



*“Perhaps one of the most important aspects of our partnership with the project cofinanced by the government and the World Bank is the integration of drug users into public health interventions. The financing shows the Bank’s recognition of the importance of the work we do **with** drug users, and not just **for** them.”*

Domiciano Siquiera of ABORDA, an NGO working with HIV-infected drug users in São Paulo, Brazil.

Latin America and the Caribbean

REGIONAL CONTEXT: IMPROVING MACROECONOMIC INDICATORS, BUT INEQUALITIES PERSIST

In 2000 most Latin American and Caribbean (LAC) economies were on the path of recovery after the shocks triggered by the 1998–99 crises in Asia and the Russian Federation. The region’s GDP grew by 3.8 percent over the year, responding to stabilized global financial markets and 13 percent growth in world trade. Most macroeconomic indicators improved. Inflation fell or remained stable in most countries, allowing interest rates to continue falling. Unemployment dropped in Brazil, Chile, and Mexico; it remained high, however, in Argentina, Colombia, and Peru, where political problems contributed to slowing growth. Slower growth in the United States could affect prospects for the region’s sustained recovery.

Strong trade—at 51.5 percent of LAC’s GDP, nearly double the proportion of a decade ago—and high oil prices eased balance of payments pressures in the region. High oil prices helped Colombia, Ecuador, Mexico, and the República Bolivariana de Venezuela but increased the burden on oil importers, particularly in Central American and Caribbean countries, which already faced price declines for their commodity exports. Oil exporters’ higher surpluses narrowed the region’s current account deficit from \$55 billion in 1999 to \$47 billion in 2000—about 2.5 percent of GDP. The oil price boom prompted a temporary dip in the need for foreign savings and, accordingly, a drop in net resource flows to the region. Net foreign direct

investment dropped from a historic high of \$90 billion in 1999 to a still significant \$76 billion in 2000.

Despite economic growth, about a third of the region’s population still lives on less than \$2 a day, and deep inequalities persist in most countries. Expanding poor people’s access to health, education, and water services remains a priority, particularly for countries hit by severe natural disasters. In addition, a continentwide trend toward decentralization of powers and responsibilities is creating an urgent need for the region’s state, provincial, and municipal governments to build their capacity to deliver quality public services, especially to poor people.

WORLD BANK ASSISTANCE: INVESTING IN PEOPLE, MANAGING DISASTER RECOVERY, SUPPORTING DECENTRALIZATION

In fiscal 2001 the Bank helped LAC countries reduce poverty by **supporting human development and disaster reconstruction programs** and, in the poorest countries, **providing debt relief**. In the region’s larger countries, it helped **strengthen the public sector** and reform governance systems, often to accommodate the shifting of responsibilities from central to decentralized authorities. The Bank also participated in a major multilateral effort to help Argentina address its recession by indicating readiness to commit up to \$2.4 billion over 2001 and 2002 as part of a \$39.7 billion IMF-backed package. Throughout the region, wide consultations with stakeholders are a priority to ensure ownership—and therefore greater sustainability—of development efforts (box 4.8).

Table 4.5 shows the value and sectoral distribution of total Bank lending to the Latin America and the Caribbean region in the fiscal 1992–2001 period. Table 8.6 (see About the World Bank) com-

Countries Eligible for World Bank Borrowing:

Antigua and Barbuda
Argentina
Belize
Bolivia
Brazil
Chile
Colombia
Costa Rica
Dominica
Dominican Republic
Ecuador
El Salvador
Grenada
Guatemala
Guyana
Haiti
Honduras
Jamaica
Mexico
Nicaragua
Panama
Paraguay
Peru
St. Kitts and Nevis
St. Lucia
St. Vincent and the Grenadines
Suriname
Trinidad and Tobago
Uruguay
Venezuela, República Bolivariana de

Latin America and the Caribbean Fast Facts

Total population: 0.5 billion
 Population growth: 1.5%
 Life expectancy at birth: 70 years
 Infant mortality per 1,000 births: 30
 Female youth illiteracy: 6%
 2000 GNI per capita: \$3,680
Number of persons living with HIV/AIDS: 1.8 million

Note: Life expectancy at birth and infant mortality rate per 1,000 births are for 1999, other indicators are for 2000, from the World Development Indicators database. The term gross national income (GNI) is now used instead of gross national product (GNP).

Total FY01 New Commitments	Total FY01 Disbursements
IBRD \$4,806.7 million	IBRD \$5,268.0 million
IDA \$493.4 million	IDA \$198.0 million

Portfolio of projects under implementation as of June 30, 2001: \$22.7 billion

Box 4.8 Wider Consultations: The Bank's New Approach to Developing Strategy

With globalization, and civil society deeply engaged in public policy debates, the Bank is consulting with stakeholders more than ever in developing assistance strategies for LAC countries. In Argentina, a new Country Assistance Strategy drew perspectives from over 4,000 representatives from nongovernmental organizations (NGOs), unions, companies, religious groups, and academic institutions who attended Bank-organized meetings across the country. Participants discussed studies on topics ranging from education and judicial reform to transportation and the financial sector. Similar processes have been completed, or are under way or planned, in several other countries.

