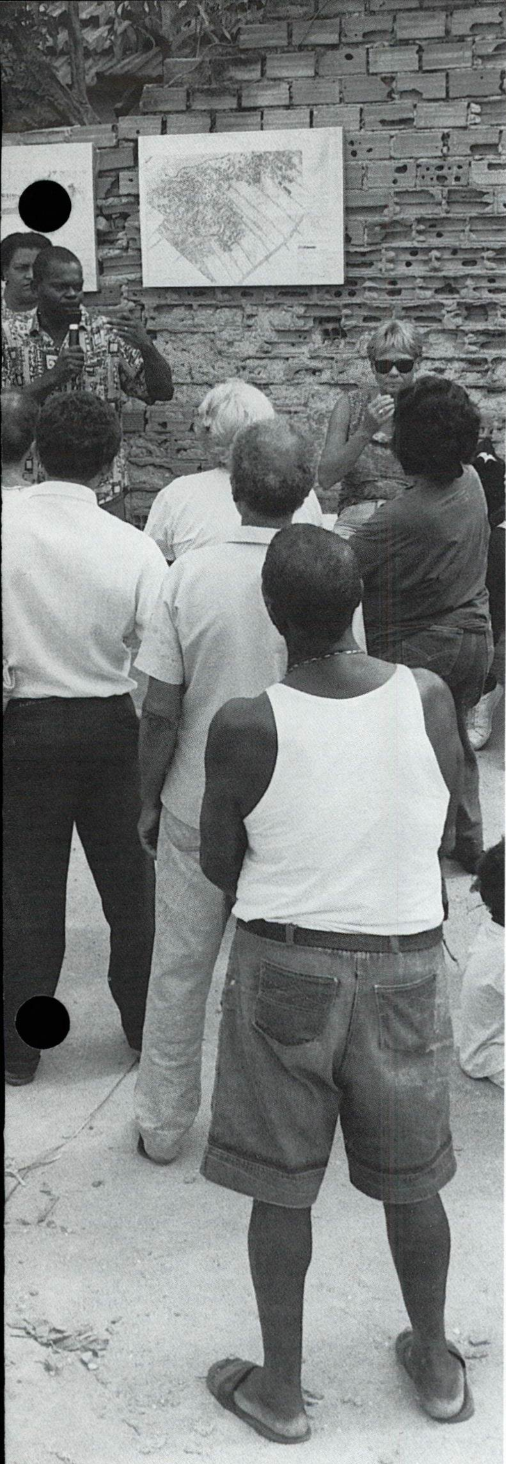
The case study on Paraguay notes that capital markets there have developed more slowly. Paraguayan laws encourage institutions to favor shorter, more liquid investments, and the variety of investment opportunities is limited. A widespread lack of faith in the qua ity of oversight of financial markets also inhibits investment.

Both studies suggest that institutions tend to choose conservative,



DAVID MANGURIAN—IDB

Residents of a favela in Rio de Janeiro l



bout a community improvement project.

money-market based investments early in the institutional lifecycle, while reserves are still limited. Later on, they are more apt to turn to the stock market. Also, the studies found that the demand for new investment options grows in economically stable settings.

For a copy of "The Role of the Insurance Market in the Development of Long-Term Capital Markets," call Raquel Gómez at tel. (202) 623-2355, fax x2481, e-mail: raquelg@iadb.org

INTEGRATION

Good neighbors, better trade

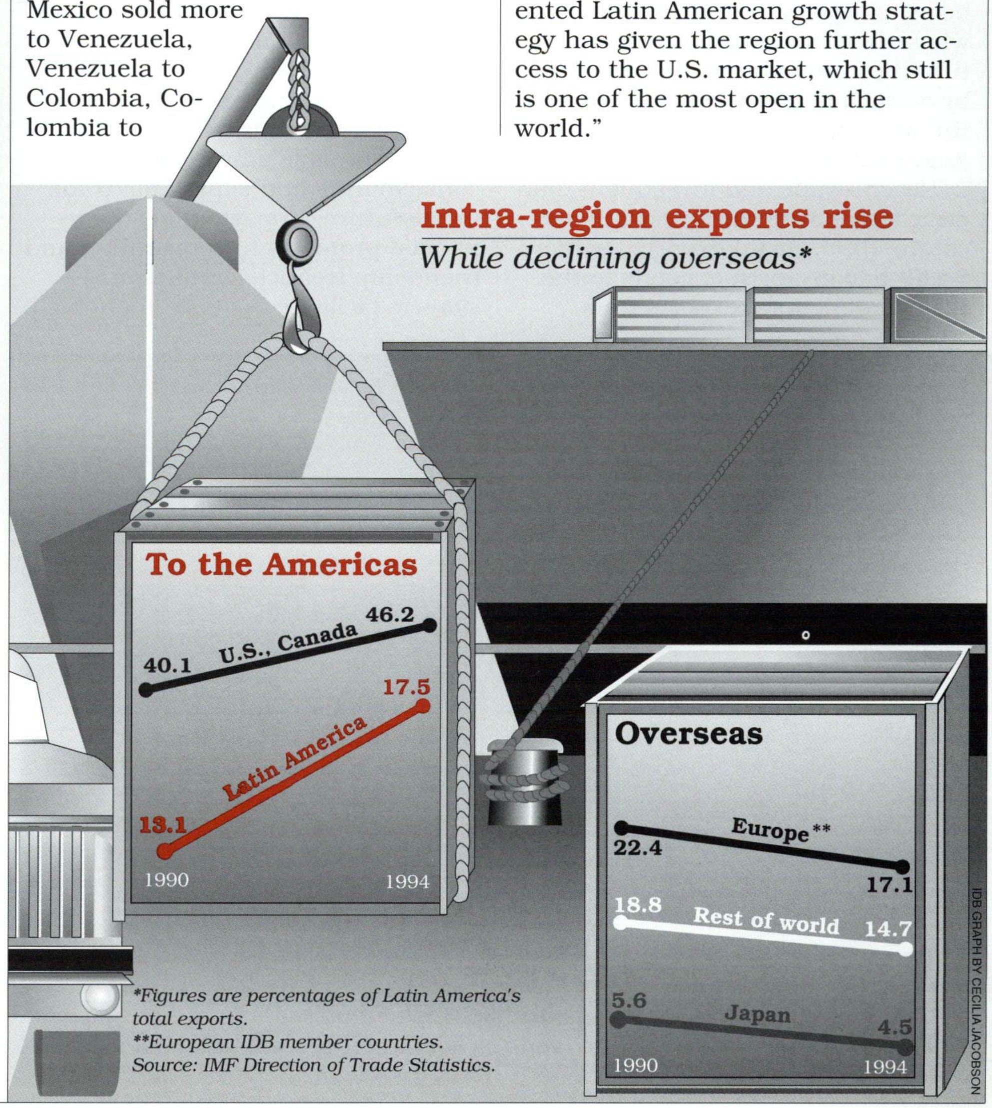
A boom in Latin American exports to the hemisphere

When Western Hemisphere heads of state agreed in December 1994 to create a Free Trade Agreement of the Americas before 2005, they were merely putting a schedule on a process of integration through increasing trade and investment that was well underway.

