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Argentine gamer Martin Bourrt plays CounterStrike at the Cyberathlete Professional League tournament in Santiago, Chile



Middle-Class Youths in Latin America: A Paradox

By LEÓN KRAUZE

The Mexican film *Temporada de patos* (Duck Season), directed with subtlety and a sense of humor by Fernando Eimbcke, tells the story of a day in the life of four middle-class youths shut up in any old apartment in any old residential unit in some spot in the enormity of Mexico City. It opens with two boys around 14 years old, sitting, in rapt media hypnosis, in front of a television. Each holds an Xbox control. Having nothing better to do, literally, the friends plan to spend the afternoon immersed in the virtual world of video games. An enormous bottle of Coca-Cola and a pizza, which takes a good while to show up, will accompany them.

Shortly thereafter, the third character in the story appears. Rita, a girl a couple of years older than the video-game players, asks to use the apartment's kitchen to bake herself a birthday cake. Her parents have forgotten the date, and the girl is not willing to spend the day mired in frustration. Somewhat surprised, but still concentrating on the game, the two youths show her pots and pans and prostate themselves again before the television set.

Awhile later, Ulysses, the pizza delivery boy, joins the mix. Never mind that Ulysses is at least 10 years older than the three adolescents. It is not long before he sits down in the living room to enjoy a video-game match. While he plays, Ulysses (the name is not a coincidence) confesses that he is frustrated. A biologist by training, he worked for a while at a dog pound and has been delivering pizzas now for years. At his 20-something age, he cannot find a productive outlet that satisfies him. Although he has university studies under his belt, he is underemployed. His three young

Latin American youth: They are restless, intelligent, and versatile but also frustrated, victims of the anomie imposed on them by the structural rigidity of the region's economy.

companions look at him with empathy. Each one of them, in his or her own way, lives wrapped up in the same disappointment. Unwittingly perhaps, Eimbcke's film faithfully portrays the paradox of Latin American youth: They are restless, intelligent, and versatile but also frustrated, victims of the anomie imposed on them by the structural rigidity of the region's economy.

Wired and ready

Like the characters in *Temporada de patos*, middle-class Latin-American youths are intimately tied up with the world of virtual communication. Perhaps like no other generation, these young people have grown up in tandem with the outside world. Thanks to the remarkable development of communications media on the continent, Latin American youths are children not only of the region's traditional customs and practices but also of a globalized world. Growing media exposure increasingly determines the fashions, tastes, and leisure-time pursuits of these youths.

According to the Argentine polling company D'Alessio IROL, middle-class youths in Latin America build their lives around three communications media: radio, television, and the Internet. "Mornings, it is the radio," explains the Mexican magazine *Expansión* after analyzing the results of the D'Alessio IROL survey. "A few hours earlier, a quick visit to the Internet. At dinnertime, it is television, and then the Web again. Later into the night, television again, and when dawn arrives, it's back to the net." Among other surprising data, the survey discovered that 67 percent of youths polled in Uruguay, Colombia, Ecuador, Argentina, Chile, and México cannot go for more than a week without using the Internet. Moreover, four out of every 10 interviewees confessed that they cannot spend a whole day without hooking up to cyberspace. For Nora D'Alessio, who was in charge of the survey, Latin American youths in this socioeconomic stratum are "supertechnified," and "the trend is the same throughout Latin America."

Besides this new globalized nature, Latin American youth have also advanced in terms of education. In the last decade, Latin America has progressed in the two chief standards for measuring education: coverage and quality. According to data from the Economic Commission for Latin America and the Caribbean (ECLAC), the proportion of students between 15 and 29 years old who completed elementary school rose from 62.6 percent to 66.7 percent between 1990 and 2002. Within the same group, the number who finished high school increased from 25.8 percent to 34.8 percent. Even higher education was up: from 4.4 percent to 6.6 percent. And although the challenge for the region remains in the uneven access to education that still persists between the different social strata (only 20 percent of youths whose parents did not finish elementary school complete that cycle), it is undeniable that Latin American youths will face the new century with two tools that will set them apart from previous generations: remarkable technological know-how and a higher level of education.

Facing the job market

In an era when the "institutionalization of change and the centrality of knowledge" are the chief factors of economic progress, the young should hold a privileged place in Latin America's job market. Unfortunately, neither of these two circumstances has yet translated into a perceptible improvement in young people's integration into economic life. Given the region's economic rigidity, Latin America has not yet been able to provide this growing youthful work force with a stable job market. ECLAC confirms the situation in a recent study on the "tensions and paradoxes" that Latin American youth face: "Transition from education to employment is less straightforward, as labor markets do not guarantee stable occupations with good prospects for large segments of the youth population, except the most highly trained."

Uruguayan sociologist Ernesto Rodríguez, perhaps the top expert on the challenges and difficulties Latin American youth face, has explained how, following their formative years, the region's

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It is undeniable that Latin American youths will face the new century with two tools that will set them apart from previous generations: remarkable technological know-how and a higher level of education.

Bolivian rappers from the collective “Wayna Rap” produce their weekly radio program at Wayna Tambo, a community radio station in El Alto, Bolivia. These rappers have adopted hip-hop styles brought south by globalization and applied their experiences in Latin America’s most indigenous and fastest-growing city.



NOAH FRIEDMAN-RUDOVSKY/WPN

youths encounter unemployment or, in the best of cases, underemployment: “Unemployment among the young is clearly of a structural nature. ... The corporate conduct of businessmen and organized workers has never given priority to incorporating young people into the work force.” Hence the nature of the paradox. Like the underutilized pizza delivery boy in *Temporada de patos*, Latin American youth runs up against a wall when they try to join the working life. The result is a dangerous struggle between the potential of this important sector of society and the difficulty of economic integration that Latin American economic structures create.

A dangerous paradox

The trap that Latin American youths encounter after their formative years naturally causes a gap in the process of professional and personal realization. Mired in underemployment or dealing with a closed job market, youths resort to alternate and, in some cases, perverse social-acceptance mechanisms.

In the words again of the ECLAC study, the region’s youths “remain available, open to other influences that allow for fashioning an identity to help prop up their self-esteem and give them a gregarious system, to form part of a community.” It is no surprise, in this context, that gangs or other comfortable tribal structures should arise, representing, for the young person facing social paralysis, a safe and free space. Mexican anthropologist Rossana Reguillo, who has devoted her career to studying the social-adjustment mechanisms of Latin American youths, explains it better: “What you see [among the region’s young people] is a blowing up of the notion of a future,” she says, referring to the dead end that youths face in trying to join the region’s economic cycle. As a result, according to Reguillo, Latin American youths resort to two escape mechanisms: One is the completely hedonist way out, which says, “In the face of this mess, nothing else can be done.” It involves wrecking the body with drugs and partying; in other words, complete disregard for any option for control. The second way is the outright forswearing of any type of normal, institutionalized social pact. These youths assume, with amazing coolness, that they are going to die, but at least they will do so in trying to buy their mother a refrigerator. This is the large sector of young people who increasingly become involved in the drug trade and in crime as a viable strategy.

Latin America must focus its efforts on “employment absorption [and] social integration, as the key to young people’s emancipation.”



Teenagers play video games at home. An Argentine survey found that 67 percent of youths polled in Uruguay, Colombia, Ecuador, Argentina, Chile, and México cannot go for more than a week without using the Internet.

