THE IDB

Inter-American Development Bank • June 1996

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Artistry in leather

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Return of the potter ■ Unions and reform

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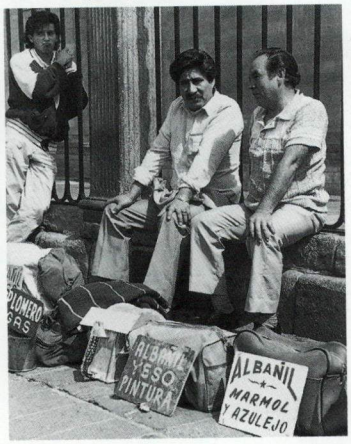

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Artistry in leather
Albertina Morelli Colombres and her five employees make wallets and other leather goods at her shop in Montevideo, Uruguay. She recently borrowed $2,000 from an IDB-financed fund to buy materials for her business. *Cover photo by Willie Heinz, IDB.*

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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.

Nicaragua rebuilds

The IDB has taken the lead in an international effort to help Nicaragua rebuild its devastated economy and infrastructure.

For the past six years, in a two-pronged program of support, the Bank has led a successful effort to significantly reduce Nicaragua's crushing $12 billion foreign debt, at the same time becoming the country's lead lender of concessional resources.

The Bank is also beginning its second year as chair of the Consultative Group for Nicaragua, which consists of bilateral and multilateral donors that are supporting Nicaragua's economic reforms and providing various forms of assistance. The group's next meeting on June 17–18, will be chaired by Miguel E. Martínez, IDB regional operations manager.

Taking the lead. When the Sandinista government left office in 1990, the IDB reinitiated operations in Nicaragua after a 10-year period of inactivity. "The Bank decided that it should become the principal support in carrying out Nicaragua's transformation," said Jorge Sapoznikow, division chief in charge of operations for Central America.

Most of the Bank's lending support in Nicaragua over the past few years has been directed at reforming and strengthening institutions. The problems were serious. The country's financial sector had become virtually bankrupt. Exports had fallen by 40 percent and the export sector had nearly collapsed. The external debt had grown to six times the country's GDP and most international creditors had suspended their relations with Nicaragua. Per capita GDP dropped by more than 50% in a process that dramatically impoverished the country's population.

From 1991 to 1996, the IDB provided the country with over $730 million in loans to help it to reform its economy and rebuild its infrastructure and human capital. The country has made impressive progress:

'Investors will be encouraged to see that Nicaragua no longer owes $1.23 billion to private banks.'

DAVID MANGURIAN—IDB

- ▶ Hyperinflation was eliminated.
- ▶ The debt to foreign creditors has shrunk.
- ▶ The number of soldiers has dropped from 80,000 to 15,000.
- ▶ The private banking sector has grown. In 1990, the state banks did 100 percent of the country's banking; in 1995, they did only half.
- ▶ GDP has grown for three consecutive years after 15 years of decline.

Debt slashed. The IDB-supported effort to reduce Nicaragua's debt has shown similar results. In just one year, government officials and IDB staff have made arrangements that could reduce the country's debt from $12 billion to $8 billion by the end of 1996. Included in the program is a debt repurchase in which Sweden, Germany, Switzerland, the Netherlands, the IDB and the World Bank put up $110 million to buy back $1.23 billion in defaulted private-bank loans at 8 cents on the dollar. This operation broke the record for the lowest price of a debt repurchase.

Also, the Paris Club countries have agreed to forgo two-thirds of each semiannual payment they will receive over the next three years, and to reschedule the remaining one-third as a 15-year loan. After three years, they will discuss possible cuts of close to $1 billion of the debt balance that remains.

Russia has initialled a preliminary agreement to forgo about $3 billion, forgiving over 90 percent of Nicaragua's indebtedness to the former Soviet Union. The Eastern European countries are likely to follow suit with the $2 billion that is owed to them.

By the end of 1998, Nicaragua's foreign debt could decline to less than one-half its present size.

"The investors will be encouraged to see that Nicaragua no longer owes $1.23 billion to private banks," said Sapoznikow.

While these achievements have been substantial, Nicaragua's economy remains fragile, with obstacles that include a private banking system still too weak to meet the country's needs.

—John O'Neill

ECUADOR

Decentralization: grounds-eye view

A city manages its own public works

by David Mangurian

Until a decade ago, most municipal public works projects were financed directly by central governments. Having little money of their own, cities and towns had to depend on the capital city for political and financial favors.

So when Ramiro Gallo Peneida, the mayor of Santo Domingo de los Colorados, Ecuador, heard that his city was due to receive funds from an IDB municipal development loan, he didn't believe it:

"How could it be possible that the IDB, which one only hears about on television, in the big newspapers, the international news services, would come to our little canton. I prayed to God that it would be true. People were saying that it must be a lie. . . until it happened."

A fast-growing city on the northwestern lowlands of Ecuador, Santo Domingo received financing from a $104 million 1992 IDB loan to Ecuador, which it has used to pave city streets, plant trees to beautify neighborhoods and build sewerage connections to homes, among other works. Nearly 200 different cities and towns in Ecuador have received funding for municipal projects from the loan.

The IDB has made municipal development loans totaling $1.9 billion to 14 different countries since 1981 in an effort to strengthen local governments and move forward the process of decentralization that has accompanied Latin America's growth of democratic institutions.

The Ecuador project was a typical example of how the IDB supports municipal development. The government channeled the IDB funds through the Banco del Estado (BEDE), Ecuador's state bank as a grant to capitalize a revolving loan fund for municipalities. Cities repay BEDE, and the repayments are recycled to other cities. The central government is responsible for repaying the IDB loan.

Because many municipalities lack the resources to pay their share of the cost of the projects, BEDE also provides subsidies from the central government in the form of matching funds. The IDB's loan to Ecuador also included technical assistance grant money for training municipal authorities to manage public works programs.


DAVID MANGURIAN—IDB

Mayor Gallo Peneida

The Bank's loan to Ecuador has become a model for subsequent loans to other countries. One novel feature is a provision under which the country restructures its revenue transfer system between the central government and municipalities to make the system more transparent and driven by specific guidelines.

