

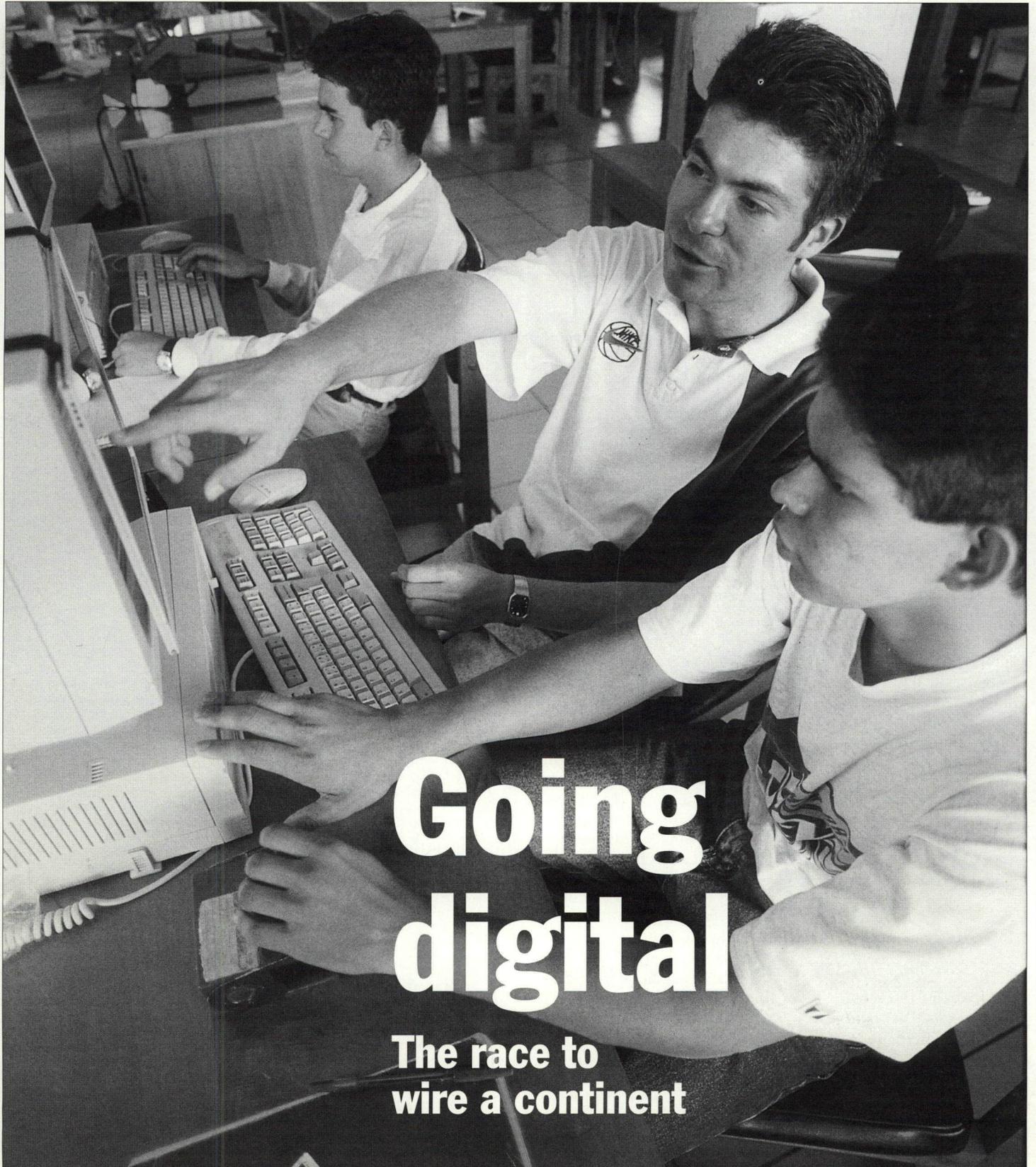
■ FIGHTING CORRUPTION ■ DEBT AID FOR BOLIVIA

■ MORE ROADS, MORE FOOD

# IDB AMÉRICA

Magazine of the Inter-American Development Bank

November 1997



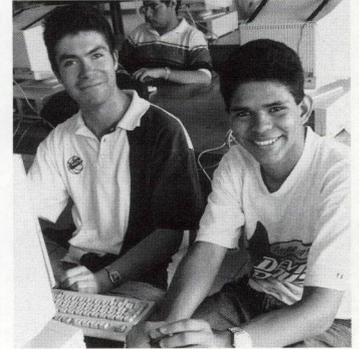
## Going digital

The race to  
wire a continent

**Going digital.** Henry Cortés Ramírez (left) and Henry Mora Corales, computer science students at the Costa Rican Technological Institute's Center for Computer Research in Cartago, help each other with an assignment in a class on programming languages.

The institute's computer science department, founded in 1975, is one of the oldest and most advanced in Latin America.

—IDB photo by David Mangurian.



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**“Corruption is a tax on the entire society.”**

Enrique V. Iglesias,  
 IDB President



The media are vital in helping to create democratic and open societies. See page 10.

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## NOTEBOOK

# We've made some changes

**T**HE WINDS OF RENEWAL blowing across Latin America have also rustled the pages of the IDB's monthly magazine. We have a new name, a new design, and a rejuvenated mission.

First the name. Our old moniker, THE IDB, implied that this is a publication about an institution, whereas it is really about Latin America and the Caribbean and the complex currents that are reshaping its societies.

Second, the design. We think it's cleaner, more active, and more clearly focused. Busy readers should find it easier to home in on what interests them most.

And finally, the mission.

In the past, a development bank funded discrete projects with results that could be quantified in such terms as kilometers of transmission lines and cubic meters of concrete. Today, the IDB is financing change—better resource management, sounder

fiscal policies, more effective judiciaries, stronger regulatory agencies and greater citizen participation. The impact of programs in these areas affects entire societies, making their results both less visible and more profound.

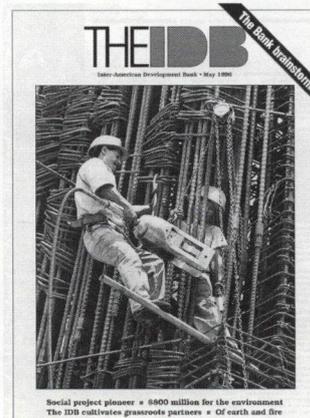
People charged with explaining the work of an institution sooner or later come to the realization that the institution is not the story, but rather a part of the story. In our case, it's a vast story involving 485 million people in 26 democratic societies that are undergoing profound transformations. IDBAMERICA will report on the Bank's contribution to this historic process.

An excellent example of the IDB's role can be seen in the information revolution, the subject of this month's FOCUS section. It is a revolution without leaders, largely in the hands of upstart companies, great multinational firms and millions of ordinary people. Like an exotic organism in a

new environment, it is constantly reinventing itself, penetrating new areas, redefining every aspect of our lives.

Although the informatics revolution is beyond the influence of any single actor, the IDB has an important job to do: the information highway is a freeway without speed limits, and care must be taken that less developed countries and less advantaged people are not left behind.

—the editors



Farewell to the old format.

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***"Disclosure was fundamental. We didn't try to hide or mislead the markets."***

Guillermo Ortiz, Mexican Minister of Finance, in reply to the question "What was the single most important lesson you learned during the [1995] peso crisis?"; quoted in *The Wall Street Journal*, October 29.

***"People set higher standards for women in politics... It's important for young women leaders to know [that] there is no way you are going to make it as a leader without making mistakes, but you must learn to brush them off."***

Dame Mary Eugenia Charles, former prime minister of Dominica, quoted in *The Christian Science Monitor*, October 8.

***"[This] is the most important change in our system of administering justice in the last 100 years."***

Chilean Justice Minister Soledad Alvear, quoted in *La Nación* on September 9, following President Eduardo Frei's proposal for a constitutional reform that would separate responsibility for charging and investigating crimes from that of judging and sentencing. Under the current system, the same judge can perform all those functions.

***"For those of us who surf the Web from Spanish-speaking countries, cyberspace can feel like a terribly Anglophile place... Nevertheless, powerful winds of change are giving new idiomatic turns to our explorations."***

Revista *Interr@*, Chile, September 1997, in an article on the growth of Spanish-language content on the World Wide Web.

# Mercosur: what comes next?

By UZIEL NOGUEIRA, Buenos Aires

JUDGED ON THE BASIS OF TRADE figures, Mercosur has been an undeniable success. In less than a decade, the trade bloc made up of Argentina, Brazil, Paraguay and Uruguay has turned itself into the world's fourth largest market, after NAFTA, the European Union and Japan. In six years, intra-Mercosur trade has more than quadrupled, from \$4.1 billion in 1990 to \$16.9 billion in 1996.