Solving the paradox

How to solve the delicate paradox of middle-class Latin American youth? According to Ernesto Rodríguez, besides continually improving health and education systems, Latin America must focus its efforts on “employment absorption [and] social integration, as the key to young people’s emancipation.” The region’s recent history already has stories of successful educational and occupational development programs. The most notable example may be “Chile Joven,” a training program for low-income youths sponsored by the Inter-American Development Bank (IADB) that began in 1992. The program’s success comes because it pegs the training of youths in the program to the real demand for labor in the Chilean job market. Participants thus undergo a successful education process knowing that their skills will lead to a job the labor market needs. During the 11 years the project has operated, it has had a clear, positive impact on three fundamental standards in the participants’ working life: income, likelihood of employment, and likelihood of formal employment.

A motorcycle ride

The benefits of employed and socially well-adjusted youth are evident. To solve the unsafe conditions that plague the region and further the appearance of politically committed youths, “Chile Joven” and other similar programs that have been implemented in the region are the path to follow. This is also the lesson at the end of *Temporada de Patos*. After different entertaining vicissitudes, Ulysses takes stock of his situation: He has been tied to the mast for too long. Inspired by a curious painting of a flock of ducks in flight, Ulysses decides to hang up the pizza delivery boy hat and go back to practicing the profession for which he studied. In the final scene, we see Ulysses riding his motorcycle for the last time. He carries the painting of the ducks and a smile on his face. He is on the road to realization. He has resolved his very personal paradox. Perhaps in the coming years, life will again imitate art in Latin America.

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CAF serves the public and private sectors, providing multiple financial services to a broad customer base comprised of its shareholder countries, and corporations and financial institutions within those countries. Social and environmental variables are incorporated into management policies, including ecoefficiency and sustainability criteria. As a financial intermediary, CAF attracts resources from industrialized countries to Latin America, serving as a bridge between international capital markets and the region. CAF has become the largest provider of multilateral financing to the Andean region.

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CAF's funding strategy allows it to raise financial resources efficiently and competitively in the international capital markets. It is based on the diversification of sources and the mitigation of interest rate and currency risks. It also aims to match the average maturities of assets and liabilities.

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Moody's	A1	P-1
Fitch	A+	F 1
Japan Credit Rating Agency	AA-	

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Culture and Social Responsibility: emphasizes culture as a key component of human development through the construction of social capital.

Biodiversity Program: promotes resource and ecosystem management in order to develop sustainable business opportunities.

Program for the Comprehensive Support of Small and Medium Size Enterprises: intended to improve SMEs' management, competitiveness, marketing, and technology know-how and capacity.

Kemmerer Inter-Institutional Technical Cooperation: coordinates and strengthens regulatory and supervisory systems for banking, securities, pensions, and insurance in the region.

CIV FROM LEFT: PHILIPPE DESMAZES/AFP/GETTY IMAGES, XXX TKTKNAME, RODRIGO ARANGUA/AFP/GETTY IMAGES, RAFA RIVAS/AFP/GETTY IMAGES



Clockwise from left: Repsol YPF CEO Antoni Brufau; Ferrovial CEO Rafael del Pino; Telefónica CEO César Alierta; Iberdrola CEO Ignacio Sánchez Galán

A Historical Opportunity for Latin America

Interviews with the CEOs of Repsol YPF, Iberdrola, Ferrovial, Telefónica, and the regional managing director of Banco Santander

By FERNANDO GUALDONI

“Historical opportunity” are the words that sum up the views on Latin America’s future of four CEOs and one managing director at five of Spain’s top companies. Spanish-Argentine oil company Repsol YPF CEO Antoni Brufau, electric utility Iberdrola CEO Ignacio Sánchez Galán, builder Ferrovial CEO Rafael del Pino, telecommunications giant Telefónica CEO César Alierta, and Banco Santander Americas Division Managing Director Francisco Luzón all agree that, after five years of uninterrupted growth and last year, when more than a dozen countries in the region held elections, Latin America has a unique window of opportunity to bolster democracy, strengthen policies aimed at achieving sustainable growth, and implement social policies to alleviate unequal income distribution. Despite the optimistic vision they share, they all stress the need for government planning and observance of the rule of law.

“Latin America faces a truly historical opportunity to solidify its democratic system, achieve economic progress, and significantly improve its society’s standards of living in a sustainable manner. The region has had stable growth for years and knows what to do to continue growing

Latin America faces a truly historical opportunity to solidify its democratic system, achieve economic progress, and significantly improve its society’s standards of living in a sustainable manner.

Latin America is undergoing a period of political change that at times affects the economy and foreign investment. What is fundamental for a company when it thinks of undertaking projects in this area is legal certainty, the key for the creation of wealth and economic progress.

in the immediate future. New social policies and growth without inflation have reduced poverty levels and want, while elections have been held in 13 countries with an outcome that is at times overlooked: Eighty-six percent of the region's population has chosen to re-elect their leaders, which means having four years of experienced governments to make the reforms that are necessary for stable growth with social responsibility. Overall, the situation is very promising. Now what is needed is for the governments to seize and harness this great opportunity." That is how Banco Santander's Francisco Luzón answers the question posed to all five businessmen: How do you see the current political and economic situation in Latin America, and what outlook do you see for the region?

"Our macroeconomic vision for the region... is positive, and it reinforces our conviction that we too, as investors, face a great opportunity to create value. After proving during the crisis years that we were in it through thick and thin, now we are convinced that Banco Santander's unbeatable strategic positioning in the Americas, the very competitive and efficient customer-oriented organization that we have created throughout all these years, and the penetration and prospects for the region's banking system and bank usage by new segments of the population will afford us strong growth in both our business and our presence in the Americas. To be ready for that situation, we have launched the Americas 2010 project, whose objective is to consolidate, by way of intense inner growth, our leadership position in banking and financial services in the region for the 28 million customers we already serve and the 10 million additional customers we aim to reach between now and the end of the decade," Luzón adds when asked about the plans of his company, a bank that has invested 12 billion euros in the region since 1994.

Starting in late 2005 and throughout 2006, presidential elections were held in most of the region's large economies: Mexico, Colombia, Peru, Chile, Bolivia, Venezuela, Brazil, and Ecuador. In October of this year, Argentina will round out the circle. Many of the governments are on the moderate left, but some are also on the nationalist left, such as those of Hugo Chávez in Caracas and Evo Morales in La Paz. Still others flirt with the extreme left, such as Ecuadorian Rafael Correa's or even Néstor Kirchner's, who has a great chance of winning a second term in Argentina. As Argentine economist Juan Carlos de Pablo explains with sarcasm, "When you see the macroeconomic data of Kirchner's administration, he strikes you as a faithful follower of Milton Friedman, but when you listen to the president's speeches, you get the feeling that the country is being led by a disciple of Ho Chi Minh. ... In short, nothing is clear-cut." The overall feeling is that in many Latin American countries, the rules of the game are still not altogether clear.

"Latin America is undergoing a period of political change that at times affects the economy and foreign investment. What is fundamental for a company when it thinks of undertaking projects in this area is legal certainty, the key for the creation of wealth and economic progress," Iberdrola's Ignacio Sánchez Galán says. "Iberdrola has currently focused its investments on countries with larger electricity markets and greater respect for the rules of the game, such as Brazil and Mexico, which also account for close to two thirds of the Latin American market. We have put the emphasis on these countries for our growth strategy in Latin America, maintaining current alliances with first-rate partners and trusting in the professionals of each one of the countries. I have always said that we feel Mexican in Mexico and Brazilian in Brazil; that is to say, we want to belong to the country where we operate," he adds.