"The municipalities know that they must meet certain criteria if they want access to a loan," says Robert Daughters, IDB senior urban development expert. "This has made the lending process much more technical. They don't have to depend on political contacts."

The mayor and his staff of local officials are in an ideal position to make spending decisions, according to Gallo Peneida, the Santo Domingo mayor.

"Every day, we meet with citizens who ask for water, electricity, sewerage service, health centers, schools, community centers, paved streets, soccer fields, everything!" said the mayor. He estimated that he personally sees several hundred citizens daily at his modest second floor municipal office.

"Often the federal government doesn't know the local needs and approves a public works project for political reasons," he said. "Sometimes the project never gets finished," he added.

"We've had a few problems," he continued. "I have to be honest. Delays! But decentralization is working. The funds are real, and we're very grateful."

Then, with characteristic Ecuadorian politeness, Gallo Peneida explained that he had to bring the interview to a close. The room outside his office was crowded with more citizens waiting to see him.


DAVID MANGURIAN—IDB

Citizens wait to see their mayor.

The writer is an IDB audiovisual officer.

Sidewalk superintendents: youngsters join officials inspecting a newly paved street in Ecuador's Santo Domingo.

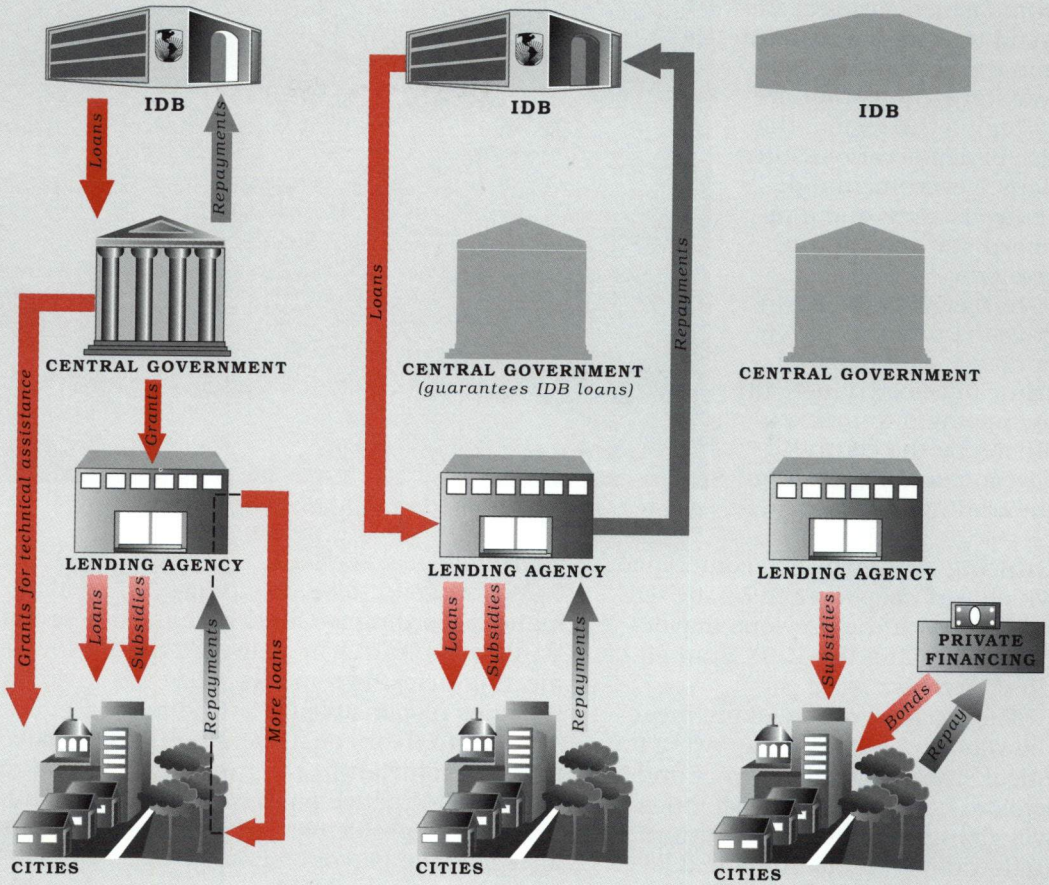
■ The IDB-financed municipal development loan to Ecuador described in the accompanying article represents the **first stage** in a process through which a municipality can achieve financial self-sufficiency. Bank funds channeled through the central government to a national agency help to capitalize a revolving fund, from which the municipalities receive loans and grants. The central government pays back the IDB.

In the **second stage**, the Bank lends directly to the national agency that manages the revolving fund. The IDB is repaid from the municipalities' repayments.

In the **final stage**, municipalities will raise funds on the capital markets to finance public works projects on their own. However, capital markets and credit-rating systems are relatively new in most countries in the region, and the finances of most municipalities are still very weak.

Municipalities: three steps to self-sufficiency

Local jurisdictions will increase financial autonomy and power



MAYORS

Pragmatic newcomers to the political scene

Power and resources flow to municipalities

Not long ago, municipal governments in Latin America were barely visible. The power lay in the hands of the central authorities in the capital city, and that was that.

How far the region has come in just a few years was clear at a meeting of 400 Latin American and Caribbean leaders who gathered in Miami in late April for the second Inter-American Conference of Mayors.

Charismatic and pragmatic, the mayors are prime beneficiaries of the trend toward decentralization that is part of other transformations that are sweeping the region: the rise of democratic institutions, governmental decentralization, and a reduced state role in the economy.

In recent years, an increasing number of mayors have been democratically elected instead of appointed to their positions by the central government, as has been the traditional practice.

DAVID SMITH—IDB

Cities have problems that only local officials can fix.

Growing strength. The conference, which was cosponsored by the IDB, built on both the previous mayors conference and the 1994 Summit of the Americas.

The purpose of the Miami meeting was to spotlight the growing political strength of the mayors and to explore how their responsibilities will change as authority continues to flow down to the municipal level.

"We support the mayors because they are new political leaders and also young political leaders," said the IDB's Mario Loterszpil, who organized the Miami meeting.

