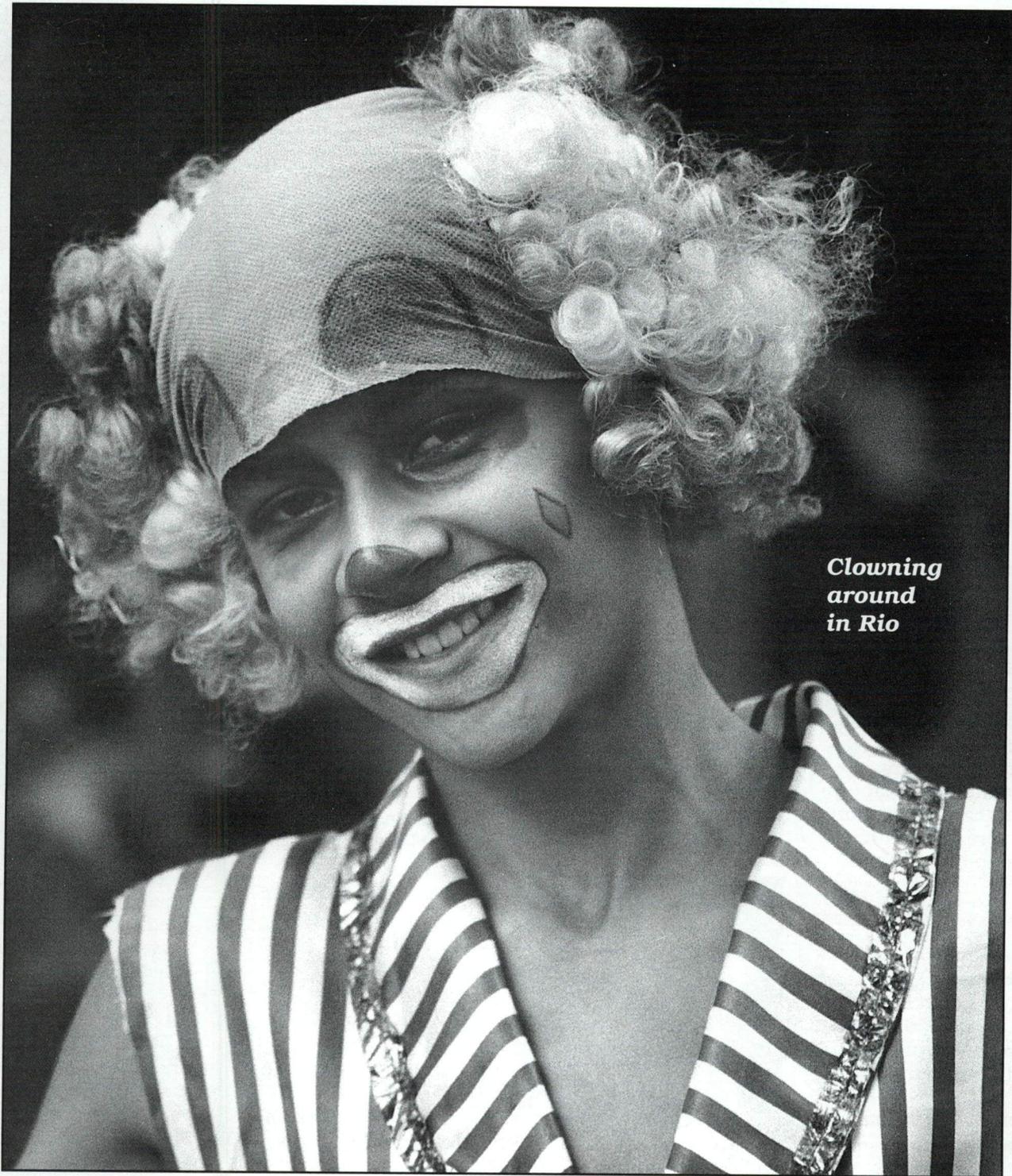


# THE IDB

Inter-American Development Bank • December 1996

Life after reform



*Clowning  
around  
in Rio*

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Globalization's winners and losers ■ Guatemala's peace**

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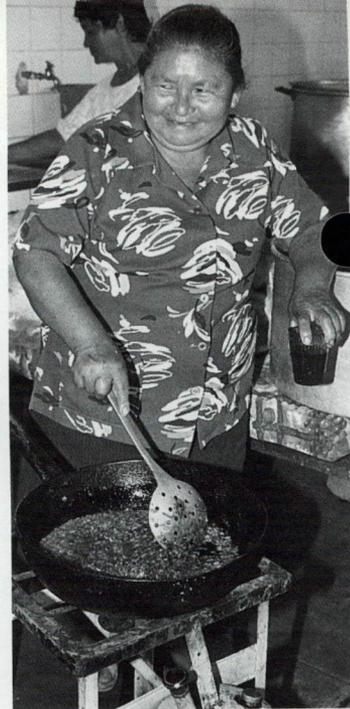
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Young people in Rio de Janeiro learn circus performance skills at an uncommon school.

COVER PHOTO

**Clowning around in Rio**

Rodrigo Clementino da Silva, 14, was drawn to the IDB-supported "Dream Factory" Circus School in Rio de Janeiro by his love of clowning. But at the school he also learned how to make a living repairing fishing nets. See article on page 16. (IDB photo by David Mangurian)



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

Since its founding, the IDB has helped to finance 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.

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# In defense of Mercosur

Mercosur, the trade pact among Argentina, Brazil, Paraguay and Uruguay, has recently come under attack. The criticisms reflect broader concern over the growth and influence of regional trade blocks including NAFTA, the European Union, APEC, and the emerging Free Trade Area of the Americas.

Critics have focused on the growth of exports among Mercosur members relative to exports between Mercosur and the rest of the world. Using simple indicators and arguments based on pure trade theory, these observers claim that much intra-Mercosur trade is in sectors in which Mercosur members are not competitive internationally. In this view, Mercosur trade preferences are turning the group into a fortress that diverts trade perversely by displacing members from industries in which they are most efficient, thus harming both the Mercosur members and the world community at large.

**Imports a key.** These criticisms ignore several crucial points. To begin with, any assessment of the degree of trade diversion within Mercosur should look at imports, not exports. Intra-Mercosur exports are merely the inverse of intra-Mercosur imports. And the rise in intra-Mercosur exports as a percent of total exports merely captures the broader fact that growth in Mercosur's total imports has been greatly outstripping the growth of total exports (180 percent vs. 50 percent in the period 1990-95).

Moreover, if trading preferences among Mercosur partners in fact divert trade, as critics assert, then the preferences should be "crowding out" imports from presumably more efficient sources outside of Mercosur.

But an examination of aggregated and disaggregated import data provides no clear evidence of significant trade diversion. First, looking at the

value of all imports, a simple trade weighted index of the relative change in the share of regional trade between 1990 and 1995 shows little evidence of a strong shift towards intra-Mercosur transactions. In fact, excluding crude petroleum, this index indicates a slight relative shift to extra-Mercosur trade during this period.