In Mexico, the July 2000 election that resulted in a change of government was followed in October by a Bank-sponsored policy seminar attended by decisionmakers from the outgoing and incoming teams. The seminar focused on analyses and recommendations prepared by Bank staff in 36 areas ranging from macroeconomic policy to human development.

compares commitments, disbursements, and net transfers to the region for fiscal 1996–2001, and table 8.12 (see About the World Bank) shows operations approved in fiscal 2001, by country. Figure 4.5 shows IBRD and IDA lending by sector.

Investing in people

Support for investing in people is a priority in IBRD—as well as IDA-eligible countries. New Bank assistance was approved in fiscal 2001 for vulnerable children's education and health in Colombia, basic education in Brazil and Panama, water and sanitation in Ecuador, and social protection in Argentina and Colombia—raising the Bank's regional portfolio of ongoing projects in health, education, and social protection to \$7.2 billion. The portfolio includes efforts to address inequalities. As part of an overall strategy to focus efforts in Brazil's poorest region, for example, the Bank is supporting a government initiative to provide land and capital to about 50,000 farmers in the northeast.

The Bank's \$2.6 billion health care portfolio in LAC includes Mexico's five-year-old program to expand health-care coverage; 8.1 million poor people, mostly in small communities with no previous coverage, now have access. In the Caribbean, the Bank is helping attack the world's highest HIV prevalence rate outside Sub-Saharan Africa, with a \$155 million program to support HIV/AIDS prevention and treatment programs in several countries, starting with Barbados and the Dominican Republic. Support for Brazil's efforts to curb the spread of HIV/AIDS has yielded good results, with a halving in the number of such deaths since 1993 (box 4.9).

The Bank has provided over \$2 billion since 1998 to improve education for poor people, with projects ranging from primary education in rural areas of Brazil, El Salvador, and Nicaragua, to post-secondary student loan programs in Mexico. In El Salvador, three loans totaling \$148 million have supported a community-managed schools program (EDUCO) to strengthen preschool and primary education, as well as a program for secondary education. EDUCO, which brought schools and teachers to many poor rural areas for the first time, has raised the country's primary enrollment to almost 85 percent, up from 78 percent in 1996. The EDUCO model has been used to develop similar projects in Guatemala and Honduras, also with Bank support.

In some of LAC's poorest countries, debt relief and effective poverty reduction strategy go together. In Bolivia, Guyana, Honduras, and Nicaragua, governments—in consultation with civil society—are developing strategies to halve poverty by 2015. The Poverty Reduction Strategy Papers coincide with debt reduction provided under the enhanced Heavily Indebted Poor Countries Initiative, supported by the Bank and the IMF. In fiscal 2001 Guyana, Honduras, and Nicaragua joined Bolivia in obtaining required Bank agreement to start receiving reductions in their external debt. The agreements will reduce, over time and from all creditors, Nicaragua's debt service by \$4.5 billion, Honduras's by \$900 million, and Guyana's by \$590 million, in addition to the \$1.3 billion debt service reduction for Bolivia approved in fiscal 2000.

Supporting natural disaster recovery and preparedness

Recovery from natural disasters remained a high priority in Central America. The Bank helped Belize, Honduras, and Nicaragua continue to rebuild after the devastation of Hurricane Mitch in 1998. In El Salvador, \$33 million in education loans were reprogrammed to finance reconstruction of schools damaged in the two earthquakes of January and February 2001. The Bank is also supporting prevention efforts in Dominica, Grenada, Mexico, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines to reduce loss of life and material damage caused by natural disasters. A \$60 million credit to Honduras will support a fifth phase of the Social Investment Fund, which has provided grants for reconstruction, as well as drinking water and



Youths from the Terena Indigenous Tribe in Mato Grosso do Sul, Brazil, learn about the use of condoms as a way to protect themselves against HIV/AIDS.

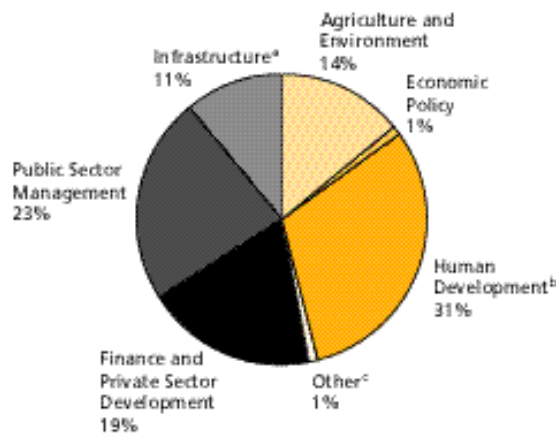
Box 4.9 Helping Brazil Save Lives, Prevent the Spread of HIV/AIDS

Two Bank loans totaling \$325 million—approved in fiscal 1994 and fiscal 1999—have helped Brazil reduce the spread of HIV/AIDS, and enabled Brazilians with AIDS to live longer. The first \$160 million loan supported over 400 grassroots projects run by 175 NGOs in cooperation with state and municipal governments. They distributed over 180 million condoms, raised HIV/AIDS awareness among over half a million people at risk, and trained 3,800 teachers and 32,500 students in promoting HIV/AIDS and drug abuse prevention.