The mayors' political clout started to grow 15 years ago when national governments, in the midst of budgetary crises, began to decentralize services that they themselves could not fund, Loterszpil said. At the same time, local groups were stepping up their demands for more control of local services.

Mayors tend to be very pragmatic, according to Charles Reilly, a Bank consultant who delivered the meeting's closing remarks. They are the ones responsible for providing services to their constituents, putting local officials at the front lines of efforts to reduce poverty and address other problems. The meeting also gave the mayors a chance to learn from one another's successes.

For some, the move toward decentralization has translated into success at the ballot box. For instance, Tarso Genro, mayor of Porto Alegre, Brazil, was reelected after he set up a system for citizens to oversee and direct city resources. The new approach to budget planning has been a valuable tool for changing the city and making it a fairer and better place to live, Genro said at the Miami meeting. He called the democratic and transparent administration of resources the only way to avoid corruption.

Legal constraints. Bank officials participating in the meeting included Orlando Reos, chief of the IDB's Operational Policy Division, who moderated a panel on the city as a borrower.

"The audience was very interested in what the IDB and the World Bank could do for them as direct lenders," Reos said. Speakers on Reos' panel included the mayor of Córdoba, Argentina's second largest city, a New York attorney who laid out the steps needed to develop the region's municipal bond markets, and a former manager of a Colombian fund who explained how he had on-loaned IDB resources to municipalities.

With few exceptions, the IDB is not yet prepared to lend directly to most cities, Reos said. One stumbling block is that in many countries, municipalities are prohibited by law from obtaining foreign loans. In other cases, national governments are unwilling to guarantee municipal borrowing, he added.

Conference cosponsors, in addition to the IDB, included the Organization of American States, the U.S. Agency for International Development, and the Inter-American Foundation.

DAVID MANGURIAN—IDB

Looking for work: if they can't get it in Mexico, they take the long trip north.

SEMINARS

People and participation

Changes in wages, changes in policy

■ The first problem facing a researcher studying illegal immigration from Mexico to the United States is determining the number of border crossings. Since the crossings are illegal and unrecorded, good figures do not exist. Economists Gordon H. Hansom, from the University of Texas, and Antonio Spilimbergo, of the IDB, overcame this problem with the help of a novel data source: monthly records on the number of people apprehended by the U.S. border patrol correlated with the number of person hours that are spent policing the border.

Wages and illegal migration

Hansom and Spilimbergo used their estimates as the basis of a study of factors that determine levels of illegal immigration. They presented their paper at a recent seminar held at IDB headquarters.

First, they found that illegal immigration from Mexico is very sensitive to changes in Mexican wages; a 10 percent drop in the Mexican real wage leads to at least a 7.5 percent increase in attempts to cross the border. To the extent that NAFTA raises wages in Mexico, it will cause illegal immigration to fall, they note.

The authors also found that economic volatility in Mexico is a major contributing factor to illegal immigration. A devaluation of the peso leads to a 3–8 percent increase in apprehensions at the U.S.–Mexico border the month following. Policies to stabilize Mexico's economy, such as last year's $40 billion bailout, reduce illegal immigration they said.

Finally, they found that illegal migrants evaluate U.S. wages in terms of their purchasing power in Mexico, implying that they send a portion of their earnings home or plan to return to Mexico.

For a copy of the above study, contact Nathan Shattuck at fax: (202) 623-2481, Tel: (202) 623-2409, or e-mail: nathans@iadb.org

■ Due to their large public sector membership, unions play a key role in determining a country's success—or lack of success—in reforming its social services delivery systems.

Are unions friends or foes of reforms?

Why do some unions support reforms while others oppose them? Economic and political factors provide only a partial explanation, says María Victoria Murillo, a Ph.D candidate in political science at Harvard. In a paper recently presented at the Bank, she described how the structure of a union is key to understanding its policy preferences.

Throughout the region, countries are introducing reforms to increase competition and strengthen performance incentives and market concerns in the public sector, says Murrillo. As a result, the countries are "increasing the heterogeneity of work conditions across the scope of union membership."

Meanwhile, leaders of different unions are constrained by competition for the representation of the same constituencies as well as by their links to the very political parties that are advancing reforms. The choices they make are affected by their ability to control their members and deliver benefits.

Analyzing the processes of education and health reform in Argentina and Mexico, Murillo illustrates how institutional features of unions influence policy preferences and strategies. "These dimensions should be considered by policy-makers proposing the reform of social services," she concludes, "because they can be used to assess which unionized groups are more likely to support the reforms, and which ones are more likely to obstruct them."

For more information on the above paper, contact Leticia Cuevas at fax: (202) 623-2481, telephone: (202) 623-2115, or e-mail: leticiacu @iadb.org

MULTILATERAL BANKS

International group issues recommendations

Continued relevance in a changing world

Although they were created to serve a world vastly different from the present, multilateral development banks (MDBs) remain an essential part of the global effort to reduce poverty, foster change and create sustainable development, according to the report of an international study group.

The report *Serving a Changing World* was produced by the Task Force on Multilateral Development Banks appointed by the Development Committee and chaired by Abdlatif Al-Hamad, director general of the Arab Fund for Economic and Social Development. The group's secretariat, under the direction of former World Bank Senior Vice President Willie Wapenhans, was located at the IDB's headquarters.

In one recommendation, the task force urged more cooperation among the MDBs, emphasizing that they "are not just offshoots or small-scale copies of the World Bank." The present system, it continued, "offers choice, sparks innovation, and serves to limit the scope for complacency."

The main need for more coordination is at the country level, according to the report. In addition, increased contacts at the working level and among the governments of the member countries would better enable MDBs to seize opportunities for joint action and enhance policy coherence.

