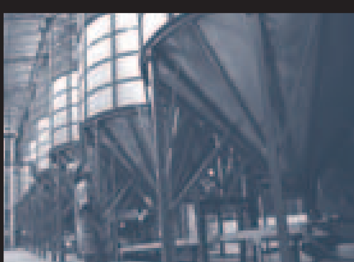

Inter-American Investment Corporation

2004 Annual Report

THE INTER-AMERICAN INVESTMENT CORPORATION (IIC) is a multilateral organization. It began operations in 1989 to promote the economic development of its Latin American and Caribbean member countries by financing private enterprises. To fulfill its mission, the IIC provides financing in many forms, including direct loans, guarantees, and equity investments, lines of credit to local financial intermediaries, and investments in local and regional investment funds. It particularly targets small and medium-size companies that have difficulty obtaining medium- and long-term financing from other sources.

In a sense, IIC financing is seed money. The Corporation serves as a catalyst for attracting other resources: additional financing, technology, and know-how. These resources are mobilized through colending and syndication, supporting security underwritings, and identifying joint venture partners.

Lending and investing require evaluation of project soundness and probability of success. In this preliminary evaluation process, the IIC advises clients on project design and financial engineering and helps them structure their financial plan.

To obtain IIC financing, projects must offer profitable investment opportunities. They must also further economic development in some way—by creating jobs, broadening capital ownership, generating net foreign currency income, facilitating the transfer of resources and technology, utilizing local resources sustainably, promoting local savings, or promoting the economic integration of Latin America and the Caribbean. Any environmentally sensitive project must include specific preventive or restorative measures.

All the powers of the Corporation are vested in its Board of Governors. The IIC Board of Governors consists of a Governor and an Alternate Governor from each member country. Voting power is proportional to each country's paid-in shares. The Board of Governors appoints a Board of Executive Directors to which significant authority and powers are delegated.

The Corporation is a member of the Inter-American Development Bank Group. The IIC is legally autonomous, and its resources and management are separate from those of the Inter-American Development Bank (IDB).

Member Countries:

Argentina
Austria
Bahamas
Barbados
Belgium
Belize
Bolivia
Brazil
Chile
Colombia
Costa Rica
Denmark
Dominican Republic
Ecuador
El Salvador
Finland
France
Germany
Guatemala
Guyana
Haiti
Honduras
Israel
Italy
Jamaica
Japan
Mexico
Netherlands
Nicaragua
Norway
Panama
Paraguay
Peru
Portugal
Spain
Suriname
Sweden
Switzerland
Trinidad and Tobago
United States
Uruguay
Venezuela




Inter-American Investment Corporation

2004 Annual Report

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Letter of Transmittal

February 16, 2005

Chairman of the Board of Governors
Inter-American Investment Corporation
Washington, D.C.

Mr. Chairman:

Pursuant to the provisions of Article IV, Section 9(a) of the Agreement Establishing the Inter-American Investment Corporation, I transmit to you the Annual Report of the Corporation for 2004 and the audited financial statements, including the balance sheet, income and retained earnings statement, and cash flow statement for the fiscal year ended December 31, 2004.

The report summarizes the IIC's main achievements and key developments during the year.

Yours sincerely,

Enrique V. Iglesias
Chairman
Board of Executive Directors
Inter-American Investment Corporation

Letter from the General Manager

The Inter-American Investment Corporation's core mission is to promote economic development by encouraging the establishment, expansion, and modernization of small and medium-size private enterprises in Latin America and the Caribbean. The facts and figures that the Corporation's annual report must provide show how the institution is working to fulfill its mission, but they do not tell the whole story. Behind the projects that the Corporation helps finance there are companies and entrepreneurs whose achievements as good corporate citizens are yielding additional benefits for specific communities in the form of education, technological innovation, access to foreign markets, sustainable use of natural resources, and higher living standards.

The Social Development and Economic Growth section of this year's annual report highlights some of these companies' contributions to widening the circle of development.

Jacques Rogozinski
General Manager
Inter-American Investment Corporation


SINERSA
CENTRAL HIDROELECTRICA
POECHOS 1

The IIC in Facts and Figures

What is the IIC? How is it organized, and what is its mission?

The IIC is a multilateral finance institution with forty-two member countries. According to its Charter, its purpose is to promote the economic development of its regional developing member countries by encouraging the establishment, expansion, and modernization of private enterprises, preferably those that are small and medium-scale, in such a way as to supplement the activities of the Inter-American Development Bank.[1]

To fulfill its mandate, the IIC offers a range of financial products and services, either directly (long-term loans, guarantees, equity investments, and issue underwritings) or by means of lines of credit through local financial intermediaries that provide funding for corporate investments, refinancings, and working capital, as well as guarantee facilities and financial and operating lease facilities.

The IIC has also provided financing for private equity funds and offered loans for supply chain support programs and structured loans. Looking ahead, the IIC is committed to expanding its presence in the region and fostering long-term relationships with its clients as they grow and diversify.

This year alone, funding channeled by the IIC benefited more than 48,035 small and medium-size companies, including small producers.[2]

The Corporation's mandate to foster private sector development, primarily through the support of small and medium-size enterprises, acquires singular meaning when examined in terms of its development effectiveness. This is seen as a litmus test of how productively the developmental capital entrusted by the shareholders of the IIC is applied and what results are tangibly achieved on the ground—that is, as seen from the standpoint of the main beneficiaries of its operations. This can be measured in terms of direct economic benefits generated by

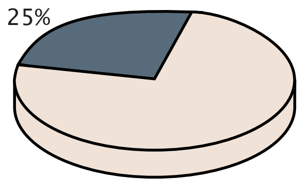
The IIC is the world´s only multilateral development institution that works primarily to promote small and medium-size enterprises.

This year 48,035 credit operations were carried out through financial instruments in which the Corporation participated.

[1] Agreement Establishing the Inter-American Investment Corporation, Article I, Section 1.

[2] Including direct loans and equity investments, revolving funding facilities, loans made by financial intermediaries with funds provided by the IIC, and other programs; 41,896 are through the credit line to Rabobank totaling $200 million.

Composition of IIC Assets



investments that target small and medium-size companies, typically evidenced by the promotion of entrepreneurship, job creation, elevation of workers' incomes to combat poverty, foreign exchange generation or savings, and the ability of small and medium-size companies to grow competitively and expand on a sustainable basis. An integral dimension of effectiveness is to help build up their creditworthiness, and the catalytic effect of IIC financing in terms of resource mobilization from commercial lenders and capital markets. These benefits are optimized through IIC operation design from the outset and are then closely monitored through their execution in the field. The IIC also often provides credit assistance to entrepreneurs located in underdeveloped or remote areas within the region's national economies, where alternative sources of finance on suitable terms are not readily accessible to small and medium-size companies, as well as in underprivileged or marginal areas within or in the proximity of urban communities.

The Corporation systematically appraises each project proposal at the very entry point in its portfolio for is what is designed as the operation's *additionality*. This concept of performance encompasses, in addition to the direct benefits already cited, such broader developmental benefits as more efficient financial intermediation, improved environmental performance, and stronger labor safety standards. In addition to these benefits, there is an increased effort to upgrade corporate management and accounting standards and to seek greater equity in the treatment of minority shareholders, wherever applicable. The Corporation is fully committed to using all the means at its disposal to maximize its development effectiveness through suitable results-oriented management tools and its direct support to small and medium-size companies through advisory services and other means at its disposal. In this endeavor, the IIC attempts to harmonize its practices and standards at the pace of the progress being made by its peer international organizations supporting private sector development in emerging market economies.

What is the IIC's specific mandate?

Asset structure and geographic distribution of projects

The IIC has a unique developmental mandate: it focuses exclusively on Latin America and the Caribbean, a region consisting chiefly of emerging economies, and its client base comprises, preferably, small and medium-size companies.

An analysis of the composition of the IIC's assets shows that approximately 75 percent are loans to and equity investments in the private sector, while about 25 percent are placed in other assets. Developmental assets account for a far larger percentage of the overall portfolio than at similar development finance institutions.

The historical distribution of the portfolio reflects the significant, sustained effort made by the IIC for its operations to support what are called the C and D countries of the region: respectively, those with a limited domestic market and those that are less developed.[3] Approximately 49 percent of the number of operations is concentrated in C and D countries.

The percentage of assets going to developmental operations and the geographic distribution of its portfolio make the IIC truly unique among the multilateral organizations supporting the private sector in developing regions.

Client support

To meet the minimum eligibility requirements for IIC loans and equity investments, a company must, among other prerequisites, provide independently audited financial statements and proof of meeting IIC environmental and workplace safety standards.

In many cases, small and medium-size companies do not meet these requirements initially. So the IIC provides technical support in designing and implementing better practices in these areas. It thus helps companies meet these standards, compete on more favorable terms, and gain access to funding for their investments

Meeting the requirements: 375 applications were received; 31 met all the requirements and were approved.

- *Average approval time for funding through financial intermediaries: 5 months*
- *Average approval time for corporate loans and programs: 7 months*

Austrian Fund: $500,000

Danish Trust Fund: $500,000

Italian Fund: $2.2 million

Swiss Fund: $3 million

USTDA: $250,000

NPPE, Netherlands: $90,000

[3] The country classification by letters (A, B, C, D) is in accordance with IDB's methodology, which divides the countries into the following groups:

Group A: Argentina, Brazil, Mexico, Venezuela

Group B: Chile, Colombia, Peru

Group C: Bahamas, Barbados, Costa Rica, Jamaica, Panama, Suriname, Trinidad and Tobago, Uruguay

Group D: Belize, Bolivia, Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Nicaragua, Paraguay on better conditions. Such assistance can take the form of advice in matters related to project design, financial, economic, technical and operational, legal, environmental, and worker safety. To help finance this assistance, the Corporation can on occasions draw on special funds for studies and other development-related initiatives.[4]

Providing this support involves greater effort on the part of the IIC and its clients alike. Companies receiving direct financing from the IIC are not the only ones that must meet these requirements; even the financial intermediaries that the IIC works with are bound by contract to attend environmental training workshops to learn how to make environmental management part of their own operations and turn good environmental practices into competitive advantages. It is important to note that commercial banks do not usually impose such requirements in order to provide financing. The fact that 375 applications were received this year and thirty-one[5] operations were approved illustrates the effort involved.

Evaluation and processing[6]

As explained above, in each case the IIC works with its clients on improvements that will enhance their corporate governance and help them become eligible for financing from the IIC. Doing so often means a longer loan approval and disbursement process—on average, five months each for operations through financial intermediaries and seven months for corporate projects and revolving programs in 2004. This process increases the initial processing costs, but better corporate governance usually has a subsequent favorable impact on project success, access to new sources of funding, and compliance with export standards.

Smaller investments often require substantially more work per dollar invested than larger investments. There are many reasons for this: the sponsors of smaller investments are usually less sophisticated than those that sponsor larger undertakings; smaller

[4] More detailed information is provided in the section on special funds.

[5] Out of these thirty-one approved projects and programs, eighteen requests were received in 2004.

[6] The IIC's Website (www.iic.int) provides information on how to apply for financing. Requests for information may also be addressed to the IIC's regional offices or its head office in Washington, D.C. The Website also provides an initial inquiry form that, once filled out by the company or financial institution in search of funding, is automatically directed to the appropriate IIC division.

businesses are less stable than larger ones and thus more likely to drop projects; much more supervision of business planning and accounting is required; credit standards are usually lower; and costs of purchases of materials and machinery are usually higher. In order to be successful in promoting and financing smaller investments, therefore, a special effort is needed that emphasizes technical assistance and close supervision.

Indeed, the rating agency Standard & Poor's reported, "The corporation has the most difficult mandate of any rated MDFI [multilateral development finance institution]."[7,8] And, according to Moody's Investors Service, the IIC lends "without sovereign guarantees to riskier segments of the private sector in Latin America and the Caribbean."[9]

Moody's: "The IIC lends without sovereign guarantees to riskier segments of the private sector in Latin America and the Caribbean."

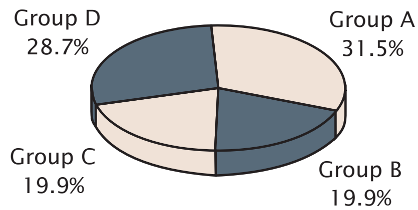
Standard & Poor's: "The corporation has the most difficult mandate of any rated MDFI."

Staffing

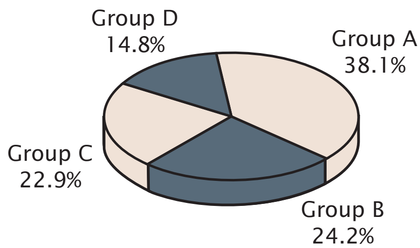
IIC governance encompasses all of the functions required for efficient fulfillment of its mission as a multilateral finance institution charged with fostering the development of the private sector. Business development, structuring and evaluating investments in companies and financial institutions, and portfolio supervision are key to fulfillment of the IIC's goals in such areas as environmental protection, labor standards, improved corporate governance at small and medium-size companies, and assessment of project additionality and socioeconomic developmental impact. There are also essential internal functions such as treasury, auditing, accounting, loan recovery and workout, legal services in support of the operations areas, and the translation of documents and reports for the IIC's governing bodies.

To fulfill its multilateral mission, the IIC has 100 staff positions.[10] There are twenty-one regional staff members in seven countries (Argentina, Chile, Colombia, Costa Rica, Honduras, Paraguay, and Uruguay) and seventy-nine at the head office in Washington, D.C. Among the latter are twenty investment officers who work directly on originating and developing new

Percentage Distribution of Active Projects by Country Group (by number of projects)



Percentage Distribution of Active Projects by Country Group (by amount of financing)



[7] Standard & Poor's, *Supranationals*, September 2003, and Standard & Poor's, *Sovereigns*, Inter-American Investment Corporation, July 14, 2003, p. 2.

[8] The rated institutions mentioned by Standard & Poor's include the International Finance Corporation, the European Bank for Reconstruction and Development, the Asian Development Bank, the African Development Bank, the Corporación Andina de Fomento, and the Central American Bank for Economic Integration.

[9] Moody's Investors Service, *Inter-American Investment Corporation, Global Credit Research*, February 2003.

[10] As of December 31, 2004.

projects and six who are assigned full time to direct supervision of a portfolio of seventy-two projects (corporate and financial institutions), including annual field visits. The remaining staff provides indirect support for Operations and include the Legal Division, the Finance and Risk Management Division, and the Credit Analysis, Loan Recovery and Workout, Environmental Engineering, and Corporate Affairs Units.

Percentage Distribution of the Active Portfolio in 2004 (by type of project)

	Number of Projects (%)	Total Financing Approved (%)
Direct projects	44.5	39.9
Financial institutions	34.2	30.5
Supply chains	1.4	2.5
Guarantees in local currency	1.4	4.1
Colending programs	2.1	8.9
Investment funds	16.4	14.1
Total	**100.0**	**100.0**

Key Operating Indicators in 2004

Approvals less than $3.0 million	14
Approvals between $3.0 million and $10.0 million	10
Approvals more than $10.0 million	7
Average financing, approved corporate *(US$000)*	4,000
Average financing approved to financial intermediaries *(US$000)*	5,100
Average financing through financial intermediaries with IIC resources *(US$000)*	4*
Average financing or guarantees in programs and supply chains *(US$000)*	3
Average number of months required for approving operations with financial intermediaries	5
Average number of months required for approving operations with companies, programs, and supply chains	7
Total write-offs/total loan and equity investment disbursements *(aggregate as of 12/31/04)*	7.9%
Provisions/loan and equity investment portfolio *(December 2004)*	17.17%
Number of companies requesting IIC financing	375
Number of projects and programs that met IIC requirements and were approved	31
Number of projects under supervision	120
Number of beneficiaries of indirect loans *(through financial intermediaries and investment funds)*	42,134
Number of direct beneficiaries through programs and supply chains	5,901
Total beneficiaries, all investments	48,035

* Including Rabobank; without Rabobank 508.

Percentage Distribution by Sector in 2004 (by number of projects)

Agency lines	2.7
Agriculture and agribusiness	11.0
Aquaculture and fisheries	4.8
Capital markets	2.1
Chemicals and plastics	2.1
Education	2.7
Financial services	34.2
Food, bottling, and beverages	2.1
General manufacturing	4.0
Industrial processing zones	2.1
Investment funds	16.4
Livestock and poultry	0.7
Nonfinancial services	1.4
Oil and mining	0.7
Small Loan Program	0.7
Technology, communications, and new economy	0.7
Textiles, apparel, and leather	1.4
Tourism and hotels	2.7
Transportation and warehousing	1.4
Utilities and infrastructure	4.0
Wood, pulp, and paper	2.1
Total	**100.0**

Social Development and Economic Growth

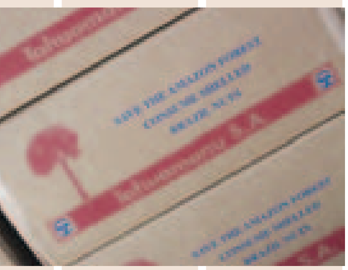
...micro, small, and medium-sized enterprises constitute a fundamental component for economic growth, employment creation, and poverty reduction in our countries.

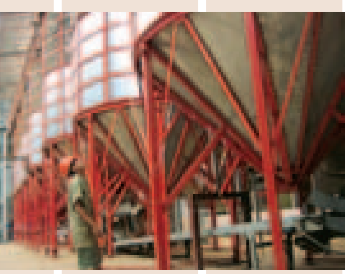
Education is a decisive factor for human development, because of its impact on the political, social, cultural, economic, and democratic life of our societies.
—Declaration of Nuevo León, January, 2004

Since its creation in 1989, the IIC has provided small and medium-size companies in Latin America and the Caribbean with funding and other support designed to promote goals that are in line with those reaffirmed this year at the special summit of Heads of State and Government of the Americas. These goals include furthering economic growth, raising living standards, generating new employment and investment opportunities, and promoting decent work. The projects highlighted on the following pages—which are being carried out in the agricultural and industrial sectors as well as in the key area of education—do just that.

Bolivia

Bolivia has some of the largest reserves of unexploited natural resources in Latin America. It also has some of the strictest forest preservation legislation in the world, which ensures that this resource is harvested under controlled conditions, volumes, and schedules that provide for natural renewal. In Bolivia, the IIC is supporting an expansion project being carried out by **Maderera Boliviana Etienne S.A.**, a company that received a $3.5 million loan from the IIC in 2001 and is using the funds to create jobs in economically disadvantaged areas of the country and generate foreign exchange by producing and exporting finished products made of wood certified under the Forest Stewardship Council's SmartWood Chain-of-Custody Certification program. This program assesses, monitors, and acknowledges good forest management and chain-of-custody procedures for the wood products coming from these forests. Chain-of-custody refers to the complete process by which wood is transformed from a tree in the forest to a final product provided in a wholesale or retail market: from the forest, to a sawmill, to a processing facility, to the marketplace.





This project is an excellent example of how the IIC can combine environmental protection with job creation and the development of new enterprises that can add value to the region's resources.

