



LATIN AMERICA AND THE CARIBBEAN

The Latin America and the Caribbean region experienced its strongest economic growth in 24 years in 2004, growing 6 percent, up from 2 percent in 2003. This performance reflects high demand for the region's exports, booming commodity prices, ample global liquidity, and improved domestic policies, such as floating exchange rate arrangements and adjustments in fiscal and current accounts. In line with global output and trade, growth in the region is expected to slow moderately to about 4.3 percent in 2005.

The region has abundant natural resources and average incomes in the middle-income range, but it is marked by high inequality and entrenched poverty and exclusion. Development challenges facing the region's 30 countries include increasing investment and productivity; reducing economic volatility; broadening access to services, credit, and land; and strengthening infrastructure, institutions, and governance.

WORLD BANK ASSISTANCE

World Bank support to the region aims to reduce poverty through sustained, equitable growth and a focus on the poorest

and most vulnerable people. Priorities include improving the investment climate and competitiveness in order to foster job creation; strengthening education and creating innovative systems for enhancing human capital and increasing productivity; improving public sector governance and institutions; fostering social equity and inclusion; achieving an inclusive but affordable welfare system; strengthening environmental institutions and promoting the effective use of natural resources; consolidating macroeconomic and financial stability; and using fiscal resources for infrastructure investments.

Bank lending approved for Latin America and the Caribbean reached \$5.2 billion in fiscal 2005, \$4.9 billion in IBRD lending and \$0.3 billion in IDA credits and grants. This financing was designed to support innovative solutions that integrate technical knowledge with customized local approaches.

During fiscal 2005 the Bank made its first development policy loans to the region. The loans support the strengthening of social sectors in Bolivia, fiscal reform and housing sector policy in Brazil, broad-based growth in El Salvador, debt relief and the development of the financial sector in Honduras, and

LATIN AMERICA AND THE CARIBBEAN FAST FACTS

Total population:	0.5 billion
Population growth:	1.4%
Life expectancy at birth:	71 years
Infant mortality per 1,000 births:	28
Female youth literacy:	95%
2004 GNI per capita:	\$3,600
Number of people living with HIV/AIDS:	2.1 million

TOTAL FISCAL 2005

New Commitments

IBRD \$4,904.4 million

IDA \$261.3 million

TOTAL FISCAL 2005

Disbursements

IBRD \$3,557.6 million

IDA \$440.3 million

Portfolio of projects under implementation as of June 30, 2005: \$19 billion

Note: Life expectancy at birth and infant mortality rate per 1,000 births are for 2003; female youth literacy is for the most recent year available from 2000 to 2002; HIV/AIDS data are from the June 2004 UNAIDS Report on the Global AIDS Epidemic; other indicators are for 2004 from the World Development Indicators Database.

COUNTRIES ELIGIBLE FOR WORLD BANK BORROWING

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

social programs in Uruguay. New results-focused Country Assistance Strategies were prepared for the Dominican Republic, El Salvador, Guatemala, Jamaica, and Uruguay. In Haiti the Bank supported development of a needs assessment (the Interim Cooperation Framework), endorsed a Transitional Support Strategy, and provided a first package of IDA credits and grants totaling \$75 million.

The Bank's analytic and advisory support to the region in fiscal 2005 included a flagship study of the rural sector (see box 2.4) and analytic work on building the climate for investment and fostering participation in development.

(See also the IFC and MIGA annual reports.)

BUILDING THE CLIMATE FOR INVESTMENT

Across the region the Bank is assisting countries in their efforts to reduce the red tape that hinders private sector development and to address the poor logistics that make products costly and businesses unprofitable. Major financing to the region in fiscal 2005 included a \$658 million loan to Brazil for programmatic fiscal reform and social security reform; a \$250 million loan to Mexico to support innovation for competitiveness; a \$200 million loan to Argentina for sustainable investment in infrastructure; a \$200 million loan to Colombia for labor reform and social structural adjustment; a \$100 million loan to Peru for improving decentralization and competitiveness, along with a \$200 million guarantee facility; and a \$150 million loan to the Dominican Republic for strengthening the power sector.

To help identify priorities for public expenditure reform, the Bank carried out public expenditure reviews of Guatemala, Mexico, Paraguay, St. Lucia, St. Vincent and the Grenadines, and Uruguay in fiscal 2005. It completed investment climate surveys for Brazil, Ecuador, El Salvador, and Guatemala and launched surveys for Costa Rica and Jamaica. The results of the survey for El Salvador were used to design the first development policy loan for the country and provide benchmarks for monitoring and evaluating the loan. The Bank conducted other analytic work on growth and competitiveness, trade reform and labor market risk, labor competitiveness, migration (in the context of the North

American Free Trade Agreement), the Central America Free Trade Agreement, and innovation.