Among other recommendations, the task force urged MDBs to:

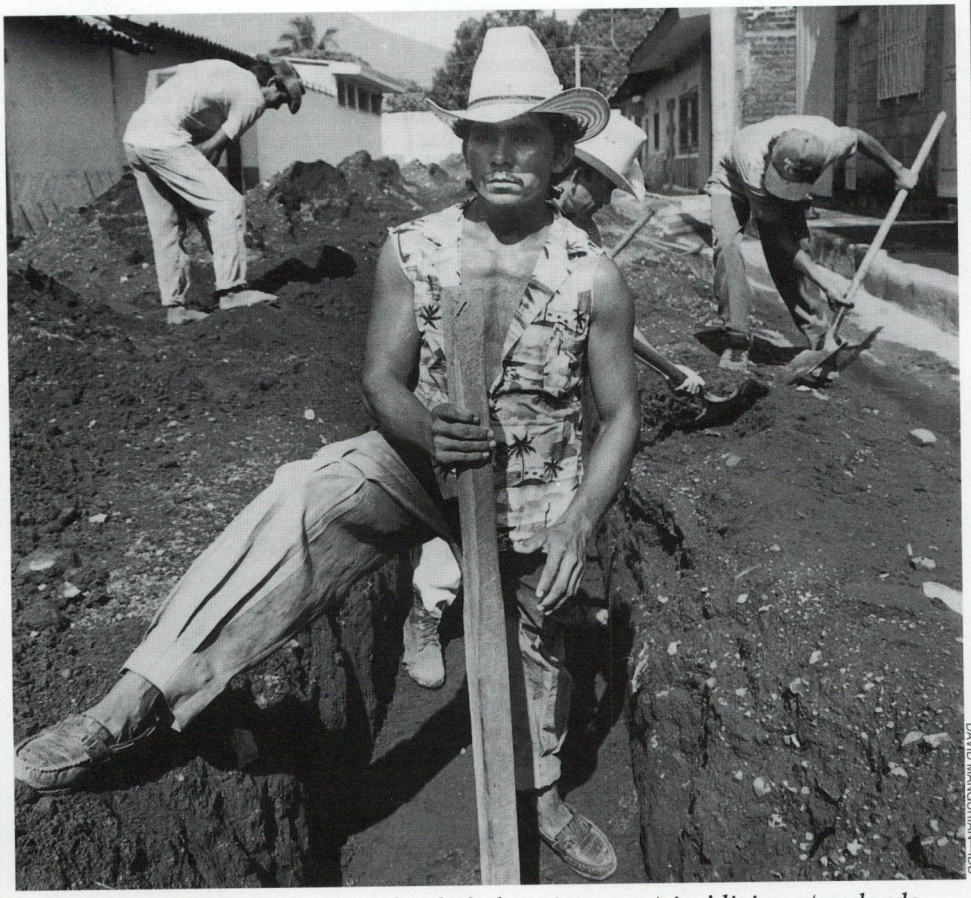
- ▶ Continue to mobilize private savings and concessional assistance.
- ▶ Ensure the access of poorer countries to special resources, linked to credible reforms and positive development results.
- ▶ Act as sources of advice and pools of experience and research.
- ▶ Help reconstruct devastated economies and provide economic support for lasting peace.

The Development Committee at its April meeting in Washington, D.C., urged the MDBs to act on the task force's recommendations and asked the presidents of the institutions to report back in two years on the progress they have made toward meeting the goals.

Special features. The task force report documents the effect of changes in the world's economies on the multilateral banks. For one thing, the relative share of MDB lending in total capital flows to developing countries has shrunk as the private sector flows have increased. Nevertheless, the MDBs' gross annual commitments remain a significant $38 billion.

The report also notes that private financial flows to the developing world are concentrated in a small number of countries. Moreover, they are a different kind of financing from that of the MDBs.

The IDB and other regional banks, together with the World Bank and the International Monetary Fund, provided the operating budget for the task force.



DAVID MANGURIAN—IDB

Sewerage in El Salvador: IDB funds help raise countries' living standards.

For a copy of the report, contact the Executive Secretary, Development Committee, c/o World Bank, Washington, D.C. 20433.

ARGENTINA

IDB teams up with private banks

Financing for power line

The first IDB loan to the private sector made with the participation of private banks will finance the construction of an electric transmission line in Argentina.

The $43 million loan, the second made from the IDB's private sector window, was part of an $87 million financing package that the IDB put together with six banks.

The Argentine company Líneas de Transmisión de Litoral S.A. (LITSA) will use the financing to build and maintain a transmission line from the Yacyretá hydroelectric plant on Argentina's border with Paraguay to a high-voltage network in Argentina.

The Bank will act as the lender of record in the $87 million financial package, with $43 million from its own capital resources and $44 million provided by six banks—Deutsch-Südamerikanische Bank AG, Credit Lyonnais Americas, Banque Nationale de Paris, Mediocredito Centrale de Italia, The Fuji Bank Ltd., and The Long-Term Credit Bank of Japan.

Leverage for funds. The Bank opened its private sector lending window in 1995 to support private financing of infrastructure projects. By making such loans with private banks, the IDB enables the borrower to leverage larger sums of money, said Rachel Robboy, a consultant with the Bank's Private Sector Department. One project being considered would use $35 million in Bank funds to attract $45 million in private funds.

In the transmission line project, LITSA contributed $46.2 million in equity and the Brazilian Export Credit Agency, FINAMEX, provided a $43.7 million export credit facility, for a total project cost of about $177 million.

DAVID MANGURIAN—IDB

Power projects and other infrastructure works are receiving private financing.

INFRASTRUCTURE

New ways to pay the tab

Private banks increase role

The region's roads, power transmission lines, and other infrastructure are no longer being built and paid for just by the state.

"Governments are increasingly looking for ways to pass these risks on to the private sector," according to Martin Chrisney, an IDB infrastructure finance specialist.

Unfortunately, private money for infrastructure can be difficult to raise due in part to the long-term, problematical nature of the projects. Large sums may be needed at a project's start, yet private banks typically avoid lending that entails this degree of risk.

The Bank has issued two publications designed to provide guidance for those seeking funding alternatives for infrastructure projects. The first contains 49 case studies of infrastructure projects with private sector participation that highlight new ways to leverage private money. The second is a series of articles appearing in *Financier* magazine that resulted from the Bank's roundtable on innovative financing for infrastructure that was held in October of 1995.

The stakes are large. In the coming years, it is expected that one-quarter of the $40 to $50 billion that Latin America will spend yearly to upgrade its infrastructure must be financed by private firms.