Between 1990 and 1994 Latin American nations opened their economies and expanded exports dramatically, and mostly to neighboring countries. Brazilian exports to Argentina soared, and vice versa. Mexico sold more to Venezuela, Venezuela to Colombia, Colombia to Chile, and Chile to Peru.

Latin American exports to the U.S. and Canada have also grown significantly. Meanwhile, exports to Europe and Japan dropped, despite growing European and Japanese investment in the region.

"The trend is clear," says IDB economist Carlos Sepúlveda. "The unilateral deregulation and liberalization carried out by most Latin American countries has opened natural areas for commerce within the region. And the new export-oriented Latin American growth strategy has given the region further access to the U.S. market, which still is one of the most open in the world."



**Figures are percentages of Latin America's total exports.*
***European IDB member countries.*
Source: IMF Direction of Trade Statistics.

ANNUAL MEETING

Rendezvous in Barcelona

IDB Group to meet in Spain next March

by Santiago Real de Azúa

Barcelona, Spain's second-largest city and its industrial heartland, will be the site of the thirty-eighth annual meeting of the IDB's Board of Governors and the twelfth annual meeting of the Inter-American Investment Corporation on March 17–19, 1997.

The Barcelona meeting will provide an excellent opportunity to strengthen economic cooperation between Spain and Latin America, whose historic, political and cultural ties are today complemented by a growing interest on the part of the Spanish private sector in Latin American markets.

Recent trade and investment data clearly illustrate this growing interest: in 1995, Spain exported some $4.68 billion worth of goods to the region, while total exports from Latin America to Spain reached $4.65 billion. Although these figures represent a small part of Spanish trade overall, they show a significant upward trend compared with the levels of 1993, at $3.42 billion and $3.475 billion, respectively.

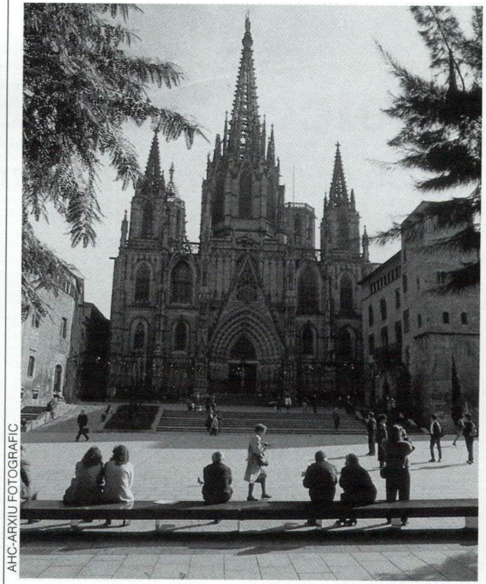
Meanwhile, Spanish direct investment in Latin America last year exceeded $1.76 billion, or more than 20 percent of the country's total investment abroad. As recently as 1990, Spanish investment in the region was a modest $141 million, meaning that in the first half of this decade, it has increased by more than 1,000 percent.

Recent bilateral accords between Spain and the countries of Latin America provide a firm basis for consolidating and expanding trade in the future. In particular, the financial protocols to cooperation and friendship treaties contain provisions to facilitate Spanish financing to the region with the twin objectives of promoting Latin American economic development and increasing Spanish exports. Other important agreements include accords on investment promotion and protection and on tax reciprocity.

IDB President Enrique V. Iglesias and Spanish Finance Minister Rodrigo Rato sign an agreement for Barcelona to host the IDB's annual meeting.

Door to Europe. With its unique ties to Latin America, Spain has played a special role as liaison between the region and the European Union, encouraging a growing interest on the part of its neighbors in the Latin American market. The signing in 1995 of a framework agreement on economic cooperation and trade between the two regions shows that Latin America has today become one of the focal points of the European Union's foreign relations.

For Europe, the Mercosur countries in particular—Brazil, Argentina, Paraguay and Uruguay—have become important trading partners. Some 26 percent of Mercosur's exports now are destined for Europe and 22 percent of its imports originate there. In terms of value, in



Barcelona, Spain's second-largest city and one of its principal industrial centers, will host the IDB's 1997 annual meeting.

1994, Mercosur received nearly 13 billion ECUs (more than $16 billion) worth of exports from the 15 E.U. countries and exported nearly 15 billion ECUs worth of goods back to Europe.

Meanwhile, some 70 percent of foreign investment in Latin America now originates in the European Union, making it the major foreign investor in the region.

At the same time, Spain and the European Union, like the IDB, have stepped up their efforts to promote private sector involvement in the region's economies, and in particular to support the development of a network of small and medium-sized businesses.

Catalonia—one of the European Union's four "economic engines," along with Italy's Lombardia, France's Rhone-Alps and Germany's Baden-Wurtemberg—has a long and successful tradition of small and medium-scale enterprise. Some 76 percent of Catalonian businesses employ fewer than 10 workers, while less than 3 percent employ more than 100. Indeed, its network of small and medium-sized businesses are the backbone of Catalonia's economic and social structure.

As for Barcelona, it has today become one of the most important economic and financial centers of Southern Europe. The city's traditional dynamism, which has steadily increased over the past decade, is largely the result of the constructive relationship between the public and private sectors. The growing interest in Latin America is part of this strategy.

These blossoming financial and commercial ties between Latin America, Spain and the European Union, coupled with Barcelona's own growing status as an international financial and commercial crossroads, make the site of the IDB's 1997 annual meeting a perfect setting for an examination of Latin America's place in the international economy of the 21st century.

The writer is chief of the IDB's Press Office.

Global meeting place

A global institution, the IDB brings together countries from around the world to help spur economic and social development in Latin America and the Caribbean. This worldwide partnership is reflected in the locations chosen for the annual meetings of the Bank's Board of Governors, which include sites in both borrowing and nonborrowing countries. In recent years, meetings have been held with increased frequency in nonborrowing countries (see list below).

City	Year
Washington, D.C.	**1967**
Vancouver	**1978**
Madrid	**1981**
Vienna	**1985**
Miami	**1987**
Amsterdam	**1989**
Montreal	**1990**
Nagoya	**1991**
Hamburg	**1993**
Jerusalem	**1995**
Barcelona	**1997**

LENDING

Choices for IDB borrowers

Option of four single currencies or currency pool

Would you like your financing in U.S. dollars? Or would you prefer Swiss francs? Deutsche marks, perhaps? Japanese yen? Why yes, that can also be arranged.

