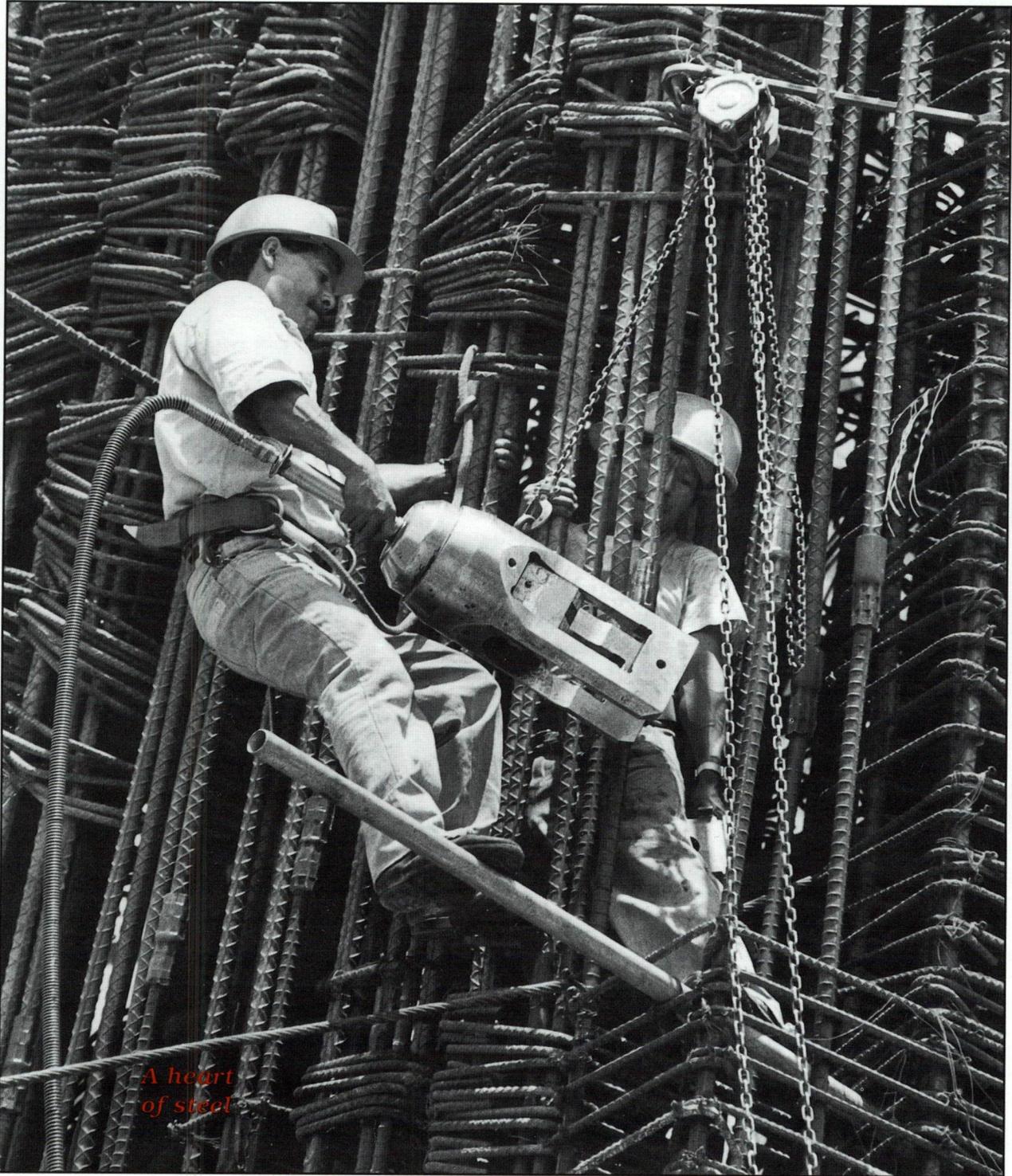


THE IDB

Inter-American Development Bank • May 1996

The Bank brainstorms



*A heart
of steel*

**Social project pioneer ■ \$800 million for the environment
The IDB cultivates grassroots partners ■ Of earth and fire**

FOCUS

Buenos Aires hosts annual meeting 3

The Bank's yearly gathering featured a record 4,300 participants and commitments to open and integrated markets.

THE REGION



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Southern cone private firms and governments link up to integrate the region's infrastructure.

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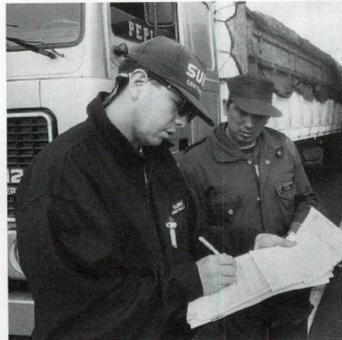
Teachers in nearly all of the region's countries earn less now in real terms than 10 years ago, a new study has found.

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CULTURAL CENTER



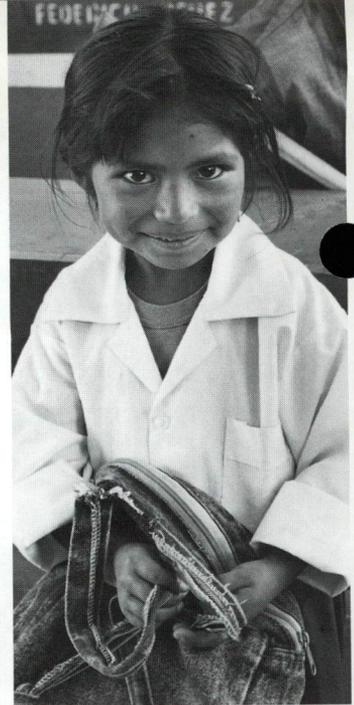
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The finest examples of Nicaraguan pottery—pre-Colombian and contemporary—are on view at the Bank's Cultural Center.

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A heart of steel

Workers raise a support column for a bridge across Colombia's Otún River. The 3,000 tons of reinforcing steel in the columns will provide the strength to withstand earthquakes. The bridge will help relieve serious traffic bottlenecks. (IDB photo by David Mangurian.)



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The Bank at a glance

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

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

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

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

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

A surer road ahead

As preparations began for the Thirty-seventh Annual Meeting of the Board of Governors, some feared that this yearly high point in the institutional life of the Bank might go unnoticed amidst the metropolitan hustle and bustle of the host city of Buenos Aires.

But when the meeting opened on March 25, those fears turned out to be unfounded: 32 years after the first Board of Governors meeting in Buenos Aires, the Argentine capital once again proved to be a magnificent setting for the Governors' deliberations. The 1996 event drew a record 4,300 participants, sending the entire region a clear message of optimism and renewed commitment to the reform processes undertaken in the 1990s.

The social agenda. A year after the region weathered the "tequila effect" of the Mexico peso devaluation, the situation is calmer and more encouraging. Still, a general perception remains that the current rate of growth is too slow to meet the main challenges of development and that the most should be made of this period of tranquility to tackle fiscal concerns and to make sure that financial systems are running well.

The inaugural session, at which the governor of Argentina, Domingo Cavallo, was elected chairman of the Board of Governors, set the tone for three days of deliberations and captured the spirit of the seminars that led up to the formal meeting.

In a climate of consensus on the need to deepen the processes of change already underway and launch a second generation of re-

forms, the participants renewed their commitment to society's neediest sectors, in accordance with the principle of solidarity that is the hallmark of the Bank's membership.

Precisely in pursuit of that commitment, discussions began in Buenos Aires on the issue of revitalizing the Bank's Fund for Special Operations, which provides essential financing to the poorest countries in the region. The FSO may run out of funds unless innovative ways of securing new resources are

found. The process of consultations between the member countries and the Bank's management is expected to continue in order to find a solution before the available funds are exhausted. This could conceivably happen in 1998.

A strong private sector. Another striking feature of this year's meeting was that the private sector—notably business representatives from Argentina, Brazil, Chile, Uruguay, and the United States—was present in force.