The publications mentioned in the accompanying article—the *Directory of Innovative Financing*, and a special issue of *Financier* magazine on infrastructure finance—are available from the Bookstore at (202) 623-1753, E-Mail: idb-books@iadb.org

ENVIRONMENT

New fund for eco-friendly firms

Projects must be financially viable

The IDB's Multilateral Investment Fund (MIF) will help capitalize a new fund that will invest in small Central American companies that supply environmentally beneficial goods and services.

The MIF investment of $4.85 million is expected to encourage other investors to make additional contributions needed to bring the fund up to its $10 million target. Other investors in the fund are the Swiss Government, with $2.5 million, and the Environmental Enterprises Assistance Fund, Inc. (EEAF) of the United States, with $200,000.

The EEAF and its Costa Rican subsidiary, Environmental Enterprises of Central America, are the sponsors of the new fund, called the Environmental Finance Corporation.

The fund will make loans ranging from $100,000 to $300,000 to private companies for projects in such areas as pollution abatement, energy efficiency, agroindustry, ecotourism, hydroelectric power and water treatment.

Although Central America has a growing cadre of entrepreneurs prepared to launch environmentally related businesses, their projects are often stymied for lack of financing. Local banks restrict their lending to established companies and local capital markets focus on short-term debt paper. Institutional venture capital is virtually nonexistent.

The EEAF was founded in 1990 to help overcome these obstacles. With the support of Winrock International and the U.S. Agency for International Development, it has developed a prototype for identifying, analyzing and financing "eco-friendly" private sector projects. It demands that the projects be financially viable and that they have the potential of attracting additional private financing.

DAVID MANGURIAN—IDB

Cups overflow in Quito

A factory in Quito, Ecuador, operates around the clock to produce 1.2 million plastic cups each day, which it sells at home and in other Latin American countries. The company, BOPP del Ecuador, borrowed $1.9 million from a Bank-financed credit program in order to buy the German and Italian machinery used to make the cups.

VENEZUELA

Bank support for adjustment

Measures to help the poor

The IDB will consider up to $1 billion in new financing commitments to support Venezuela's economic adjustment program, according to a memorandum of understanding signed by Bank President Enrique V. Iglesias and Venezuelan Finance Minister Luis R. Matos Azócar.

The Bank's support for the program would include backing for new programs in the financial and social sectors now being prepared for consideration as well as the possible acceleration of disbursements under existing IDB-financed programs.

The support program could lead to $500 million in disbursements over the next 12 months.

The Bank is considering the following measures:

- ▶ Financial support for social projects to benefit low-income groups to reduce the burden caused by economic adjustments.
- ▶ A financial sector loan to help resolve the country's current fiscal crisis and establish the basis of a sound financial system.
- ▶ Support for the reform of the social security and severance payment systems, public sector reforms and institutional strengthening of budgetary institutions.
- ▶ Special efforts to accelerate disbursements to support existing social sector programs and energy and transport infrastructure projects.

WILLIE DB

New funds for roads and energy.

DAVID MANGURIAN—IDB

Workshop participants get down to business at IDB headquarters.

YOUTH

Wanted: young leaders

Groups come to Washington to share ideas

The IDB will participate in a working group to mobilize international support for youth development and possibly create a fund to finance youth-led initiatives that support economic and social development.

An announcement of plans for the new fund was made by IDB President Enrique V. Iglesias before an April gathering of the Washington, D.C., chapter of the Society of International Development (SID).

The Inter-American Working Group on Youth Development's activities will include support for training for young people and the groups that serve them. A major objective will be to empower young people in the design and management of social projects.

Youth participation. The need for young people to move more into the forefront of their countries' development process was a major conclusion of the Bank's 1995 youth forum in Israel. While the Bank has always financed programs that serve youth, "an important element lacking was the actual participation of the youth themselves," said Elena Suárez, coordinator of the Bank's Special Programs Section.

On the day following the SID meeting, the Bank hosted a series of workshops in which young people and representatives of youth-service groups discussed how to build partnerships among both public and private groups.

Participanting were 130 representatives of over 80 organizations. Some came from as far away as Spain, the Caribbean and South America; others were from Washington, D.C. Represented were foundations, community groups, and international agencies.

The organizers used an open-space approach to create an easier dialogue and to allow participants to define the goals and topics for 28 break-out meetings.

Among the youths' conclusions were that groups should step up their networking efforts and share databases and that they need training in how to raise funds. Follow-up meetings will be held by some of the participants.

DAVID MANGURIAN—IDB

Checking the plans for a new treatment plant.

COLOMBIA

Urban river gets a cleanup

Municipal sewage treatment plants for the Colombian towns of Funza and Mosquera are scheduled to go into operation in July, bringing to 12 the number of plants already completed as part of the Upper Bogotá River Basin cleanup project.

The massive environmental program involving 23 municipalities near the capital of Bogotá includes the construction of a total of 23 sewage treatment plants, 21 trash landfills, 9 waste pre-treatment plants at slaughterhouses, as well as reforestation and soil conservation.

The program, which is being carried out by the Regional Corporation for the Bogotá, Ubaté and Suárez Rivers (CAR), a regional agency governing the Bogotá River watershed, is partially financed by a $50 million 1990 IDB loan. The plants for Funza (population 30,000) and Mosquera (population 20,000), both fast-growing towns west of the Bogotá city limits, are capable of serving double their present populations in anticipation of future growth.

"The treatment plants will play a very important role in the development of these municipalities," says Alfonso Herrán Quintero, deputy director of planning for the CAR. "The sewage network will define their urban limits and where growth will take place. This will permit a more orderly growth."

Greater Bogotá now has an estimated population of 6.3 million.

A major benefit from the sewage treatment plants and landfills will be better-quality drinking water for the municipalities. Most previously lacked treatment facilities and fecal coliforms in their drinking water far exceeded acceptable health standards. In Funza and Mosquera, more than half of all patients treated at public health facilities suffer from water-related diseases.

The treated sewage water from the plants will be used to irrigate surrounding farms. The sewage sludge will be applied as fertilizer by nearby flower farms.

The treatment plants for the two municipalities are being built by an Israeli firm. Their equipment was purchased from Italy and the United Kingdom.

