

# INDO - LAC BUSINESS

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Tells Other LatAm  
Nations

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### ANALYSIS

Latin America Leaning  
Ever More Towards Left

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Come to Rio,  
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## A Tribute: We salute you, Mr. Chairman



**R.K. Prasad**  
26/06/1932-12/10/2006

*New Media Staff*

It is with profound grief and deep respect that we bow our heads to your memory. Unassuming and without fuss, you oversaw the growth of New Media, the sapling you helped plant and nurture. You had seen it blossom into India's largest publishing house of bilateral trade magazines. Stunned as we are at the suddenness of your demise, we rededicate ourselves to work for the values you had cherished and the standards you had laid down for the publications. You'll forever remain an inspiration for us.



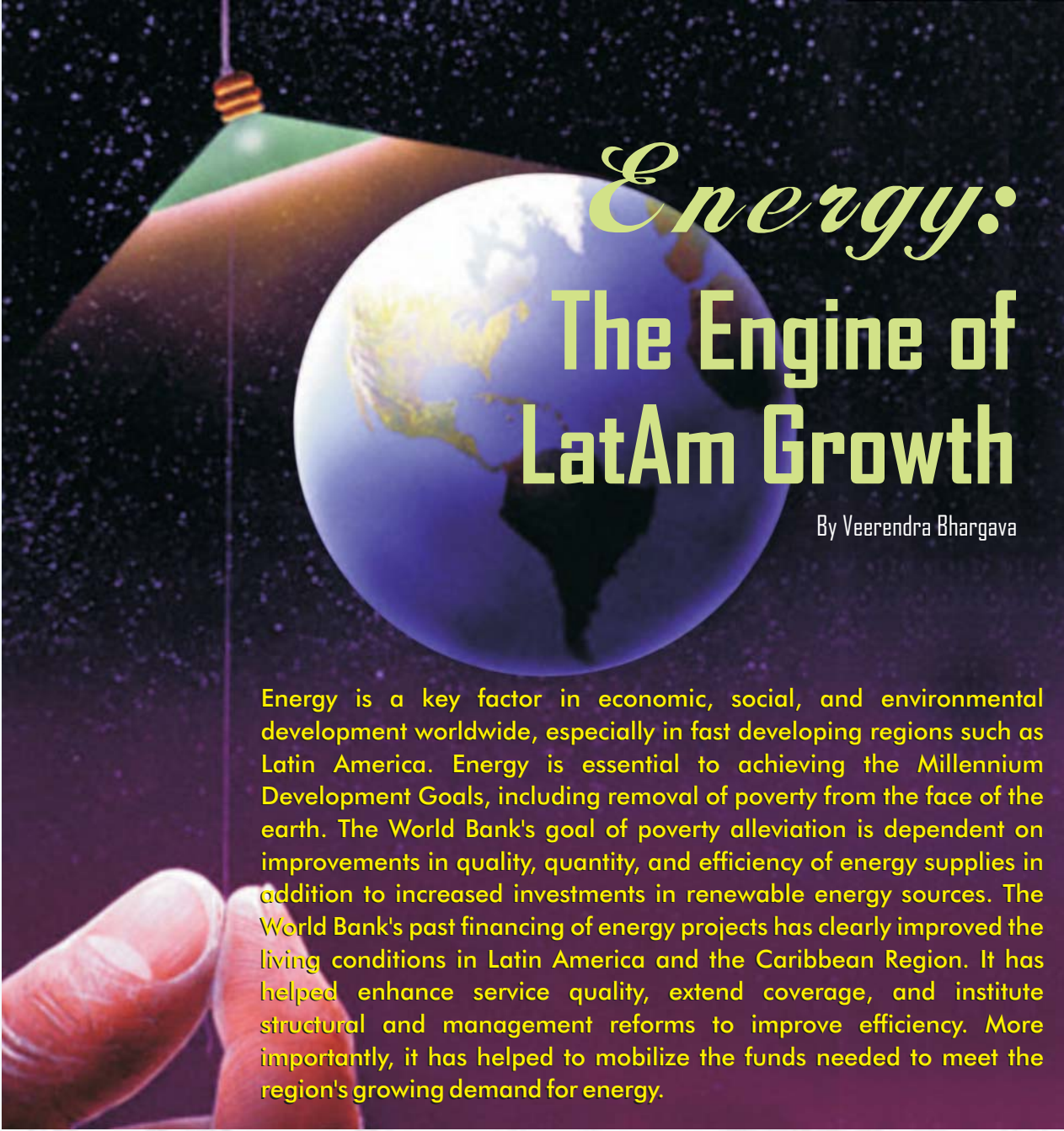
*Dear Reader,*

Greetings. Energy is the most crucial input for economic development across the world, especially in developing countries, whose demand for power is far outstripping supply. Many nations of Latin America, which have returned to democratic stability after reeling under military dictatorships for decades, are on a path of economic recovery, thanks to reforms unleashed by their respective governments. Their requirements for power are enormous. Realizing the need for massive investments in the energy sector in Latin America, the World Bank has initiated various funding programmes to boost power generation and to develop alternative sources of energy across the region. The cover story of the current issue of Indo-LAC Business deals with energy security, renewable energy and environmental safety concerns in Latin America. Inter-American Development Bank (IDB) President Luis Alberto Moreno is bullish about the economic future of Latin America, considering the emergence of Brazil and Chile as economic powerhouses in the region. Moreno, addressing a meeting of the Association of the American Chambers of Commerce, urged the Latin American countries to emulate Brazil's example. According to Moreno, election of populist governments in Latin America reflected the common voter's overwhelming demand for an equitable share in national wealth, which forms the focus of the current issue. Sharing, Moreno's optimism, IMF Outlook predicts a vigorous growth rate for Latin America. We carry a report. R. Viswanathan is a seasoned diplomat and an authority on Latin America, having spent a number of years in the region. In an analytical article, Viswanathan, argues that the emergence of left-oriented governments in many Latin American nations in recent elections should be seen more as a victory for the masses than an ideological shift in terms of economic policies. That Latin America is emerging as a region offering immense investment opportunities is a well recognized fact and the World Economic Forum is hosting its roundtable meet on this region in April 2007. More than 300 top leaders from governments, businesses, politics, economics and media will attend the roundtable conference. The current issue highlights this forthcoming event. Brazil is a fascinating country, thanks to its culture of carnivals that draw tourists in huge numbers. We carry a report. As usual, the issue offers its other regular features.

Wish you happy reading,

**Satya Swaroop**  
Managing Editor  
satya@newmediacomm.biz





# Energy: The Engine of LatAm Growth

By Veerendra Bhargava

Energy is a key factor in economic, social, and environmental development worldwide, especially in fast developing regions such as Latin America. Energy is essential to achieving the Millennium Development Goals, including removal of poverty from the face of the earth. The World Bank's goal of poverty alleviation is dependent on improvements in quality, quantity, and efficiency of energy supplies in addition to increased investments in renewable energy sources. The World Bank's past financing of energy projects has clearly improved the living conditions in Latin America and the Caribbean Region. It has helped enhance service quality, extend coverage, and institute structural and management reforms to improve efficiency. More importantly, it has helped to mobilize the funds needed to meet the region's growing demand for energy.

In Latin America, about three quarters of energy consumption comes from oil, gas and coal, the rest coming from nuclear, biomass, hydro and other new renewable energy sources. Today, more than 65 million people from both the rural and semi-urban areas in Latin America do not have access to electricity. Those that have access in the semi-urban regions often experience erratic electricity supply. Nearly 100 million people (about 20 percent of the total population) still rely on traditional biomass for cooking and heating. This is a significant problem as biomass requires tremendous collection time and, when used in open cook-stoves, produces a significant amount of smoke that can lead to

respiratory illnesses in young children and the women who spend much of their day cooking.

The World Bank has been involved in different energy sub-sectors in LAC, developing and applying methods to address energy sector reforms, rural electrification, renewable energy, and energy efficiency. The Bank's activities include promoting efficient and environmentally sustainable energy services through analytical work, projects, the Global Environment Facility (GEF) and Carbon Finance, in which the Latin America and the Caribbean Region is a world leader. In 2005, the Bank provided more than US\$223 million of support in the LAC energy sector, US\$31 million of which

was invested in energy efficient and renewable energy technologies. In the first three quarters of FY06, the approved project funding exceeded US\$230 million. Currently, the Bank is financing over 20 energy projects in LAC, with more to come. The funding sources include IBRD/IDA loans and credits, GEF grants, carbon finance and a number of technical assistance and capacity building activities.

The Latin America and the Caribbean Region has been particularly successful with Carbon Financing. In 2005, LCR became the first region worldwide to track carbon finance deliverables in the same manner as for Bank lending. Since then, the region delivered six Emission Reduction Purchase Agreements (ERPAs) in Ecuador, Honduras, Mexico, and Peru, causing carbon trading to now account for a significant share of the LCR energy portfolio. The region prepared three additional projects and laid the groundwork for expansion in Brazil and Venezuela.

## Greenhouse Gas Emissions

Greenhouse gas emissions in Latin America account for 12 percent of the world total. Between 1990 and 2000, the total emissions in the region increased by more than 40 percent, Mexico and Brazil being the 14th and 17th largest greenhouse gas emitters in the world. Because of increasing emissions in the region, investments in renewable and efficient energy sources are extremely important. Latin America has tremendous hydropower potential, accounting for over half of installed generation capacity. Renewable energy and energy efficiency in LAC has focused on:

- Strengthening the enabling framework
- Provision of market-based incentives (for example, carbon finance)
- Off-grid electrification projects for non-electrified

households where grid extension is not economically feasible.

The World Bank's assistance to the LAC energy sector identifies the following key elements as central to its goals for the region.

## Energy Security

This area works to enhance the countries' abilities to meet their growing demand for energy in an efficient manner through securing access to capital and financing in resource development, supporting the efficient operation and financial sustainability of the power sector, and promoting energy efficiency initiatives. Energy security requires also improving macroeconomic & fiscal balances by explicitly linking the energy sector and macroeconomic objectives. It involves planning for expansion of the energy sector, including developing a strategy to meet future demand, integrating multiple sources of energy as well as demand and supply side possibilities. The Programmatic Power Sector Reform Loan in the Dominican Republic aims at establishing the conditions that would permit the financial sustainability of the sector, thereby reducing subsidy requirements and improving the fiscal situation.

## Renewable Energy and Environment

Renewable Energy and Environment aims to protect the environment by building client capacity to participate in the growing global markets for energy-related environmental services and mobilizing additional resources, assisting in the structuring of transactions, and promoting learning-by-doing. Projects seek to reduce barriers that currently hinder renewable energy technologies (RET) by providing technical assistance to facilitate project investment, supporting dissemination and market development, and by providing financial incentives.

Some projects also identify, develop, and pilot productive uses of energy to establish understanding of how to maximize already available resources. Projects in Ecuador and Uruguay support environmental regulation, energy sector management and energy efficiency. Additionally, there are carbon finance (the Prototype Carbon Fund and successor funds) projects in over 10 countries (Argentina, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Guatemala, Guyana, Honduras, Mexico, Nicaragua and Peru) prepared with Bank assistance that



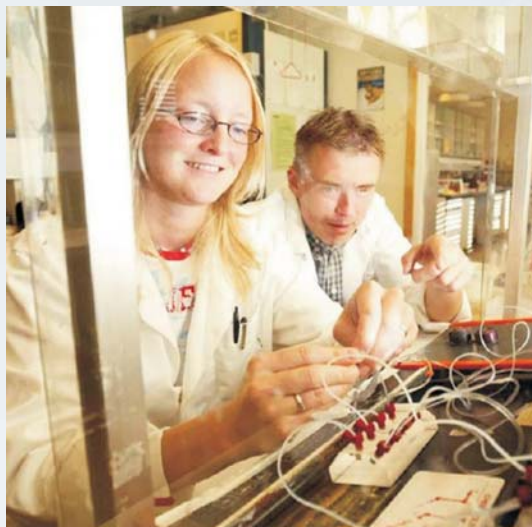


contribute to the development of the market for emission reduction transactions by supporting development of the legal, regulatory, and institutional frameworks for carbon emission reduction and support market penetration of renewable energy technologies.