This strong private-sector showing was no coincidence. In 1995, the

Bank granted its first loans for infrastructure projects directly to private firms without government guarantees, and represented in Argentina were the three arms of the IDB Group that work with the private sector: the Inter-American Investment Corporation, the Multilateral Investment Fund, and the Bank's Private Sector Department.

As is the tradition, this annual gathering provided a forum for numerous bilateral meetings and a venue for signing contracts for loans, which this year totaled over \$700 million. The event in Buenos Aires was also the natural setting at which to relaunch the In-

stitute for the Integration of Latin American (INTAL), which now has a new director, Juan José Taccone.

In a world wracked by turbulence and uncertainties, the Bank in Buenos Aires reaffirmed its commitment to foster open, integrated, and efficient economies threaded together by a spirit of solidarity, and it placed its financial and intellectual resources at the disposal of Latin America and the Caribbean.

—Santiago Real de Azúa



WILLIE HEINZ—IDB

The consensus from the Bank's annual meeting in Buenos Aires: the outlook for Latin America and the Caribbean is calmer and more encouraging, though the region's current rate of growth is too slow.

PERU

Pioneering project still a role model

Proof that social development is “bankable”

by David Mangurian



In 1909, two years before he discovered Machu Picchu, Yale archeologist Brigham Powell paused in Arequipa, a desert town founded in 1540 at the foot of El Misti Volcano in southern Peru. There, amid ornate colonial buildings of sparkling white volcanic stone, he drew up a plan to improve the aqueducts that carried Arequipa's water.

Fifty-two years later, in 1961, elements of Powell's design were used to expand the city's water and sewerage systems in what would become the first project financed by the newly created Inter-American Development Bank.

How Arequipa used the loan to build a first-class water system is a story worth telling as the Bank marks the 35th anniversary of its first development project—which was also the first social project ever financed by an international lending agency.

The story began when earthquakes in 1958 and 1960 destroyed a quarter of the city's housing stock, forcing many residents to relocate to its outskirts. Nearby towns and villages were also damaged, and thousands of their residents migrated to Arequipa. The city's water treatment plant, La Tomilla, survived the quakes, but two-thirds of the underground water system was damaged. Fortunately, the city already had plans to expand its water and sewerage system. José García Calderón, then the

mayor, recalls that the city quickly scraped together the funds to turn the plan into a project proposal, and immediately got moving to obtain a loan.

Meanwhile, the Bank was looking for its first project. “We needed to make a loan to show we were active,” recalls Jim Lynn, the Bank's deputy chief economic officer in 1960, the first year that the Bank was fully operational.

At the same time, the IDB's young president, Felipe Herrera, desperately wanted the Bank's first loan to finance a social project. He was eager to establish the IDB as a different kind of institution than the

World Bank, which primarily financed roads and electric projects. Until then, the international lending community had considered social infrastructure—such as education, water and sewerage projects—as “unbankable,” that is, unable to produce a reasonable rate of return.

Arequipa presented the IDB with a plan for five water storage tanks and water and sewerage networks to serve 20,000 homes. Other candidates for the IDB's first project included a bakery and cattle raising projects. But “Arequipa was by far the best project presented,” Lynn recalls. “They were ready to go.” So, on February 3, 1961, the IDB's Board of Executive Directors approved the \$3.9 million loan to expand the city's water and sewerage systems.

In approving the loan, the board made two stipulations that would help establish the economic soundness of future social projects.

First, Arequipa was to create a public water company independent of the government. “We wanted to be sure the project was handled by people who had no political interests, but instead were interested in getting water to people,” said Lynn. This was a departure from past practice, when public works projects had been carried out by federal or provincial governments, often with political motives.

Second, the IDB required the city to install water meters and to charge people for the water they actually used. The city had tried to do this years before, but angry residents ripped the meters out in protest. As a result, the city had resorted to a flat monthly fee that did not always cover actual costs.

Work on the water and sewerage system began in 1962. The concrete walls and floor of the first storage tank were poured during three days and



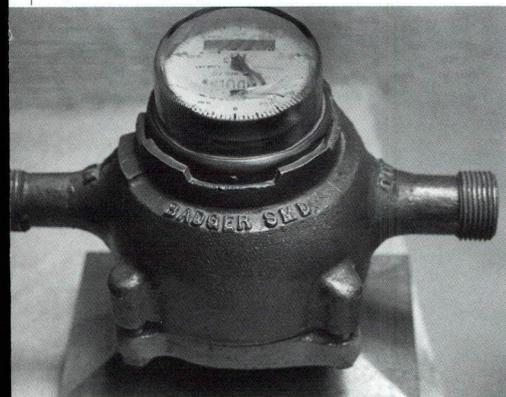
DAVID MANGURIAN—IDB

Builders of a solid and self-sustaining water system: Pozo Calderón and Mendoza Pizarro.



DAVID MANGURIAN—IDB

At the foot of El Misti Volcano, Arequipa is once more expanding its La Tomilla Water Plant. When done, 95 percent of the city's population will have water service; 75 percent, sewerage service. Officials credit water meters (below) with ensuring the system's fiscal health.



DAVID MANGURIAN—IDB

two nights. The Badger Meter Manufacturing Company of Milwaukee, Wisconsin, USA, supplied the 12,220 meters needed. Three years later, the project was completed.

This time, the meters stayed, and today, water company officials credit those meters and the collection of frontage and connection fees for keeping the utility company financially strong.

"The water company was able to

recuperate its investment and pay back the Bank," said Guillermo Pozo Calderón, an inspector for the construction company when the project was built and now an official with the Arequipa Water and Sewerage Service (SEDAPAR), formerly the Arequipa Sanitation Corporation.

"The people helped to solve their own problem by paying the real cost of the service, and not depending on a system subsidized by the government," said Antonio Mendoza Pizarro, then inspector for the new Arequipa Sanitation Corporation, and later its president.

Here, then, was proof: social projects were indeed "bankable."

Today, the five storage tanks and the distribution system from the original project are still operating. SEDAPAR has become a powerful and efficient agency.

The utility paid off the original loan in 1975. It used a second IDB loan to expand the treatment plant, and since then has spent \$50 million to continue its expansion to keep up with a population that has grown from 116,000 in 1961 to nearly 1 million people today.