"Latin America tends to be analyzed as a one-sided region when the situations that arise differ greatly from country to country, even between neighboring states. In the countries where Iberdrola does business, it has been 10 years now that the rules of the game under which the initial investments in the electric sector were made have been respected. As a good example, I want to point out the reform made in the sector by the current government of Brazil, which respected



A woman uses a Telefonica public phone.

the commitments acquired by previous administrations, or the excellent cooperation of the Mexican administration,” he notes.

When asked about the electric company’s plans, Sánchez Galán is enthusiastic: “I want to point out that Iberdrola is well-received in the countries in which it operates in Latin America, basically due to the degree of commitment to development, responsible action, and growth that our presence generates for the economy. We are going to be involved in developing new electric-power-generating plants following the energy strategy planned by authorities of each country and putting a special emphasis on cleaner and more efficient technologies, such as combined-cycle plants and renewable energies. Additionally, Clean Development Mechanism projects such as small-scale hydraulic and wind farms will be developed. In the electric distribution business, the objective will be to continue improving the efficiency of subsidiaries and their quality of service. In sum, we will continue the investment policy in the electric sector in Latin America, focusing activity on the countries we are currently in, due to the large size of their markets and their respect for the rules of the game. Nevertheless, we will analyze any opportunity that may appear in other countries, provided that profitability requirements are met and the current regulations are observed,” the CEO of Iberdrola explains.

The company that knows what it is like to deal with drastic and quick changes in the rule of law is Repsol YPF. Throughout most of 2006, the company negotiated new terms with the Bolivian government, one by one, for the 32 blocks of oil it has in the Andean country. The new oil contracts basically stipulate an increase in taxes, and a greater share of them from the exploitation of the resources. The entire negotiation caused more than one setback for Repsol YPF in the stock market, and the company required the mediation and support of the Spanish government to reach an agreement with the Morales administration. Repsol’s business in Bolivia accounts for 1.5 percent of the close to 6 billion euros in operating profits that the oil company achieved in 2006. Early this year, Venezuela announced the nationalization of its “strategic” resources, including electricity, oil and gas, and telecommunications. Panic quickly set in, but Repsol YPF quickly clarified that the nationalization plans would not affect it “in the least.”

Despite such seesawing, CEO Antoni Brufau is quite positive: “In the recent elections already held, you perceive a more moderate or positive trend than expected a year ago insofar as response to pro-market policies is concerned. In the main countries where we have a presence, the outlook

Latin America is growing in a more balanced manner, with a surplus or balanced current account, and it is less vulnerable from the fiscal and external standpoints.

Latin America has around 9 percent of the world's hydrocarbon reserves and needs investment to put them into production and give them value.

is for solid economic growth. Argentina will continue to surpass the Latin American economic growth average, with forecasts of 6 percent for 2007, driven by domestic demand and the weak peso policy. In Brazil, economic growth is expected to increase up to 4 percent in 2007, sustained by expanding internal demand. In Bolivia, GDP growth of 3.9 percent is expected for 2007, weighed down primarily by social problems and poor infrastructure.

"As for Latin America's macroeconomic outlook, we remain optimistic," Brufau says. "The International Monetary Fund is forecasting economic growth of 4.2 percent for 2007, and the Economic Commission for Latin America and the Caribbean, 4.5 percent. If confirmed, per capita GDP will have grown 15 percent between 2003 and 2007, or 2.8 percent a year, compared with the 0.1 percent posted between 1980 and 2002. Initially, the growth driver was the improvement in the real rate of exchange deriving from an increase in the prices of the raw materials they export, but the change wrought in the composition of the growth is very significant. Latin America is growing in a more balanced manner, with a surplus or balanced current account, and it is less vulnerable from the fiscal and external standpoints."

Brufau says the company will maintain, and even increase, its presence in Latin America while at the same time aiming to expand its operations in other areas of the world: "In our sector, you have to broaden geographical diversification to tap new reserves that will be the basis for future production. Latin America has around 9 percent of the world's hydrocarbon reserves and needs investment to put them into production and give them value. The outlook for the long term suggests that the region will experience growth in energy production and consumption. The favor-



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able macroeconomic outlook, together with its low per capita energy consumption, suggests that there is room for growth and development for companies that remain active in Latin America.”

Rafael del Pino agrees with Brufau. Although the company he oversees, Ferrovial, has focused on Chile, del Pino reports that his quest to expand the builder’s presence in Latin America is unending: “The chief market where Ferrovial operates is Chile because, with a annual growth rate of 5.6 percent and a per capita income of US\$12,700, it is one of the continent’s most stable and competitive economies. We went into Chile in 2004 through Cintra, our infrastructure subsidiary, which is the concessionaire for the Chillán to Collipulli section of the Route 5 highway. We have an investment there of US\$1.5 billion and a concession with a 24-year term. We are consolidating our growth, driven by foreign investment of more than US\$6.5 billion in 2005. Since the August 2005 acquisition of Swiss-based Swissport, the world leader in the airport handling business, Ferrovial has increased its presence in such markets as Brazil, Argentina, Peru, Venezuela, and Mexico. Our plan is to generate value through growth, and that is why we have been studying new business opportunities in the major Latin American economies.

“During the last year, Latin America has achieved greater political stability and greater economic growth as a result of a decrease in inflation and other advances, including increases in the growth rate and in per capita income. Compared with the previous year, the region has grown 4.5 percent, and foreign investment has also increased, although a great government presence in the economy still exists in these countries, as noted by the latest World Investment Report by the U.N. Conference on Trade and Development,” del Pino says, adding that, considering the high government involvement in many economies in the region, including Argentina, Bolivia, Ecuador, and Venezuela, his search area for undertaking new businesses has been foreshortened.

Despite the political uncertainties in some countries; the rhetorical face-offs between some extreme left governments and other more moderate ones; the signs that the war on corruption is far from being won; and the serious problems in many judicial systems, the businessmen interviewed continue to see the glass as at least half full. These five Spanish companies have more than 100 billion euros (10 percent of Spain’s GDP) invested in the region, and they don’t plan to back off even a bit, but rather to increase their presence at the first chance. Telefónica CEO César Alierta confirms this: “Latin America has gone from being a promise for the future to becoming a powerful reality.”

“By 2010,” he explains, “population growth of 1.3 percent is expected in Latin America, reaching 598 million inhabitants, as opposed to increases of 1 percent and 0.5 percent in Asia and China, respectively. Growth rates for economic activity measured in terms of GDP are estimated to increase more than 4 percent



MELANIE STETSON FREEMAN/THE CHRISTIAN SCIENCE MONITOR/GETTY IMAGES

Workers use a computer to help repair compression calibration of liquid part of the system going to another area at the Repsol Rio Grande natural gas plant in Rio Grande, Bolivia. President Evo Morales has nationalized the industry and also wants to nationalize land.

on average in the region in 2006 and 2007, in line with the increases of the last two years. Besides, this year, in some markets such as Argentina and Chile, GDP will be growing 7.8 percent and 5 percent, respectively.

“Over 15 years ago, Telefónica wagered on Latin America and invested back when doing so seemed like an adventure. Now we are reaping the benefits, and this is just the beginning,” says Alierta. “The good outlook is clear to Telefónica, which plans to invest more than 10 billion euros in the region through 2009. This commitment is also good for the region since we cannot forget that Telefónica has acted as a catalyst for telecommunications in Latin America, with such remarkable progress as generating an average increase in the penetration of traditional telephony in the region’s major economies; stimulating the growth of mobile telephony; and becoming the chief driver of the penetration of broadband, which has allowed, among other things, for increasing the number of ADSL lines in the region 14-fold,” Alierta points out.

