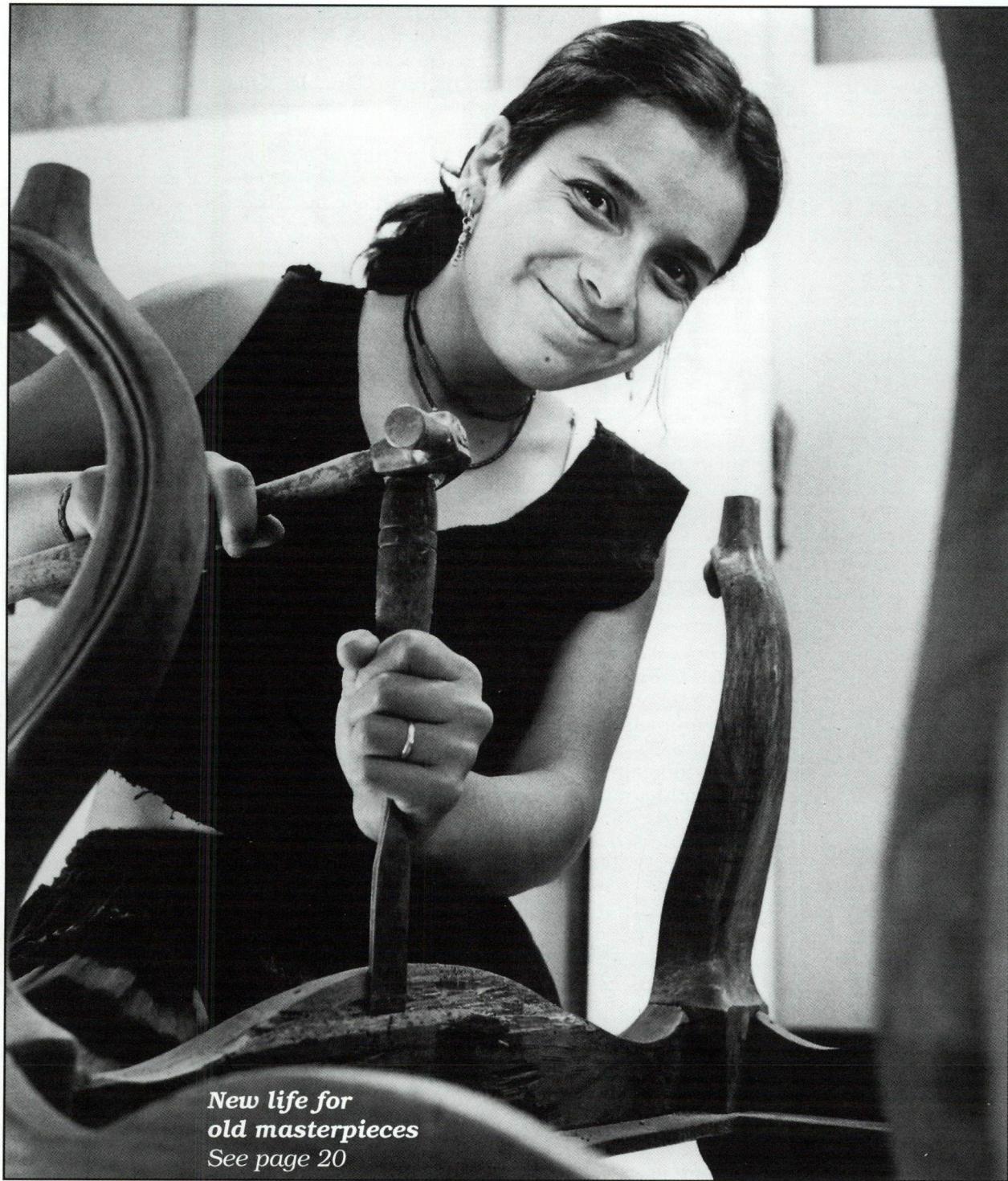


# THE IDB

Inter-American Development Bank • April 1996

Economic test of fire



*New life for  
old masterpieces*  
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**Sweet success in São Paulo ■ A program for peace  
Alchemy in the Andes ■ Where the wild things are**

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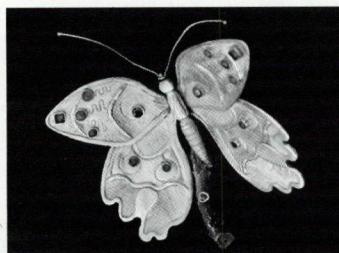
Big bucks from "worthless" ore in Peru, women turn entrepreneurs in El Salvador, small farmers get roads and technical assistance in Nicaragua.

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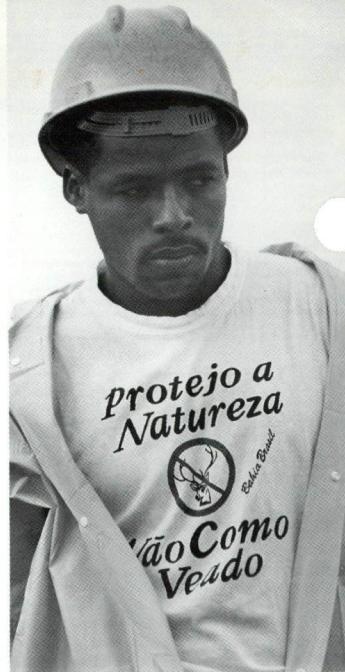
**Preserving a cultural heritage****20**

Young people learn techniques to preserve artistic masterpieces from the past.

## COVER PHOTO

**New life for old masterpieces**

Emilia Arias restores the graceful legs of a century-old inlaid jewelry box. She is a student at the Bernardo de Legarda art school in Quito, Ecuador. See related article on page 20. (Cover photo by David Mangurian.)



## 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.

# What went right?

Midway through what may someday be known as Latin America's decade of reform, Mexico's peso crisis put the region's economic policies to a test of fire. Was the world about to witness a repeat of the debt debacle of the 1980s?

The worst never happened. The Mexican government and the international community contained the crisis, and its effects were largely confined to Mexico and Argentina. In the rest of the region, annual growth slowed only slightly, to 4.2 percent, inflation continued to fall and the region deepened its integration into world markets.

This is the IDB's assessment of the watershed events of 1995 as contained in its recently released annual report. But while the year ended on an uptick, the Mexican crisis did expose serious flaws in the region's economies.

For one, Latin American countries are still vulnerable to shutdowns of international capital flows. Their low levels of domestic savings and investment cannot generate sustained economic growth and expanded employment. Other problems are outdated labor market regulations and an inequitable distribution of economic benefits.

**Tougher economies.** Despite these shortcomings, the reforms have provided critical resiliency to the region's economies. While investors withdrew from Mexico and Argentina, by the end of 1995 they appeared generally willing to give the rest of the region the benefit of the doubt (see table). Moreover, even Mexico and Argentina may soon get back on the road to recovery.

Clearly, a lot went right in 1995. The IDB, the World Bank and the International Monetary Fund, along with the government of the United States, can take credit for helping Mexico and Argentina honor their short-term debts. For their part, the

two countries took strong measures to adjust to the reduced availability of foreign capital, increasing taxes and public sector prices, and, in the case of Argentina, cutting public sector wages. These measures

*The peso crisis put the region's new economic resiliency to a test of fire.*

brought the panic under control, although the adjustment has not been painless, as both countries now find themselves in economic recession.

Another important factor in minimizing the damage was the rapid ex-

pansion of both countries' exports. As a result, the current account deficits of both Mexico and Argentina were brought under control.

Other, broader factors helped to ease the crisis. One was the relatively healthy international economic environment. Another was the increased openness and competitiveness of Latin America's economies—the fruit of trade liberalization and regional integration pursued over the past decade—also played a role. Mexico and Argentina could never have expanded their exports so quickly if their economies were closed and sheltered. Another plus was the stabilizing influence of NAFTA and Mercosur.

The lessons of 1995 are mixed, but Latin America clearly seems to be on the right track.

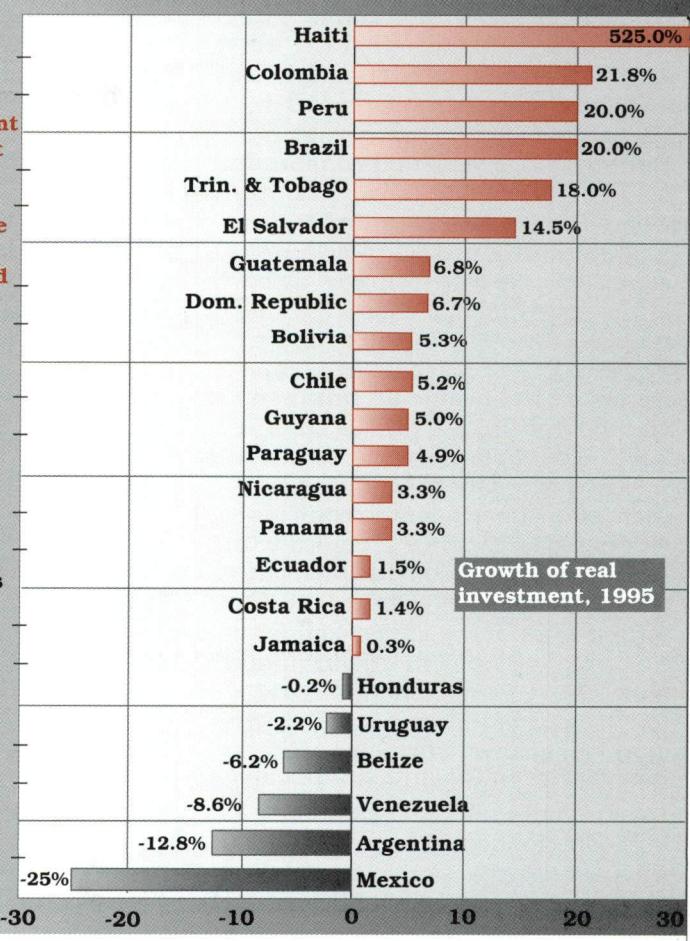
—the editor

## A boom in investment...

On the whole, Latin America made significant gains in investment last year, with Colombia, Peru and Brazil the star performers. In Haiti, the impressive increase of 525 percent represented a return to the investment levels of 1990–91

## ...was not shared by all

But a small group of countries suffered drops in investment, which were serious in the case of Mexico, Argentina and Venezuela. As a result, the average growth of real investment for the region in 1995 was about 0.3 percent, the first time since 1990 that it fell below the increase in gross domestic product.