Now, the La Tomilla Water Plant

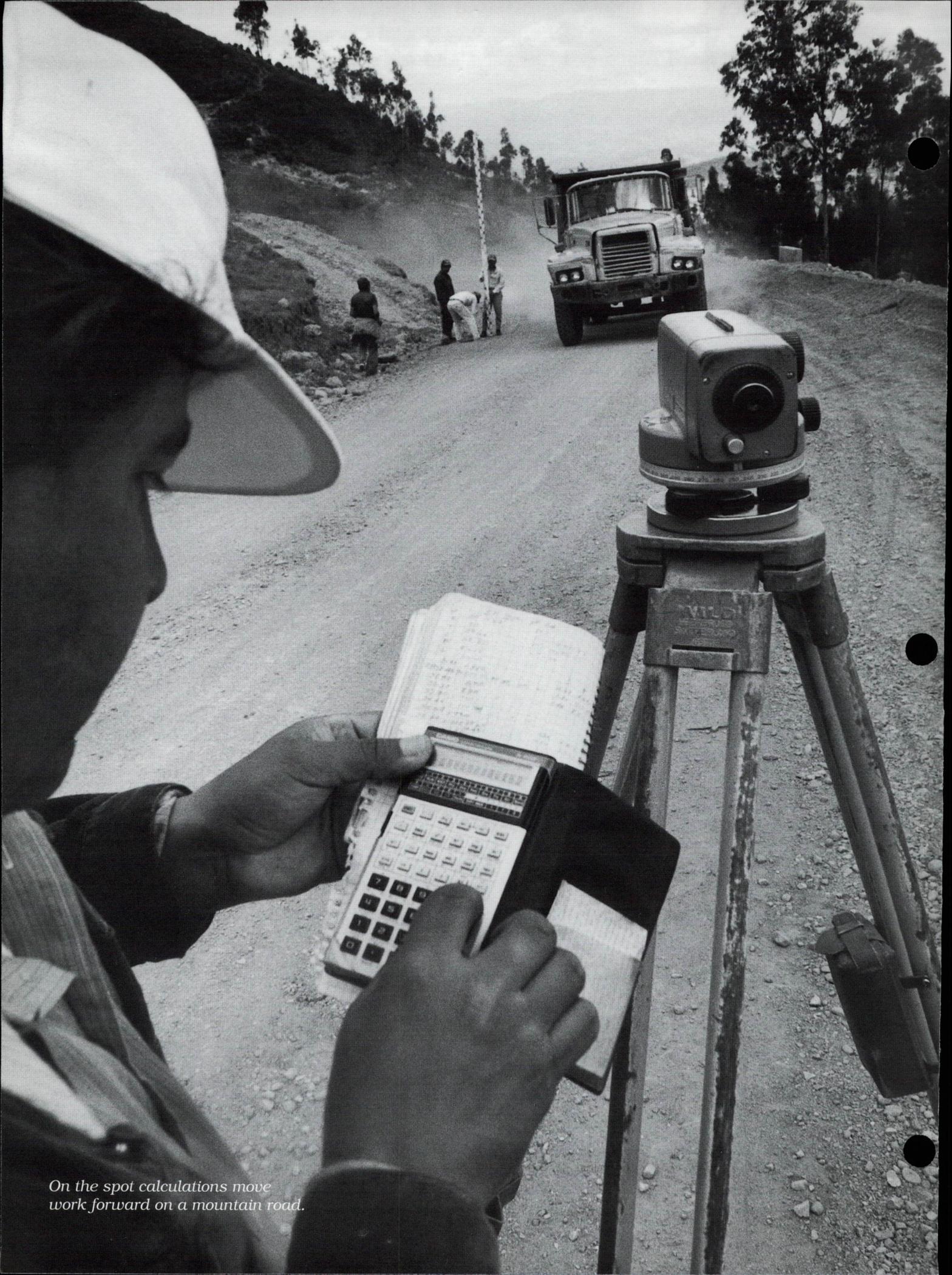
is being expanded yet again. More sewers and water lines are being laid so that 95 percent of the city's population will soon have water in their homes and 75 percent will have sewerage service.

"The major achievements of the IDB project," said Mendoza, "were the creation of a solid water supply organization and the development of a citizenry that expects to pay the costs of the water it uses. Because of this, the utility has never needed subsidies."

Arequipa's rapid growth has taxed other city services too, but current Mayor Roger Cáseres Pérez boasts that the new immigrants are making their own contributions, forming into weekend work groups to pave streets and improve schools. Even the poorest people, he notes, build their shacks with construction-worthy materials.

Meanwhile, at what some people consider the hemisphere's most beautiful water treatment plant, the desert sun sparkles off of the clean, clear water 360 out of 365 days each year.

The writer is an IDB audiovisual officer.



On the spot calculations move work forward on a mountain road.

INFRASTRUCTURE

New ways to cross borders

Growing business-government partnership

by Samuel Silva

Two pipelines being laid in Argentina wend their way toward Chile. Transmission lines will soon carry power from the Yacretá hydroelectric plant to Argentina and Paraguay. Tenders will be called shortly for construction of a bridge spanning the River Plate that will give Buenos Aires, Montevideo, and São Paulo ready access to a super-highway.

This construction surge and the plans to further integrate the nations that comprise Latin America's Southern Cone are the fruit of more open economies, lowered trade barriers and a robust private sector. But projects this massive require equally massive investments—the River Plate bridge alone is expected to cost one billion dollars. Even a reinvigorated private sector can rarely fund ventures of this scale.

Governments, private businesses and financing institutions will have to work in concert to satisfy the demand for cross-border physical integration in this corner of the world. This was the consensus of participants in a seminar organized by the IDB in conjunction with its recent annual meeting. The seminar on integration of physical infrastructure in the MERCOSUR member states—Brazil, Paraguay, Uruguay, and Argentina—along with Bolivia, Chile, and Peru; drew 400 participants. Among them were the energy, transport, and public works ministers of the seven countries, representatives of major engineering firms, bankers, senior IDB officials, and government and business executives.

Transportation and energy are

The writer is associate editor of THE IDB.

subjects of many ambitious integration initiatives now underway or on the drawing board. But to one degree or another, funding constraints are common to all.

Over the next 10 years, the subregion will need an estimated \$16 to \$20 billion a year to pay the cost of integrating its physical infrastructure, IDB President Enrique V. Iglesias said in his introductory remarks at the seminar. Linking infrastructure across borders is crucial at this juncture, he noted, because with MERCOSUR in place, trade has increased two and a half times in the space of just five years.

For a year now, the IDB has extended infrastructure loans directly to the private sector. Five per cent of the Bank's total lending has been earmarked for such operations. The IDB offers additional support in the form of guarantee arrangements.

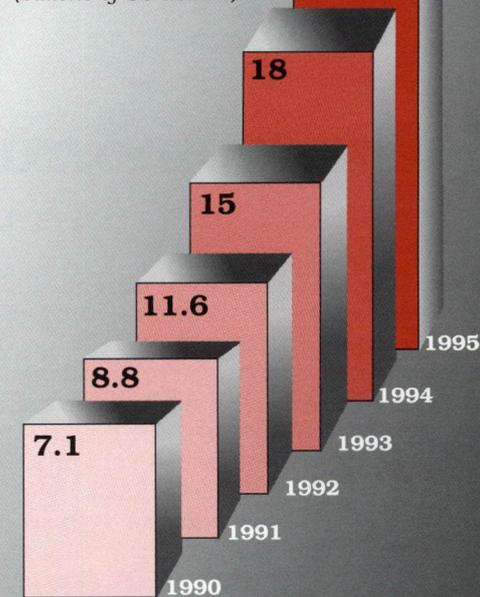
New state role. Even with the recent surge of private sector interest in infrastructure ventures, "plans cannot move forward without public money," said Chilean Public Works Minister Ricardo Lagos. According to a paper produced for the seminar by IDB experts, private enterprise should finance up to 25 percent of the region's infrastructure needs.

Seminar presenters shared the view that projects to connect infrastructure of two or more countries can be tackled jointly by the public and private sectors. Pooling public monies available for such undertakings could leverage more financing from multilateral development agencies like the IDB.

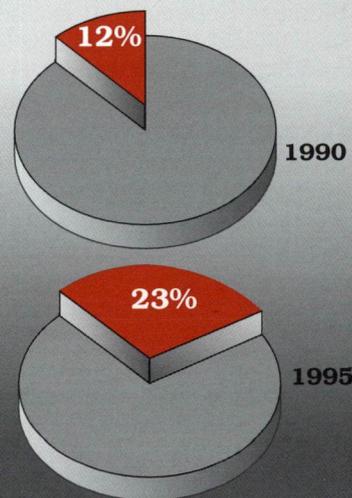
Representatives of the business community underscored the need for a system of guarantees to overcome impediments to project financing. "The private sector is prepared to take on commercial risks", af-

Trade booms in the Southern Cone

Exports soar among region's countries*
(billions of US dollars)



Meanwhile, intraregional exports claim a larger share of total exports.



* Argentina, Bolivia, Brazil, Chile, Paraguay and Uruguay

firmed Eduardo Baglietto, executive vice-president of Grupo Techint of Argentina, "but certain risks have to be assumed or mitigated by the State." These include guarantees of state funding commitments and macroeconomic stability.

Physical integration projects involving two or more nations in the region will demand concerted action on the part of their governments. Such pooled efforts are far more conceivable in today's climate of freer trade and economies.