MEXICO

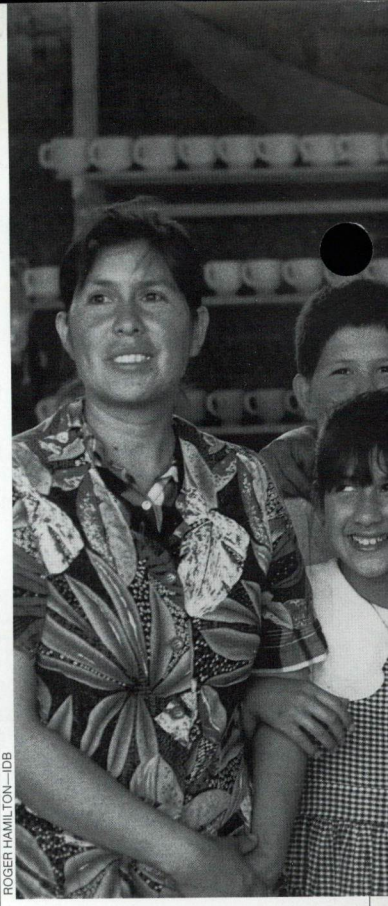
Return of the potter

When José Luis Zinzún announced to his coworkers in a California ceramics plant two years ago that he intended to return to his native village in Mexico and start his own plant, they didn't believe him.

After all, getting to the United States was difficult and risky. Like thousands of his fellow countrymen from the state of Michoacán, Zinzún and his family had braved a 2,000 mile journey and a potentially dangerous border crossing. Moreover, they were doing well in California. In their three years there,

ROGER HAMILTON—IDB

Home-made workshop.



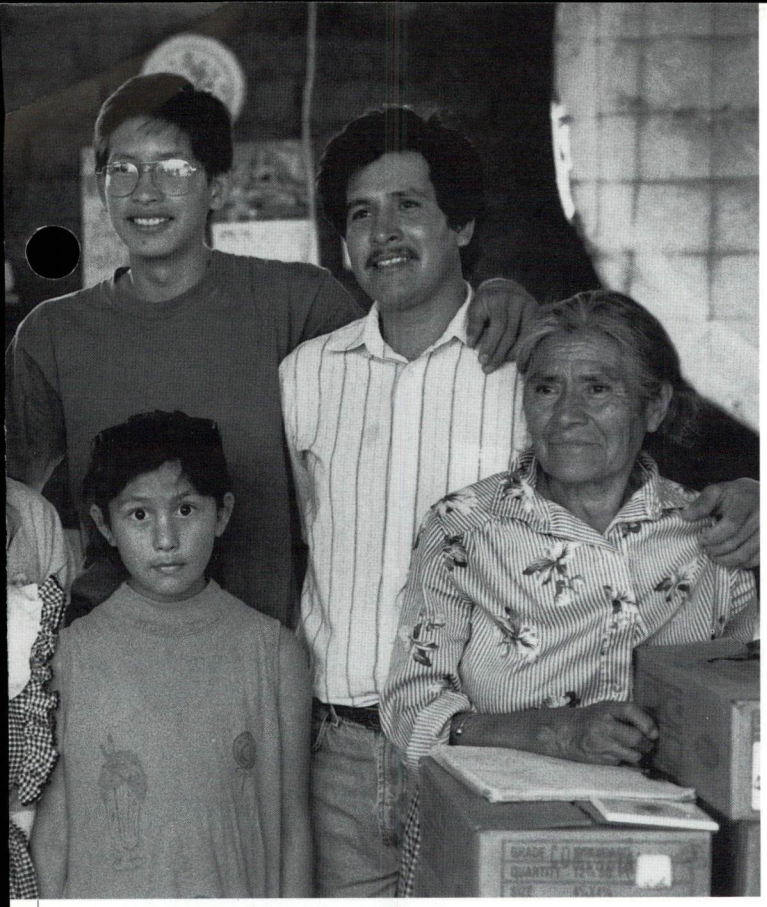
ROGER HAMILTON—IDB

Zinzún and his wife, Esperanza Chagoya, and their four children, learned English and how to live in a new country.

But despite the job, the schools, the new friends, something was missing. "We wanted to have something of our own," said Zinzún.

Back in Michoacán, they had to start again from practically nothing. With a total capital of $60 and a small electric kiln they brought from the U.S., they set up shop in an adobe shed with a tin roof. Using skills he learned in the U.S., Zinzún built a two-story house out of rough-hewn logs.

At first, nothing went right. Everything they put in the kiln came out broken. A storm blew the roof off their workshed, and rain washed away the adobe bricks. But they stuck to it, and along the way got three loans from an IDB-financed credit program managed by the Michoacán Industrial Development Fund. One loan



The Zinzún family left California to set up a business in Michoacán, Mexico.

was to the husband, one to the wife, and the third to Zinzun's mother. Although the credit program began more than 11 years ago with a modest $500,000, repayments and efficient management of the fund kept its capital intact so that Zinzún and others like him can continue to borrow.

The Zinzúns expanded their work area, bought more materials and supplies, and with the help of an engineer in Morelia, built a large gas-fired kiln.

Today, two years after they began, the Zinzúns sell their products as fast as they can produce them, everything from bathroom tiles to little figures of cheerful men.

The present workforce of family members and two outside workers has a hard time keeping up with orders. "If we run out of something, we have to turn people away disappointed," says Zinzún.

The Bank in Action is compiled by David Mangurian.

GUATEMALA

Of trees and turbines

More than 150 indigenous communities in Guatemala's Chixoy River watershed are carrying out reforestation and soil conservation works designed to prevent erosion and protect a major hydroelectric project.

The program suffered initial delays because of difficulties in working with poor, indigenous communities.

"It was hard to find and train community leaders who understood Spanish," says Hugo Zacarías of the IDB's Guatemala office.

Once trained, those leaders became "facilitators," disseminating information on better agricultural methods in the seven indigenous languages spoken in the project area.

A major objective of the project, which is financed by a $14.4 million 1991 IDB loan, is to convince thousands of subsistence farmers to plant trees and adopt better farming techniques.

The severe soil erosion and sedimentation threaten to shorten the lifespan of the 300,000-KW Pueblo Viejo–Chixoy hydroelectric plant, the country's principal source of electric power.