GUATEMALA

## Building on peace

*Hostilities end and reconstruction begins*

by Santiago Real de Azúa

**T**he most difficult part is over," remarked a passenger in a small plane as a rough landing strip came into view. Carrying a team of experts from the IDB and other international organizations, the plane had overflowed a stunning series of mountain landscapes before arriving in Guatemala's department of El Quiché, near the Mexico border.

The passenger's comment seemed apropos to many aspects of life in El Quiché, one of ten departments that have suffered the most from Guatemala's 35-year armed conflict. Indeed, this sentiment—that the worst was over—would later dominate discussions between the foreign delegation, headed by IDB President Enrique V. Iglesias, and community leaders in El Quiché's Ixil Triangle, where the Bank is planning a new and innovative project to help reconstruct this war-torn area as part of the government's efforts to build on peace throughout the country. The challenges of reconstruction were sure to be difficult, but they could never be as trying as the violence of the years past.

When the visitors had boarded their plane once again to return to Guatemala City, they grappled with two equally valid conclusions. On the one hand, they felt great respect for the work of the area's communities and development organizations such as the Development Program for Displaced, Refugee and Repatriated Persons in Central America (PRODERE), funded by the Italian government and managed by the U.N. Development Programme over the past few years. Also participating in the project will be the publicly funded National Peace Fund

(FONAPAZ), founded as part of the country's peace process. FONAPAZ, along with other organizations, has carried out projects to reduce poverty, improve living conditions and promote economic and social integration in the area. On the other hand, the players were all aware that reconstruction had just begun.

From supplying the most basic necessities such as education, potable water and sanitation, to dealing with more complex issues such as land rights and cultural preservation, almost everything necessary to return this area to normality still remains to be addressed. For the IDB, the question is how to go about this task, and where to start.

**N**o one who visits this area can fail to be impressed by its hard-working, community-spirited people, and its rugged natural beauty. But neither can even the most casual visitor ignore the region's enduring poverty, nor the legacy left by the armed conflict: some 100,000 dead, one million displaced, hundreds of communities erased from the map.

Fortunately, Guatemala is no ex-

ception to the democratic trend that has swept Latin America. The new government, which came to office recently in clean and fair elections, has promised to continue negotiations on a peace accord with the country's insurgent forces. It has also promised to increase social spending, which has traditionally been low on a national level (2.1 percent of the budget in 1990 for health and 1.4 percent for education). In the country's poorest zones, social spending has been even lower.

While peace is a necessary condition for repairing and revitalizing Guatemala's social fabric, the government, insurgent leaders, national and international experts and representatives of nongovernmental organizations all agree that a special effort will be needed to improve the living conditions of the country's poorest communities.

To this end, the IDB has begun a dialogue with Guatemalan officials that could serve as a model for other countries facing similar challenges. The IDB's reconstruction project will help consolidate the peace process by supporting development efforts by and for local communities.

The Bank project would be the first IDB effort designed specifically to support a peace process that has



"We don't want handouts," stressed community leaders at a meeting with IDB President Iglesias (center) and other Bank and government officials.



ended a long fratricidal war.

"We don't want handouts or prefabricated programs, nor are we afraid of hard work," was a refrain heard over and over in a meeting with local leaders in the town of Santa María Nebaj. In a sense, the phrase summed up the sentiments of all the meeting participants, in which indigenous voices and values dominated, reflecting the region's Mayan culture and people.

The project's modus operandi will be based on such fundamental principles as nondiscrimination and strict neutrality. It will support activities that local communities themselves have identified as priorities, providing them financing as well as technical assistance.

**A**nother aspect of the project will be its support for community fora to discuss and prioritize investments in such areas as infrastructure, education, health, the environment, productive activities and community development.

To further ensure that development assistance is used with optimum efficiency and effectiveness, the project will establish links between communities that in the past have largely been isolated from one another and from the country's



democratic institutions.

The financial resources the Bank will approve for the project are only part of the picture. The project's goal is to promote a development process based on participation and coordination. Its success will require cooperation, credibility and trust among the principal protagonists—local communities, government officials and the private sector.

The IDB has pioneered a number of new areas formerly outside the purview of development institutions, most recently, reform of the state, strengthening of civil society and direct support to the private sector. In

**Poverty and peace.** Hard-working but poor, the people of Guatemala's highlands will be major beneficiaries of a government committed to democratic institutions and continued negotiations for a permanent peace.

#### At a glance

Total population	10 million
Population in poverty	7.5 million
Population in extreme poverty	6 million
Number of ethnic groups	22

In all cases, a successful outcome depends on collaboration between the government and civil society that the IDB is helping to foster. In the case of Guatemala, success will be ensured by a vigorous community spirit that has survived decades of conflict, as well as the commitment of the government and of development agencies with long experience in the region. All are determined that the results of the project will be as inspiring as the mountain terrain that will serve as its backdrop.

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

BRAZIL

## Sweet success in São Paulo

*Sugar farmers fund cutting-edge research*

The worldwide drive to stay competitive in agriculture has shifted from farmers' fields to laboratories and research centers. Unfortunately, Latin America is a comparative laggard in the field of science and technology. With few exceptions, the region's farmers cannot match the production and efficiency of many foreign producers.

Nevertheless, Latin America does have world-class research centers, and they are showing that home-grown R&D pays off in more productivity, less environmental impact, and more value added.

Among the region's elite R&D facilities is the Copersucar Technology Center in Piracicaba, in Brazil's São Paulo state, which is owned and managed by a cooperative of 36 local sugar mills. Researchers at the center have made a series of breakthroughs in recent years that are ensuring the country's place as the world's leading producer of sugar cane. Thanks in large part to the center's work, Brazil's farmers have reduced sugar cane production costs by an average of 3.8 percent annually since 1985.

Among other achievements, the center has:

- Developed biological controls to cut losses caused by the sugar cane borer from 8 percent in 1980 to 2 percent by 1993.
- Developed a novel two-row sugar cane harvester.
- Invented a biodegradable plastic made from molasses.

More than 100 scientists and 700 support staff work at Copersucar's headquarters and satellite research stations in Paraná, São Paulo and Minas Gerais states, which are mostly funded by its member sugar mills. An additional \$3.2 million in IDB financing channeled through Brazil's national science funding

agency, FINEP, is strengthening Copersucar's research program.

Copersucar's 36 members produce one-third of Brazil's sugar crop and vehicle fuel alcohol. But the research center's impact extends beyond its membership. More than half of all sugar cane grown in Brazil are varieties developed at the center. The center also exports true sugar cane seed to many countries in the Americas, Africa and Asia.

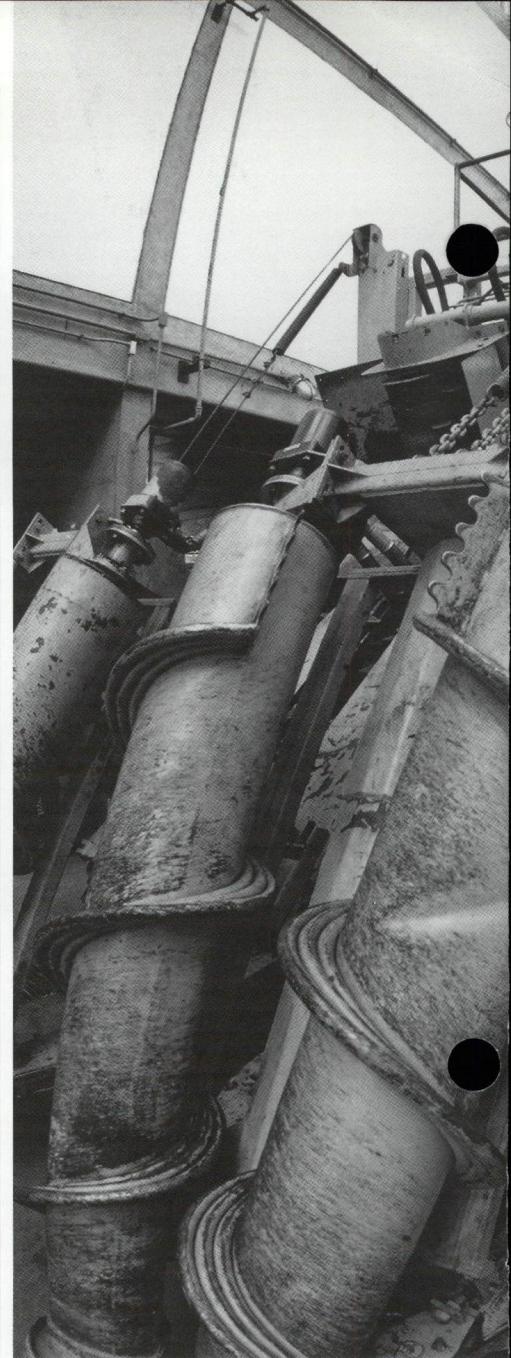
Through Copersucar, the 36 participating members have entered the world of advanced technology, streamlining their production and developing new ways to add value to their product. As markets open further, they will put their competitive edge to good use.