## Energy Access

As already mentioned, over 65 million people in Latin America do not have access to electricity. Energy access aims to provide direct assistance to the poor by expanding rural and semi- energy access and targeting poverty reduction through multi-sectoral interventions that emphasize economic and socially productive uses. The World Bank is undertaking investment projects that promote electricity access in Argentina, Bolivia, Brazil, Ecuador, Honduras, Nicaragua and Peru. Such projects promote infrastructure development, renewable energy resources, and capacity building programs to provide technical assistance.

Programs also support expansion of private sector participation while simultaneously strengthening government capacity to regulate that participation. They often examine policy that currently inhibits effective delivery of electricity and ITC services, working to suggest modifications appropriate for the country's energy needs. With Bank assistance, there are Community Development Carbon Fund (CDCF) projects under development in a dozen countries that aim to provide improved energy services and increased water, education, and health services at the local community level. The Bank also supports advisory activities to



Governments on rural electrification in Bolivia and Peru.

## Market Efficiency and Governance

This area promotes good governance & private sector development by assisting the energy sector reform process through supporting both second stage reforms and ministerial and regulatory capacity building. Market Efficiency and Governance focuses on institutional strengthening by enhancing the government's capability for policy making, implementing reform measures, coordinating multiple initiatives, and monitoring progress. In some cases, this involves re-thinking reform architectures based on acknowledged difficulties in attracting private sector participation. The Bank has investment projects in Brazil and the Dominican Republic that support these processes.

## Energy projects in Latin America & the Caribbean

The Nicaragua Off-grid Rural Electrification Project provides electricity to remote villages and dispersed users in Nicaragua. It finances village mini-grids (mostly mini hydro) and solar home systems via output-based aid schemes with payment tied to actual delivery of specific service level and quality. The innovative nature of this project is that it moves beyond traditional lending schemes toward results-based frameworks.

The Bolivia Decentralized Infrastructure for Rural Transformation Project also uses the output-based aid scheme to provide electricity to over 15,000 users with solar home systems.



Moreover, it develops synergies with its telecommunications component, which finances the extension of cell phone, radio, and TV services to the same rural areas.

The Colombia Jeparachi Carbon Offset Project contributes to the reduction of greenhouse gas emissions from the power sector in Colombia through the promotion of a 19.5 MW wind-based electricity generation facility. The project is expected to displace an estimated 1.168 million metric tons of carbon dioxide equivalent over a period of 21 years and generate revenue from emission reduction credits of US\$3.2 million. Part of the carbon revenue will be dedicated to co-finance a social program that will contribute to improvements in the welfare of the local indigenous community.

## Active projects covered under energy security Argentina

**Energy Efficiency Project:** In addition to reducing greenhouse gas emissions, this project aims to increase energy use efficiency, both reducing energy costs to consumers and contributing to the long-term sustainability of the energy sector. The project entails developing the Energy Efficiency (EE) market through various strategies, including tax and financial policy to promote the market, education, training and promotional programs, and a standardization, testing, certification, and labeling program for home appliances, industrial equipment and buildings.

### Brazil

**Energy Sector Technical Assistance Project:** This project helps to ensure sustainable implementation of the Government's ongoing energy sector reform program, through technical assistance in specific areas, and by providing a mechanism for continuing dialogue with policy-makers about longer-term sector reform. This

operation focuses on the power and gas sector, where there are more urgent reform needs.

## Dominican Republic

**Power Sector Program Second Generation Reforms:** The Power Sector Program seeks to support the Government's strategy for the recovery of the power sector, specifically by helping to improve the quality of service, establish conditions that would permit the financial sustainability of all efficiently-operated companies in the sector, and increase the percentage of the population with access to electricity.

## Dominican Republic

**Power Sector Technical Assistance Project:** This project supports the local government in overcoming challenges in realizing its original vision for reforms in the electricity sector. The project supports an increase the quantity and quality of electricity for the poor and will help to design a transmission grid and the wholesale power market, improve policy formation and implementation related to the power sector, strengthen the Government's regulatory and consumer protection performance related to power, and protect the environment.

## Uruguay

**Energy Efficiency Project:** The Energy Efficiency Project for Uruguay works to increase the demand for and competitive supply of energy efficient goods and services by strengthening the market for energy efficient goods and services, developing new business activities for utility based energy efficiency services unit, and working on project management.

## ACTIVE Power Projects

### Argentina - Renewable Energy in the Rural Market Project

This project is establishing solar home systems in approximately 65,500 rural households, providing small, off-grid electricity generating units based on renewable energy systems to supply an additional 3,500 households, and





providing about 1,100 renewable energy systems to provide electricity to public institutions. The project also includes the installation of pilot wind home systems in two communities and a capacity building program to provide technical assistance.

## **Bolivia - Decentralized Infrastructure for Rural Transformation**

The purpose of the program is to assist the government of Bolivia in expanding and improving the delivery of electricity and ITC services as a catalyst for the development of rural areas in Bolivia. It works to resolve any policy that is currently inhibiting effective delivery of electricity and ITC services to rural areas and also works to expand rural infrastructure coverage through solar energy technologies and cellular phone coverage.

## **Mexico - Large Scale Renewable Energy Development Project**

The objective of the Large Scale Renewable Energy Development Project is to reduce greenhouse gas emissions by assisting Mexico in stimulating and accelerating the commercialization of renewable energy applications. The project works to address key policy and tariff issues currently hindering renewable energy

development, and facilitate an initial investment in a grid-connected 101 MW IPP wind farm. Based on the outcome of initial efforts, funding may continue project replication in the area with both wind and additional renewable energy technologies.

## **Honduras - Rural Electrification Project**

The Rural Infrastructure Project for Honduras aims to improve access, quality and sustainability of infrastructure services (roads, water and sanitation, and electricity) for the rural poor in Honduras and to develop the capacity and the environment to improve local services and planning.

## **Active projects covered under energy access Argentina**

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## **Ecuador**

### **Power and Communications Sectors Modernization and Rural Services Project (PROMECC)**

This project supports the Government's effort to deepen reforms in telecommunications and electricity sectors. It is extending telecommunication and electricity services to rural areas, supporting more efficient regulation of services and the introduction of competition to lower costs and improve quality of services, and improving environmental management of resources.





## Honduras

### Rural Electrification Project

The Rural Infrastructure Project for Honduras aims to improve access, quality and sustainability of infrastructure services (roads, water and sanitation, and electricity) for the rural poor in Honduras and to develop the capacity and the environment to improve local services and planning.

## Nicaragua

### Off Grid Rural Electrification (PERZA)

The Nicaragua Off Grid Rural Electrification Project supports the sustainable provision of electricity services and associated social and economic benefits in selected rural sites in Nicaragua and strengthens the Government's institutional capacity to implement its national rural electrification strategy.

## Peru

### Rural Electrification

The Rural Electrification project works to increase access to efficient and sustainable electricity services in rural areas of Peru. The project is providing electricity to about 800,000 people, using both conventional grid extension and renewable energy sources, providing technical assistance to promote renewable energy, new



energy approaches, and private sector participation, developing a pilot program to promote productive uses, and building a small hydrogenation facility to help finance projects.

### Active Projects covering market efficiency and governance

#### Brazil

Energy Sector Technical Assistance Project: This project helps to ensure sustainable implementation of the Government's ongoing energy sector reform program, through technical assistance in specific areas, and by providing a mechanism for continuing dialogue with policy-makers about longer-term sector reform. This operation focuses on the power and gas sector, where there are more urgent reform needs.

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# Emulate Brazil, IDB Chief Tells Other LatAm Nations

Inter-American Development Bank (IDB) President Luis Alberto Moreno has predicted a bright economic future for the Latin American countries, despite the emergence of slogan-mongering, populist left-leaning governments in some of them. Addressing the Association of American Chambers of Commerce of the Americas annual meeting and "Forecast on Latin America and the Caribbean Conference, Moreno said that Brazil had emerged as an agro-industrial super power whose example would be followed by other countries in the region. Following are excerpts of Moreno's speech.



Luis Alberto Moreno

I'd like to start by addressing a question that I think many of you have been discussing. Is history repeating itself in Latin America? Throughout the past year, as nearly a dozen Latin American countries elected new presidents, reports in American newspapers have been full of gloomy *déjà vu*. Time and again, readers have been given the impression that Latin America's voters have decided to turn back the clock and revive the ruinous economic populism of the 1970s.

And if you've checked ACCLA's website lately, you couldn't miss an essay by John Murphy entitled "Chronicle of a bust foretold." Though you wouldn't know it from the title, it offers a less than cheerful take on Latin America's near-term prospects. Today I'd like to respectfully disagree with John's conclusion seven though I concur with virtually all of his recommendations.

The truth is, I am more bullish than ever on Latin America. But to understand why, it helps to look beyond the headlines and focus on long-term trends.

The headlines tend to focus on the populist rhetoric that is being heard in several Latin America countries. This is not surprising. Latin America remains a profoundly unequal place where some 213 million people live on less than \$2 per day. The region's new leaders have correctly pointed out that access to clean water, healthcare, schooling and jobs is still scandalously inadequate and that the market-based economic reforms of the 1990s did little to improve the lot of the

low-income majority.

These leaders reflect legitimate disagreements over how to alleviate poverty in the face of inexorable globalization. Conflicting proposals and periodic swings of the political pendulum should be expected in a region where peaceful democratic transitions are now the rule.

## Shift in Political & Economic Profile

But what the headlines don't capture is a gradual but important shift in Latin America's political and economic profile. Considered as a whole, the region's economies are now the size of China's (with twice the per capita income), and three times as large as India's. Thanks largely to high prices for commodities, the region has grown at an average annual rate above 4.0 percent for the last three years. Inflation, once a chronic scourge, averaged only 6.3 percent in 2005 a 40-year low. Unemployment is down almost two percentage points and median wages have increased 13 percent in real terms since 2002. Some 13 million Latin Americans have left the ranks of the poor in the last two years.

Fiscal deficits averaged only 1.4 percent of GDP in 2005 lower than those of most industrialized economies. Debt levels have dropped from 72 percent of GDP in 2002 to 53 percent in 2005. And foreign debt is down to 32 percent of GDP the lowest level in a decade. Assets in the region's private pension funds now total \$250 billion and are growing at more than \$2 billion per month.





devastating hyperinflation of the 1980s, and according to research conducted by the IDB, the region's voters have been quick to punish governments that allow inflation to increase. Regional opinion polls show that even though many citizens oppose the privatization of public services, a solid majority is convinced that the market economy, despite its defects, is the best way to increase prosperity.

As election results in Chile, Mexico, Peru and Colombia have shown, a very large segment of Latin America's citizens is rejecting populism in favor

of a pragmatic, market-friendly centrism.

These funds are helping to deepen domestic capital markets while reducing dependence on foreign savings.

Mining, energy and agriculture-Latin America's traditional economic engine-sare more competitive than ever. But so are its multinational companies in areas such as cement, passenger aircraft, and steel tubes.

Brazil, home to one in three Latin Americans, has emerged as an agro-industrial superpower and a world leader in the production of biofuels and flex-fuel vehicles. Politicians in the U.S. have been citing Brazil's achievement of energy independence through ethanol as an example to be followed.

International investors have taken note. As John points out in his essay, private investors poured \$94 billion into Latin American stocks, bonds, factories and other assets during 2005, up from \$59 billion in 2004. The region's stock markets have been among the world's best performers in the last few years more than tripling in value since 2002.

Is all this evidence that Latin America is, in fact, about to enter the downside of another boom-bust cycle? I don't think so. Though high commodity prices will not last forever, I believe the region's governments are avoiding many of the mistakes of previous booms by embracing more-prudent fiscal and monetary policies as seen in the indicators I've just described.

Politics have a lot to do with this understated preference for cautious economic management. Most Latin Americans still remember the

During the last year I have had the opportunity to speak at length with many of the region's new leaders. Recent controversies in the oil and gas sector notwithstanding, few of these leaders advocate a return to the massive and inefficient public sectors of the 70s and 80s. Indeed, they are anxious to preserve the gains of the last three years.

Most of these governments also do not want to alienate the private sector. On the contrary, they are eager to emulate policies that have enabled innovative companies throughout Latin America to produce measurable improvements in the lives of the poor.