When Mercosur imports are disaggregated into 240 product categories, only 15 percent of all products turn out to have shifted significantly to the Mercosur market, while 27 percent shifted to non-Mercosur markets. Even imports of finished automobiles—a category often cited by Mercosur critics—have shifted to extra-Mercosur sources.

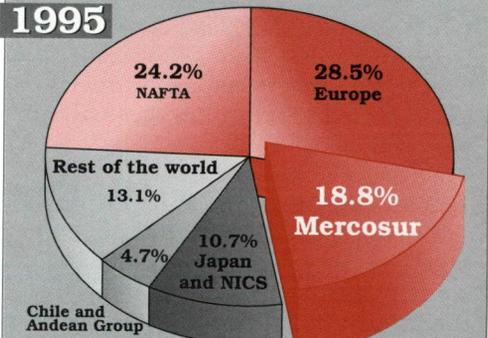
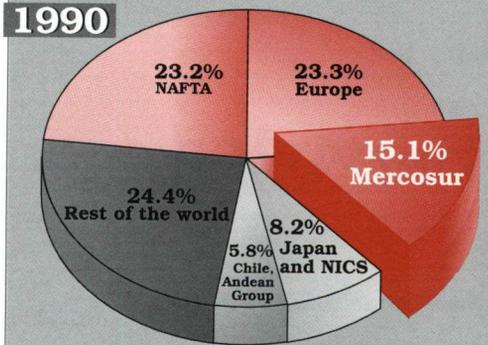
Of those imports that have changed their regional orientation toward intra-Mercosur sources,

## Mercosur is boosting regional trade with the rest of the world, not diverting it.

many, such as those in the agriculture and agro-industrial sectors, could be reflecting advantages in production, supply or location that are emerging due to the effects of integration and more competition. Other categories may be more suspicious to some analysts. But we must not forget that one of the strategic goals of an integration agreement is to secure access to an enlarged market, both as an alternative to less secure access abroad and to help exporters gain experience. The ultimate test of this strategy is, of course, the acceptance of local products in world markets. However, export learning curves take time, and this process cannot be measured in the first few years of Mercosur's existence.

## Good for outsiders, too

Mercosur members are buying more from Europe, North America and Japan, as well as from each other\*



\* Mercosur imports by region of origin. Source: IDB, INTAL

Critics should also keep in mind that Mercosur members have been unilaterally reducing tariffs to third parties since the late 1980s: the average Mercosur tariff on nonmember manufactured goods fell from 25 percent in 1990 to 12 percent in 1995. This trade liberalization was complemented by the elimination of tariffs and many other barriers among the four Mercosur economies. As a result, these economies are engaging in more competition in their domestic markets than they have in seven decades. The resulting increase in efficiency will help prepare Mercosur for a further opening to the world, be it unilaterally or in another multilateral round of trade liberalization.

While Mercosur's trade preferences do not appear to have strongly affected the overall subregional trade pattern, they should be gradually reduced by deepening the external trade liberalization process. Meanwhile, the "open regionalism" of Mercosur serves as an important instrument of trade creation, investment and modernization.

—Robert Devlin  
Chief, IDB Integration, Trade and Hemispheric Issues Division

## ADJUSTMENT

# Surviving economic surgery

## *Stress and recovery in the wake of reform*

by Michael Gavin

When the Mexican peso crisis hit in December 1994, worried observers wanted to know: was Latin America's economic reform process about to derail?

Part of the answer came in early 1995, when Mexico and Argentina, the country hit hardest by the aftershock of the crisis, took decisive steps to adjust their economies and the international community willingly offered financial assistance. While both countries lapsed into recession in 1995, slowing growth regionwide, they have recently shown signs of recovery. And the reform process throughout the region has continued and even deepened.

What did the peso crisis signify for the future of Latin American economic reform, and for the region's economic growth in general?

In answering this question, the 1996 edition of the IDB's annual report *Economic and Social Progress in Latin America*, examines the pattern of reform that has emerged over the past decade and a half. While acknowledging that not all countries have taken the same reform route or achieved the same results, the report argues that a general pattern of macroeconomic dynamics has emerged during this period. This pattern can be broken down roughly into five phases: stabilization and implementation of reforms, economic recovery or boom, stress, correction or crisis, and post-reform growth.

**Stabilization and reform.** Most Latin American countries adopted major economic reforms in the late 1980s in order to reverse the negative effects of the debt crisis.

Most of these reforms were car-

ried out during periods of serious economic instability. Inflation had typically escalated to over 100 percent, GDP growth and domestic investment were down, fiscal deficits were up, and demand for domestic money was declining.

These bad times turned out to be good times for reform. Within two years of major stabilization measures—particularly those based on a nominal exchange rate—inflation had on average fallen to some 20 percent, and economic growth had increased to a rate about 4 percent higher than during a nonrecovery period. Increased consumer confidence was apparent in higher domestic investment and demand for money and capital, leading to a

---

*Crisis does not inevitably follow reform; it can be prevented by carefully managing financial systems, tax revenues and public debt during the post-reform boom.*

---

boom in both private spending and bank lending. The surge in consumption created a tax revenue windfall that improved fiscal balances in turn.

This recovery or boom typically lasted about three years. By that time increased lending had frequently left banks overexposed to borrowers who were vulnerable to even a slight economic slowdown or interest rate hike. The temporary increase in tax revenues often masked

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*The writer is the IDB's lead research economist.*

underlying fiscal imbalances that were politically hard to correct when the spending boom cooled. Higher domestic spending led to currency appreciation and large current account deficits. Investors became wary of an impending adjustment, raising the specter of a panicked withdrawal of foreign capital.

**Post-boom stress.** Thus, the boom often created imbalances that ultimately required a correction. In the final stages before a correction, reforming economies tended to enter a period of stress caused, in part, by the natural deceleration in the pace of economic recovery. Growth in spending and production typically slowed as the country's stock of durable goods and capital approached pre-crisis levels and dormant productive capacity was used up.

At this point GDP growth often dropped some 2 percentage points below boom levels. Demand for money tended to stabilize at a new, higher level, tightening the supply of credit and pushing interest rates to an average 9 percentage points above the pre-reform levels.