BUENOS AIRES

What tomorrow may bring

Plenty of room for government innovation

■ Speaking at a recent seminar in Buenos Aires, Argentina, IDB Chief Economist Ricardo Hausmann proposed the establishment of independent national fiscal councils to help dampen the region's

Setting budget targets

financial volatility. The councils would be charged with setting and enforcing the maximum fiscal deficit

each year. This would enable the region's countries to "break out of the vicious circle" of "pro-cyclical policies," according to a paper Hausmann presented at the seminar on "Fiscal Institutions to Overcome Volatility" held prior to the Bank's annual meeting. At present, the give and take between a country's congress and executive branch tends to exaggerate cyclical fluctuations by spending too much in good years and thus making it necessary to raise taxes and cut spending in bad times when the economy is already contracting.

Independent fiscal councils would set counter-cyclical budget targets to help build budget surpluses during boom periods. The surpluses could later be tapped to maintain investor and market confidence during recessions.

Hausmann wrote the paper with Barry Eichengreen of the University of California in Berkeley and Jurgen von Hagen of the University of Mannheim and Indiana University.

☎ For a copy of the above paper, contact: Telephone: (202) 623-2195, fax (202) 623-1772, or e-mail norelisb@iadb.org.

■ Educational reforms have a better chance of success when they are not imposed from the top, but rather flow in both directions.

That was the main conclusion of a seminar on educational reform in Latin America and the Caribbean that was held prior to the IDB annual meeting in Buenos Aires.

Seminar participants analyzed the results of reforms undertaken in Argentina, Chile, Colombia and Mexico, as well as the successful experience of the Brazilian state of Minas Gerais. A common element in all of the success stories was teacher and parent involvement in the reform process.

Where reforms have been implemented top-down, the results have been almost instant opposition from teachers' unions, making success unlikely since it is up to the teachers to carry out—or not

Due reform in education

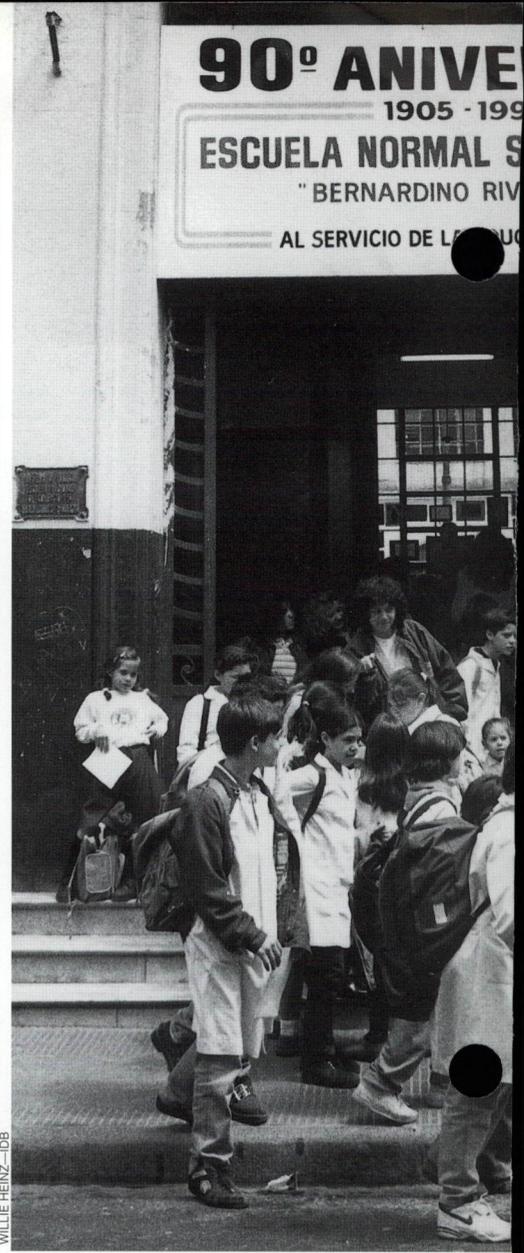
carry out—the reforms in the classroom. "We have to learn to build democracy in

the classroom and with the teachers," said participant Vicky Colbert, regional advisor for education at the United Nations Fund-Colombia.

Besides analyzing the dynamics of reform, participants addressed the training and certification of teachers, the evaluation of students' performance, and the prospects for secondary and technical education.

☎ For additional material on the education seminar, contact: Tel. (202) 623-2087, fax (202) 623-1558, or e-mail anafil@iadb.org.

■ Speakers brainstormed on ways to advance the cause of economic integration at a seminar on "Subregional and Hemispheric Integration Processes: Relevant Experiences" held in conjunction with the IDB's annual meeting in Buenos Aires. Case studies included NAFTA and



School reform ultimately depends on teachers

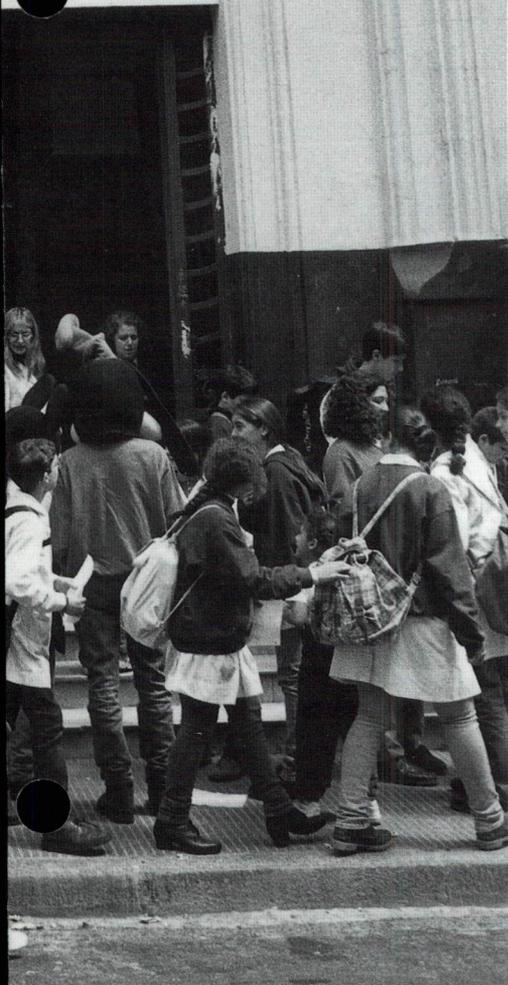
MERCOSUR, and the progress toward a Free Trade Area of the Americas (FTAA) trade pact.

Robert Devlin and Luis Jorge Garay, two IDB economists, presented lessons derived from the ongoing FTAA process. One is that success in economic integration requires the

Integration models to learn from

support and oversight of top-level political players, such as heads of state and ministers.

Also, advances have been made in early stages with little institutional commitment. This was partly owing to the fact that the FTAA process has relied on existing institutions such as the OAS/IDB/ECLAC Tripartite Committee for technical support.



but most educators are underpaid.

Ongoing challenges include the need to better define the FTAA's ultimate shape, the paths to its formation, the sequencing of its negotiations, and the steps needed to gradually strengthen its institutional framework. The issue of how to ensure full participation and benefits for small countries will be of increasing importance, said Devlin and Garay.

Marcelo Regúnaga, Argentina's Secretary of Trade and Industry, closed the meeting by reiterating that subregional groups will be important building blocks to the FTAA's progress.

For additional material on the integration seminar, contact: Tel: (202) 623-2663, fax (202) 623-2169, or e-mail: martah@iadb.org.

EDUCATION

A teacher's lot

They receive more training, but lower salaries

Teachers' salaries in Latin America have been slow to bounce back after their steep decline during the "lost decade" of the 1980s.

According to UNESCO figures, in all but three of 13 countries in the region, teachers now earn less in real terms than they did a decade ago.

Paradoxically, shrinking salaries have made it more difficult to recruit talented young people into teaching at the same time that policies are helping the teaching profession in general, according to "Improving Education in Latin America: Where to Now?," a paper by Stan-

ford University's Martin Carnoy and the IDB's Claudio de Moura Castro.

Despite falling salaries, write Carnoy and Castro, teachers in several countries are receiving better training. In most countries in Latin America and the Caribbean, teachers increasingly receive their education in post-secondary normal schools and universities rather than secondary normal schools, as was formerly the case.