And this is where I believe I have particularly good news for you today. Because I see a subtle but important change in the region. First, there is growing evidence that the private sector is showing more interest in what has traditionally been a neglected market. I'm talking about the 70 percent of Latin Americans who live on less





that \$300 dollars per month. Though their individual incomes may be modest, collectively these 350 million people have an annual buying power that exceeds half a trillion dollars.

Second, I see a greater willingness by governments to let the private sector offer solutions in areas that were traditionally controlled by the State.

Consider cell phones and Internet access. A few years ago these were luxuries targeted to consumers at the top of Latin America's income pyramid. Today, thanks to regulatory reforms that encouraged competition and investment, nearly half the region's households have cell phones. Many of them could never have afforded a land-line. But with the arrival of pre-paid calling cards that can be used for cell phone minutes or web surfing at Internet cafes, people can make calls and get online even if they lack a computer or a credit card.

This also means that tens of millions of self-employed laborers and informal entrepreneurs can now quickly reach customers and suppliers. In this respect calling cards are a compelling example of how new technologies, when adapted to the needs of the poor, can expand economic opportunity.

Latin America's thriving microfinance sector is a leader in this trend. In addition to extending millions of small loans to people shunned by traditional banks, microfinance

institutions are now offering debit cards, housing loans and money transfer services aimed at leveraging the remittances Latin American immigrants send home, which last year rose to \$53.6 billion. According to the latest IDB research, these remittances are forecast to surpass \$60 billion in 2006.

In most of the region's countries, loan portfolios in the microcredit sector are growing at two or three times the rate of the overall banking system. This has sent a wake-up call to traditional banks, several of which are "downscaling" to offer new products and services to low-income consumers. At the annual Microcredit Forum that the IDB hosted in Ecuador last month, half a dozen of Latin America's biggest commercial lenders showed how microcredit has quickly become central to their growth strategy.

Housing is another sector that is showing new dynamism. In Mexico, financial reforms have created an unprecedented housing boom that is increasingly benefitting the poor. More than 1.5 million low-income families have obtained government housing loans since 2001. Mortgage lending, which had virtually disappeared after 1994 peso crisis, is making a strong comeback. In turn, new pension funds are investing in mortgage-backed securities, generating liquidity for more loans. As a result, construction has become one of Mexico's most robust industries, generating thousands of jobs.

Even politically sensitive sectors such as water and sanitation are benefitting from public-private collaboration. In Colombia, decentralization and regulatory reform have attracted world-class water companies to areas where 85 percent of the population is poor. Along the country's Atlantic coast, more than a million people who lacked running water a decade ago now have it 24 hours a day, thanks to "mixed-capital"





companies that have private operators but are partly owned by municipal governments.

These developments are good news for you and for companies that you represent. But they are even better news for Latin America's smart, resourceful and hard-working people.

At the IDB, we are refocusing our work to encourage this entrepreneurial approach to improving the prospects of the region's low-income majority. I take a humble view of what multilateral development banks can accomplish in a world where there is no shortage of investment capital and credit. In the past, efforts by the international community often suffered from a lack of focus, and so I've been working with the IDB's management to identify a few key areas where we can make a measurable difference.

In June we launched an initiative known as "Building Opportunities for the Majority" that commits us to tackle six priority areas where we think the IDB has a comparative advantage:

- First, Identifying the Majority. Our data indicate that at least 8.5 million children in Latin America and the Caribbean lack birth certificates. When they grow up, these individuals will lack legal identity and will find it difficult to access government services and enter the formal economy. We plan to work with governments and international agencies radically reduce the number of undocumented people.
- Second, Financial Democracy. Despite the rapid growth of microcredit in the region, only 6.5 percent of its 60 million microenterprises currently have access to credit and other financial services. We will work with existing partners to triple that amount in the next five



years.

- Another key area is Housing for the Majority. About 65 percent of the region's households are excluded from the formal housing market, and 30 million families live in sub-standard housing. We are going to finance projects to expand urban property markets, accelerate gradual home improvements and deepen private sector participation in the low-cost housing market.
- Basic Infrastructure Services. In Latin America and the Caribbean, 70 million people live without decent electricity services, 105 million without clean water, and 153 million without sewerage services. We are financing public-private partnerships that have a proven track-record of delivering results in this sector.
- A fifth area is what we're calling the Enterprise Compact. Too many small entrepreneurs in the region are held back by a lack of training, credit and market access. We are planning a new \$1 billion lending program to support these companies, and we are going to increase financing for job training by 50 percent.

- Finally, we're interested in Connecting the Majority. Despite the astonishing growth of cell phone coverage in the region, the digital divide is still a reality in Latin America. So we are working with partners to help deepen connectivity in sectors such as healthcare and education.

Of course, these are areas where many of your member companies are already active or would like to be. And this initiative does not mean that we will stop lending in strategic areas such as energy and infrastructure that have been part of the IDB's core business since its inception. In closing let me briefly about our exciting work in the area of biofuels such as





ethanol and other alternative energy sources.

While there is certainly a lot of hype surrounding biofuels, for many Latin American countries the potential is very real. Brazil's long term commitment to the development of biofuels has not only produced the world's most efficient ethanol industry, it has clearly demonstrated what a serious biofuels program can do to reduce dependence on imported fuels, lower vehicle emissions and offer greater consumer choice. Flex-fuel engines, a technology developed in Brazil, allow consumers to choose any combination of ethanol and gasoline. Today, ethanol has replaced 40 percent of Brazil's gasoline consumption through of mandatory blends and open market competition. Today, ethanol has replaced 40 percent of Brazil's gasoline consumption through the use of mandated blends and open competition.

This is not just a story for Brazil. Across Latin America, there are countries for which biofuels offer a viable alternative to oil imports and, in some cases, a new export industry. Nearly a dozen countries in the region have launched or are preparing biofuels programs. In countries with large sugar production industries that have been hit by falling prices, ethanol has the potential to reinvigorate the market and, along with biodiesel, offers an excellent opportunity to generate rural

employment and attract new investment, while helping to diversify the country's energy matrix.

This last point merits emphasis in all of Central America and the Caribbean, only Trinidad in a net oil exporter. To give one particularly powerful example, Nicaragua's Central Bank estimates that the country will spend 66 percent of its export earnings this year on oil imports, a \$180m annual increase that dwarfs the debt cancellation the country will receive in 2006. This vulnerability was the primary driver behind that government's decision this summer to launch a major biofuels initiative, which calls for the development of a national strategy and sets aggressive targets for both ethanol and biodiesel production and blending.

Most biofuels programs will logically focus on the domestic market, but the international trade in ethanol is starting to become a reality. A number of Central American countries already produce significant quantities of ethanol for export primarily to the booming US market, to which they have tariff-free access. In addition to the US, several dozen industrialized and developing countries have or are considering the adoption of biofuels blend targets that most cannot possibly meet with domestic production given the technology available today. By 2020, China alone has a projected 11 bn liter shortage of ethanol, almost three times all the ethanol traded internationally today.

We are working closely with the Brazilian government on the early stages of a strategic plan to help them develop a world-class innovation and production hub around biofuels in that country, and to promote the commoditization of these fuels in the world market. This initiative will also emphasize transferring know-how and best practices to other countries in the hemisphere.

We are also providing technical assistance to Mexico and several Central American countries to help lay the legal and regulatory groundwork necessary to foster domestic ethanol industries. In November, we will launch a program to provide new kinds of financing mechanisms for the energy sector, along with efforts take down the barriers that are currently keeping the countries of Latin America and the Caribbean from investing in renewable energy technologies.

This is just one example of the more focused agenda we are pursuing at the IDB an agenda that count you and your companies as essential partners. I sincerely hope that we can work together as you seek to expand your businesses in Latin America and the Caribbean. We value your ideas, your experience, and above all your long-term commitment to this marvelous region. ■



# LatAm Economic Growth Rate Vigorous, says IMF Outlook



Hugo Chávez

A recent IMF Regional Economic Outlook has forecast 4.75 percent economic growth for the region in 2006, the third year Latin American economies expanded by more than 4 percent. "This makes the ongoing period the most vigorous three-year period since the 1970s," said the report.

The unprecedented spurt in Latin American growth has boosted South Florida businesses. But some analysts are holding their breath over whether the expansion will last.

South Florida businesses are riding the surge of Latin American economic growth, which the International Monetary Fund calls the most vigorous expansion since the 1970s.

It also means South Florida trade and finance executives are traveling to Latin America to try to drum up business in this expansion wave. "I am doing it right now," Jacobo Gadala-Maria, chief executive of EFG Capital, an asset management firm, said from Bogotá recently. Gadala-Maria, a veteran Miami broker-dealer, was in the Colombian capital.

"We are very, very excited about the prospects of doing business in Latin America because of what has happened in the past few years," Gadala-Maria said, adding that his firm always does well when economies are growing and creating wealth.

What is even more remarkable is that the expansion continues in much of the region despite the election of more left-leaning presidents, the anti-American position of Venezuelan President Hugo Chávez and the collapse of Washington's free-trade project, the Free Trade Area of the Americas.

"Even Chávez, who has been talking the most anti-business rhetoric, has not really done much to hurt Venezuelan business," said Gadala-Maria. Venezuelan businesses are making money, especially those that cater to consumers, he said.

Venezuela and Argentina, despite repeated dire predictions by some economists, will record their third years of the highest economic growth in the region as

their recoveries from economic collapses continue.

## Commodity Prices

The Latin American rebound has been driven by a sharp rise in commodity prices and the price of petroleum. World demand has pushed oil prices up 150 percent in the past three years, while commodities such as copper and grains have climbed 80 percent.

The Inter-American Development Bank released estimates last week that Latin American exports would rise by 21 percent in 2006 to a record \$656 billion. Despite the growth, the IDB trade specialists warned that future export growth could be dampened by a drop in U.S. demand, falling commodity prices and rising currencies.

Latin America has experienced booms before that ended abruptly. The question now is whether this economic expansion could also end in a bust, pinching poor and middle-class families in the region as well as South Florida businesses that depend on Latin America for trade.

"In the past, similar upswings have often carried the seeds of their own destruction," said the 51-page IMF report.

This time the world economy is boosting Latin American even more than in past recoveries, the report said. Export prices are better and world interest rates are lower, which means countries pay less to service old debt and to issue new bonds.

Money flowing to the region contributes to some stability because it is concentrated in foreign direct investment and not in stocks and bonds, where it can be pulled at the first sign of an economic downturn.

## Reserves Boost

Latin American countries have boosted their foreign reserves to more than \$300 billion as well as cut down government deficit spending.

Miami law firms also are benefiting from healthier Latin

economies. Last month, Mark Bagnall, a White & Case attorney in the Miami office, and Donald Baker, a partner in the firm's Sao Paulo office, served as counsel to the underwriters of the largest debt issuance ever made by a Latin American company.

Brazil's Companhia Vale do Rio Doce, a huge mining company, issued \$3.75 billion in international notes. The issue was completed just a month after the company launched a hostile takeover of Inco, the second-largest nickel producer in the world.

"It's a first," Bagnall said, adding that the debt issue work was completed in a month. "In the Sao Paulo office, they have been extremely busy in the last year and a half."

Many companies have been going to international markets to issue debt, he said.

But the IMF sees potential problems from continued high levels of debt, and the report said the expansion of public spending could derail healthy public accounts.

The IMF also warned that public investment - spending on new roads, schools and other infrastructure - is lower than other developing countries. Latin American countries devoted just 4.5 percent of their gross domestic products to public investment from 2003 to 2006. Asian countries at 8.5 percent and African countries at 8 percent spent comparatively more.

The low rate of public investment raises concerns because it shows Latin America is not spending as much on its future as the rest of the world. Short-sighted consumption splurges have prevented the region from laying the foundations for long-term growth in the past. Still, the current expansion has helped countries lower their poverty rates.

That was especially true in Argentina, where almost half the population lived in poverty during the economic implosion of 2001-2002. But the region's income inequality remains among the highest in the world, much higher than industrialized countries or Asian ones. ■

## Chavez Grants Belarus Rights to Develop Venezuelan Oil Fields

Venezuelan President Hugo Chavez granted Belarus the rights to develop oil fields in the South American country, the government of the former Soviet republic said.