Brazil nuts cannot be raised as a crop and are difficult to harvest, store, dry, and transport. Given the worldwide demand for and limited supply of quality Brazil nuts, an innovative group of Bolivians set out to transform a traditional manual gathering and processing system into a cutting-edge industry, using processes designed to ensure that this naturally organic product reaches the consumer in good condition. Thus was born **Tahuamanu S.A.**, which, today, is the only company in the world that can supply organic Brazil nuts certified by the Swiss inspection and certification body IMO Institut für Markökologie, Kontroll- und Zertifizierungsstelle im Ökologischen Landbau.

The company first trained nut gatherers to be small rural entrepreneurs aware of the need to protect the forest that enables them to earn a decent living. This not only gives families roots in the region but also discourages clear-cutting and intentional burning of the forest to use the land for cattle.

Tahuamanu also had to design transportation logistics to get the Brazil nuts from the forest to its industrial plant. To do this, the company uses 300 oxen and a fleet of tractors and trucks.

There are no similar industries in other countries, so much of the machinery was designed and built in the company's engineering department. Tahuamanu has automated processes for drying and storing the nuts, as well as a quality control laboratory.

The IIC has supported Tahuamanu with loans and advisory services as the company has grown and consolidated. Thus, Tahuamanu has become an industry leader, supplying 10 percent of the world's Brazil nut market. It is also a socially responsible company: 80 percent of its profits are returned to communities that have no other sources of income. The company has grown along with its people, generating a positive social impact in the region. Hundreds of Brazil nut gatherers in rural areas and the inhabitants of Cobija benefit from 350 direct jobs and more than 1,200 indirect jobs. Most of the jobs in the processing plant are for women, whose schedules mesh with their family responsibilities. The plant also offers employees free daycare, and their children may eat in the company cafeteria.

Environmental conservation guarantees the supply of the best quality Brazil nuts. For this reason, the company is conducting research on compatible species to reforest devastated forest areas.

Ecuador

The Sahiwal breed of cattle has its origins in the border area between India and Pakistan. It is one of the breeds best adapted to producing milk in tropical areas. **Agrícola Ganadera Reysahiwal** (AGR) operates dairy farms with more than 8,500 head of Sahiwal cattle in a tropical region of Ecuador. With financial assistance from the IIC, AGR has integrated all the processes involved in the dairy industry and has instituted social and environmental programs that benefit employees and their families, the distributors of its products, small dairy producers, and the communities where the company operates.

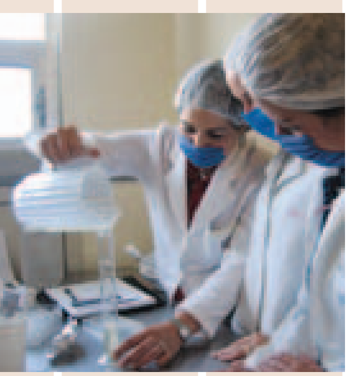
First, the company imported a few head of Sahiwal cattle to Ecuador and invested in research to develop new types of pasture grasses that are environmentally friendly and suited to this breed. It also introduced intensive grazing techniques in Ecuador in order to optimize sustainable land management in the area.

AGR supplements its own milk production with milk from small farmers in the area. These dairy farmers receive the full support of the company free of charge. The company shares its Sahiwal cattle gene bank with them and provides veterinarians and agronomists, seeking to disseminate optimum natural pastures and grazing techniques. The company's refrigerated trucks collect the milk produced by these small farms and take it to AGR under perfect conditions. In this way, the company receives the volume of milk it needs and the farmers are assured of selling what they produce.

The company also created a foundation that runs a system of rural schools in small neighboring communities. In addition to teachers and professors paid by the company, children receive uniforms and all the school materials they need free of charge. This support helps keep families from migrating to the city.

Through its foundation, the company acquired more than 200 hectares of virgin forest where it has established a science center. In addition to maintaining an ecological lodge visited by environmentalists from all over the world, the center has a laboratory with a permanent team of biologists and researchers who conserve local flora and fauna and use micropropagation techniques to reproduce botanical species with medicinal properties.

With funding from the IIC, AGR purchased and equipped a fleet of refrigerated trucks. It gave the trucks to families who transport the products from the production plants to supermarkets and other outlets throughout Ecuador. As part of its modernization program, the company is building a new plant near Quito. The plant, financed with funds from the IIC, incorporates the latest technologies used to package and preserve milk for extended periods.



El Salvador

Fundación Empresarial para el Desarrollo Educativo (FEPADE) grew out of a private sector initiative in El Salvador seeking to develop a more skilled workforce. FEPADE is a private nonprofit institution that is aware that education and corporate social responsibility are key to the development of a country.

Given the lack of master's programs, the foundation created the Instituto Superior de Economía y Administración de Empresas, which provides executive-level master's degrees in economics and business administration for entrepreneurs throughout the region and offers scholarships and training to promote exports.

FEPADE also seeks to involve entrepreneurs in outreach programs, such as adopt-a-school and the national book campaign. With the participation of a bank and a supermarket chain, books are donated and distributed to prisons and rural school libraries. Publishers from various countries have also become involved in this project.

FEPADE has been so successful that, in recent years, demand has completely outstripped the capacity of its facilities. For this reason, the IIC granted the foundation a loan to build its new campus in the city of San Salvador.

Mexico

With its modern campuses in various Mexican cities, the **Universidad del Valle de Atemajac** (UNIVA) serves more than 70,000 students and has become one of Mexico's best universities. Created to provide higher education to the employed, UNIVA offers them excellent academics combined with a flexible system adapted to students' schedules.

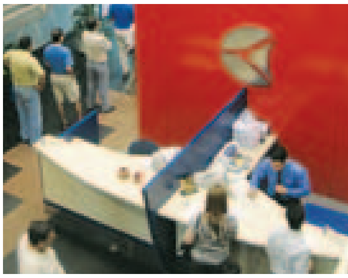
UNIVA has developed an academic program that combines class attendance with on-line instruction, allowing workers to study for a master's degree or complete a degree program they interrupted and housewives to obtain professional training. UNIVA also has scholarship programs and financing plans.

The IIC has been supporting the work and growth of UNIVA by financing the construction of new campuses in three rapidly growing cities in western Mexico. The IIC also helped fund the construction of UNIVA's new library at the Guadalajara campus. This is one of the most modern libraries in Latin America and includes a laboratory for the blind with talking computer keyboards and specialized software that converts any printed text into an audio file. The laboratory also has Braille printers, making it the only laboratory providing services of this type in the region. These services are available free of charge to the blind throughout the region, regardless of whether they are enrolled at the university.

Paraguay

Working with local banks is another way to ensure that IIC resources reach small businesses throughout the continent. For this reason, the IIC is working with Paraguay's **Banco Regional**, a small institution in southern Paraguay that primarily serves rural farmers.

Aware that farmers have specific needs and financial cycles tied to the planting and harvesting seasons, Banco Regional provides personalized attention and a team of executives who are familiar with the entire agricultural production process. This view of service is unique in a Latin American banking institution. From its headquarters in the city of Encarnación, Banco Regional operates an efficient network of small branches located in the small, rural, grain-producing communities where its clients live.



Direct sowing is a key sustainable agriculture method. This is a technique in which the soil is not turned over, crops are rotated, and what is left from each harvest is used as mulch that releases organic compounds into the soil. This technique

controls erosion and floods and promotes the absorption of atmospheric carbon. At 52 percent, Paraguay leads the world in total surface area of directly-sown annual crops. If this revolutionary farming concept is to become more widespread, farmers must have the best tools to work their fields. For this reason, the IIC granted Banco Regional a line of credit so that its clients could purchase the latest machinery. Paraguayan farmers are thus increasing their yields, improving the living standards of their families and communities, and becoming much more environmentally friendly.

Peru

Poechos is an arid place that lacked basic services, including electrical power. Some time ago, the Peruvian government built the Poechos dam to improve living conditions, harness the resources of the water basin, and distribute water for irrigation to the region's inhabitants.

Sindicato Energético S.A. (SINERSA), a wholly Peruvian-owned private company, decided to utilize this irrigation infrastructure and build the Poechos hydroelectric plant, the first private power generation project in Peru. The plant uses surplus volumes from reserves meant for irrigation to generate power that is delivered to the company that holds the concession for power distribution in northwestern Peru.

The IIC provided financing and environmental know-how to minimize negative impacts and optimize the social benefits of the project. The Poechos plant has passed the rigorous Kyoto protocol verification process and has been confirmed a green project. In addition to producing zero carbon dioxide emissions, it limits the operating hours of other thermal power plants whose emissions would contribute to global warming. A large part of the material for the plant was sourced locally, including two Kaplan turbines built in Peru.

From the outset, SINERSA has involved regional authorities and local communities in all the decisions made in carrying out the project. This represents a real boost to the social and economic development of the entire region. In addition to employing local labor in the construction phase and later creating permanent jobs, the plant supplies the electrical grid that provides electricity to sixty-two towns with more than 12,000 families, improving their standard of living.

SINERSA has a scholarship plan so that youth living in the towns closest to the dam can pursue university studies at the Universidad de Piura. The Poechos hydroelectric plant is an example of socially responsible, sustainable development, combining innovative entrepreneurship and community involvement to harness the natural resources and meet the basic needs of a remote area of Peru.

An innovative aquaculture enterprise that uses water from the dam and power generated by the new plant is also emerging from the arid Poechos landscape. **Aqua Perú** is engaged in the intensive production of blue tilapia, a species of fish that can be fed with vegetable products. Tilapia farming is much more environmentally friendly than the production of carnivorous species.

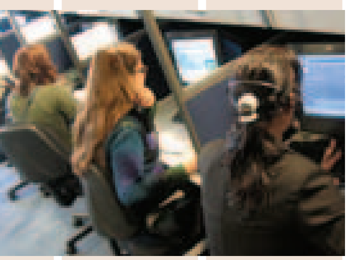
Aqua Perú uses the water from the Poechos dam to raise tilapia throughout the year thanks to an innovative system that relies on massive gravity-driven water exchange. To do this, it had to put together biological, logistical, and financial expertise and establish a network of services and suppliers that did not exist in Peru. The company forged international partnerships with similar companies, such as Aqua Corporación de Honduras, to share programs and experiences and exchange technicians for training. In the first two years, this effort yielded a group of well-trained Peruvian technicians.

Aqua Perú seeks to create value, adopting new technologies and producing quality tilapia, so that it can compete on the international market while generating employment in an economically depressed area with few sources of jobs. In view of the rapid growth of its payroll, Aqua Perú is working with the Universidad de Piura to train professionals in this new field, making Peru more competitive in a globalized market.

According to Aqua Perú's management, it would have been impossible to find financing for a project of this type without the support of the IIC.

Uruguay

Zonamerica is a business center and high-technology park a few kilometers from the capital city of Montevideo. More than 2,300 people work at the park, which has 100,000 square meters of floor space and occupies more than ninety hectares of land. People from all around the



world speaking many different languages share the gardens and common areas, which successfully balance buildings and green space.

The park provides direct data, voice, and image transmission and reception services and is covered by a wireless broadband network. Zonamerica has attracted international companies that, in addition to creating jobs, operate in the globalized economy and offer first-class products and services worldwide. Zonamerica provides a launching pad for international businesses seeking involvement in the flow of goods and services to and from the Mercado Común del Sur (MERCOSUR).

This project, unique in Latin America, builds on Uruguay's competitive advantages (which include an excellent tertiary education system) and places the country at the forefront of this business field. Moving forward, Zonamerica continues to innovate in order to provide cutting-edge services, bring in new technologies, and upgrade its infrastructure with the help of funding provided by the Corporation.

The Year in Review

The Corporation in 2004

Operating Results

This year, the IIC's Board of Executive Directors approved thirty-one projects and programs in fifteen countries—plus two regional projects—totaling $163.6 million. The average amount per operation was $5.3 million, broken down as follows:

- 13 direct corporate operations for an average amount of $4.0 million;
- 16 operations with financial intermediaries averaging $5.1 million, to finance small and medium-size enterprises; and
- 2 colending programs and other agreements for an average amount of $15.0 million, to channel loans to small producers.

Four of the year's loans will be cofinanced, thus mobilizing $130.0 million in funding from banks and other sources. The total amount of resources channeled by the IIC in 2004 is $293.6 million.

The year's approvals followed identification of 375 potential projects in twenty-five countries; 193 were not considered because they did not meet basic IIC criteria regarding size, additionality, or perceived risk, among other factors. The remaining 182 moved to subsequent phases. Thirty-one transactions were submitted for consideration and approval by the Board of Executive Directors.

- *13 corporate projects approved*
- *16 operations with financial intermediaries*
- *2 colending programs*

- *Resources channeled by the IIC in 2004: $293.6 million*

Financial Results for the Year

IIC income from all sources in 2004 amounted to $26.4 million. Income from lending operations totaled $18.6 million ($17 million from interest and $1.6 million from fees). Capital gains and dividend income from the equity investment portfolio totaled $4.2 million for the year. Total expenses, including $3.3 million in provisions, were $22.9 million, producing a net profit of $3.5 million.

- *Total revenue: $26.4 million*
- *Total expenses: $22.9 million*
- *Net profit: $3.5 million*

Net income increased to $3.5 million in 2004 from $2.2 million in 2003. The improvement in net income can be attributed to the following:

- commitment and disbursement of higher quality assets,
- higher interest income on variable-rate loans due to rising interest rates,
- continued recoveries on problem investments, and
- continued moderation of macroeconomic conditions in previously distressed regions.

Developmental Impact

- *Estimated jobs created: 66,323*
- *Total cost of projects: $495.9 million*

Year 2004 approvals are expected to lead to the creation of more than 66,323 jobs. The $163.6 million approved in 2004 will support the implementation of projects with a total cost of $495.9 million. For every dollar earmarked by the Corporation for operations approved in 2004, $2.70 dollars will be mobilized from other sources.

Of the IIC's committed investments, 95 percent had been fully disbursed by December 31, 2004.

Programs and Supply Chains

Supply chain programs seek to use IIC financing to help strengthen the relationships between large companies and their suppliers. These programs offer the suppliers a number of advantages depending on their structure and specific purpose. For example, they enable these companies to collect payments before their invoices are due, thus decreasing their financial and collection expenses, or provide them with a vehicle for transfer of know-how and technology. These programs also provide access to medium-term capital to purchase fixed assets. For large companies, these programs enable them to develop their supply chains and obtain better prices from their suppliers.

Supply chain programs provide the IIC with an opportunity to leverage its scope and reach a greater number of small and midsize companies while supporting the development of supply chains. The programs shown in the box are instances where the IIC has been able to reach a greater number of companies than it would have been able to assist directly. Some fifty fruit growers are benefiting from the **Subsole**

Some of the year's most noteworthy projects are highlighted below. Further details on these projects are provided in the section entitled "The Year in Review."

In supporting the granting of a local-currency stock market certificate issue guarantee for **Cablemás S.A. de C.V.**, the IIC will take advantage of a significant niche opportunity to develop the securities market and support companies that are interested in issuing paper on the markets but do not have access to the requisite funding. Additionally, the credit enhancement should allow these companies to issue securities to be purchased by pension funds or similar entities.

With a loan to **Café Soluble S.A.**, the IIC will help strengthen the competitive position of a medium-size Nicaraguan agribusiness company that produces and exports high-value-added products and is a major employer in Nicaragua. The IIC's support for Café Soluble will result in greater production efficiency and better use of available resources by the company, thus benefiting the Nicaraguan economy and helping make it more competitive.

Four groundbreaking loans—to **Banco ProCredit S.A.** (Ecuador), **Banco ProCredit S.A.** (El Salvador), **Caja Los Andes S.A. F.F.P.** (Bolivia), and **Financiera ProCredit S.A.** (Nicaragua)—are the IIC's first to be carried out on a pari passu basis with the IDB´s Multilateral Investment Fund. These four projects are also the IIC's first with a world-class specialist in microfinance banks, Germany's Internationale Micro Investitionen Aktiengesellschaft (IMI), which has years of experience and a large microfinance investment portfolio. IMI acquires equity participations in licensed and regulated microfinance banks in transition and developing countries that provide banking services to segments of the population that other banks serve poorly or not at all.

These four projects also follow the private sector development guidelines laid out at the Special Summit of the Americas, held at Nuevo León, Mexico, in January 2004, which encourage the utilization of the banking sector to channel loans to micro and small private enterprises in Latin America and the Caribbean.

With its loan to **Compañía Agrícola e Industrial Ecuaplantation S.A.**, the IIC is supporting a medium-size Ecuadorian enterprise that has forged a strategic alliance with an international company and become a significant agribusiness producer that adds value by processing and exporting tropical fruit. The project will also foster environmental protection, because the IIC increased the loan amount to enable the company to install a secondary wastewater treatment system.

A loan will provide resources to **Fundación Empresarial para el Desarrollo Educativo**, which operates in a sector (education) in which the region's private banks have shown little interest. The

IIC loan will help complete a project to be carried out by an education facility that provides college-level training for more than 5,000 students each year in El Salvador.

The IIC's loan to **Tahuamanu S.A.** will help this Brazil nut exporter conserve the Amazon rainforest. By adding value to the standing trees, the company discourages the Brazil nut gatherers from cutting trees and selling timber as an additional source of income. Tahuamanu also provides practical training in how to gather Brazil nuts without damaging flora or fauna and is active in other initiatives to ensure the sustainable development and conservation of the rainforest. To this end, Tahuamanu is working with nongovernmental organizations that are researching potential uses of forest resources or are involved in sustainable development activities, such as certified forestry, extraction of nontimber products, and ecotourism.

The Rabobank Group in the Netherlands provides a broad range of financial services both domestically and in other countries, where it seeks to foster the sustainable development of prosperity, particularly in developing countries where access to innovative financial services is limited. Thanks to an IIC loan approved in 2004, **Banco Rabobank International Brasil S.A.** can continue to help small and medium-size enterprises gain access to credit for buying goods and services from large corporations. Rabobank does this by purchasing the senior quotas of receivables funds (*Fundos de Investimento em Direitos Creditórios*, or FIDCs) set up to acquire discounted receivables issued by companies that finance small and medium-size enterprises.

This new concept in the Brazilian capital markets gives smaller enterprises access to a continuous source of working capital funding and enables larger producing companies to sell receivables at a discount and expand the number of clients to whom they sell.

Rabobank used the proceeds of its first loan from the IIC, approved in 2003, to establish two FIDCs and acquire 100 percent of their senior quotas for a total of some $65 million. Through this transaction, the IIC leveraged its $15 million A loan by a factor of more than four and helped more than 40,000 small and medium-size enterprises obtain credit for purchases of goods and services from large corporations.

The IIC's 2003 loan also furthered the development of the local capital markets; Rabobank used the remaining $35 million of the loan to purchase senior quotas of an FIDC established for one of the largest retail companies in Brazil that generates receivables from consumers that purchase their products on credit.

Exportadora Subsole in Chile

This $7 million, seven-year operation approved in 2001 and mainly disbursed in 2003 exemplifies the significant multiplier effect achieved by making it easier for some fifty small fruit growers to access new technology and advice on farming and business issues. Subsole operates as an export company, vertically integrating production and distribution activities. It also organizes its producers, transfers technology to them, advises them on agricultural and business issues, and provides some of them with financing for planting and/or harvesting, using proceeds from the IIC loan channeled through Subsole. The IIC loan enables financing through Subsole to create thousands of seasonal jobs per year over the life of the project.

