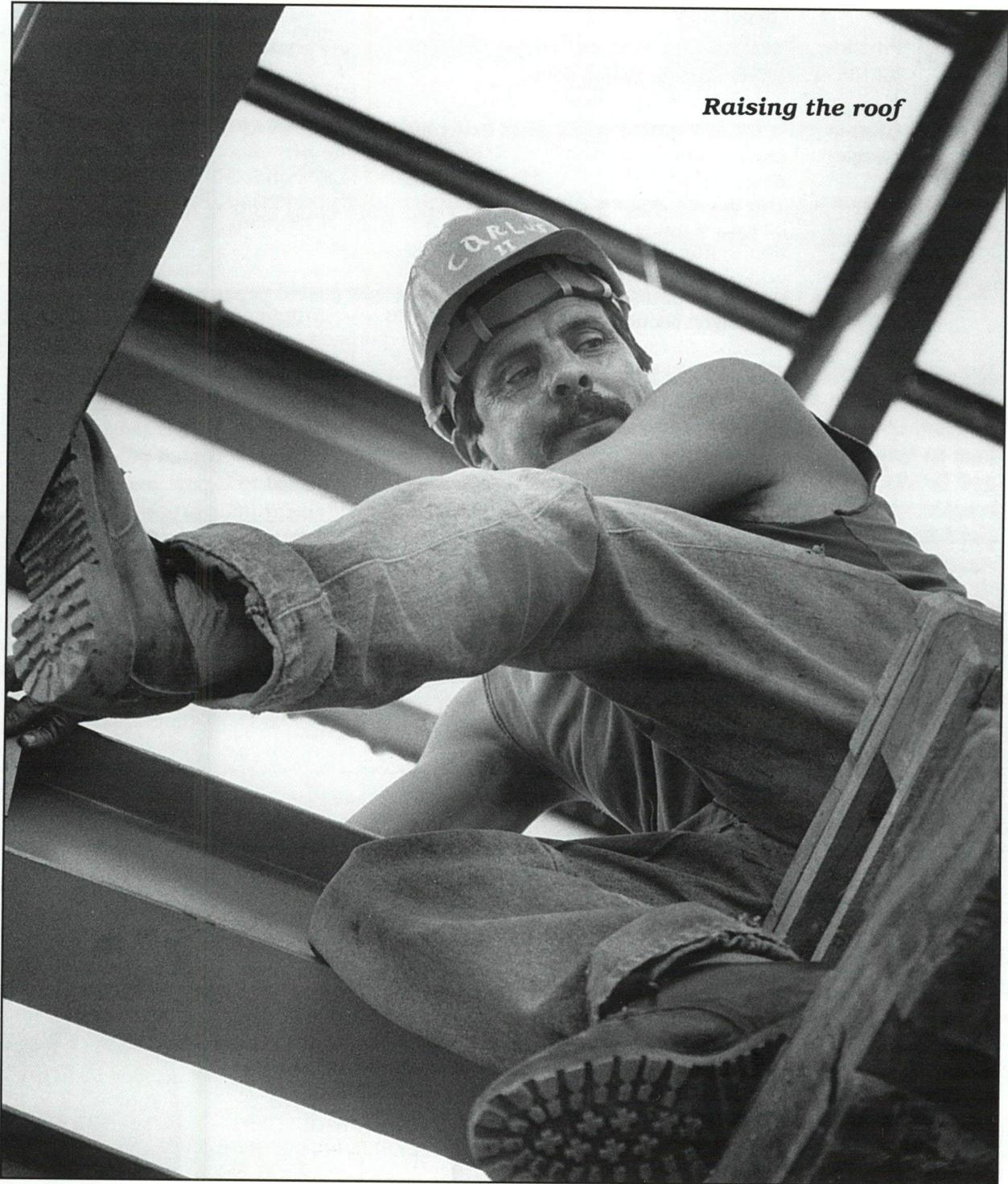


THE IDB

Inter-American Development Bank • August 1996

New investment boom



Raising the roof

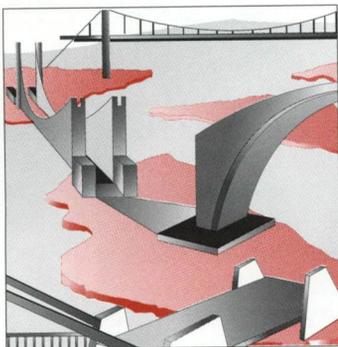
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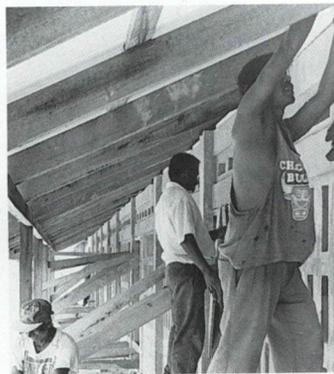
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Argentine architect Rodolfo Machado recently designed a park to view the Statue of Liberty.

COVER PHOTO

Raising the roof

A roof worker gets a good view of a \$10 million project to expand a paper factory in the city of Juan Lacaze, in southwestern Uruguay. The project was financed with the help of a \$6.6 million loan extended through an IDB industrial credit program. (IDB photo by David Mangurian.)



The Bank at a glance

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

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

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

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

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

Volume 23 Number 8

THE IDB reports on economic and social development trends in Latin America and the Caribbean and on the activities of the Bank. It is published 10 times a year in English, Spanish, French and Portuguese.

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Editor

Roger Hamilton

Associate editors

Samuel Silva

John O'Neill

Assistant editor

Claudia Estrada

Contributing editor

David Mangurian

Designer

Cecilia Jacobson

Staff photographers

Willie Heinz

Luis Portillo

Production

The Word Express

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Credit for small business

Programs to guarantee credit for small businesses have helped to create jobs and vibrant economies in a number of countries, notably South Korea and Japan. Could they do the same in Latin America?

Yes, but only after a number of specific conditions have been satisfied, concluded an international roundtable of experts on credit-guarantee systems that met at the IDB's Washington, D.C., headquarters in early July. Assessing Latin America's credit-guarantee systems, participants cited their high costs and low acceptance, and the problems associated with the volatility of the region's financial markets.

Such guarantee systems would help to solve the various credit problems faced by small and medium-sized businesses. By assuming part of a financial institution's risk in lending to a private firm, government-supported systems help to increase the supply of credit that enables firms to expand and modernize.

A clear need. In Argentina, according to round table expert Abraham Stein, firms must pay 3-4 percent interest per month for a loan, a virtually prohibitive level considering that inflation was only 3.4 percent for the entire year of 1995. Furthermore, a credit-worthy firm must commonly put up two to three times more in collateral than the amount of the credit.

Viewing Latin America as a whole, Paul Holden, director of the

Enterprise Research Institute for Latin America, cited a "complex set of institutional failures" as a major reason why credit is "virtually nonexistent" for the region's small-scale entrepreneurs.