Beginning November 1, IDB borrowers have a much greater variety of choices with the opening of the Bank's single currency facility.

From that date on, loans from ordinary capital are available in one of four denominations: U.S. dollars, Swiss francs, Deutsche marks, or Japanese yen.

The new facility replaces one in effect since 1982, whereby borrowers were limited to a pooled currency that included U.S. dollars, Japanese yen, and European currencies. Bank experts predict that single currency lending may become the dominant IDB pattern, although the currency pool will remain an option.

The chief advantage of the single currency system is the expanded options it gives to borrowers, according to Enrique José Zaldivar, chief of the IDB's Financial Policy and Planning Section. If financial authorities decide that for any reason—be it foreign trade, monetary reserves position, or money market trends—they prefer a loan in a single currency rather than the currency pool, they are free to elect it. At the same time, however, the borrowers must assume the risk of fluctuations in the value of that single currency. Once the loan is approved and signed, the borrower will not be able to switch monetary units. The same single currency will be in effect during the life of the repayment period.

"There is no limit on the type of currency the borrower may choose," Zaldivar says. "If the borrower wants all the financing in U.S. dollars, the client can have it. The same goes for Swiss francs, yen or marks."

Borrowers themselves must decide which currency is the best for them, or whether to use the pool. "The IDB is neutral," says Zaldivar. "It will not recommend a given currency."

The Bank will continue to charge interest according to the variable rate system currently in effect. The only difference is that the rate will be based on the average weighted cost to the Bank for each currency, adjusted biannually, not just for the currency pool, as in the past.

"The variable rate has the advantage of being stable, and the borrowers prefer a stable rate," says Zaldivar.

More responsibility. Along with a broader array of choices, borrowers must also take more responsibility in calculating currency risk. If a borrower takes on more exposure in U.S. dollars, he will be betting that the 50-year decline of the value of the dollar will continue, warns Zaldivar. "But what if that decline has bottomed out and the trend is reversed?" Zaldivar adds. "There is always a risk."

The single currency facility was adopted only after the governments of IDB member countries gave it unanimous approval.

In addition to the single currency facility and the currency pool, the Bank offers additional financial instruments for its lending to the private sector. Direct loans to the private sector, without government counter-guarantees, are denominated in U.S. dollars at a lending rate based on LIBOR with a spread reflecting the market rate.

Lending for global credit programs for the private sector through onlending from official banks—under a separate facility called the Dollar Window—is also denominated in U.S. dollars, with the interest rate based on LIBOR. The lending rate on these government-guaranteed loans, lower than the rate on those without sovereign guarantees, is based on the cost of financing to the Bank.

—Daniel Drosdoff

DAVID MANGURIAN—IDB

Mexican truckers are adopting new driving skill and safety standards.

STANDARDS

Quality labels for labor

Mexican businesses aim to certify work skills

Are you certified?

Knowing that the answer to that question can clinch or kill a business deal in the global marketplace, Mexican business leaders are looking forward to a new project financed by the Multilateral Investment Fund (MIF) to promote the standardization and certification of workforce skills.

Professions such as medicine, accounting and engineering have long used certification to guarantee the competence of practitioners. But in recent years service and manufacturing industries have also adopted job skill standards to increase quality and competitiveness.

In the new project, Mexico's Skill Standards and Certification Council will work with industry groups and labor unions to design standardization procedures and launch pilot projects to define and upgrade work skills in key industries. The project is being financed with the help of a $3 million grant from the MIF, which is administered by the IDB.

The project will target Mexico's huge trucking sector, among others. Mexican truckers face stiff competition from U.S. and Canadian counterparts that already have stringent skill standards. Under one of the council's pilot projects, Mexican trucking firms and associations will define skill targets for drivers, mechanics and support personnel.

Private sector funding. Similar efforts will focus on the construction, retail sales, hotel and telephone industries and agroindustries. Funds, which also come from private industry and the council's budget, will be used to train workers, conduct performance tests, and promote the new standards.

Work skill certification can help assure foreign investors that prospective employees will be capable of handling specific tasks. According to Carlos Miranda, the IDB's team leader for the project, the goal is to make Mexico more competitive in the international labor market by adopting standards comparable to those used by leading firms.

Miranda said skill standards benefit both employers and employees. "If you have objective information about workers' skills, you can reduce the cost of recruiting and training," he said. "And if you're an employee, getting certified raises your value in the marketplace."

MANAGUA

New women's leadership fund

Consultative meeting held

Plans for a $3 million fund to promote women's leadership and civic participation in Latin America and the Caribbean moved closer to reality in September following a consultative meeting in Managua, Nicaragua.

The Fund for Women's Leadership and Representation, to be administered by the IDB, will finance projects designed to increase women's access to leadership positions. Requests for financing will be accepted from nongovernmental organizations, research centers and public agencies.

The initial three-year program will be financed with $2.5 million from the IDB and $500,000 from the government of Norway. The fund's council will be composed of the IDB, the United Nations Children's Fund (UNICEF), the Organization of American States, the United Nations Development Fund for Women, the United Nations Development Programme, the NGO Coordination for Latin America and the Caribbean and other groups.

The idea for the fund emerged prior to last year's United Nations Fourth World Conference on Women held in Beijing, China, which addressed the topic "Women in Power and Decision-Making."

In Managua, participants exchanged perspectives and discussed the fund's underlying principles, how to promote it and prospects for additional sources of funding. New funds will be required to continue the program beyond the three-year life of the IDB financing.

For further information on the fund and on presentations made at the Managua meeting, please contact Clotilde Charlot, (202) 623-3843, fax (202) 623-1463 or e-mail: clotildec@iadb.org.

BRAZIL

Storm drainage work underway

Crews are at work on the second stage of a $544 million storm drainage program to prevent urban flooding and traffic jams in São Paulo, Latin America's largest city.

The heart of the project will be 47 kilometers of concrete drainage canals combined with urban expressways built along former creekbeds. Eight reservoirs with a total capacity of one billion cubic meters of rainwater will prevent flooding during São Paulo's rainy season, which runs from December through February.

The project, slated for completion in the year 2000, is being financed by a $302 million IDB loan.

The IDB-funded first stage of the project, completed in 1994, eliminated some of the worst flooding. "The new expressways have transformed the city," says Emilio Azzi, the city's project director. "Businesses and stores are beginning to return to the downtown area."

DAVID MANGURIAN—IDB

São Paulo storm drains prevent flooding and traffic jams.

WILLIE HEINZ—IDB

Planting high-yield cotton.

ARGENTINA

Cooperating on cotton

Farmers need patience and fortitude as much as seed and machinery. So much can go wrong: droughts, floods, low prices during good years, pests and plagues.