As the fruits of research help to turn farmers into agroentrepreneurs, society will benefit as a whole. Agricultural exports will have more value, consumers will have more variety to choose from, and a stronger agricultural sector will fight poverty by creating jobs.



### Sugar high

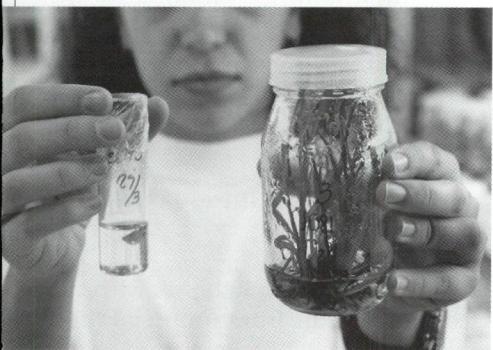
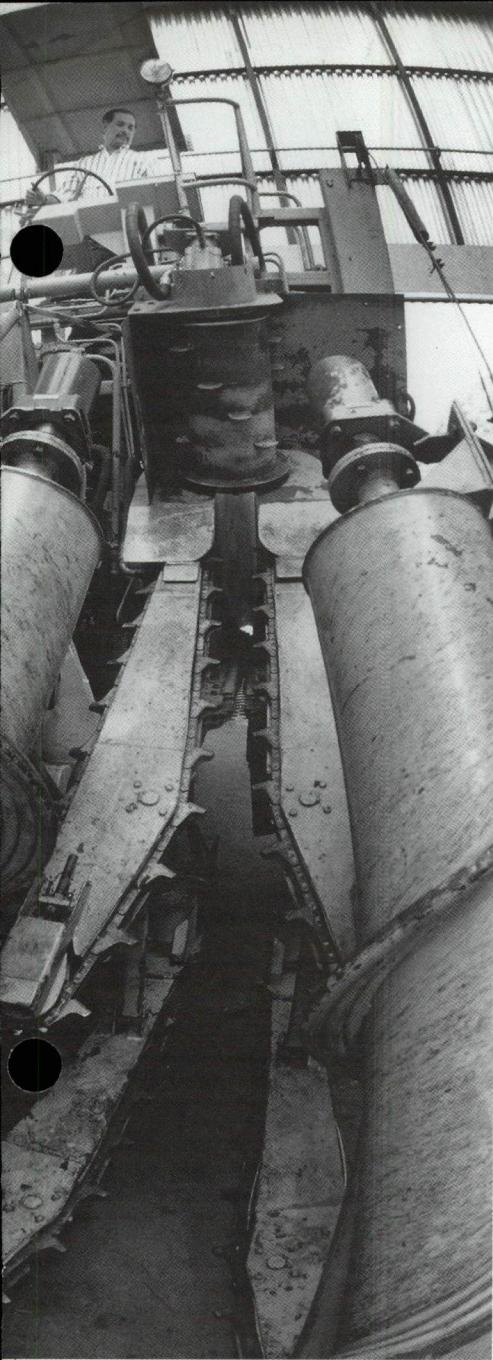
Researchers at the Brazilian center use enhanced satellite images to map farms, forecast and schedule harvests, and check the effectiveness of environmental controls.



### One big machine

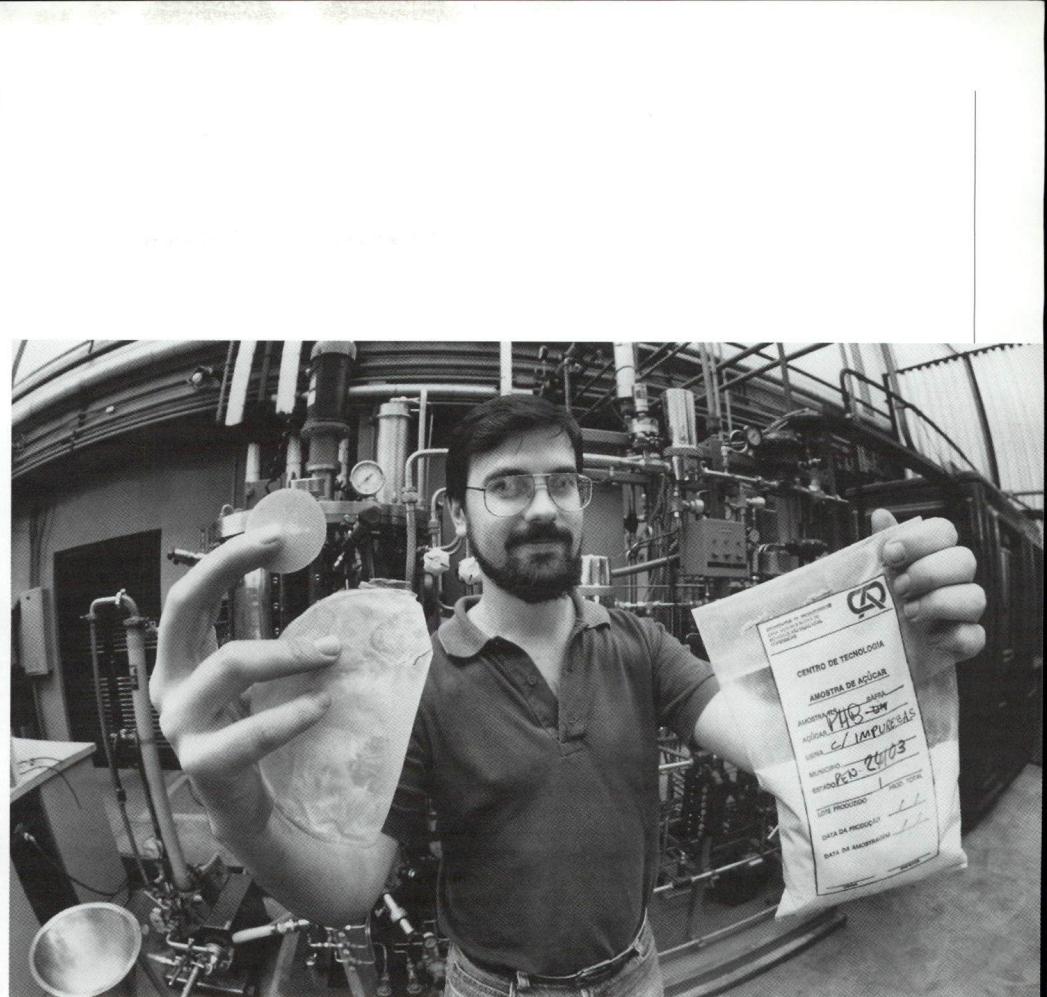
In 1992, the Copersucar center built a novel two-row whole stalk sugar-cane harvester. Designed by a United States engineering consultant, the machine harvests up to 100 tons of sugar cane per hour. It has been field tested and refined for three seasons, and will be offered to manufacturers in July.

**Article and photographs  
by David Mangurian**



### Better genes

Using gene splicing techniques, Copersucar scientists have created transgenic sugar cane varieties that are resistant to chemical herbicides and promise dramatic reduction of losses from weed infestation.

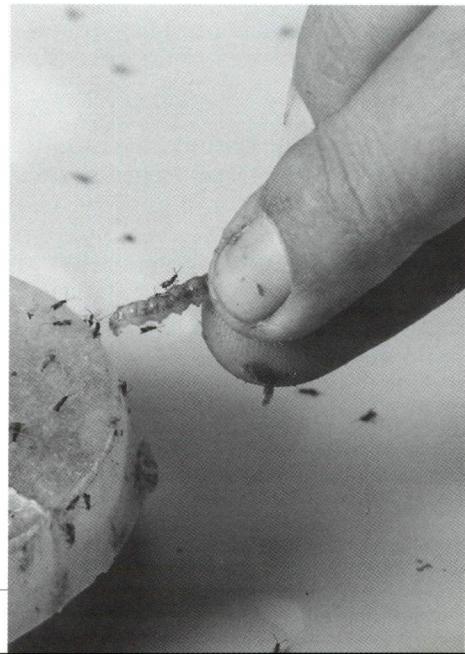


### Molasses into plastic

A team of 50 scientists from Copersucar, the São Paulo Institute of Technological Research and the University of São Paulo has created biodegradable plastic from molasses. Made by converting sugar into a polymer, the plastic can be decomposed by bacteria in less than 12 months. A pilot plant has been built at a member's mill in Serrana, São Paulo state, that is providing biodegradable plastic to private manufacturers for testing.