The fields will be able to pump up to 2 million tons of oil a year (40,000 barrels a day), the government said in a statement carried by its Belta news service today.

Chavez made the announcement during a meeting with Belarus officials in Caracas recently.

The Venezuelan leader has said that establishing closer relations with countries such as Belarus, China and India will help Venezuela diversify oil sales. Venezuela, the third largest OPEC oil producer in February, according to Bloomberg data, plans to reduce the percentage of oil exports it ships to the United States, Chavez has said.

Belarus depends on Russia and other former Soviet Union countries for its energy supplies. Russia's trade volume with Belarus reached \$1.4 billion in January,



an 8.1 percent increase from the same period last year, Belta said. Russian exports to Belarus reached \$868.9 million and were mainly composed of natural gas, oil products and metals, Belta said, citing the Belarusian Economy Ministry.

Belarus concluded agreements with Venezuela as of March 24, including a contract to export seismic exploration equipment and tractors to Venezuela, Belta said. ■



# Latin America Leaning Ever More Towards Left

By R. Viswanathan



**The Left that has come to power in Latin America in the recent past is essentially a blend of socialists, social democrat workers, and liberal parties.**

Hugo Chavez, the Leftist President of Venezuela, was re-elected on 3 December 2006. Three other leftist candidates were elected as Presidents in Latin America in the last two months: Rafael Correa in Ecuador on November 26, Daniel Ortega of Nicaragua on November 5, and President Lula of Brazil was re-elected on October 29. These four victories of the Left in the last three months have disproved those who predicted reversal of the "Pink Tide," after the defeat of Andrés Manuel López Obrador in Mexico in July 2006 and Ollanta Humala in Peru in June 2006.

The other Leftists who were elected as Presidents in the recent past are: Michelle Bachelet in Chile in January 2006, Evo Morales in Bolivia in December 2005, and Tabare Vazquez in Uruguay in October 2004. Argentina has been under the Leftist government of President Nestor Kirchner since 2003. President Bharrat Jagdeo of Guyana, who was re-elected in August 2006, should also be counted in the leftist camp. In fact, even Peru's Alan Garcia should be considered part of the Left.

Of the 12 countries in South America, nine are ruled by Leftists. Only Colombia, Suriname, and Paraguay have non-Left governments. The tally of the Left in Latin America is 14 with the addition of Nicaragua and Cuba as well as Panama, the Dominican Republic, and Costa Rica, which have left-of-centre Presidents.

This trend should be seen as a victory for the masses more than as an ideological shift. The millions of poor who were marginalised and excluded in the past have now started exercising their right electing those who have the agenda for their concerns and needs. It should be noted that 40 per cent of the total population of 570 million of the region are below the poverty line. The empowerment of these masses is a clear sign of the maturing of the region's new democracies that had suffered under military dictatorships in the past. Power has now shifted decisively and irreversibly to the masses who drive the political and economic agenda of the region.

The label of Left alone is not an insurance to reach or stay in power. There should be delivery on promises. If not, the masses will seek other options. For example, the same masses who elected the leftist Lucio Gutierrez as President of Ecuador in January 2003, rose against him and forced him out of power in April 2005, when he was perceived as abusing power. Ortega lost three successive elections in 1990, 1996, and 2001 after having been in power from

1985 to 1990.

There is no overarching homogeneous ideology or rigid dogma binding the Latin American Left. Except in Cuba, the Communist Party is marginal in other countries. The Left that has come to power is essentially a broad spectrum blend of socialists, social democrat workers, and liberal parties. Most of their leaders are nationalistic and pragmatic while a few are perceived as radicals. The latter group is lead by President Chavez whose approach is well-known. Morales, Ortega, and Correa are also portrayed as belonging to the radical camp. But in reality, they are constrained to be moderate and realistic, since they do not have sufficient Congressional majority and have to work with other parties. In Bolivia, the regional governments and Opposition parties put up strong opposition to the reforms of President Morales. In Nicaragua, Ortega has expressed his changed and new approach of moderation and willingness to work with the centre-right parties. Immediately after his election, he held a meeting with domestic and foreign businessmen and assured them of conditions favourable to investment.

## Role models

President Bachelet and President Lula are hailed as the role models for the region with their pragmatic and balanced approach of market-friendly macroeconomic policies and mass-friendly "inclusive development."

The leftist governments of Latin America have a conducive economic environment to pursue their development agenda. The macroeconomic fundamentals of the region are strong and healthy with low inflation (average around six per cent), stable currencies, reduced and manageable external debt, and booming exports. The last four years have seen consecutive growth of more than four per cent, a record in recent history.

With these leftist leaders, Latin America can be expected to take assertive and independent positions on foreign policy issues. They will focus on regional integration and diversification of political and economic relations. While seeking new partners they look at countries like India more seriously. This opens up opportunities for India to make new friends and increase business. In 2005, India's exports were \$3.2 billion and cumulative investment in the region \$3 billion. These can be easily doubled in the next three years.

*(The writer is a Joint Secretary in the External Affairs Ministry, GoI. The views expressed are strictly personal and do not reflect those of the Government.)*

# WEF Meet on LatAm in Chile in April 2007

## The Power of Positive Regional Agenda



The World Economic Forum on Latin America will be held in Santiago in Chile on 25 and 26 April 2007. The Davos based organization said Chile would be the partner for the for the WEF meet where Chile's President Michelle Bachelet will join 300 leaders to discuss "The Power of a Positive Regional Agenda"

This Roundtable meeting, supported by ICARE (Instituto Chileno de Administracion Racional de Empresas), will bring together 300 top global leaders from business, politics, government, academia, civil society and the media. The gathering, taking place in Santiago de Chile, will focus on the key issues facing the region and its relationship with the wider world.

President Bachelet has already confirmed her participation to this second-ever gathering in Chile of the World Economic Forum. A number of leaders from the region are expected to join business and civil society leaders from Latin America and around the world.

Following the success of the Roundtable hosted last April in São Paulo, Brazil, the Forum will reconvene under the theme - the Power of a Positive Regional Agenda.

"We are approaching the end of an election year cycle. By 2007, there will be 12 newly elected heads of government engaged in bringing positive change to Latin America. The World Economic Forum will provide a unique setting for understanding recent power shifts in the region, identifying new opportunities and drawing up economic policies to

share regional development," said Emilio Lozoya, the Forum's Latin America Head. "These new governments have new ideas and have awakened expectations that will not be fulfilled without strong leadership from the business sector," he said.

"The government of Chile is very pleased that our country was selected to host one of the most prestigious gatherings of business leaders and government officials in the world. It will be a great opportunity to discuss how to combine higher economic growth with a strong social protection network for everyone in Latin America," said Andrés Velasco, Chile's Minister of Finance.

The Co-Chairs for the World Economic Forum on Latin America thus far are Andronico Luksic Craig, Vice-Chairman, Banco de Chile, Chile, and Zhou Zhongshu, President, China Minmetals Corporation, People's Republic of China.

Underpinning various Interactive Sessions and Workshops discussions are several plenary sessions that have been organized for media representatives. These plenary sessions will focus on outcomes related to the following topics:

- E Changing Perspectives and Priorities in Latin America
- E Beyond the Washington Consensus: High Economic Growth and Income Distribution
- E Priorities for Action.



# LatAm Nations Clear IMF Loans Ahead of Schedules

Within a context of political change termed by many analysts as the “progressive era” the countries of the region are increasingly doing without the IMF. This trend reached its highest point when Argentina and Brazil made an early payment and cancelled their debt to the IMF in December 2005.

During 2006 Uruguay followed the same path, cancelling its debt ahead of schedule and concluding its program with the institution by end-November. Venezuela and Mexico, in spite of not owing debts to the Fund, followed the same trend, making repayments to the World Bank and IDB ahead of schedule. In order to make these operations, governments made use of international reserves or resorted to the placement of bonds into capital markets.

From the economic point of view, this operation mainly implied a change in terms of debt composition; the external debt was reduced at the expense of an increase in domestic debt. On the other hand, the growing influence of Venezuela in the region, in its role of “rich neighbor” owing to oil resources resulted in economic support for countries that previously had to resort to the IMF or private banks. The latter reinforces a political interpretation of this international trend: financial institutions have lost credibility and countries are trying to escape their influence. However, this does not necessarily mean that in terms of economic policy, national governments are changing the neoliberal policies that have been implemented by previous (and current) governments. Nevertheless, this implies a change in the correlation of forces among several Latin American countries and the IMF, thus leaving them in a better position to make demands and negotiate with the institution.

Meanwhile, the poorest Latin American countries remain under the influence of IFIs. In early 2006, IMF debt cancellation became effective in favor of Bolivia, Honduras, Nicaragua and Guyana within the framework of the HIPC initiative, while the same was implemented by the World Bank in July. Both measures comply with that which was approved by G8 countries in the 2005 Gleneagles Summit. However, such



cancellation is far from the one hundred per cent announced in Gleneagles, and these countries had to start a negotiation with the IDB the main creditor of Latin American countries to make it join the decision. A resolution of the issue is still pending.

With regards to the future relationship with the IMF in these cases, the election (and first moves) of Rafael Correa as President of Ecuador and of Daniel Ortega in Nicaragua, is staking out two extreme positions within a broad regional spectrum.

Correa, former Economy Minister of Ecuador, became elected on a discourse that is opposed to IMF influence and on the promise to analyze the non-payment of the external debt. Meanwhile, shortly after taking office, Ortega started to negotiate a new IMF economic program. The influence exerted by the institution is strongly criticized in Nicaragua, owing to the conditions imposed by its programs on the depressed Nicaraguan economy.

## The World Bank in 2006

The World Bank resorted to the fight against corruption as a new strategy to maintain relevance in the international context, being its president Paul Wolfowitz the standard-bearer for this initiative. His detractors question the use of this policy, considering the institution



Horizonte (Brazil), the Board proposed changes to its loan policy and officially launched its operational policy on indigenous peoples. The Bank aims at expanding its lending to the private sector, granting loans without sovereign guarantees. Infrastructure projects continue to be given priority, on account of which the meeting ratified the decision to create two funds for this purpose: one for the Initiative for Regional Integration of Infrastructure in South America (IIRSA) and Plan Puebla Panama (PPP), and the other for infrastructure projects in general.

to be delegitimized to fulfill a role that falls outside the main duties of the Bank, and demand a substantial reform of its internal structure.

At the same time, through the International Finance Corporation (IFC), the Bank seeks to finance new projects in the region, and analyzes how to expand its influence in middle-income countries (Argentina, Brazil and Mexico, among others) by means of new loan policies.

The annual Doing Business report, issued in September 2006, "Doing Business: How to Reform", offers Bank's views on the ease and difficulties of doing business in 175 countries, through a wide set of indicators. The document aims at supporting and fostering the classic market reforms and praises those countries that have consented to the liberalization of their economies. However, from the other side, it is alleged that this report is another means used by the Bank to promote orthodox measures such as trade liberalization and labor flexibilization, among others, thus failing to include social and environmental aspects as part of "good business".

An evaluation carried out by independent technical experts was released by end-2006, confirming that which many Bank's detractors have long been denouncing: the Bank uses research to promote its policies without taking into account if their outcomes are trustworthy. This evaluation, released only a few days before year-end, had already been submitted to the Bank one year ago.

## The IDB in Latin America

The IDB is looking for new strategies to increase its presence and influence in the region. In the last meeting of the IDB's Board of Governors, held in Belo

In this sense, Latin American social organizations strongly criticize the integration project that is being promoted by the IDB through its financing in infrastructure and denounce the social and environmental consequences that these projects may bring on the region.

The annual meeting was also marked by the express request made by the presidents of Bolivia and Honduras in favor of debt cancellation for the poorest Latin American countries included in the HIPC initiative: Bolivia, Honduras, Nicaragua, Guyana and Haiti. The



meeting politically agreed with this measure, but as of December the operation still remains to be implemented and an agreement is expected to be reached before the next meeting of the Board of Governors to be held in March in Guatemala. One of the key aspects that still remain unresolved is related to the "cut-off date" for the cancellation and the total amount to be cancelled for the countries in question. Numerous civil society organizations (both Latin American and international) have actively worked during the whole year in order to obtain a favorable decision in this respect. ■



# Brazil Plans Further Reforms in 2007



Brazil has paid off its debt to the International Monetary Fund (IMF) ahead of schedule. The country's liberal reforms include social security reform, labour reform, constitutional changes to cut social spending, privatisations. These are some of the measures under study by the government for 2007 to ensure an annual GDP growth rate of 4.25 percent.