In Japan, in contrast, more than half of the small and medium-sized firms receive credit through government-supported guarantee programs. These programs are both low cost and have a low default rate, according to Michiko S. Hatakeyama, a specialist in industrial development policy.

In South Korea, a loan-guarantee system has proven to be "critical" to the success of the country's devel-

opment strategy, in addition to bringing substantial social benefits, according to a paper presented at the round table by Yoon Ok Kim and Yung Whee Rhee.

Despite the current problems, efforts will continue to be made to design systems that work in Latin America, noted participants.

At the conclusion of the round table, IDB financial experts Kim B. Staking and Juan José Llisterri presented the following conclusions:

► The success of credit-guarantee systems depends on well-functioning financial markets and legal and regulatory systems.

► The private sector must have a prominent role in managing credit-guarantee systems; subsidies must be minimal and transparent.

► A country must have sufficient demand for a credit-guarantee system before launching one.

► Any proposed credit guarantee system must take into account the country's regulatory environment.

► A firm's cost for credit must be realistic, otherwise a guarantee system will be doomed to failure at its very inception.

► Political, social, and developmental objectives—not purely

economic ones—could play a role in the design of credit-guarantee systems for small and medium-sized businesses.

The private sector has been given the lead role in Latin America's future development. Small and medium-sized businesses can contribute fully only if they have access to the credit they need.

—Daniel Drosdoff



DAVID MANGIURIAN/IDB

Owners of many small businesses lack the access to credit they need to expand production and modernize facilities. Guarantee systems would help solve the problem.

INTEGRATION

Whither the Caribbean?

Bridging boundaries, reaching out to the world

Three decades ago, it seemed that a new era was dawning for the Caribbean. The countries, many newly independent, were embarking on programs of social and economic transformation. The region was infused with optimism.

But today, incomes are dropping and poverty and pessimism are on the rise. The region's people are growing impatient for new policies and political approaches.

This is the assessment of Winston C. Dookeran, former planning minister from Trinidad and Tobago and organizer of a 1994 conference at Harvard University's Center for International Affairs. At the conference, experts on the Caribbean examined the region's place in the changing global environment, in which economic geographies are transcending traditional geographical boundaries. Their views are now available in written form in the volume *Choices and Change: Reflections on the Caribbean*.

Following is a sampling of proposals for the Caribbean's future as articulated by several of the book's contributors.

Joining a world of trading blocs

Winston C. Dookeran
Harvard University

The Caribbean is a complex, even enigmatic region, made up of nations that differ greatly in size, population, geography, history, language, religion, race and politics. At the same time, the region's economies share some important characteristics: they are primarily small, with narrow resource bases and high trade-to-output ratios.

Despite persistent efforts to the contrary, most Caribbean countries still depend on preferential export

markets. Any future economic strategy for the region must be based on the creation of a dynamic export sector that is founded on market forces and sustainable without trade preferences.

The challenges ahead for the Caribbean are to capture global technology flows, respond to global business cycles, and compete in an integrated regional economy.

The best model for the Caribbean at this juncture is a form of open regionalism. By building new trading blocs, the region's countries could become part of the trend toward globalization and regionalization.

The Caribbean's first round of regionalism, when it formed the Caribbean Community, was aimed at widening the region's production base, erecting trade fortresses and achieving policy convergencies. The current round, which combines the integration of production with open markets, represents a step towards a more open multilateral trading system.

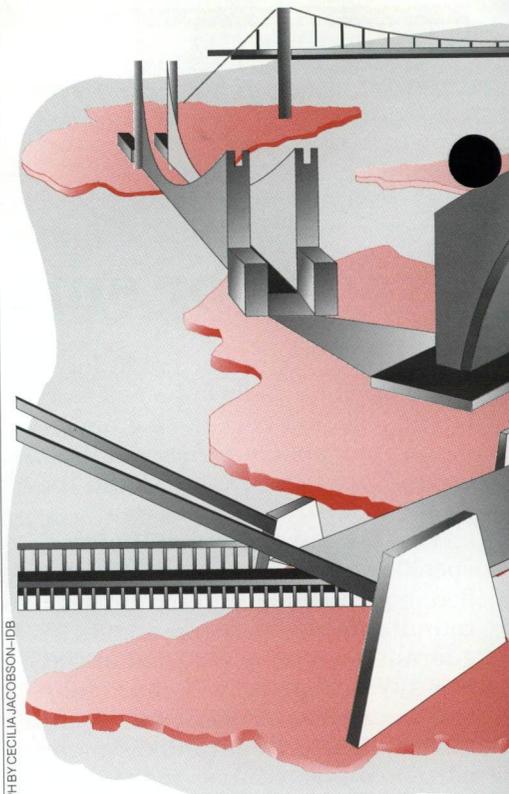
The Caribbean must accept the realities of the new global economy. It must move away from its traditional posture of protest diplomacy towards a more affirmative stance.

Government reform: the missing ingredient

Nancy Birdsall
Executive vice president, IDB

The current challenge for Caribbean development is to reduce the government's involvement in production and to increase its role in creating an environment that supports growth.

The agenda begins with privatization, an area where the Caribbean has lagged. For example, the Dominican Republic, though a star adjuster, still has some 25 state-



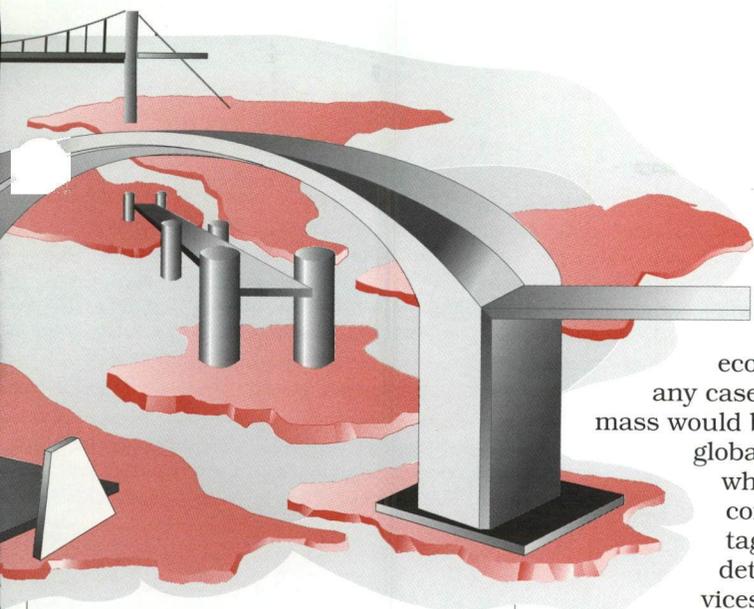
GRAPH BY CECILIA JACOBSON-IDB

owned enterprises that lose the equivalent of about 3 percent of GDP per year, an amount that is equal to public sector expenditures on education and health combined. Privatization requires a strong government to ensure that private monopolies do not simply replace public monopolies.