FOSTERING PARTICIPATION IN DEVELOPMENT

The Bank is promoting efforts to reduce poverty, improve poor people's access to basic services, and increase the participation of excluded groups by funding programs in health, education, environmental protection, social inclusion, and social protection. In Mexico, northern Peru, and the Southern Cone countries, Development Marketplaces have encouraged innovation and have promoted young people's participation in development.

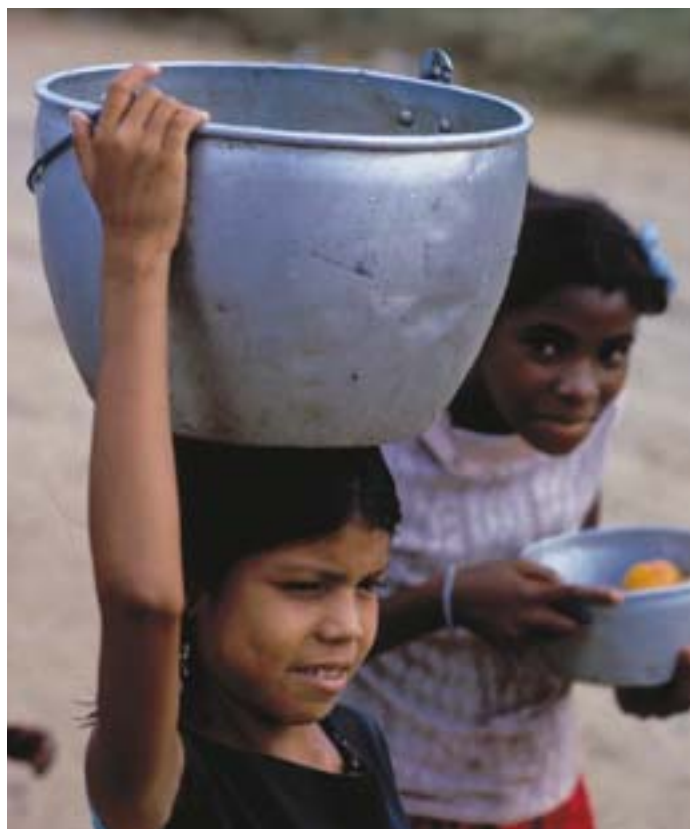


FIGURE 2.9

LATIN AMERICA AND THE CARIBBEAN
 IBRD AND IDA LENDING BY THEME | FISCAL 2005
 SHARE OF TOTAL OF \$5.2 BILLION

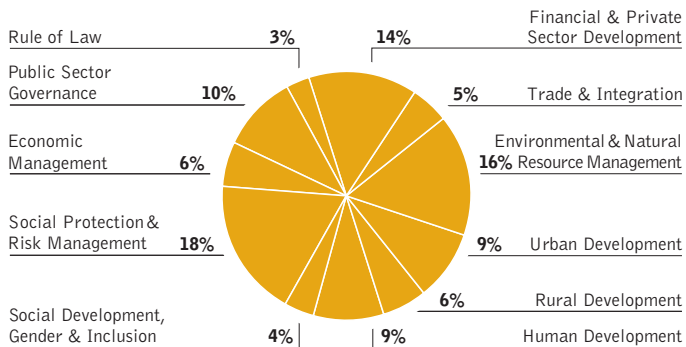
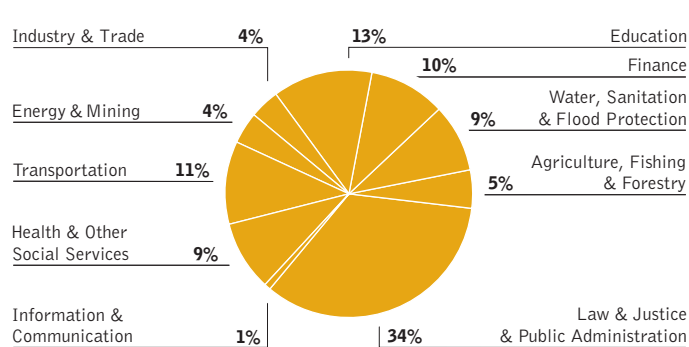


FIGURE 2.10

LATIN AMERICA AND THE CARIBBEAN
 IBRD AND IDA LENDING BY SECTOR | FISCAL 2005
 SHARE OF TOTAL OF \$5.2 BILLION



Bank lending in fiscal 2005 included \$503 million for environmental sustainability and \$503 million for housing reform in Brazil, \$300 million for basic education in Mexico, \$260 million for disaster vulnerability reduction in Colombia, \$100 million for social reform in Peru, and \$40 million for land administration in El Salvador.