The flow of investments among the four countries, although small compared to the amount received from external sources, is stimulating business and commerce in a way never seen before. Moreover, intra-Mercosur trade, which now stands at 1.6 percent of the four countries' gross domestic product, leaves considerable room for increase, judging from the much higher rates of trade within the three larger trade markets.

For a region whose history is littered with economic failures, the burning question is how to sustain this remarkable success. More specifically, how can Mercosur's members increase trade among themselves without reducing trade ties with the rest of the world? And how will Mercosur respond to the Hemispheric Free Trade Area set to begin functioning early next century?

There are two currents of thinking on this question, according to the recent Mercosur

Report by the IDB-administered Institute for the Integration of Latin America and the Caribbean (INTAL) in Buenos Aires. The economic argument holds, realistically, that Mercosur's importance will necessarily be diluted by the creation of the hemispheric trade area. Mercosur's common external tariff,

Its proponents maintain that Mercosur is a cultural, political and security arrangement as much as it is a trading bloc. As such, it can coexist perfectly well within a broader free-trade area for the entire hemisphere. But if this is so, then we must ask if deep noneconomic integration within the framework of

Mercosur is really possible. Moreover, is a strategic alliance between Brazil and Argentina really sustainable in the long term?

Finally, the INTAL report reflects on a subject often left out of discussions about regional and hemispheric integration. For one thing, integration is a means, not an end in itself. Countries seek the road to integration as a path to economic and social development, but ultimately, development depends on policies adopted by each country.

Chile is a good example. It abandoned the Andean Pact in 1976 to pursue a growth strategy that ran counter to the protectionist rules the pact then had in place. In contrast,

Brazil today is carrying out a series of economic reforms, including an important liberalization of trade. The objective of this policy is to strengthen the potential of the regional market and at the same time create a basis for competing on the international markets. How to reconcile these two objectives is the challenge facing Brazil as well as Mercosur.

**—The author is senior economist at the Institute for the Integration of Latin America and the Caribbean.**



**“ How can the remarkable success of Mercosur be sustained in the uncertain years that lie ahead? ”**

its principal commercial line of defense with the rest of the world, will lose its effectiveness with its other hemispheric partners, including the world's biggest economy, the United States.

The second argument takes a political-strategic point of view.

# Going digital

It takes more than hardware and software to launch an information revolution

By PAUL CONSTANCE

**A**SK COMMUNAL FARMERS IN CHINCHEROS, Peru, about the meaning of the information revolution, and they'll tell you about the price of potatoes.

A few years ago, the typical 50-member farming cooperative in this area near Cuzco took in around \$113 per month selling potatoes, chiles and other produce at the Chincheros market.

Then a local parish priest decided that there must be a better market for these goods. Using a computer hooked up to the Internet through the Peruvian Scientific Network (RCP, from its Spanish name), he consulted an international database of agricultural importers. Eventually, he and one of the Chincheros cooperatives made contact with a retailer in New York City with a big appetite for unique species of organically grown potatoes. Today, the co-op sells potatoes directly to the U.S. and earns around \$1,300 per month.

For the farmers, access to information about that buyer was just as important as access to water, roads, electricity and credit. In fact, one could argue that in terms of their ability to compete with potato farmers in other countries, the farmers' access to a computer and telephone line was much more important than their access to traditional productive infrastructure.

Stories like this one are raising official awareness of the importance of information infrastructure, and more specifically of the huge investments that Latin American and Caribbean countries need to make if they are

to keep pace with nations that are being transformed by the fusion of telecommunications, information and computing.

Concerns about this infrastructure gap led the IDB to launch the Informatics 2000 Initiative, a broad effort aimed at helping the region to plan and coordinate these investments. Introduced at a September conference at the Bank's Washington, D.C., headquarters, the initiative will link governments, companies and civic groups to identify emerging risks and opportunities and recommend proven best practices.

"We're moving from the industrial age to the information age," United States Vice President Albert Gore said at the conference. Reminding participants that three years ago, in Buenos Aires, he had called for the creation of a "Global Information Infrastructure," Gore reemphasized the importance of extending the benefits of the information revolution to the entire western hemisphere.

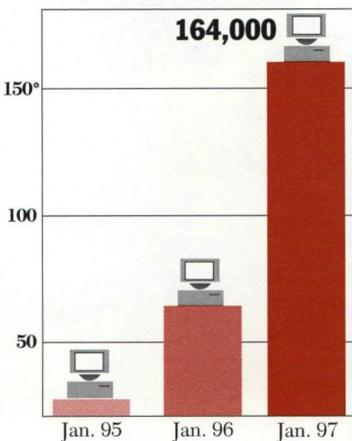
IDB President Enrique V. Iglesias told conference

participants that the Bank has earmarked funds to help finance the development of information infrastructure, "so that it comes within the reach of the poor, rural populations and indigenous groups." (See article "Digital ventures attract funding," page 7).

Yet for all the interest, this new infrastructure can be difficult to define. Since information is inherently abstract, discussions of information infrastructure tend to rely on physical metaphors: streams of digitized data and images are described as moving through virtual "highways," which represent copper wires, fiber optic networks and satellite links.

## Population explosion

Growth of Internet host computers in Latin America & the Caribbean



\* in thousands of units  
Source: Costa Rican National Research Network



Likewise, most people think of personal computers (PCs) as the key component of an information infrastructure, even though these machines do little more than store and convert digits into recognizable letters and shapes.

This focus on equipment can lead to the conclusion that the information infrastructure challenge is to simply place telephone lines and PCs in as many homes, schools, businesses and government offices as possible.

**Who supplies the content?** Yet as participants at the Informatics 2000 conference were quick to point out, equipment is the easy part. Despite the high cost of information technology and the very limited access that most Latin Americans have to telephones and data networks, this "physical" dimension of the information infrastructure is expanding at a spectacular rate in many of the region's countries (see *Figuratively Speaking*, page 9).

The real difficulty, according to several speakers, is supplying these new digital high-



DAVID MANGURIAN—IDB

ways with information traffic, or content, that will make investments in equipment worthwhile, and making sure citizens are capable of digesting and applying that information.

Though seemingly obvious, the focus on content instead of technology has critical implications for those deciding how to build Latin America's information infrastructure. Consider the Internet. According to some estimates, more than 90 percent of the information available through this network is in English only. Despite all the talk about the productivity-enhancing potential of the Internet, people who explore it soon find that it is largely devoted to entertainment, not work. The experience of the potato farmers in Chincheros is inspiring, but exceptional; most Latin Americans still find very little on the Internet that can improve their lives.

"The content of the Internet is influenced to a very large extent by a few large media and software companies in the U.S.," says José Soriano, general manager of Peru's RCP network. "So it isn't a question of simply extending access to everyone. What's the point

of having access if you can only use it to see what's happening outside the country? What we have to do is produce local information for local use."

**Is faster better?** Focusing on equipment can also foster the illusion that investments in information technology will automatically improve efficiency.

Public bureaucracies around the world offer notorious illustrations of this fallacy. During the last 15 years, governments in both the industrialized countries and Latin America have spent billions of dollars on computer systems intended to speed up document processing and improve service at government agencies. The results, with a few exceptions, have been disappointing. Why? "If information technology is not used as part of a serious reform of the state, it can lead to merely automating obsolete and inefficient practices," Edmundo Jarquín, chief of the IDB's State and Civil Society Division, said at the conference. "You might as well put an outboard motor on one of Columbus' ships."

**POINTED TO THE HEAVENS: Satellite dishes near Bogotá owned by IMPSAT, S.A., a Colombian-Argentine joint venture, provide high-capacity private data links for local companies.**

Moreover, poor planning and coordination in information technology investments can actually increase inefficiency by leading to a proliferation of one-of-a-kind, "stand-alone" systems that make it harder for organizations to exchange information. Masato Yokoda, secretary of health for the city of São Paulo, told conference participants that most of his city's major hospitals already have invested in computer systems that assign "patient identification codes" to each patient for record-keeping purposes. Unfortunately, each hospital uses a different identification system, making it impossible for one institution to share a patient's medical history with another. So São Paulo is now seeking funds to develop a "unified health record," based on internationally accepted standards, that

*(continued on next page)*

PERU

# Internet for the people

JOSÉ SORIANO IS CERTAIN THAT AT SOME point in the next millennium the Internet will be available to Latin Americans of all classes at a price they can afford. But he's not willing to wait that long.

In the short term, this journalist, telecommunications expert and current general manager of the Peruvian Scientific Network/Internet Peru (RCP) is pushing a novel way to bring the Internet to low-income users in underdeveloped areas, at an acceptable cost.