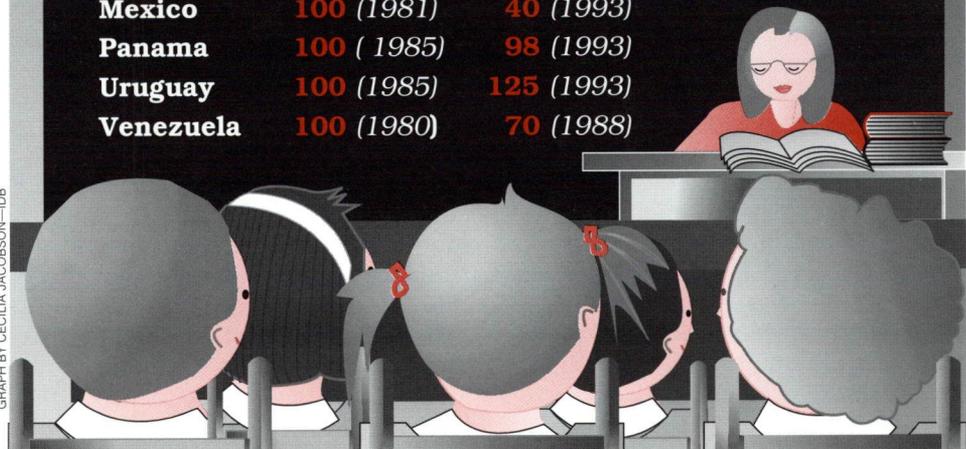
But low salaries remain the critical issue, because ultimately it is the rank and file teachers who will have to bring the educational reforms into the classroom.

Thinner paychecks

Public sector teacher real salaries have decreased

	1980s	1990s
Argentina	100 (1980)	45 (1992)
Barbados	100 (1985)	47 (1993)
Belize	100 (1985)	69 (1993)
Bolivia	100 (1980)	73 (1987)
Chile	100 (1980)	120 (1993)
Colombia	100 (1980)	102 (1993)
Costa Rica	100 (1980)	96 (1990)
El Salvador	100 (1980)	32 (1992)
Guatemala	100 (1980)	54 (1987)
Mexico	100 (1981)	40 (1993)
Panama	100 (1985)	98 (1993)
Uruguay	100 (1985)	125 (1993)
Venezuela	100 (1980)	70 (1988)

GRAPH BY CECILIA JACOBSON—IDB



CIVIL SOCIETY

The Bank's new partners

Meetings link governments and private groups

Colombian government officials met in March with 150 leaders of civil society organizations (CSOs) to discuss the role they would play in the nation's development, including the design and management of IDB-financed projects.

The gathering was the third recent meeting that the IDB and private foundations have sponsored between a member government and its country's CSOs, such as nongovernmental organizations, unions, and church and neighborhood groups. In January, leaders of more than 380 groups met with Mexican officials in Guadalajara where the standing-room-only crowd included the governor, representatives of two ministries, and 27 mayors. The Bank held a similar meeting in Brazil, and meetings in Argentina for South American countries and in Costa Rica for Central America, Panama and the Dominican Republic.

"The Bank is talking to new people about topics like state reform and civil society participation," said Charles Reilly, a Bank consultant and expert on civil society.

The meetings are creating the space for a better dialogue, Reilly said. In the past, some Latin American CSOs have had an adversarial relationship with the government.

The presence of IDB representatives at the meetings lends continuity to the dialogue because they will monitor the projects that result from the discussions, said Reilly.

Three stages. The Colombia, Mexico and Brazil meetings represent the first of a three-stage civil society program. The first stage is consensus building, where the Bank plays the role of facilitator between civic groups and governments in fashion-



With help from local organizations, Bank projects reach the grassroots community level.

ing a shared development agenda.

In the second stage, the Bank and governments identify CSOs, assess their strengths and weaknesses, and seek ways to build their capacity to participate in development projects.

In the third stage — mainstreaming — the Bank will test how the views of civic groups can be eventually incorporated into decisions and activities supported by loans.

The country meetings have identified several areas ripe for future action. In particular, the civic groups should play a larger role in the Bank's social programs at the local, municipal, and national levels, not just in implementation, but also in design and evaluation.

The meetings also focused on

how civic groups can be strengthened to prepare them to help manage Bank-financed projects. Participants noted that communication networks can help CSOs to learn from one another. Colombian participants recommended that regulations be changed to better define civic groups' rights and responsibilities.

The meetings explored ways to better finance CSOs, such as venture capital funds supported by businesses and foundations. Participants urged that measures be taken to encourage new models of philanthropy as a funding source.

Driven by demand. Including civil society groups in the design and management of its projects has expanded the Bank's role. Since the 1950s and 60s, international development institutions operated almost exclusively through national governments. In the 1980s, markets were becoming "magical" and by 1995, the Bank began to lend to private firms. Now it has begun to include CSOs as parties in its projects.

"To a large degree these changes are demand driven," Reilly said. In their moves toward democracy, he explained, governments had already started to reach out to organized citizens, realizing that development could only be achieved through a society-wide partnership.

The IDB already funds programs that use the skills of CSOs through the Small Projects Program and the Multilateral Investment Fund. The government of El Salvador, for instance, plans to spend \$500,000 in Bank financing to fund NGOs that specialize in preventing juvenile delinquency.

In another example, the Argentine government proposes to use IDB financing to train NGOs to help manage projects to assist vulnerable groups.

—John O'Neill



Work moves forward on a water and sewerage system in Monterrey, Mexico.

ENVIRONMENT

\$800 million in new projects

All 1995 IDB operations reviewed for impact

The IDB last year approved more than \$800 million in loans and other financing for projects designed to improve or protect urban and rural environments.

In addition, the Bank's Environment Committee reviewed all 222 projects presented for IDB financing in 1995 to assess their potential impact on the environment, according to the Bank's *1995 Annual Report on the Environment and Natural Resources*.

Last year was the first full year of operations following a Bankwide reorganization in 1994 aimed at producing a more comprehensive, integrated and participatory planning process for Bank projects. The reor-

ganization broadened responsibility for preparing environmental projects within the Bank.

"This new context provides better opportunities to address environmental challenges at the strategic level, where resource management can be made more effective and environmental degradation can be avoided rather than corrected," said Waldemar Wirsig, chairman of the Environment Committee.

Green concerns. In addition to financing projects specifically targeting environmental problems, the Bank also addressed environmental concerns in other types of projects approved during the year.

Eco-project highlights

IDB financing for environmental projects in 1995 included:

- ▶ **El Salvador:** \$31.6 million for natural resources management in the upper Lempa River watershed and for a National Environmental Management System.
- ▶ **Brazil:** \$30 million to reverse the deterioration of Guanabara Bay and improve public health in Rio de Janeiro.
- ▶ **Argentina:** \$200 million to improve water and sewerage services for primarily low-income people.
- ▶ **Central America:** \$415,000 to strengthen countries' environmental legal systems and support nongovernmental organizations active in the field of environmental law.
- ▶ **Bolivia:** \$4.8 million to develop cultural and ecotourism through land-use and master planning.

For example, loans for Argentina, Costa Rica, Honduras, Mexico and Uruguay supported efforts to increase the efficiency of their energy sectors. Projects promoting sustainable development included loans for agricultural development in Argentina and Ecuador and for irrigation and soil conservation in Bolivia and the Dominican Republic.

One of the Bank's largest operations in 1995, a \$450 million loan to improve Brazil's São Paulo-Curitiba-Florianópolis highway, includes measures to protect the rainforest ecosystem in the states of Paraná and São Paulo and improve the aesthetic quality of travel along the coastal plains of the state of Santa Catarina.

The Bank's environmental review process also seeks to protect human settlements from adverse impacts. For example, a flood control operation approved last year for Campinas, Brazil, incorporates a resettlement plan for some 1,500 families.

PERU

A strike at smugglers

Peru's revitalized tax administration is cracking down hard on smugglers by requiring waybills for the transport of merchandise from one city to another and by posting tax inspectors at 90 police checkpoints along highways throughout the country.