In an effort to even the odds, 150 small-scale cotton farmers in the province of Santiago del Estero in northern Argentina formed a cooperative in 1989. Working together, they reasoned, they could get better prices for their crops, share agricultural machinery, and produce higher yielding varieties of seed for their own use.

By 1993, the cooperative was stable enough to qualify for a $400,000 loan from the IDB's Small Projects Program. The farmers used the money to establish a revolving credit fund to enable members to purchase better seed, fertilizer and equipment.

The cooperative was immediately successful. The farmers planted more cotton, and the better seed helped to increase yields. Overall, cotton sales increased from 60 tons in 1993 to 1,202 tons this year, and many farmers have more than doubled their incomes. Meanwhile, the cooperative has grown to 530 members.

"The IDB loan enabled our cooperative to free itself from dependence on government financing," says Luis Catán, a coop official. "It also increased cotton production and improved conditions for our members."

MEXICO

Users manage water systems

A vast program to rehabilitate Mexico's state-run irrigation systems and turn them over to local users has far exceeded its original goal: 56 districts have so far been transferred instead of the 21 called for in the original plan.

Mexico's 80 irrigation system districts have historically depended on large federal subsidies.

Under the program, designed to make the districts self-sufficient, local farmers will pay for water and maintenance but gain management control.

Transfers in 14 more districts are being negotiated under this $1.24 billion program. Financing support includes a $200 million loan from the IDB and a $350 million credit from the World Bank.

The farmers who live within the irrigation districts, which cover a total area of nearly 32,000 square kilometers, discovered the downside of government subsidies during the debt crisis of the 1980s. Short on cash, the government stopped maintaining many irrigation canals, which silted up and developed leaks in their concrete lining. Farm output dropped as a result.

When the IDB-financed irrigation program began in 1990, the government was subsidizing nearly half the cost of running the irrigation districts. By last year, management


DAVID MANGURIAN—IDB

Mexican farmers now manage irrigation systems formerly run by the federal government.

transfers had reduced subsidies to 23 percent, saving the government about $67 million.

"Furthermore," says Hector López, the IDB's sectoral specialist in Mexico supervising the project, "the cost of operating the districts has dropped because the user associations do a better job. Another benefit is that the user associations are legal entities, which qualifies them for private bank loans."

One of the first districts to be turned over to users was the Delicias Irrigation District, a system of more than 1,100 km. of main and secondary canals covering 75,000 hectares of land about 80 km. south of Chihuahua.

Says Alfredo Mora Magaña, who ran the Delicias Irrigation District for the government's National Water Commission during the transfer period: "It's not that we were running the district badly. But you can't run an irrigation district without an adequate budget.

"Also, the government cannot do some things as efficiently as private enterprise," Mora said. "For example, in order to purchase anything, we had to follow bureaucratic procurement regulations that waste a lot of time. Now, if the users need a spare part, they can just go out and buy it."

The National Water Commission now supervises the administration of irrigation districts and is responsible for maintaining the reservoirs that supply them with water. The districts pay the commission for this service.

Ironically, severe droughts in 1994 and 1995 caused production to stagnate despite improved irrigation efficiencies. But the cloud had a silver lining. "During the water shortage," says López, "the users developed a new culture of the value of water. They became much more careful water users. It was a very interesting phenomenon."

BAHAMAS

Government by the people

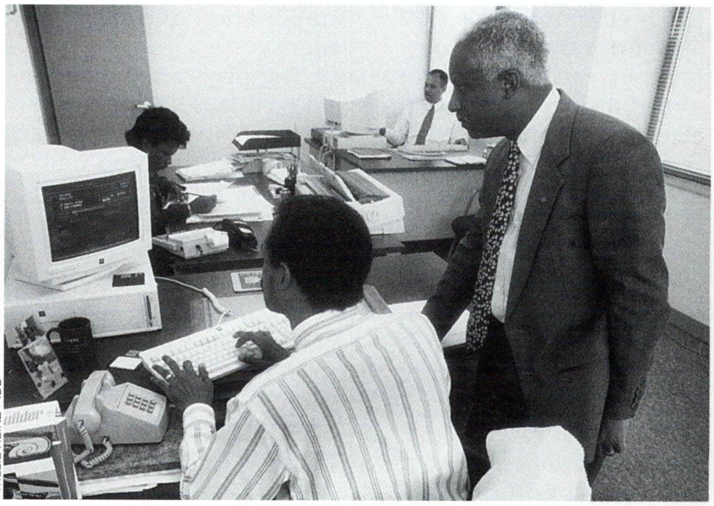
When citizens of The Bahamas' Family Islands cast their votes for new local governments this past summer, they were electing more than just a new set of official faces.

With a turnout of 70 percent, Bahamians created a new level of government in the form of district councils that will take over management of local affairs from the central government.

The councils are meant to ensure that taxes raised locally are spent locally, but they entail new responsibilities as well. The councils will maintain public buildings and public spaces, for example, and they will also be responsible for granting business licenses and improving tax collection.

To help the councils do their job, the IDB has provided $150,000 worth of computer workstations for each of the 23 district councils of the Family Islands. The funds were part of a $1.5 million grant to improve tax collection and management throughout the Bahamas.

Bahamians are enthusiastic about the councils and new responsibilities. "Any government closer to the people is better," said Rudolph Albury of Lower Bogue, Eleuthera. Percy Archer, of Dundas Town, Abaco, echoed the sentiment: "All of us will work together to see the community thrive."


WILLIE HEINZ—IDB

Bahamian officials track taxes with new computers.

LOANS

Argentina. . .$120 million for EDENOR (Empresa Distribuidora y Comercializadora Norte, S.A.), to support the private energy company's capital expenditures during 1996–97.

The financing from the Private Sector Department consists of a $40 million loan from the Bank's ordinary capital and an $80 million credit to be syndicated among commercial banks under participation agreements with the IDB.

In coordination with EDENOR, the IDB has appointed Deutsche Morgan Grenfell of Germany and Société Générale of France as co-arrangers to assist the Bank in analyzing, structuring, and syndicating the loan.

EDENOR, which distributes electrical power in the northern section of greater Buenos Aires, was created in 1992 as a result of the privatization of Servicios Eléctricos del Gran Buenos Aires.

The IDB resources will support a five-year company investment program aimed at meeting growing electricity demand, reducing electricity losses in the system, increasing the efficiency and quality of the services, and enhancing the company's economic and financial position.

The loan is designed to improve EDENOR's access to long-term financing from capital markets, reducing its dependence on expensive and unreliable short-term loans.

INFORMATION ON IDB PROCUREMENT

More details about these projects and opportunities to supply goods, works and services are published monthly in *IDB Projects*. The publication includes recently approved projects and those under consideration for IDB financing, as well as general procurement notices and notification of contract awards.