The Bank supported countries' national antipoverty plans by endorsing Poverty Reduction Strategy Paper Progress Reports for Guyana and Honduras. The Bank's analytic and advisory support included poverty assessments for Bolivia, the Dominican Republic, Mexico, and Peru, and studies of youth development in Brazil, social protection in Central America,

and poverty, inequality, and economic growth in Argentina. Regional studies were conducted on social security, service delivery reform, urban poverty, health care reform, education reform, and indigenous people, poverty, and human development.

To increase access to information about the Bank's activities and foster informed debate on development issues, the Bank extended its public information services to 12 Latin American and Caribbean countries. It also contributed to knowledge sharing and capacity building through the Global Development Learning Network, which offers programs on health, small and medium enterprises, rural development, and education (see chapter 1).

BOX 2.4 HOW IMPORTANT ARE RURAL ACTIVITIES TO DEVELOPMENT?

According to a new Bank report, *Beyond the City: The Rural Contribution to Development*, the economic contribution of the region's rural activities to national development is twice as large as officially reported. This is because these activities have forward linkages to other economic activities and their contribution to exports is high. The report also finds that the region's rural population is twice the official figure, indicating that the scale of rural problems has been underestimated. The implication: the countries of Latin America and the Caribbean need to make larger—and better—investments in rural communities.

On the trade side, the report finds, countries throughout the region are likely to benefit from increased market access once the industrial nations reduce their subsidies to agricultural producers. But the benefits will go mainly to net agricultural exporters, especially in the Southern Cone, while food-importing nations in the region will see prices rise. To avoid price increases for poor

consumers, net importers will need to reduce their own high tariffs on agricultural products.

The study concludes that countries need to put in place programs that support the restructuring of small domestic producers in sectors that are unable to compete once tariffs are reduced. At the same time, to sustain growth and reduce poverty, rural public expenditure needs to be diverted away from producer subsidies toward investments in public goods, including health and social protection, rural education, rural infrastructure, research and development, environmental protection, and targeted antipoverty programs.

Poverty in rural areas, the report finds, is associated not only with agriculture but also with specific regions, such as southern Mexico, northeastern Brazil, and Colombia's Caribbean coast. Moreover, nearly half of rural income in the region comes from off-farm activities. These findings highlight the need for better integration of sectoral and regional policies.

TABLE 2.5

WORLD BANK LENDING TO BORROWERS IN LATIN AMERICA AND THE CARIBBEAN BY THEME AND SECTOR | FISCAL 2000–2005
MILLIONS OF DOLLARS

THEME	2000	2001	2002	2003	2004	2005
Economic Management	587.6	570.1	391.0	567.2	111.2	310.4
Environmental and Natural Resource Management	270.8	68.8	187.4	240.3	159.1	841.2
Financial and Private Sector Development	1,056.1	985.4	965.4	819.8	912.4	729.6
Human Development	157.7	471.2	560.4	1,171.7	1,046.7	469.8
Public Sector Governance	519.9	1,099.7	1,182.8	798.6	672.0	506.2
Rule of Law	111.7	202.2	15.5	138.8	270.9	147.9
Rural Development	103.0	580.8	168.3	415.9	249.6	331.7
Social Development, Gender, and Inclusion	141.5	371.7	248.9	123.1	268.9	187.9
Social Protection and Risk Management	901.2	530.0	310.4	1,050.3	926.9	950.4
Trade and Integration	160.7	218.3	83.9	59.6	364.6	233.4
Urban Development	53.3	202.0	251.9	435.2	337.6	457.1
Theme Total	4,063.5	5,300.1	4,365.8	5,820.5	5,319.8	5,165.7
SECTOR						
Agriculture, Fishing, and Forestry	104.1	72.3	85.0	58.4	379.6	233.4
Education	62.8	529.1	560.4	785.5	218.3	680.0
Energy and Mining	79.3	107.6	445.6	96.2	50.5	212.6
Finance	1,191.8	946.7	593.5	973.0	405.1	530.0
Health and Other Social Services	360.2	904.7	660.5	1,574.1	1,558.9	443.4
Industry and Trade	165.3	38.3	51.4	183.4	428.0	199.9
Information and Communication	28.7	97.8	16.5	52.4	14.0	44.7
Law and Justice and Public Administration	1,791.0	1,726.7	1,440.0	1,564.9	1,521.3	1,776.0
Transportation	11.6	650.3	463.1	146.4	675.7	556.4
Water, Sanitation, and Flood Protection	268.7	226.6	49.8	386.2	68.4	489.5
Sector Total	4,063.5	5,300.1	4,365.8	5,820.5	5,319.8	5,165.7
Of which IBRD	3,898.1	4,806.7	4,188.1	5,667.8	4,981.6	4,904.4
Of which IDA	165.4	493.4	177.8	152.7	338.2	261.3

Note: Fiscal 2005 includes Guarantees and Guarantee Facilities. Numbers may not add to totals due to rounding.