The waybills are issued to truckers free of charge to insure that the goods they are hauling were manufactured in Peru or that taxes were paid if the goods were imported. If a trucker has no waybill or the truck contents don't match his waybill list, the goods are confiscated until taxes are paid.

Peru's tax reform program is being financed by a \$2.2 million grant from the IDB-administered Japan Special Fund.

As part of the reform measures, taxpayer assis-

tance "plazas" have been set up in Lima and other major cities, along with smaller assistance centers in 15 other towns.

COLOMBIA

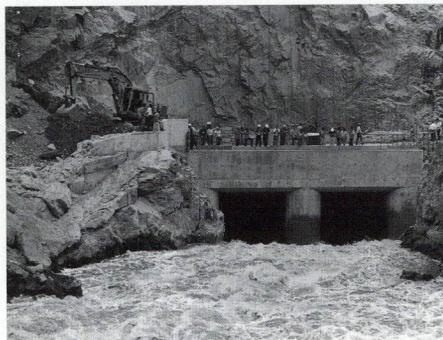
River gets temporary home

Colombia's Porce River has been diverted through a tunnel in the mountains north of Medellin to enable crews to begin work on the 118-meter-high dam for the 390,000 KW Porce-II hydroelectric plant.

More than 1,000 people attended the January 31, 1996, ceremony to inaugurate the event. They included local residents, construction company officials, consultants, Minister of Mining and Energy Rodrigo Villamizar and officials from the IDB's

country office in Bogotá.

The diversion must be completed during the dry season when water flow is manageable. In this area, where it can rain more than 10 months a year, the construction crews had about a one-month window of opportunity. If the river diversion had not taken place on schedule, the entire project could have been delayed for a year.



They changed the river's course.

"It was a very coordinated effort," says IDB energy specialist Jairo Salgado of the Bank's country office in Colombia. "All the earth, the huge blocks of stone and the equipment had to be in place for the day of closing. It was a massive attack, the result of months of planning. It was the project's major challenge."

The IDB is financing a little more than half the \$600 million project cost of Porce-II. A consortium of four Italian firms and a Colombian construction firm are building the project. More than 1,200 people are employed in the construction, which will last six years.

Porce-II is expected to begin generating electricity in 1999.

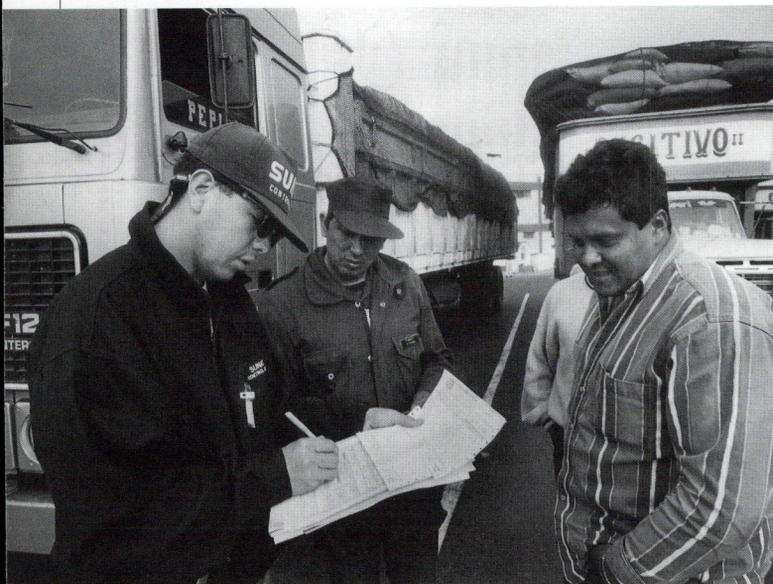
ECUADOR

Stalking water leaks

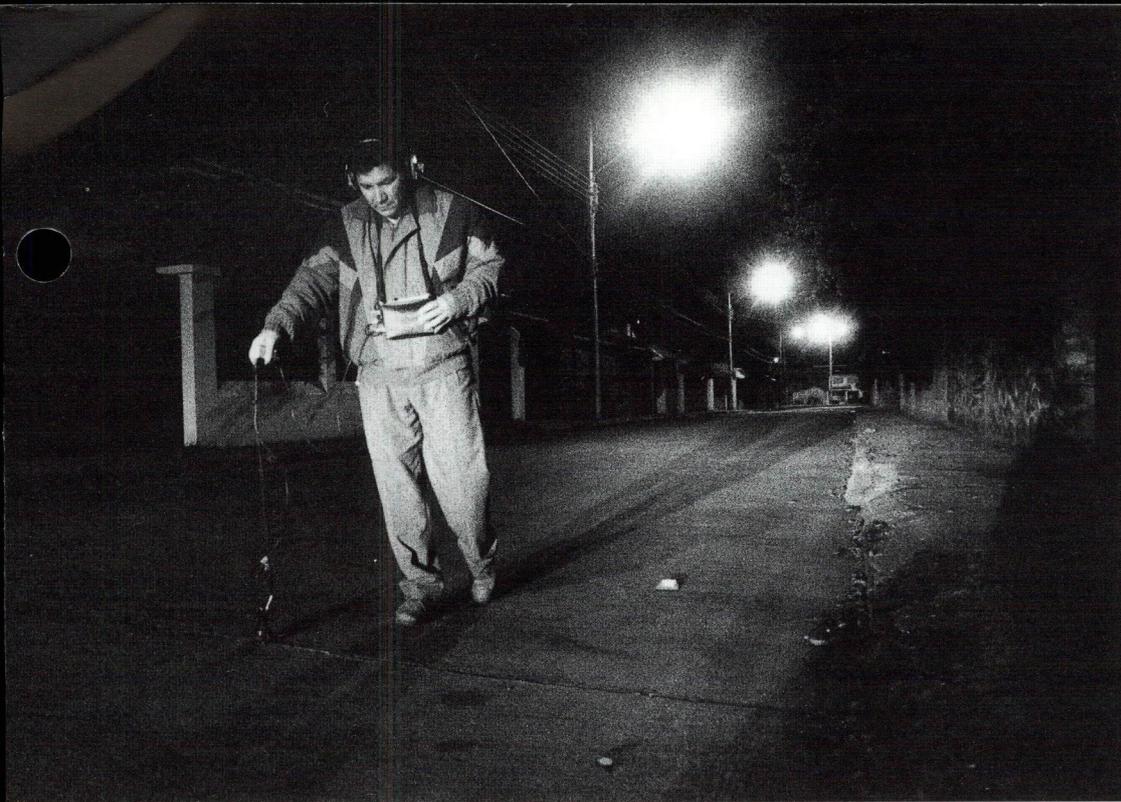
The busiest time for the water leak reduction team in Cuenca, Ecuador, is while the rest of the city sleeps. At night, water use is at its lowest and most predictable, and the streets are quiet, making a perfect opportunity to search for breaks in the city's 482-kilometer underground system.

The Municipal Telephone, Water and Sewage Company (ETAPA) estimates that the city loses 35 percent of its treated drinking water through leaky underground pipes. As part of an IDB-financed \$72.3 million expansion of the city's water and sewage systems, the team's goal is to reduce the water loss to 20 percent. Each one percent reduction in lost water saves the city an annual \$117,000.

The search team generally works from 8 p.m. to 4 a.m. Sundays through Thursdays. First the team members measure water flows at neighborhood distribution points. A greater



Paying the piper: on the trail of Peru's tax dodgers.



Lose water, lose money: a leak reduction team member walks Cuenca's darkened streets.

944 schools and 118 health centers, build 137,000 school desks and other furniture, and install 40,000 latrines in rural communities. More than 1,300 communities in nearly every corner of Honduras benefitted from the program. "The Social Fund plays a central role in ensuring that the benefits of economic growth reach the poorest people," declared Honduran President Carlos Roberto Reina.

Last year, the IDB approved a second loan of \$40 million to help continue the social investment program for another four years.

than normal flow at this time of night usually indicates a leak.