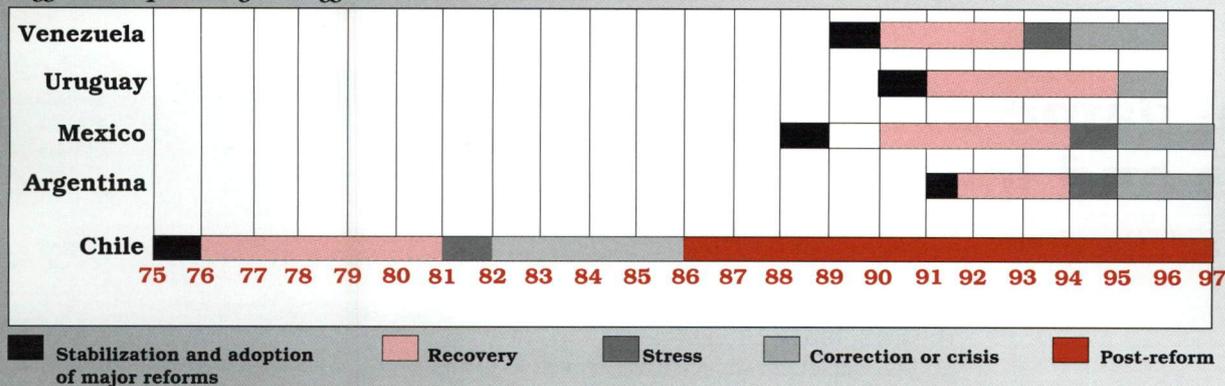
These pressures often weakened the national currency and fueled fears of a devaluation. This economic uncertainty was sometimes exacerbated by political factors such as impending elections, as happened in Mexico and Argentina in 1994 and Ecuador in 1996.

**Correction or crisis.** If governments deal promptly and effectively with the fiscal and financial vulnerabilities created by booms, the inevitable stress will not necessarily lead to a major economic crisis. But in practice in Latin America, corrections have tended to be traumatic. Output growth typically fell nearly 5 percentage points below stress-period levels, consumption slipped by some 7 points, and investment growth plunged 16 points.

Yet crises are not an inevitable part of economic adjustment. If reforms have been relatively minor

# The rocky road to post-reform

Different paths for different countries



and the subsequent recovery fairly modest, a major crisis and sharp correction are much less likely. Even with major reforms, governments can head off a crisis by carefully regulating the financial system and cautiously managing fiscal windfalls and public debt during boom periods. If stress has already set in, governments can minimize the likelihood of a crisis by addressing fiscal shortfalls, scrutinizing domestic banks, and—if the monetary regime permits—realigning exchange rates to address underlying imbalances and avert fears of a more dramatic depreciation.

This kind of reaction may have saved both Brazil and Peru from a Mexico-type crisis late last year, when policymakers took steps to reduce imbalances that followed their stabilization and reform programs. The result was slower growth, but by acting before the boom could create major stress, they avoided what might have been a major, destabilizing correction later on.

**Post-reform.** What comes after the correction or crisis? Few of the region's countries have reached this stage, but the dynamics of reform suggest several scenarios. In one, the social and economic pressure resulting from the crisis may lead to a long period of macroeconomic and financial instability, eliminating or significantly postponing the gains of stabilization efforts. This is what happened to Argentina and Uruguay in the early 1980s, and more recently in Venezuela, where stabilization efforts collapsed in 1994.

A different, much more positive outcome was seen in Chile, which emerged from a crisis period in 1982–85 with earlier reforms largely intact. Chile's policymakers dealt effectively with the crisis and reestablished macroeconomic and financial stability fairly quickly. The economy then entered a period of strong and sustained growth in which the dynamics of reform are now secondary. Bolivia also appears to have largely adjusted to its mid-1980s reforms.

Even when economic crises have led to renewed economic instability many countries have managed to keep their structural reforms in place. In those cases, the economy is in a stronger position to recover from renewed instability and slower growth, and crisis is more a bump in the road than a dead end in the reform process. This is precisely what appears to have happened in Mexico and Argentina, which are overcoming their macroeconomic and financial instability and gearing up for a new recovery.

On average, post-reform growth in Latin America has been about 5 percentage points higher than pre-reform growth. This partly represents a recovery from the correction phase, but it nevertheless provides some cause for optimism. It supports the notion that even the crisis phase can be a temporary, if painful, stage of the adjustment cycle, and that once it is over, the economy can move on to take long-term advantage of the greater efficiencies and improved growth climate created by reform.

## Mixed results in 1995

For the region, 1995 was a year of mixed economic results, according to the 1996 edition of the IDB's report *Economic and Social Progress in Latin America*.

On the one hand, inflation continued to fall, investment continued to grow, fiscal balances continued to improve, and countries across the region stayed the course of economic reform.

On the other hand, after five years of growing financial stability and improving creditworthiness, the Mexican peso crisis cast a cloud of doubt over the region's hard-earned achievements. It threw both Mexico and Argentina into deep recessions and contributed to a sharp drop in the growth of the region's GDP, from 5 percent in 1994 down to 0.7 percent in 1995.

Nevertheless, Chile, Brazil, Peru and a number of smaller countries grew impressively. Regionwide, exports grew by 9 percent, continuing the strong upward trend of recent years. In half the region's economies, real investment grew at double-digit rates, while international capital inflows increased to all the countries except Mexico and Argentina.

The average fiscal deficit in the region fell to 1.2 percent of GDP, the lowest level in 20 years. At the same time, investment in people grew regionwide as spending on education and health increased both in real terms and as a percent of GDP.

## EQUITY

# A global game of winners and losers

*How to diminish the downside of economic integration*

by Paul Streeten

From Ladakh to Lima and from Beijing to Buenos Aires, people across the world are adopting similar tastes in dress, food, entertainment and popular music. But this phenomenon, sometimes referred to as "McCulture," has not affected everyone everywhere. Either through choice or lack of opportunity, large groups of people still cling to their traditional ways of life.

Similarly, economic integration and trade liberalization have produced an unstoppable movement toward economic globalization. Most economists applaud the trend, pointing to the modernization and growing wealth that have resulted. But many countries have been left on the sidelines or have even been harmed by globalization.

What have been the positive and negative effects of this trend? And more importantly, since globalization seems certain to continue, what can be done to make its benefits as widespread as possible?

**Growing trade.** The principal cause and effect of global integration is international trade, which has expanded substantially since World War II as measured by the ratio of world exports to world production of goods. But in the developing world, the benefits of expanding trade have been concentrated in East Asia, Brazil, Mexico and, most recently, China. The populous countries of South Asia and Sub-Saharan Africa

*The writer is a professor emeritus at Boston University and a former director of the World Development Institute.*

have generally been left out. Overall, the bulk of the international flow of goods, services, direct investment and finance is among the United States, Europe and Japan.