### Insect allies

The Copersucar research center has helped cooperative members breed billions of tiny predator wasps that attack the sugar cane borer, reducing insect damage from 8 percent in 1980 to 2 percent today. The use of chemical pesticides to control the borer has been virtually eliminated.



## RESEARCH

# Money: now you see it, now you don't

Countries and households face similar problems

■ Money in Latin America tends to pour in and rush out, as the recent Mexican peso crisis showed. But can Latin American countries influence the capital inflows they receive? And if they can, should they? How should governments respond to volatile capital flows? Does the greater mobility of international capital have any implications for domestic policy?

These are some of the questions raised, discussed and answered in *Volatile Capital Flows—Taming their Impact on Latin America*,

## How to deal with volatility

Chief Economist Ricardo Hausmann and Principal Advisor Liliana Rojas-Suárez. The text is based on the conference "International Capital Flows: Prospects and Policy Issues," which took place in Jerusalem, Israel, in April 1995.

The book advocates a practical, pragmatic approach to achieving financial stability in periods of volatility. Among its conclusions are the following:

- Fiscal reforms should be consolidated and expanded to improve the public sector's budgetary position in the long run.
- Governments should be cautious on capital flow issues, treating inflows as transitory and outflows as permanent.
- Supervisory and regulatory systems should be flexible to adapt to the rapidly changing international financial system.
- Policymakers should monitor the composition of their countries' capital flows.
- International standards on countries' release of financial information should be strengthened.

► Supervision of the financial system should be increased.

The book urges countries to establish policies to raise domestic savings. This will not be easy, says World Bank Chief Economist Michael Bruno in an essay included in the book. One way to do so, he said, is through contractual saving programs, for example, through pension reform.

► For information on ordering the book referred to above, contact the IDB Bookstore, Tel. (202) 623-1753, fax. (202) 623-1709.

■ With an average growth rate of 7 percent over the past 10 years, single digit inflation, flourishing investment and low unemployment, Chile has seen a dramatic increase in national savings, from a dismal 6 percent of GDP in the early 1980s to a robust 26 percent in the last three years.

## Chilean role model

What went right? That is precisely the question answered by Chilean economist and IDB visiting scholar Felipe G. Morandé in a recent seminar at Bank headquarters. According to Morandé, Chile's long-term success and recent ability to insulate itself from the "tequila effect" of early 1995 were due in part to high national savings that provided the funds needed for investment and growth, and which substituted for external savings.

How has Chile achieved such a high savings rate? Sustained economic growth is one part of the answer. The other part is the country's deep capital market, attributable to large pension funds, and a tax

DAVID MANGURIAN-IDB

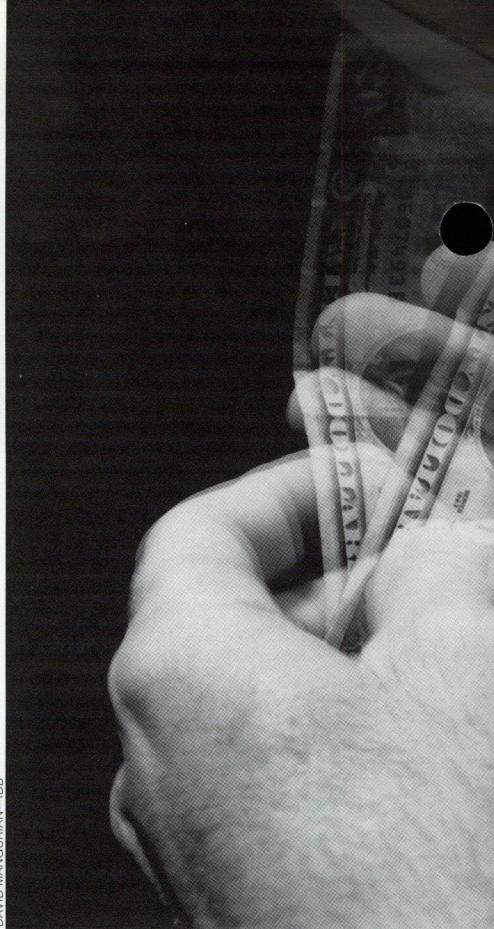
structure that penalizes spending and favors corporate saving, according to Morandé.

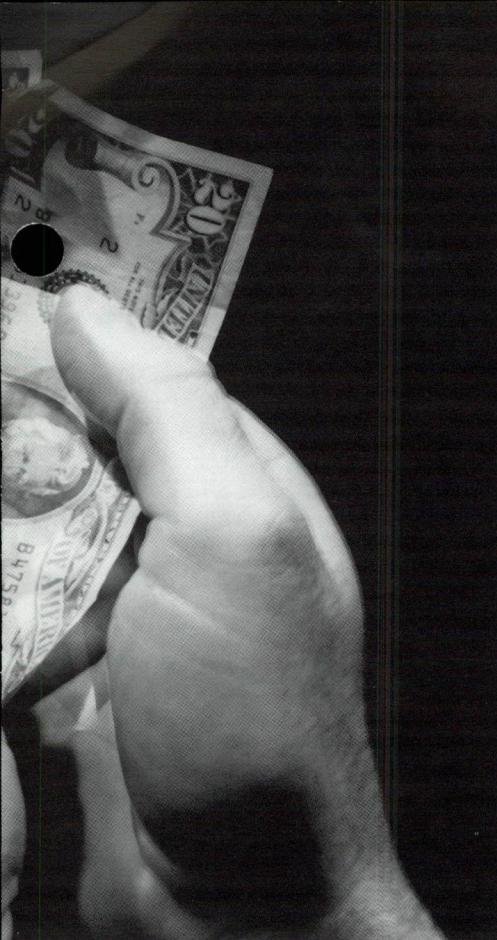
Judging from Chile's success, the path being taken in most other Latin American countries is essentially correct, he continues. "Policies are promoting growth in the medium and long run, and that is essential for savings and further growth," he says.

Nonetheless, he argues, countries in Latin America must reduce short-term vulnerability stemming from high dependence on foreign capital inflows. Among other things, they should implement sound financial regulation policies, tax structures that burden spending rather than income, and foster long-term capital markets, possibly through pension system reform.

■ Low-income households with no access to credit from financial institutions tend to save

a great deal if they have new opportunities for high returns, such as starting a new business, according to a new study presented by IDB Executive Vice President Nancy Birdsall at a recent IDB seminar. The study





## ENVIRONMENT

## Where the wild things are

*Latin America is number one in biodiversity*

Mention wildlife and one immediately thinks of Africa. But while Latin America has no elephants or elands, it clearly beats out the Dark Continent for first place in sheer numbers of species of plants and animals.

The greatest hotbeds of faunal biodiversity in this hemisphere are the countries of Central America and the northern part of South America. Measured in terms of species per 10,000 square kilometers, Costa Rica ranks number one in the region and in the world, followed by Panama and Ecuador.

In Asia, Singapore has the most animals, with 538 species per 10,000 square kilometers, well below the top three Latin American countries. In Africa, the honor goes to Rwanda and Gambia, with 596

and 574 animals per 10,000 square kilometers, respectively. The entire United States, with few tropical ecosystems, has 104 species.

In the world of plants, Colombia is the leader, with 10,735 species per 10,000 square kilometers. This is double the number of species in the most floristically rich countries in Africa or Asia: Singapore, with 5,427, and South Africa, with 4,797. Brazil, Costa Rica and Ecuador also have more plant species per 10,000 square kilometers than any other country in the world.

The IDB is helping to support biodiversity mainly through projects that fund national parks and biological reserves and by fostering ecotourism, according to IDB regional environmental adviser for Central América, Luis Ferraté.

was coauthored by Williams College economists Thomas C. Pinckney and Richard H. Sabot.

Titled "Inequality, Savings and Growth," the study presents the results of a model indicating that greater investment opportunities and returns to labor can lead to exceptionally high savings rates by the poor. In fact, low-income groups will initially cut back on consumption in order to free up more investment funds, if they have good opportunities. Better-off households, which are less likely to face borrowing constraints, will not have as high a propensity to save.

"The implications of this model are potentially far-reaching," the authors say. "Ensuring that the poor have incentives to invest and to work more can result not only in higher incomes for them, but also in large increases in savings and investment, and hence in growth." The authors urge further research to expand the model's theoretical foundations and test it with empirical evidence.

For a copy of the study referred to above, contact Carlos Lozada at fax: (202) 623-3615, Tel: (202) 623-1639, or e-mail: carloslo@iadb.org

### Hotbeds of diversity\*

*The early explorers got it right: Costa Rica is indeed the "rich coast."*

COUNTRY	MAMMALS AND BIRDS	PLANTS
<b>Costa Rica</b>	<b>615</b>	<b>7,074</b>
<b>Panama</b>	<b>581</b>	<b>5,054</b>
<b>Ecuador</b>	<b>566</b>	<b>6,421</b>
<b>Belize</b>	<b>496</b>	<b>2,200</b>
<b>El Salvador</b>	<b>458</b>	<b>3,277</b>
<b>Colombia</b>	<b>436</b>	<b>10,735</b>
<b>Peru</b>	<b>412</b>	<b>3,674</b>
<b>Bolivia</b>	<b>326</b>	<b>3,683</b>
<b>Guatemala</b>	<b>302</b>	<b>3,948</b>
<b>Brazil</b>	<b>213</b>	<b>6,067</b>
<b>Bahamas</b>	<b>90</b>	<b>1,092</b>

\*Number of species per 10,000 square kilometers.  
Source: World Resources 1994-95, World Resources Institute.