Almacenadora Mercader (Almer)

Almer is a Mexican company that received a $10 million five-year loan in 2001. This warehousing company buys, stores, grades, and sells corn grown by thousands of farmers, mostly small scale. Almer has used and will continue to use funding from the IIC to finance corn growers through repurchase agreements or by storing grain until it is sold. Thousands of farmers per cycle benefit from the program.

program, and IIC's financing to **Almer** has reached approximately 5,900 farmers organized in twenty-one cooperatives. Under this program, they can sell their produce on a cash basis and have immediate access to working capital needed to start the next crop.

Direct Management of Loans Made through Intermediaries

In addition to the IIC's portfolio of financial intermediaries that have received funding, there are some financial intermediaries that have posted poor operating results or have been taken over by local regulatory authorities. In some such cases, the IIC has executed security in its favor so that the individual loans that the intermediaries had made with IIC funds are now being managed, negotiated, sold, and/or restructured by the IIC without going through an intermediary. As a result, the IIC is now managing a portfolio of approximately eighty of these loans, for a total of $5 million outstanding.

Institutional Affairs

The Partnership Grows

Late in the year, the IIC's Board of Governors voted to approve the Republic of Korea's application to become a member of the IIC. Once membership is approved by the Korean Parliament, the Republic of Korea will become the IIC's forty-third member country. Following formal admission, the Republic of Korea will contribute to a trust fund to provide targeted support of the Corporation's mission and operations in its regional developing member countries, with preference for small and less developed economies.

International Development Goals

Declaration of Nuevo León

In early 2004 in Monterrey, Mexico, presidents and prime ministers from thirty-four Western Hemisphere countries held a special summit "to advance implementation of measures to combat poverty, to promote social development, to achieve economic growth with equity, and to strengthen governance in our democracies." The Declaration of Nuevo León spells out the guiding principles and general goals to be pursued by the governments of the states that attended the summit, and specifically refers to the developmental role played by private enterprise:

> We emphasize the importance of the participation of the private sector in achieving our objectives. We recognize that micro, small, and medium-sized enterprises constitute a fundamental component for economic growth, employment creation, and poverty reduction in our countries. We will support micro, small, and medium-sized enterprises through policies and programs that facilitate their consolidation and incorporation into the formal sector, allow their effective access to markets and to government procurement, and, *inter alia*, promote investment in and training of human resources, and facilitate access to credit, business development services, and new technologies in order to reduce administrative costs. Additionally, we will promote greater international cooperation in order to foster the sharing of best practices for the development of micro, small, and medium-sized enterprises.

Among the measures mentioned to this end is a tripling of "lending through the banking system to micro, small, and medium-sized enterprises, striving to benefit all of the countries that participate in the Summits of the Americas process." In response to this challenge, the IIC is exploring ways to expand its activities to reach more small and medium-size companies—and even smaller companies—cost-effectively through supply chain financing, local currency lending, joint lending programs, and the small loan program that it introduced in 2003. The IIC is also reviewing how much its net active approvals with financial institutions would have to increase to achieve the Nuevo León target. In this connection, the IIC is setting longer-term developmental, operational, financial performance, and strategic objectives aimed at meeting the priorities of its shareholder countries as stated in the Declaration.

Millennium Development Goals

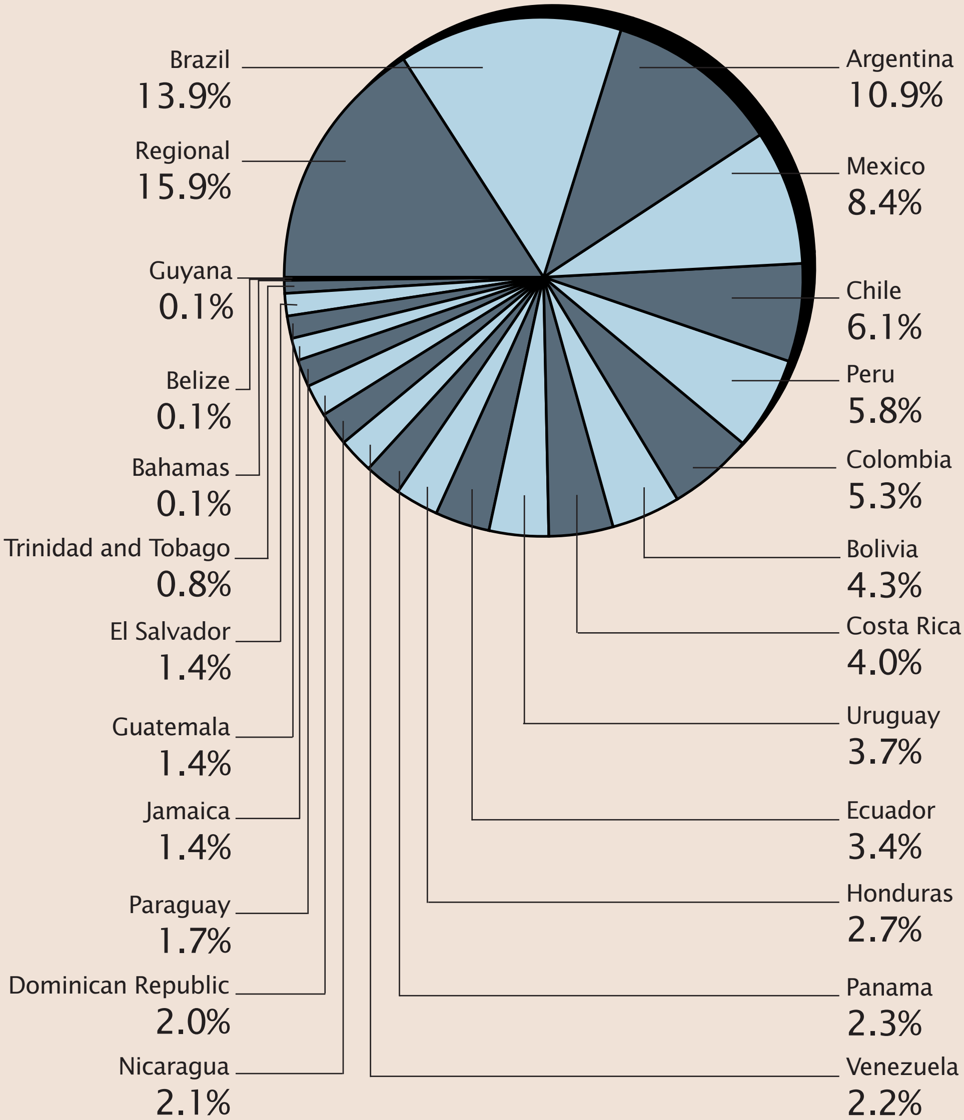
At the United Nations Millennium Summit in September 2000, the international community set the Millennium Development Goals, which are targets for reducing poverty and improving health, education, gender equality, and environmental and other aspects of human welfare. Since 2002, the IIC has systematically assessed the developmental performance of its projects using an additionality matrix based on its own core mandate to help promote the economic development of its regional developing member countries by encouraging the establishment, expansion, and modernization of small and medium-size private enterprises. The matrix is built on criteria that are compatible with the Millennium Development Goals and, particularly, is a tool for integrating the principles of good corporate governance, open financial systems, sustainable development, and environmental protection in IIC projects as they pertain to ensuring environmental sustainability, developing a global partnership for development, and promoting corporate governance.

Decentralization

In an effort to provide more effective service to its clients, the IIC is increasing the number of staff based in the region and expanding the network of countries where staff members are located. In 2004, IIC regional staff increased to twenty-one located in seven countries compared with fifteen staff members in three countries in 2002. Decentralization of business

Aggregate Approvals, Net of Droppages and Cancellations, by Country

As of 12/31/2004



origination and portfolio supervision is contributing to an increasing volume of new business opportunities and more frequent and timely interaction with existing clients. The decentralization process will continue to be a major focus of the IIC's strategy in the future. In addition to increasing the number of staff and locations in the region, other support functions such as legal and environmental, currently centralized in headquarters but critical for ensuring compliance with the IIC's developmental objectives, will be decentralized as well.

Flexibility and New Products

In 2003, the IIC's product capabilities were expanded to include a broader mix of financing alternatives. Among these products are short- and medium-term loans for a variety of purposes including trade finance and working capital. In part, the enhanced product flexibility was intended to improve IIC's financial performance. More importantly, the objective of these new product capabilities was to respond to the unmet financial needs of IIC's target market of small and medium-size companies and to increase the IIC's lending and investing activities in the smaller economies of the region. The intended financial and developmental effects of greater product flexibility were achieved in 2004. New products and client capabilities accounted for more than 50 percent of the number of project approvals in 2004. In addition, nearly 60 percent of the project approvals in the smaller economies were a result of the product and client flexibility introduced in 2003. Transactions with financial institutions, another primary focus of new business activities in 2004, accounted for about $79 million or 48 percent of the volume and number of project approvals for the year. Through colending operations, the IIC will also mobilize an additional $115 million for financial institutions.

Governing Body Activities

Board of Governors

All the powers of the Corporation are vested in its Board of Governors, which is composed of one Governor and one Alternate Governor appointed by each member country. Among the powers vested in the Board of Governors that it cannot delegate to the Board of Executive Directors are the admission of new member countries, the engagement of external auditors, approval of the Corporation's audited financial statements, and the amendment of the Agreement Establishing the IIC.

The Board of Governors holds an annual meeting in conjunction with the annual meeting of the Board of Governors of the Inter-American Development Bank (IDB). It may meet on other occasions by call of the Board of Executive Directors. The nineteenth Annual Meeting of the Board of Governors of the IIC took place in Lima, Peru, from March 29 to 31, 2004. During this meeting, the Governors approved the IIC's financial statements for the year ended December 31, 2003, as well as its annual report.

Board of Executive Directors

The Board of Executive Directors is responsible for the conduct of the operations of the Corporation and, for this purpose, exercises all of the powers given to it by the Agreement Establishing the IIC or delegated to it by the Board of Governors. The Board of Executive Directors determines the basic organization of the Corporation, including the number and general responsibilities of the principal administrative and professional positions, and adopts the budget of the institution. The thirteen members and thirteen alternate members of the Board of Executive Directors serve for three-year terms and represent one or more member countries of the Corporation.

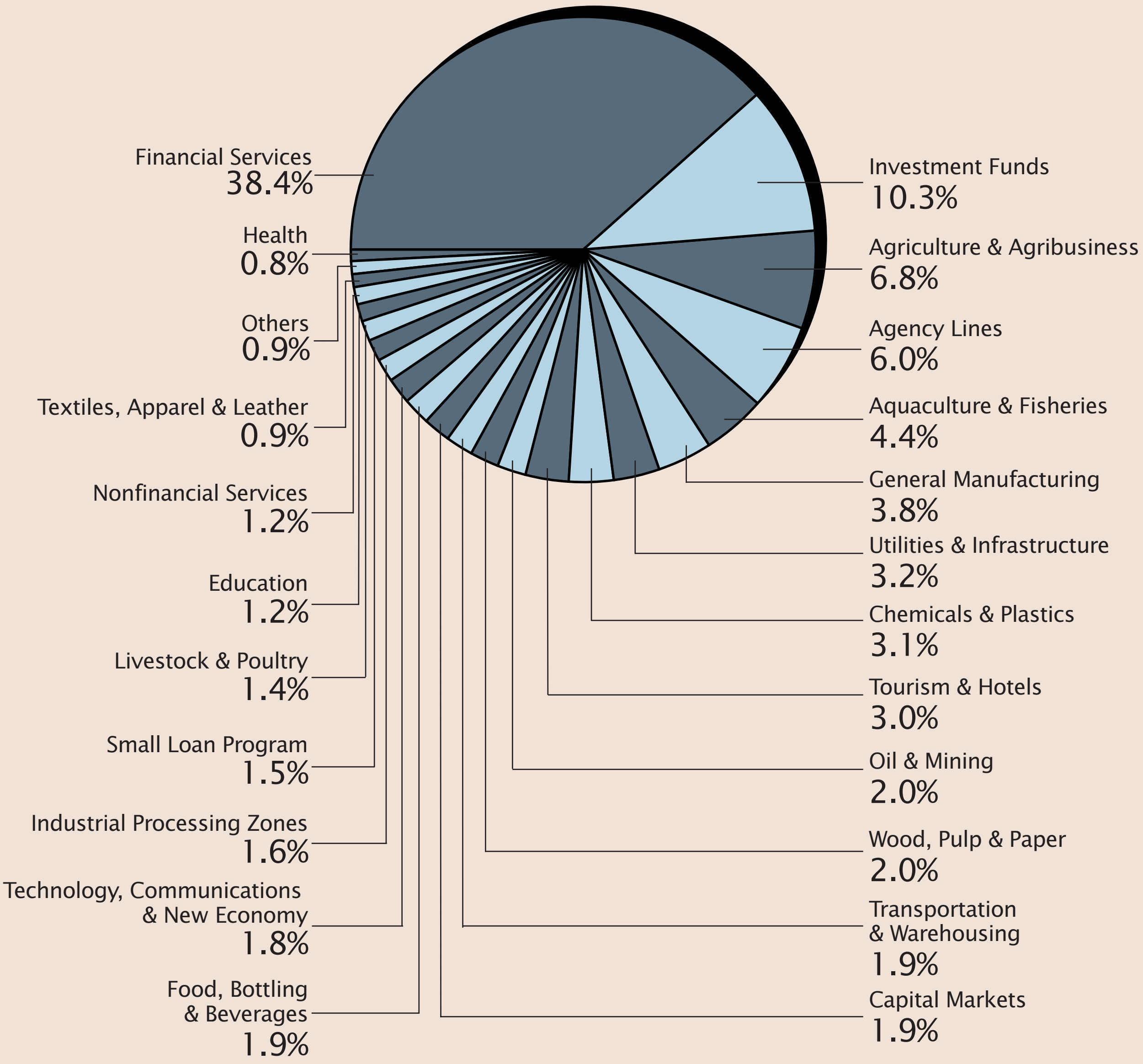
The four-member Executive Committee of the Board of Executive Directors is composed of one person who is the Director or Alternate appointed by the member country having the largest number of shares in the Corporation, two persons from among the Directors representing the regional developing member countries of the Corporation, and one person from the Directors representing the other member countries. This committee considers all the Corporation's loans to and investments in companies located in member countries.

Among the matters considered by the Board of Executive Directors in 2004 were the following:

- 31 loan and equity investment proposals
- Operations Work Plan
- Follow-up actions to the recommendations in the External Review Group's final report
- End-of-year review of 2003 action plan for impaired projects
- 2004 forecast for recoveries from impaired projects
- Framework for structuring security for IIC loans
- IIC funding requirements for 2004
- Rules of procedure for Committees of the Board of Executive Directors

Breakdown, by Sectors, of Aggregate Approvals, Net of Droppages and Cancellations

As of 12/31/2004



- Planning Options vis-à-vis the Declaration of Nuevo León
- Waiver request to temporarily exceed country limit
- Security for loans to banks
- Waiver request to temporarily exceed financial services sector limit
- Options for streamlining Board of Executive Directors project approval procedures
- Status report on the $500 million increase in the authorized capital stock of the Corporation
- Initiative for C and D countries
- 2005 budget proposal
- Status of the IIC move to 1350 New York Avenue
- 2005–2006 Action Plan
- Management assessment of 2003–2004 Action Plan
- Oral presentations on market strategy and problem projects

The two-year business plan was the first to be submitted in compliance with the IIC's External Review Group request for improvement of the IIC's business planning processes and management practices. This new business plan consolidates the corporate strategy and the related policy orientations and portfolio shifts to better respond to the foreseeable business environment throughout the region. And it will serve as the main executive-level vehicle to engage the Board in a dialog that will allow for the establishment of medium-term objectives, the setting of clear performance targets and operational benchmarks, and the creation of a monitoring and performance review mechanism.

Management and Permanent Functions

IIC governance encompasses all of the functions required for efficient fulfillment of its mission as a multilateral finance institution charged with fostering the development of the private sector. Business development, structuring and evaluating investments in companies and financial institutions, and portfolio supervision are key to the fulfillment of the IIC's goals in such areas as environmental protection, labor standards, improved corporate governance at small and medium-size companies, and assessment of project additionality and socioeconomic developmental impact. There are also essential internal functions such as treasury, auditing, accounting, loan recovery and workout, legal services, and the translation of documents and reports for the IIC's governing bodies.

Business Development

The main goal of the Business Development Unit is to support the IIC's mandate by promoting new business and developing new products for the IIC. The unit was created to carry out nontraditional business activities through alternative operating mechanisms that support small and medium-size companies. In addition to traditional project financing arrangements, the unit is supporting the development of small and medium-size companies through new financing mechanisms tailored to specific sector or country needs. It is exploring new possibilities for the Corporation and channeling resources through new programs and mechanisms, reaching numerous small and medium-size companies at a low cost.

Through new sector- or country-specific structures, the IIC is working with other public and private institutions for supply chain financing, export financing, local currency financing, and structured operations.

The latter operations, carried out in capital markets, allow the IIC, together with investment banks, to support small and medium-size companies with secured issues, securitizations, operating and financial leases, and coloans in dollars and local currency. One objective is to support the development of local capital markets.

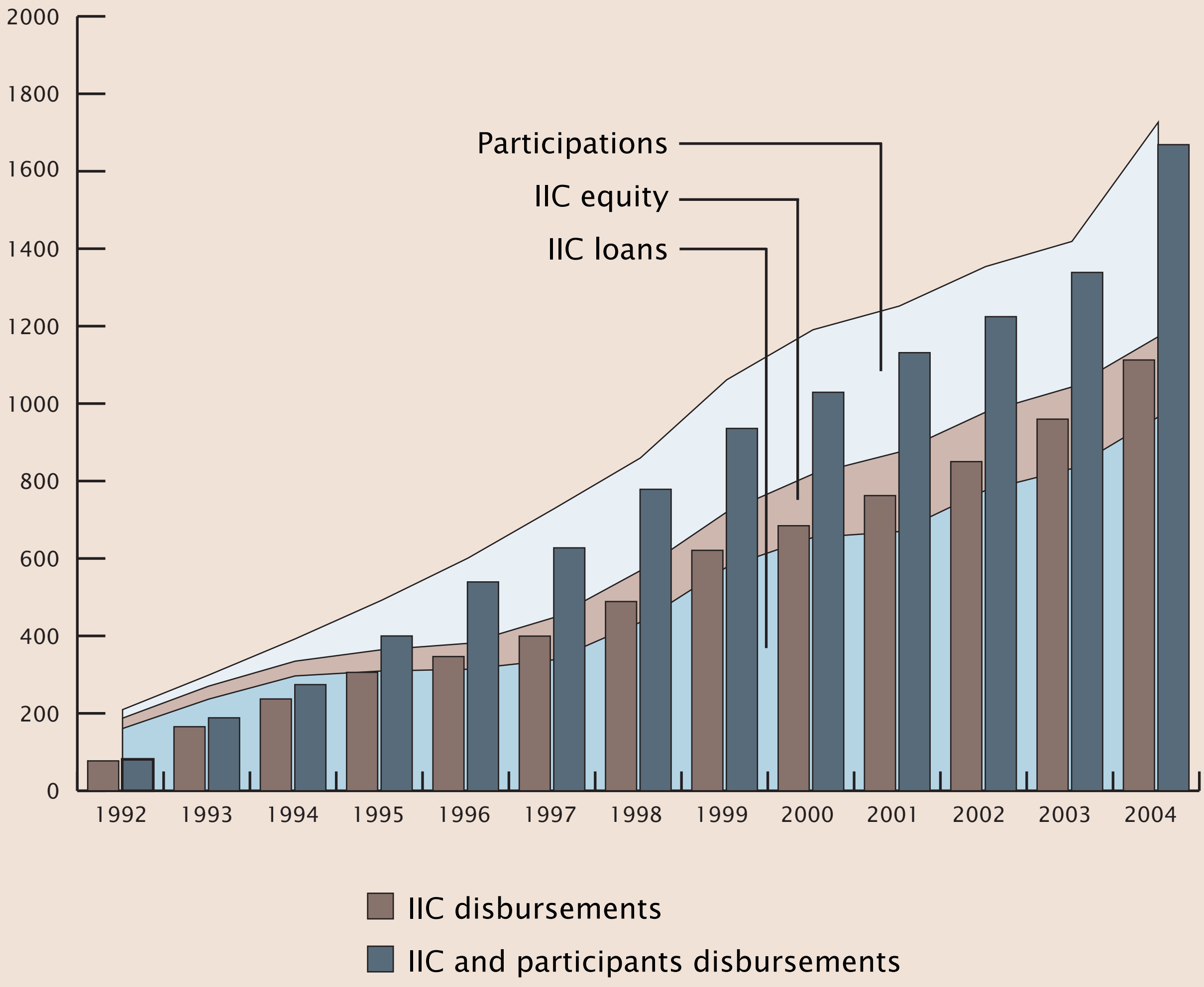
Portfolio and Credit Risk Management

Effective, productive deployment of the resources subscribed by the IIC's shareholders involves sound portfolio management that takes into account primarily the two main types of risk to which the IIC's project companies are subject: macroeconomic risk and credit risk.