The agenda also includes deregulation. In many Caribbean countries, apparent protections for workers inhibit private investment, reduce efficiency, and exacerbate problems of inequity by reducing employment possibilities, while at the same time fail to provide an adequate safety net. Governments must adopt new labor policies that establish labor standards and, while recognizing collective bargaining rights, leave government out of management-labor negotiations.

Regulation that restricts foreign investment seems particularly perverse. While on paper Caribbean countries appear open to foreign investment, many are not. Even in an open economy such as Trinidad and

For information on ordering *Choices and Change: Reflections on the Caribbean*, which is available in English only, contact the IDB Bookstore at telephone (202) 623-1753, fax (202) 623-1709 or e-mail: idb-books@iadb.org



Tobago, foreign investors are barred from at least 25 sectors. In contrast, Chile has only two sectors that private investors cannot enter.

Finally, the civil service in many Caribbean countries has too many employees, wages that are too low to attract the best people, and outmoded practices.

Privatization, regulation, and social reforms all require a state that is an enabler of the private sector. They call for not a big government, but a lean and strong one.

Functional cooperation

*Charles A. T. Skeete
Economist, IDB*

Of the three main forms of unity—functional cooperation, political union, and economic integration—only the first has a significant potential contribution to make to the nations of the Caribbean Community.

The Caribbean economy poses daunting obstacles to an integrated market. The markets of individual countries are small and highly fragmented, their import capacity is dependent on exports to extraregional markets, they are similar in structure, and by international standards they are high-cost producers.

I am skeptical about the relevance of the existing economic integration arrangements to Caribbean economic progress. Unless the Caribbean Community is geographically expanded to embrace more nations, it is unlikely to develop the critical

mass necessary for achieving production economies of scale. In any case, such critical mass would be irrelevant in a globalized economy in which Caribbean comparative advantage is likely to be determined by services and knowledge-intensive activities.

In my view, the case for Caribbean unity rests on nothing more or less than an enduring need for a sense of identity and community. I believe that this need is based on shared values, commonality in historical experiences and forms of cultural expression, and similarities in social and economic organization.

In this view, integration in the Caribbean would take the form of a system of functional cooperation. Potential opportunities for joint action could include higher education, culture, sports, and the appeal levels of the judiciary.

An important result of this functional approach toward unity could be increased diplomatic and negotiating leverage. However, individual countries should not be required to make heroic sacrifices in national welfare that cannot be compensated by gains achieved through unity.

The Jamaican journalist Frank Hill has explained how Jamaica once entered a federation, but later withdrew: "Our minds dragged our hearts into it." We should not repeat that mistake.

Toward a political union

*Havelock R. H. Ross-Brewster
Former IDB executive director*

The centerpiece of my vision of the Caribbean's future is a Union of West Indian States that would include West Indian citizenship that coexists with citizenship of the individual member states.

Such a political union is neces-

sary at the present time. The states making up the Caribbean Community (CARICOM) have become increasingly peripheral and isolated, with tenuous, virtually nonexistent links to Africa, Asia, Europe, Latin America and North America.

The Caribbean may well be the most isolated community of people in the world. Its strategic, colonial and migrant ties of the recent past have disappeared, while its diaspora has become more remote with the passing years. At a time when the nations of the world have opened their economies, the Caribbean is becoming culturally and racially self-conscious and closed.

A political union would ultimately strengthen CARICOM's relations with the non-Anglophone Caribbean, Central America, and the rest of Latin America. Enhancement of the CARICOM peoples' own cultural identification, self-knowledge and self-confidence will enable them to reach out to their culturally and geographically cohesive neighbors. Where mutually advantageous opportunities for trade and other forms of economic cooperation exist, full advantage should be taken of them.

The union would undertake joint activities that cannot be pursued nationally, such as issues having to do with the sea, airspace, the weather, disease, and pest infestation. Regional public goods would include regional security and social infrastructure such as high technology and advanced scientific training and medical facilities.

CARICOM's future economic and functional institutions would no longer manage the various instruments that constitute and support the common market. Instead they would aim to energize the private sector and promote the development of truly regional activities, including infrastructure and services.

Meanwhile, production and trade activities that have no rationale for being carried out regionally would be left to the dictates of comparative advantage in the global market.

SEMINARS

A financial crisis, a housing success

New studies look at key development issues

■ According to fin-de-siècle economic common knowledge, the 1995 crisis experienced by several Latin American countries was caused by capital flight triggered by the loss of confidence of foreign investors after the collapse of the Mexican peso. That chain of events has been baptized the "Tequila Effect."

But is this what really happened? Martín Uribe, an economist with the Division of International Finance of the United States Federal Reserve System, took a close look at the economic statistics

Was there a "Tequila Effect?"

in Argentina before and after the Mexican crisis, and then

checked these numbers against a theoretical model.

In a presentation of his study at the IDB, Uribe described the model he created, which is of a small, open economy with perfect foresight, and in which an economic agent has learned that foreign investors will pull out of the country.

The researcher proved conventional wisdom correct. "The model captures key features of the Tequila Effect in Argentina," says Uribe. Some of the matches between the model and reality were the drop in domestic spending and the capital outflow that began in December of 1994, the credit crunch and interest rate hike in March of 1995, the slow return of the real interest rate to its precrisis level, and the long decline in output and investment that started in March of 1995.

☎ To order a copy of the study referred to above, contact Pilar Bilecky at fax (202) 623-2481, telephone (202) 623-1840, or e-mail: pilarbi@ iadb.org

Latin America has not been particularly successful in its efforts to provide housing for the poor. Schemes of housing construction and financing that rely on the operation of market forces mainly benefit high-income families, and public policies have usually been unable to provide compensatory mechanisms.

Houses for all

The exception to the rule is Chile, say IDB urban planner Eduardo Rojas and Catholic University of Chile architect Margarita Greene. Since 1992, according to a paper published in the journal *Environment and Urbanization* and presented recently at IDB headquarters, Chile has been producing more new houses than the demand implied by the increase in new families and the need to replace aging stock. Furthermore, they find, low-income families are gaining increased access to housing services through a combination of programs that are gradually improving their living conditions.

Chile's success is the result of a consistent housing policy and 40 years of sustained political commitment to public involvement in the housing sector, state the authors. Other contributing factors have been the country's sustained macroeconomic stability, economic growth and strengthening financial markets.

But the private sector cannot claim credit for Chile's success in supplying low-income housing, say Rojas and Greene. "State presence throughout the system is pervasive," they note.

A three-tier housing system operates now in the country. Private mortgage financing is available for



DAVID MANGUIRIAH-IDB

The region has struggled to provide housing

upper-middle-income families who buy houses produced by private developers. A mixed system based on nonrefundable cash vouchers supplied by the government and supplemented by commercial loans helps middle-income and lower-middle-income families to finance privately built homes. Finally, the government distributes heavily subsidized housing to low-income families.