Then an ETAPA geosound technician puts on his earphones and walks the dark, lonely streets using a sensitive battery operated noise detector that can "hear" leaks up to 2.5 meters underground. If the leak is significant, crews come back to fix it.

The leak reduction team uses sensitive detection equipment manufactured in France, Japan and the United States.

The IDB has financed water leak reduction programs in many other cities in Latin America and the Caribbean. The current Bank policy is to encourage cities to reduce water losses as a more economical alternative to building bigger water treatment plants.

In some older water systems, as much as half of a city's treated water is lost underground due to leaky pipe connections.

The Bank in Action is compiled by David Mangurian.

HONDURAS

Done: 1,581 projects

The completion of work on the Alvaro Contreras primary school in the mountains of rural Honduras near the Guatemala border early this year didn't attract much attention outside the small town of Santa Anita. But in fact, the two new and four repaired classrooms marked the conclusion of the first phase of the most successful public works program in this Central American country's history.

The school was the 1,581st small-scale social infrastructure project financed by a \$31.5 million IDB loan to the Honduran Social Investment Fund (FHIS).

FHIS was created to reduce the impact of Honduras' economic reforms by providing employment and services for low-income people. The program became so successful it attracted an additional \$223 million in bilateral aid from eight governments and other donors.

During the program's four years, IDB funding alone helped to provide jobs for nearly 18,000 people to repair or expand



Children watch workers build their new brick school.

LOANS

El Salvador. . . \$22.2 million to strengthen the country's judicial system, with special emphasis on reducing juvenile delinquency.



The Institute for the Protection of Minors will be supported in its efforts to improve conditions for inmates and provide job training for at-risk youths.

Judicial projects include the development of alternative dispute resolution systems through the design of a lower-court system to settle disputes short of lengthy appeals.

The total cost of the program is \$27.3 million.

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>

For more information on the program contact: Entidad Coordinadora y Coejecutora, Comisión Coordinadora del Sector de Justicia (UTE-CCSJ), 7ª Calle Poniente, N° 5143, Colonia Escalón, San Salvador, El Salvador. Tel. (503) 279-0991; fax (503) 298-1139.

Panama. . . \$33.6 million to modernize agricultural services and increase productivity.



The resources will support marketing, plant and animal health services, technology generation and transfer, and a massive program to register land titles for 35,000 farms in the province of Veraguas.

Small and medium-sized farms will receive more and better business-related technology. Also investments will be made to reduce plant and animal production losses due to disease.

The total cost of the program is \$48 million.

For more information, contact: Ministerio de Desarrollo Agropecuario (MIDA): Apartado de Correos 5390, Zona 5, Panama City, Panama. Tel. (507) 325-631; fax (507) 325-044. Contact Lic. Camila Li, Asesora del Ministro.

Panama. . . \$2.8 million to modernize and strengthen the Legislative Assembly, and to enhance the democratic process and the

workings of the state.



The resources will help lawmakers to conduct legislative business and oversight functions more effectively. It will also help to establish a legislative information processing system and offer the public more access to documentation. This is the first IDB financing for Panama in its state modernization sector.

The total cost of the project is \$4.1 million.

For more information, contact: José Daniel Alvarado or Mario Dominguez, Asamblea Legislativa, Panama City, Panamá. Tel. (507) 262-5971/6370/3666; fax (507) 262-234+.

Uruguay. . . \$40 million to improve the quality, efficiency and equity of lower secondary education.



The resources will enable the government to modernize the secondary school curriculum, extend the school day, and provide administrators and teachers with centers for advanced training.

School buildings will be renovated and expanded to create 165 new classrooms; 450,000 textbooks will be distributed.

The total cost of the program is \$58 million.

For more information contact: Ester Mancebo, Coordinadora de Proyecto Administración Nacional de Educación Pública, Convención 1367, Piso 12,



WILLIE HEINZ-IDB

Signing for Argentina. At the IDB's annual meeting in Buenos Aires, Argentine Economy Minister Domingo Cavallo and IDB President Enrique V. Iglesias signed a \$125 million loan to help strengthen agricultural infrastructure and technology. During the course of the meeting, the IDB signed 18 loan and nine technical cooperation contracts for countries of the region that together represented over \$700 million in financing.

Montevideo, Uruguay. Tel. (598-2) 914-800, fax (598-2) 914-933.

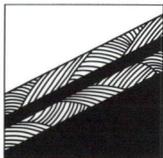
Uruguay. . . \$150 million to enable the government to establish a regulatory framework for the full implementation of the social security reform law of 1995, and to increase national savings by channeling more resources into capital markets.



For more information contact: Oficina de Planeamiento y Presupuesto, Andrés Lamas 3355, Edificio Libertad, Montevideo, Uruguay. Tel. (598-2) 819-525; fax (598-2) 299-730.

TECHNICAL COOPERATION

Regional. . . \$1,524,000 in nonreimbursable financing to support studies—including technical, economic, institutional, and environmental evaluations—to determine the best interconnection alternative for the Central American power grid.



The purpose of the power integration program is to make the region's use of energy more efficient and reliable.

For more information contact: Carlos Roberto García, secretario ejecutivo, Consejo de Electrificación de América Central, Edificio Molinari, 1ª Avenida, 10 Calle, Comayagüela, Tegucigalpa, Honduras. Tel. (504) 38-

3899, fax (504) 37-4932.

Regional. . . \$1.5 million for training to strengthen consensus-building for social reform.



The resources from the Japan Special Fund will support 240 scholarships over three years to enable government and civil society leaders to participate in two-week seminars conducted by the Bank.

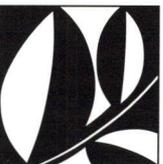
MULTILATERAL INVESTMENT FUND

Peru. . . \$3 million in non-reimbursable financing to modernize training in the fisheries sector and to strengthen the national capacity to implement a resource management system for tuna, sharks, and other deep-water fish.