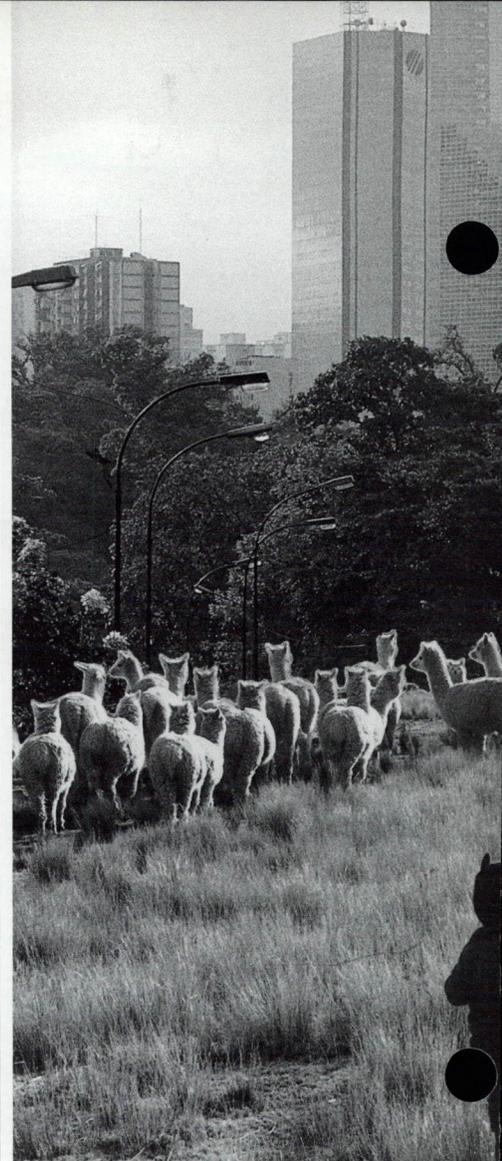
An increase in trade has often been followed by higher economic growth, although not in all cases. Annual growth rates of gross domestic product in East and South-east Asia were 6-8 percent from 1986 to 1993; in Latin America and Sub-Saharan Africa they averaged less than half a percent per year.

**Unemployment.** While expanded trade has generally resulted in more jobs, the parallel growth in competition has forced many companies to shed workers in order to cut costs, boost efficiency and increase profits. Higher productivity only becomes a plus for the overall economy if output grows quickly enough to generate employment for the whole workforce. In the industrialized world, where a number of countries are currently grappling with the problem of growth without jobs, high un-

*Globalization has almost always generated growth, but often at the expense of wages and jobs.*

employment has become a political issue. Developed countries have been especially affected by new information and communication technologies that boost efficiency but make some white-collar workers redundant.

Some less-developed countries have also had to deal with jobless growth. China, which has experi-



enced an economic boom in recent years, has begun to struggle with unemployment, particularly in urban areas. The need to cut unit labor costs to compete in the global market has led to the elimination of guaranteed employment and over-staffed factories. Unemployment has also grown as a result of the proliferation of low-cost imports from low-wage countries. Though these imports are a small part of the total, they are concentrated in labor-intensive sectors such as shoe-, clothing- and toy-making.

**Income distribution.** Both theoretical and empirical evidence suggest that increased trade between North and South has reduced income inequality among skilled and semi-skilled workers in the South while increasing inequality among such workers in the North. This is because manufactured exports from the South raise demand and wages for workers with only limited skills



*A selective revolution: while economic globalization has transformed life in the world's largest cities, it has done little for most rural communities.*

## Uneven effects of globalization

*Policymakers face challenge of ensuring equity*

Winners	Losers
East, S.E. Asia	Africa, Latin America
Productive output	Employment
People with assets	People with no assets
Profits	Wages
Skilled workers	Unskilled workers
Adaptive firms, workers	Rigid firms, workers
Techno-specialists	Primary producers
Creditors	Debtors
Those not dependent on public services	Those dependent on public services
Large companies	Small companies
Men	Women
International markets	Local communities
Global culture	Local culture

and education. But the effect in the North is the opposite. There, the service and technology industries pay top wages to highly skilled workers but have little use for semi-skilled labor.

Overall, globalization appears to have deepened inequalities in the international distribution of income, though the evidence is mixed. Between 1960 and 1994 the share of developing countries in the global distribution of wealth declined. This can partly be explained by the growing impact of multinational corporations that funnel profits to the parent country and allocate the highest wages to highly trained managers from industrial nations.

**Technology.** Some observers worry that new technologies will deprive developing countries of their comparative advantage in labor-intensive activities and prompt industries to relocate plants back to the developed countries.

But in fact, the skills required to use many new technologies, particularly in the field of electronics, can be taught cheaply in classrooms nearly anywhere. Moreover, the manufacturing technique of flexible specialization, which is increasingly replacing mass production, is neither capital- nor foreign exchange-intensive, and is thus well suited to developing countries.

**Policy pointers.** This analysis of globalization's winners and losers suggests a number of policies that can be adopted to diminish the liabilities while encouraging the benefits of economic integration:

- ▶ Create transnational institutions to develop and enforce global anti-monopoly, anticartel and anti-restrictive practices and legislation.
- ▶ In the developed countries, implement training and education programs, provide income support for low-wage workers, and adopt tax policies that create jobs.

▶ In developing countries, change policies that overprice labor, underprice capital and overvalue exchange rates as a means of reducing unemployment. Promote world-class exports and improve living standards.

▶ Improve the share of developing countries in the global distribution of wealth, using their collective bargaining power with multinational corporations to retain a greater proportion of profits. Use these funds to alleviate poverty, improve social services and invest in local human capital through education.

Through such measures, developing countries can gradually increase the domestic value added to their exports and expand the local economy—the essence of development and one of the major forces behind globalization itself.

 For a copy of the paper from which this article is adapted, call (202) 623-1543 or fax x2702.

# The black market's shadow

■ No one doubts that informal economic activity deprives governments of tax revenue, but economists still debate the effect that black markets have on a nation's economy.

Now, World Bank economist Norman V. Loayza claims that in developing nations, a large informal sector is a definite drag on economic growth. In a recent presentation at the IDB of his paper "The

## Tax revenues forgone

Economics of the Informal Sector: A Simple Model and Some Empirical Evidence from Latin

America," Loayza argued that the informal sector, by avoiding taxes, deprives governments of revenue needed to finance services such as public infrastructure, law enforcement and regulatory agencies.

Since companies, particularly in the formal economy, depend on these public services to function, clandestine economic activity ultimately hurts everyone.

Loayza argues that informal economies tend to flourish when excessive taxes and regulations are combined with weak law enforcement and corrupt public administration.

Entrepreneurs weigh the costs of doing business "on the books" (measured as taxes and the cost of complying with labor laws and regulations) versus the risk of clandestine operations (fines and legal penalties). Many conclude that legality is simply too expensive, according to Loayza. Conversely, honest public officials, efficient regulatory and law enforcement institutions and liberal labor and tax laws can make clandestine activities "too expensive."

In order to estimate the size of the informal sector in Latin American nations, Loayza used a statistical model that takes into account factors such as the tax burden, restrictions on the labor market, and the efficiency of government institutions.

Based on this model, he estimates that Bolivia, Panama and Peru have Latin America's largest informal sectors, while Chile, Argentina and Costa Rica have the smallest.

Furthermore, Loayza finds that in Latin America the size of the informal sector is negatively related to economic growth, even after controlling for the average level of income, fiscal and monetary discipline, trade barriers and human capital.

 An electronic version of the Loayza paper is available through the World Bank's Internet home page, <http://www.worldbank.org>.

# Port privatization: the missing piece

■ Governments throughout the region are privatizing ports and port operations as they acknowledge the inefficiencies of the traditional state-controlled management model.