Macroeconomic risk is largely beyond the control of the IIC and its clients; however, the appraisal process before project approval takes this risk into account. The process is geared toward avoiding situations in which the potential risks would make it virtually impossible to attain the IIC's developmental goals or recover its assets. The Corporation's Credit Unit gives the Credit Committee an assessment of each project company's credit risk and transaction structure, including a review of the security package. The Credit Committee is responsible for recommending to the General Manager whether to present projects for consideration by the Board of Executive Directors, and it focuses primarily on credit issues and on ensuring that loans and investments are structured in accordance with the company's risk profile.

Cumulative Committed Portfolio

As of 12/31/2004 (US$ millions)



Noncredit issues, such as project developmental and environmental impact, international private sector and capital markets resource mobilization, and IIC policies, are central to IIC's mandate and are taken into account in the process of deciding whether to submit a project to the Board of Executive Directors. To this end, the Credit Committee receives input on these aspects of each project.

Portfolio Supervision Committee

The Portfolio Supervision Committee is a decisionmaking body chaired by the Finance and Risk Management Division Chief; its voting members hold managerial positions within the Corporation. Its main responsibility is to monitor the overall quality of the IIC portfolio. The Portfolio Supervision Committee meets regularly, at least once a month, to review the status of the portfolio supervision cycle. Among its major responsibilities are the validation and approval of the risk classification for each project in the portfolio and approval of the adequate level of allowance for potential losses in the portfolio. The committee periodically reviews and approves guidelines and procedures designed to improve the supervision process. It reviews specific actions necessary to mitigate risks and protect IIC interests in individual projects.

Credit Committee

The Credit Committee reviews new operations and makes recommendations to the General Manager as to whether they should be submitted for approval by the Board of Executive Directors. The committee is chaired by the Chief Credit Officer. Other members are the Chief of the Special Operations Unit and the Chief of the Portfolio Management and Supervision Unit. The Finance and Risk Management Division Chief advises the Credit Committee on noncredit issues.

Portfolio Management and Supervision Unit

The Portfolio Management and Supervision Unit monitors the performance of the IIC's loan and equity investment portfolio once the first disbursement is completed. The unit also oversees the disbursement process.

A total of six investment officers at three regional offices (in Colombia, Costa Rica, and Uruguay) manage and supervise the entire current portfolio of corporate projects and financial intermediaries (funds excluded); the outstanding value of this portfolio as of December 31, 2004, was $266.8 million. The unit's main activities include a regular review of key performance drivers for each exposure, the analysis of periodic financial information, monitoring of subsequent disbursements, and ongoing review of project compliance with agreements.

The active monitoring of the IIC's portfolio and the proximity of the investment officers assigned to the regional offices make for better client service, contribute to the early detection of potential problems, and help the IIC prevent situations that may affect its interests. During the fiscal year ended December 31, 2004, the unit conducted field supervision visits to sixty-six corporate projects and financial institutions located in seventeen countries.

The monitoring of private equity funds in the portfolio is managed through investment officers assigned to the Corporate Finance and Financial Institutions Department. The Portfolio Management and Supervision Unit keeps track of fund performance and valuation.

An investment officer assigned to the Portfolio Management and Supervision Unit helps IIC project teams expedite disbursements and ensures that new exposures meet certain minimum quality standards. Current disbursement guidelines have streamlined the process to maximize earning assets while minimizing credit losses for the IIC. Disbursements for this fiscal year totaled $139.3 million. Disbursements were made to forty companies and financial institutions located in fourteen countries.

Special Operations Unit

The Special Operations Unit carries out its specific fiduciary duty to protect the IIC's interests by maximizing cash recoveries of problem loans and investments by developing and implementing cost-effective recovery strategies. Projects that experience a serious deterioration of their risk profile or default on scheduled payments are transferred to the unit. To disseminate the lessons learned from problem projects and improve the IIC's credit culture, two members of the unit are voting members of the Credit Committee, the Coordinator is an observer at the Portfolio Supervision Committee, and the unit conducts regular meetings with the Legal Division.

During 2004 the Special Operations Unit was responsible for a portfolio of forty-one projects, divided between equity investments and loans. In 2004 the Special Operations Unit made cash collections in excess of $17 million, with direct costs less than 5 percent of the amounts collected. A substantial portion of the cash recoveries were related to successful foreclosures of

Operations Approved in 2004

(US$ millions)

Country	Investment Name	Sector Name	Gross Loan Approved	Gross Equity Approved	Gross Loan & Equity Approved	Estimated Project Cost
Argentina	BICE	Agency Lines	10.0	0.0	10.0	20.0
Bolivia	CAJA LOS ANDES S.A. F.F.P.	Financial Services	2.0	0.0	2.0	2.0
	FONDO FINANCIERO PRIVADO PRODEM	Financial Services	1.0	0.0	1.0	1.0
	TAHUAMANU II	Agriculture & Agribusiness	1.8	0.0	1.8	4.2
Brazil	BANCO ABN AMRO REAL	Financial Services	10.0	0.0	10.0	40.0
	BANCO RABOBANK INTERNATIONAL BRASIL, S.A.	Financial Services	15.0	0.0	15.0	100.0
	BICBANCO	Financial Services	5.0	0.0	5.0	15.0
	DORI	Food, Bottling & Beverages	6.0	0.0	6.0	13.5
	SANRISIL	Agriculture & Agribusiness	2.5	0.0	2.5	5.1
Chile	FACTORLINE	Financial Services	3.0	0.0	3.0	3.0
Colombia	LAMITECH II	Chemicals & Plastics	10.2	0.0	10.2	14.1
	COMFAMA	Financial Services	3.0	0.0	3.0	3.0
Costa Rica	BAC SAN JOSÉ	Financial Services	10.0	0.0	10.0	10.0
Ecuador	BANCO PROCREDIT ECUADOR	Financial Services	2.3	0.0	2.3	2.3
	ECUAPLANTATION II	Agriculture & Agribusiness	2.2	0.0	2.2	5.7
	ABANICO	Utilities & Infrastructure	7.0	0.0	7.0	21.0
El Salvador	BANCO PROCREDIT S.A. EL SALVADOR	Financial Services	2.0	0.0	2.0	2.0
	FEPADE II	Education	1.1	0.0	1.1	1.5
Guyana	DFLSA	Financial Services	0.0	0.2	0.2	2.0
Honduras	MICROENVASES	General Manufacturing	1.2	0.0	1.2	2.4
Mexico	CABLEMÁS	Tech., Comm. & New Economy	8.0	0.0	8.0	55.0
	DISCOVERY AMERICAS	Investment Funds	0.0	3.0	3.0	100.0
Nicaragua	FINANCIERA PROCREDIT S.A.	Financial Services	1.3	0.0	1.3	1.5
	CAFÉ SOLUBLE II	Agriculture & Agribusiness	1.0	0.0	1.0	2.0
	FINDESA	Financial Services	0.9	0.0	0.9	0.9
Peru	BANCO INTERAMERICANO DE FINANZAS	Financial Services	3.0	0.0	3.0	3.0
Regional C/D Only	BAC REGIONAL SERVICES	Financial Services	20.0	0.0	20.0	20.0
	CABEI	Agency Lines	20.0	0.0	20.0	40.0
Uruguay	SAMAN	Agriculture & Agribusiness	5.0	0.0	5.0	10.0
	FANAPEL	Wood, Pulp & Paper	4.0	0.0	4.0	4.0
Venezuela	ANDRÉS BELLO	Education	2.0	0.0	2.0	4.0
Total	**31**		**160.40**	**3.2**	**163.6**	**508.2**

properties as well as collections from small loans obtained from collapsed financial institutions.

Monitoring and Evaluation

Objective indicators of developmental effectiveness are essential for public accountability in the use of public funds and for learning from experience, establishing success standards, and reinforcing developmental objectives and values. To this end, the IIC has a project evaluation system based on guidelines developed by the multilateral development banks' Evaluation Cooperation Group. The evaluation function is divided between self-evaluation and independent evaluation. Project self-evaluation is the responsibility of the IIC. The IDB's Office of Evaluation and Oversight provides the IIC with independent evaluation services under an agreement between the two institutions.

An independent review that measured the evaluation practice performance of multilateral organizations providing support for the private sector placed the IIC in second place, after the International Finance Corporation, in terms of compliance with best practices for evaluating private sector operations.

Environmental and Labor Standards

Before any new operation (regardless of whether it is to be financed by the IIC directly or through a financial intermediary) is submitted to the Board of Executive Directors, it goes through an environmental and labor review process that includes an assessment of the following, as applicable: baseline environmental situation; degree of compliance with applicable national environmental laws, regulations, and standards; sustainable use of natural resources; pollution controls; waste management; use of dangerous substances; major hazard analysis; occupational health and safety; fire and life safety; protection of human health, cultural properties, tribal peoples, endangered species, and sensitive ecosystems; and resettlement issues.

A summary of each project, including any environmental and labor issues, is posted on the IIC's Website thirty days prior to the expected date of approval by the Board of Executive Directors.

All financial intermediaries with which the IIC operates are required by contract to send representatives to environmental workshops to learn how to integrate environmental management practices into their own operations and turn good environmental practices into competitive advantages. The workshops focus on these institutions' responsibility in monitoring the environmental aspects of the projects they finance with IIC funds.

In December 2004, forty representatives from twenty-five financial institutions in thirteen Latin American and Caribbean countries attended an environmental management workshop organized by the IIC and the International Finance Corporation in Miami, Florida.

Anticorruption Measures

The IIC places great importance on transparency in its financing operations, which therefore undergo a rigorous due diligence process and are required to follow sound financial management practices. For each operation, the IIC assesses the beneficiary's financial reporting and controls and management capabilities, including the critical risks to which the beneficiary may be subject. An example of such a risk would be corrupt practices, for which the IIC has a zero-tolerance policy.

The IIC also reviews each host country's regulations pertaining to money laundering and assesses each financial institution's compliance with such regulations (if any) and the adequacy of its controls with respect to deposit taking and management activities.

The IIC is part of the IDB's oversight committee, thus enhancing the synergies between both institutions and aligning IIC policies and actions more closely with those of the IDB Group regarding allegations of fraud or corruption.

The IDB Group has secure telephone, e-mail, fax, and mail arrangements for anyone wishing to file an allegation of fraud or corruption involving any activity financed by any of its member institutions. Additional information on IDB Group policies against fraud and corruption and how to report suspected cases is available at www.iadb.org/ocfc.

Cooperation with the IDB

Combined action with the IDB can be a powerful agent for development in Latin America and the Caribbean. The general thrust of the IIC's coordination with the IDB is in the development of the private-sector segments of country strategies and programming. To this end, the IIC's Credit Committee acts, in effect, as the "investment committee" for Multilateral Investment Fund (MIF) operations in the latter's equity investment and loan review process.

This year, the IIC participated as a member of the Secured Transactions Task Force, which is headed by the Executive Vice President of the Bank and made up of representatives from all of the relevant areas of the IDB Group to develop a joint strategy for improving guarantee systems

Approvals, Commitments, and Disbursements

(As of December 31, 2004—US$ millions)

Country	Number of Projects	Gross Approvals Loan	Gross Approvals Equity	Gross Approvals Loan & Equity	Net Commitments Loan	Net Commitments Equity	Net Commitments Loan & Equity	Disbursements Loan	Disbursements Equity	Disbursements Loan & Equity
Argentina	28	153.7	11.0	164.7	125.2	9.4	134.6	124.2	9.4	133.6
Bahamas	2	6.0	0.0	6.0	1.0	0.0	1.0	1.0	0.0	1.0
Barbados	2	3.0	4.0	7.0	0.0	0.0	0.0	0.0	0.0	0.0
Belize	1	1.0	0.0	1.0	1.0	0.0	1.0	1.0	0.0	1.0
Bolivia	16	61.4	1.9	63.3	53.1	1.3	54.4	50.3	1.3	51.6
Brazil	35	213.8	18.5	232.3	160.9	13.0	173.9	143.9	13.0	156.9
Chile	18	72.3	30.3	102.7	56.3	24.1	80.4	56.3	24.1	80.4
Colombia	17	86.4	12.9	99.2	51.0	9.5	60.5	48.0	9.5	57.5
Costa Rica	13	60.0	1.5	61.5	52.3	0.5	52.8	52.3	0.5	52.8
Dominican Republic	9	55.6	0.0	55.6	26.9	0.0	26.9	26.9	0.0	26.9
Ecuador	17	67.8	2.5	70.3	34.5	1.8	36.3	32.3	1.8	34.1
El Salvador	7	16.9	4.5	21.4	14.8	2.0	16.8	13.9	2.0	15.9
Guatemala	9	51.1	0.5	51.6	18.9	0.0	18.9	18.9	0.0	18.9
Guyana	3	3.3	0.2	3.5	0.8	0.0	0.8	0.8	0.0	0.8
Haiti	1	1.0	0.0	1.0	0.0	0.0	0.0	0.0	0.0	0.0
Honduras	15	62.8	1.0	63.8	36.3	0.0	36.3	30.5	0.0	30.5
Jamaica	8	39.3	1.5	40.8	9.0	0.0	9.0	9.0	0.0	9.0
Mexico	32	136.0	48.3	184.2	52.9	30.3	83.2	52.9	22.3	75.3
Nicaragua	12	33.0	1.4	34.4	24.6	0.9	25.5	24.2	0.9	25.1
Panama	6	30.0	0.0	30.0	30.0	0.0	30.0	30.0	0.0	30.0
Paraguay	7	26.6	0.0	26.6	22.9	0.0	22.9	22.9	0.0	22.9
Peru	24	124.8	10.8	135.6	72.6	4.5	77.1	75.4	4.5	79.9
Regional	33	146.2	153.0	299.2	38.1	103.5	141.6	28.1	96.8	124.9
Trinidad and Tobago	4	17.5	2.8	20.3	9.6	0.6	10.2	9.6	0.6	10.2
Uruguay	19	68.6	6.2	74.8	44.6	6.0	50.7	39.9	6.0	45.9
Venezuela	12	58.8	4.7	63.5	29.5	0.0	29.5	29.5	0.0	29.5
Total	**350**	**1,596.5**	**317.5**	**1,914.1**	**966.9**	**207.5**	**1,174.4**	**921.9**	**192.8**	**1,114.7**

for financial operations in Latin America and the Caribbean.

In March 2004, the IIC and the MIF signed a memorandum of understanding to join forces to increase lending to micro, small, and medium-size companies in the region. In the memorandum of understanding, the IIC and the MIF also commit to work on promoting sound corporate governance practices in the private sector.

Private Sector

The IIC has been actively involved in the private sector development strategy process for the entire IDB Group. This country-based process provides a shared framework to ensure coordination at the country level among the IIC, the MIF, and the IDB's Private Sector Department (PRI). While both the IIC and the PRI provide financing to infrastructure projects, the PRI's cost structure does not allow it operate profitability with transactions below $25 million. The IIC has participated in the working groups and the trips organized to implement the strategy, such as missions to several Central American countries during 2004. The Business Climate Initiative now being implemented by the IDB will enable the IIC to contribute its knowledge and experience with the small and medium-size enterprise sector.

The IIC has provided advisory services to the MIF for many years, and coordination with the MIF is very effective and fluid. As an offshoot of the IIC-MIF program with financial institutions, the IIC and the MIF have developed a common strategy for working with microfinance institutions and are working together on initiatives in support of the IDB Group's efforts to reach the lending target mandated in the Declaration of Nuevo León.

Multilateral Investment Fund

The MIF was established in 1992 to promote the economic and social viability of market economies in Latin America and the Caribbean. The MIF is administered by the IDB and engages the IIC to provide certain services. In addition, the IIC's Credit Committee serves as the Extended Credit Committee for MIF transactions related to microenterprise equity investment funds.

In 2004, the Corporation supervised several projects for the MIF, participated in the structuring and due diligence of small business investment funds, and provided oversight on the preparation of new MIF investments.

Increased IIC-MIF Cooperation

The Declaration of Nuevo León signed during the Special Summit of the Heads of State and Government of the Americas in January 2004 stresses the need to expand private financing for small and medium-size companies through the IDB Group. It specifically challenges the IDB Group to triple its financial support to micro, small, and medium-size enterprises through local financial intermediaries by 2007. The Declaration's emphasis on expanding financing to such enterprises was ratified in the G8 Action Plan for Applying the Power of Entrepreneurship to the Eradication of Poverty approved at the Sea Island Summit in June 2004.

The IIC, as the member of the IDB Group that focuses principally on supporting small and medium-size enterprises as engines of development, has begun taking action to meet the goals set forth in the Declaration of Nuevo León. It expects to meet the target of trebling its financing of such enterprises through local financial institutions through various products and measures, including

- increasing the financing of trade,
- increasing the number of B loans to financial institutions,
- granting credit enhancements to local currency issues in order to lower their costs and extend their terms,
- providing guarantees for local financial institutions on local currency projects with small and medium-size companies, and
- promoting, jointly with the MIF, the financing of small and medium-size companies via Latin American and Caribbean financial institutions.

This last effort culminates a track record of successful collaboration between the MIF and the IIC. In 2004, the two institutions signed a memorandum of understanding committing themselves to identifying and working with interested financial institutions in Latin America and the Caribbean to expand lending to small and medium-size companies. The IIC and the MIF will coordinate their financing activities with these institutions, thereby increasing their effectiveness. Already in 2004 this collaboration has brought success. In 2004, the IIC and the MIF jointly financed five financial institutions specializing in offering credit and financial services to microenterprises and small companies.