"The system is remarkable," say the authors, "in that it provides coherent coverage of all housing submarkets and reaches the poor with formal, if somewhat rigid, housing solutions." They add, how-



at low-income families can afford.

ever, that there is still quite a bit of room for improvement, particularly to make the system more flexible in its coverage.

According to the authors, the Chilean government should expand its investment in urban infrastructure, promote the more efficient use of developed lands, and more vigorously promote the renewal of the inner cities.

For a copy of the study referred above, contact Marietta Maurer at fax (202) 623-2152, telephone (202) 623-2454, or e-mail: mariettam@iadb.org

INVESTMENT

A boost for the boom

Foreign direct investment surges in Latin America

Developing countries have been receiving a much bigger share of foreign investment during the 1990s than in the previous decade.

According to *Foreign Direct Investment in Latin America in the 1990s*, a book just published by the IDB and the Institute for European-Latin American Relations (IRELA), developing countries received 40.5 percent of the world's foreign direct investment in 1994, up from only 15.8 percent at the start of the decade.

Within the developing world, Latin America and the Caribbean increased their share of foreign direct investment flows to 11.3 percent by 1994, up from a mere 4 percent in 1990, says the book.

Foreign capital inflows are underpinning the region's economic restructuring. "These flows increasingly contribute to the incorporation of the latest technologies," write IDB President Enrique V. Iglesias and IRELA Director Wolf Grabendorff in

the book's foreword. Moreover, they continue, the new capital spurs the introduction of new products and company strategies.

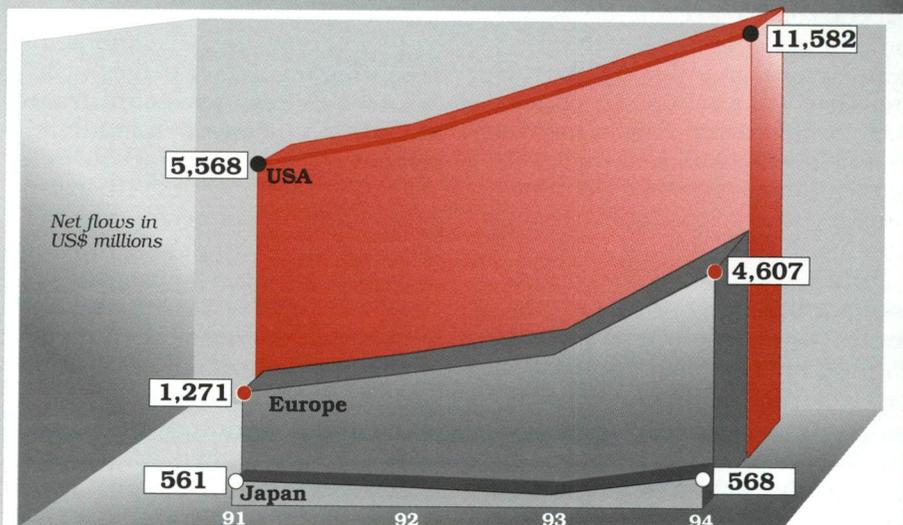
The Mexican crisis of 1995 did not seem to have an impact on these direct investment flows, though it did affect portfolio capital flows. "Investors generally have been impressed by the continued adherence of most countries to economic liberalization and stabilization policies," states the book. "In 1995, FDI flows remained at the high level attained in recent years."

The book includes statistical information on investment flows from the United States, Japan and 13 European countries.

For information on ordering the book, contact the IDB Bookstore, at fax (202) 623-1709, telephone (202) 623-1753, or e-mail: iadb-books@iadb.org

More money heading south

Direct foreign investment in Latin America on the rise



Europe includes the European Union state members (except Greece and Ireland) and Switzerland. Source: *Foreign Direct Investment in Latin America in the 1990's*, IDB-IRELA, 1996

GRAPH BY CECILIA JACOBSON-IBD

PRIVATE SECTOR

Agreement with Spanish group

Seek increased investments

The IDB Group and the Spanish Confederation of Business Organizations have agreed to promote a wide range of private sector oriented activities and investment projects in Latin America and the Caribbean.

The memorandum of understanding, which was signed in July in Madrid by IDB President Enrique V. Iglesias and confederation President José María Cuevas, is the first between the IDB Group and a private business organization.

The IDB Group and the confederation will exchange information on technical cooperation that could be made available for helping governments intending to privatize physical infrastructure, promote the development of small and medium-sized enterprises, and identify projects in eligible sectors for IDB Group financing without government guarantees.

The two organizations also agreed to identify financing opportunities connected with operations supported by the IDB affiliate Multilateral Investment Fund (MIF) to help countries develop regulatory frameworks to promote private investments, mainly in public infrastructure. They will also identify opportunities for Spanish financial institutions to join the MIF and the Inter-American Investment Corporation, also a member of the IDB Group, in investing in risk capital funds.

The IDB Group and the confederation will identify private sector physical infrastructure projects that will need international financing. They will also collaborate in various other areas, such as the organization of seminars, establishment of information mechanisms to provide consulting support to MIF operations, and coordination with business organizations in Latin America.



PAUL OSBORNE

Regulatory officials Juan Carlos Arizaga of Ecuador (left) and Alberto Yagui Tomona of Peru sign an agreement to increase cooperation in financial markets development. The ceremony took place after the securities meeting.

SECURITIES

Antibribery measures urged

International group meets at IDB headquarters

The Council of Securities Regulators of the Americas adopted an anti-bribery resolution at their annual meeting at IDB headquarters in Washington, D.C., in June.

In their final statement, the regulators called on governments to "develop and promote laws that address illicit payments made by public companies."

In addition, the delegations, representing regulatory bodies in 17 Western Hemisphere countries, resolved that independent auditors be appointed to design procedures for detecting irregularities. They also advocated greater access to bank account information as a way to help combat illicit payments.

The Council of Securities Regulators of the Americas (COSRA), is the foremost organization in which securities regulators in the Western Hemisphere work together to integrate and strengthen securities markets.

The IDB hosted the meeting as part of its commitment to support the Summit of the Americas integra-

tion process and strengthen the region's capital markets.

At the meeting, COSRA resolved to promote the transparency of information about companies and create mechanisms through which investors can repatriate returns on their investments as a way of encouraging capital formation.

COSRA also recognized the importance of institutional investors as a potential source of capital for small businesses, and it urged the creation of legal measures to protect the rights of minority shareholders.

In the area of capital formation, COSRA called for the development of secondary markets for small companies along with sources of information about these companies.

Francisco Augusto da Costa e Silva, the chairman of the Brazilian *Comissão de Valores Mobiliários*, was reelected chairman of COSRA. Steven M. H. Wallman, commissioner of the Securities and Exchange Commission of the United States, was reelected to the COSRA vice chairmanship.