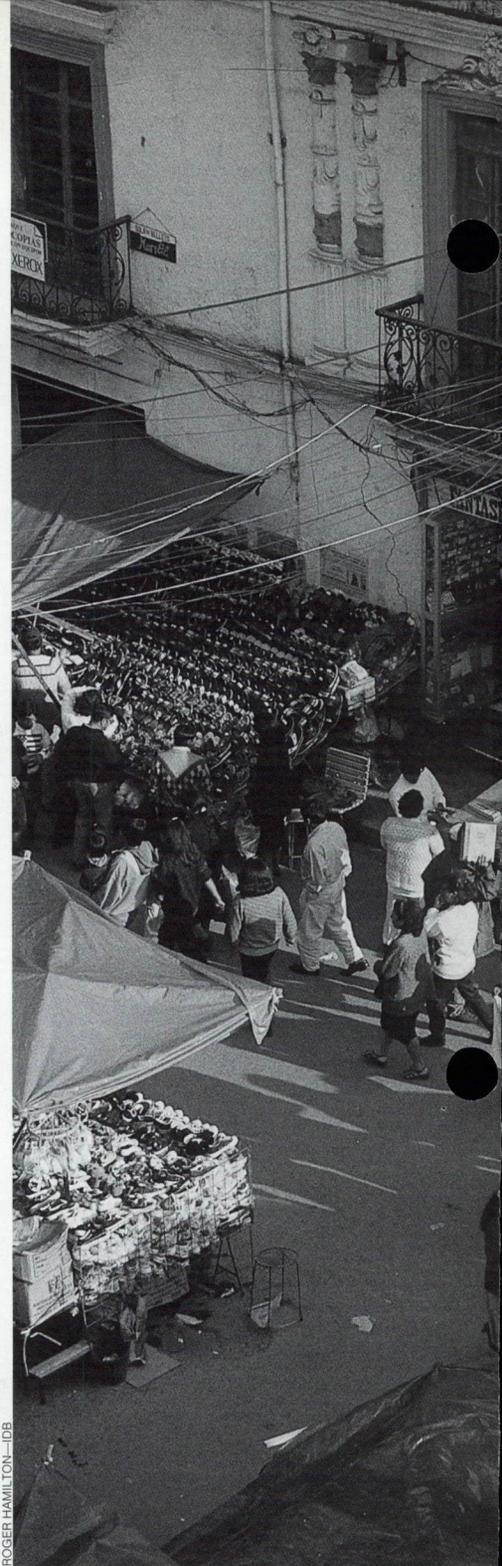
## Focus on dock workers

But while putting the private sector in charge can do much to improve cargo handling, the full impact of the

change cannot be realized without instituting other reforms, particularly in the area of labor.

This is the conclusion of a recent study by IDB economist Paulina Beato that analyzed the results of reforms carried out in the ports of Buenos Aires, Argentina; Montevideo, Uruguay; and Valparaiso, Chile. She presented the study at a seminar held in Santos, Brazil.

The study's main conclusion is that market-driven reforms require complementary labor reforms. In essence, port workers have to lose some of the excessive privileges they have accumulated over the last few decades.



ROGER HAMILTON—IDB

*Informal economic activity, if unchecked*

In many countries, port trade unions have come to exert a monopolistic control of the labor market, hobbling efforts to modernize operations and sharpen competitiveness, says Beato. "In countries where the port organization was based on the traditional models, productivity improvements were very limited," she says. "The inefficiency and high costs resulting from the labor monopoly hinder the de-



WOMEN

# Full classrooms, smaller families

## The link between birthrates and schooling

More-educated women tend to marry later and have fewer children than their less-educated counterparts, according to the *World Population Profile 1996*, recently released by the United States Agency for International Development and the U.S. Department of Commerce.

According to data from 16 developing countries for the late 1970s and early 1980s, women with seven or more years of schooling on average married nearly four years later than women with no education.

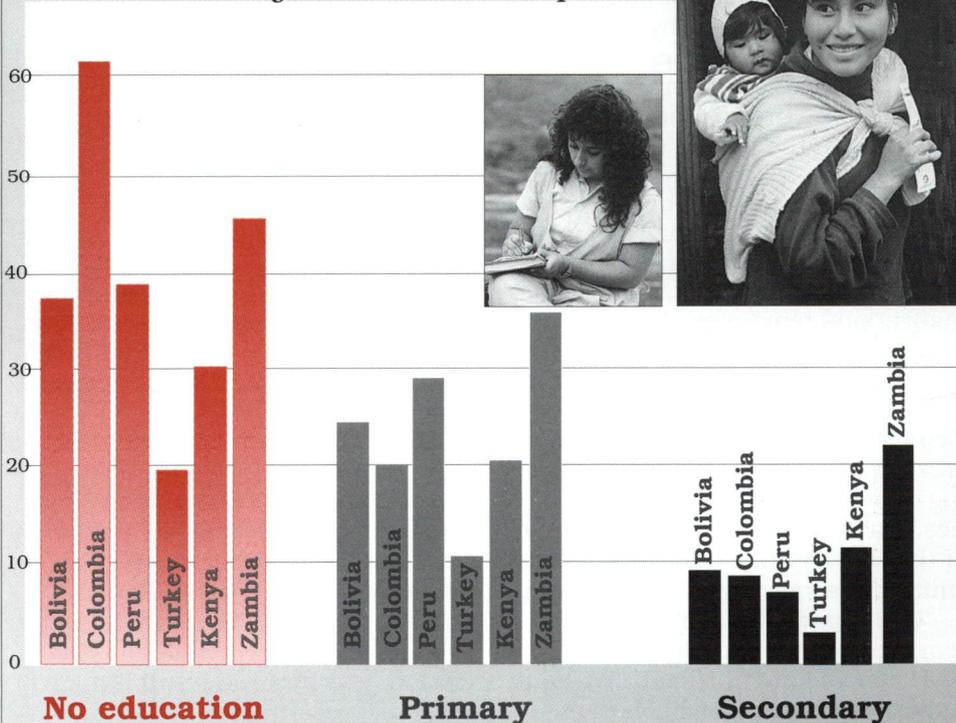
"Women with more education tend to have children at an older age," says Gabriela Vega, head of the IDB's Women in Development

Unit, "and they also have a higher rate of contraceptive use.

"Having fewer children also gives women a better opportunity to use their education," Vega adds. "Women are thus able to make a greater contribution to the workforce while devoting more attention to their children."

More recent figures show that even a primary education is associated with significantly later initiation of childbearing. On average, the proportion of young women with primary schooling who begin childbearing as teenagers is almost half that of women who have had no schooling.

### As schooling level increases. . . ...the number of teen mothers drops\*



\*Teenage mothers, by level of education, as a percentage of all women ages 15-19

Source: U.S. Bureau of the Census

IDB CHART BY CECILIA JACOBSON

stifle growth in the formal economy.

velopment of private port services."

Labor reform, combined with the effects of private sector participation and competition for port services, will both improve port efficiency and ensure that the reforms are sustainable, she concludes.

For a copy of the study contact Paulina Beato, phone (202) 623-2430, fax (202) 623-2157, e-mail Paulinab@iadb.org.