Examples of his approach are up and running in 27 locations throughout Peru. Known as *cabinas públicas*, or public computer centers, they typically contain 20 pcs with dedicated lines to the Internet, which can be "rented" by users for as little as \$1 for one hour. The *cabinas* also provide training, personal e-mail accounts, World Wide Web page development, and other services.

The *cabinas* have proved enormously popular with people who don't have a phone line at home or who can't afford to own a computer—a consumer category that still makes up more than 95 percent of all Peruvians, according to Soriano.

Perhaps more remarkably, the *cabinas* are profitable. Founded in 1991 by Soriano and a few friends, the RCP was organized around the conviction that "the Internet was going to revolu-

tionize access to information," Soriano said in a recent interview. However, "we wanted to make sure that universities, NGOs and ordinary citizens could be a part of the revolution," he added.

Soriano and his associates created the RCP by carefully blending idealism and smart business sense. They knew it would be expensive to provide access to the Internet, so they adopted a fee structure that covers costs and allows for expansion while remaining affordable. Today RCP functions as a self-sustaining not-for-profit company that has become the dominant provider of Internet access in Peru.

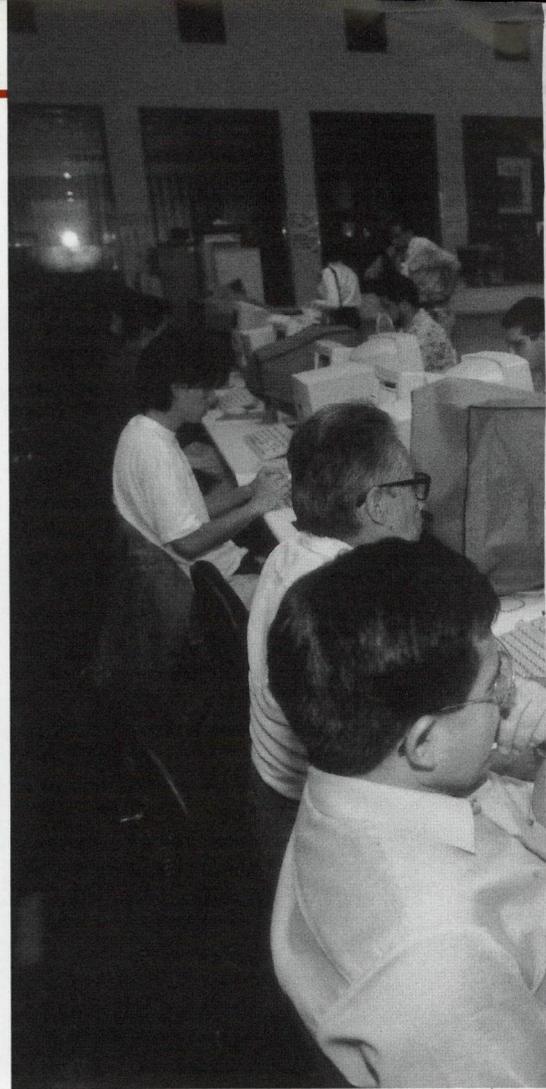
RCP is co-owned by 11,500 associate entities who pay an average of \$18 per month for various levels of network access; an additional 80,000 individual registered users pay even smaller fees. The company has 60 full-time employees who manage \$2.8 million worth of computers, servers, routers and other networking equipment. Revenue from user fees in 1997 is forecast to top \$4 million.

The RCP *cabinas* are operated as franchises. For an initial investment of as little as \$2,500, RCP will provide a qualified franchisee with \$60,000 worth of computers, peripherals and network equipment. Franchises, which are typically run by commercial bank branch offices, chambers of commerce or individual entrepreneurs, then take full financial responsibility for the venture, counting on user

fees to repay RCP and generate a respectable profit on the side.

Outside investors are starting to show interest. At the IDB's September Informatics 2000 conference, the Bank's Private Sector Department and Worldtel, Ltd., an investment company that structures and funds telecommunications projects in emerging markets, announced plans to provide RCP with debt and equity finance for a \$125 million project to build 1,000 new *cabinas* throughout Peru. According to the IDB's Warren Buhler, conference coordinator, disbursements could begin early next year, and the Bank is considering funding a similar project in Argentina.

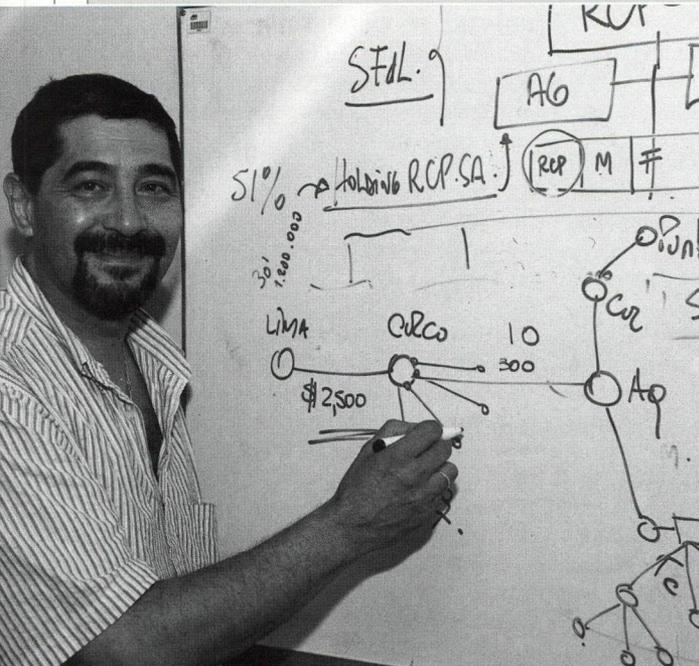
—Reported by David Mangurian



can be used by all the city's hospitals.

Even when they can successfully coordinate information technology investments across multiple organizations, governments must contend with the vexing problem of technical obsolescence. Unlike roads or bridges, which can reasonably be expected to provide decades of useful service, information technology investments require continuous upgrades in order to remain effective. This can turn into a crippling obstacle for large-scale projects carried out over several years. One infamous example occurred in the United States. The U.S. Army Reserves spent more than a decade—and several hundred million dollars—planning, designing, and finally deploying a data network to automate its logistics and supply operations. But by the time the first computers started arriving at military bases, they were so far behind the state of the art that the entire project had to be cancelled and redesigned from scratch.

**Man and machine.** This example underscores the fact that complex human and institutional problems are almost never solved by hasty investments in information technology. "Taking advantage of information technology requires massive investments in human capital," said the IDB's Jarquín.



Internet populist José Soriano plots his digital network.



## Digital ventures attract funding

Several major investment projects that will extend the benefits of Latin America's nascent information infrastructure to less advantaged populations were announced at September's Informatics 2000 Conference.

The IDB and Worldtel, Ltd., a company that structures and funds telecommunications projects in emerging markets, said they will work with the Red Científica Peruana to develop 1,000 community information service centers in a deal valued at \$125 million (see sidebar, page 6).

The conference also featured announcements by the private sector financial sponsors of the Informatics 2000 Initiative, which include Microsoft Corp., Hewlett Packard Co., Oracle Corp., Sun Microsystems, Inc., Cisco Systems, Inc., Intel Corp., Lucent Technologies and AmeriSpace, a subsidiary of WorldSpace, Inc. These companies announced the formation of a consortium to develop a satellite-based network to provide low-cost multi-media programming and electronic mail to selected schools in five Latin American countries, in cooperation with local companies and universities.

Attended by more than 500 leading figures in government and industry from the region, Europe and Japan, the conference featured workshops on the impact of the information revolution on education, agriculture, health, public administration, the state and civil society. Panelists also discussed reports by ten task forces established earlier this year to study the role of information technology in specific sectors.

Based on the recommendations of conference task forces, the IDB is preparing a number of projects for funding, according to Warren Buhler, coordinator of the IDB's Informatics 2000 Initiative. The projects, several of which are region-wide in nature, will involve the public and private sectors with support from specialists from around the world, according to Buhler.

The task force reports are also being used to shape a Bank strategy paper to guide IDB lending and technical support in this area in the years ahead.

 Detailed information on the Informatics 2000 Initiative can be found at the IDB's Internet homepage, [www.iadb.org](http://www.iadb.org)

But human capital is more than managers and technocrats who make judicious investments in computers and software.

Rather, human capital should be defined as citizens who are educated enough to understand the value of information. Such citizens demand an independent and responsible press and insist that public institutions fulfill their responsibility to promptly and accurately disclose activities that affect taxpayers.

Unfortunately, this type of human capital is still in the process of being formed in most

### COMPUTER TIME-SHARES: Customers at a *cabina pública* in Peru pay by the hour to surf the Web and send electronic mail.