Since much of the deforestation problem is due to the extensive use of firewood for energy, the program is helping farmers install stoves that use 60 percent less firewood than traditional stoves.

The program encourages farmers to plant trees on their farms and adopt soil conservation methods by "paying" them with tools, improved seed, veterinary supplies and egg-laying chickens.

Guatemalan farmers learn soil management methods.

DAVID WILSON—GUYANA

A new operating room.

GUYANA

New diagnostic center opens

The new Ambulatory Care, Surgical and Diagnostic Centre of the Georgetown Hospital has been inaugurated at a ceremony attended by Guyanese President Cheddi Jagan and Minister of Health Gail Teixiera.

The center includes consolidated outpatient services, six operating theaters, and centralized laboratory facilities. It also includes X-ray, central sterile supply, accident and emergency departments, an intensive care unit, a 43-bed ward for critically ill patients, and support facilities.

The center was built with the help of a $27.9 million IDB loan that is financing the first stage of a program to rehabilitate the country's hospital infrastructure.

"Guyana is very proud of this facility," said Health Minister Teixiera. "The state-of-the-art equipment will make it possible to provide services which hitherto were not available in the public sector."

LOANS

Argentina. . .$25 million to strengthen the process for assigning priorities to public investment projects to ensure the funds' maximum impact.

The resources will support the preparation of preinvestment studies that meet financing standards and bolster national and provincial governments' systems for public investment.

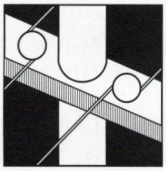
The agency responsible for preparing and implementing the national investment plan will be strengthened along with provincial agencies and others that participate in the investment system.

The resources will extend an existing program supported by a $24 million 1993 IDB loan.

The total cost of the program is $32 million.

For more information contact: Dirección Nacional de Inversión Pública y Financiamiento de Proyectos, Hipólito Yrigoyen 250, 8º Piso, Capital Federal, Buenos Aires, Argentina. Tel. (54-1) 349-5611, fax (54-1) 349-5640.

Colombia. . .$12.5 million to support privatizations in the energy, transportation, telecommunications, and water and sanitation sectors.



The resources will support specific privatization and concession transactions at the national, departmental and municipal levels; help to consolidate the regulatory and institutional framework in each sector; and enhance the public sector's capacity for administering concessions.

The World Bank is expected to provide $12.5 million in financing; local funding will be $8 million. The total cost of the program is $33 million.

For more information contact: Dra. Nancy Tirado de Montenegro Departamento Nacional de Planeación, Calle 26 No. 13-19, Edificio FONADE, Bogotá, Colombia, Tel. (57-1) 336-1600, fax (57-1) 334-0241; or Dra. Claudia Lucía Duarte, Ministerio de Hacienda y Crédito Público, Carrera 7A No. 645, Bogotá, Colombia, Tel. (57-1) 342-8870, fax (57-1) 286-3919.

Regional. . .$38 million for small states in the Caribbean to support new infrastructure, social services, and the repair of infrastructure damaged by natural disasters, mainly hurricanes.

The resources—two loans and a grant of $1 million—will be provided through onlending by the Caribbean Development Bank.

Among the projects to be financed are construction of roads, seaports and other infrastructure; the strengthening of government institutions; the repair of damage due to hurricanes and other natural disasters; and greater environmental oversight.

The beneficiary countries include Anguilla, British Virgin Islands, Cayman Islands, Antigua & Barbuda, Dominica, Grenada, Montserrat, St. Kitts & Nevis, St. Lucia, St. Vincent and the Grenadines, and Turks and Caicos Islands.

The grant will help the CDB and the beneficiary countries to identify and prepare projects, with special emphasis on environmental controls and management.

The total cost of the program is $143 million.

For more information contact: Caribbean Development Bank, P.O. Box 408, Wildey, St. Michael, Barbados. Tel. (809) 431-1600; fax (809) 426-7269 or (809) 436-8117.

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

TECHNICAL COOPERATION

Jamaica. . .$3 million to assist in preparing projects that will qualify for future IDB financing.

The conditional line of credit will provide resources to undertake studies and develop a pipeline of public sector investments that emphasize modernization of the state, better social services, the reduction of poverty and environment degradation, and the promotion of export growth.

For more information, contact: Planning Institute of Jamaica, 8 Ocean Boulevard, Kingston, Jamaica. Tel. (809) 967-3689/92; fax (809) 967-3688.

Regional. . . $6 million in nonreimbursable financing to support programs for agricultural research technology transfer, and training. Included is $1.3 million to the International Center for Tropical Agriculture, Colombia; $1.2 million to the International Maize and Wheat Improvement Center, Mexico; $1.2 million to the International Potato Center, Peru; and $600,000 to the regional office of the International Center for Research in Agroforestry.

BONDS

Swiss francs. . . 200 million Swiss francs ($168 million equivalent) for incorporation into the Bank's ordinary capital.

SFr

The bonds, which carry a coupon of 4.5 percent per annum and a pricing of 102.375 percent, were underwritten by joint lead managers SBC Warburg and Union Bank of Switzerland. Senior co-lead managers were Credit Suisse and Merrill Lynch Capital Markets in addition to 11 domestic and foreign financial institutions.

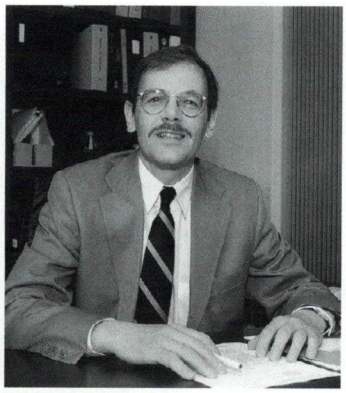
Euro-MTN. . . The Bank has launched two three-year Euro-MTN bond issues: a straight $150 million issue and a dual- currency issue denominated in Japanese yen, for 8 billion yen to be repaid in Australian dollars.

MTN

The $150 million issue has a maturity date of May 28, 1999, and is priced at 99.98 percent with an annual coupon of 5.6 percent. It is underwritten by DKB International plc and Kankaku (Europe) Ltd.