For a free sample copy of *IDB Projects*, contact the Public Information Section. Tel. (202) 623-1397, fax (202) 623-1403. *IDB Projects* is also available on the Internet at http://www.iadb.org

Brazil. . . $100 million to improve public secondary education in the state of Paraná.

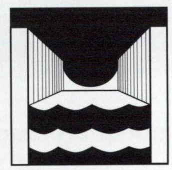
The loan will support reforms underway to create a general secondary school system that will offer quality basic instruction, with emphasis on matching training with real demands for skilled manpower.

The program will finance curriculum improvements, new learning resources, training of educational professionals and incentives for improved teacher performance. It will also pay for school rehabilitation and equipment.

The program, whose total cost is $222 million, will also strengthen school administration and management and will establish a pilot program to study the potential for school autonomy.

For more information contact: Secretaria Estadual da Educação, Avenida Água Verde 1680, CEP 80240-900, Curitiba, Paraná, Brazil. Tel. (55-41) 342-1144, fax (55-41) 342-4679.

Brazil. . . $19.8 million to help reduce flooding in metropolitan Campinas.



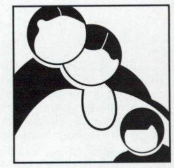
Funds will finance the construction of drainage facilities, including storm sewers and channels for watercourses, as well as improvements in housing and services for residents of *favelas* (shantytowns) in flood-prone areas.

The credit will also help strengthen the municipal government in finances, human resources, planning, urban environment, reclamation of abandoned areas and land use.

The program will encourage community participation and increased awareness about environmental protection. Its total cost is $23 million.

For more information contact: Secretaria de Planejamento e Meio Ambiente, Avenida Anchieta 200, 19º Andar, Centro 13015 - 904 Campinas, SP, Brazil. Tel. (55-192) 35-0221, fax (55-192) 35-0102.

El Salvador. . . $19,7 million to modernize management of public sector finances and enhance service delivery.



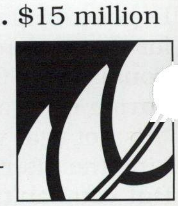
The credit will finance the introduction of an integrated financial management system for government agencies, concentrating in the areas of budget, treasury, government accounting, public debt, computer systems and training. They will also support reforms underway in the internal revenue service aimed at improving regulation, decentralizing taxpayer assistance and auditing services, and consolidating a system of monitoring tax compliance.

The program will help modernize the customs revenue service by simplifying and computerizing its operating procedures and by training its personnel in advanced customs techniques. It will also help modernize government procurement and contracting through standardization, computerization and training.

The total cost of the program is $22,957,000.

For more information contact: Ministerio de Hacienda, Edificio las Tres Torres, Urbanización Buenos Aires, San Salvador, El Salvador. Tel. (503) 271-0250, fax (503) 271-0591.

Honduras. . . $15 million from the Fund for Special Operations to improve agricultural productivity, quality and




DAVID MANGURIAN—IDB

A mother's best friends

The veteran members of the gynecological surgery team at the Instituto Materno-Infantil de Pernambuco (IMIP), Brazil, deal with all kinds of childbirth complications, such as premature deliveries. An innovative IMIP program called "Project Kangaroo" has perfected a method of caring for premature babies by keeping them strapped to their mother's breasts, where they maintain a constant body temperature and can nurse on demand.

competitiveness. The loan will help establish a fund that will finance the generation and transfer of technology for agriculture, as well as training for researchers and extension workers.

The Agricultural Science and Technology Directorate will be strengthened to support promotion, regulation and supervision of the agricultural services market, while operational and administrative functions will be performed by the private sector.

Nicaragua. . . $32 million from the Fund for Special Operations to improve government effectiveness through financial and administrative reforms.

The program will strengthen the financial health of Nicaraguan banks and encourage more dynamic business practices in the private banking sector. It will also coordinate the recapitalization of the Banco Nicaragüense de Industria y Comercio with private resources.

The tax system will be made more equitable and efficient, and a law will be drafted to allow the government to apply integrated financial management and auditing systems to its operations.

The total cost of the program is $68 million.

For more information contact: Unidad Coordinadora del Programa de Reforma del Sector Público (UCRESEP), Ingeniero Luis Villalta, Del Portón del Hospital Militar 2 1/2 cuadras al Norte, Casa #1106, Managua, Nicaragua. Tel. and fax (505-2) 66-8507.

Panama. . . $26.4 million to expand the scope and improve the quality of housing for low- and middle-income households.

The government will undertake significant reforms and investments in the housing sector and expand the role of private developers, banks and nongovernment organizations in helping to solve housing problems.

The program will seek to reduce administrative costs while greatly increasing the number of families that receive financial help in getting a decent home.

For households earning up to $600 a month, the program will introduce a system of direct grants. As a result of these subsidies, families that could not afford housing available in the market will be able to choose among houses produced by private-sector developers and secure mortgages from private banks.

The program will double the number of low-income households that will receive grants from the Housing Ministry to improve their housing conditions. The program will encourage NGOs to help design and execute housing projects for these families. Its total cost is $69.87 million.

Uruguay. . . $153.3 million to improve and expand sanitary sewage and storm drainage systems in the department of Monte-

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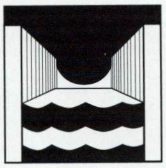
video and part of the department of Canelones.



The loan will help increase coverage of sanitation services from 80 percent to 88 percent of Montevideo's residents. It will also support the reorganization of the sanitation division of the Montevideo municipal government and establish a business cost accounting system to improve efficiency and quality.

The program includes preparation of a master plan for solid waste management in greater Montevideo and portions of the departments of Canelones and San José.

Two previous stages of Montevideo's sanitation program were financed by more than $72 million in IDB loans. The cost of the current program is $219 million.

For more information contact: División de Saneamiento, Intendencia Municipal de Montevideo, Avenida 18 de Julio 1360, Piso 6, Tel. (598-2) 91-6204, fax (598-2) 92-7801.

Venezuela. . . $10.5 million to modernize the national tax administration and customs service to improve efficiency and taxpayer compliance.

Funds will be used to reform customs laws and regulations, improve operational procedures, develop and implement a new information system, acquire computer equipment and refurbish physical facilities.

The loan will also be used to consolidate reforms and a new internal revenue service information system. It will support staff development and the establishment of a Fiscal Studies Center to train personnel of the Servicio Nacional Integrado de Administración Tributaria (SENIAT), the agency that will carry out the program.

The program's total cost is $21 million.

For more information contact: Servicio Nacional Integrado de Administración Tributaria, Edificio SENIAT, Centro Comercial Mata de Coco, Avenida Blandín, Chacao, Caracas, Venezuela. Tel. (58-2) 263-0906, fax (58-2) 266-2929.