Telefónica puts its investment in Latin America at more than 75 billion euros. The company is, according to its own numbers, the top regional operator, with a market share of close to 30 percent and close to 115 million subscribers at the end of 2006, following a threefold increase in its customer base during the last five years. The region’s No. 1 telecommunications company, Telefónica Latinoamérica, is also No. 4 in revenues in all sectors combined, just behind the oil companies. The telephone operator says revenues have doubled between 2003 and 2006, and its average revenue growth in the region in the last three years is 26 percent, “way ahead of other major companies in the technology sector or other sectors,” according to Alierta.

Alierta maintains that, thanks to all these investments, the “telecommunications infrastructure deployment that some countries in Latin America boast today is superior to what would be their due given their level of development and their rank in the world economic order. The correlation between economic development and the penetration of information technologies is a proven fact.”

But he echoes the cautions of his counterparts at Iberdrola and Ferrovial: “An appropriate economic and regulatory context is necessary to stimulate new investments. Continued efforts must come from both the public, as well as the private sector to reduce the social inequality that continues to be a fundamental problem in the region, affecting political and financial stability. An attempt must be made to maintain and strengthen the current macroeconomic situation and outlook for the region to be prepared for a possible deceleration of the world economy.

“The region must continue its advances in developing stronger institutions that promote and guarantee free competition and a stable legal framework, which decrease the risks of investment and the costs of capital. Last, but not less important, along with political and economic stability, authorities must support a stable regulatory framework that favors investments. In coordination with the private sector, governments can play a fundamental role in developing the information society and digital inclusion by eliminating regulatory asymmetries and furthering competition and greater commercial flexibility,” notes Telefónica’s CEO.

“Latin America appears to be the region with the best growth rates for the telecommunications industry. In fact, forecasts suggest average annual growth rates of 8 percent through 2009. Telefónica has turned this potential into an opportunity to consolidate its leadership position in Latin America. With these high expectations, Telefónica wants to turn the next three years into the ones with the greatest growth. The goal is to have reached 150 million customers in the area by 2009. In fact, the good outlook allows us to set such challenges as reaching 5 million broadband lines by 2009 and a mobile telephony penetration of 70 percent,” Alierta says.

Fernando Gualdoni is a Specialist in Latin American Affairs. He works as a staff journalist for El País.

An appropriate economic and regulatory context is necessary to stimulate new investments. Continued efforts must come from both the public, as well as the private sector to reduce the social inequality that continues to be a fundamental problem in the region, affecting political and financial stability.





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A dock worker at a local harbor near Guayaquil in Ecuador stacks boxes of bananas inside a container of a cargo ship bound for Belgium.

PUBLICATION REVIEW

CAF: Toward a Productive Transformation in Latin America

The most recent issue of CAF's flagship publication *Reporte de Economía y Desarrollo* (RED), titled "Latin America's road to productive transformation," establishes the need to review the productive strategies pursued by Latin American countries. This is particularly relevant for nations that are on the midst of deepening their economic ties with their main trading partners.

The main thesis of this book is that in order to reap the benefits from participating in global markets, countries should undertake a process of productive transformation defined as higher export diversification with productivity gains. This results in higher real salaries for the labor force and improved living standards. Moreover, higher growth rates are sustained, as more diversified economies tend to grow faster and are less vulnerable to external shocks. International experience confirms these trends. The most dynamic and open economies in the world, such as the East Asian tigers, Scandinavian countries like Finland and Sweden, Ireland and Australia,

initially pursued strategies of strong factor accumulation (high investment rates in physical capital and infrastructure supported by high saving rates and human capital accumulation). These countries were also able to maintain steady productivity growth rates and diversify their export base. In fact, these countries have been able to successfully enter a more mature productive phase, specializing in the production and export of more sophisticated, high value added goods.

Unfortunately, Latin America's experience in this regard is quite different. With a few exceptions, export baskets in most countries remain highly concentrated in a few goods. This trend has been exacerbated by the current boom in commodity markets, which has resulted in a higher proportion of primary goods in total exports, particularly in countries with abundant natural resources. Although Latin



American exports have become more diversified during the last three decades, average export concentration levels are still three times larger than in more developed economies.

Likewise, the productivity gap between Latin American countries and the rest of the world has widened. In fact, since 1980 labor productivity has experienced a significant decline with respect to the US. In contrast, other successful countries have been able to sustain significant labor productivity gains, and enlarge the gap with respect to Latin America.

Different policy combinations have been pursued in Latin America with disappointing results. When import substitution was the norm during the postwar period, up until the early 1980s, active industrial policy led to larger diversification but with productivity gains that could not be sustained over time. In fact, average productivity growth collapsed during the eighties. Thereafter, Washington Consensus recommendations prevailed during the nineties, whereby public intervention was limited and market economy policies were given a central role. Although productivity levels partially recovered, diversification gains were reversed in most countries, with the most notable exception being Mexico. Growth did resume but could not be sustained when the region went into a recession in the late 1990s. So far this decade, growth has recovered in most countries, but primarily due to a very favorable external environment.

In this context, a revision of the strategies that are being pursued to achieve export diversification with productivity gains is appropriate. A key notion to take into account in this regard is that policies which foster diversification do not only entail “switching” into completely new sectors, but also developing new activities within a sector itself. In this regard, international experience shows that cluster development has been instrumental in achieving higher diversification within particular sectors. In view of the fact that Latin America should be more diversified for its income level, it is also necessary to promote the “discovery” of new exporting activities. Thus, there may be

a role for public intervention, but not in the traditional sense of picking winners, but rather in promoting the development of new exports. Moreover, foreign direct investment may act as an important catalyst in both regards.

Successful experiences of productive transformation have pursued a combination of the strategies outlined above. These are complementary and should be adopted according to country/sector specific factors.

Cluster development

Clusters in Latin America show limited levels of cooperation among competing firms and other cluster members, including academia and local governments. By enabling coordination and collective action, effective networks and the accumulation of social capital are critical determinants for the success of clusters. Nonetheless, coordination failures and externalities justify public intervention, to ensure greater cooperation among cluster members. Success also depends on complementary policies on innovation, education, finance, infrastructure, among others. A key policy recommendation is also to consolidate existing clusters where there are comparative advantages, and where market failure corrections yield most benefits.

Public policies for self discovery

Latin America exhibits a low discovery rate of new export activities for its income level. This is primarily due to the fact that developing new activities demands very specific inputs and technologies which are not always available. Public intervention is therefore justified on the grounds that certain public goods must be provided to enable an appropriate diversification process. The existence of externalities, imperfect competition, information and coordination failures also validates public intervention. In addition, governments may also intervene to prevent a suboptimal supply of newly discovered exports. This may be caused by the uncertainty caused by the allocation of returns on a new exporting venture. Given the past track record of unsuccessful industrial policies in

Latin America, it is critical that an appropriate institutional framework is set up to avoid government failures. In this regard, it is important to support this framework with a strong leadership, flexibility, joint public private partnerships, transparency and accountability.