ANNUAL REPORT

# Summing up 1995

## The IDB Group and the new Latin America

**The Inter-American Development Bank and the two other members of the IDB Group, the Inter-American Investment Corporation and the Multilateral Investment Fund, continued to venture into new areas in 1995 to support a region that is both transforming internally and seeking a growing international role.**

**Reports on the year's accomplishments were presented to the three institutions' boards of governors at their meeting in Buenos Aires, Argentina, March 25-27. A wrap-up of the results of the meeting will appear in the next issue of THE IDB.**



### Support in a year of crisis

Although the Mexican peso crisis got 1995 off to an inauspicious start, the region last year stuck to its strategy of economic and social reform with the help of record-breaking IDB support.

With loan approvals hitting \$7.3 billion last year, the IDB was Latin America's largest source of multilateral financing for the second time in a row, according to the Bank's *Annual Report 1995*. Disbursements totaling \$4.8 billion—a 60 percent increase over 1994—were also a record.

The IDB last year focused its lending on projects to:

- Promote economic stability, particularly in Mexico and Argentina.
- Support continuing public sector reforms.
- Strengthen social sector programs and poverty alleviation.

A record \$769 million was lent on concessional terms to help the region's poorest countries.

In its two largest operations ever, the Bank provided \$1 billion to Mexico and \$750 million to Argentina to help restructure their financial systems following the December 1994 peso devaluation. The IDB's support helped restore international confidence in the two countries in the aftermath of the crisis.

Elsewhere in the region, the Bank financed projects to help countries consolidate economic reforms already launched and to carry out reforms in other areas. These latter included projects for judicial reform in Costa Rica and Colombia, and tax and customs reform in Brazil, Haiti and Honduras. A \$78 million loan to help Brazil reorganize its internal revenue agency was the larg-

est IDB operation of its kind.

Social programs and poverty alleviation—priorities set by the Bank's Board of Governors—accounted for \$2.7 billion, or 37.4 percent of total 1995 lending. Among the largest loans in this area were \$500 million to Mexico and \$450 million to Argentina to safeguard their social safety nets in the wake of the peso crisis. The Bank also approved \$250 million for Colombia to strengthen the Social Solidarity Network, which oversees its social programs.

In other 1995 highlights:

- The Bank last year provided nearly \$46 million for the region's small and micro-scale businesses.
- Lending for environmental and natural resource projects last year totaled more than \$601 million in 1995, much of it for projects to improve urban environments.
- Five loans worth \$146 million were approved in 1995 through the Bank's new private sector lending window.



Work goes forward on a sewage treatment plant, part of a massive IDB-finance

DAVID MANGURIAN-IDB

► The Bank last year borrowed more than \$2.7 billion in the international capital markets, up \$1.8 billion over 1994.



## Funding for the private sector

The Multilateral Investment Fund (MIF), the newest member of the IDB Group, last year approved 32 projects for a total of \$66.2 million.

Among them were projects to:

- Establish new legal and regulatory frameworks for private investment in water and sanitation in Colombia, Ecuador, Nicaragua and Paraguay.

- Provide training to Mexico's electric power sector in state-of-the-art production methods and product design.

- Establish mediation and arbitration centers in Colombia and Uruguay to reduce backlogs in commer-

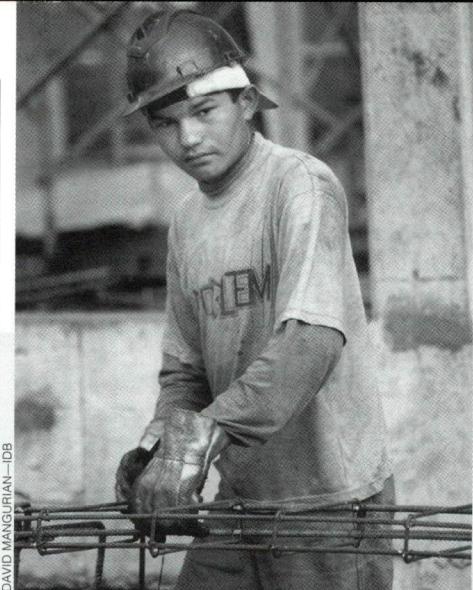


ect to clean up São Paulo's Tietê River.

## Meanwhile, in the region

By the end of 1995, the worst effects of the peso crisis were largely confined to Mexico and Argentina. Much of the region had registered economic gains, according to the Bank's *Annual Report 1995*.

Peru and Chile were the region's fastest growing economies, each with a more than 7 percent increase in GDP. El Salvador and Guyana followed closely behind at over 6 percent GDP growth. Haiti rebounded from a 30 percent contraction in the early 1990s to a 4.5 percent GDP increase in 1995.



DAVID MANGURIAN-IDB

On the down side, Uruguay and Venezuela, along with Argentina and Mexico, suffered recessions. Regionwide, real investment grew at a slow .3 percent, largely the result of slowdowns in Argentina, Mexico, Uruguay and Venezuela. Elsewhere, investment was up by an average of 17 percent.

cial and other civil disputes.

- Create networks of business development centers in Argentina, Colombia and Peru that will provide advice and services to small-scale enterprises.

Established in 1992 to promote equitable development of the region's market economies, the MIF acts both as a development institution and a venture capital fund for small businesses.



## First year of new strategy

The Inter-American Investment Corporation (IIC) in 1995 approved 14 loans and equity investments for \$36.4 million and helped mobilize \$74 million from other sources to support private sector projects in Latin America and the Caribbean worth a total of \$363 million.

Completing its sixth year of operations, the IIC last year implemented a new strategy of focusing on equity investments and participation in investment capital funds.

Operations in 1995 included:

- A \$4 million equity investment in the Andean Emerging Growth Fund,

a firm that will provide equity capital to small and medium-scale businesses operating in Bolivia, Chile and Peru.

- Acquisition of \$3 million of the capital of the Central American Investment Fund, which will provide financing and business expertise to companies with the potential to expand operations on a regional scale.

- A \$3.33 million equity investment in Corfinsura Fondo de Desarrollo de Empresas, Colombia's first development capital fund, which will provide capital to export-oriented companies in agribusiness, manufacturing, mining and emerging technology sectors.

- A \$2.5 million equity investment in a private pension-fund manager in Peru that provides an alternative to the country's social security system.

- A \$5 million equity investment in the Brazilian Equity Investment III, Ltd. to help make long-term capital available to firms in such sectors as transportation, construction and consumer goods.

- A \$3 million investment in an investment trust managed by Promotora Probursa, a subsidiary of one of Mexico's leading diversified financial groups.

## COLOMBIA

**Off the streets to a new life**

For more than 20 years, Marlene C. lived on the streets of Bogotá, surviving on handouts from churches and restaurants.

It all began when she was a teenager. The father of her young child suddenly left her without financial support and she suffered a mental breakdown. For two years she wandered about the city, leading her son around on the end of a chain, until the father persuaded the police to take the child away from her.

When the son turned 20, he hired someone to track his mother down. But when she was found, he was afraid to approach her. She was psychotic, very aggressive and wouldn't talk to anyone. So he turned to the Fundación Granja Taller de Asistencia Colombia (FUNGRATA), a nonprofit foundation that runs what may be Latin America's only privately managed program for mentally ill

homeless adults.

Three and a half years later, Marlene is on the road to recovery. She is well dressed, respects herself, and works in FUNGRATA's laundry at its headquarters in Sopó, a town just outside Bogotá. Someday, she hopes to rejoin society.

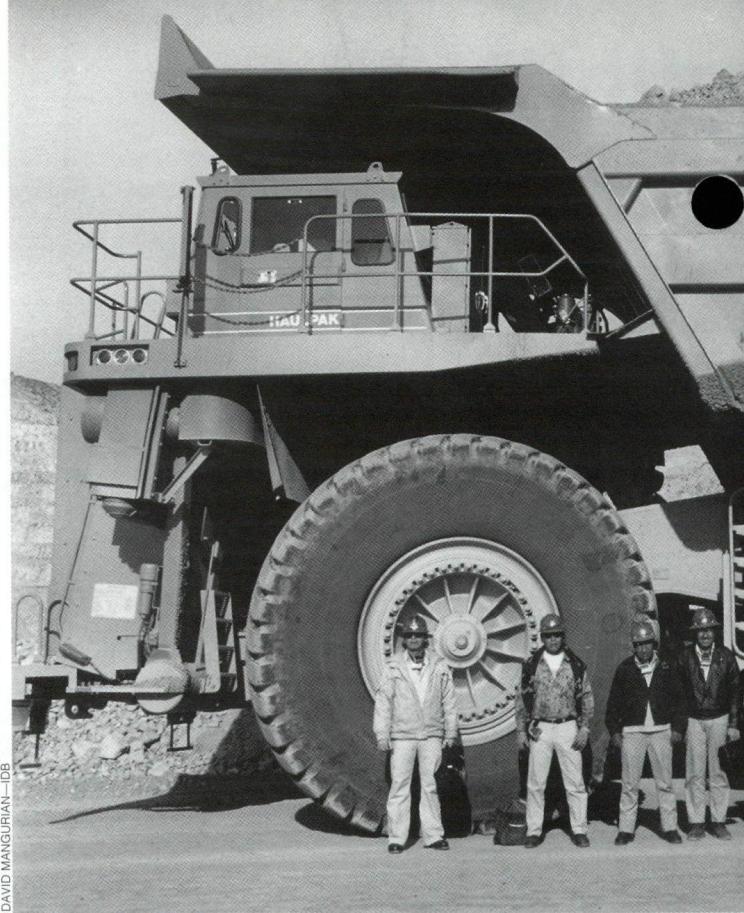
FUNGRATA is also planning to become self-sufficient. With the help of a \$450,000 IDB loan, it will expand its laundries, bakeries and vegetable farm and open a store to sell bread, ceramics and farm products produced by its patients. It will also build additional housing.