TECHNICAL COOPERATION

Mexico. . . $3.37 million in nonreimbursable financing for two pilot projects to provide educational and health services to the children of migratory agricultural day laborers in the Mexicali and San Quintín valleys. Services will include preschool education and nutrition and will benefit 5,400 children over a four-year period.

In the Mexicali Valley, the program will establish mobile units to provide child care facilities and classrooms close to parents' work sites.

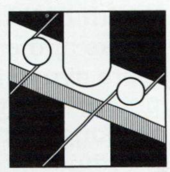
In the San Quintín Valley, the project will renovate existing facilities and establish new facilities to double the number of children served.

The program will be carried out by the Ministry of Social Development through its National Support Program for Agricultural Day Laborers.

Peru. . .$1 million for a program to streamline government.

The loan will finance technical assistance to two entities that serve the government's Modernization Board, a Technical Secretariat and 15 ministerial task forces.

Uruguay. . . $300,000 for preparatory technical studies for interconnecting the Uruguayan and Brazilian electricity systems with high-voltage links.



The project will be financed by Italian contractors and the Specialized Institutions Trust Fund, administered by the IDB.

Venezuela. . . $6.4 million to strengthen the capacity of the executive branch and congress to manage macroeconomic policy.

The funds will finance technical assistance to establish a Macroeconomic Analysis Unit attached to congress that will increase the capacity of the legislative branch to analyze fiscal policy and its macroeconomic impact. It will also help establish an Office of Macroeconomic Programming and Analysis attached to the Ministry of Finance.

The total cost of the program is $8.5 million.

For more information contact: Presidencia Palacio Legislativo, Monjas a Padre Sierra, Caracas, Venezuela. Tel. (58-2) 483-3640/3644, fax (58-2) 483-9616. Or: Oficina Viceministro de Hacienda. Torre Banco La Guaira (Penthouse), Parque Carabobo, Caracas, Venezuela. Tel. (58-2) 509-8281 fax (58-2) 483-6769.

Regional. . . $1.46 million to train Latin American experts at the Latin American Institute of Social Doctrine and Social Studies (ILADES), headquartered in Santiago, Chile.

The resources will finance scholarships to the ILADES graduate program in social-oriented economics for 45 professionals. Emphasis will be on analyzing and understanding economic problems and designing social policies appropriate to each country's macroeconomic situation.

In awarding the scholarships, preference will be given to applicants from the region's smaller and poorer countries.

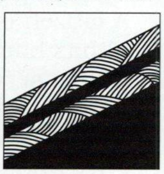
For more information contact: Instituto Latinoamericano de Doctrina y

Estudios Sociales, Almirante Barroso Nº 6, Casilla 51970, Santiago 1, Chile. Tel. (562) 698-0046, fax (562) 698-6873.

Regional. . . $850,000 for research and training to develop financial and securities markets.

The regionwide program will emphasize regulation and the institutions necessary for such markets to develop and innovate. It will support research on these topics and make the results available to interested parties in the Bank's ember countries and sewhere through conferences, workshops, round tables, training programs, the Internet, and working papers and manuscripts.

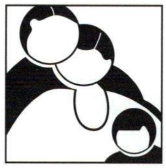
Regional. . . $940,000 for sustainable energy and clean energy sources.



This pilot program will identify five Latin American or Caribbean countries to participate in testing a strategy for environmentally sound energy policies and practices. The $1.4 million project, which is also supported by the European Commission and the U.S. Department of Energy, will develop proposals for future energy projects.

ULTILATERAL INVESTMENT FUND

Mexico. . . $3 million to help business and labor become more productive and competitive.



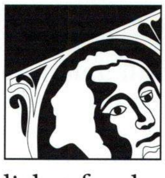
The program will involve private industry, government and labor. It will help private industry identify measurable skill and certification standards that are competitive at the international level.

A group of pilot projects in which skill standards are needed has already been identified for a cross-section of industries, including hotels, construction, trucking, retail sales and telecommunications.

The program will be carried out by Mexico's Skill Standards and Certification Council.

For more information see article on page 11 or contact: Consejo de Normalización y Certificación de Competencia Laboral, Rosaleda No. 34, Col. Lomas Altas Mexico, D.F., C.P. 11950. Tel. (525) 570-2918, fax (525) 570-0850.

Panama. . .$600,000 to support private investment in the Interoceanic Region.



The credit will help establish a fund, to be managed by the Interoceanic Regional Authority, to finance legal and other specialized services to advise the authority on preparing state-of-the-art bidding, concession, and transaction documents to conclude privatization of priority assets scheduled to revert to

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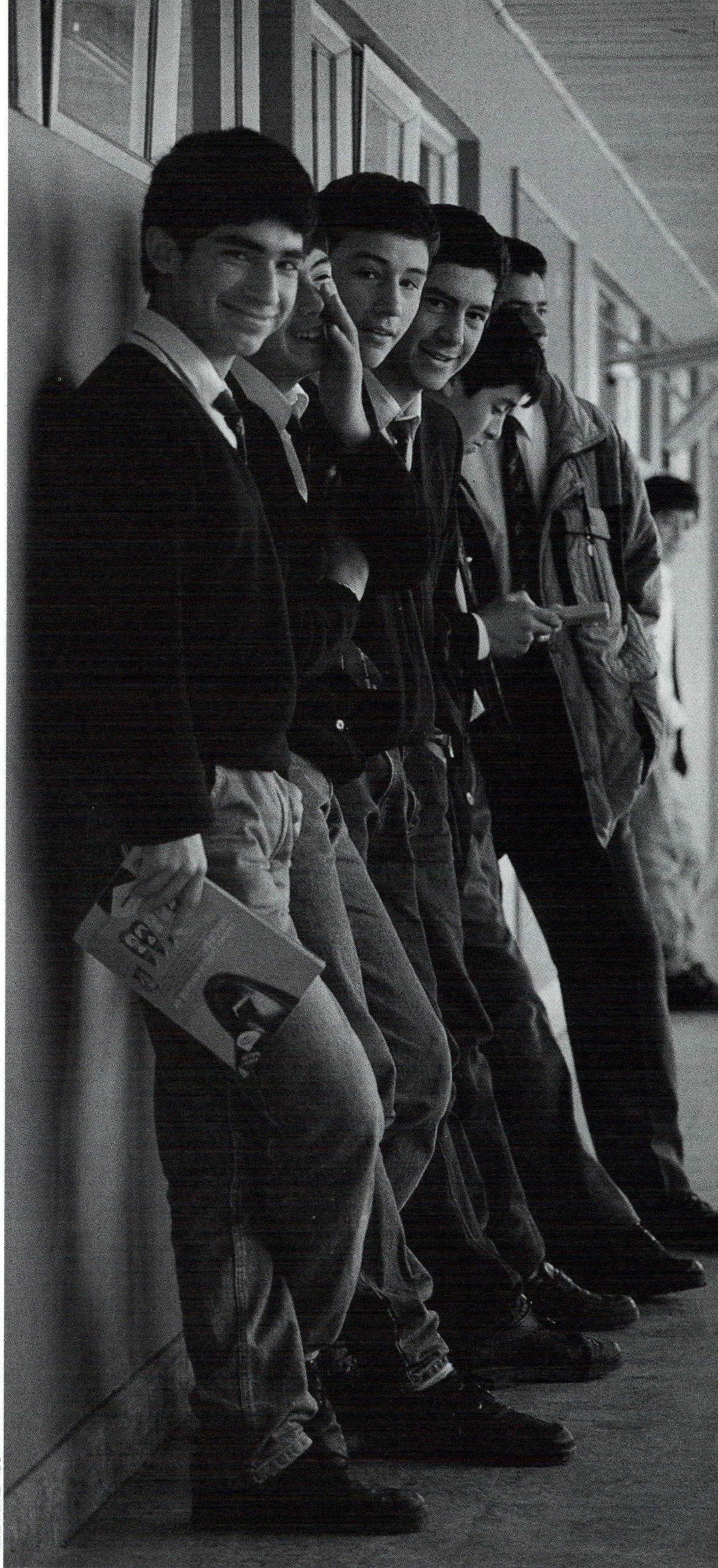