Latin American and Caribbean countries. According to Joan Prats Catalá, director of the Governance Project at the Institute of Business Administration and Management in Barcelona, most constitutions in Latin America already defend the citizen's right to information about government budgets and activities. And yet laws do little to ensure that government agencies actually create the means for public access to their records, and citizens have no effective way to enforce their right to information. In fact, many citizens aren't even aware of their right to know.

In short, as Costa Rican President José Figueres said in his inaugural address at the IDB informatics conference, information technology "cannot substitute for a development strategy," based on the fundamentals of better education and truly participatory and transparent government. Only when those elements are in place will the region's nascent information infrastructure, in Figueres' words, "boost and advance sustainable development, allowing countries to leapfrog technologically and open opportunities for all."

### ¡VIVA EL WEB!

The World Wide Web is still dominated by English, but Spanish-language sites are growing fast. Here are eight Web search sites that index only *castellano* content:

**AltaVista** ([www.altavista.magallanes.net](http://www.altavista.magallanes.net))

**El Faro** ([www.faro.cl](http://www.faro.cl))

**Elcano** ([www.elcano.com](http://www.elcano.com))

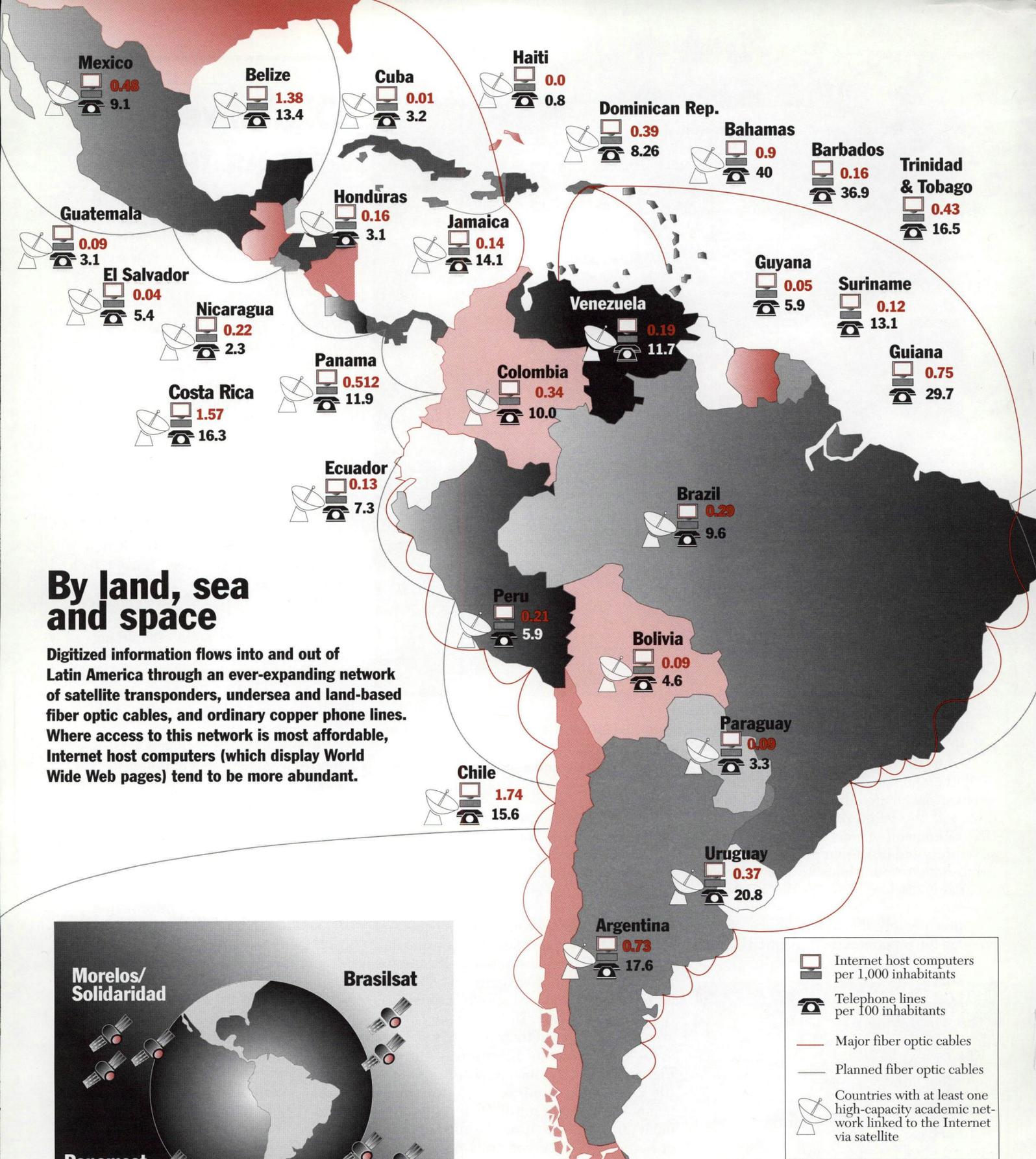
**Buscadores** ([www.mundolatino.org/123/123busca.htm](http://www.mundolatino.org/123/123busca.htm))

**Lycos** ([www-es.lycos.com](http://www-es.lycos.com))

**Ozú** ([www.ozu.com](http://www.ozu.com))

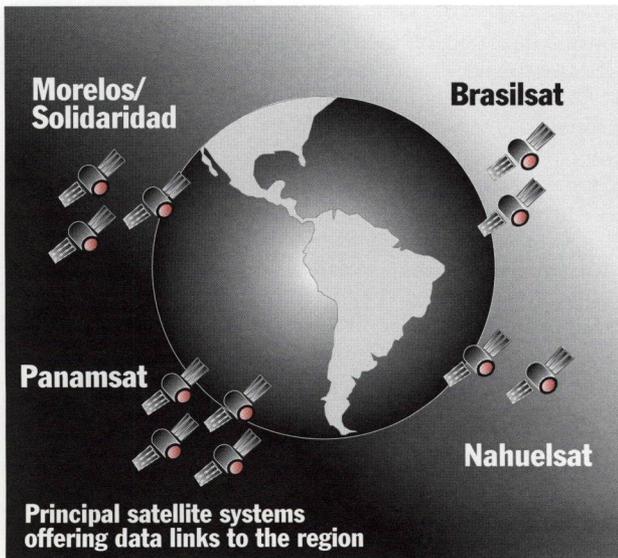
**Olé** ([www.ole.es](http://www.ole.es))

**Trovator** ([trovator.combios.es](http://trovator.combios.es))



## By land, sea and space

Digitized information flows into and out of Latin America through an ever-expanding network of satellite transponders, undersea and land-based fiber optic cables, and ordinary copper phone lines. Where access to this network is most affordable, Internet host computers (which display World Wide Web pages) tend to be more abundant.



Sources: Costa Rican National Research Network, OAS, ITU, ING Barings, AT&T Corp.

Note: The political borders indicated are for visual reference only, and do not imply an official position of this publication or the IDB.

# Who is building the data highways?

Companies and consumers bankroll the region's information infrastructure

By PAUL CONSTANCE

IT TOOK TWO CENTURIES TO BUILD THE roads, rail lines and seaports that form the backbone of Latin America's commercial infrastructure.

By comparison, the region's information infrastructure seems to have appeared overnight. Just 10 years ago, personal computers (PCs), modems—and most significantly the Internet—were practically unknown in Latin America.

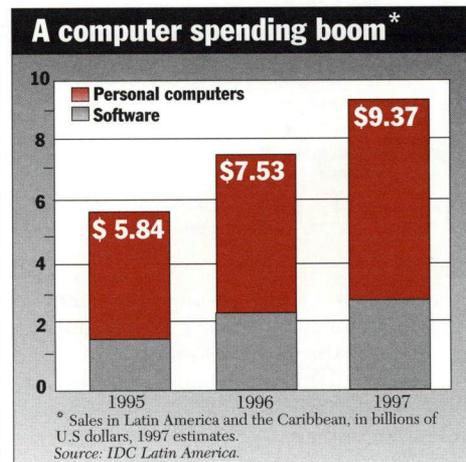
Today, there are at least 10 million PCs in Latin America and the Caribbean, according to U.S.-based market researcher IDC Latin America. An estimated 3.3 million new units will be sold in 1997. The region spent \$5.84 billion on PCs and software in 1995, \$7.53 billion in 1996 and is on track to spend \$9.37 billion in 1997. By the year 2001, IDC estimates that figure will double, to roughly \$20 billion.