These productive activities not only provide income, but also serve as occupational therapy. "Developing habits of personal cleanliness, learning a trade, sticking to a daily schedule—these are not easy for them to learn," says Gladys Pinzón, a FUNGRATA occupational therapist. An additional \$150,000 IDB technical assistance grant will enable FUNGRATA to beef up its professional staff.



A job in a laundry is a big step for this ex-street person.

DAVID MANGURIAN-IDB



DAVID MANGURIAN-IDB

## PERU

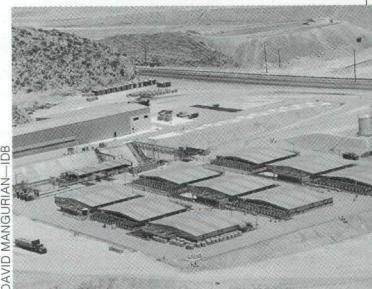
**Alchemy in the Andes**

Low-grade copper ore from the desert mountains of southern Peru is now being processed into 99.99 percent pure copper with new technology at a recently constructed plant.

The \$105 million plant and leaching operations, located at the Toquepala and Cuajone Copper Mines, will produce 40,000 tons of copper annually and increase parent company Southern Peru Ltd.'s exports by 15 percent.

The plant is using a new technology known as solvent extraction and electrowinning to extract the metal from previously worthless low-grade ore that had been accumulating at the mine since the late 1950s. Equipment for the plant was purchased in Chile, Japan, Sweden and the United States.

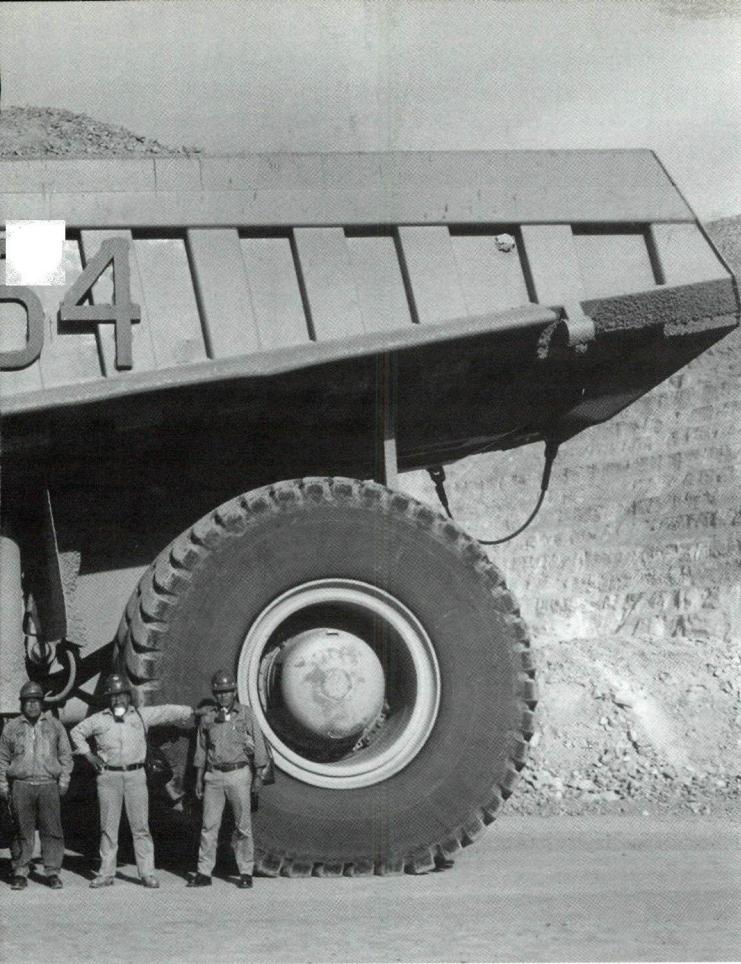
*Everything is king size at Southern Peru's copper mine. The new plant (below) will boost the firm's copper exports 15 percent.*



DAVID MANGURIAN-IDB

The plant was constructed with the help of \$7 million in IDB funds channeled through the Andean Development Corporation (CAF), a regional development bank. The CAF provided the company with a total loan commitment of \$60 million in 1991 to build the plant.

The loan was extended to the U.S.-owned company because at the time commercial banks were reluctant to invest in Peru due to the country's un-



stable economy.

Southern Peru has some 5,000 employees, and the taxes it pays on copper exports account for over 15 percent of Peru's total income tax revenues.

#### EL SALVADOR

### A real fighter

According to 60-year-old Josefa Francisca Molina, of the small Salvadoran town of Santa Lucía, it is never too late to learn something new to improve your life.

On a hot afternoon four years ago, this single mother of three put on her bright red dress and proudly accepted a diploma for a three-month course that qualified her to receive credits through an IDB-financed small projects program.

In the course, Molina designed a project to fatten three pigs to earn ex-

tra income for her family, and subsequently received a \$60 loan to carry it out. With her profits, she bought a chicken coop and some chickens.

The chicken business grew, enabling Molina to give her daughter Flor something she could not afford for her first two children: bus fare and the supplies needed to attend secondary school. Now completing her final year of studies, Flor has decided to become a primary school teacher and won a scholarship to help pay for her studies after graduation.

Laura de Hasbun, a regional supervisor of the microenterprise program, knows Molina and her determination. "When her daughter needs something for school, she sells a chicken," she says. "She's a hard worker, a real fighter."

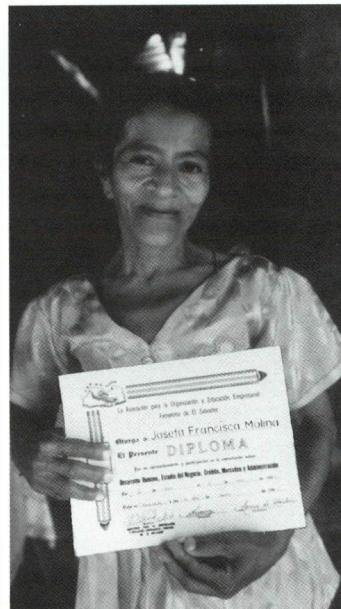
The credit program, run by a nonprofit organiza-

tion called the El Salvador Association for Women's Business Organization and Education, has trained nearly 5,000 low-income rural women in central El Salvador. Some 1,460 women have received loans to carry out projects they design themselves.

Women participating in the program earn an average of \$200 a year in additional income, a considerable amount for families with an annual income of less than \$1,500.

But according to the Association's executive director, Enma Dinora Méndez de Sánchez, the benefits go beyond money.

"A woman earning income becomes a more important person in the home. She has the power to purchase, the right to opinions. And her children begin to have greater hopes and dreams for their own futures."



Mother's diploma opens doors for her daughter.

#### NICARAGUA

### Roads, research and reforestation

A nationwide program to help small farmers has gotten off to a solid start with the rehabilitation of 475 kilometers of roads and the reforestation of 104 hectares of river banks.

Other activities include research to spur the introduction of nontraditional products, studies for 14 dairy centers, small-scale irrigation projects, technical assistance, and training for farmers, staff of nongovernmental organizations and local government officials.

In all, nearly 90 rural infrastructure and technical assistance projects for the country's war-devastated central region were launched in 1995 and another 140 are planned for this year, according to officials of the IDB-financed National Rural Development Program (PNDR). The projects are selected from proposals made by farmer organizations, nongovernmental organizations or local governments, which are then charged with carrying them out.

The program has taken over the supervision of 17 bilaterally funded rural agricultural projects totaling more than \$200 million.

"Now everything is under one roof," says José Lois, IDB specialist supervising the loan from the Bank's office in Nicaragua. "There is much more coordination, and the donors are happy."

**LOANS**

**Brazil.** . . \$249 million to the state of Paraná to improve municipal services and public investments.



The resources will support the reorganization and merger of the Urban Development Fund and the State of Paraná Municipal Assistance Foundation into a new institution that will administer public funds for municipal investment projects.

The new institution will

**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>

have more flexibility than the present system to secure resources on financial and capital markets and will help mobilize private savings for urban de-

velopment.

The resources will also finance urban infrastructure improvements and targeted social services, as well as facilities for small-

scale producers. In addition, the program will strengthen municipal agencies and associations including the Paraná Environmental Institute.

The program has a total cost of \$415 million.

For more information contact: Secretaria de Estado de Desenvolvimento Urbano, Rua Deputado Mario de Barros 1290, 1º Andar, Centro Cívico, CEP 80530-913 Curitiba, Paraná, Brazil. Tel. (55-41) 254-8063, fax (55-41) 254-7374.