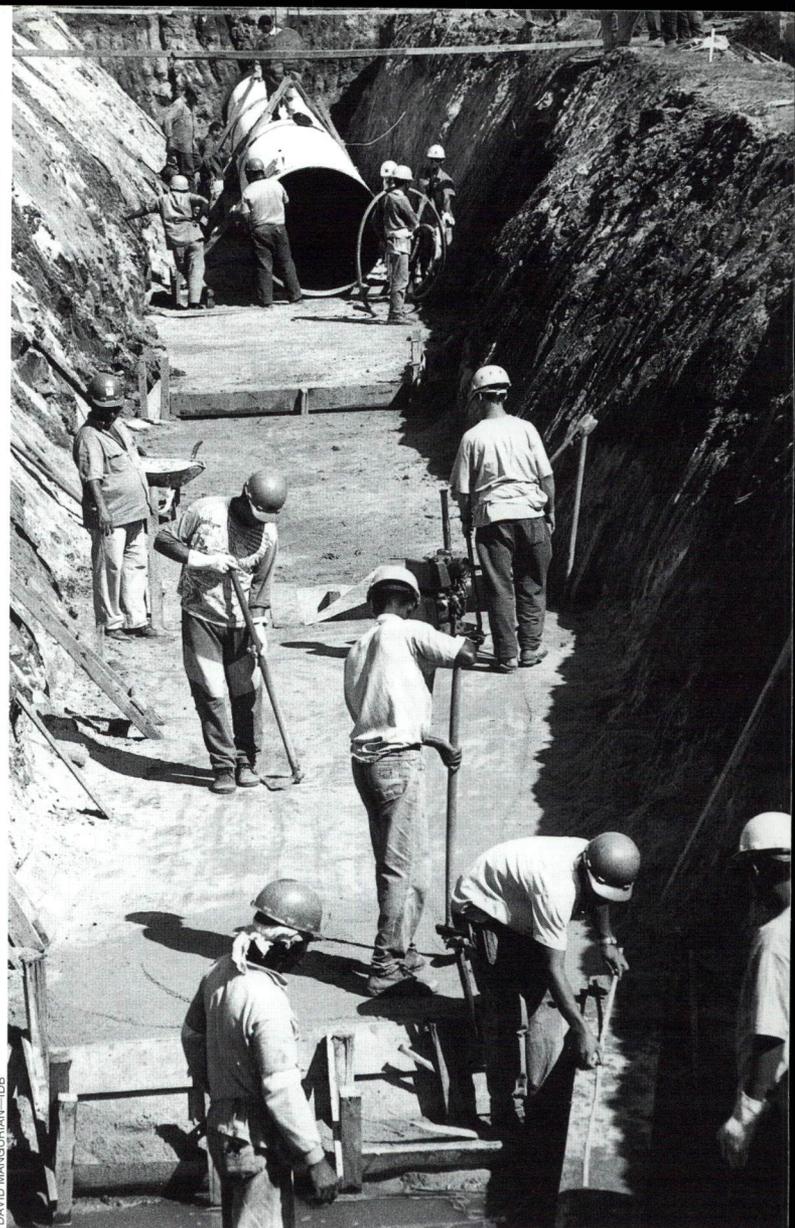


For more information contact: Universidad de Piura, Sergio Balarez, Nicolás de Rivera 135, San Isidro, Lima 27, Perú. Tel. (51-7) 432-8171, fax (51-7) 432-8645 (Piura).

Regional. . . \$4,850,000 investment in a fund that will support small Central American companies whose projects benefit the environment.



The fund is sponsored by the Environmental Enterprises Assistance Fund, Inc. of the United States



DAVID MANGURIAN—IDB

Path to a cleaner river

Workers lay pipe for the São Miguel sewage treatment plant, one of two plants being built to clean up São Paulo's Tietê River. The project is one of a new generation of IDB-funded efforts to clean up urban waterways.

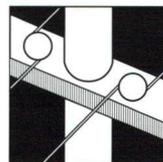
and its Costa Rican subsidiary, Empresas Ambientales de Centro América.

For more information contact: J. D. Doliner, Environmental Enterprises Assistance Fund, 1901 North Moore Street, Suite 1004, Arlington, Virginia 22209. Tel. (703) 522-5928, E-mail: eeaf@igc.apc.org

Regional. . . \$3,341,500, including a \$1,062,000 grant and a \$2,279,500

investment fund, to assist private enterprises that start pilot renewable energy and energy-efficiency projects.

For more information contact: E&Co-LAC, José María Blanco, Apdo. 1800-2100 Guadalupe, San José, Costa Rica. Tel. (506) 240-8997, fax (506) 240-8998. E-mail: josemb@cariari.vcr.ac.cr



NICARAGUA

Rebirth of a tradition in clay

New exhibit spans centuries

Helio Gutiérrez, from Nicaragua's village of San Juan de Oriente, makes pottery in a little house located—as he notes by his signature on his works—on the “road of the mamey tree.”

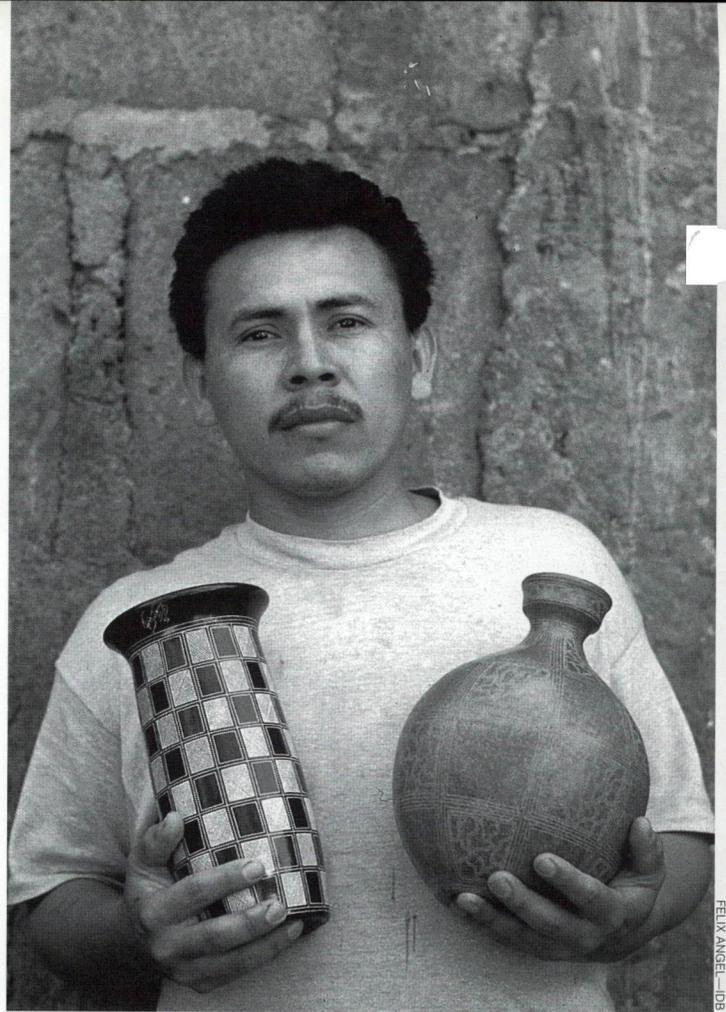
A modest man from a poor country, who never completed elementary school, Gutiérrez has nevertheless achieved considerable recognition. His innate sense of composition,

combined with technical innovations, have won him several international awards, including one from UNESCO.

Some of Gutiérrez's finest works, along with those of other contemporary Nicaraguan potters and artisans, and a selection of pre-Columbian pottery from the holdings of the Nicaraguan National Museum, are being featured in the exhibit “Of Earth and Fire: Pre-Hispanic and Contemporary Pottery from Nicaragua” at the IDB Cultural Center art gallery in the Bank's headquarters in Washington, D.C.

Most pottery is produced anonymously, and while this is certainly true for the pre-Columbian works, it is also the case for some of the contemporary works on display. Although the main pieces were commissioned directly to the artisans, others were found—unsigned—in Managua's market. Apparently, either the potter simply was not interested in recognition, or he or she calculated that without identification the pieces could more easily be sold in neighboring countries as local handicrafts.

Sweep of centuries. The pre-Columbian pieces included in the IDB exhibition are representatives of



Gutiérrez shows samples of his award-winning work.

the last four periods of cultural evolution identified by archaeologists in the territory that is today Nicaragua. They span nearly 30 centuries, from 1500 B.C. to the arrival of the Spanish. The formal elements indicate the interaction of the different native groups that peopled what archaeologists call the “Area Intermedia,” referring to the Central American countries of Honduras, El Salvador, Costa Rica and Panama, in addition to Nicaragua.

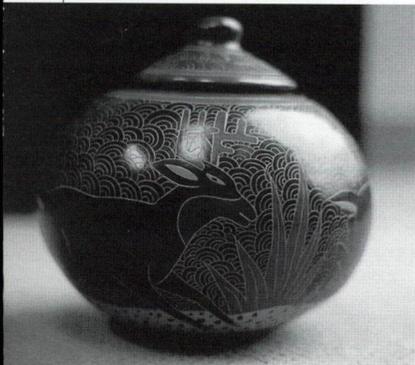
After the Spanish colonialization, the craft of pottery in Nicaragua entered a centuries-long period of decline. Then, about 15 years ago, despite the turmoil of war and volcanic eruptions, the government launched a program to train artisans in design and the technical aspects of pot-

tery production, and also to organize them in cooperatives.

After training, the fledgling potters followed their own creative leads. In many cases they were influenced by the proximity of the capital city, in particular the printed materials that provided inspiration for designs.

Excellence and innovation have once again become the hallmark of Nicaraguan pottery.

“As often happens with volcanos,” writes Cultural Center Curator Félix Angel in the exhibition catalogue, Nicaragua's pottery tradition “has suddenly erupted after lying dormant for a long time. . . . And as with volcanos after an unusually violent eruption, the result can be ultimately beneficial as part of a process of change and economic recovery.”



Modern pot designs evoke pre-Columbian heritage.