BUENOS AIRES

## Education for democracy

### *Conference urges training in civic responsibility*

If support for democratic institutions begins in the classroom, then Latin American nations must reinvent the role of civic education in public schools, concluded participants at a recent conference in Buenos Aires.

Participants' proposals included enlisting the media to raise the profile of civic education, establishing standards for teaching civics and government, encouraging student participation in civic activities outside of school, and creating instructional materials for students and teachers.

The conference, "Civitas Panamericano: Education for Democracy," brought together some 250 educators, government officials, academics, leaders of nongovernmental organizations, journalists and other experts from throughout Latin America. The event was financed by the IDB and organized by Concienca Argentina and Civitas Panamericano, the latter a consortium of individuals and groups that promote programs in the field of democratic leadership.

Conference participants noted that while all of the region's countries are presently governed by constitutional democracies, democratic institutions remain weak because they lack the involvement of citizens at all levels.

**Economic benefits.** The benefits of citizen participation in strengthening democracy extend beyond politics, stated Edmundo Jarquin, chief of the Bank's State and Civil Society Unit, in his speech before the group.

"Without a solid democratic system there cannot be an efficient market economy," he said. "Without judicial security, social cohesiveness and political stability, citizens and businesses will not have the

confidence they need to generate a sustainable process of savings, investment and growth."

While implementing the conference's recommendations is not solely the responsibility of governments, said Jarquin, "it would be a serious mistake to think that we could achieve the dimension and effectiveness we seek if governments were absent."

Conference participants recommended a series of actions, including the following:

- ▶ Increase coverage of civic education in the media.

- ▶ Strengthen the network of educators and organizations dedicated to training in civics.

- ▶ Create a program of scholarships and exchanges.

- ▶ Seek funding from countries and organizations to finance programs and materials.

- ▶ Create programs to train teachers in civic education.

Speakers at the conference included Penn Kemble, deputy director of the United States Information Agency, Larry Diamond, senior research fellow of the Hoover Institution and Hernando de Soto, founder of the Institute for Liberty and Democracy in Peru.

 Information on the activities of Civitas Panamericano is available at <http://civnet.org>.

## Over-the-counter, between the islands

### *A single stock market for Eastern Caribbean nations*

Investors in eight Caribbean island nations may soon trade shares over a single stock market, thanks in part to \$1.2 million in financing from the IDB's Multilateral Investment Fund.

The credit will help the members of the Organization of Eastern Caribbean States (Anguilla, Antigua and Barbuda, Dominica, Grenada, Montserrat, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines) to lay the groundwork for a single over-the-counter electronic stock exchange.

A shared stock market would be more cost effective and would increase the capital available to private companies in the OECS member states, whose combined population is less than 600,000.

The Caribbean Development Bank will manage the program, and the Eastern Caribbean Central Bank will serve as executing agency. OECS members agreed to establish a single capital market in 1991, and they al-

ready share a single currency.

The MIF credit, which is being matched by \$760,000 from the OECS members, will be used to draft enabling legislation, exchange procedures, trading regulations and financial disclosure rules that must be adopted by each country.

Once a binding agreement on these issues is reached by the OECS countries, companies can list their shares and trading can begin. Member countries will then harmonize their national corporate and securities laws to reflect the new regional stock exchange, including clearance and settlement and custodial functions, will be established.

The new program is part of an IDB effort to promote economic integration and capital market harmonization in the Caribbean.

 For details, see the Project Documents section at the IDB's Internet home page, <http://www.iadb.org/>.



To succeed and endure, youth programs need more than enthusiasm.

#### YOUTH IN DEVELOPMENT

## The best and the brightest

### Hallmarks of successful youth programs

Development experts worldwide are starting to see youth as a crucial and often overlooked development resource. Young people can provide the energy, enthusiasm, and most importantly, the leadership required to sustain development efforts into the future.

But not all youth programs are created equal. Hoping to improve its own efforts to incorporate young people in development projects, the IDB's Social Programs Division early this year asked two experts to survey youth programs worldwide and identify the characteristics of the most successful among them. The experts were Patrick Ahern, a United States consultant specializing in youth development, and Ernesto Rodríguez, former president of the Organización Iberoamericana de la Juventud.

"The goal was to identify best practices that can be applied by

 For information on programs profiled by Ahern and Rodríguez, go to <http://ww2.iadb.org/youth>.

youth program developers in the field and at the IDB," said Ahern.

Ahern and Rodríguez ultimately singled out five traits that consistently marked the best programs:

- ▶ Emphasis on prevention and early intervention in young people's lives.
- ▶ Involvement of the local community in program implementation.
- ▶ Involvement of parents, extended family or other significant adults.
- ▶ Involvement of youth in planning, evaluation and dissemination.
- ▶ A feasible plan to become self-sustaining and a demonstrated organizational capacity in financial, technical and managerial aspects.

Successful youth programs also tend to integrate services in multiple areas, such as health, recreation and education.

Programs that place young people in positions of authority and encourage leadership have been more successful than those run entirely by adults. "That's because youth are often the most effective teachers of other youth," Ahern said.

#### GUATEMALA

## Peace as the cornerstone

### IDB funds reconstruction

The IDB has approved two loans totalling \$50 million to rebuild infrastructure and strengthen the peace process in Guatemala. The move came just two days after Guatemalan President Alvaro Arzú's November announcement that his government would sign a peace treaty with rebel leaders to end the country's 36-year internal conflict.

The program will take the form of a trust fund administered by the Community Development for Peace Program's Executive Board. The board will be composed of five to seven members representing government and Guatemalan society, including indigenous communities and the private sector.

The projects to be financed will be selected by representatives of indigenous communities in rural areas affected by the conflict. Investments will be made in health and education, productive projects, cultural development, recreation and other activities that will lay the groundwork for economic recovery.

The program will be concentrated in the northern department of Huehuetenango, where the war took a heavy toll.

The IDB Board of Executive Directors approved loans on the exact day of the 36th anniversary of the beginning of the conflict.

Previous IDB loans to support the Guatemalan peace process include \$42.3 million for small-scale social investment projects in low-income communities, \$150 million to build, rehabilitate, and maintain roads in areas cut off by guerrilla fighting, and \$38.6 million to improve public policies and health services.

 For details, see the Project Documents section of the IDB's home page at <http://www.iadb.org/>.

## ARGENTINA

**From coffins to flowers**

A coffin-making shop, a hybrid flower nursery and a commercial wine-making tour are examples of small businesses in Argentina that have expanded thanks to an IDB-financed credit program.

Since it began two years ago, the Global Credit Program for Micro and Small Enterprises has made nearly 8,000 loans with a total value of over \$74 million. Although the enterprises receiving the loans are small, none generating more than \$20,000 per year in sales, they employ some 20,000 persons.

"More than 90 percent of all Argentine businesses have less than 10 employees," says program director José Alberto Giner. He adds that small enterprises traditionally have had very limited access to credit.

Giner says the program is showing local banks that very small enterprises can be surprisingly sound credit risks and a possible area for expansion.