Quality Foreign Direct Investment

On macroeconomic grounds, foreign direct investment (FDI) has played a very important role in Latin America. However, it has not substantially contributed to a productive transformation. In fact, there are limited backward and forward linkages, and technological spillovers are scarce. In order to maximize FDI's positive impact, local absorption capacities must be enhanced. This entails making the host country more attractive to foreign investors, by improving the business environment, providing quality infrastructure, and improving the human capital and technical abilities of the labor force, among others. This will ensure that FDI has a positive effect on productivity, generates employment and raises real wages, fosters technological diffusion and promotes stronger linkages.

The strategies outlined above—cluster development, public policies for self discovery and quality foreign direct investment—should be pursued with a set of horizontal policies conducive to productivity gains, and that generate domestic capacities needed for a process of effective diversification.

Institutions

Although there have been some improvements during the past few years, Latin America suffers from weak institutions and regulations. There are important deficiencies in matters of competition, market concentration, formalization and red tape, property rights, conflict resolution, among others. Rather than pursuing single one-size-fits-all recipes, an institutional reform agenda should take into account country specific factors and particular constraints faced. Priority in the legislative agenda and sufficient human and financial resources should be granted for the adequate implementation of institutional reforms. Specific

regulatory interventions should have clearly defined objectives, and should be transparent, accountable and participatory.

Innovation

Research and development activities in Latin America clearly lag those undertaken in more developed countries. Notwithstanding the fact that on-the-frontier innovations are very limited in the region, off-the-frontier innovations, such as imitation, adoption, adaptation and domestic learning processes, have had an important impact in several Latin American countries. Market failures that characterize innovation processes which typically result in a sub-optimal supply, justifies public intervention in a broad domain of areas, including institutional capital (national innovation systems), financing (subsidies and public grants) and capacity-building (human capital and entrepreneurship). The State's involvement should be subsidiary and limited to supporting private initiatives, particularly at the small and medium sized enterprise level, where the bulk of innovations take place.

Human capital

A common denominator of all successful experiences of productive transformation is substantive human capital accumulation, ensuring the provision of a high quality education. Although Latin America has witnessed important improvements in the quantity of education, poor quality at all educational levels remains one of the central challenges to be confronted. In this regard, best practices suggest a number of policy interventions, such as granting managerial autonomy, establishing merit-based evaluations, strengthening teacher formation, among others. Moreover, in an environment of intense competition in global markets, it is fundamental to align professional and technical formation with productive sector demands, avoiding underemployment and potential brain drain. Action should be centered on improving tertiary and technical abilities, in tune with sectors where comparative advantages and export potential lie.

Luis Miguel Castilla, Chief Economist of Corporación Andina de Fomento

Chilean president Michelle Bachelet of the Socialist Party waves during her presidential campaign rally inside Chile's Court Central in Santiago.



IVAN ALVARADO/REUTERS/CORBIS

Will Latin America Seize the Moment?

By REBECA GRYNSPAN

Despite much debate about the region's outlook—and there are enough reasons for concern—economic growth and support for democracy present much of Latin America with an opportunity to deepen democracy, strengthen economies, and improve social policy in a fairly stable environment and with relatively abundant resources. Will the region seize the moment?

After decades of being oppressed by authoritarianism, broken by populism, or disappointed by poorly calibrated liberalism, Latin America now finds itself in decidedly greener pastures. Where inflation and deficit once pervaded, prices are stable and budgets balanced. Where stagnation was once expected, we now see continued, robust growth. Where conflict was once the norm, now peaceful democratic governments are the rule. And where poverty and inequality were increasing, now we have better chances of improving people's quality of life. It is finally time to see this region's glass as at least half-full.

Take a look at Latin America, and you will see a region that has plenty of reasons for optimism. Eleven presidential elections were held from November 2005 to the end of 2006, presenting citizens across the region with a wide range of platforms from which to choose. *Latinobarómetro2006* data show that average voter turnout for the 11 polls was 72.1 percent, the highest rate the region has ever seen. Five incumbent governments retained power; the opposition carried the day in the remaining six; and, despite close finishes, only one election result was seriously disputed. Indeed, the perception that elections are clean and fair is growing among Latin Americans. The years between 2007 and 2009 will see nine presidential elections, and signs are that this positive trend will continue.

At the same time, more Latin Americans than ever say their national economies are on the right track—and they are right. A recent study by the Economic Commission on Latin America and the

After decades of being oppressed by authoritarianism, broken by populism, or disappointed by poorly calibrated liberalism, Latin America now finds itself in decidedly greener pastures.

Caribbean determined that the region averaged more than 4 percent growth over the last four years. It is clear that the region has benefited from global growth, but domestic demand has been strong, too. Moreover, Latin America would not have been able to take advantage of the supportive global environment were it not for the foundation of macroeconomic stability it has built in recent years. Indeed, the International Monetary Fund expects regional inflation to drop to 5 percent in 2007; many countries are increasingly seeing primary fiscal surpluses, and public debt ratios are on the wane. Although growth is not as strong as in other developing regions, for the first time in its democratic history, Latin America is enjoying growth without being saddled by external or internal imbalances. It is a rare moment for this region, and it must be seized if it is to be prolonged.

Nonetheless, problems remain for many. Elections and growth alone are not automatically translated into improved living conditions, and today some 40 percent of the region's population live in poverty, and 20 percent in extreme poverty. That's four out of every 10 without enough income for basic needs, who suffer daily from malnourishment, ignorance, ill health, and exclusion. One out of four young people in the region neither studies nor works, having no opportunities for social inclusion. In tandem is widespread inequality—the most pronounced in the world. These 239 million poor citizens see growing material wealth around them but find no way to grasp it themselves; they participate in elections but yet feel estranged from the state, and marginalized from society. What's more, the middle class' position is tenuous, and they are increasingly losing economic ground. These men, women, and children are still waiting for the good times they have been promised.

But how long will they wait? Even amid increasing support for elections and confidence in the economy, considerable discontent simmers close to the surface. While optimism toward democracy is high in principle, and hope is in the air around election time, only 58 percent of Latin Americans feel that governments seek the people's welfare, and 14 percent feel that protest movements are the best way to effect change. Even still, half of this 14 percent supports democracy in principle—they only wish it would work in their favor. Like so many others in the region, they want development that encompasses political reforms that deepen democratic institutions; economic reforms that promote stable, dynamic, and inclusive growth; and social reforms that tackle poverty, inequality, and exclusion.

This will be a welcome change. For too long, the development debate was distracted by a misleading question: state or market? Not only is this notion misguided, but it is also counterproductive. The market cannot function without state institutions that guarantee stability, lawfulness, and fair competition. And a state with no market soon finds its coffers dry. Either way, institutions are disregarded, leaving social development in the lurch.

Combined political, economic, and social development depends on a state with institutions that set the rules of the game—legality, legitimacy, independence of powers, and universality. Latin Americans know this, and it is with optimism for such a state that they head to the polls in record numbers, even after so many letdowns. What they are asking for when they pull the lever is simple: They want a capable and just state that guarantees everyone a fair chance at living a decent and healthy life. They want good political institutions. They want economic and social development. The sensible optimist would seek to improve these all at once.

Through a more balanced approach to policy and politics, some governments are beginning to meet these demands. Take Chile, which has neither pursued unfettered free-market policies nor attempted to control the economy radically. Instead, they have privatized, but with strong regulation: They are open to trade but keep the mining sector for the state; they liberalized the financial sector but without forfeiting capital controls. Brazil is another example. At the last change of gov-

While optimism toward democracy is high in principle, and hope is in the air around election time, only 58 percent of Latin Americans feel that governments seek the people's welfare, and 14 percent feel that protest movements are the best way to effect change.