**Brazil.** . . \$14 million from the IDB's private sector window to help finance the construction of a 15-kilometer, six-lane toll road in Rio de Janeiro.



The \$173.5 million road will be operated by Linha Amarela S.A. (Yellow Line), a special purpose company incorporated by a Brazilian construction company.

The works partly financed by the IDB will include two parallel tunnels of 2.2 kilometers each, several smaller tunnels, viaducts and a toll plaza.

The Yellow Line toll road will reduce transit time to and from the southwestern, northwestern and northeastern areas of the city as well as to downtown. It will also serve as a model for future infrastructure partnerships between the city of Rio de Janeiro and the private sector.

The total cost of the project is estimated at \$173.5 million.



DAVID MANGRIAN/IDB

**Engineering expertise**

Engineers from an Italian-Colombian consortium monitor progress on a \$31 million bridge across Colombia's Otún River. When completed next year, the bridge and associated access roads will eliminate a traffic bottleneck between Bogotá, Cali and Medellín. The works are being carried out with the help of \$20.4 million in IDB financing and are being built by German and Brazilian construction companies.

**Haiti** . . \$3 million from the Fund for Special Operations to support municipal reform.



The resources will help create a dialogue among the central government, local governments, and civil society groups on efficient ways to achieve better public services, cost recovery, accountability, and efficiency at the municipal level. The Unité Nationale de Décentralisation, to be set up in the Prime Minister's Office, will carry out the program.

The IDB loan will also support pilot municipal reforms, training and research.

The project is expected to prepare the ground for a larger IDB-financed project to deepen and broaden municipal reform.

For more information contact: Bureau du Premier Ministre, Villa d'Accueil, Musseau, Port-au-Prince, Haiti. Tel. (509) 45-0007, fax (509) 45-1361.

**Honduras** . . \$1,892,300



to help train small- and medium-scale agricultural and agroindustrial producers.

The program will be carried out by the Pan American Agricultural School, commonly known as the Zamorano School. It will provide comprehensive business management and technical training to help participants increase production and

improve conservation techniques.

The program will directly benefit 1,960 people, including 300 young entrepreneurs. It will serve as a pilot project for the eventual establishment of a permanent, self-financed training program.

For more information contact: Escuela Agrícola Panamericana, Apartado Postal N°93, Tegucigalpa, Honduras. Tel. (504) 76-6140, fax (504) 76-6240.

**Nicaragua** . . \$3.5 million from the



Fund for Special Operations for a pilot program to strengthen child care services for low-income groups in urban and rural areas.

The resources will support community childhood development centers to provide early education and day care services as well as nutrition and health services for 63,000 children.

The program will also help families and communities to meet children's developmental needs, help raise the status of women, and improve the government's capacity to design and sustain early child development programs.

Nongovernmental community groups and civic organizations, as well as government agencies, will help carry out the program.

The government of Norway is supporting the program with a \$3 million grant.

For more information contact: Fondo Nicara-



## Commuting in the fast lane

*Rush hour traffic in Bucaramanga, Colombia, moves better now that the city's 45th Street has been widened from two to four lanes. Funding for the project came from an \$80 million IDB loan to upgrade infrastructure in small and medium-size cities throughout the country.*

güense de la Niñez y la Familia, Centro Comercial Berhman 1/2c. al Este, Altamira, 1a. Etapa. Tel. (505) 267-0022 or 278-1251, fax (505) 278-4487.

**Paraguay** . . \$50 million



to increase electricity transmission from the Yacyretá hydroelectric plant to Asunción.

The program will help the country meet growing electricity demand while the government modernizes the regulatory and legal framework for the energy sector and prepares it to receive more private

investment.

The supply of electrical power to the metropolitan system will increase from 645 megawatts in 1995 to approximately 925 megawatts in 1999. In addition, the program will improve energy efficiency and improve the reliability of the transmission system so that it meets international standards by 1999.

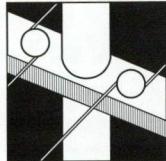
The total cost of the program is \$66.4 million.

For more information contact: Administración Nacional de Electricidad, Avenida España 1268, Asunción, Paraguay. Tel. (595-21) 202-890, fax (595-21) 212-371.

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**Uruguay.** . . \$40 million to provide dairy producers with improved electricity service and better roads.



The program will give 400 dairy farmers access to electricity and improve services for approximately 800 others. It will rehabilitate some 900 kilometers of roads and improve maintenance of an additional 1,050 kilometers to enable milk producers to ship produce year round, including during the rainy season.

The program will enable producers to increase dairy production by more than 4 percent annually as well as reduce production costs.

The total cost of the program is \$58.9 million.

For more information contact: Jorge Schenone, Director, Dirección de Proyectos de Desarrollo, Oficina de Planeamiento y Presupuesto, Edificio Libertad, Andrés Lamas 3355, Montevideo, Uruguay. Tel. (598-2) 472-110, fax (598-2) 923-090.

## TECHNICAL COOPERATION

**Bolivia.** . . \$2.65 million to improve access to education for working children.



The non-reimbursable resources will support a three-year pilot program aimed at creating conditions for



DAVID MANGURIAN—IDB

## Kaleidoscope in wood

Floors are elevated to an art form at the Inmobiliaria Gianna company near Asunción, Paraguay. The firm used a \$366,000 loan from an IDB-financed global industrial credit program to expand its operation and, in the process, doubled its 50-person staff.

poor working children to enroll and remain in the basic education system. It will benefit annually some 1,900 working children aged 7 to 12 living in extreme poverty in urban areas of La Paz, El Alto, Cochabamba and Santa Cruz.

The program will be carried out by nongovernmental organizations and will provide academic monitoring, tutoring and supervised recreational activities, as well as clothing, books and other school supplies, to guarantee that the children attend school regularly.

**Bolivia.** . . \$1 million in nonreimbursable financing to develop statistical techniques that will enable the Instituto Nacional de Estadística to

better evaluate the impact of social and economic policies on poverty and the welfare of the nation's population.

**Jamaica.** . . \$270,000 in nonreimbursable financing to design and develop Operation PRIDE, an innovative community-based low-income settlement program.

The program will enable low-income households to have easier access to land and homes through regularization of existing informal settlements, or through purchases.

It will also design policy and regulatory changes to eliminate legal and bureaucratic obstacles to improve shelter for low-income people.

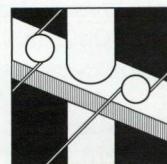
Operation PRIDE, AS-CEND, and other NGOs

will guide community-based organizations in the development process and help to ensure the progressive upgrading of the settlements by the beneficiaries.

**Panama.** . . \$1.4 million from the Japan Special Fund for studies and exploratory drilling to evaluate the potential of producing electric power from the Valle de Antón geothermal field.

The nonreimbursable financing will support advanced prefeasibility studies that will help attract private investment in commercial electricity generation using natural steam, thereby expanding electric power alternatives in a way that is friendly to the environment.

For more information



contact: Instituto de Recursos Hidráulicos y Electrificación, Edificio Hatillo, 4º Piso, Torre Número 1, Ciudad de Panamá, Panamá. Tel. (507) 27-0589/3137; fax (507) 27-0660.

**Peru . . .** \$1.8 million from the Japan Fund to strengthen the recently created Consejo Nacional del Ambiente (Conam).



The resources will be used to implement new regulations under Peru's Forests Act, which established Conam.

The project will include an updated diagnosis of the institutional and legal status of the environment and natural resources in the country, and the design of a proposal for a national environmental system. The latter will include environmental impact assessment procedures and support for the drafting of regulations on parameters for environmental pollution. Funding mechanisms for the national environmental system will also be designed.

**Suriname . . .** \$1,655,000 in nonreimbursable financing to strengthen the General Bureau of Statistics.



The program will improve the bureau's management, organization, and planning and operational procedures, as well as provide training for personnel and upgraded equipment.

**Regional . . .** \$1.2 million in nonreimbursable financing to assist Central American nations in joint efforts to further economic integration, environmental protection and investments in the social sectors.



The resources will support the Consultative Group on Regional Technical Cooperation for Central America, founded under the auspices of the IDB in 1990 with the goal of coordinating, defining and mobilizing international assistance needed to carry out economic integration in the isthmus.

The current resources will support the second stage of the program, which will emphasize the strengthening of regional institutions and progress toward an integrated economic area.

Belize, which joined the Bank in 1992, will be included in the second stage of the program, joining Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama.

**Regional . . .** \$1,040,000 for the Institute of Advanced Studies in Administration in Caracas to train high-level professionals in public management and administration.



The program will train 60 candidates in a 24-month master's degree program that will focus on such areas as public policy analysis, moderniza-

tion of the state, and economic and social issues.

Half the candidates will be from Venezuela, with the rest from other countries of the region. Courses for the program will begin in July 1996.

The grant will also finance applied research by professors and students in the program and the dissemination of research findings, as well as the

promotion of public debate on current policy issues.

For more information contact: Rafael de la Cruz, Coordinador, Centro de Políticas Públicas, Instituto de Altos Estudios de la Administración, Calle IESA, Urb. San Bernardino, Caracas, Venezuela. Tel. (58-2) 52-1533/1560, fax (58-2) 52-4247.

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## Crucial care

Teams of nurses closely monitor premature infants at the Hipólito Unanue National Hospital outside of Lima, Peru. The neonatal unit uses equipment bought with funds from an IDB loan that benefited 100 hospitals nationwide.