INTEGRATION

Same goal, new mission

As the region changes, so does IDB institute

The IDB's Buenos Aires-based integration institute has been reorganized to spur trade and better meet the needs of Latin America's private sector-driven economies.

In its new configuration, the Institute for the Integration of Latin America and the Caribbean (INTAL) will support the ongoing trade negotiations process at the subregional as well as extraregional levels under the proposed Hemispheric Free Trade Agreement (FTAA) as well as with the European Union, and the Asia Pacific Economic Cooperation.

"The Bank will use INTAL as a quick response mechanism to meet the region's changing needs," said the recently appointed head of INTAL Juan J. Taccone, who was formerly an international consultant and IDB senior operations officer.

INTAL, which has helped spearhead the Bank's integration activities for the past three decades, in the future will undertake the following initiatives:

- ▶ Technical assistance projects to support the implementation and design of subregional and extra-regional integration initiatives.
- ▶ Seminars to analyze new studies on integration and trade undertaken through a regional research network.
- ▶ Fora for integration policy debates that include the private sec-

tor, government and nongovernmental organizations.

▶ Dissemination of trade and integration information through its documentation center, the Internet, its journal *Integration and Trade*, a monthly newsletter, and the distribution of DATAINTAL, one of the most up-to-date software systems providing detailed trade statistics.

As part of the changes, INTAL has

More reliance on IDB funding will give INTAL greater independence in carrying out activities and increase its credibility with governments, businessmen and labor unions. It will also better enable INTAL to act as an intermediary in finding solutions to problems arising from the economic integration process.

Market rules. During most of INTAL's 32-year history, governments were the primary motor of the integration process. Throughout those years, the region's private sector took a relatively passive role. Accordingly, INTAL focused its efforts

on helping governments pursue their integration objectives.

The new INTAL will increasingly deal with private sector entities, including labor unions and non-governmental organizations. It will also help governments to bring the private sector into their integration policy deliberations. In addition, it will help governments to manage problems resulting from current integration and trade negotiations.

"The main force

behind the integration movement today is private markets, supported by a favorable government policy environment," said Uziel Nogueira, INTAL's international economist.

INTAL was created in 1964 by an agreement between Argentina and the Bank. The IDB and the Argentine government provide most of INTAL's operational funds, which are additional to the new \$6 million grant. Other countries in the region provide significant voluntary contributions.



Today's market-driven integration presents new problems and opportunities.

been streamlined and will rely more on specialized technical knowledge available in the region to carry out its projects. It will have a new emphasis on market-oriented economics and trade.

The IDB recently approved a \$6 million technical cooperation grant to INTAL to finance technical assistance projects, research, and seminars. The four-year funding nearly doubles what INTAL has been receiving from the region's governments to finance its activities.

ARGENTINA

Silver lining, volcanic cloud

Chile's Hudson Volcano erupted in 1991, devastating the cherry orchards across the Argentine border in Santa Cruz Province.

It looked like an economic catastrophe: deposits of ash up to 30 centimeters deep covered the farmland in Los Antiguos Valley, threatening a loss of production for years to come.

But the pessimism proved premature. Today the valley's farmers are back in the fruit business, producing 90,000 kilos of

cherries annually. In fact, they have recovered so well that 34 of them, all members of

the Cooperativa Agro-Frutícola El Oasis (CAFEO), have expanded their shipments and are planning to crack the lucrative Brazilian market.

The farmers, none of whom work more than five hectares of land, got back on their feet with the help of a \$410,000 IDB loan. They used the funds to build a new crop storage room, buy irrigation and refrigeration equipment, and contract consulting services.

The growers' plans to sell to more distant markets hinged on the acquisition of refrigeration equipment. Cherries spoil quickly, limiting how far they can be shipped. With refrigeration, the cooperative members were able to

sell to markets further north in Buenos Aires and along the coast.

This year they have set a still more ambitious goal, planning to sell to the competitive markets of São Paulo, Brazil, says Jorge Seguel, the cooperative's president. They will not be lacking in product. Seguel says that his members expect to double their cherry crop in three years, and to quadruple it within 10 years.

GUYANA

Help for aging schools

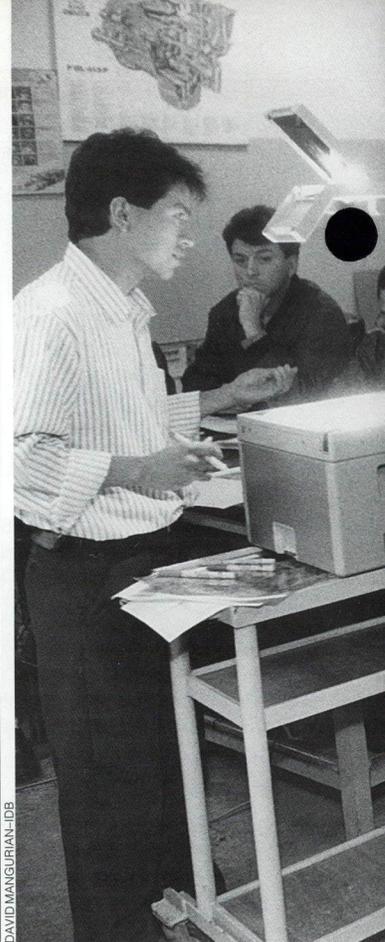
Primary school students in the town of Suddie, on Guyana's Essequibo Coast, will begin the new school year in September in bright, cheerful new facilities.

Their school, part of which was built 80 years ago, was recently renovated and modernized under a nationwide program to upgrade the country's

system of primary education.

This program is being financed with the help of a \$46.4 million IDB loan, which is being used to build 19 new schools and rehabilitate 36 others. IDB funding has helped to rehabilitate 10 schools so far. The Bank loan is also supporting general improvements in the country's educational system, such as teacher training and the distribution of textbooks and other materials, as well as the strengthening of the Ministry of Education.

Most of Guyana's primary schools are over 30 years old and are in urgent need of major repairs or replacement. Many are also overcrowded. A 1989 survey found that only 156 of the country's 369 primary schools had been built during the last 30 years. Sixty-four had been built before 1900, 36 between 1900 and 1940, and 113 between 1940 and 1960.



DAVID MANGURIAN/IDB

PERU

A new life at age 54

Although privatizing Latin America's state-run enterprises will benefit consumers and national economies over the long run, the short-term impact on individuals can be brutal. But it doesn't have to be, as the following story shows.

For most of his adult life, Alejandro Ríos Melgarejo worked for the Peruvian state railroad enterprise, registering shipments from Andean mountain mines to coastal ports.

Then last year, Peru's five biggest state-owned companies got the order to downsize as a preliminary step to privatization. Ríos was among the 30,000 government employees who received pink slips.