Meanwhile, the region's telecommunications companies are spending billions of additional dollars to install telephone lines, fiber optic cables and high-capacity switching centers. Although these are still mainly devoted to voice communications, pure data traffic represents an ever-increasing source of demand. At least two million Latin Americans are believed to have electronic mail addresses, and a growing proportion of them have full access to the Internet's World Wide Web. The region's media companies are racing to develop content for the Web: by January 1996, some 50,000 Latin American and Caribbean firms and organizations were running "host" computers, which store text and images that can be retrieved by users around the world. One year later that figure had tripled, according to a monthly tally of such sites conducted by specialists at Costa Rica's National Research Network.

Perhaps most remarkably, this information infrastructure boom has taken place with little government assistance. Unlike traditional infrastructure projects, which have always depended on public funding, the nascent information infrastructure in Latin America and the Caribbean is being built almost exclusively by the private sector. In fact, this infrastructure is growing the fastest in countries where the state has privatized the

telecommunications industry, lowered tariffs on information technology products, and allowed free competition in data network services.

That is because telephone lines and network services—and not computers—are what primarily determine the cost and growth rate of a nation's information infrastructure. Though PCs still cost around 50 percent more in Latin America than in the U.S., their price has been dropping steadily,



from an average of \$5,000 in the mid-1980s to as little as \$1,000 today. Many experts believe that by the end of the decade computer companies will offer "network PCs," for about the price of a medium-sized television, that will serve as a gateway to the Internet and have most of the features of today's full-priced PCs.

Inexpensive PCs will do little good, however, if the cost of long-distance telephone connections required to access the Internet remain as high as they are today. A single user's cost for 20 hours of Internet access ranges between \$20 and \$300 in Latin America's large cities, according to London-based Latin American Newsletters. In the U.S., \$20 dollars buys one month of unlimited Internet access.

The high access fees in Latin America are largely due to the limitations of the existing telephone infrastructure, which in many countries is saddled with outdated equipment ill-suited to handle the technical de-

mands of high-volume digital networks. As Chile, Mexico, Peru, Argentina and other countries have shown, privatization is the most efficient way to infuse new technology and services into the telecommunications infrastructure. In most of the countries that have privatized telecommunications, the waiting period for a new telephone line has dropped from several years to a few months; service has improved markedly and costs to consumers have begun to drop.

Still, for the next few years many of the newly privatized telephone companies will be protected by full or partial monopolies that were necessary to attract serious investment. This could slow the expansion of Internet and data networking services, unless governments make it a point to allow new entrants in these niches. Chile offers eloquent proof of the benefits of fully liberalizing the communications market. Chilean consumers and companies enjoy some of the world's lowest telephone rates. As a result, Chile has more than twice as many Internet host computers per 1,000 inhabitants as any other major Latin American country.

The growth of Latin America's information infrastructure faces constraints that transcend national boundaries, however. Since Latin America lacks a high-capacity telecommunications "backbone" to transmit data within the region, almost all Internet traffic originating there must first go to the U.S., via satellite or submarine cable, before it can reach other Latin countries. This detour slows transmission times and greatly increases the costs of the region's Internet access providers.

Three factors are expected to alleviate this problem over the next decade. First, the continuing trend toward privatizing national telephone companies will spur regional cross-border investments in high-capacity fiber optic lines and wireless data transmission. Privatizations will also boost existing plans by AT&T Corp. and several regional consortia to complete a fiber optic loop that will hug the South American shoreline and eliminate the need to route traffic through the U.S. Finally, national and international satellite companies are planning to double the number of high-capacity satellites dedicated to Latin America in coming years, from 11 to around 20.

The following Websites offer frequently updated data on Latin America's information infrastructure:

The Organization of American States  
[www.oas.org/EN/PROG/RED/covere.htm](http://www.oas.org/EN/PROG/RED/covere.htm)  
 Costa Rica's Red Nacional de Investigación  
[www.cr/latstat](http://www.cr/latstat)  
 International Data Research Corp.  
[www.idcresearch.com/f/idcf.htm](http://www.idcresearch.com/f/idcf.htm)  
 Chile's Revista Interr@  
[www.interra.cl/interra4/la.html](http://www.interra.cl/interra4/la.html)



WILLIE HEINZ—IDB

Independent news media can help to ensure transparency in public administration.

# Combatting a hidden scourge

## IDB supports anti-corruption efforts

By PAUL CONSTANCE

**C**ORRUPTION. TEN YEARS AGO THE WORD was rarely spoken in public, and even the news media handled the subject with kid gloves.

But last September, hundreds of government officials, scholars, and civil society representatives from 90 countries met in Lima, Peru, to engage in candid debates on what participants described as one of the most urgent threats to democracy in the countries of the developing world.

The conference, "The State and Civil Society in the Fight Against Corruption," was organized by the Peruvian government and the Berlin-based nongovernmental organization Transparency International with IDB participation.

The event could hardly have been more timely. In the last few years, news of corruption—generally defined as the use of public office for private financial gain—has become a recurring item on front pages around the world. Allegations of illegal campaign contributions, customs fraud, rigged government contracts and other abuses are leveled at governments in every continent and at every

stage of development.

Is the world suffering an unprecedented "epidemic" of corruption? Probably not, according to experts in law enforcement and governance. To a surprisingly consistent degree, corruption has always been present in public administration in all cultures. What has changed is society's awareness of the problem and its willingness to openly acknowledge and combat abuses.

A number of factors have combined to push corruption into the spotlight. The political exigencies of the cold war, which often deflected attention from domestic governance problems, no longer dominate local and international agendas. In Latin America and the Caribbean, the growth of democracy has resulted

in demands for more transparent accounting by public officials and less tolerance of malfeasance. Finally, the explosion in international private sector investment in developing countries has focused unprecedented attention on local business and financial practices.

Speakers at the Lima meeting described how these developments have coincided with growing criticism of the notion that corrup-

tion is an unavoidable byproduct of economic development that doesn't necessarily interfere with growth. Harvard University researcher Daniel Kaufmann, for example, reported on the results of a survey in which he asked 150 senior business and government officials from 63 developing and formerly communist countries to name what they considered the most serious obstacle to their country's development. All pointed to public corruption as the number one barrier to development.

**A tax on society.** These findings were anticipated by IDB President Enrique V. Iglesias at the 1994 Summit of the Americas. At the Miami meeting Iglesias described corruption as "one of the greatest evils plaguing the consolidation of democracy in Latin America and the Caribbean." He said that if "inflation is a tax on the poor," then corruption "is a tax on the entire society." Corruption exacts economic costs "by diverting resources away from development," political costs through "popular disaffection and the weakening of democratic regimes," and social costs by "disintegrating the social fabric, perverting culture and strengthening illegality and clientelism."

At the Lima conference, the IDB funded the participation of 15 legal, judicial and civil society experts from the region. The Bank also organized three roundtable panels and commissioned Latin American specialists to write papers that were presented at these panels. María Luisa Rains, chief of the IDB's Fiscal Division, conducted a panel on corruption in the tax administration sector and presented a paper on the subject. Jorge Claro de la Maza, chief of the IDB's Procurement Policy and Coordination Office, conducted a panel on tightening procurement systems. Edmundo Jarquín, chief of the IDB's State and Civil Society Division, helped organize a panel on the role of civil society in countering corruption in Latin American nations that are in the process of modernizing the public sector.

The IDB is also providing direct support to countries' corruption-fighting efforts, according to J. James Spinner, the IDB's deputy general counsel. Bank-financed programs to reform government financial management, tax collection, customs and the judiciary are helping to reduce opportunities for corruption in the public sector. Bank-funded programs in the areas of regulation, privatization and decentralization stress the importance of transparency and accountability.

"The Bank is prepared to provide additional assistance to member countries who request it," Spinner said. For example, the IDB is currently preparing a regional technical cooperation program that would offer financial regulators courses in the detection and prevention of money laundering. ■

**“Corruption disintegrates the social fabric, perverts culture and strengthens illegality and clientelism.”**

# Debt relief for Bolivia

## IDB hails country's commitment to reforms

**T**HE IDB HAS AGREED TO PARTICIPATE IN a plan to reduce Bolivia's external debt as part of an international initiative granting debt relief to poor countries that have proven their commitment to sound economic policy.

The September 12 announcement by the Committee of the IDB's Board of Governors was made in the same week that the World Bank and the International Monetary Fund (IMF) announced their debt relief plans.