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ernment, many observers expected a radical agenda of nationalization, land seizures, fiscal waste, and monetary madness. Instead, the Brazilian state has emphasized economic stability while attempting to advance the design and targeting of social policy—with positive results. Politicians on both sides have taken note, and leaders in other countries are following suit to varying degrees depending on what their resources allow. All in all, it seems a consensus is forming that recognizes that macroeconomic stability coupled with an active state is not only compatible but, indeed, the optimal combination for constructing institutions that allow the state and the market to support one another, and social development to receive the attention it deserves.

Positive signs show that this attention will bear fruit. Inequality in Brazil fell 4 percent between 2001 and 2004, while 5 million Brazilians escaped extreme poverty, according to the Instituto de Pesquisa Econômica Aplicada (IPEA). IPEA attributes this development in part to social programs like Bolsa Escola, which provides cash transfers to families provided they invest in their children's own human development. A similar program in Mexico, now serving some 25 million people, is partly responsible for an important reduction in poverty between 1990 and 2004, as well as improved health and education among children. With such results, it is no wonder that Mayor Michael Bloomberg recently announced he would adapt the program to New York City.

These are specific examples, but social policy goes much further. To be effective and sustainable, social policy has to be matched by economic opportunity and improved education so that people can participate in the market. It must also be universal, to meet the needs of populations richly diverse in terms of cultural background, language, gender, income, education, location of residence, and more.

Growth, institutions, and social policy can all be supported as well through increased regional integration. Latin America's countries are diverse, they can learn plenty from one another, and much can be gained from cooperation. Regional blocks including MERCOSUR, the Andean

To be effective and sustainable, social policy has to be matched by economic opportunity and improved education so that people can participate in the market.



EVARISTO SA/AFP/GETTY IMAGES

Brazilian President Luiz Inacio Lula da Silva of the Workers' Party and first lady Marisa Leticia talk to the media across a pond at the Alvorada Palace in Brasilia. Lula da Silva's re-election platform vowed to fight for more social justice while at the same time spurring economic growth.

Community, and the Central American Common Market must be strengthened so that their countries can work together to devise solutions and implement programs to stimulate their joint competitiveness in the global economy. This means working together to produce public goods, foment technological and scientific innovation, and strengthen production chains and infrastructure to add value. In other words, it implies integration beyond the realm of trade.

The governments of Latin America now face a propitious moment to fulfill the promises they have made to their people. We have missed out on previous opportunities, so it is a moment that must be seized. The task will take hard work, but we should be determined. It was not easy to arrive where we are today—but we managed. If we have filled the glass this high, then we can fill it even more.

Rebeca Grynspan is the Assistant Administrator of the United Nations Development Programme (UNDP) and Director of UNDP's Regional Bureau for Latin America and the Caribbean.

ANNA SCHORI



Pierre Schori, Director General



FRIDE

A European think tank for Global Action

At the beginning of the 21st century there were more democratic states and human progress in the world than ever before. The dark sides of globalisation, however, still keep millions of people in extreme poverty, humiliation and insecurity. At the same time, the emergence of the international terrorist threat show how a fanatic minority can create havoc and misery, and nevertheless recruit followers.

In order to achieve sustainable security, the world, in a multilateral way, must combine decisive action in favour of peace, development and democracy. The three form an interlocking whole. Therefore, you will find the core of FRIDE's research and activities focused on these basic tenets of sustainable security.

Pierre Schori
Director General

OUR MISSION

FRIDE is a think tank based in Madrid that attempts to influence policy-making and practice of governmental, non-governmental European and international actors on peace and security, democratisation and human rights, and humanitarian action and development, through its research and informed public debate based on justice and equality values.

FRIDE seeks to provide fresh and innovative thinking on Europe's role on the international stage.

As a prominent European think tank, FRIDE benefits from political independence, diversity of views and the intellectual background of its international staff.

FRIDE's research and activities are based on a set of core international values. We do not seek to act as uncritical advocates for these values, but rather to engage in rigorous analysis of the difficult debates on ethical questions in international relations. Our main contribution to international debates stems from our focus on:

- The Development and Promotion of Democracy
- The World's Conflict-blighted Failing or Fragile States
- The Improvement of Humanitarian Action and Development
- The Protection of Human Rights and International Justice

FRIDE has established the Club of Madrid and publishes Foreign Policy magazine (Spanish edition), is co-founder of the Toledo International Centre for Peace (CITpax), and is associated with Development Assistance Research Associates (DARA) and the Francisco Fernández Ordóñez Foundation (CAFFO).

PEACE & SECURITY

The World's Failing or Fragile States

At this time, some fifty states suffer from institutional fragility. Amongst these, approximately twenty are at war, whilst many others are beset with serious internal violence. These states can neither guarantee the security or rights of their citizens, nor protect the state's territorial integrity.

FRIDE analyzes the ways in which the international community reacts to such situations, from peacekeeping to post-conflict, placing particular emphasis on the root causes and consequences of social violence and armed conflict through case studies in affected countries. This programme explores the theories used to understand and diagnose state fragility, and produces policy proposals aimed at boosting the effectiveness of the responses of the international community in tackling ongoing state crises.

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Progressive European Thinking on Democracy

From the Middle East, to Russia, China, Africa and Latin America debates on the introduction or 'deepening' of democracy have become increasingly vibrant, high profile and often divisive.

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HUMAN RIGHTS

The Protection of Human Rights and International Criminal Justice

In recent years, International Criminal Justice has played an increasingly important role in ensuring the protection of human rights in the wake of armed conflict. Fighting

impunity and securing redress for victims are now seen as vital steps towards rebuilding the rule of law in such contexts.

FRIDE explores the roles and relative merits of international courts, national judicial systems and local customary law in bringing about justice for victims of human rights violations once conflicts have ended. The impact on fundamental rights of new policies towards security and terrorism is also a central research issue.

HUMANITARIAN ACTION & DEVELOPMENT

Better Aid

This program has set ‘promoting the aid-effectiveness of public donors’ as its core objective. It aims to promote the reduction of poverty and the alleviation of human suffering, by influencing European governments in their roles as donors and in an effort to pursue coherence and sensitivity to developmental impact of foreign and domestic policies in low-income countries.

Through its Humanitarian Action and Development program, FRIDE seeks to inform, influence and improve policy and practice in order to reduce human suffering, inequality, and to contribute to the sustainable reduction of situations producing vulnerability. Thus, FRIDE analyses the potential for aid

to foster social inclusion and the role aid agencies have in influencing democratic developing states in the South. This program seeks to build on FRIDE’s other areas of expertise in order to contribute to aid effectiveness, empowerment and post-conflict aid, and best practices in humanitarian response.

Selection of Current Projects

- Aid Harmonisation, post-conditionality and democratic development
- European Policies of Democracy Promotion
- Freedom of Association in the Middle East
- International Criminal Justice and the Protection of Human Rights
- International Responses to the Institutional Crisis of the State
- The Role of Regional Powers, such as Brazil and South Africa, in response to conflicts and instability
- The EU’s new Energy Security Policy
- The Role of Europe Towards the Middle East
- The UN Mission in Haiti

Further information about FRIDE, as well as its publications can be found at www.fride.org

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New Developments in the Midst of Poverty

By RAÚL JUSTE LORES

Socialism of the 21st century? Not a chance. The big news for Latin America’s political outlook happened last year, with the victory of economically conservative administrations in two regional powers: Brazil and Mexico. Despite insignificant growth in the last few years, both governments had a powerful electoral advantage: extensive and successful minimum-wage programs for poorer families, and “Family Scholarship Opportunities,” respectively.