"I was planning to stay with the company until retirement," he said. "When I got a letter telling me to



PAT PIERRE

The new Kitty Primary School in Georgetown, Guyana, will receive 840 students after work ends in December.



Former Peruvian public sector employees learn to repair automobile electrical systems.

DOMINICAN REPUBLIC
Newest node on the net

An antipoverty fund managed jointly by government and civil society representatives recently became the first public institution in the Dominican Republic to join the Internet.

By entering cyberspace, the Fund for the Promotion of Community Development (Pro-comunidad) can provide information throughout the country at minimal cost on how to apply for project funding.

The Dominican government established Pro-comunidad in 1993 to help implement its social reform agenda. A 1994 IDB \$30 million financing enabled the organization to fund small infrastructure works, basic social services in the areas of education, health, environmental sanitation and community development, and the provision of equipment, materials and training. An important objective of Pro-comunidad is to foster the participation of civil society organizations.

As of July, Pro-comunidad has approved 439 projects, of which 111 have been concluded.



Alejandro Ríos Melgarejo

is now studying series production while setting up a small business with his son-in-law, who has been employed by a shoe factory.

"Refreshing my memory in mathematics after 30 years was a little difficult," he says. "But in the shoemaking business, you have to work with math and geometric drawings. You have to be precise, because you are working in millimeters, not centimeters."

The program plans to retrain up to 10,000 persons laid off since 1994 from Peru's state railroad, fishmeal plants, mines, ports and oil company. To date, 3,500—nearly half of those qualifying for the program—have signed up for courses, many of which are contracted to private technical schools. Workers pay a registration fee equivalent to about \$17, and the courses themselves are free.

Social workers and la-

bor specialists interview the course participants to determine their interests, skills and best options. Railroad maintenance workers, for instance, are retrained to repair cars, trucks, construction equipment and electric motors. But for others, such as Ríos, the options are more difficult.

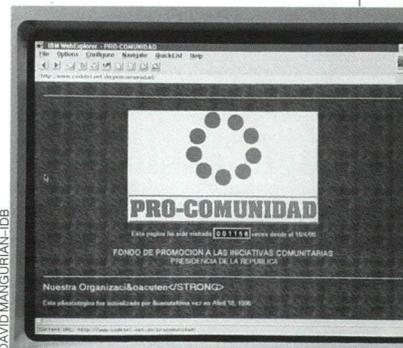
"At first, it is a terrible shock to leave a company after so many years," says Patricia Rodríguez-Paiva, coordinator of the Labor Retraining Assistance Center at ENEFER, the state railroad. "But people sometimes are not aware of their capabilities. Ríos was doing the same work for 32 years. He is happier now."

Finding jobs for all those being retrained will not be easy. The majority of those laid off are in their 50s, and Rodríguez-Paiva admits that their age makes it very difficult to place them in the job market.

collect my benefits, it was a real shock."

So at the age of 54, Ríos is back in school. He and thousands of other laid-off government workers are starting life over again in an ambitious labor retraining program financed by a \$6 million grant from the IDB's Multilateral Investment Fund.

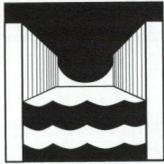
Ríos has already taken courses in shoemaking and pattern making, and



Doorway to the Internet.

LOANS

Ecuador. . . \$20 million to control flooding and mud flows on the slopes of Pichincha Volcano, which extends into Quito's city limits.



The program will include construction of infrastructure for water and mud slide control and the promotion of soil conservation techniques. Public information campaigns and efforts to strengthen municipal management

and urban planning will also be carried out.

The total cost of the program is \$25 million.

For more information contact: *Empresa Municipal de Alcantarillado y Agua Potable de Quito*, Italia 933 and Avenida Mariana de Jesus, Quito, Ecuador. Tel. (593-2) 507-873 or 501-387, fax (593-2) 501-388.

Nicaragua. . . \$15 million from the Fund for Special Operations to improve sanitation of Lake Managua and the city of Managua.



WILLIE HEINZ-IBD

High fashion

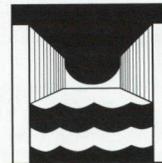
A proud Agnes Albury shows off a selection of sleek hats produced by her firm in Nassau, Bahamas. She was able to expand her output with the help of a loan she received from an IDB-financed credit program run by the Bahamas Development Bank.

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>

The program includes rehabilitation and modernization of Managua's sewer system and a drastic reduction in the breeding grounds for malaria-carrying mosquitoes along the shores of the lake fronting Managua.



The total cost of the sanitation program is \$47 million. For more information contact: *Instituto Nicaragüense de Acueductos y Alcantarillados*, 35 Avenida S.O., Managua, Nicaragua. Tels. (505-2) 66-7863/8, 66-7882/90, and fax (505-2) 66-7872.

Paraguay. . . \$82.3 million for a highway program that will reduce transportation costs and support integration among the members of Mercosur, the Southern Cone Common Market.



The project will increase the percentage of national routes that are usable year-round from 60 percent to 80 percent.

The total cost of the program is \$110 million.

For more information contact: *Ministerio de Obras Públicas y Comunicaciones, Subsecretaría de Estado de Obras Públicas y Comunicaciones*, Esquina Oliva y Alberdi, Asunción, Paraguay. Tel. (595-21) 44-1320, fax (595-21) 44-2105.

Paraguay. . . \$22 million to strengthen the judicial branch and modernize the civil registry.



Improvements in the judicial system will reduce delays, increase predictability and transparency, and protect rights.

The civil registry will be modernized to improve the exercise of voting rights, increase information for credit transactions, and distribute social security benefits more equitably.

The total cost of the program is \$33.9 million.

For more information contact: *Corte Suprema de Justicia*, Palacio de Justicia, Alonso y Testanova, Asunción, Paraguay. Tel. (595-21) 48-1408, fax (595-21) 48-1402. Also, at

the same address: *Fiscalía General de la Nación*, Tel. (595-21) 48-1149, fax (595-21) 48-0205.

Peru. . \$150 million to finance 9,000 small community-organized projects to help low-income groups.



Social support projects will help meet education, health care and sewerage goals. Infrastructure projects will focus on land rehabilitation, rural electrification, and small irrigation systems.

The \$430 million program will receive \$150

million in cofinancing from the International Bank for Reconstruction and Development as well as \$130 million in local counterpart funds.

For more information contact: *Fondo Nacional de Compensación y Desarrollo Social* (FONCODES), Paseo de la República No. 3101, San Isidro, Lima, Peru, Tel. (51-1) 421-7944, fax (51-1) 421-7698.

Trinidad and Tobago. . \$120 million to rehabilitate and maintain the main roads in the national network.



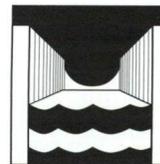
The total cost of the program is \$300 million. Financing is also expected from the Caribbean Development Bank and the European Union.