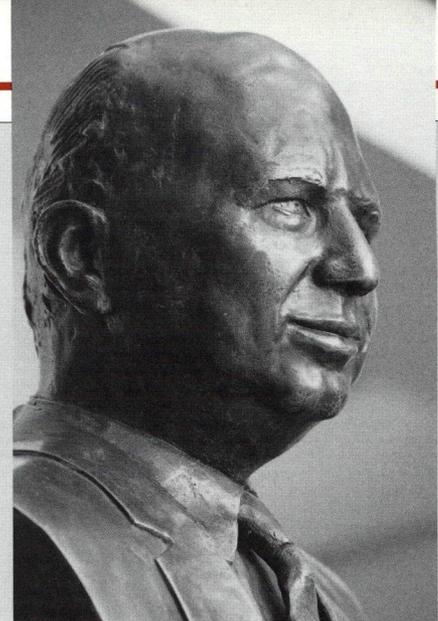
Bolivia will become the first country in the region to receive debt relief under the framework of the Heavily Indebted Poor Countries (HIPC) Initiative, through which multilateral and Paris Club creditors have pledged to reduce the debt burden of the world's poorest nations to a sustainable level. Last April, Uganda became the first country to benefit from the plan.

In the case of Bolivia, the IDB, the World Bank and the IMF will provide relief to ensure debt sustainability at what financial experts term a "225 percent present value debt-to-exports ratio." In lay terms, that means that Bolivia will carry no more than \$3.25 worth of present value debt for every dollar's worth of its annual exports.

This debt relief will become effective in September 1998, provided the credit arrangement with the IMF is in place, and the country has implemented the social development policies envisioned under the HIPC Initiative.

The IDB's share of the relief package is estimated to amount to \$155 million in present value, or about \$260 million in nominal terms. This is equivalent to over a third of the relief to be provided by all of Bolivia's creditors and more than half of the amount for multilateral institutions. The IDB portion of the relief package is nearly three times greater than the next-largest amount provided by a single institution.

In announcing the IDB's participation in the agreement, Bank President Enrique V. Iglesias praised the "spirit of solidarity" shown by the institution's 46 member countries in backing the initiative. He also called Bolivia's economic progress "one of the most brilliant cases of management of resources and an example to the world." The country has been hailed for its progress over the past decade in carrying out economic and social reforms and maintaining fiscal and monetary discipline. ■



Champion of social development.

## Felipe Herrera's enduring vision

WHEN CHILEAN ECONOMIST FELIPE Herrera proposed 36 years ago that the fledgling Inter-American Development Bank finance social development projects, many regarded such a notion as questionable, or even ill advised.

But the first president of the IDB was determined to prove that programs to improve education, health and sanitation were indeed "bankable." He succeeded, and today, advances in improving the lives of millions of ordinary people are among the proudest accomplishments not only of the IDB, but of international financial institutions around the world.

For this vision and resolve, as well as for his leadership skills and his remarkable human qualities, Herrera was honored in a ceremony at the IDB's Washington, D.C., headquarters in September, a year after his death. Among the principal speakers was Sixto Durán Ballén, ex president of Ecuador and former IDB staff member.

The ceremony, attended by an overflow crowd of Bank staff and former friends and colleagues, featured addresses on education and economic integration in Latin America, major themes in Herrera's life work.

Also included was the unveiling of a bust of the former IDB president, the presentation of a book, *Felipe Herrera, A Biographical Essay*, and the signing of an IDB grant for the Felipe Herrera Lane Foundation to help finance cultural and development projects in the region.



A country on the move: Bolivia meets high expectations in revamping economy.

## Citizens to the fore

### Dominican civil society takes the spotlight

**W**HEN CLOSE TO 1,500 CIVILIAN VOLUNTEERS, many of them adolescents and retirees, showed up at voting booths throughout the Dominican Republic during presidential elections last year, people took notice. The volunteers were members of Participación Ciudadana, a civil society organization (CSO) that trains election monitors. Their show of force attested to the growing ability of such organizations in the Dominican Republic to play significant roles in resolving a wide range of social and political problems.

But how can the energy and initiative of these CSOs be harnessed to accelerate the Dominican Republic's economic and social development? This was the subject of an IDB-sponsored meeting held in Santo Domingo last September and attended by some 100 representatives of CSOs, the Dominican government and the private sector.

**More participation.** The meeting's goal was to identify and improve mechanisms by which CSOs can influence the management and execution of development projects. Participants also discussed ways to raise public awareness on how CSOs can help to ensure the efficacy, efficiency and sustainability of development efforts.

"People participate when they perceive that the conditions are in place for a truly effective participation," said Jorge Cela, a Jesuit priest who directs the Centro de Estudios Sociales Juan Montalvo.

The volunteers organized by Participación Ciudadana are a case in point. Thirty percent of them had never belonged to any kind of organization, according to José Ceballos, general coordinator of Participación Ciudadana. They volunteered to serve as election observers because they believed that their efforts would have an impact on the quality of political life in the country.

The meeting also examined the experience of Procomunidad, a social investment fund supported by the IDB, and Ciudad Alternativa, an advocacy group for residents of poor neighborhoods on the margins of Santo Domingo.

The meeting was the third in a series through which the IDB seeks to encourage the participation of civil society organizations in the projects it finances. The first two meetings were held in Colombia and Guatemala in 1996. —Reported by Christina MacCulloch



The canal is still a wonder of the engineering world and a major tourist attraction.

## Panama's canal countdown

### IDB supports an ambitious privatization plan

**P**ANAMA IS COUNTING ON MASSIVE foreign investment to turn the 94,000 hectares along the Panama Canal into a dynamic swath of industrial complexes, maritime services, communication infrastructure and tourism facilities after the United States transfers the area to Panama at the close of 1999.

Speaking at September's Universal Congress of the Panama Canal, Nicolás Ardito Barletta, former Panamanian president and head of the Interoceanic Region Authority, said that some 7,000 buildings and other facilities with an estimated value of \$4 billion will be sold to private interests. Planned investments already total \$800 million.

Preparations for the ambitious program include a set of IDB-financed studies for land use planning and a grant from the Multilateral Investment Fund, the IDB affiliate, to help administer the privatization program. In addition, the Bank will finance programs to help Panama design a policy framework

for privatizing public services and attracting private sector investment. The result will provide a foundation for Panama's efforts to integrate the canal area into the country's development, according to Camille Gaskin-Reyes, the IDB's Panama representative.

At the conference, which marked the 20th anniversary of the signing to the treaty that reverts control over the canal from the U. S. to Panama, participants discussed issues related to canal maintenance and improvement, security, the environment, expansion plans and the expected growth of cruise ship tourism.

#### CANAL FACTS

- It handles 25 percent of the world's maritime trade.
- Its largest Latin American user is Chile.
- About 32 ships pass through it daily.
- Japan ships half of its auto exports through it.

## Guatemala donors praise post peace progress

DONOR COUNTRIES AND ORGANIZATIONS HAILED the efforts of the Guatemalan government in implementing that country's peace accords at a September meeting in the colonial capital of Antigua.

The meeting was attended by more than 100 delegates representing 30 donor countries and 20 international organizations. Also attending were representatives from each of the sectors of Guatemalan society that helped forge the peace accords. The meeting was called by the IDB as a follow-up to a previous gathering in Brussels.

While praising the country's progress, donors also emphasized the need to increase fiscal revenues, modernize the judicial sector, resolve land tenure issues and further strengthen the ability of local governments to implement projects.

The IDB plans to lend Guatemala some \$800 million over the next four years to finance social sector projects, modernization of the state, infrastructure and private sector development, according to Miguel E. Martínez, the IDB operational manager who chaired the Antigua meeting.

**Minority rights**

Afro-Latin American delegates from 15 countries met last month in Honduras to hammer out a plan of action for overcoming social, political and economic barriers that stand in the way of their integration into their societies. The second Afro-America XXI meeting followed a gathering held a year ago at IDB headquarters in Washington, D.C. The subject will be on the agenda at a seminar to be held next year in Cartagena, Colombia, in conjunction with the IDB's annual meeting.

**Help for El Niño victims**

IDB technical teams recently returned from a group of Central and South American countries where they discussed proposals for Bank funding to reduce the impact of severe weather caused by El Niño. Some countries are already experiencing extensive flooding attributed to El Niño, which is caused by a warming of Pacific Ocean currents.

**A gift for giving**

Corporate philanthropy is alive and well in Ecuador. According to a study carried out by that country's Esquel Foundation, some 90 percent of firms surveyed make regular charitable donations, for the most part through private charities and religious groups. The \$3.7 million to \$5 million given yearly amounts to a tenth of that received from outside the country, according to the report.

**Foundation for civil society**

A committee of prominent citizens from IDB member countries is marshaling support from business and political leaders for the creation of a foundation to strengthen civil society organizations in Latin America and the Caribbean. The committee, which was established by IDB President Enrique V. Iglesias, is headed by former Bolivian president Gonzalo Sánchez de Lozada.

**Pacific cyberlink**

A commercial Internet link called the Transpacific Business Network is being created to carry information on commerce, investments and new technologies between Latin America and Asia. Development of the new link is being explored by the IDB and the Asian Development Bank, and the World Trade Organization has offered its collaboration.