The dual currency issue has a 7 percent coupon payable semiannually in Japanese yen and a maturity date of May 13, 1999. The transaction was underwritten by the Industrial Bank of Japan and New Japan Securities.

NEW DIRECTORS JOIN THE BOARD



Marco Ferroni

Marco Ferroni has been appointed IDB alternate executive director for Belgium, Germany, Italy, Israel, Switzerland, and the Netherlands.

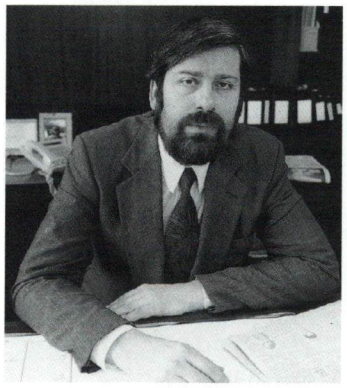
A citizen of Switzerland, Ferroni until recently was a deputy department head at the Swiss Federal Office of Foreign Economic Affairs in Bern, Switzerland. He also held a teaching appointment at the Swiss Federal Institute of Technology in Zurich. Earlier, Ferroni had managed Switzerland's program for balance of payments assistance to developing countries, and before that he worked as an economist at the World Bank. Ferroni has published works on structural adjustment, public expenditure reform, macroeconomic linkages and agricultural incentives, as well as articles on North-South relations.

Ferroni has two degrees from Cornell University: a master's degree in agricultural economics, and a Ph.D. in agricultural and resource economics.

DAVID MANGURIAN—IDB

Cotton's caretaker

Hugo Almada helps to sun dry new varieties of cotton at the Natalicio Talavera Experimental Station near Coronel Oviedo, Paraguay. The station tests new cotton types in an IDB-financed program to help small farmers.



José María Cartas

José María Cartas has been appointed IDB alternate executive director for Argentina and Haiti.

A citizen of Argentina, Cartas was formerly the Bank's technical assistant for Argentina and Chile, as well as the IIC's alternate executive director for Argentina and one of Argentina's representatives at the Multilateral Investment Fund. Before joining the Bank Group, Cartas worked as an independent consultant and wrote books and articles on both international trade and economic order.

Cartas holds a master's degree in economics from the National University of Córdoba and a Ph.D. in economics from the Westfälische-Wilhelms University of Munster.

IN THE FIELD

Camille Gaskin-Reyes has been appointed IDB representative in Panama. She was previously responsible for coordinating programs for Trinidad and Tobago in the Regional Operations Department 3.

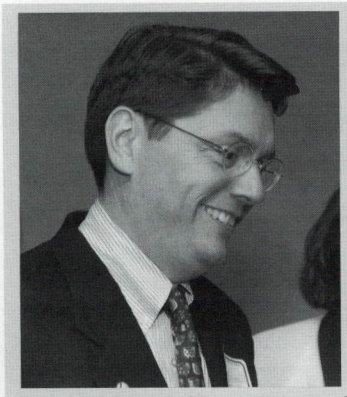
LUIS PORTILLO—IDB

Uruguyan actress and singer **Dahd Sfeir** recently performed "Voces del Sur," a one-woman presentation of songs and prose by Latin American writers, before an audience of 350 people at the IDB's Washington, D.C. headquarters. Just before her IDB appearance, Sfeir won this year's Helen Hayes Award as the Outstanding Lead Actress in a Residential Musical. She received the award for her performance in the musical "Mano a Mano," which was presented last October at Washington, D.C.'s GALA Hispanic Theatre. The GALA production was financed in part by the Bank's Cultural Center. Sfeir has performed internationally and is a seven-time recipient of Uruguay's Best Actress Award. She has also been named Best Foreign Actress in Venezuela and Argentina.

DAVID MANGURIAN—IDB

Nicaraguan President **Violeta Chamorro** visited the IDB on March 5 to sign a $1.9 million loan to help strengthen the country's tax collection system. The funds will be used to improve the efficiency of Nicaragua's tax audit and inspection systems, improve its service to taxpayers, and reduce levels of tax evasion. The changes will make the system fairer by removing the advantage to firms that evade taxes.

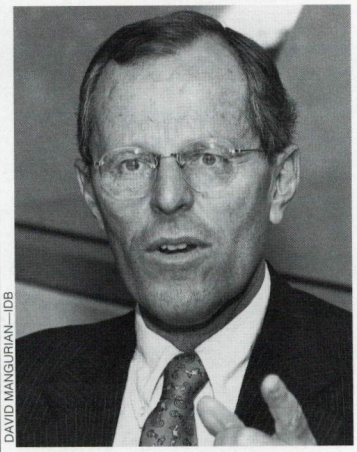
From 1991 to 1996, the IDB has provided Nicaragua with over $730 million in loans. The Bank has supported the country's efforts to stabilize and transform its economy as well as its efforts to reorganize its financial system and liberalize its trade. The Bank has also financed social programs to soften the impact of these adjustments, including programs to help low-income groups. (See related story, page 3.)



PHOTOS BY DAVID MANGURIAN—IDB

Enrique V. Iglesias recently announced the Bank's participation in an Inter-American Working Group on Youth Development at an event attended by **Mark Gearan**, director of the United States Peace Corps (left), and **Marian Wright Edelman**, founder and president of the Children's Defense Fund (right).

The event was held before a meeting of the Washington, D.C., chapter of the Society for International Development (SID). The SID meeting kicked off an IDB-hosted conference at which young people and the representatives of youth-service groups discussed how to build partnerships among public and private groups. The working group's other members include the Peace Corps, the Organization of American States, the Inter-American Foundation, the International Youth Foundation, the U.S. Agency for International Development, and the World Bank.



DAVID MANGURIAN—IDB

Pedro-Pablo Kuczynski, president of the Latin America Enterprise Fund and Westfield Capital Ltd., gave a talk at the Bank in February titled "The Challenges that Face the Private Sector in Latin America." According to Kuczynski, business has a responsibility to ensure that the economies of Latin America andthe Caribbean continue to grow and evolve into free-market systems, and that governments develop policies to support such changes. Kuczynski formerly served as Peru's Minister of Energy and Mines, deputy governor of the Peru's Central Reserve Bank and director of the Peruvian Steamship Co.