## Social Security Reform

A recent document by an economic team of the government proposes delinking the minimum wage from social security benefits, delinking readjustments corresponding to active workers and pensioners, and setting full retirement age at 67; before that age, it would only be possible if subjected to lower benefits.

Other measures under study are the eligibility criteria and risk-benefit calculation, such as health insurance and disability and death pensions. The government also stated that in February 2007 it will be putting the regulations of the 2003 Reform to the Social Security System on the right road, thus opening the way to Pension Funds. It is worth remembering that in Argentina pension fund assets were allocated to debt bonds and lost most part of their asset value when the Argentine government announced a 75 per cent reduction in the value of its debt. The recent case of Varig also showed how serious can the lack of security of these Pension Funds be, with retired people having to return to work in order to survive. This shows the risks being faced by workers in the light of social security privatisation through these funds. Social security means safety rather than risk.

## Labour Reform

Labour reforms are being carried out by means of the recent approval of the so-called "Super Simples", which will comprise nothing less than 80 per cent of Brazilian

companies. The latter will be exempted from basic procedures such as placing "Working Plans" in their facilities, registering workers' leave in their respective books or files, communicating the Ministry of Labour and Employment about collective holidays being granted, or about the employment or registration of their trainees in National Learning Services. Thus, the possibility of job supervision aimed at verifying the fulfillment or not of workers' basic rights by companies remains dramatically constrained. Another measure of the "Super Simples" project is the impossibility of penalising entrepreneurs who fail to comply with labour regulations.



## Social spending cuts and privatisations

The policy proposal aimed at cutting spending within the next 10 years, drawn up by Delfim Netto and accepted by President Lula (the so-called "Zero Nominal Deficit")

was translated into some recent proposals made by the government's economic team. Among them is the modification of the Constitutional Amendment No. 29 ensuring an annual increase of health resources by earmarking a percentage of the nominal GDP growth rate. The idea of the government is to create another index that would halve said annual readjustment during the next 10 years. Another possibility is to include health spending together with sanitation for the purposes of Amendment No. 29, which therefore implies that the government would be allocating fewer resources to the health sector.

A further measure consists in limiting expenditure growth corresponding to civil servants' wages for the next 10 years (which wipes out the possibility of recovering previous losses). Another possibility recently made known by the Minister of Planning is an increase in DRUs (de-earmarked federal revenues), which allows the government to freely allocate 20 per cent of revenues related to certain type of social spending.

With regards to the minimum wage, in a recent meeting between the government and trade unions, it was agreed that the annual readjustment rate for the next four years will be based on inflation plus GDP variation over the past two years. That is to say, given the last projections for Brazilian economic growth in the next few years, the minimum wage will barely increase by 3 per cent per year in real terms. It is always worth remembering that the "minimum wage necessary" (calculated by DIEESE - Inter Trade Union Department of Statistics and Socio-Economic Studies) stood at R\$ 1,510 (1 US\$ = 2 R\$) in October 2006. This is the amount that ensures the fulfilment of Article 7 of the Constitution, according to which the minimum wage is a workers' right capable of satisfying their basic living

needs and those of their families with housing, food, education, health, leisure, clothing, hygiene, transportation, and social security. However, with the readjustment rate defined by the government and trade unions, 50 years will be necessary for the minimum wage to reach the amount of R\$ 1,510. And this considering an annual 3 per cent GDP increase during the period.

Another measure under study by the government is the expansion of the Pilot Investment Programme (PPI), which by IMF terms, can only comprise those undertakings that bring financial returns. Most part of these investments take place in the transport sector, such as the reparation or construction of roads. Once the state makes major expenditures, these undertakings can be transferred to private initiatives, which will be charging fees or tolls. That is to say, the PPI is truly another way of financing privatisations.

### Collective Action Clauses (CACs)

Another IMF condition is the adoption of the so-called "Collective Action Clauses" (CACs) in external bond issues. It should be highlighted that several countries adopted this clause in 2003, once the IMF have given up such proposal, idealised by IMF Deputy Managing Director, Anne Krueger.

The proposal stipulated that main creditors could end up setting the terms of debt renegotiation in case of non-payment, which represents an insult to sovereignty. According to media reports, CACs bear the same principle: holders of 75 per cent of the debt value will be able to define renegotiation terms before New York courts, which also represents a lack of respect for sovereignty. ■

## Trade deal likely before 2007-end, says WTO chief

World Trade Organisation chief Pascal Lamy has said that a deal on world trade talks was possible before the end of 2007 but urged more efforts from the European Union, the United States, India and Japan.

"There will be a new chance by the end of 2007" for an accord on the Doha round of world trade talks, he told a news conference.

"For the moment there is still a bit of work to do to get the ministers around the table." Lamy officially suspended talks over reducing global trade subsidies and barriers in July 2006 after major powers locked horns over politically sensitive issues, especially calls to dismantle agricultural protection. ■





# Argentina '07 GDP Growth Seen at 7 pc



Argentina has been growing at nearly 9.0 percent for four years and according to Morgan Stanley, global investment bankers, a similar, albeit more subdued, performance in 2007 at 7.0 percent. However, sustainable growth has proven elusive for Argentina over the past half-century as the economy went through severe boom and bust cycles. While economic growth keeps roaring ahead, it is important to ask whether Argentina has graduated from its history of spectacular boom and bust cycles.

A crucial element to sustainability of growth in the medium term is the balanced growth of investment. Following is the assessment of the Argentina's economy by a Morgan Stanley analyst.

One of the problems we have been concerned with is the potentially high rate of capacity utilization in many industrial sectors in Argentina. If manufacturers expect the growth to be sustained, they should invest beyond the replacement value of depreciated capital.

We calculate investment net of capital stock depreciation in Argentina and find that it is back to historical levels, suggesting that the investment picture in Argentina is not as problematic as many have imagined. Yes, we are concerned that the interventionist government policies on the tax and inflation fronts are creating a problem in the energy sector that might serve

as the weakest link and a risk to continued economic expansion.

But while we acknowledge that the benign aggregate investment picture does not preclude the possibility of serious problems at the micro level derailing the economy, we think that this is a markedly different scenario from a generally fragile economy with deteriorating infrastructure.

## Bottom line

The Argentine economy has sustained four years of growth near 9.0 percent, and we see no crash in 2007. However, we see significant vulnerabilities on the growth front, given that much of it hinges on continued consumer confidence, subsidized by the negative real interest rates. As the government fights self-induced inflation and as questions abound regarding the ability of the energy complex to meet demand next year, it is easy to be pessimistic. Yet, we feel that in the near term, the broad macro backdrop is less vulnerable this time around than it has been for nearly a decade. Investment has rebounded, as has the capital stock, after having been stagnant during the five years through 2004. Combined with a supportive global backdrop and absent a surprise on the energy front, the Argentine growth machine should be able to continue firing on most, if not all cylinders into 2007. ■

# Latin America Takes Lead

## Catching up with Carbon Emissions Reduction

The World Bank Carbon Finance Unit purchases greenhouse gas emission reductions through emission reduction purchase contracts, offering the widest range of in the market, including the choice between selling CERs and VERs, purchase contracts going beyond the Kyoto commitment period of 2012, and provision for monetizing part of the carbon revenues for upfront financing. The purchase contracts are structured to maximize the leverage of the carbon finance element on project financing, and have very low credit risk with the World Bank as the counter party to the purchase contract. The World Bank carbon fund advances all preparation costs (including the Project Design Document, Validation costs and all due-diligence costs), which are then recovered from the project only if it subsequently results in a carbon finance transaction by the World Bank carbon fund.

### Providing Sellers Access to the Carbon Market

For sellers in more developed carbon markets willing to assume higher risks in return for more attractive prices, the World Bank is now offering to un-bundle emission reduction purchase and technical knowledge. The current practice of the World Bank in the carbon market is to find, prepare and contract emission reduction from eligible projects for a specific World Bank carbon fund. The Finance, Private Sector and Infrastructure Department of the Latin America and Caribbean Region of the World Bank now offers services to find, prepare, package and assist the project sponsor in accessing the carbon market to obtain more remunerative prices through, for example, auction of the emission reduction to the carbon market. Through this service the World Bank provides a no-risk service to the client whereby the Bank agrees to take on the whole process through to certification and sale of the emission reductions to the carbon market.

### Participation of Public Sector in Carbon market

World Bank clients are primarily in the public sector energy sector and the Bank intends to devote special effort in promoting the participation of public sector entities, including municipalities and utilities. Funds through CF-Assist can be used to develop capacity of such entities and the World Bank invites interested entities to contact the Bank.

### Projects & Scaling-up Carbon Finance

World Bank carbon finance is looking for opportunities for engaging in larger scale, programmatic approaches to greenhouse gas emission reduction. Such approaches may involve, for instance, group of cities to develop waste management facilities (landfills, recycling and composting) that are combined regionally or nationally. Bundles of projects, for instance bagasse co-generation facilities though sugar or co-generation associations, are also encouraged.



## Carbon Finance & World Bank Lending

World Bank is tightening the association between lending projects and carbon finance opportunities and is looking for opportunities to link carbon finance to planned lending operation. New lending products that blend carbon finance in eligible projects to accelerate repayment and/or reduce interest payments are being considered on a project-by-project basis.

### Active Projects in Latin America

#### Brazil

**Nova Gerar Landfill Rio de Janeiro:** The Nova Gerar Landfill Gas Generation Project aims to reduce greenhouse gases by investing in a gas collection system and a modular electricity generation plant at the landfill sites, in addition to further upgrading the waste management disposal system.

**Lages Woodwaste Co-generation:** This project aims to displace carbon dioxide equivalents by substituting electricity from thermal plants with electricity from renewable sources, using wood waste from existing wood processing units and other wood residues. This also avoids methane emissions from wood waste piles, currently land-filled in most cases in an environmentally harmful manner.

**PCF Sugar Bagasse Co-generation Project:** This project reduces emissions by generating energy from renewable resources through several subprojects in Brazil. Two subprojects focus on sugar bagasse co-generation and the third is a co-generation project that focuses on increasing efficiency in the co-generation process to produce more steam, and increase electricity output to supply the national grid.

#### Chile

**Chacabuco Hydro Power Project:** The Chacabuco Hydro Power substitutes thermal plant electricity with electricity from a 25MW capacity, run-of-the-river hydro plant, thereby reducing greenhouse gas

emissions. The Prototype Carbon Fund (PCF) will purchase the total of 1 million tons of carbon dioxide equivalent, corresponding to US\$3.5 million, in the period of 7-15 years.

#### Hornitos Project (Chacabuco II):

The Hornitos hydroelectric project consists of a 55 MW capacity run-of-river hydroelectric plant to reduce greenhouse gas emissions and includes the extension and voltage upgrade of the existing 66kV transmission line to 220 kV.