WILLIE HEINZ—IDB

School days

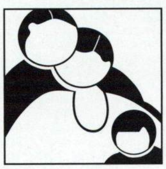
Secondary level students at the Mafil Agricultural School in Chile take a break outside their new classroom. Improvements at Mafil, which emphasizes hands-on training in agricultural techniques, were part of a nationwide program of health, education, sanitation, road and electrification projects partially financed by the IDB.

(from previous page)
Panama in 1996 and 1997.

Among the priority assets are the Arraiján Tank Farm; industrial lots in Albrook Air Force Base, Espinar base, and Telfers Island; ecotourism facilities in Gamboa; Gorgas Hospital; Four Stars Resort at Fort Espinar; Amador Cruising Port; and commercial facilities at Albrook air base.

The Interoceanic Region, which includes the Canal Zone, will fully revert to national sovereignty on Dec. 31, 1999, under the terms of the Torrijos-Carter treaties. Integrating the assets of the Interoceanic Zone into the country's overall economy is a priority of the country's economic development strategy.

Regional. . . $1.69 million to support the development of rural microenterprises in Honduras, Guatemala and Belize.



The program will offer financial and technical services for productive microenterprises through pilot projects in marketing, financial services and training in new technologies and production practices.

A marketing component will train microentrepreneurs to select products with export potential, such as crafts and processed foods, and to market them at the national level and abroad.

A financial services component will provide instruction for microentrepreneurs on obtaining credit, and for nongovernmental organizations on starting and expanding community banks.

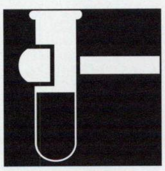
A third component will train microentrepreneurs in new technologies and production practices, particularly in farming, to enhance their earnings potential.

The program's total cost is $2.79 million.

For more information contact: Katalysis/Honduras, Apartado Postal 3622, San Pedro Sula, Honduras. Tel. (504) 52- 5753, fax (504) 52-6178.

INTER-AMERICAN INVESTMENT CORP.

Mexico. . . $7.5 million for Christianson, S.A. de C.V., a small, diversified manufacturer of specialty chemicals located at Ciudad Industrial del Valle de Cuernavaca, Morelos. The financing consists of a syndicated loan of $6 million and a $1.5 million investment.

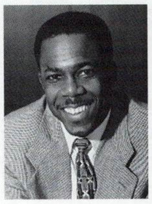


Equity of $1.5 million will also be provided by the Fondo de Optimización de Capitales, S.A. de C.V. (OPCAP), a Mexican capital investment company.

The investments will enable Christianson to increase production and take advantage of its growing sales to the U.S. market.

For more project information, visit the IDB home page, http://www.iadb.org

BOARD OF DIRECTORS



Barry J. Malcolm has been elected IDB executive director for The Bahamas, Barbados, Guyana, Jamaica and Trinidad and Tobago.

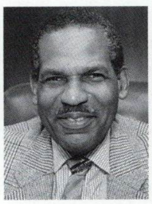
A citizen of the Bahamas, Malcolm was previously alternate executive director at the IDB for the same countries. Before joining the Bank in 1994, he served as a senator and parliamentary secretary in the Office of the Prime Minister of the Commonwealth of The Bahamas.

Yukio Saruhasi has been appointed executive director for Croatia, Japan, Portugal, Slovenia and the United Kingdom.

A citizen of Japan, Saruhasi has had a long career in customs and tax administration in his country, serving most recently as director general of the Kumamoto Regional Tax Bureau. From 1984 to 1987 he was alternate executive director for Japan at the Asian Development Bank.

Arturo J. Cruz has been elected alternate executive director for Belize, Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua.

A citizen of Nicaragua, Cruz served as alternate executive director for the same countries from 1990 to 1993. He also worked at the IDB in earlier years, most recently as associate treasurer and chief of the Capital and Financial Operations Division. In his own country, Cruz has served as head of the Central Bank of Nicaragua and ambassador to Washington, and member of a five-person government junta.



George L. Reid, Jr., has been elected alternate executive director for The Bahamas, Barbados, Guyana, Jamaica and Trinidad and Tobago.

A citizen of Barbados, Reid has had a long career in public service in his country, serving most recently as head of the Civil Service and director of finance and economic affairs. He has also been a director of the Caribbean Development Bank and of the Central Bank of Barbados, alternate governor at the IDB and the World Bank, executive director at the IDB and alternate executive director at the World Bank and its affiliates.

Alexandra M. Archbold has been elected alternate executive director for Croatia, Japan, Portugal, Slovenia and the United Kingdom.

A British citizen, Archbold previously served at the U.K.'s Overseas Development Administration as head of the Eastern Africa Department, the South Asia Department and, most recently, the Western Asia Department. She has also served as first secretary, development, in the U.K. representation to the European Community.

Mauro Marcondes Rodrigues has been elected alternate executive director for Brazil and Suriname.

A citizen of Brazil, Marcondes Rodrigues was until recently secretary of planning and evaluation in Brazil's Ministry of Planning, where he earlier served as secretary of international affairs, chief of staff and federal budget secretary. Before that he worked for nearly 20 years at the Banco Nacional de Desenvolvimento Econômico e Social.

STAFF APPOINTMENTS

José Roberto Nolasco has been named assistant general counsel in charge of the IDB's Legal Institutional Office.

A citizen of El Salvador, Nolasco has worked at the IDB since 1981 and was most recently senior counsel, coordinator of Region II, in the Bank's Legal Department. Before joining the IDB he held a number of positions in his country's Ministry of Foreign Affairs.