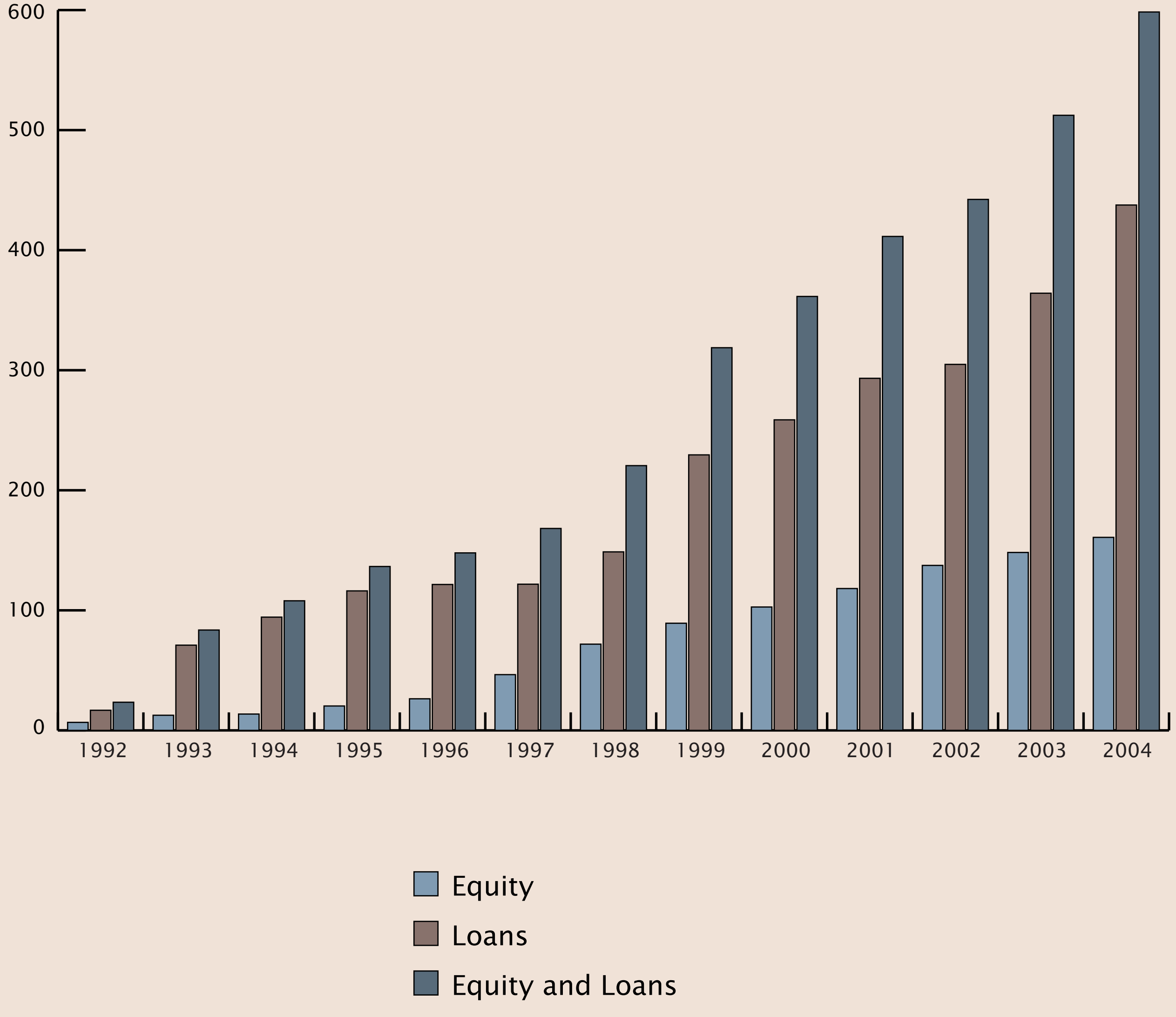
Special Programs

Small Loan Program

The IIC, like other institutions serving small and medium-size companies, must provide credit

Disbursed Funding through Investment Funds and Financial Intermediaries, 1992–2004

(US$ millions)



products that meet the special needs of this market segment in a cost-effective manner for both the borrower and the lender. For years, the IIC has processed many smaller loans through its credit lines to financial intermediaries and, more recently, agency lines extended to financial institutions operating in the region. But exclusive reliance on such arrangements has limited the IIC's ability to serve the needs of small and medium-size companies in all of its regional developing member countries. Serving this market requires a responsive and proactive approach, a simpler and faster credit analysis and approval process, and access to long-term financing at appropriate rates.

So in 2002 the IIC's Board of Executive Directors approved offering individual loans of $150,000 to $1,500,000, with a limit of $20,000,000 in total approvals under a two-year small loan pilot program. The pilot program was designed so that Bolivia, Costa Rica, and El Salvador could take advantage of the IIC's field presence in Central America and build on its experience with the Finpyme pilot program in Bolivia and Chile.

The two-year program was implemented in Bolivia in 2004; Management will present a report to the Board of Directors evaluating the program at the end of this period.

Local-Currency Financing

Besides its own natural mandate of providing long-term financing of projects in U.S. dollars, the IIC is beginning to explore alternative structures to support small and medium-size companies with local-currency financing. Because of changes in foreign exchange regulations or because these companies prefer to borrow in local currency to fund long-term investments, the IIC is broadening the scope of its mandate in local currency. Some examples of local-currency operations are as follows:

- *Universidad Católica Andrés Bello (UCAB)*. The IIC provided a partial guarantee for a local-currency loan to finance the construction of a new building on this university campus in Caracas, Venezuela. Because education is typically a domestic activity, without export revenues, UCAB's long-term expansion needed to be financed in local currency. In this operation, the IIC absorbed part of the risk of the lending bank, resulting in lower transaction costs for the university while extending the term of the financing.
- *Cablemás*. The IIC provided a guarantee for a bond issue of a leading cable operator in Mexico, to access local-currency capital markets under competitive conditions.

Colending Programs

To expand its mandate, the IIC is also establishing parallel financing programs with development institutions to finance direct small and medium-size projects in their countries. Some examples are as follows:

- *Central American Bank for Economic Integration (CABEI)*. A $40 million colending program, with each institution participating with up to $20 million, to finance small and medium-size company projects in five Central American countries.
- *Banco de Inversión y Comercio Exterior (BICE)*. A $20 million colending program, with each institution participating with up to $10 million to finance expansion projects of export-oriented small and medium-size companies in Argentina.

AIG-GE Capital Latin American Infrastructure Fund

The IIC lends regional expertise as an adviser to the Emerging Markets Partnership for the partnership's fund investments in infrastructure companies in Latin America, chiefly in the power, transportation, and telecommunications sectors. The Emerging Markets Partnership is the principal adviser to the AIG-GE Capital Latin American Infrastructure Fund. During the year, the IIC provided advisory and monitoring services for the fund's project portfolio.

Special Funds: Sharing Resources, Fostering Private Sector Development

An important component of the process of evaluating and ultimately recommending the participation of the IIC in the financing of developmental projects is the technical assistance provided by the Corporation to its prospective clients. Such assistance can take the form of advice in project design, and in financial, economic, technical and operational, legal, environmental, and worker safety matters. The IIC also encourages companies to adopt good corporate governance practices and advises clients in these matters. Additionally, the Corporation provides assistance to non-project-specific programs that support the development of small and medium-scale enterprises, such as special initiatives from member countries and special studies and workshops that help companies and financial institutions compete better in the global marketplace.

Countries of Origin and Aggregate Procurement, 1989–2004

(US$000)

Argentina	289,148
Austria	358
Bahamas	2,612
Barbados	3,000
Belgium	272
Bolivia	12,142
Brazil	185,812
Chile	135,458
Colombia	32,755
Costa Rica	72,169
Denmark	8,038
Dominican Republic	30,043
Ecuador	21,893
El Salvador	15,921
Finland	2,240
France	15,677
Germany	76,333
Guatemala	49,241
Guyana	600
Honduras	57,498
Israel	12,617
Italy	44,902
Jamaica	4,940
Japan	17,398
Mexico	99,254
Netherlands	36,807
Nicaragua	23,043
Norway	7,521
Panama	13,652
Paraguay	5,297
Peru	70,078
Regional	14,530
Spain	21,857
Sweden	677
Switzerland	11,897
Trinidad and Tobago	1,000
United States	401,780
Uruguay	69,698
Venezuela	37,281
Total	**1,905,439**

Since the beginning of operations in 1989, the Corporation has endeavored to provide this kind of assistance to small and medium-scale companies, financial institutions, and investment funds. To help them undertake these activities, the Corporation can draw on special funds for studies and other development-related initiatives. Among these funds are the Austrian Fund, the Danish Consulting Services Trust Fund, the Italian Trust Fund, the United States Trade Development Agency's Evergreen Fund, and the IDB's Swiss Fund.

Drawing on resources from the Italian trust fund, the Italian Development Program launched in early 2004 by the IIC and the Government of Italy has created a network of development agencies, regional and central governments, banks, international organizations, and, so far, 260 Italian companies that have import, export, or foreign direct investment links with Latin America and the Caribbean.

Agreements to promote the program have been signed with the Italian industrial manufacturers association (Confindustria), with SIMEST (Italy's financial institution for the development and promotion of Italian business abroad), and with the association of Italian chambers of commerce. Partnerships have been established with the Italian Institute for Foreign Trade in Venezuela and Peru. Italian banks are expected to participate in cofinancing operations under the program.

Cooperation agreements are in place with the Centre for the Development of Industry (financed by the European Development Fund under the Lomé Convention), Finanzierungs-garantie-GmbH, and the Nordic Development Fund. To date, the donors have granted $6,540,000 to the IIC.

In 2004, some $657,771 in technical cooperation funds were channeled through the abovementioned cooperation funds, of which $200,000 were earmarked for implementation of the IDB's Plan Puebla-Panamá.

In addition, the IIC entered into an agreement to provide technical advisory services to the Italian government for implementation of a €75 million program in favor of Italo-Argentine and small and medium-size Argentine enterprises to support projects with significant social impact. The program was established by Italy in 2003. Since the beginning of the program, the IIC has reviewed ninety-nine projects of which thirty-three have been approved for €32 million in financing. The projects approved covered more than fifteen export-oriented sectors in sixteen Argentine provinces. In 2004 the program was extended for an additional two years.

IIC/IDB Technical Assistance Trust Funds—2004

	Austrian Fund	Danish Trust Fund	Italian Fund	Swiss Fund	U.S. Trade and Development Agency Fund	Netherlands Partnership Program in the Environment
Established in	1999	2003	1992	Amendment to IDB agreement in 2003	1995	IDB in 1993
Amount (US$)	500,000	500,000	2,200,000	3 million	250,000 (revolving)	90,000 for a joint IIC/IDB study
Objective and Brief Description	Untied funds to finance technical assistance activities. Austrian companies are preferable. Study or company activities must benefit Austrian companies (i.e. increase potential for Austrian investors, equipment suppliers, etc.).	Finance consulting services related to IIC's technical and operational activities. At least 25% of the resources of the Fund shall benefit projects in Bolivia and Nicaragua. At least 75% of the resources under each contract shall be used to finance consulting services by Danish consultants or consulting firms.	Finance technical assistance activities to be provided by Italian companies or individuals in connection with the IIC's operations. Funds can be used for (i) the preparation of prefeasibility and feasibility studies; (ii) setting up of pilot operations; (iii) technical assistance related to the rehabilitation of existing projects; (iv) technology transfer.	Trust fund can be used in Bolivia, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Nicaragua, and Peru to engage Swiss consultants. IIC may access the fund directly under separate rules from the IDB.	Proposals should provide potential opportunities for U.S. companies (equipment suppliers, service providers, etc.). Consultant/firm must be U.S. citizen or resident.	To prepare a study regarding the adoption of environmental management systems by financial institutions in Latin America and the Caribbean, including efforts to implement the Equator Principles.[11]
Projects	Usina Maracaju sugar cane processing and ethanol production plant (Brazil)	Abanico hydroelectric project (Ecuador)	Móveis Carraro furniture project (Brazil)			IIC and IDB will conduct a study on strengthening environmental management systems in Latin American and Caribbean financial institutions.
Consultant's Job Summary/ Results	Study to determine the technical and financial viability of expansion of Usina Maracaju, a sugar cane processing and ethanol production plant in Brazil. Company agreed to implement recommendations to upgrade the company's air emissions controls by installing pollution abatement equipment. *The IIC approved a $3 million loan for the expansion project.*	IIC retained a Danish engineering consulting firm to assist in the evaluation of the technical and financial viability of the construction a 14.9 megawatt hydroelectric plant. Recommendations were made regarding the need for geotechnical mitigation measures amongst others. *The IIC approved a $7 million loan for this project.*	IIC retained an Italian consulting firm to assist in the evaluation of the financial viability of a furniture expansion project in Rio Grande do Sul. Recommendations were made to strengthen the viability of the project. *The IIC approved a $4.2 million loan to the company.*			The results of the study will include a review of the environmental management systems used by a variety of financial institutions throughout the region. Through case studies the project will provide other financial institutions in the region with practical information on how to implement effective environmental management systems that make business sense.
Trust Fund Account Activity in 2004	$6,995 Balance available: $180,690	$33,500 Balance available: $138,060	$317,165 Balance available: $1,208,813	n.a.	$200,000 Balance available: $146,528	$90,000 No balance available

11 Principles that are being adopted by an increasing number of financial institutions worldwide for determining, assessing, and managing environmental and social risk in financing projects.

Developmental Investment Activities

- *The IIC funds up to 33 percent of the cost of greenfield projects and up to 50 percent of the cost of expansion projects.*
- *Terms range from five to twelve years and include an appropriate grace period.*

The IIC target market comprises companies with sales of up to $35 million. But the IIC does work selectively with companies whose sales exceed $35 million.

Sources of Funding

The IIC has several sources of funding: paid-in capital, borrowings, income on investment of liquid assets, and amounts received upon the sale of investments or the repayment of loans. The IIC's capacity to make loans and equity investments is a function of its paid-in capital and borrowings; borrowings are limited by the Charter to three times paid-in capital.

IIC loans are denominated in U.S. dollars. Loan amounts may be up to 33 percent of the cost of a new project or up to 50 percent of the cost of a expansion project. Loan terms generally range from five to eight years (up to a maximum of twelve years), including an appropriate grace period. The loans, which are priced in accordance with international market conditions, are usually variable in rate and based on the London Interbank Offered Rate (LIBOR). In certain cases, the IIC may provide fixed rate, convertible, subordinated, or participated loans. In participated loans, the IIC grants a loan to a client and provides a portion of the funds (the "A" loan). The rest of the loan (the "B" loan) is provided by another financial institution that purchases a participation in the loan under an agreement with the IIC. The lender of record is the IIC, and the client deals directly with the IIC. The IIC also makes equity investments of up to 33 percent of the investee company's capital. At the end of the investment period, the IIC sells its shareholding. Possible exit mechanisms include sale on the local stock market, private placement with interested third parties, and sale to the project sponsors under a prenegotiated share purchase agreement. The IIC also invests in equity capital funds whose operations have a positive developmental impact in the region. Doing so makes efficient use of the IIC's equity resources to reach many more small and medium-size companies. Working through equity funds also promotes mobilization of capital by bringing in other institutional investors. The IIC may make quasi-equity investments as well.

The IIC's target market comprises companies with sales of up to $35 million. However, the IIC works selectively with companies having sales in excess of $35 million. On a limited basis, the IIC also finances joint venture companies. While profitability and long-term financial viability are prerequisites for IIC financing, the IIC will consider other selection criteria related to the company's impact on factors that further economic development.

The IIC also provides funding to all types of financial institutions that serve the small and medium-size company market. Eligible institutions include, but are not limited to, commercial banks, leasing companies, finance companies, and specialized financial service companies.[12]

Summary of Developmental Investment Activities in 2004

Direct Operations

The year's operations are set out in a format that reflects the complete impact of the IIC's financing activities. In addition to direct project approvals, there is information on the loans, investments, and cofinancing

[12] The IIC's Website (www.iic.int) provides information on how to apply for financing. Requests for information may also be addressed to the IIC's regional offices or its head office in Washington, D.C. The Website provides an initial inquiry form that, once filled out by the company or financial institution in search of funding, is automatically directed to the appropriate IIC division.

operations approved in 2004 that, through financial intermediaries, substantially leverage the resources provided directly by the IIC. Also provided are figures on procurement opportunities for regional and nonregional member countries ($34.1 million in 2004).

The operations described below are for loans and programs totaling $163.6 million. This year's four cofinanced loans will mobilize an additional $130.0 million in funding, further leveraging the resources available for the region's small and medium-size companies.

Regional

Colending program: $40 million

The IIC will participate with up to $20 million for a direct colending program to provide long-term financing for small and medium-size enterprises in five Central American countries. The **Central American Bank for Economic Integration** (CABEI) will participate with the other $20 million. The main goal of this IIC-CABEI project is to help make corporate management more competitive in order to increase the generation of net revenue and foster exports from the Central American countries.

The program will establish risk concentration limits by country rating, economic sector, and type of financing (expansion or greenfield) so that the maximum number of countries can benefit and eligible projects are diversified by sector. Eligible countries will be beneficiary members of CABEI and regional developing members of the IIC.

Loan: $20 million

The IIC approved a line of credit to **BAC International Bank, Inc.** The purpose of this loan is to provide short-, medium-, and long-term financing to small and medium-size enterprises in a number of Central American countries where Grupo BAC Credomatic operates: El Salvador, Guatemala, Honduras, Nicaragua, and Panama. The proceeds of the loan will be used by the group's banks in these countries. In Costa Rica, where the group also operates, the IIC has approved a $10 million loan to Banco BAC San José S.A. as part of an overall $30 million facility for the Central American group.

Argentina

Colending program: $20 million

The IIC, together with **Banco de Inversión y Comercio Exterior, S.A.** (BICE) will establish a colending program to which the IIC and BICE will contribute $10 million each. The IIC will support BICE in expanding its traditional financing mandate through financial intermediaries, toward direct lending to firms. The objective is to establish a direct credit program to finance fixed asset acquisitions of export-oriented expansion projects of small and medium-size enterprises. This program seeks to support the economic and social development of the Argentine Republic, especially sectors with a high concentration of medium-size companies.

Bolivia

Loan: $2 million

The IIC approved a loan to **Caja Los Andes S.A. F.F.P.**, the largest nonbank financial institution in Bolivia. The project consists of a two-year credit line that may be renewed twice, which the IIC has arranged as a joint transaction with the MIF. The loan proceeds will strengthen the institution as it continues to grow and allow it to expand its financing capabilities for local micro and small enterprises that need working capital or capital expenditure funds.

Loan: $1 million

The Corporation approved a loan to **Fondo Financiero Privado Prodem S.A.** (Prodem). Prodem is a Bolivian microfinance institution that provides financing to micro, small, and medium-size enterprises throughout Bolivia. The purpose of the loan is to reach a significant part of the market that is currently in need of financing. The proceeds of the loan will be used to finance rural and urban small enterprises, contributing to job creation and the development of the microenterprise sector.

Loan: $1.8 million
Project cost: $4.2 million

This IIC loan to **Tahuamanu S.A.** will enable the company to increase its production of Brazil nuts from 135,000 to 180,000 crates per year. This loan will also allow the company to make the investments required to complete the hazard analysis and critical control point (HACCP) food certification process for its products, which will in turn enable it to be deemed a reliable supplier to the food industry in the United States, Canada, and Europe.