Thirteen commercial banks issue and administer loans under the program, which is managed by Argentina's Ministry of the Economy and Public Works and Services.

Most loans are for around \$9,000, and interest rates average 14 percent over a maximum of four years.

Oscar Mastronatti, owner of the only coffin-making shop in the province of La Pampa, needed

cash for raw materials. "I used a loan from the Banco La Pampa to stock up on supplies," he said. "So far I've been able to keep up with the payments."

The current program was financed by \$45 million from the IDB and \$15 million from participating banks. The Argentine government and the IDB are now negotiating plans for a second phase of the program set for early 1997.

## URUGUAY

**A head start for entrepreneurs**

Sixty Uruguayan entrepreneurs from 18 to 29 years of age have been selected to receive start-up capital and business training as part of the IDB-financed Youth Training and Business Development Program.

The beneficiaries include a brother-sister team that opened a self-service food stand on a busy Montevideo street and a 25-year-old farmer who purchased his own tractor, harvester and grain-processor.

The start-up capital projects are funded through a pilot subprogram executed by the IDB and two Uruguayan organizations, the Christian Business Leaders Association and Investments for Uruguayan Development.

Following screening interviews with 691 applicants, 446 were given coupons redeemable for up to 50 hours of basic career counselling. The program selected 215 of

the most promising entrepreneurs to receive up to 200 hours of technical assistance in starting and managing a business. Finally, 60 were chosen as eligible to receive start-up risk capital of up to \$20,000. Participants are required to match the capital amount with their own funds.

Participants essentially form a business partnership with the executing agency and are expected to gradually "buy out" the executing agency's share of capital.

"Our goal is to open up new paths between young people and the resources required to start a business and enter the economy," said Gustavo Sierra, the IDB's project specialist in Montevideo. Each entrepreneur is assigned a technical assistance "mentor" from one of the executing agencies, he explained.

The subprogram is being financed through a \$906,000 nonreimbursable credit from the IDB-administered Multilateral Investment Fund.



WILLIE HEINZ—IDB

*Cutting into Uruguay's business world.*



DAVID MANGURIAN—IDB

## BOLIVIA

**Ambulances and child care**

Public health workers in rural Bolivia are making their rounds in 23 new four-wheel-drive ambulances that were delivered to rural hospitals and health posts in November. The British-made vehicles join the 62 bicycles and 54 mules that arrived earlier this year.

The vehicles and mules were purchased with funds from a \$33.9 million 1991 IDB loan to finance a rural health program intended to reach 500,000 people who lacked access to public health services in the departments of Beni, Chuquisaca, Oruro, Pando, Potosí and Tarija.

"Bicycles can be used on the flat Altiplano," says José Alberto Ruiz Ballivián, an IDB specialist supervising the project in Bolivia. "But in hilly places where there aren't any roads, the only way to get there is by mule."

The program also in-



*Bolivian children refill their mugs at volunteer-run kitchen programs; below, new ambulances handle even the roughest roads.*



GOVERNMENT OF BOLIVIA

tried soybean products are asking their parents to buy them, and the market is starting to offer dry roasted beans, soybean drinks and soybean breakfast cereal."

A separate \$4.5 million IDB technical assistance grant enabled Bolivia to contract consulting firms to expand its rural health care system and train health care workers.

In the program, communities are now responsible for maintaining their health post facilities, not the federal government. Also, health posts now buy the medicines they need instead of receiving supplies from the federal government. In addition, all patients are now asked to pay something for health services. If a patient cannot pay, the service is free, but his name goes into a "Book of Debtors."

"These are small communities," says Ruiz Ballivián. "People know who is poor and who is not. If a person with money appears in the Book of Debtors, he will be ashamed."

cludes constructing or rehabilitating and equipping 93 health posts and clinics and five small rural hospitals and revamping the country's rural health delivery system.

Through the program thousands of children already have been vaccinated against polio, tetanus, TB, and various childhood diseases. More than 34,000 malnourished children have received or are receiving food through kitchens run by volunteer mothers. The kitchens use soybeans as a low-cost milk and meat protein substitute.

"Soybeans are not grown on the Altiplano, and people are not accustomed to eating them," says Ruiz Ballivián. "But the children that have

## PANAMA

### How to fix a busy bridge

The difficult job of repaving the Puente de las Américas bridge across the Pacific entrance of the Panama Canal was completed in November.

Although only 1.7 kilometers long, the bridge literally connects North America with South America and Panama City with the remainder of the country. Built in 1962, it is high enough to allow all ships to pass under it.

The principal problem facing the reconstruction crews was the heavy daytime traffic, and particularly the congestion caused by people returning from the beaches on Sundays, according to Yassuo Nishimoto, the IDB sectoral specialist in Panama who supervised the work.

The construction firm first attempted to solve the problem by closing off one lane of traffic. But public protest was such that the government ordered the firm to do most

of its repair work at night. The job took 18 months to complete.

Financed by a \$17.1 million IDB loan channeled through Panama's Ministry of Public Works, the project also added two more lanes to the existing two lane 10-kilometer-long stretch of highway between the bridge and the Arraiján-Chorrera freeway.

One bottleneck at the bridge still remains: the ramps to the four-lane center span are only three lanes wide. Some \$12 million from a \$180 million 1993 IDB highways loan to Panama is financing the addition of a fourth lane, which should be completed in July of 1997.

The bridge and highway improvements should spur private investment west of the bridge, says the IDB's Nishimoto. "The government and the private sector are already discussing new hotels for several beaches because traffic across the bridge is becoming much easier and quicker."

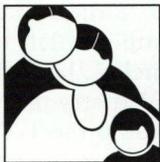


MINISTERIO DE OBRAS PUBLICAS DE PANAMA

*Wider and faster: bridge improvements ease congestion.*

## LOANS

**Argentina. . .**\$320 million to support reform of the provincial social security system.



The program is designed to strengthen the country's social security system; promote greater equity of benefits by homogenizing norms, regulations, and their application; support capital market development and savings and investment by allowing provincial employees to join private pension funds; and contribute to the balancing of provincial budgets.

Provincial retirement funds will be transferred to the National Social Security Administration, bringing about greater efficiency and a more standardized contribution and benefit structure.

The total cost of the program is \$640 million, with IDB and the International Bank for Reconstruction and Development providing financing in equal amounts.

Argentina asked that the loan be denominated in U.S. dollars, making it the first country to take advantage of the Bank's single currency facility.

**Argentina. . .**\$104 million to modernize ports.



The program will reduce costs, improve safety and protect the environment in and around port areas.

## INFORMATION ON IDB PROJECTS

 Details on these projects, including press releases, project summaries and related white papers, are available electronically through the IDB's Internet home page (<http://www.iadb.org>). Check under the Press Services, Publications and Project Documents sections.

*IDB Projects*, a monthly compendium of planned projects and related opportunities to supply goods and services, is also available on the home page, under the Business Opportunities heading. For a sample copy of the print edition of *IDB Projects*, call (202) 623-1397, or fax x1403.