GERMAN FIRMS LOOK TO LATIN AMERICA

The IDB was a prominent participant in last month's Germany-Latin America Week, one of the largest gatherings on cooperation between Europe and the region to be held in recent years. The event, held in Cologne, consisted of a forum on telecommunications in Latin America; a two-day media seminar on political, media and economic ties between Germany, Europe and Latin America; and a business conference examining commercial opportunities created by privatization, liberalization and regionalization in the region. The week culminated in a dinner to celebrate the *Día de la Raza* attended by German President Roman Herzog and Peruvian President Alberto Fujimori.

IDB President Enrique V. Iglesias delivered a keynote address at the opening of the business conference alongside German Economy Minister Günter Rexrodt and European Commission Vice-President Manuel Marín. Iglesias also addressed the media seminar and co-chaired a workshop on private investment opportunities in Latin American infrastructure projects.

Five IDB executive directors and several of the Bank's senior European officials also attended the meetings, which were sponsored by local business groups, including the 80-year-old Ibero-America Association (IAV). One of the oldest and most active European institutions specializing in business cooperation with Latin America, the IAV works with German businesses, sponsors events and publishes information designed to promote an objective image of the region. The IAV was a prime mover in the 1994 German Economic Initiative for Latin America, which sought to attract new private and public sector investment in the region.

INTEGRATION GOALS FOR THE CARIBBEAN

Representatives of Caribbean nations met in Buenos Aires last month to identify priorities for further integration in the region and to define a regional programming strategy for the IDB.

The October 17-18 meeting, sponsored by the Institute for the Integration of Latin America and the Caribbean, included senior officials from the Caribbean Community and the Association of Caribbean States. Also present were the deputy foreign ministers of Mexico, Colombia and Venezuela.

IDB AND MILAN TO COOPERATE

The City of Milan's Chamber of Commerce, Industry, Agriculture and Crafts last month signed an agreement to explore opportunities for cooperation. The chamber will focus on financial and technical support to small and medium-sized enterprises in Latin America and the Caribbean.

DAVID MANGURIAN—IDB

Eco-encounter. *José Figueres, president of Costa Rica, confers with Maurice Strong, chairman of the Earth Council, at a recent meeting at IDB headquarters in Washington, D.C., on new environmental projects.*

WASHINGTON, D.C.

The continuing age of exploration

Smithsonian research in Latin America

The conquistadores were drawn to Latin America in the 15th and 16th centuries by visions of land and gold. In the 19th century, a new breed of explorers from North America began combing the continent for a different kind of treasure: knowledge about the region's flora and fauna and its human cultures.

A new exhibit at the IDB Cultural Center, "Expeditions: 150 Years of Smithsonian Research in Latin America," celebrates these 19th and 20th century explorers, many of whom were supported by the Smithsonian Institution. One example was the U.S. Exploring Expedition, which circumnavigated the globe between 1838 and 1842. Explorers mapped the shorelines of South America, collected plants and animals and documented local customs. Despite the loss of one of its six ships near Antarctica, the expedition amassed hundreds of specimens, including some 5,000 archeological artifacts, that are now at the Smithsonian.

WILLIE HEINZ—IDB

Costa Rican basalt figure.

Sailors and civilians. One early contributor to the Smithsonian's Latin American collections was Ephraim G. Squier, a U.S. diplomat who in the mid-1800s brought back ancient monumental stones from several islands off Nicaragua's coast.

Numerous U.S. naval officers followed in his footsteps, collecting vertebrates and minerals in Chile, seeds and plants from the Paraná River, insects from the Darien Isthmus, and animals, birds and ethnographic objects from the Amazon.

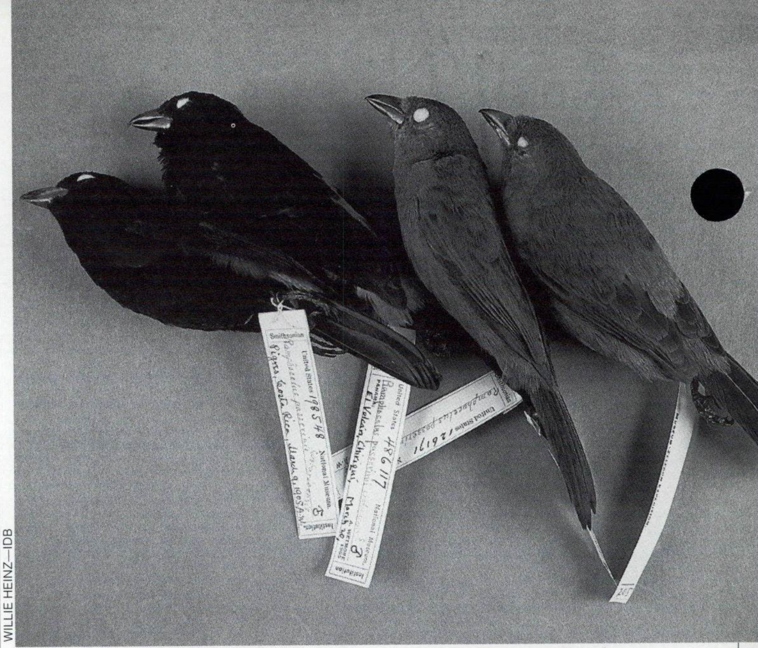
The naval officers were followed by archeologists, geologists, natural historians and other civilians. William Henry Holmes, an artist and curator, made precise sketches of pre-Columbian architecture and artifacts. J. Walter Fewkes, of the Bureau of American Ethnology, visited the Caribbean in the early 1900s and made important discoveries about the early inhabitants of Puerto Rico and other islands.

Among women scientists making their marks in Latin America was journalist Lucy Mann who, along with her husband, the director of the National Zoo, studied South American animals. Agnes Chase, a botanist from the U.S. National Herbarium, collected grass specimens with a Brazilian botanist and nurtured a network of young botany scholars from Latin America.

Scholarly exchange. Collaborative relationships with Latin American scientists proved as important to the Smithsonian as the collections and observations of its own scientists.

The Smithsonian's John Brooks Henderson traveled to Cuba in the early 1900s and met University of Havana naturalist Carlos de la Torre. Together, they discovered many previously unknown plants and animals.

The Smithsonian's founding secretary, Joseph Henry, recognizing the value of scholarly collaboration, established an International Exchange Service to trade studies and publications with similar institutions in Latin America. Today, the Smithsonian continues to sponsor research, education and scholarly exchanges, impelled by a shared concern over preservation of the region's rich natural history.



WILLIE HEINZ—IDB

Scarlet-rumped tanagers collected in Panama by Smithsonian Secretary Alexander Wetmore in 1954.

WILLIE HEINZ—IDB

Painted gourd bowls collected in Bolivia in the 1850s.