WILLIE HEINZ-IDB

**A newly paved road will help the country's farmers speed their produce to market.**

**Better roads prove a boon to crops**

Trinidad's farmers plant more, earn more

**T**RINIDAD'S INTERIOR IS BURSTING WITH well-tended fields of melons, tomatoes, cabbages and peppers in quantities never seen before. The reason is not new fertilizers, miracle pesticides, or a spell of unusually good weather—it's better access roads.

Small-scale farmers here have traditionally faced a formidable adversary when the time came to take their produce to market. Local access roads, often mere tracks scratched across the hills and wetlands, were difficult to negotiate even in good weather. They became extremely hazardous during the June-to-December rainy season.

But now, crews of bulldozers and graders are hard at work, making modest but vital improvements such as widening the roads, building drainage works and even paving where traffic warrants. Forty-five segments of roads totalling 43 kilometers have already been improved, and construction contracts have just been signed for 29 additional seg-

ments, according to Louis Niles, transportation specialist in the IDB's Trinidad and Tobago office.

The project is part of an IDB-financed program to rehabilitate 150 km of access roads, reconstruct some 30 bridges and establish a maintenance system. The works are scheduled to be completed in 1999.

The new roads that have already been built, and the promise of more to come, have changed the outlook of the 600 farmers in the project area. Knowing that they can get their crops to market in better condition, at any time of the year, they are increasing their production and are being rewarded by unusually good prices, reports Niles.

Road improvements are having a similar effect in the island's more mountainous areas. There, farmers are switching from traditional crops to high-priced herbs.

Ministry of Agriculture extension agents are advising farmers on how to boost production of the higher value products. ■

## PROJECT UPDATES



WILLIE HENZ-IBD

Time out to sharpen skills.

## JAMAICA

## Better skills for better jobs

Want to start a business? Stuck in a dead-end job? Got no job at all? It's likely that Jamaica's two-year-old Work Force Development Consortium can help.

More than 1,000 persons have registered with the consortium's Labor Force Service Center, and of these, 700 have benefited from programs designed to improve workers' skills and companies' personnel management practices.

The service center is particularly proud of its state-of-the-art learning laboratory, which offers individualized programs for upgrading skills in such areas as entrepreneurship, employability and communications. Some 600 persons have received training in areas ranging from computer applications to painting.

Many participants in the training programs, a large percentage of them women, have been promoted or have gone on to other jobs. Others were happy to hold onto the job they have, according to Don McDowell, the service center's information systems manager.

The work of the consortium also benefits companies. For example, 11 firms faced with the need to reduce payrolls have received help in designing a program of career advice and counseling, job placement, and

workshops on developing entrepreneurial skills for those seeking to start their own businesses.

As the consortium becomes better known, it is forging partnerships with other groups seeking to improve their ability to provide human resource development services. The groups include a computer education foundation, an adult literacy program, a hotel and a tourist association. In addition, the consortium is helping to establish a national system of labor market information that includes public and private sector statistics.

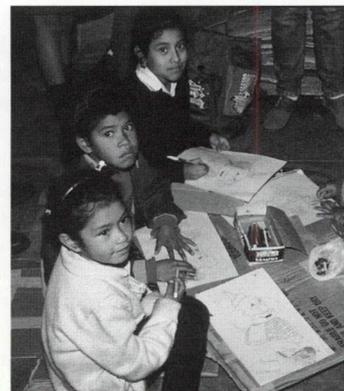
## BOLIVIA

## Getting kids back in school

Samuel Ardaya Rivera, 13, knows first hand how hard it is to attend school when you're dirt poor.

The little he makes washing auto windshields on the streets of Santa Cruz, Bolivia, goes to help with home expenses and pay for school supplies, according to the newspaper *El Mundo*. Life is a struggle, and for many children like Rivera, school is an unaffordable luxury.

Helping to get working children off the streets and into the classroom, and at the same time strengthen parental involvement in their children's education, is the aim of a new project being carried out by nongovernmental groups in Santa Cruz as well as the cities of La Paz, El Alto and Cochabamba. Financed with the help of a \$2.65 million IDB grant, the program is benefiting 1,900 children from extremely poor families—21 percent of the to-



DAVID MANGUIRIAN-IBD

From streets to classrooms.

tal number of working children in those cities—with after-school tutoring, school supplies, clothing, snacks and meals.

In Santa Cruz, each of the three institutions carrying out the program has contracted eight tutors. Their main job is to help the children keep on top of their school work as well as engage them in recreational, artistic, cultural and science activities.

The program has resulted in a significant decline in school dropout and repetition rates. In fact, a year into the program, 90 percent of the 1,900 participating children completed the school year.

An important side effect of the tutoring is strengthening the children's self-esteem, which in many cases has been damaged by their work experiences and family situation.

## NEW LOANS

## COLOMBIA

## Wise use of energy

The Bank's first loan for a project with the specific aim of promoting energy efficiency was approved recently by the IDB's Board of Executive Directors.

The \$10 million loan to Colombia will enable the Ministry of Mines and Energy to implement measures to spur legal, regulatory and institutional changes, increase the role of the private sector, and carry out studies and pilot programs to that end.

Interest in energy conservation has grown in Colombia along with the rise in demand, the increased difficulty of finding financing, and mounting environmental awareness.

The loan will also fund studies for industrial cogeneration projects and systems for possible financing by the private sector.

Efforts to reduce negative environmental effects will include projects to encourage the replacement of firewood with charcoal briquettes as a fuel in rural areas and to substitute natural gas for gasoline and diesel as vehicle fuels.

## PRIVATE SECTOR

## Major new power loans

The IDB's program of direct lending to the private sector gained momentum in September with the approval of loans for energy development in Argentina and Mexico.

A \$132 million credit for AES Paraná S.A. of Argentina will be used to construct and operate a natural gas-fired electric power plant 240 kilometers northwest of the capital of Buenos Aires. The plant will be the first owned by an independent producer that sells power to the national power grid without the benefit of traditional long-term purchase agreements.

The IDB financing will help mobilize private investment in advanced technology designed to improve the efficiency of energy production and reduce pollution. Other financing sources will be the Export-Import Bank of Japan and syndicated funds from commercial banks.

The financing is the fifth approved for Argentina through the Bank's program of direct lending to the private sector.

In Mexico, \$225 million in financing will enable the firm Energía Mayakán to build and operate the country's first major privately owned and operated open access gas pipeline.

The 700-kilometer pipeline, which will run from Ciudad Pemex to the cities of Campeche, Mérida and Valladolid, will deliver up to 260 million cubic feet of gas a day by late 1999 to power plants and other industrial customers.

The project is the first major enterprise resulting from a new regulatory framework for the natural gas sector designed to reduce the country's dependence on fuel oil.

The financing approved by the IDB will consist of a loan of up to \$75 million and a second loan of up to \$150 million from commercial banks through participation agreements with the IDB. Project sponsors include TransCanada PipeLines Ltd., InterGen, and Gutsa Construcciones S.A. de C.V.

## LATEST APPROVALS

The following operations were approved in recent weeks by the Inter-American Development Bank (IDB), the Inter-American Investment Corporation (IIC) and the Multilateral Investment Fund (MIF).

### Argentina

A \$66 million IDB loan and a \$66 million syndicated loan to AES Paraná S.A., a private company, for the construction and operation of a **natural gas-fired electric power plant** in the city of San Nicolás.

### Brazil

A \$300 million IDB loan to the Departamento Nacional de Estradas de Rodagem to help finance a nation-wide, multiple-works **highway improvement program** whose main component is the rehabilitation of approximately 6,800 kilometers of paved roads.

A \$5 million IDB grant to help **strengthen financial institu-**

**tions that provide credit to microentrepreneurs**, as part of a \$60 million microenterprise lending program run by the National Bank for Economic and Social Development.

### Colombia

A \$10 million IDB loan to support the Ministerio de Minas y Energía in what will be the Bank's first project dedicated exclusively to **energy conservation and rational energy consumption**.

### Dominican Republic

A \$61.2 million IDB loan for the first phase of a **health services modernization program**, to be carried out by the Comisión Ejecutiva de la Reforma del Sector Salud, designed to improve the quality, coverage and efficiency of the health system.