#### Colombia

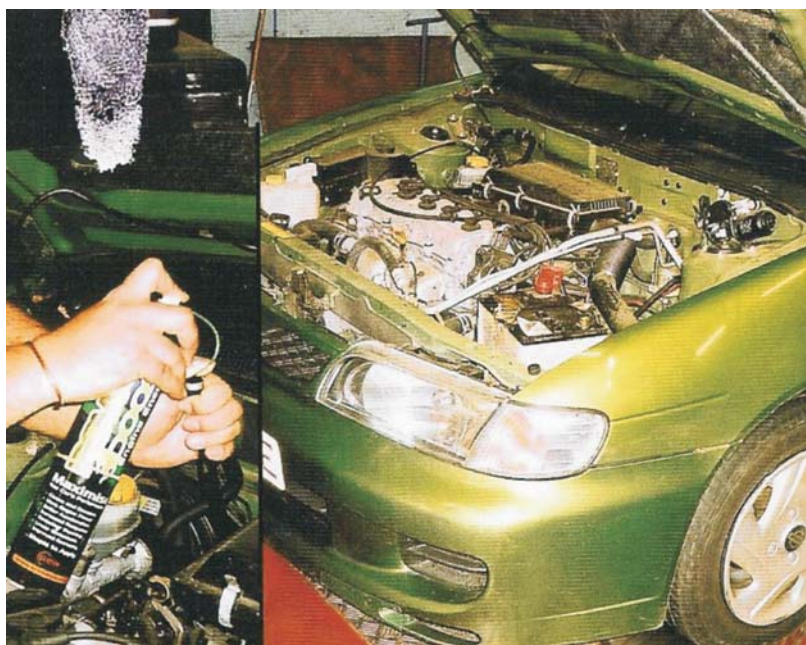
##### Jepirachi Carbon Off-Set Project:

The Colombia Jepirachi Carbon Offset Project contributes to the reduction of greenhouse gas emissions from the power sector in Colombia through the promotion of a 19.5 MW wind-based electricity generation facility. The project is expected to displace an estimated 1.168 million metric tons of carbon dioxide equivalent over a period of 21 years and generate revenue from emission reduction credits of US\$3.2 million. Part of the carbon revenue will be dedicated to co-finance a social program that will contribute to improvements in the welfare of the local indigenous community.

#### Colombia

##### Amoya River Environmental Services:

The Amoya River Environmental Services Project reduces greenhouse gas emissions from the power sector in Colombia through the promotion of a 80 MW run-of-river generation facility. Once in operation, the project is expected to displace an estimated 7.87 million metric tons of carbon dioxide equivalent by 2025. It will also support an environmental program for the protection of the Paramo de Las Hermosas, a unique, high-mountain biotope, upstream from the generation facility, and a social program that will contribute to improvements in the welfare of the local community in the area of the project.



**Furatena Agroindustry Carbon Offset Project:** The Furatena Agroindustry Carbon Offset Project aims to reduce greenhouse gas emissions from the Panela, or whole brown sugar, manufacturing process in Colombia. The Panela manufacturing process is a significant part of Colombia's industry, being the second largest contributor to rural employment. The project is expected to displace an estimated total of 553,000 metric tons of carbon dioxide equivalent by 2025. The project will also implement an environmental program that calls for the adoption of sustainable agricultural practices (land set asides and elimination of biocides) amongst participating farmers.

## Costa Rica

**Umbrella Project for Renewable Energy Sources:** This environmental assessment framework looks at the main negative environmental impacts of hydropower and renewable energy projects on aquatic and terrestrial ecosystems. It also examines its impact on social issues, particularly to indigenous peoples groups, based on the country's regulatory and institutional framework and on the Bank's operational guidelines regarding the environment.

## Ecuador

**Umbrella of Hydro Projects:** This project supports non-fossil fuel-based power generating projects to reduce greenhouse gas

emissions. It includes the development of three run-of-river hydroelectric plants, each of which will generate a specified amount of verified and certified emission reductions. The project site selection and development takes into account local ecological sensitivities, working to minimize damage to natural habitats and biodiversity.

## Mexico

**Waste Management and Carbon Offset Project:** The Waste Management and Carbon Offset Project is supporting the development of three landfill gas facilities to capture methane released during land-filling of solid waste in Mexico and therefore reduce greenhouse gas emissions. The project is expected to displace an estimated 2 million metric tons of carbon dioxide equivalent by 2015. The project will contribute to improve solid waste management practices through a remediation program to strengthening the integrity of closed landfills.

## Peru

**Huaycoloro Landfill Gas Recovery:** The Huaycoloro Landfill Gas Recovery Project aims to use carbon financing to promote profitable and effective waste management for municipal solid waste landfills in Peru. The project also aims to promote private sector investment in the collection and use of landfill gas to reduce greenhouse gases.

**Poechos Hydropower Project:** By supporting the development of a small, 15.4 MW capacity, hydropower project, this project supports the reduction of greenhouse gas emissions while providing energy to northwest Peru. The project finances carbon purchases and includes cost recovery.

**Santa Rosa Hydro Carbon Finance:** The project reduces greenhouse gas emissions by developing three new hydropower plants to increase the national grid power generation in Peru and provide a percentage of the energy projection for sale in the spot market. The Certified Emission Reductions produced by the project will be sold to finance the project. ■





WB Predicts Slowdown in Global Economy, but...

# Growth to Stay Strong in Developing Countries



Global economic growth has reached a turning point with a slowdown now clearly under way, led by the United States, the World Bank has said recently.

In its annual Global Economic Prospects report, the Washington-based development lender said global growth was expected to reach 5.1 percent this year, slow to 4.5 percent in 2007, then rise slightly to 4.6 percent in 2008.

The World Bank said developing countries were in the driving seat, with growth reaching 7 percent in 2006, twice as fast as developed countries, then falling to 6.4 percent in 2007 and 6.1 percent in 2008. In comparison, developed economies would expand by 3.1 percent this year, slow to 2.4 percent in 2007 and strengthen to 2.8 percent in 2008.

"The gap between developing countries and high income countries is widening," World Bank economist Hans Timmer told reporters. "Developing countries are able to accelerate while high income countries are not doing that," he added.

Timmer said growth in the world's developing countries

would remain strong, boosted by improved policies and favorable financial conditions.

The report said a soft economic landing remains likely, but warned that a cooling U.S. housing market could spark a sharper-than-expected downturn and even a recession, which could have a major impact on developing nations.

It said much slower growth would cause commodity prices to weaken, potentially placing many developing countries that have so far avoided current account problems in difficulty.

The World Bank said so far inflationary effects of strong world growth had been largely confined to markets for global goods, such as commodity sectors.

The report forecast that high global oil prices were likely to ease to \$56 a barrel in 2007 and fall further to just below \$53 in 2008 as supplies rise and demand growth eases.

But it warned that if measures to slow growth in key developing nations such as China, Argentina and India

## Brazil's Lula Launches New MERCOSUR Parliament

A new international parliament has taken birth. Brazil President Luiz Inacio Lula da Silva outlined goals for the new MERCOSUR Parliament at an inaugural ceremony for it in Brazil's Senate chambers recently.

Lula said the parliament would promote "democracy, liberty and peace and sustainable development with social justice" as well as encouraging integration among the five MERCOSUR nations, which have struggled for years to give some muscle to a trade bloc that has served more as a symbol of regional identity than as a functioning South American free-trade zone.

Initially, the parliament will have no power other than persuasion, serving as an advisory committee for the foreign ministers of Argentina, Brazil, Uruguay, Paraguay, and Venezuela.

Each nation's congress will name 18 deputies to the 90-member body, which is supposed to begin meeting in March at its permanent home in the Uruguayan capital of Montevideo. Only a few so far have been named. They also have to decide how it will function and what it will talk about.

In the long term, the parliament is intended to help unify legislation in the member nations and foster greater cooperation.

fail, inflation in those countries could pick up.

On China, the report said the economic outlook for the world's fastest-growing economy was "still favorable" and growth would likely slow under 10 percent for the first time in several years to 9.6 percent in 2007 and 8.7 percent in 2008.

"For the moment, signs of overheating are limited to specific sectors and regions," the report said.

Production capacity continues to expand in line with demand, inflation remains low and the current account is in surplus -- all of which augurs well for a soft landing," it added.

## Globalization

Further ahead, the World Bank said globalization would

spur faster growth in average incomes in the next 25 years. But unless managed carefully, that growth could spur growing inequality and potentially severe environmental pressures.

It said gains from growth and globalization could be undermined by environmental side effects and called on developing countries to participate in global solutions.

"As developing countries enlarge their role on the global stage, their integration as full partners in multilateral solutions to global problems will be essential," the Bank said.

Mitigating climate change, containing infectious diseases and preserving marine fisheries were three key areas where more global cooperation was needed on the environment, it said.

It forecast that the global economy could expand to \$72 trillion by 2030 from \$35 trillion in 2005, driven more than ever by strong economies in the developing world.

The World Bank said incomes of developing countries would probably still be less than one-quarter of those of rich countries by 2030 but will converge more with rich nations.

This would imply that countries like China, Mexico and Turkey would have average living standards roughly comparable to Spain today, the report said. ■



It wasn't immediately clear how legal unification might be achieved or what form it might take, although for years there has been a discussion of a common MERCOSUR currency along the lines of the European Union's euro. Monetary officials of the five countries were scheduled to meet shortly in Brazil's capital to discuss ways of avoiding use of the dollar in commercial transactions within MERCOSUR. But analysts remained skeptical of the new body.

Still, Lula insisted that creation of the parliament was a "demonstration of vitality" for the bloc, despite its lack of progress in bringing down tariff barriers and in overcoming trade disputes.

Argentina's devaluation of its peso and the strengthening of the Brazilian real in recent years have led the bloc's two largest economies to erect a series of trade barriers.

"There are a lot of criticisms that MERCOSUR has defects," said Uruguay Foreign Minister Reinaldo Gargano, "but people worry very little about correcting them and pronounce it dead prematurely." ■



# Argentina, Brazil Sign Currency Pact to Cut Transaction Costs



Argentina and Brazil have signed in Brasilia a protocol for a bilateral trade payments system in local currencies which gradually eliminates the US dollar helping to reduce goods and services transactions costs.

"It's a great step towards a more solid economic block because it facilitates bilateral transactions and allows smaller exporters to join the growing foreign trade", said Brazil's Finance minister Guido Mantega on making the joint announcement next to his Argentine counterparts.

According to Argentine Central Bank estimates abandoning the US dollar could mean savings of up to 2.5 percent in exchange rates and spreads. Furthermore 78 percent of all export-import transactions are below the 60.000 US dollars mark, which should mean an additional incentive for "this level of operations".

The idea is to be test piloted for several months in specific areas and if it proves successful, in a near future the idea is to make it extensive to the other three full members of MERCOSUR, Uruguay, Paraguay and Venezuela.

"The goal is to create a trade system which can make possible transactions in MERCOSUR country members' currencies", said Brazil's Central Bank president

Henrique Meirelles.

The long awaited announcement is a proposal that has been in the air for years but was finally tackled by the governments of President Lula da Silva and Nestor Kirchner.

Present at the ceremony were Argentina's Economy minister Felisa Miceli and the presidents from the two Central Banks, Argentina's Martín Redrado and Henrique Meirelles.

The four officials next to their counterparts from Paraguay, Uruguay and Venezuela and representatives from Bolivia and Ecuador met in Brasilia as part of the preparations for the MERCOSUR presidential summit scheduled for next January 18/19 in Rio do Janeiro.

And to please MERCOSUR junior members that are increasingly complaining about the group becoming a "club of two", a fund to promote infrastructure integration projects was also officially launched.

Focem created in 2005 with 100 million US dollars is targeted "to promote social cohesion and support institutional strengthening, particularly of the lesser economies".

"Focem will help MERCOSUR to be seen also as a space where the economic problems of our peoples are solved", said Argentina's Miceli, who revealed that several interesting projects, particularly from Paraguay, "are in the pipeline".

The fund is expected to begin operating next year and will among other projects finance a foot and mouth disease eradication program for MERCOSUR full and associate members.

"Focem is a step forward to help the people of MERCOSUR feel better integrated to MERCOSUR", said Bergen Schmidt from the Brazilian delegation.

Ministers and Central Banks officials also reviewed data from the Macroeconomic Monitoring Group whose objective is to help harmonize macroeconomic statistics of the group's members.



# WB Warns Argentina, Venezuela Against Unsustainable Growth Rate



The World Bank has highlighted Argentina and Venezuela as economic trouble spots in Latin America and the Caribbean, warning of "unsustainable rates" of growth and a lack of fiscal and monetary policy restraint.

In its Global Economic Prospectus 2007, released recently, the World Bank said the region's "overall picture is a healthy one," citing solid growth rates, contained inflation and small fiscal and current account surpluses on average.

The multilateral lender forecasts 4.2 percent growth for the region in 2007, a moderation from the 5.0 percent expected this year, as commodities prices wane somewhat and the U.S. economy slows. The lower growth also reflects "a return to more sustainable growth rates" in Argentina and Venezuela, the World Bank said.

The World Bank expects Argentina to grow 7.7 percent this year and 5.6 percent in 2007, while expansion in Venezuela will be 8.5 percent this year and 5.5 percent in 2007.