The project, now in a second phase and supported by a \$165 million loan, has helped reduce the number of deaths due to AIDS by 50 percent since 1993. Persons living with HIV/AIDS also receive care through the project, because it supports AIDS care units and home-care teams throughout the country. But prevention remains the project's focus. It has helped finance a nationwide network of 170 HIV/AIDS testing and counseling centers and 800 diagnostic and treatment centers, and in partnership with the National Business AIDS Council, it enabled 3,000 companies to offer HIV/AIDS-awareness training to three to five million workers.



Figure 4.5 Latin America and the Caribbean: IBRD and IDA Lending by Sector, Fiscal 2001
Share of total of \$5.3 billion



Note: Sector classification is on a loan component basis. See table 1.1, page 26.
a. Includes transportation, telecommunications, and water supply and sanitation.
b. Includes \$40.1 million in IBRD loans to two countries under a multi-country program to support HIV/AIDS prevention and treatment, for which the Bank earmarked funding of \$155 million in fiscal 2001.
c. Includes electric power and other energy, and oil and gas.

sanitation systems, roads, schools, and health centers for the poor. In Colombia the Bank is helping to alleviate the impact of economic crisis by supporting a workfare program and conditional cash transfers to help poor families keep children in school and maintain access to health and nutrition services.

Benefiting poor people in Pompoa, Honduras, this subproject is one of over 15,000 small-scale, community-driven public investments financed since 1990 by the Honduras Social Investment Fund. A fifth IDA credit of \$60 million was approved in fiscal 2001, bringing the total value of the programs to \$300 million.

Strengthening the public sector

Lending to subnational governments emerged as a major new Bank activity in LAC in 2001. The Bank is helping Argentina's Catamarca and Córdoba provinces, for example, to reform public finance and administration to ensure that decentralized health care, education, and public safety services are of high quality and accessible to the poor.

In Mexico, the Bank has supported the federal government's efforts to facilitate structural reforms in the country's states, including a \$505 million fast-disbursing loan to the Estado de México (the country's largest state) in fiscal 2001. Support to Mexico has included a study of the challenges inherent in devolving responsibilities to state and municipal governments, including analysis of taxation, transfer payments, and dispute settlement mechanisms.

Two projects are helping Brazil's state governments in Bahia and Ceará improve basic education systems. Also in Brazil, the Bank is supporting the government's fiscal stability program with a \$758 million loan focused on fiscal discipline by states and municipalities, federal debt management, and public expenditure management.

Table 4.5 **World Bank Lending to Borrowers in Latin America and the Caribbean, by Sector, Fiscal 1992–2001**
(millions of dollars)

Sector	Classified on a Loan-by-Loan Basis				Classified on a Loan Component Basis	
	FY92–97 <i>Annual average</i>	FY98–99 <i>Annual average</i>	FY00	FY01	FY00	FY01
Agriculture	534.1	403.7	224.2	359.5	211.2	293.0
Economic policy	378.4	1,566.2	20.9	-	220.9	63.3
Education	588.5	796.8	77.5	362.7	95.5	545.7
Electric power and other energy	179.1	15.0	4.8	-	2.8	3.0
Environment	255.4	246.2	52.6	451.9	73.8	458.7
Finance	761.9	449.2	1,160.0	984.1	1,307.5	964.5
Mining	49.0	19.8	-	-	-	-
Multisector	38.2	208.0	225.0	10.1	185.0	-
Oil and gas	18.7	65.0	43.4	-	43.0	12.1
Health, nutrition, and population	334.1	566.8	157.6	455.4 ^a	175.6	660.4 ^a
Private sector development	197.1	152.6	4.8	25.3	4.8	38.4
Public sector management	225.5	405.7	1,265.8	1,795.7	869.3	1,253.0
Social protection	250.4	1,029.6	640.6	381.4	693.6	435.7
Telecommunications	-	3.0	28.2	-	28.2	-
Transportation	897.8	757.3	-	422.5	-	444.6
Urban development	258.7	88.9	10.8	13.5	10.8	6.8
Water supply and sanitation	306.0	114.5	147.3	38.0	141.5	120.9
Total	5,272.9	6,888.3	4,063.5	5,300.1	4,063.5	5,300.1
Of which						
IBRD	4,957.1	6,406.4	3,898.2	4,806.7		
IDA	315.8	481.9	165.3	493.4 ^{a,b}		

Note: See table 1.1, page 26. Numbers may not add to totals because of rounding.

a. Includes \$40.1 million in IBRD loans to two countries under a multicountry program to support HIV/AIDS prevention and treatment, for which the Bank earmarked funding of \$155 million in fiscal 2001.

b. Excludes IDA HIPC grants of \$37 million to Honduras in fiscal 2001.