For decades, two types of governments fought for the minds (and, in some cases, the votes) in the region: populists who defended the poor but who only caused more poverty, and technocrats with solutions for everything but who knew more about the U.S. economy than their native lands.

The accession of governments that want both to create stable markets and relieve poverty is a very welcome change given that, even after 15 years of economic openness, not a single miracle has happened. The markets, of course, were not interested in the region’s lower growth levels. Thanks to the redemocratization of Latin America, previously muffled demands are exploding in the region with new loudness.

A woman carries a sack at the garbage dump La Chureca in Managua, Nicaragua. Around two million people in the country live in poverty, representing about 70 percent of the population.



Around 40 percent of Latin Americans live in poverty, and 40 percent of these survive on less than US\$1 a day. Social security given by Brazil, Mexico, and a few other countries may fluctuate monthly between US\$50 and \$150, at times representing all the income of an entire family. It is, however, much too soon to celebrate. A scholarship alone will not eliminate poverty, there will be a need for more ambitious programs against illiteracy, child labor, teenage pregnancy, violence, and poor livelihood to break the vicious cycle of misery. Nonetheless, changes have arrived and are impacting several governments.

During last year's re-election campaign for Colombian President Alvaro Uribe, also a conservative, his emphasis on security policies was coupled with promises of actions against poverty. In an interview last March, Uribe mentioned scholarship programs similar to those implemented in Brazil and Mexico, as well as micro loan programs that he promises will reach 5 million families.

At the same time, in the last 12 months, the Chilean government has faced the dissatisfaction of a good portion of its population with the economic success of this so-called South American Tiger. Students on strike asking for more investment in education, as well as health professionals and miners demanding better salaries, indicate that, for many Chileans, the time to share the economic growth has come.

Overall poverty in Chile decreased thanks to a stable and successful economic model, but income distribution remained unchanged. "The wealthiest 10 percent of the Chilean population owns 56 percent of the country's income, as it was in 1986," says Prof. Jose Miguel Izquierdo, director of the public opinion observatory at Diego Portales University in Santiago. "Regarding concrete plans to reduce this gap, nothing has been done yet." In an interview last year, Michelle Bachelet, President of Chile, said that her priorities were to reduce poverty and social inequalities.

Some would say that the best solution to poverty is economic growth, and that priority should be given to policies that stimulate it. However, as the "melancholic" government of former president of Peru, Alejandro Toledo, proved, growth alone is not enough. In five years of more than 5 percent growth, the population living below the poverty line did not shrink a bit, and Toledo's popularity did not reach above two digits for over half of his term. Hunger cannot afford long-term policies.

Worst of all, the battle against poverty has returned to the bottom of the list of priorities in devel-

A scholarship alone will not eliminate poverty, there will be a need for more ambitious programs against illiteracy, child labor, teenage pregnancy, violence, and poor livelihood to break the vicious cycle of misery.

oped countries. It has been taken over by more heated and popular issues, such as global warming and biofuels. Furthermore, none of the richest countries came even close to giving the promised 0.7 percent of their GDP to partnership investments and fighting poverty. “Free trade” and reducing poverty are not a priority among the wealthy, and Africa has taken over the subject of hunger and AIDS among governments and celebrities of the so-called First World. Also, the popular Live Aid festival is no longer focusing on poverty—but global warming. It is left to Latin Americans to seek local solutions for a big regional problem.

The “leftist-populist” wave, strong from Venezuela to Argentina, justifies itself partially because of the minimal progress to alleviate the miserable conditions of at least one third of the Latin American population during conservative governments over the last decade. Although Venezuelan President Hugo Chavez has still not shown any relevant results in his current social policies, his rhetoric still appeals to many—a sign that the Latin American elite, the private sector, the United States, and other traditional powerhouses in the region have neglected much more than just the “bare feet” of the largest part of the population in the last few years.

The administration of Carlos Menem, President of Argentina from 1989 to 1999, is a great example of how he changed Latin America. Highly praised by the likes of the World Bank, the International Monetary Fund, the United States, and European governments, he implemented important reforms and privatized corrupted state monopolies (even if few of them simply became privatized monopolies). However, his social policies were almost nonexistent. As a “caterer,” Menem expanded the public sector to meet the demands of fellow party members and reduce the increasing unemployment rate; education and health got no attention.

Alberto Fujimori, the “Menem” of Peru, was also considered a “modernist” reformer. He proved that it was possible to follow economic policies for the 21st century while sponsoring social programs similar to populism of the 1950’s. Fujimori distributed milk and food to 13 mil-

Worst of all, the battle against poverty has returned to the bottom of the list of priorities in developed countries. It has been taken over by more heated and popular issues, such as global warming and biofuels.

IIC

THE INTER-AMERICAN INVESTMENT CORPORATION (IIC) is a multilateral financial organization that is affiliated with the Inter-American Development Bank Group. The Corporation is the only multilateral organization devoted entirely to providing financial support to small and medium-size enterprises in Latin America and the Caribbean. To fulfill its mission, the IIC provides project financing in the form of direct loans and equity investments, lines of credit to local financial intermediaries, and investments in local and regional investment funds.

In 2006, the IIC continued developing innovative products tailored to changing market needs. One example is the Small Business Revolving Line, which enables the IIC to offer standardized small loans to small

and medium-size companies under an expedited approval process. The Corporation also developed new transactions in local currency, such as Mexican-peso financing for the microfinance bank Compartamos and a subordinated loan in nuevos soles for Banco de Crédito in Peru. The IIC’s local-currency operations are an excellent tool for fostering development because they provide funding with no foreign exchange risk for key sectors such as microfinance and low-cost housing.

The Corporation also promotes the transfer of modern technology to the region in order to increase productivity and it seeks to make the region’s suppliers more competitive by introducing new business models that facilitate the creation and operation of new, successful businesses that have no negative environmental impact.



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Cuban schoolchildren sit in Plaza Major for a history lesson.

lion Peruvians, half of the population then. Legendary Argentine Evita Peron will forevermore be the sociopolitical model for the region: instead of the state, the individual; instead of decentralization, centralization; instead of giving fishing lessons, distributing the fish (which attracts more votes). Peruvians had milk, but poverty was not defeated.

Minimum Wage for the Masses

Brazil and Mexico, under the leadership of Fernando Henrique Cardoso and Ernesto Zedillo, respectively, neither with much populist experience, jump-started the first mechanisms of wage distribution. They determined that poorer families would receive monthly pensions as long as they made sure their children were active in school. Besides fighting hunger, the idea was to dismantle the most common traps of poverty: child labor and dropping out of school, which turn kids into semi-illiterate adults making it impossible for their families to break the cycle of poverty. It is essential that external auditing of these programs be enforced so they will not get degraded or repeat corrupt patterns that have happened in the past.

In Brazil, around 9 million families have been helped; in Mexico, more than 5 million. Proportionately speaking, the numbers reached in both countries are very similar but the distribution differs; 73 percent of the program's budget reaches 20 percent of the poorest Brazilians while in Mexico, the poorest 20 percent gets only 32 percent of the program's budget.

On the other hand, the benefits given from social welfare are decreasing, with 55 percent going to the wealthiest 20 percent. Public servants in Brazil have an advantage over other workers in Brazil; they get the right of retirement.