### El Salvador

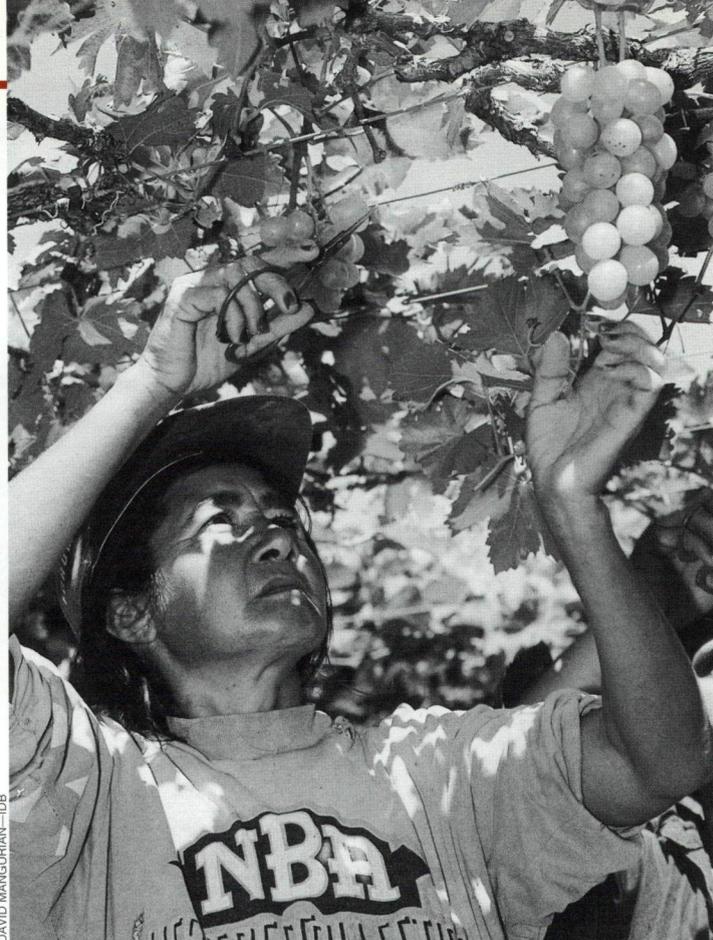
A \$70 million IDB loan to support the Comisión Presidencial para la Modernización del Estado in programs to **reform the public sector** and promote increased private sector participation in infrastructure and services.

### Guatemala

A \$60 million IDB loan to support a program of the Fondo Guatemalteco de la Vivienda to increase the equity and efficiency of the housing market and **encourage investment in housing** for low-income households.

### Mexico

A \$75 million IDB loan and \$150 million syndicated loan to Energía Mayakán, S.A. de R.L.



DAVID MANGURIAN—IDB

**TABLE-READY:** A farm worker near Petrolina, in Brazil's southern Pernambuco state, harvests table grapes that will be sold domestically and in Europe. The 6.5-hectare farm is owned by Agnaldo Nunes de Almeida, a former coffee plantation laborer who moved to Petrolina under an IDB-financed irrigation and farm settlement project in the 1980s.

de C.V., for the first major, open access, privately owned and operated **natural gas pipeline** in Mexico.

A \$1,259,000 MIF grant to help finance a private sector initiative that includes **training and technical assistance** for 600 new and expanding firms in the Nueva Vizcaya region in the Northeast.

### Venezuela

A \$12 million IDB loan to support a program to be carried out by the Ministerio de la Familia and the Fondo de Inversión Social de Venezuela to **reduce poverty** through partnerships between the public and private sectors and civil society.

## GAZETTE

### Bonds

The IDB launched a \$1 billion global bond issue with a semiannual coupon of 6.375 percent and

maturity date of Oct. 22, 2007. The issue, which was priced at 99.373 percent, met with immediate favorable market response and widespread demand. It was jointly managed by J. P. Morgan Securities, Inc. and Merrill Lynch Pierce Fenner and Smith.

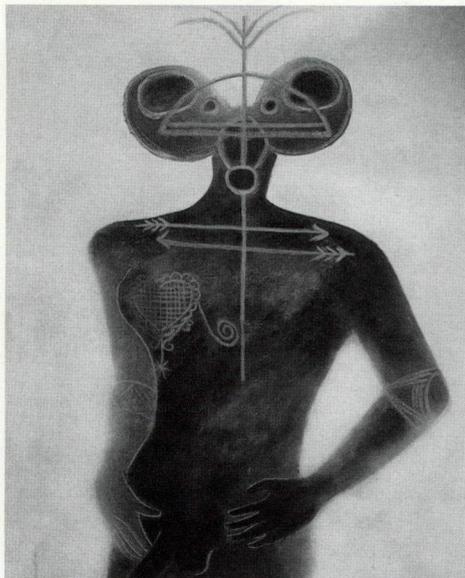
### Clarification

The Figuratively Speaking column in THE IDB'S July edition included inaccurate information about Uruguay that had previously been published in the United Nations Development Programme's Human Development Report 1997. That report relied on outdated statistics about access to safe drinking water and health services in Uruguay, which distorted the calculation of Uruguay's score in the report's Human Poverty Index (HPI). According to the UNDP's Uruguay office, the latest figures result in an HPI index of 5.4 for Uruguay, as opposed to the 11.7 score published in the report.



CHARLOS PAULETTI

**CARTAGENA BOUND:** Among those attending a ceremony to sign the agreement for Cartagena, Colombia, to host the 1998 IDB annual meeting were (l. to r.) Carlos Ferdinand, IDB secretary; Enrique V. Iglesias, IDB president, and José Antonio Ocampo, Colombian finance minister and IDB governor.



The God Who Awaits Dawn, by Danilo de los Santos; a rag doll used in the Dominican-Haitian Gaga cult; a fearful carnival mask.

# A Caribbean feast

Vibrant, varied culture takes center stage

By ROGER HAMILTON

**N**O GLOOMY INTROSPECTION HERE. NO brooding commentaries by self-absorbed aesthetes. This is decidedly Caribbean art, vibrant, playful, eclectic, full of visual ideas from the rich palette of cultural and historical influences that makes this region such a delight for travelers and an inspiration to its artists.

The latest exhibit at the IDB's Washington, D.C., headquarters, "Mystery and Mysticism in Dominican Art," shows a cross section of an artistic tradition that is thoroughly modern in its means of expression, but at the same time rooted in local traditions.

The recent exhibit focuses on the three main historical currents in Dominican art: that of the ancient Tainos and their deities and mythologies, a folk art infused with religious mysticism, and finally the modern practitioners, which include eight painters.

"Dominican artists tend to appropriate and recreate ideas of whatever provenance," write Marianne de Tolentino, Dominican art historian, and Félix Angel, curator of the IDB Cultural Center, in the exhibit catalogue. "They aim to achieve expression that is both evocative of the past and characteristic of the present day."

The historical underlayering of Dominican culture and art is quite similar to that of other Caribbean countries. The Taino Indians were eventually dominated by the aggressive Arawaks, who in turn were conquered

by the Europeans, in this case the Spaniards. Then followed the arrival of African slave laborers. In the Dominican Republic, wars among Spain, the Netherlands, England and France added more elements to the ethnic mix, but at the same time contributed to an era of general poverty and little cultural vitality.

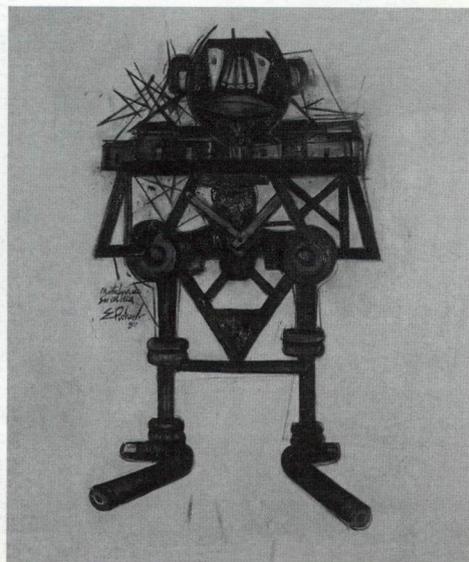
After independence in 1844, a national Dominican style in the visual arts began to develop that followed the European model but often incorporated native themes. In recent years, Dominican artists have increasingly reached into the past for images, such as the ancestral figure, generally represented by a mixture of animal and human forms. Ongoing research and archaeological discoveries continue to serve as a source of ideas and images.

The African legacy is particularly strong in Dominican culture and art, expressing itself in bright colors, schematic depiction of the human figure and a tendency to fill the background in with detail. In the last 30 years, influences from the United States and South America have also been felt. Overall, the effect has been one of energy imbuing Western "universal" art with pronounced local themes.

"Dominican art alludes to human drama, experience, fables, obsessions, dreams or fantasies," write the authors of the exhibition catalogue. Its styles can be related to the major 20th century artistic movements, but according to the authors, "self-expressionism always wins out."



Spiritual Still Life, by Jesús Desangles.



Longing for his Village, by Eligio Pichardo.

PHOTOS BY MARIANO HERNANDEZ