"Unsustainably rapid growth in Argentina and Republica Bolivariana de Venezuela, boosted by a dangerously expansionary fiscal and monetary policy, has already strained capacity in these countries," the World Bank said in its report, warning that the two economies will see their current account balances whittled down sharply if authorities don't take appropriate measures.

"The longer the two countries' aggressively expansionary policies keep demand growing in excess of supply, the sharper and more disruptive will be the recession required to reestablish equilibrium," the World Bank said.

Inflation in both countries is in the double digits, and analysts expect consumer prices to run above 10 percent in 2007 as well.

As for the region's largest economies, the World Bank sees Brazil growing 3.4 percent in 2007 and Mexico expanding 3.5 percent. ■

## Bolivia Gets Ready for MERCOSUR Full Membership

Bolivia expects to be accepted in MERCOSUR after a formal request without having to cut links with the Community of Andean Nations, CAN, to which it belongs and currently holds the rotating chair.

"We would like to have the chance of joining MERCOSUR without losing the benefits we enjoy in CAN in true integration spirit", Brasilia Bolivian Foreign Affairs minister David Choquehuanca said.

The formal request will become official in a letter to be addressed to the five presidents of the group's full members, Argentina, Brazil, Paraguay, Uruguay and

Venezuela.

Bolivia is currently an associate member of MERCOSUR which means it must not abide by the common external tariff. President Morales made the informal sounding with his South American counterparts during a recent summit in Cochabamba.

Brazilian Foreign Affairs minister Celso Amorim said he believed CAN would put no obstacles to Bolivia's request to become a MERCOSUR full member, mainly because both blocks have already signed a free trade agreement. ■



# Come to Rio, It's Carnival Calling

R. Viswanathan



Carnival celebrations in Rio de Janeiro are not just mere parades or pageants. It is the time when the Cariocas as the locals are called let their hair down and abandon themselves to unrestrained hedonism. Rhythm and lyrics of Samba take possession of bodies and souls; excitement and intoxication overtake inhibition and temperance; fantasies embolden the faint-hearted; and adventure and audacity drive the spirit of even the mild and modest.

Rich and poor, blacks and blondes, celebrities and street kids and young and old come together in the collective carnival delirium. While Carnival is celebrated all over Brazil, it is the Rio carnival that has fired the imagination of the world with television images of the explosion of colour and costumes and fiesta and frolic. It is undoubtedly the biggest show on earth and the most elaborate extravaganza.

The scale and lavishness of the parades are unmatched elsewhere in the world. About 70,000 costumed people march, sing and dance in parade for about 20 hours on Sunday and Monday nights of the Carnival week.

While the official carnival calendar is for four days, the Cariocas stretch the celebrations to a whole fortnight.

The carnival comes in February-March each year and

the preparations and rehearsals start from November itself. This year the Carnival will be celebrated from February 17 to 20. The main parades will take place on February 19-20 in the specially built stadium called Sambadrome. The stadium has 65,000 seats and has been designed by the famous Brazilian architect Oscar Niemeyer.

## Rivalry and revelry

The top 14 Samba clubs compete over two days (Sunday and Monday) of the carnival. There are about 70 samba clubs in Rio of which only the top ones get to perform at the main parades. Their league ranking and rivalries are not unlike those of football clubs. Each club has a contingent ranging from 3,000 to 5,000 participants the parade singing, dancing to the theme song and choreography in coordinated fancy costumes form a fabulous human tapestry of colours and movements.

Each year the schools choose a theme and a song, based on which they design the costumes and floats. There are six to eight huge floats in the contingent of each club. Each school takes 80 minutes to march from one end of the Sambadrome to the other. Prizes are awarded to the best group and there is a winner's parade on the following Saturday. Besides members and fans of

the clubs, celebrities and models join the parade, adding glamour to the goings on.

The parade starts at 8 p.m. and continues the nightlong. Spectators join in the singing and dancing. Beer flows freely along with Caipirinha, the Brazilian cocktail made from sugarcane liquor, which keep the spirits high.

Each samba school spends about \$200,000 to \$1 million in putting together the floats and the parade. The money is raised through corporate sponsorship and sale of costumes to the participants. Each costume can cost as much as \$300.

Ticket prices for the Sambadrome event range from \$60 for a simple bench seat to \$600 for a box seat in exclusive cabins.

During the carnival fortnight, there are street parades in the different neighbourhoods in which thousands assemble and take out processions, wearing costumes and dancing to the music of local orchestra.

Visitors can join in these revelries and share the Carioca fun. There are also small but noisy parades of gays, drag queens and other fringe groups. For high society, there are Carnival Balls organised by hotels and clubs featuring champagne and caviar.

## Other carnivals

Sao Paulo city, which is three times bigger than Rio, also has impressive parades at its own Sambadrome. The competition among its samba schools is also intensive but the Paulistas are no match for the Cariocas in the fun and celebrations.

The Carnival festival in Salvador, capital of Bahia state, is considered original, authentic and traditional. The parades are on the streets and open to participation by the public, unlike the ticketed show at the Rio Sambadrome. Salvador, with predominantly people of African descent, is the fount of Brazilian music and culture.

Over 300,000 foreign tourists, besides Brazilians from other cities, visit Rio during Carnival. The hotels hike their prices at this time and offer packages of minimum four nights. While the celebrities stay in the legendary Copacabana Palace hotel, there are plenty of hotels for different budgets, as well as apartments available on rent.

Indians can glimpse a bit of Rio and the Carnival in the Bollywood movie Dhoom II, parts of which were shot in that city.







# Samba, Choppe & Fireworks Enliven

## The Mother of all New Year Parties

R. Viswanathan

TOURISM



The mother of all New Year parties, the biggest in the world, is held at the famous Copacabana beach in Rio de Janeiro.

The Brazilians celebrate the New Year in their own unique, vibrant and colourful way. They do it at the famous Copacabana beach in Rio de Janeiro.

The Copacabana New Year's Eve party is the biggest in the world. On December 31, 2006, there were an estimated two million people on the beach, partying all night. The crowd is bigger than in Sydney, New York or London.

The setting for the party is the most spectacular in the world. The four-km stretch of beach has the bluish Guanabara Bay on one side and mountains rising steeply just a few hundred metres on the other side. On top of the Corcovado Mountain on the left, the 30-metre-high Jesus Christ opens his huge hands to embrace the world below. The majestic Sugarloaf Mountain stands as a breathtaking backdrop on the right side. The lights from the yachts anchored in the bay and the illumination of the sea-front buildings form a diamond necklace around the beach.

The crowd looks like a white sea as most Brazilians wear white T-shirts and dress for good luck in the New Year. Even the flowers exchanged on that day are mostly white.

INDO-LAC BUSINESS



The party picks up rhythm around seven in the evening when live bands start playing Samba, rock and pop music from the four special stages set on different parts of the beach. Dancing is more vigorous around the stages.

The sky over the beach turns stunning and dazzling with the fireworks at midnight. About 20 tonnes of material is fired from the boats in the bay. This is echoed by the cascade fireworks from the Copacabana Fort on one side and the Meridian Hotel, the tallest building in the beach, on the other side.

The New Year party is different from the Carnival celebrations, which are on the wilder side. The venue of the main Carnival parades is the Sambadrome, a special stadium built for the purpose. People need to buy tickets, costing around \$75, to watch the parades. But the Copacabana beach party on New Year is open and free, and people join spontaneously. More than 100,000 foreign tourists join the celebrations.

A religious dimension is added to the celebrations by the Afro-Brazilians who assemble in the beach early in the evening to pray to their patron saint and Goddess of Sea Eemanja, for her blessings for the New Year. They get together in small groups and offer flowers, fruits, liquor and sweets to the statues of saints placed in the sand altars inside small horseshoe-shaped trenches, surrounded by lighted candles. After the ceremony, they put the flowers and other offerings as well as lighted candles in miniature blue sailboats and let them float on the sea. If the sailboat floats out to sea, it is believed that Eemanjá has accepted the offerings and you will be

granted protection and good fortune in the new year. It is not a good sign if the boat returns to shore.

Brazilians eat lentil and rice on January 1, as they believe this brings good fortune in the year ahead.

Besides the big party on the beach, there are private parties in the elegant apartments facing the beach and also in the luxurious yachts anchored in the bay. Beer flows like water at the party in the beach. Most Brazilians prefer drinking draught beer called "Choppe". Some drink the typical Brazilian cocktail "Caipirinha" made with cane liquor, lemon and sugar. Food and drinks are sold by vendors present all across the beach. There are plenty of hotels on the Copacabana beach for tourists. The hotels organise parties and serve champagne breakfast starting from 3 a.m. Tariffs, however, hit the roof during this time as they do during the Carnival. Besides the high tariff, the hotels only sell packages of a minimum of three nights. Among the hotels, the place of pride goes to the legendary Copacabana Palace Hotel, which hosts Hollywood stars and the jet set.

What about the crime and violence one hears about in Rio city? Not to worry. Even the muggers and criminals take a break and join the celebrations! After all, they are also Cariocas (the nickname given to people of Rio de Janeiro city), for whom partying comes first, ahead of work. If you seek a business or official appointment in December, the Cariocas will say, "let us meet after the carnival".

Look at the calendar and, oops, the carnival is in March!







# *Energía:* El motor para el crecimiento de Latinoamerica

By Veerendra Bhargava

La energía es el factor clave en el desarrollo económico, social y medioambiental del mundo, especialmente en las regiones con rápido desarrollo como es el caso de Latinoamérica. La energía es esencial para alcanzar los Objetivos de Desarrollo del Milenio, entre los que se encuentra la erradicación de la pobreza de la faz de la tierra. El objetivo del Banco Mundial para la eliminación de la pobreza depende de la mejora en calidad, cantidad y eficacia en el suministro de energía así como en incrementar las inversiones en fuentes de energía renovable. En el pasado, el Banco Mundial ha financiado proyectos energéticos lo cual claramente ha mejorado las condiciones de vida en la región de Latinoamérica y el Caribe. Ha ayudado a mejorar los servicios de calidad, aumentar los territorios, instituir reformas estructurales y de gobierno para mejorar la eficacia. Aún más importante, ha ayudado a movilizar los fondos necesarios para cubrir las crecientes demandas de energía de la región.

En Latinoamérica, alrededor de tres cuartos del consumo de energía proviene del petróleo, el gas y el carbón, el resto lo forman la energía nuclear, biodegradable, hidráulica y otras fuentes de energía renovable. Hoy día, más de 65 millones de personas que habitan en zonas urbanas o semi-urbanas en Latinoamérica no tienen acceso a la electricidad. Los que sí tienen acceso, en regiones semi-urbanas, a menudo deben sufrir un suministro irregular de electricidad. Cerca de 100 millones de personas (alrededor del 20 por ciento de la población total) todavía depende de la energía biodegradable tradicional para cocinar y calentarse. Esto ocasiona significativos problemas como la cantidad de tiempo

necesario para su almacenamiento y, cuando se utiliza en para cocinar, produce mucho humo lo cual ocasiona enfermedades en niños y mujeres que pasan muchas horas del día alrededor del hogar.

El Banco Mundial se ha involucrado en distintos subsectores de la energía en Latinoamérica, utilizado distintos métodos para la reforma del sector energético, la electrificación rural, las energías renovables y la eficacia del uso de la energía. Las actividades del Banco incluyen la promoción de energías sostenibles y eficaces, las Facilidades Globales Medioambientales (FGM) y la Financiación del Carbón, áreas en las cuales la región latinoamericana es líder. En 2005, el Banco

proveyó más de 223 millones de dólares en apoyar el sector energético en Latinoamérica, 31 millones de dólares se invirtieron en tecnologías renovables eficaces. En los primeros tres cuartos del año financiero de 2006, la financiación del proyecto superó los 230 millones de dólares. Actualmente, el Banco está financiando más de 20 proyectos energéticos en Latinoamérica, y habrá más. Las fuentes de financiación incluyen préstamos y créditos IBRD/IDA, subvenciones GEF, financiación del carbón y de un número de ayudas técnicas y de actividades de capacitación.