Another ongoing issue for both countries is their educational revolution. Brazil continues to give a priority to a superior educational system that favors the upper class and consequently ignores the underprivileged.

The most common traps of poverty: child labor and dropping out of school, which turn kids into semi-illiterate adults making it impossible for their families to break the cycle of poverty.

In a recent article, Mario Vargas Llosa explained that the lack of "privatization" is the region's biggest trademark of misery.

Public universities enroll, for the most part, students from the higher economic caste who are accepted in their field of choice by going to private schools and passing a challenging exam known as the *vestibular*. As for the underprivileged, who have to work full time to pay their tuition, only private universities, with lower educational quality, are left.

In Mexico, despite many promises, the professors union has control of the administration in the educational system and is opposed to any kind of innovation. This clearly demonstrates the worrisome power they possess in President Felipe Calderon's government.

Despite labeling himself as the great defender of the poor, Venezuelan president Hugo Chávez, ironically, has yet to make a social revolution. He has not accomplished any improvements in the social sector (such as the ones Fidel Castro achieved in the beginning of his rule), despite having been in power for eight years. His emphasis on investing more in resources and focusing more on foreign policy, as well as the fact that he is surrounded by an inexperienced team, decreases his potential on the social front.

Caracas is Latin America's most violent capital, coming right after Port-au-Prince; most of its population lives in slums or other terrible conditions.

In Bogota, Medellin, and Sao Paulo, successful social policies have lowered homicide rates. The opposite, however, has happened in Caracas; the number of homicides has increased. Strangely, there are not any large urbanization or housing programs. While billions of dollars are invested in Argentina, Nicaragua, Bolivia, and Ecuador, slums are seen all over Caracas.

In addition to the need for minimum-wage programs, which will allow millions of Latin Americans to have food and education, many other changes are happening in the region.

One of the most urgent is the housing issue. Three hundred million Latin Americans live in slums. It will be impossible to remove them from poverty since many are affected by illnesses and



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poor nutrition; their “irregular” settlements don’t allow them access to health care or public education. Living in poor conditions, these families are forced to survive as nomads, fearing eviction if real estate agencies become interested in the area. In a recent article, Mario Vargas Llosa explained that the lack of “privatization” is the region’s biggest trademark of misery.

When speaking of housing conditions, national, municipal, and regional governments should focus on their failures so they will not repeat them. As seen in the movie *City of God*, settling poor families many miles away from urban centers (and from the job market) without public transportation, education, health, or leisure inevitably causes great violence and misery.

Almost all of Latin America’s metropolises have central areas that have been abandoned in the last few decades; old industrial areas that have been left behind and somehow, strangely, are not used for housing.

Cities continue to get suburbanized, spreading out and making it almost impossible to create an efficient public transportation service, forcing local governments to spend their budget on new infrastructure, demanded by developers interests. Meanwhile, other priorities, such as improving housing conditions, are left behind.

Hundreds of architects in the region educated under the social modernist ideology would be willing to study cheaper and quicker construction techniques; more resistant and sustainable materials; plans that would allow future expansions; and designs that would save energy, especially when it comes to the use of elevators. So, why won’t the governments call for negotiations?

From Entrepreneurship to Cultural Changes

There has not yet been a smart entrepreneurship incentive that would help the region’s treasurers transfer money from family members working abroad. The dollars and euros earned could be a great tool for development if there were an efficient coaching mechanism (management advice for entrepreneurship, provided by governments or foundations) for future micro companies.

The great Latin American companies that initiate business within the region still don’t invest as much as they should in education and training. Contact with universities and sponsorships for research are minimal. Many intellectuals stand side by side with public universities and strongly resist the partnership between the public and private sectors, preventing the relationship between their students and the market.

Philanthropy is also very rare in the region. Latin America already has enough billionaires on the Forbes list, so this lack of giving is unacceptable. There are many great companies whose only purpose is to gain profits.

Child labor, teenage pregnancy, and high birthrates exist in the poorest families. Illiteracy, undernourishment, and violence need to be dealt with as perpetrators of misery among these families. In poorer regions, the general lack of education and the absence of basic infrastructure also impede investment and progress.

Minimum wage programs cannot become the only solution because many create dependency on the government and will not remove people from poverty, not even in the short term.

Conservatives who do not want to be defeated by the “noise” of the streets, or by the populist left, will receive harsh treatment if positive results are not seen promptly. They will also have to demonstrate ambition, innovation, and commitment in the battle against poverty, just as they do when they need to please associates, partners, or voters for re-election.

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Raul Juste Lores is a staff reporter at the International desk at Folha de São Paulo, Brazil’s leading newspaper. Previously, he was International editor and Buenos Aires correspondent for Veja magazine.



Fundación Rafael del Pino

In contemporary societies, business enterprise is a fundamental focal point since it contributes to economic growth, development and social cohesion. In this framework, the Rafael del Pino Foundation was established in 2001 with the following objectives:

- **To train leaders:** the Foundation aims at training leaders that can successfully put into practice their initiatives and capabilities.
- **To foster personal initiative,** the principles of free market and freedom of enterprise.
- **To promote and preserve the cultural and historical heritage of Spain:** knowledge of the past helps to plan for the future.

On the basis of these principles, the Foundation's work is mainly articulated on the basis of two platforms: business creation and development; and promoting the history of the Hispanic world and the defense of the cultural heritage of Spain.

The Foundation believes that the creation of wealth and the dynamism of a country are fundamentally underpinned by the competitiveness of its businesses, and that depends mainly on the capability of its leaders. The changes that have taken place in the last few years make it possible to consider that, if the competitive advantage of business enterprises were based only on the availability of capital, technology and basic inputs, businesses are to be differentiated by their knowledge, mainly unspoken, reflected in their information and problem-solving systems, by their intangible assets and by the capability of their leaders to create and develop knowledge and strategies.

The Foundation considers that modern societies call for their businesses to be efficient because their future welfare depends, to a large extent, on the part these businesses will play in markets that are progressively

more global and competitive. Consequently, this call for contributing towards the promotion of business creation, building up knowledge of business management, reinforces the role that must be played by institutions facilitating business creation and development, protecting investors' rights and giving a firm boost to competition and market transparency.

In accordance with these principles, the Foundation is carrying out a program of activities, the cornerstone of which will be: the creation of a Forum on business enterprise in the 21st century, the development of initiatives that contribute towards giving impetus to the creation of businesses, business training, research support in business enterprise and the analysis of the institutional aspects underpinning corporate development.

In the field of promoting the history of the Hispanic world and the defense of Spain's cultural heritage, it has to be pointed out that one of the Foundation's aims, since the issue is relevant and has not been given the attention it deserves by history, is the pursuit of activities where action can be taken by Spain in those overseas regions that were incorporated to the Crown, including North America.

There are several reasons that contribute to that lack of attention: they range from ideological prejudice to the material difficulties of the research itself, together with the tendency, which has still to be uprooted from our cultural way of being, to give credit to topics that are unproven or, worse still, scientifically unsustainable. If the material reason for the geographical spread of Hispanic territories were insufficient in itself, the importance and penetration of Hispanic culture in the world today would be suffice to make it advisable for the Foundation to dedicate part of its resources to that goal. All without sidelining possible action in terms of other aspects of the history of Spain and the defense of its cultural heritage that circumstances might dictate at any given time.

Web page of the Foundation: www.frdelpino.es



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