For more information contact: Ministry of Works and Transport, Frederick Street, Port-of-Spain, Trinidad and Tobago. Tel. (809) 627-6195, fax (809) 623-5681.

TECHNICAL COOPERATION

Haiti. . \$900,000 in non-reimbursable financing for a program to improve the quality and cost-efficiency of potable water service.

The program will improve local participation in decision-making and service oversight and enhance the sustainability of investments through sound cost-recovery mechanisms.



For more information contact: *Ministère des Travaux Publics, Transports et Communications*, Palais des Ministères, Port-au-Prince, Haiti. Tel. (509) 22-3230, fax (509) 23-6220.

Regional. . \$1 million in nonreimbursable financing from the Japan Special Fund to support 18 full scholarships for students attending the *Escuela de Agricultura de la Región Tropical Húmeda* (EARTH) in Costa Rica.



The resources will also finance the services of a Japanese expert in organic agriculture who will assist EARTH in establishing an experimental farm for organic agriculture and provide training.

For more information contact: *Escuela de Agricultura de la Región Tropical Húmeda*, Las Mercedes, Guácimo, Limón, Costa Rica. Tel. (506) 255-2000, fax (506) 255-2726.

Regional. . \$10.85 million in non-reimbursable financing and \$1.26 million in administra-



(continued)



DAVID MANGURIAN-IDB

Checking out the goods

A new bedspread made by members of a cooperative in Carapagua, Paraguay, gets an unsolicited inspection. The cooperative was able to expand its production with the help of IDB financing for training in the use of foot looms and the purchase of looms, materials, and an electric yarn spinner. The funds were extended from a \$1.37 million technical assistance grant that financed projects managed and carried out by women.

(from previous page)
 tive expenses to support a program to improve the quality of technical information on living conditions in Latin America and the Caribbean.

The total cost of the program is \$22.87 million.

BONDS

Australia. . . 250 million Australian dollars, equivalent to \$193 million, which were swapped into U.S. dollars for incorporation into the Bank's ordinary capital for lending to Latin America and the Caribbean.



The three-year bonds, which are the first in Australian dollars launched by the Bank, have a coupon of 7.60 percent per annum. They were priced at 99.95 percent.

Yamaichi International (Europe) Limited was the sole lead manager.

The Netherlands. . . 350 million Netherland guilder public bond issue, equivalent to \$204 million,



for incorporation into the IDB's ordinary capital.

The issue has an annual coupon of 6.625 percent and a maturity date of August 1, 2006. The bonds were listed on the Amsterdam Stock Exchange and were priced at 101.07 percent for a 6.76 percent yield to investors.

ABN AMRO HG is the lead manager and Rabo-

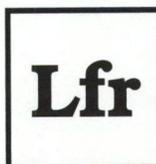


Something to crow about

Two young chicken farmers in Uruguay's Canelones Province are sitting pretty in a building they recently repaired with the help of an \$850 loan from an IDB-financed credit program. Luis Cosentino and Blanca Bergero also used the money to buy feed and supplies. The credit program, which is run by the Agricultural Youth Movement, has helped more than 500 young people to raise their production and income.

bank, Deutsche Morgan Grenfell, ING Bank and SBC Warburg are the co-lead managers along with 15 additional local and international banks.

Luxembourg. . . 2,000 million Luxembourg francs, equivalent to \$64 million, which were swapped into U.S. dollars for incorporation into the ordinary capital of the Bank.



The 10-year bonds will

pay a step-up coupon of 5.5 percent annually between 1996 and 2000, 7.0 percent between 2001 and 2003, and 8.75 percent between 2004 and 2006. They were priced at 102.2 percent and have a maturity date of September 6, 2006.

The issue is being managed by Banque Paribas with the participation of a group of other local and international banks.

United States. . . \$200 million for incorporation into the Bank's ordinary

capital.

The 30-year bonds, which mature on August 1, 2026, were priced at 99.9786 percent and have a semi-annual coupon of 6.95 percent. The re-offer spread is 7 basis points over the comparable U.S. Treasury bond. Investors have a one-time option to ask for redemption on August 1, 2006.

Morgan Stanley & Co. is the lead manager and underwriter of the issue.



IDB BRIEFS LOCAL FIRMS

Some 150 Washington, D.C.-area civic and business leaders met at the IDB's headquarters on June 18 for a discussion of the role and significance of the Bank's presence in the city.

Attending were representatives of the international committees of the Washington Board of Trade, the District of Columbia Chamber of Commerce and the Federal City Council on International Business.

The participants discussed three topics:

- ▶ The Bank as a corporate citizen and contributor to the economic and cultural life of the city.

- ▶ Washington as an international city, and the significance of the presence of the world's major financial organizations, including the World Bank, the International Monetary Fund and the IDB. IDB President Enrique V. Iglesias stated that Washington has the greatest concentration of Latin American expertise in the hemisphere.

- ▶ The importance of the IDB as a source of business opportunities.

According to Louise Tucker, director of the Board of Trade's International Business Council, the meeting gave the Washington community an opportunity to learn about the IDB. Also addressing the group were L. Donald Scheman, IDB executive director for the U.S., and Charles Manatt, chairman of the board's

International Business Council.

Other IDB speakers were Terry Powers, chief of the Finance and Basic Infrastructure Division, and Robert Devlin, chief of the Integration, Trade and Hemispheric Issues Division. The meeting was also attended by representatives of the Washington area's Hispanic chamber of commerce and by District of Columbia Delegate Eleanor Holmes Norton.

NEW EXECUTIVE DIRECTOR



María Antonieta de Bonilla

María Antonieta de Bonilla has been named the IDB executive director for Belize, Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua.

A citizen of Guatemala, Bonilla until recently was vice president of the Bank of Guatemala and the Monetary Board, an institution she has served for 18 years. Before being appointed vice president, she was the bank's economic manager in charge of the departments of monetary programming, economic research and statistics, and was the president of

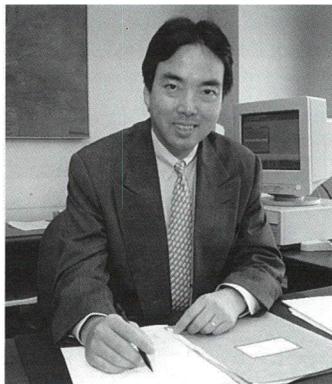
the bank's Technical Committee. She also served as director of the economic research and monetary programming departments and chief of the bank's Training Center. In 1994, she was chairperson of the deputies of the Group of Twenty-Four.

Bonilla has a master's degree in economics from the University of Illinois in the United States, and an undergraduate degree from San Carlos University in Guatemala.

PEOPLE

Nobuchika Mori has been named the new deputy manager of the Finance Department's Policy, Planning and Capital Markets Subdepartment.