Latinoamérica y la región del Caribe ha tenido éxito especialmente con la Financiación del Carbón. En el año 2005, Latinoamérica y el Caribe se convirtió en la primera región del mundo que suministró la financiación del carbón en la misma manera que los préstamos del Banco. Desde entonces, la región ha firmado seis Acuerdos de Compra para la Reducción de Emisiones (ERPA's Emisión Reduction Purchase Agreements) en Ecuador, Honduras, México y Perú, lo cual provocó que el comercio de carbón alcanzase un valor significativo del portafolio energético de Latinoamérica y el Caribe.

## Emisiones de Gas en la Atmósfera ("Greenhouse")

Las emisiones de gas en la atmósfera en Latinoamérica alcanzan el 12 por ciento del total mundial. Entre 1990 y 2000, el total de las emisiones de la región se incrementó en más del 40 por ciento, ocupando México y Brasil el 14 y 17 puesto mundial respectivamente en cuanto a la cantidad de emisión de gas en la atmósfera en el mundo. Debido al incremento de las emisiones en la región, la inversión en fuentes de energía renovable y eficaz es extremadamente importante. Latinoamérica tiene un enorme potencial hidroeléctrico que alcanza más de la mitad de la capacidad ya instalada. La

energía renovable eficaz en Latinoamérica se ha centrado en:

- Fortalecer las estructuras establecidas
- Proveer de incentivos basados en el Mercado (por ejemplo, la financiación del carbón)
- Proyectos de electrificación sin instalaciones de cableado para lugares donde dichas instalaciones no son económicamente viables.

La ayuda del Banco Mundial al sector de la energía en Latinoamérica identifica los siguientes elementos como los objetivos centrales para la región:

## Energía Sostenible

Este área se ocupa de implementar las habilidades de los países para sustentar su propia demanda creciente de energía de forma eficaz mediante un acceso seguro al capital y la financiación sostenible, y promocionar las iniciativas relacionadas con energías eficaces. La energía sostenible necesita también mejorar los balances macroeconómicos y fiscales y específicamente, conectar el sector energético con los objetivos macroeconómicos. Ello implica planear la expansión del sector energético, en el que se incluye el desarrollo de estrategias para suministrar la demanda futura, la integración de múltiples fuentes de energía así como el suministro de la demanda de posibilidades secundarias. El Préstamo para el Programa de la Reforma del Sector de Energía en la República Dominicana intenta establecer las condiciones que permitan el sostenimiento financiero del sector y por tanto reduzcan los subsidios necesarios y mejoren la situación fiscal.

## Energía Renovable y Medioambiente

El área de Energía Renovable Medioambiental intenta la protección del entorno mediante la implementación de una capacidad individual para participar en los mercados globales en los servicios relacionados con la energía medioambiental así como la movilización de recursos adicionales, asistencia en las transacciones estructurales, y la promoción de aprender-haciendo. Los proyectos intentan reducir las barreras que impidan la aplicación de tecnologías renovables (RET - "Renewable Energy Technologies") proveyendo la ayuda necesaria que facilite la inversión en los proyectos, apoye la diseminación y el desarrollo del mercado, así como





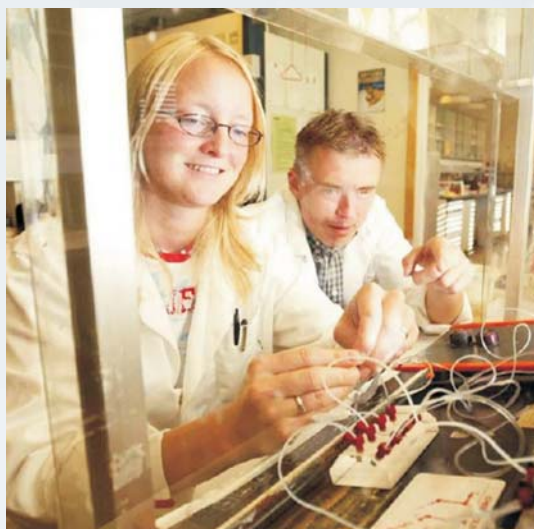
mediante la facilitación de incentivos financieros.

Algunos proyectos también identifican, desarrollan y prueban usos productivos de la energía para establecer un entendimiento de cómo maximizar los recursos disponibles. Los proyectos en Ecuador y Uruguay apoyan las regulaciones medioambientales, el gobierno del sector energético y la eficacia de la energía. Además están preparados los proyectos para la financiación del carbón (los Fondos Prototipo del Carbón y fondos subsiguientes) en más de 10 países (Argentina, Brasil, Chile, Colombia, Costa Rica, República Dominicana, Guatemala, Guyana, Honduras, México, Nicaragua y Perú) junto con la ayuda del Banco que contribuyen al desarrollo de las transacciones en la reducción de emisiones mediante estructuras legales, reguladoras e institucionales para la reducción del carbón y apoyo en la penetración comercial de las tecnologías de energías renovables.

## Acceso a la Energía

Como ya se ha mencionado, más de 65 millones de personas en Latinoamérica no tienen acceso a la electricidad. El acceso a la energía intenta proveer ayuda directa a los pobres extendiendo el acceso semi-energético y rural e intentando la reducción de la pobreza mediante intervenciones multisectoriales que enfatizan usos productivos económicos y sociales. El Banco Mundial tiene proyectos de inversión que promueven el acceso eléctrico en Argentina, Bolivia, Ecuador, Honduras, Nicaragua y Perú. Estos proyectos promocionan el desarrollo de la infraestructura, los recursos de energías renovables, y la capacidad de implementar programas que proveen ayudas técnicas.

Los programas también apoyan la expansión de la participación del sector privado mientras, simultáneamente, fortalecen la capacidad gubernamental para regular esta participación. A menudo examinan las políticas que actualmente impiden el



suministro energético y los servicios ITC, trabajan para sugerir modificaciones apropiadas según las necesidades energéticas del país. Con la ayuda del Banco están los Fondos del Carbón para el Desarrollo de Comunidades (CDCF "Community Development Carbon Fund") en preparación en una docena de países que intentan proveer servicios energéticos mejorados y un incremento de los servicios de agua, educación y salud a nivel local. El Banco también apoya actividades consultoras a los Gobiernos en electrificación rural en Bolivia y Perú.

## Eficacia Comercial y Gobierno

Este área promueve el buen gobierno y el desarrollo del sector privado mediante ayudas a las reformas del sector energético apoyando tanto en las reformas secundarias como en la capacitación ministerial y reguladora. La Eficacia Comercial y el Gobierno se centran en el fortalecimiento institucional implementando la capacidad gubernamental en la creación de políticas, mejorando las medidas de reforma, coordinando iniciativas múltiples y controlando el progreso. En algunos casos, esto implica rehacer estructuras de reforma que se basan en el reconocimiento de las dificultades en atraer la participación del sector privado. El Banco tiene proyectos de inversión en Brasil y la República Dominicana que apoyan estos procesos. ■



# Latinoamérica se inclina hacia la Izquierda

Por R. Viswanathan



**La Izquierda que ha llegado al poder en Latinoamérica últimamente se compone esencialmente de una mezcla de socialistas, trabajadores social-demócratas y partidos liberales.**

Hugo Chavez, el Presidente de Izquierdas de Venezuela, fue reelegido el 3 de diciembre de 2006. Los otros tres candidatos izquierdistas que fueron elegidos como Presidentes en Latinoamérica en los últimos dos meses fueron: Rafael Correa en Ecuador el 26 de noviembre, Daniel Ortega de Nicaragua el 5 de noviembre y Presidente Lula de Brasil re-elegido el 29 de octubre. Estas cuatro victorias de la Izquierda en los últimos tres meses han refutado a aquellos que predijeron el regreso del "la ola rosa" después de la derrota de Andrés Manuel López Obrador en México en julio de 2006 y Ollanta Humala en Perú en junio de 2006.

Los otros izquierdistas que fueron elegidos Presidentes en el pasado reciente fueron; Michelle Bachelet en Chile en enero de 2006, Eva Morales en Bolivia en diciembre de 2005 y Tabaré Vázquez en Uruguay en octubre de 2004. Argentina se ha mantenido con el gobierno de izquierdas del Presidente Nestor Kirchner desde 2003. El Presidente Bharrat Jagdeo de Guyana, reelegido en agosto de 2006 debería ser contado también en el frente izquierdista. De hecho, incluso Alan García de Perú debería ser considerado parte de la Izquierda.

De los 12 países de Sudamérica, nueve tienen gobierno de Izquierdas. Solamente Colombia, Suriname y Paraguay tienen gobiernos no-Izquierdistas. El balance Izquierdista en Latinoamérica es 14 además de Nicaragua y Cuba así como Panama, la República Dominicana y Costa Rica que tienen Presidentes Centroizquierdistas.

Esta tendencia debería interpretarse como una Victoria de las masas más que un giro ideológico. Los millones de pobres que fueron marginalizados y excluidos en el pasado han comenzado a ejercer sus derechos al elegir a aquellos que se preocupan por sus problemas y necesidades. Hay que destacar que el 40 por ciento de la población total de 570 millones de la región viven por debajo del nivel de pobreza. El poder de las masas es un signo claro de madurez en las nuevas democracias que han sufrido dictaduras militares en el pasado. El poder ha cambiado decisiva e irreversiblemente a las masas que dirigen la agenda política y económica de la región.

La etiqueta de pertenecer a la Izquierda no asegura la permanencia en el poder. Deben cumplir las promesas. De lo contrario, las masas buscan otras opciones. Por ejemplo, las mismas masas que eligieron al izquierdista Lucio Gutiérrez como Presidente de Ecuador en enero de 2003, se volvieron contra él y le echaron del poder en abril de 2005, cuando se percibió un abuso de poder. Ortega perdió tres elecciones sucesivas en 1990, 1996 y 2002 después de

haber estado en el poder desde 1985 hasta 1990.

No hay ideología homogénea enquistada o dogma rígido detrás de la Izquierda Latinoamericana. Excepto en Cuba, el Partido Comunista es marginal en otros países. La Izquierda que ha llegado al poder es fundamentalmente un amplio abanico de socialistas, trabajadores social-demócratas y partidos liberales. La mayoría de los líderes son nacionalistas y pragmáticos mientras que unos pocos son percibidos como radicales. El último grupo es dirigido por el Presidente Chavez cuya ideología es bien conocida. Morales, Ortega y Correa también se identifican con el grupo radical. Pero en realidad, están limitados a ser moderados y realistas, ya que no tienen la suficiente mayoría parlamentaria y tienen que actuar junto con otros partidos. En Bolivia, los gobiernos regionales y los de la oposición han constituido un gran obstáculo a las reformas del Presidente Morales. En Nicaragua, Ortega ha expresado su cambiado enfoque moderado y su interés en trabajar con los partidos Centro-Izquierdistas. Inmediatamente después de su elección, él se reunió con los comerciantes nacionales y extranjeros y les aseguró unas condiciones favorables para las inversiones.

## Modelos de Rol

El Presidente Bachelet y el presidente Lula fueron considerados como modelos de rol en la región con su enfoque equilibrado y pragmático con una macroeconomía que se adecuaba a las políticas comerciales y a un desarrollo de inclusión de las masas.

Los gobiernos izquierdistas de Latinoamérica tienen un entorno económico conductivo para la consecución de su agenda. Los fundamentos macroeconómicos de la región son fuertes y saludables con baja inflación (la media alrededor del seis por ciento), divisas estables, deuda externa reducida y manejable y exportaciones en crecimiento. Los últimos cuatro años han visto un crecimiento considerable de más del cuatro por ciento, todo un record en el pasado reciente.

Con estos líderes izquierdistas, Latinoamérica puede que tome posiciones independientes y asertivas en sus políticas externas. Se orientarán a la integración regional y la diversificación de las relaciones políticas y económicas. Mientras que buscan nuevos socios miran a países como la India de forma más seria. Esto abre oportunidades para la India para hacer nuevos amigos e incrementar los negocios. En 2005, las exportaciones de la India alcanzaron los 3,2 billones de dólares con una inversión acumulativa en la región de 3 billones de dólares. Esto puede doblarse fácilmente en los siguientes tres años.

*(El autor es Secretario Adjunto en el Ministerio de Asuntos Exteriores. Las opiniones expresadas son estrictamente personales y no reflejan las del Gobierno)*