The project will create thirty direct jobs, which is a 10 percent increase over Tahuamanu's current payroll. There will also be work for 600 more Brazil nut gatherers in addition to the group of about 1,300 who already work for the company.

Brazil

A Loan: $10 million
B Loan: $30 million

The Corporation approved a loan that will allow **Banco ABN AMRO Real S.A.** to provide financing for eligible projects and eligible project companies, that is, small and medium-size companies that require medium- or long-term financing to improve their operations or shorter-term financing to procure needed goods and services from larger companies under better conditions.

A Loan: $15 million
B Loan: $85 million

The IIC approved a loan to **Banco Rabobank International Brasil S.A.** to help a larger number of small and medium-size enterprises gain access to lines of credit for the purchase of goods and services from larger companies.

The loan funds will be used to finance the bank's acquisition of 100 percent of the senior quotas of a receivables investment fund—Fundo de Investimento em Direitos Creditórios (FIDC)—set up to acquire discounted receivables issued by certain companies that finance small and medium-size enterprises. This transaction will enable the IIC to offer financing to more than 40,000 small and medium-size companies. Longer-term funding for the FIDC guarantees a constant source of funding to enable the larger companies to sell their receivables and the smaller enterprises to have a constant source of working capital.

A Loan: $5 million
B Loan: $10 million

This loan to **BicBanco, S.A.** will be used to provide financing to small and medium-size enterprises for working capital. The transaction is the result of the IIC's efforts to target small and medium-size companies in Brazil and to promote financing in this market segment.

BicBanco is a bank that primarily targets small and medium-size companies; it has thirty-one branches and 606 employees. Seventy-five percent of BicBanco's operations are in southern and southeastern Brazil. This operation is expected to benefit about 150 Brazilian companies in need of such financing alternatives to properly fund their operations, increase their production capacity, and become more competitive internationally.

Loan: $6 million
Project cost: $13.5 million

The IIC approved a loan to **Dori Indústria e Comêrcio de Produtos Alimentícios Ltda.** This company manufactures candy and chocolate and processes peanuts to meet domestic and international demand. The project involves investments in infrastructure, equipment, and plant and machinery, as well as the restructuring of short-term financial liabilities and financing of working capital. Investments in fixed assets include construction of a distribution center for finished product storage, setup of new equipment and improvements in two plants, construction of a storage facility for raw materials, and construction of an effluent treatment plant.

Funding from the IIC will enable Dori to expand its production and storage capacity, thus improving the company's programming and production efficiency and reducing lead times. Long-term financing will lead to the creation of 69 direct jobs and more than 250 indirect jobs. The funding will also reduce the company's financial costs, which make more cash flow available to offer more product lines.

Loan: $2.5 million
Project cost: $5.1 million

Sanrisil S/A, Indústria e Comércio makes plant and fruit extracts for the pharmaceutical, food, and cosmetic industries. The company will use the proceeds from the IIC loan to invest in technology, replace outdated assets, and upgrade and expand its existing facilities. This expansion project will create twenty jobs and benefit more than one thousand families who gather raw materials for the company. The project will also enable the company to generate exports valued at $33 million and contribute $25 million to Brazil's gross domestic product.

Sanrisil provides technology to small producers, advises them on agricultural and business issues, and provides the support of its agronomists and other specialists to ensure that the quality standards required by foreign markets are met.

Chile

Loan: $3 million

The Board of Directors of the IIC approved a loan to **FactorLine S.A.** The one-year loan is renewable for up to three one-year periods. FactorLine purchases—at a discount— invoices, bills of exchange and checks issued by small and medium-size enterprises based in Chile.

International factoring consists of discounting trade documents and is used chiefly by small and medium-size companies, which usually do not have easy access to bank financing because they cannot provide security, lack audited financial statements, or do not have a track record in the financial system. This is the IIC's first project with a factoring company.

Colombia

Loan: $3 million

The IIC approved a loan to **Caja de Compensación Familiar de Antioquia** (Comfama, a Colombian family social fund) in Medellín, Colombia. This funding will help Comfama meet the requirements of a new law that requires family social funds to create more jobs by providing funding directly to small and medium-size companies. Comfama will use this line of credit to grant working capital loans to microenterprises and small and medium-size companies affiliated with it. These loans are expected to average between $30,000 and $40,000.

Loan: $10.2 million
Project cost: $14.1 million

Lamitech S.A. is a producer of high-pressure decorative laminates seeking to expand its operations and consolidate its position in the export markets. The IIC loan will help increase the company's installed capacity by some 40 percent; generate fifty-two direct jobs plus indirect jobs during construction and assembly of a new press line; strengthen international trade because Lamitech imports significant volumes of raw materials; and generate approximately $10 million more per year in exports for the Colombian economy.

Costa Rica

Loan: $10 million

The IIC approved a loan to **Banco BAC San José, S.A.** to provide short-, medium-, and long-term financing mainly to small and medium-size enterprises in Costa Rica.

This loan will allow Banco BAC to lend to small and medium-size enterprises with terms ranging from three to seven years. Between twenty-five and forty small and medium-size enterprises are expected to benefit from the transaction. The credit line also contemplates funding financial and/or operating lease transactions through BAC San José Leasing, S.A. Small and medium-size enterprises in Costa Rica have limited access to medium-term financing and, in particular, to long-term financing. This financial instrument will be particularly useful, because these companies will not require capital to purchase the fixed assets they need to increase their production capacity.

Ecuador

Loan: $2.2 million
Project cost: $5.7 million

Compañía Agrícola e Industrial Ecuaplantation S.A. processes tropical fruit into purée, juice, concentrate, and other products at its industrial plant in Guayaquil for export to international markets. The IIC loan will be used to finance the company's working capital requirements and to implement an environmental solution aimed at decreasing the remaining pollutant load in its industrial effluents.

Loan: $7 million
Project cost: $21 million

With funding from the IIC, **Hidroabanico S.A**. will build a mini hydroelectric power plant. Located near the town of Macas in the Amazon River basin, the plant will create jobs in an economically depressed area and generate 14.88 megawatts of clean energy to replace polluting energy. This run-of-the-river plant will harness the flow of the Abanico River, so it will not be necessary to build a reservoir.

Once the plant comes on line, it will be used as an alternative to more polluting energy sources and will help modernize power sector infrastructure and increase Ecuador's power generation. As a result, it will reduce overall greenhouse gas emissions in Ecuador. The World Bank will purchase carbon credits from Hidroabanico.

Loan: $2.25 million

The IIC approved a two-year, twice-renewable credit line arranged as a joint transaction with the MIF for **Banco ProCredit S.A.**, a key microfinance institution in Ecuador. This project encourages the use of the banking sector to channel loans to micro and small private enterprises in the region. The loan proceeds will strengthen the institution as it continues to grow and allow it to expand its financing capabilities for local micro and small enterprises that need working capital or capital expenditure funds.

El Salvador

Loan: $1.1 million
Project cost: $1.5 million

Supporting private-sector education projects encourages investment in the sector and broadens the range of opportunities for the school-age population, as well as for working adults who seek further professional training. **Fundación Empresarial para el Desarrollo Educativo** (FEPADE) is a private, not-for-profit education development foundation that was created in 1986 to support and promote the development of technical and professional education. It has relatively limited access to sources of long-term funding.

FEPADE targets the middle and working classes, offering flexible, convenient class schedules for people who are seeking additional, college-level training. In 2002, the IIC granted FEPADE a $4.3 million loan to build a new campus. The new loan will be used to build and equip an auditorium.

Loan: $2 million

The IIC approved a credit line, arranged as a joint transaction with the MIF, to **Banco ProCredit S.A.**, a leading financial institution in El Salvador that focuses on lending to micro and small enterprises. ProCredit is part of a worldwide network of eighteen microfinance banks and financial institutions. This project encourages the use of the banking sector to channel loans to micro and small private enterprises in the region. The loan proceeds will strengthen the institution as it continues to grow and allow it to expand its financing capabilities for local micro and small enterprises that need working capital or capital expenditure funds.

Guyana and Suriname

Equity investment: $200,000

The IIC approved an equity investment in **DFLSA, Inc.** to provide financing and enterprise development services to create and support successful micro-, small, and medium-size enterprises in Guyana and Suriname. With this investment DFLSA will promote the development and expansion of at least sixty small and medium-size companies and approximately 2,500 microenterprises over the next five years.

Honduras

Loan: $1.2 million
Project cost: $2.4 million

The IIC approved a loan for an expansion project to be carried out by **Microenvases S.A.** The project will increase the company's plastic cup production by some 80 percent. This will involve retooling and refurbishing machinery and purchasing some new equipment. The company will also add to its operating space by purchasing a lot adjacent to its current facilities and building a new plant there.

With this operation, the IIC will support the export-oriented manufacturing sector in Honduras and help create twenty direct jobs and approximately one hundred indirect jobs.

Mexico

Bond issue guarantee: $8 million

By participating in this transaction, the IIC seeks to improve the risk profile of a bond issue (*certificados bursátiles*) to be carried out by **Cablemás S.A. de C.V.** and to make it easier for the company to obtain better financing terms and conditions. By introducing a new product such as partial loan guarantees, the IIC also seeks to boost financial intermediation and foster savings in the local financial market. It will also open the door to long-term financing in local currency for companies that are not necessarily exporters.

In supporting this transaction, the IIC will be taking advantage of a significant niche opportunity to develop the securities market and support companies interested in issuing securities on the markets, giving them access to funding from institutional investors and pension funds.

Cablemás is an increasingly important provider of Internet and voice and data transmission services. This operation will make it easier for the company to obtain better financing terms, help close the digital gap, and promote competition in the sector. Cablemás has an investment plan through 2008 that calls for creating at least 200 direct jobs.

Equity investment: $3 million

The IIC will make a direct equity investment in **Discovery & Protego**, a low- and middle-income housing development vehicle company that is part of The Discovery Americas I, L.P., an investment fund in Mexico. The investment seeks medium-term capital appreciation by providing project-based preferred equity investment capital to highly qualified and experienced developers who lack access to sufficient equity financing.

Through the investment vehicle company, the fund will help eliminate the bottleneck perpetuating a chronic shortage of low- and middle-income housing in Mexico, helping build approximately 60,000 housing units in the next seven years. The company's management has an established track record in Mexican housing finance and significant expertise in the low- and middle-income housing sector.

Nicaragua

Loan: $1 million
Project cost: $2 million

The IIC approved a loan to **Café Soluble S.A.** to help strengthen the company's overall competitiveness by upgrading its processing plant and management information systems and expanding its storage capacity. This transaction will complement another loan provided by the IIC to this company in 2001. This second long-term loan will support the company's significant growth during the last few years, thus protecting many existing jobs, and will assist it in its efforts to penetrate new export markets.

Loan: $900,000

This medium-term loan to **Financiera Nicaragüense de Desarrollo S.A.** (FINDESA) will be used to finance micro, small, and medium-size Nicaraguan enterprises in need of funds for working capital or to finance the acquisition of equipment, machinery, or other fixed assets. This operation is consistent with the IIC's developmental mandate, and it falls under the special program for loans to small banks in smaller countries in the region. The IIC financing will supplement the MIF's 2003 equity investment in and loan and technical assistance funding for FINDESA.

Loan: $1.25 million

The IIC approved a credit line arranged as a joint transaction with the MIF to **Financiera ProCredit S.A.**, a leading microfinance institution in Nicaragua that is part of a worldwide network of eighteen microfinance banks and financial institutions. This project encourages the use of the banking sector to channel loans to micro and small private enterprises in the region. The loan proceeds will strengthen the institution as it continues to grow and allow it to expand its financing capabilities for local micro and small enterprises in need of working capital or capital expenditure funds.

Peru

Loan: $3 million

The IIC approved a loan to **Banco Interamericano de Finanzas S.A.** (BIF) to provide financing for small and medium-size Peruvian enterprises through medium- and long-term loans for modernization and/or expansion projects. BIF is a financial institution that centers on providing financial intermediation services as a private commercial bank specializing in medium-size companies and personal banking.

With this transaction, the IIC will promote the channeling of medium-term funding to small and medium-size companies that face difficulties in obtaining adequate financing for their operations. BIF's access to a credit facility from the Corporation also enables small and medium-size companies in Peru to adopt updated labor and environmental management practices. Eligible companies in the export, transportation, communications, and service sectors will receive loans of up to $500,000.

Uruguay

Loan: $4 million

The IIC approved a loan to **Fábrica Nacional de Papel S.A.** (Fanapel). Fanapel produces cellulose and paper and is one of Uruguay's largest exporters. The loan will improve the company's debt profile by replacing some short-term liabilities and funding part of its permanent working capital, thus allowing it to defer current debt and decrease financial costs.

With this operation, the IIC seeks to support the industrial sector in Uruguay. Fanapel has become an industry leader thanks to its ability to produce a wide range of products for the local and export markets. Financing from the IIC will help the company consolidate its investments in plant upgrades and enable it to expand its range of products. IIC financing will also increase environmental investments. The company directly employs 480 workers and is the principal source of employment in the city of Juan Lacaze.

A Loan: $5 million
B Loan: Up to $5 million
Project cost: $10 million

Sociedad Anónima Molinos Arroceros Nacionales (SAMAN), a rice processing company, will use a loan from the IIC to finance its working capital. SAMAN has eight processing plants throughout Uruguay's main rice-producing zones. The plant receives rice produced by approximately 260 rice growers, dries it, and stores it for subsequent processing and shipping. SAMAN provides services to rice growers in the form of supplies and fuel, technical advice, irrigation services, and financing for working capital.

Venezuela

Loan: $2 million

The IIC approved a partial loan guarantee for the local currency equivalent of up to $2 million for a mortgage loan granted by Banco Mercantil to **Fundación Andrés Bello** and **Universidad Católica Andrés Bello**.

The IIC will guarantee 50 percent of the principal amount of the loan, which is 5 billion bolívares. The IIC will thus improve the risk profile of the transaction and help Fundación Andrés Bello obtain financing under better conditions. The introduction of a new product such as partial credit guarantees is intended to boost financial brokerage and increase the level of loans as a percentage of the assets of Venezuelan financial institutions. The IIC's participation also makes long-term financing in local currency available to companies that are not necessarily exporters.

Transactions through Investment Funds

The IIC channels its equity capital primarily through private equity funds in which it is a partner. The objectives of the IIC's private equity fund program are as follows:

- Maximize value-added to small and medium-size companies in the region by working through experienced, hands-on fund managers;
- Promote the flow of long-term capital to the region and the private equity asset class to other institutional investors; and
- Minimize its own portfolio risk through diversification.

Since 1989, the IIC has approved twenty-nine investments in equity funds for a total of $166 million. These funds have an aggregate capitalization of $1.9 billion. The IIC has disbursed a total of $112 million to 198 companies in 19 countries in the region through investment funds.

Currently, there are twenty-six active funds in the Corporation's portfolio, with commitments totaling $141 million. In 2004, projects received IIC funding through the following investment funds: Advent Latin America II, Aureos Central American Fund (ACAF), CEA Latin America Communications Partners, Darby Overseas Investment's ProBa L.P. (PROBA), and Multinational Industrial Fund (Multinfund).

Investments through Investment Funds in 2004

Project Name	Country	Number	Amount in US$
ACAF	Regional	2	740,499
Advent	Regional	3	3,000,000
CEA	Regional	2	880,000
Multinfund	Mexico	3	1,556,566
PROBA	Costa Rica	3	4,080,648
TOTAL		**13**	**10,257,713**

Loans through Local Financial Intermediaries

Local financial intermediaries, drawing on loans from the IIC, can make smaller loans to smaller companies than the IIC can provide directly. Such lending has a significant multiplier effect, because the borrowing institutions are required to reinvest loan proceeds as they are paid off but are not yet due to be paid by the bank to the IIC. Since 1989, the IIC has approved 108 loans to local financial intermediaries for a total of $671 million. These financial intermediaries have in turn made loans for a total of $699.2 million to 46,735 small and medium-size companies in Latin America and the Caribbean.

Loans through Financial Intermediaries in 2004

Project Name	Country	Number	Amount in US$
America Leasing	Peru	6	1,446,000
Arrendadora Interfin	Costa Rica	20	2,546,464
BAC International*	Regional	30	10,000,000
BAC San José*	Costa Rica	15	10,000,000
Banco Improsa	Costa Rica	1	885,000
Banco Regional	Paraguay	35	1,488,600
Bicbanco	Brazil	13	5,565,233
BIF	Peru	9	3,000,000
Factorline	Chile	23	3,000,000
Findesa	Nicaragua	70	500,000
Rabobank	Brazil	41,896	15,000,000
RBTT Jamaica	Jamaica	2	3,470,267
Suleasing	Colombia	14	6,842,982
TOTAL		**42,134**	**63,744,546**

* estimated


SINERSA
CENTRAL HIDROELECTRICA
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Report of Independent Auditors

Board of Governors
Inter-American Investment Corporation

In our opinion, the accompanying balance sheets and the related statements of income and retained earnings and of cash flows present fairly, in all material respects, the financial position of the Inter-American Investment Corporation (the "Corporation") at December 31, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PRICEWATERHOUSECOOPERS LLP

PricewaterhouseCoopers LLP
Washington, D.C.
February 16, 2005

Balance Sheets

December 31, 2004 and 2003 (US$ thousands)

	2004	2003
ASSETS		
Cash and Cash Equivalents	$ 63,512	$ 19,110
Marketable Securities	46,257	65,841
Investments		
Loan Investments	342,010	306,314
Less Allowance for Losses	(45,466)	(45,264)
	296,544	261,050
Equity Investments	100,898	112,364
Less Allowance for Losses	(30,681)	(41,177)
	70,217	71,187
Total Investments	366,761	332,237
Receivables and Other Assets	10,854	9,001
Total Assets	**$ 487,384**	**$ 426,189**
LIABILITIES AND EQUITY		
Accounts Payable and Other Liabilities	$ 8,872	$ 6,653
Borrowings	80,000	80,000
Total Liabilities	**$ 88,872**	**$ 86,653**
Capital		
Authorized: 70,370 shares (Par $10,000)		
Subscribed Shares	696,300	696,320
Less Subscriptions Receivable	(252,450)	(307,925)
	443,850	388,395
Accumulated Deficit	(45,338)	(48,859)
Total Liabilities and Equity	**$ 487,384**	**$ 426,189**

The accompanying notes are an integral part of these financial statements.

Statements of Income and Retained Earnings

For the years ended December 31, 2004 and 2003 (US$ thousands)

	2004	2003
INCOME		
Marketable Securities	$ 1,079	$ 1,284
Loan Investments		
Interest	17,061	11,878
Commitment Fees	339	348
Front-End Fees	755	676
Other Loan Investment Income	443	527
	18,598	13,429
Allowance for Losses	5,952	4,874
Total Loan Investment Income	24,550	18,303
Equity Investments		
Gain on Sale of Equity Investments	1,560	886
Dividends and Other Equity Investment Income	2,659	1,670
	4,219	2,556
Allowance for Losses	(9,264)	(4,359)
Total Equity Investment Income	(5,045)	(1,803)
Mortgage-backed Securities		
Interest	35	339
Gain on Mortgage-backed Securities	—	1,315
	35	1,654
Advisory Service, Cofinancing, and Other Income	2,506	3,032
	$ 23,125	**$ 22,470**
EXPENSES		
Administrative	16,667	15,461
Loss on Derivative	—	1,906
Interest Expense	2,937	2,926
	$ 19,604	**$ 20,293**
NET INCOME	**3,521**	**2,177**
ACCUMULATED DEFICIT AT BEGINNING OF YEAR	**(48,859)**	**(51,036)**
ACCUMULATED DEFICIT AT END OF YEAR	**$ (45,338)**	**$ (48,859)**

The accompanying notes are an integral part of these financial statements.