(from previous page)

**Regional.** . . \$1.2 million in nonreimbursable financing to prepare a detailed plan to improve the meteorologic and hydrologic institutions of 13 Latin American countries.

The resources include \$700,000 in local currencies of the beneficiary countries and \$500,000 from the Evergreen Fund for Technical Assistance, a new IDB-administered fund that was established last year by the Bank and the United States government.



The study will help determine how to better equip national institutions in Latin America to monitor, interpret and disseminate climatic data in order to better predict and deal with natural disasters such as floods and droughts, and to assist weather sensitive economic activity such as agriculture, transportation, tourism, fisheries and energy production.

Countries benefitting from the project, known as the feasibility and design study for the Ibero-American climate project, include Argentina, Bolivia, Brazil, Chile, Colombia,

Costa Rica, Ecuador, El Salvador, Mexico, Paraguay, Peru, Uruguay and Venezuela.

The total cost of the program is \$2,445,000.

For more information contact: Regional Office for the Americas, World Meteorological Organization, Casilla de Correo 401, Asunción, Paraguay. Tel. (595-21) 20-3634, fax (595-21) 21-2058.

#### MULTILATERAL INVESTMENT FUND

**Bolivia.** . . \$3 million for a pilot job training and re-training program for em-

ployees of small and medium-size enterprises and low-income youth.

The Ministry of Human Resources Development will set up an independent coordinating unit to carry out the program, which will include the participation of private training institutions.

The program will test new training techniques that will help develop and consolidate a job training system capable of responding effectively to changing labor market requirements.

An estimated 3,600 people will receive training under the program.

For more information contact: Ministerio de Desarrollo Humano, Avenida Arce 2147, La Paz, Bolivia. Tel. (591-2) 37-4-914, fax (591-2) 37-1376.

#### Dominican Republic. . .

\$1,920,000 to improve the agricultural competitiveness of small-scale producers.



Approximately 5,000 beneficiaries will receive technical assistance in such areas as financing, marketing, lab analysis, production, land management and pest control in order to improve efficiency and incomes.

The project will include diagnostic studies to identify those areas where small-scale producers can introduce innovations to increase productivity and competitiveness.



DAVID MANGURIAN-IDB

### Turning cassava into cash

By processing cassava into flour, women near the town of Ybyby, Paraguay, add value to the starchy tubers grown by their husbands. The women received training and funds to build a shed through a \$1.4 million IDB grant to benefit rural women.



PATRICIO HERRERA—IDB

## Credit for farmers

The IDB's representative in Ecuador, Robert Bellefeuille, and the president of the FEPTACH agricultural workers confederation, José Pilamunga, signed an agreement in February for a credit and technical assistance project for rural producers in Chimborazo Province. The credits will be used to increase production of cattle, sheep, guinea pigs, trout, quinoa, chocho, asparagus and artichoke.

**El Salvador. . . \$4 million**  
to support private organizations that provide vocational training.



The resources will enable the Private Consortium for Professional Training to establish minimum curricular standards for 10 selected training specialties.

The program will train 200 instructors from the consortium's member organizations and will carry out training demonstration projects. In addition, it will establish a system for placing skilled labor in work positions and a national network of private training organizations.

**Regional. . . \$5,285,626**  
to help two universities provide support for micro-

enterprise.

The Pontificia Universidad Javeriana of Colombia will receive \$2,711,163, and the Pontificia Universidad Católica del Ecuador will receive \$1,574,463.

The universities will use the resources to assist networks of nongovernmental organizations that promote microenterprise competitiveness through technical assistance in such areas as marketing, production, strategic planning and technology transfer.

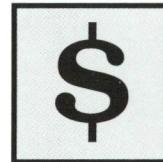
### CAPITAL MARKETS

**U.S. dollars. . .** The IDB has made its first ever global bond issue. The \$1 billion issue of 10-year



bonds, maturing on March 8, 2006, has a semiannual coupon of 6.125 percent and was priced at 99.117 percent, to yield 6.245 percent semiannually to investors, which is 29 basis points over the comparable U.S. Treasury bond yield.

The bonds were placed by a syndicate of international banks headed by Merrill Lynch & Co. and SBC Warburg.



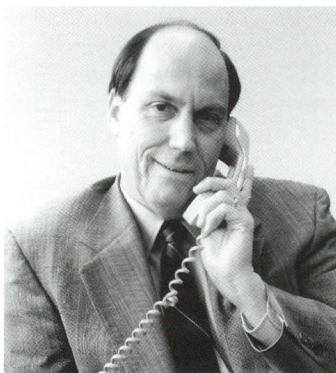
manager in the former Operations Department. Before joining the Bank he was general manager of Diners Club in Costa Rica. He served as a volunteer in the U.S. Peace Corps and later as a Peace Corps staff member in Washington, D.C., Ecuador and Costa Rica.

Riley has a B.A. degree in political science from the University of Dayton and an M.B.A. from the Instituto Centroamericano de Administración de Empresas in Central America.

### PEOPLE

Joel Riley has been named senior deputy manager in the Administrative Department, with responsibility for human resources and budget and services.

A citizen of the United States, Riley was previously chief advisor in the Office of the Executive



Joel Riley

Vice President and had been serving as interim deputy manager of the Human Resources Administration Subdepartment. He was previously the Bank's representative in Nicaragua and deputy

### IDB AND UNIDO SIGN AGREEMENT

An agreement to simplify procedures for the United Nations Industrial Development Organization to provide services for IDB-financed projects was signed in early February by Bank President Enrique V. Iglesias and UNIDO Director-General Mauricio de María y Campos.

The agreement gives UNIDO a framework for negotiating with counterparts in the region on specific IDB-financed projects. It will facilitate UNIDO-IDB collaboration on some 40 projects identified and formulated jointly by the two institutions.

### IN PRINT

#### Publications Catalog.

The Bank's publications catalog is available in English and Spanish by contacting the IDB Bookstore at: Tel. (202) 623-1753, fax (202) 623-1709.



ECUADOR

## In the footsteps of colonial masters

*Students preserve a cultural heritage*

Except for the fluorescent ceiling lights and a few modern tools, the Taller Escuela Bernardo de Legarda art school in Quito, Ecuador, could just as well be the workshop of the famous 18th century sculptor for whom the school is named.

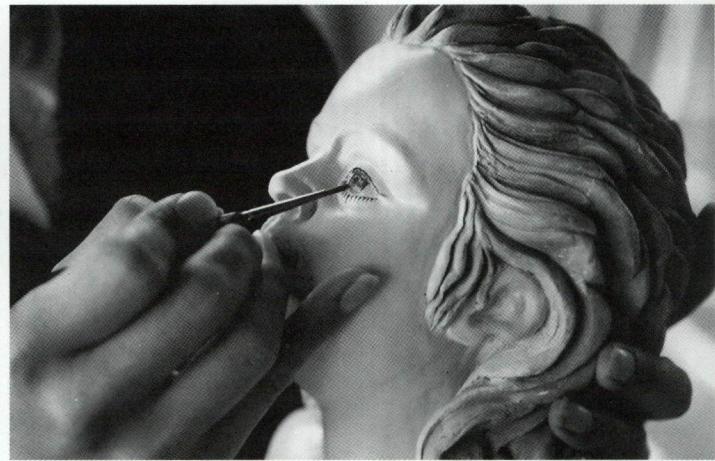
In one workshop, students are carving decorations on the sides of wooden boxes. In another, a young woman is restoring a 200-year-old inlaid wooden jewelry case. In another, students learn the technique of flesh toning the delicately carved face of a saint to give her the same glow that de Legarda and his predecessor, "Caspicara," gave to

their works, helping to make Quito the great center of colonial sculpture.

Students and teachers work quietly and speak in the hushed tones of highlanders. Their involvement and concentration is impressive. This is no ordinary art school.

"To succeed here," says instructor Rita Merino, "students need more than just artistic ability. They need patience and determination to not get discouraged. Learning the old techniques takes patience, a lot of patience."

The Taller Escuela Bernardo de Legarda was founded in 1981 by Ecuador's Central Bank. Its purpose is to provide



Instructor Rita Merino shows student Eulalia Corrales how to achieve the same lifelike flesh tones on the face of the original wood carving.



Colonial-style silverwork.

training in the restoration of colonial art, both pieces in its own outstanding collection and elsewhere in the country. It is one of only six art schools in Latin America that teach colonial art restoration. In 12 years of operation, over 300 students have graduated from its program. Another 400 have taken short-term courses.

The school became a private, nonprofit foundation in 1991, and since then has operated primarily on donations. Students are admitted to the three-year program on the basis of their ability and, of course, patience.

Why do young people want to learn a trade 200 years old? There are different reasons, but love for the old Quiteña art is most often mentioned. "The colonial masters left us this art," says Emilia Arias, who comes from the coast. "It would be a shame to lose it."

"Quiteña art is one of the treasures of our culture," explains Nicolás Jiménez, director of the school. "It is part of our identity."

With the help of \$38,000 of IDB funding channeled through the Esquel-Ecuador Foundation, the school is opening a center in north Quito to teach traditional handicrafts. An adjacent store will sell works by both the artisans and the school's art students. The IDB funds are also financing the purchase of tools and metal plating equipment. Sales at the north Quito store are expected to eventually finance operations of the school and the artisan center.

—by David Mangurian