Mori is currently the deputy director of the Coordination Division at the International Finance Bureau of Japan's Ministry of Finance. Previously, he was deputy director of the Commercial Banks Division at the ministry's Banking Bureau, budget examiner at the ministry's Budget Bureau, and deputy director of the ministry's Securities Companies



Nobuchika Mori

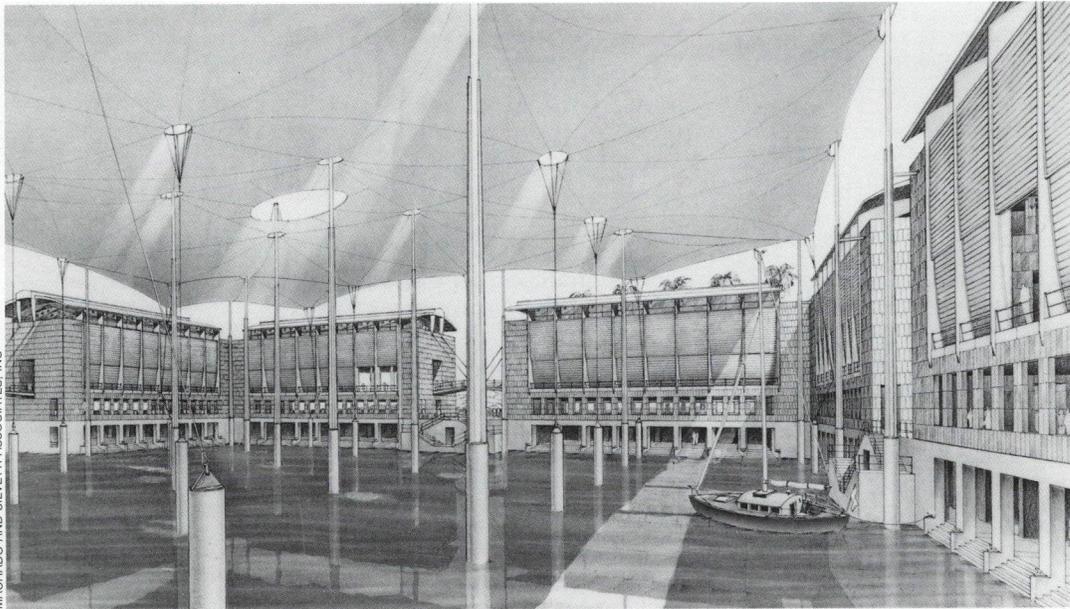
Division. From 1986 to 1988, he was deputy director of the Regional Policy Division of the Asian Bureau of Japan's Ministry of Foreign Affairs.

Mori has a B.A. from Tokyo University and a master's degree in economics from Cambridge University.

THE IDB IN JAPAN

Yoshihisa Ueda, the IDB's representative in Tokyo, and Silvio Yanagawa, deputy representative, recently received a visit from 12 recipients of IDB scholarships funded by the Japanese government. During their stay, the visitors learned about the activities of the Tokyo office, as well as about Japan's society, culture and government. The students, who come from Chile, Peru, Brazil, Jamaica, Mexico, Colombia, Costa Rica, and El Salvador, study in the United States, Japan and Europe.

Antonio Britto, governor of the Brazilian State of Rio Grande do Sul, made a recent visit to Japan to develop contacts with that country's business community. He also met with Japanese government officials and discussed the possibility that Japan's Eximbank might cofinance with the IDB a road construction project to more effectively link Brazil with Argentina and Uruguay and facilitate the flow of merchandise among the countries of the Southern Cone Common Market (Mercosur).



The design for the harbor in Palermo, Italy, illustrates an imaginative use of public space.

ARCHITECTURE

Building a space to share

Rewarding work in urban design

A public place could be considered as a transaction between the entity that pays for its construction and the community whose needs it will serve. The one who articulates this transaction is the architect.

This was the way Argentine architect and urban designer Rodolfo Machado prefaced a recent slide lecture presented at the IDB's Cultural Center in the Bank's Washington, D.C., headquarters.

"Public places are the most rewarding kind of work in urban design," stated Machado, a partner in the Boston-based architectural firm Machado and Silvetti. "But in a way, they are also the most painful to be involved with because there are so many constraints and be-

cause you have to enter into a dialogue that is at times frustrating and seemingly endless."

Machado's firm has designed distinctive urban spaces in the United States and abroad, mainly in Italy. In his lecture, he showed three of his most recent works: the ongoing Dewey Square project in Boston, a tower at the University of Cincinnati campus, and the new Robert F. Wagner, Jr., Park in New York City's Battery Park.

In each of these projects, the architects have reconciled the desires of the client with the needs of the community while acknowledging the surrounding buildings and spaces and the meaning of the completed places.

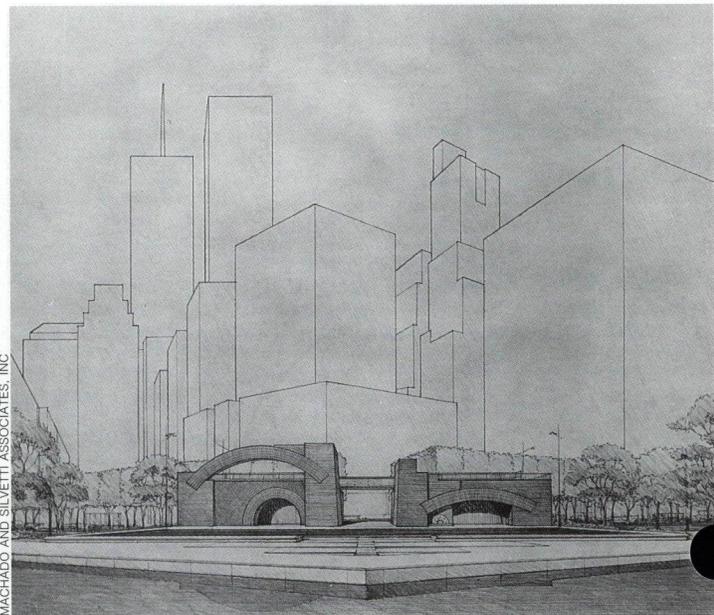
The Battery Park site,

for instance, is the closest spot on Manhattan to the Statue of Liberty, which makes it "a very privileged place."

Against a backdrop of some of the world's tallest buildings and a foreground of the world's biggest statue, Machado and Silvetti created a theater of steps around a massive brick building with restaurants and terraces. The effect is to frame the statue for a person in the park, while someone approaching by water may see the project as a gigantic "face" that emerges in front of the skyscrapers.

"It was to be inaugurated in early July," jokes Machado, "but for reasons I don't understand—I don't understand politics too well—it will be opened in the fall...when everybody comes back from vacation."

Machado and Silvetti have not designed any public spaces in Latin America, which seems odd because both partners are Latin American. "It's hard to get a contract in Latin America," said Machado.



A new face for Manhattan at New York's Battery Park.