Statements of Cash Flows

For the years ended December 31, 2004 and 2003 (US$ thousands)

	2004	2003
CASH FLOWS FROM INVESTING ACTIVITIES		
Loan Disbursements	$ (138,981)	$ (97,830)
Equity Disbursements	(12,577)	(10,780)
Mortgage-backed Security Disbursements	(2,062)	(2,290)
Loan Repayments	102,913	57,726
Sales of Equity Investments	3,703	3,750
Return of Capital from Closed-end Investments	400	4,202
Mortgage-backed Security Repayments	2,062	8,421
Proceeds from Recovered Assets	6,706	7,280
Net cash used in investing activities	**$ (37,836)**	**$ (29,521)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Drawdown of Borrowings	—	50,000
Repayment of Borrowings	—	(55,000)
Capital Subscriptions	55,455	55,470
Net cash provided by financing activities	**$ 55,455**	**$ 50,470**
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	3,521	2,177
Marketable Securities:		
Purchases	(9,320)	(63,653)
Sales, Maturities, and Repayments	28,387	55,000
	19,067	(8,653)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Provision for loan and equity investment losses	3,312	(515)
Change in receivables and other assets	(1,853)	(2,213)
Change in accounts payable and other liabilities	2,219	(11,697)
Gain on mortgage-backed securities	—	(1,315)
Unrealized loss on marketable securities	517	518
	4,195	(15,222)
Net cash provided by (used in) operating activities	26,783	(21,698)
Net increase (decrease) in cash and cash equivalents	44,402	(749)
Cash and cash equivalents at beginning of year	19,110	19,859
Cash and cash equivalents at end of year	**$ 63,512**	**$ 19,110**
Supplemental disclosure:		
Interest paid during the year	$ 2,760	$ 2,426

The accompanying notes are an integral part of these financial statements.

Notes to the Financial Statements

December 31, 2004 and 2003

Purpose

The Inter-American Investment Corporation (the Corporation), a multilateral organization, was established in 1986 and began operations in 1989 with the mission to promote the economic development of its Latin American and Caribbean member countries by financing small and medium-size enterprises. The Corporation, together with private investors, accomplishes this mission by making loan and equity investments where sufficient private capital is not otherwise available on reasonable terms. The Corporation also plays a catalytic role in mobilizing additional project funding from other investors and lenders, either through cofinancing or through loan syndications, underwritings, and guarantees. In addition to project finance and resource mobilization, the Corporation provides financial and technical advisory services to clients. The Corporation receives its share capital from its member countries, conducts its operations only in United States dollars, and limits operational activity to its twenty-six regional member countries. The Corporation is a member of the Inter-American Development Bank Group (IDB Group), which also includes the Inter-American Development Bank (IDB) and the Multilateral Investment Fund (MIF).

NOTE A—Summary of Significant Accounting and Related Policies

The accounting and reporting policies of the Corporation conform to accounting principles generally accepted in the United States of America (US GAAP).

Financial statements presentation—Certain amounts in the prior year have been reclassified to conform to the current year's presentation.

Use of estimates—The preparation of the financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expense during the reporting periods. Actual results could differ from these estimates. A significant degree of judgment has been used in the determination of the adequacy of the allowance for losses on loan and equity investments and the fair value of mortgage-backed securities and of all derivative instruments. There are inherent risks and uncertainties related to the Corporation's operations. The possibility exists that changing economic conditions could have an adverse effect on the financial position of the Corporation. Refer to additional discussion under Allowance for losses on loan and equity investments below and in Note C.

Cash and cash equivalents—Highly liquid investment instruments purchased with original maturities of three months or less are considered cash equivalents.

Marketable securities—As part of its overall portfolio management strategy, the Corporation invests in government and agency obligations, time deposits, and asset-backed securities according to the Corporation's credit risk and duration policies. Government and agency obligations include highly rated fixed rate bonds, notes, bills, and other obligations issued or unconditionally guaranteed by governments of countries or other official entities including government agencies. The Corporation's marketable securities portfolio is classified as trading and is reported at market value with changes in fair value and realized gains and losses reported in income from marketable securities. Purchases are recorded as assets on the trade date while interest and dividends on securities and amortization of premiums and accretion of discounts are reported in income from marketable securities.

Loan and equity investments—Loan and equity investment commitments are created when the loan or equity agreement is signed and are recorded as assets when disbursed. Loans are carried at the principal amounts outstanding adjusted for allowance for losses. It is the Corporation's practice to obtain collateral security such as, but not limited to, mortgages and third-party guarantees. Equity investments without a readily determinable market value are initially carried at cost. This carrying amount, as described below, is periodically reviewed and adjusted for impairment. Investments in equity investment funds are reflected in Equity Investments and are recorded at the most recent net asset value as of the end of each period. On

Notes to the Financial Statements

December 31, 2004 and 2003

occasion the Corporation enters into put option agreements in connection with equity investments. As part of the ongoing compliance with Statement of Financial Accounting Standards (SFAS) No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended by SFAS No. 138, *Accounting for Certain Derivatives and Certain Hedging Activities*—an amendment of FAS 133 (collectively SFAS No. 133), the Corporation has determined that these put options do not meet the criteria of a derivative and as such, no recognition of fair value in the balance sheet is necessary.

Allowance for losses on loan and equity investments—The Corporation recognizes portfolio impairment in the balance sheet through the allowance for losses on loans and equity investments, recording a provision or release of provision for losses on loans and equity investments in net income on a monthly basis, which increases or decreases the allowance for losses on loan and equity investments. Investments written off, as well as any subsequent recoveries, are recorded through the allowance account. The allowance for losses is maintained at a level that, in management's judgment, is adequate to absorb estimated losses in the loan and equity portfolio.

The allowance for losses on loans and equity investments reflects estimates of both probable losses already identified and probable losses inherent in the portfolio but not specifically identifiable. The determination of identified probable losses represents management's judgment of the creditworthiness of the borrower or the value of the investee company and is established through the periodic review of individual loans and equity investments. Management's judgment is based on the risk ratings and performance of individual investments, the size and diversity of the Corporation's portfolio, economic conditions, and other factors considered significant by management.

The Corporation considers a loan impaired when, based on current information and events, it is probable that the Corporation will be unable to collect all amounts due according to the loan's contractual terms. The allowance against losses for impaired loans represents management's judgment of the present value of expected future cash flows discounted at the loan's effective interest rate or cash flows resulting from collateral values or other observable market data. The risks inherent in the portfolio that are considered in determining unidentified probable losses are those proven to exist by past experience and include country risk, the risk of correlation or contagion of losses between markets, nonperformance under sponsor guarantees and support agreements, and opacity of, or misrepresentation in, financial statements from borrowers.

Revenue recognition on loan and equity investments—Interest and all fees except front-end fees are recognized as income in the periods in which they are earned. Front-end fees and incremental direct costs associated with the origination of loan investments are not deferred and amortized over the life of the loan because, as provided under SFAS No. 91, *Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases*, the net is considered immaterial. The Corporation does not recognize income on loans where collectibility is in doubt or payments of interest or principal are past due more than 90 days. Under this past-due based nonaccrual policy, loans may be placed in nonaccrual status even when they may not meet the definition of impaired. Any interest accrued on a loan placed in nonaccrual status is reversed out of income and is thereafter recognized as income only when received and management has concluded that the borrower's ability to make periodic interest and principal payments has been demonstrated. Interest not previously recognized but capitalized as part of a debt restructuring is recorded as deferred income and credited to income only when the related principal is received. Such capitalized interest is considered in the computation of the allowance for losses on loans in the balance sheet.

Dividend and profit participations in equity investments are recorded as income when received. Capital gains on the sale or redemption of equity investments are recorded as income when received. Certain equity investments for which recovery of invested capital is uncertain are accounted for under the cost recovery method, such that cash received is first applied to recovery of invested capital and then to capital gains.

Investment in mortgage-backed securities—Investments in mortgage-backed securities are classified as trading and are carried at fair value in accordance with SFAS No. 115, *Accounting for Certain Instruments in Debt and Equity Securities* (SFAS No. 115). Changes in fair value and gain and losses are reported in Gain or Loss on Mortgage-backed Securities.

Notes to the Financial Statements

December 31, 2004 and 2003

Guarantees—In the year ended December 31, 2003, the Corporation began offering partial credit guarantees covering, on a risk-sharing basis, third party obligations on loans. Under the terms of the Corporation's guarantees, the Corporation agrees to assume responsibility for a third party's financial obligations in the event of default by the third party (i.e. failure to pay when payment is due). Guarantees are regarded as issued when the Corporation executes the guarantee agreement. This date is also the "inception" date of the guarantee contract. Guarantees are regarded as outstanding when the underlying financial obligation of the third party is incurred, and called when the Corporation's obligation under the guarantee has been invoked. There are two liabilities associated with the guarantees: (1) the stand-ready obligation to perform, and (2) the contingent liability. The stand-ready obligation to perform is recognized at the commitment date unless a contingent liability exists at that time or is expected to exist in the near term. The contingent liability associated with the financial guarantee is recognized when it is probable that the guarantee will be called and when the amount of the guarantee can be reasonably estimated. Any stand-ready and contingent liabilities associated with guarantees are included in payables and other liabilities, and the receivables are included in other assets on the balance sheet. When the guarantees are called, the amount disbursed is recorded as a new loan and specific reserves are established based on the estimated probable loss. These reserves are included in the allowance for losses on the balance sheet. Guarantee fees are recorded as income on an accrual basis over the term of the guarantee. See Note H for outstanding amount of guarantee.

Risk management and derivative instruments—The Corporation enters into transactions involving various derivative instruments for risk management purposes. These derivatives are designed to minimize the Corporation's interest rate and foreign exchange risks in respect of certain investments. As part of the ongoing compliance with SFAS No. 133, the Corporation uses internal models to determine the fair values of derivative financial instruments. The Corporation undertakes continuous review and respecification of these models with the objective of refining its estimates, consistent with evolving best market practices. Changes in estimates resulting from refinements in the assumptions and methodologies incorporated in the models are reflected in net income in the period in which the enhanced models are first applied. In accordance with the SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended, the Corporation marks these derivatives to market and records them as assets and/or liabilities at the balance sheet date, with unrealized gains and losses reflected in earnings. No derivatives were outstanding as of December 31, 2004 or 2003. Refer to Note C.

Resource mobilization—The Corporation mobilizes funds from commercial banks and other financial institutions (Participants) by facilitating loan participations, without recourse. These loan participations are administered and serviced by the Corporation on behalf of the Participants. The disbursed and outstanding balances of the loan participants are not included in the Corporation's balance sheet.

Fixed assets—The Corporation depreciates fixed assets on a straight-line basis over the estimated useful lives of the assets, which range from three to seven years.

Fair value of financial instruments—SFAS No. 107, *Disclosures about Fair Value of Financial Instruments*, requires entities to disclose information about the estimated fair value of their financial instruments, whether or not those values are recognized on the balance sheet.

For many of the Corporation's financial instruments it is not practicable to estimate the fair value, and therefore, in accordance with SFAS No. 107, additional disclosures pertinent to estimating the fair value, such as the carrying amount, interest rate, and maturity, are provided.

The following methods and assumptions were used by management in estimating the fair value of the Corporation's financial instruments:

Cash and Cash Equivalents: The carrying amount reported in the balance sheet approximates fair value.

Marketable Securities: Fair values for marketable securities are based on quoted market prices as of the balance sheet date. See Note B.

Notes to the Financial Statements

December 31, 2004 and 2003

Loan Investments: The Corporation provides custom-tailored financing to small and medium-size enterprises operating in its developing member countries. There is no comparable secondary market for these types of loans. For the majority of loans and related commitments, management is of the opinion that due to the Corporation's unique position in its lending operations and the absence of an established secondary market, it is not practicable to estimate a fair value for the Corporation's lending portfolio at this time. See Note C.

Equity Investments: The Corporation purchases the capital stock of small and medium-size private sector enterprises in Latin America and the Caribbean. In most cases, market prices are not available and alternate valuation techniques are not practicable. See Note C.

Borrowings: The estimated fair value for fixed rate borrowings is disclosed in Note F.

Accounting and financial reporting developments—During the year ended December 31, 2004, the FASB issued SFAS No. 123(R), *Share-Based Payment*; SFAS No. 151, *Inventory Costs—an amendment of ARB No. 43, Chapter 4*; SFAS No. 152, *Accounting for Real Estate Time-Sharing Transactions—an amendment of FASB Statements No. 66 and 67*; and SFAS No. 153, *Exchanges of Nonmonetary Assets—an amendment of APB Opinion No. 29*. None of these accounting standards are expected to have a material impact on the Corporation.

In March 2004, FASB ratified the consensus reached by the Emerging Issues Task Force (EITF) on Issue No. 03-1, *The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments.* EITF 03-1 was issued to clarify the meaning of "other-than-temporary impairment" and its application to investments classified either as available-for-sale or held-to-maturity under SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities* (including individual securities and investments in mutual funds), and investments accounted for under the cost method. Implementation effective dates are currently pending, and the Corporation is assessing the impact of EITF 03-1 on its investments held at cost.

In addition, during the year ended December 31, 2004, FASB issued and/or approved various FASB Staff Positions, EITF Issues Notes, and other interpretive guidance related to Statements of Financial Accounting Standards and APB Opinions. The Corporation analyzed and incorporated the new guidance, as appropriate, with no material impact on either the financial position or results of operations of the Corporation.

On January 17, 2003, FASB issued FASB Interpretation No. 46 (FIN 46), *Consolidation of Variable Interest Entities—an interpretation of ARB No. 51*. FIN 46 is applicable immediately to all entities with variable interests in variable interest entities created after January 31, 2003; for the Corporation, FIN 46 is applicable beginning December 31, 2003, to any variable interests in a variable-interest entity created before February 1, 2003. The adoption of FIN 46 does not have any material impact for the Corporation.

In November 2002, the FASB issued FASB Interpretation No. 45 (FIN 45), *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others—an interpretation of FASB Statements No. 5, 57, and 107 and rescission of FASB Interpretation No. 34*. Upon issuance of a guarantee, FIN 45 requires the guarantor to recognize a liability for the fair value of the obligation it assumes under that guarantee. The disclosure provisions of FIN 45 are effective for financial statements of interim or annual periods that end after December 15, 2002. The provisions for initial recognition and measurement are effective on a prospective basis for guarantees that are issued or modified after December 31, 2002, irrespective of a guarantor's year-end. The Corporation issued a small number of guarantees during the years ended December 31, 2004 and 2003, and the adoption of FIN 45 had no material impact for the Corporation. Disclosures concerning guarantees, including those required by FIN 45, have been made in Note H.

Notes to the Financial Statements

December 31, 2004 and 2003

NOTE B—Marketable Securities

Components of marketable securities for the years ended December 31, 2004 and 2003 are (US$ thousands):

	2004	2003
Government and Agency Obligations	$ 25,333	$ 42,383
Asset-backed Securities	12,011	17,255
Corporate Securities	8,913	6,203
	$ 46,257	**$ 65,841**

Components of net income from marketable securities for the years ended December 31, 2004 and 2003 are (US$ thousands):

	2004	2003
Interest Income	$ 1,712	$ 1,802
Unrealized Loss	(517)	(423)
Realized Loss	(116)	(95)
	$ 1,079	**$ 1,284**

Notes to the Financial Statements

December 31, 2004 and 2003

NOTE C—Loan and Equity Investments

The Corporation monitors the outstanding loan and equity portfolios for geographic concentration of credit risk. The Corporation's single largest exposure is designated as Regional, which consists primarily of multicountry private equity investment funds. At December 31, 2004, individual countries with the largest aggregate credit exposure to the Corporation included Brazil, Chile, and Mexico (Brazil, Chile, and Argentina—year ended December 31, 2003).

The distribution of the outstanding portfolio by country and by sector as of December 31, 2004 and 2003 is as follows (US$ thousands):

	2004			2003		
	Loan	Equity	Total	Loan	Equity	Total
Regional	$ 22,490	$ 60,248	$ 82,738	$ 7,821	$ 72,900	$ 80,721
Brazil	56,632	7,226	63,858	30,414	7,909	38,323
Chile	28,939	14,967	43,906	31,608	14,967	46,575
Mexico	20,452	13,459	33,911	24,485	10,945	35,430
Argentina	24,769	2,612	27,381	34,249	2,000	36,249
Peru	27,095	—	27,095	23,879	—	23,879
Costa Rica	21,237	—	21,237	17,466	—	17,466
Colombia	18,634	857	19,491	21,667	1,714	23,381
Ecuador	18,088	—	18,088	17,257	—	17,257
Panama	17,125	—	17,125	19,557	—	19,557
Honduras	15,503	—	15,503	12,299	—	12,299
Venezuela	14,794	—	14,794	16,403	—	16,403
Uruguay	12,885	931	13,816	5,693	931	6,624
Nicaragua	10,378	—	10,378	14,274	400	14,674
El Salvador	9,900	—	9,900	1,300	—	1,300
Bolivia	8,500	—	8,500	5,876	—	5,876
Paraguay	4,935	—	4,935	5,960	—	5,960
Guatemala	4,246	—	4,246	6,566	—	6,566
Jamaica	3,470	—	3,470	—	—	—
Trinidad and Tobago	988	598	1,586	1,817	598	2,415
Belize	950	—	950	1,000	—	1,000
Dominican Republic	—	—	—	6,643	—	6,643
Bahamas	—	—	—	80	—	80
TOTAL	**$ 342,010**	**$ 100,898**	**$ 442,908**	**$ 306,314**	**$ 112,364**	**$ 418,678**

	2004			2003		
	Loan	Equity	Total	Loan	Equity	Total
Financial Services	$ 150,964	$ 23,033	$ 173,997	$ 131,240	$ 23,278	$ 154,518
Venture Capital Funds	—	75,865	75,865	—	86,686	86,686
Agriculture & Agribusiness	33,437	2,000	35,437	33,932	2,000	35,932
Aquaculture & Fisheries	23,555	—	23,555	20,417	400	20,817
Utilities & Infrastructure	16,517	—	16,517	20,050	—	20,050
General Manufacturing	15,401	—	15,401	12,118	—	12,118
Education	15,352	—	15,352	10,300	—	10,300
Wood, Pulp & Paper	14,540	—	14,540	11,500	—	11,500
Transportation & Warehousing	13,903	—	13,903	14,896	—	14,896
Food, Bottling & Beverages	10,305	—	10,305	6,743	—	6,743
Industrial Processing Zones	9,322	—	9,322	6,190	—	6,190
Tourism & Hotels	8,889	—	8,889	12,646	—	12,646
Livestock & Poultry	8,000	—	8,000	—	—	—
Textiles, Apparel & Leather	6,239	—	6,239	3,130	—	3,130
Chemicals & Plastics	6,014	—	6,014	8,476	—	8,476
Nonfinancial Services	5,572	—	5,572	7,051	—	7,051
Oil & Mining	4,000	—	4,000	—	—	—
Health	—	—	—	5,140	—	5,140
Tech, Comm. & New Economy	—	—	—	2,000	—	2,000
Capital Markets	—	—	—	485	—	485
TOTAL	**$ 342,010**	**$ 100,898**	**$ 442,908**	**$ 306,314**	**$ 112,364**	**$ 418,678**

Notes to the Financial Statements

December 31, 2004 and 2003

Loan, equity, and mortgage-backed security investments approved by the Board of Executive Directors to be held by the Corporation but not yet signed as commitments and loan, equity, and mortgage-backed security investment commitments signed for which disbursement has not yet been made (net of cancellations) as of December 31, 2004 and 2003 are summarized below (US$ thousands):

	2004	2003
Investments Approved but not Committed		
Loan	$ 105,700	$ 95,175
Equity	200	—
TOTAL	**$ 105,900**	**$ 95,175**
Investments Committed but not Disbursed		
Loan	$ 36,730	$ 68,358
Equity	19,267	35,176
Mortgage-backed Securities	25,000	25,000
TOTAL	**$ 80,997**	**$ 128,534**

The Corporation's loans accrue interest at one-, three-, and six-month London Interbank Offered Rate (LIBOR) plus a spread ranging from 2.50% to 6.00%. At December 31, 2004, the one-, three-, and six-month average LIBOR rates were 1.50%, 1.62%, and 1.79%, respectively (1.12%, 1.15%, and 1.22%, respectively at December 31, 2003).