Waiting time for ships at key ports in the system will be reduced, accelerating the entry and departure of cargo. The program will also improve accident management and pollution control, including measures to combat fires and spills.

The program will rehabilitate ship berths and boost mooring capacity. Shelter and berthing structures will be upgraded, and an intermodal container facility will increase use of rail transport.

The IDB loan will finance systems and equipment for the management and disposal of ship-generated waste, as well as accident management equipment.

The program's first phase will target Puerto Nuevo, in Buenos Aires, and the harbors of Concepción del Uruguay, Puerto Deseado and Puerto Madryn.

The program, run by Argentina's Subsecretariat of Ports and estimated to cost a total of \$208 million, will later be expanded to include additional ports.

**Bahamas. . .** \$56 million

to expand power generation, transmission and distribution capacity, reduce production costs, and achieve greater transmission and distribution efficiency.



The power investment project will expand the capacity of the Clifton Pier Station with a 30 megawatt diesel generator and an associated 132 kV transmission line from Clifton Pier to Big Pond. A 33 kV feeder from Big Pond to Paradise Island and a new 33 kV substation at Paradise Island will also be installed, among other works.

In addition, the program will improve the environmental standards of operation and provide support for studies and projects to promote a more efficient use of energy. The total cost of the project is \$96 million.

**Bolivia. . .** \$3 million from the Fund for Special Operations to strengthen and improve social policy design and management.

The program will provide training for at least 300 officials in the Ministry of Human Development and nine departmental prefectures. Fifty additional officials will be trained as instructors who will subsequently offer classes within the social sector.



An improved management information system for the social sector will be installed, and national planning instruments will be fine-tuned to bring them into line with the country's new, decentralized government structure.

**Mexico. . .** \$400 million

to modernize the food and agriculture sector, increasing competitiveness within the North American Free Trade Agreement.



The program will support the government in promoting commodity price liberalization, particularly in basic grains and related agribusinesses, and the design and implementation of innovative compensatory mechanisms to assist farm producers and low-income consumers.

The loan will also support government efforts to adapt to the NAFTA policy framework and develop new instruments for trade and finance. The program will be carried out by the Ministry of Finance and the Ministry of Agriculture and Rural Development.

**Mexico.** . . \$300 million to support pension system reform. The program will seek to increase equity,



transparency, and fiscal solvency while enhancing domestic savings.

The loan will be complemented by financing from the World Bank.

Among the social security reforms for workers in the formal private sector are the following:

- ▶ Accounts for coverage for disability and life insurance will be separated from accounts for severance, retirement, and old

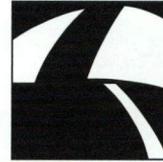
age benefits in order to more clearly align contributions with the expected benefits.

- ▶ Private insurance companies will provide benefits through annuities.
- ▶ Individual retirement accounts, managed by private firms, will be established for each worker.

### TECHNICAL COOPERATION

**Regional.** . . \$650,000 from the Japan Special Fund for consulting services to study the feasibility of a transport corridor linking Cuiabá, Brazil,

Santa Cruz, Bolivia, and Arica, Chile. The study will identify the ports, highways and intermodal rail connections needed for such a corridor and suggest execution mechanisms to enhance project viability, including private sector participation.



### MULTILATERAL INVESTMENT FUND

**Paraguay.** . . \$1,450,000 to train middle-level plant managers and supervisors in the manufacturing sec-

tor and professionals in nongovernmental organizations specializing in human resources development.



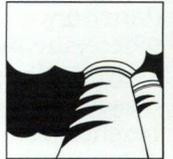
Vouchers will be used as an incentive for investments in human capital in the private sector.

**Regional.** . . \$1,223,000 in nonreimbursable financing to help eight small Caribbean island states establish an electronic, over-the-counter stock exchange. See article on page 10 for details.



### INTER-AMERICAN INVESTMENT CORP.

**Bahamas.** . . \$1.5 million loan to Waterfields Company Limited, which will build, own, and operate a new reverse osmosis desalination plant on the island of New Providence.



The total cost of the plant, to be operated under a 15-year concession, is \$11.6 million.

IIC's investment, combined with that of local financial institutions, will have an important economic impact in New Providence, where tourism and construction development has been hampered by a lack of potable water. The plant will furnish up to a quarter of the island's residential water needs.



DAVID MANGURIAN—IDB

## Home-brewed allergy cures

*Franca Puccio, a student at Venezuela's Central University, works on an allergy treatment project with biologist Nancy Garcia at the University's Biomedical Institute in Caracas. The institute developed a way to produce allergenic substances domestically after research showed that allergens imported from temperate countries were not as effective in Venezuela's tropical setting. The university is marketing the allergens.*



Circus school students Romero, Rodrigo and Valfredo take a break from clowning lessons at the Dream Factory.

RIO DE JANEIRO

## Big dreams under the big tent

*Poor youths get a second chance at circus school*

"I've always believed that the circus is one of the great thrills in life," says Telma Lucia Martins.

Armed with this conviction, Martins, a gentle, quiet-spoken mother of three, opened a circus school four years ago to lure troubled kids off the streets of the tough Rio de Janeiro waterfront neighborhood where she lives. She began modestly, finding free space to hold classes and persuading a retired teacher from the National Circus School, his son (also a circus performer), and her own two daughters (National Circus School graduates) to serve as unsalaried teachers.

She called her new school "Art of the Circus—The Dream Factory."

Today, 80 students are learning skills from tumbling and juggling to fire breathing, stilts and clowning. Some dream of a career under the big tent, and one student was recently offered a \$1,500-a-month job with a German amusement park. But the school's primary mission is to rescue young lives that would otherwise be wasted.

"Seventy percent of the students come from homes where the parents or other relatives either traffic in drugs, are in prison for drugs or have been murdered," said Bruno

Martins, Telma's son and assistant. "These kids lack self esteem," he added. "We work on building character."

Telma recounts the story of Fernanda, who came to them at age 11.

"Her father was in jail and her mother worked at night, leaving her and her brothers and sisters all alone in a violent neighborhood. She finally fled home. When she came here, she was very withdrawn. She was ashamed that her father was in jail. 'Time passes quickly,' we told her. 'Your father will be back with you soon.' We helped her through this difficult period. She returned to school. And today she's fine, very happy."

Then there is Romero. "He has been with us two years. He was also very withdrawn. He comes from a large, very poor family. He was doing badly in school and had no motivation. Now he loves to study. We got him a scholarship to one of the best schools in Rio. It makes you feel very good when you see a person change his life around."

Telma's circus school has only one rule: students must attend regular school and get passing grades.

Last year, the Dream Factory re-

ceived \$67,000 from an \$8 million IDB grant to the city of Rio de Janeiro to finance programs for poor children run by nonprofit organizations. Telma used the money to pay salaries, hire additional instructors, and start a workshop to teach kids how to repair fishing nets.

In January, the circus school will move to a new location where the kids will practice and perform under a real bigtop tent donated by Petrobras, Brazil's national petroleum company.

—David Mangurian



Learning to walk all over again.