The maturity structure of the Corporation's loan investments for the years ended December 31, 2004 and 2003 is summarized below (US$ thousands):

	2004		2003	
	Principal Outstanding	**Average Spread over LIBOR**	**Principal Outstanding**	**Average Spread over LIBOR**
Due in one year or less	$ 84,996	3.40%	$ 63,097	3.40%
Due after one year through five years	202,808	3.96%	212,204	3.59%
Due after five years through ten years	54,206	4.07%	31,013	3.75%
	$ 342,010		**$ 306,314**	

Loans on which the accrual of interest has been discontinued totaled $64,278,000 at December 31, 2004 ($51,820,000—December 31, 2003). Interest income not recognized on nonaccruing loans during the year ended December 31, 2004, totaled $1,502,000 ($2,651,000—year ended December 31, 2003). Interest collected on loans in nonaccrual status during the year ended December 31, 2004 was $1,485,000 ($920,000—year ended December 31, 2003).

The Corporation's investment in impaired loans at December 31, 2004, was $32,536,000 ($43,485,000—December 31, 2003). The average recorded investment in impaired loans during the year ended December 31, 2004, was $38,011,000 ($44,842,000—year ended December 31, 2003).

Notes to the Financial Statements

December 31, 2004 and 2003

Changes in the allowance for loan and equity losses for the years ended December 31, 2004 and 2003 are summarized below (US$ thousands):

	2004			2003		
	Loan	Equity	Total	Loan	Equity	Total
Balance at beginning of year	$ 45,264	$ 41,177	$ 86,441	$ 45,702	$ 41,146	$ 86,848
Investments written off, net	(372)	(19,940)	(20,312)	(2,620)	(4,553)	(7,173)
Recoveries	6,526	180	6,706	7,056	225	7,281
Provision for losses	(5,952)	9,264	3,312	(4,874)	4,359	(515)
Balance at end of year	**$45,466**	**$30,681**	**$76,147**	**$45,264**	**$41,177**	**$86,441**

At December 31, 2003, the Corporation owned limited participations in certain closed-end equity investment funds totaling $19,940,000 where timely investment information, including net asset values, was not provided by the fund manager despite management's best efforts. Management exercised judgment in assessing the extent of incurred loss on these participations by relying on limited information to estimate the specific allocations of the allowance for loss to these participations as of December 31, 2003. During 2004 management received current audited financial information from the fund manager. The results of this information are reflected in the allowance for equity losses and related disclosures as of December 31, 2004.

In 2001, the Corporation entered into a commitment to make investments in mortgage-backed securities. In accordance with SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, the Corporation classified these mortgage-backed securities as trading securities upon acquisition and carried them at their estimated fair value. In 2004, Management initiated efforts to exit existing mortgage-backed securities investment commitments and to phase out the use of this investment product. During the year ended December 31, 2004, the Corporation sold all of its mortgage-backed securities investments and realized no gain or loss ($1,315,000 gain—year ended December 31, 2003). The Corporation also entered into derivative financial instruments related to these mortgage-backed securities that were designed to minimize the variability of the interest and principal repayments due to interest and foreign exchange risk. During the year ended December 31, 2004, the Corporation exited the related derivative instruments upon the sale of the related mortgage-backed securities and realized no gain or loss ($1,906,000 loss—year ended December 31, 2003). Key assumptions and estimates used to determine the estimated fair value of the mortgage-backed security and related derivative financial instrument included credit risk, prepayments, foreign exchange rates, inflation rates, and counterparty risks. Management's estimates sometimes differed from the actual value ultimately realized.

Notes to the Financial Statements
December 31, 2004 and 2003

NOTE D—Receivables and Other Assets

Receivables and other assets as of December 31, 2004 and 2003 are summarized below (US$ thousands):

	2004	2003
Interest Receivable on Loan Investments	$ 4,855	$ 1,764
Receivable on Equity Sales, net	2,773	4,034
Recovered Assets	956	620
Fixed Assets, net	478	480
Interest Receivable on Marketable Securities	433	620
Guarantee Fee Receivable	379	—
Other Receivables	365	582
Unamortized Debt Issue Costs	327	387
Other Postretirement Benefits Prepaid Asset	224	380
Due From IDB	64	133
Total Receivables and Other Assets	**$ 10,854**	**$ 9,001**

The Corporation may enter into a sales agreement to sell its participation in certain equity investments and record a note receivable and related gain that is included in gain on sale of equity investments. The amounts receivable for equity sales, net of related valuation allowances, are summarized below as of December 31, 2004 and 2003 (US$ thousands):

			Note Receivable, net	
Year	**Sales Price**	**Gain**	**12/31/2004**	**12/31/2003**
2002	$ 2,390	$ 390	$ —	$ 249
2003	6,266	708	2,773	3,785
			$ 2,773	$ 4,034

NOTE E—Accounts Payable and Other Liabilities

Accounts payable and other liabilities as of December 31, 2004 and 2003 are summarized below (US$ thousands):

	2004	2003
Deferred Revenue	$ 2,399	$ 1,219
Employment Benefits Payable	1,927	2,245
Capital Subscription Residual Payments	1,840	264
Installment Payments on Equity Dispositions	983	1,383
Accounts Payable	871	886
Other Liabilities	609	397
Legal Retainers	243	258
Total Accounts Payable and Other Liabilities	**$ 8,872**	**$ 6,653**

The Corporation enters into agreements with equity investment sponsors to exit the Corporation's positions in equity investments. These agreements involve installment payments made to the Corporation whereupon at the end of the installment payments the Corporation's position is released to the equity investment sponsor. Installment payments reflected in accounts payable and other liabilities totaled $983,000 at December 31, 2004 ($1,383,000—December 31, 2003).

Notes to the Financial Statements

December 31, 2004 and 2003

NOTE F—Borrowings

The Corporation's outstanding borrowings at December 31, 2004, consist of term and revolving credit facilities with the IDB, Caja Madrid, and Shinkin Central Bank. Borrowings under the IDB or Caja revolving credit facilities are due one, three, or six months after disbursement and are renewable. Borrowings under the Shinkin Central Bank facility are due and payable in December 2009 with interest payable semiannually. Borrowings under the fixed-rate Caja Madrid facility are due and payable in January 2011 with interest payable quarterly. In 2001, the Corporation renewed a loan agreement with the Inter-American Development Bank that allows the Corporation to borrow up to $300 million until November 2005.

Credit facilities and the related borrowings outstanding at December 31, 2004 and 2003 are as follows (US$ thousands):

	2004		2003	
Credit Agreements	**Facility**	**Outstanding**	**Facility**	**Outstanding**
IDB, expiring November 2005	$ 300,000	$ —	$ 300,000	$ —
Caja, expiring March 2006	100,000	—	100,000	—
Shinkin, expiring December 2009	30,000	30,000	30,000	30,000
Caja, expiring January 2011	50,000	50,000	50,000	50,000
		$ 80,000		**$ 80,000**

Interest accrues at variable rates based on one-, three-, or six-month LIBOR set at the effective date of each borrowing or the interest reset date. The interest rate on the Caja term facility was set at disbursement and will remain fixed until maturity. The estimated fair value of the fixed rate Caja term facility is $50,040,000 as of December 31, 2004 ($51,000,000—December 31, 2003). The Corporation's weighted average cost of borrowings for the year ended December 31, 2004, was 3.42% (3.25%—year ended December 31, 2003). The Corporation also pays a commitment fee ranging from .05% to .10% on the unused available line of credit. Total commitment fees paid on all lines for the year ended December 31, 2004, totaled $102,000 ($122,000—year ended December 31, 2003).

NOTE G—Capital

The Corporation's authorized share capital was increased to $703.7 million through a $500 million capital increase resolution approved in 1999. The resolution allocated $500 million for subscriptions by member countries during the subscription period. On March 22, 2000, the minimum number of subscriptions required to make the capital increase resolution effective was received. Members have agreed to pay their subscriptions in eight equal installments, the last of which is payable on October 31, 2007. The Corporation issues only full shares. Fractional or advance share payments are held and will be issued in accordance with this installment plan.

The following table lists the capital stock subscribed, subscriptions receivable, and fractional or advance shares pending issuance at December 31, 2004 and 2003:

Notes to the Financial Statements

December 31, 2004 and 2003

	TOTAL Capital Stock Subscribed		Subscriptions Receivable From Members	Payments Received Pending Share Issuance
	Shares	Amount		
		US$ thousands		US$
Argentina	7,767	$ 77,670	$ 54,400	$ —
Austria	345	3,450	920	1,250
Bahamas	106	1,060	—	1,250
Barbados	101	1,010	270	3,750
Belgium	169	1,690	640	24,839
Belize	101	1,010	360	5,000
Bolivia	624	6,240	1,640	1,250
Brazil	7,767	77,670	38,870	3,502
Chile	2,003	20,030	4,930	1,647,500
Colombia	2,003	20,030	4,930	6,250
Costa Rica	94	940	—	—
Denmark	1,071	10,710	2,860	6,220
Dominican Republic	420	4,200	1,110	7,500
Ecuador	420	4,200	1,470	—
El Salvador	94	940	—	—
Finland	393	3,930	1,440	9,512
France	2,162	21,620	5,760	—
Germany	1,334	13,340	2,660	5,000
Guatemala	420	4,200	1,110	7,500
Guyana	120	1,200	320	5,000
Haiti	94	940	—	—
Honduras	314	3,140	830	5,000
Israel	173	1,730	470	8,750
Italy	2,162	21,620	5,760	—
Jamaica	420	4,200	2,940	—
Japan	2,393	23,930	6,630	3,750
Mexico	5,000	50,000	13,040	1,250
Netherlands	1,071	10,710	2,860	6,250
Nicaragua	314	3,140	2,200	—
Norway	393	3,930	1,440	9,435
Panama	314	3,140	830	5,000
Paraguay	314	3,140	2,200	—
Peru	2,003	20,030	5,940	—
Portugal	182	1,820	670	7,521
Spain	2,393	23,930	6,630	30,000
Suriname	30	300	—	—
Sweden	393	3,930	1,440	9,480
Switzerland	1,071	10,710	2,860	6,250
Trinidad and Tobago	314	3,140	1,100	—
United States	17,600	176,000	53,080	5,000
Uruguay	857	8,570	2,470	—
Venezuela	4,311	43,110	15,370	7,141
Total 2004	**69,630**	**$ 696,300**	**$ 252,450**	**$ 1,840,150**
Total 2003	**69,632**	**$ 696,320**	**$ 307,925**	**$ 264,001**

Notes to the Financial Statements

December 31, 2004 and 2003

NOTE H—Commitments and Contingencies

In 2004 and 2003, the Corporation entered into transactions that provide financial guarantees and recorded these guarantees in accordance with FIN 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*. The Corporation stands ready to perform once a guarantee is registered, will compensate the guaranteed party upon notification of default, and will seek recovery, if any, on any defaulted amounts.

Financial guarantees represent irrevocable assurances that the Corporation will make payments in the event that a client cannot meet its obligations to third parties. The terms of the guarantees outstanding range up to four years. The Corporation's policy for requiring collateral security with respect to these instruments and the types of collateral security held is generally the same as for loans. The carrying value includes amounts representing deferred revenue to be recognized in income over the life of the guarantee contract.

As of December 31, 2004 and 2003, no notices of default have been received since inception, and the maximum potential amount of future payments amounted to $5,245,000. Management believes that any liabilities likely to be associated with this transaction and recorded in accordance with FIN 45 will not be material.

NOTE I—Participations

The Corporation mobilizes funds from commercial banks and other financial institutions (Participants) through loan participations, which are sold by the Corporation, without recourse, to Participants. These loan participations are administered and serviced by the Corporation on behalf of the Participants. During the year ended December 31, 2004, the Corporation called and disbursed $181,735,000 of Participants' funds ($1,391,000—year ended December 31, 2003). The undisbursed Participants' funds commitments were $937,500 at December 31, 2004 ($154,000—at December 31, 2003).

Notes to the Financial Statements

December 31, 2004 and 2003

NOTE J—Related Party Transactions

The Corporation obtains some administrative and overhead services from the IDB in those areas where common services can be efficiently provided by the IDB. The Corporation has a new lease agreement with the IDB for office space that will expire in 2014. The Corporation began a relocation process within existing IDB facilities in 2003 and completed the relocation during 2004.

The Corporation paid the following amounts to the IDB for office space and certain administrative support services during the years ended December 31, 2004 and 2003 (US$ thousands):

	2004	2003
Office Space	$ 1,565	$ 1,187
Support Services	536	551
	$ 2,101	**$ 1,738**

Accounts receivable from IDB were $64,000 at December 31, 2004 ($133,000—at December 31, 2003).

In 2004 and 2003, no amounts were outstanding to the IDB under an existing loan agreement. See Note F.

The Corporation has advisory services agreements with the IDB. Fees of $175,000 were received for the year ended December 31, 2004 ($300,000—year ended December 31, 2003).

NOTE K—Retirement Plan

The IDB sponsors a defined benefit plan (the Retirement Plan) covering substantially all of the staff of the Corporation and the IDB. Under the Retirement Plan, benefits are based on years of service and average compensation, with the staff contributing a fixed percentage of remuneration and the Corporation and the IDB contributing the remainder of the actuarially determined cost of future Retirement Plan benefits. The total contribution is based on the aggregate funding method. All contributions to the Retirement Plan and all other assets and income held for purposes of the Retirement Plan are separated from the other assets and income of the Corporation and the IDB. They can be used only for the benefit of the Retirement Plan participants and their beneficiaries, until all liabilities to them have been paid or provided for. Information regarding the accumulated benefit obligation and related assets attributable to the Corporation is not maintained. The net total allocated expense to the Corporation for the purposes of the Retirement Plan was $750,000 for the year ended December 31, 2004 ($452,000—year ended December 31, 2003) and is reflected in administrative expense.

Notes to the Financial Statements

December 31, 2004 and 2003

NOTE L—Nonpension Postretirement Benefits

The Corporation also provides certain health care and other benefits to retirees. All current staff who participate in the Retirement Plan and who meet certain requirements are eligible for these postretirement benefits when they retire under the Retirement Plan.

The Corporation contributes an actuarially determined expense to the IDB's Postretirement Benefits Plan (the Plan) annually. The Corporation's portion of total assets is prorated to the Plan based on the Corporation's funding rate and the rate of return on the assets, net of any payments to employees for post-retirement benefits. The Corporation funded $427,000 to the Plan for the year ended December 31, 2004 ($961,000—year ended December 31, 2003). Future funding contributions to the Plan are projected to equal the annual actuarial cost.

The following table provides a reconciliation of the changes in the Plan's benefit obligations and fair value of assets, the funded status, and amounts recognized as of December 31, 2004 and 2003 (US$ thousands):

	2004	2003
Reconciliation of benefit obligation		
Obligation at January 1	$ 9,668	$ 8,557
Service cost	769	775
Interest cost	438	518
Actuarial (gain)/loss	(2,066)	(556)
Plan amendments	—	374
Obligation at December 31	8,809	9,668
Reconciliation of fair value of Plan assets		
Fair value of Plan assets at January 1	10,105	7,247
Actual return on Plan assets	1,216	1,897
Employer contributions	427	961
Fair value of Plan assets at December 31	11,748	10,105
Funded status		
Funded status at December 31	2,938	437
Unrecognized transition obligation	1,749	1,923
Unrecognized gain	(4,787)	(2,354)
Unrecognized prior service cost	324	374
Other Postretirement Benefit Prepaid Asset	$ 224	$ 380
Reconciliation of accrued prepaid benefit cost		
Prior year prepaid	380	—
Pension cost	(583)	(581)
Actual contribution	427	961
Year end prepaid	$ 224	$ 380

Actuarial gains and losses that exceed 10% of the greater of the benefit obligation or market-related value of the plan assets are amortized over the average remaining life of active participants of approximately 10.8 years. Unrecognized net transition obligations are also amortized over 10.8 years.

Notes to the Financial Statements

December 31, 2004 and 2003

The weighted-average actuarial assumptions taken into consideration for the calculation of the benefit obligation are as follows:

	2004	2003
Weighted average assumptions to determine benefit obligation at December 31		
Discount rate	5.50%	5.75%
Weighted average assumptions to determine net periodic cost for years ended December 31		
Discount rate	5.75%	6.25%
Expected return on Plan assets	6.75%	7.25%
Weighted average health care cost trend rates for years ended December 31		
Health care cost trend rate assumed for next year	8.70%	9.85%
Rate to which the cost trend rate is assumed to decline (ultimate trend rate)	4.50%	4.75%
Year that the rate reaches the ultimate trend rate	2013	2013

The net periodic benefit cost consists of the following components as of December 31, 2004 and 2003 (US$ thousands):

	2004	2003
Service cost	$ 769	$ 775
Interest cost	438	518
Less: Expected return on Plan assets	(687)	(687)
Amortization of unrecognized transition obligation and asset	224	174
Amortization of unrecognized net (gain) loss	(161)	(200)
Net periodic benefit cost	**$ 583**	**$ 580**

Assumed health care cost trend rates have a significant effect on the amounts reported for health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects (US$ thousands):

	One-Percentage-Point Increase		One-Percentage-Point Decrease	
	2004	2003	2004	2003
Effect on total of service and interest cost components	$ 278	$ 267	$ (207)	$ (217)
Effect on postretirement benefit obligation	1,676	1,760	(1,179)	(1,427)

The estimated future benefit payments are as follows as of December 31, 2004 (US$ thousands):

Estimated Future Benefit Payments	
January 1, 2005–December 31, 2005	20
January 1, 2006–December 31, 2006	40
January 1, 2007–December 31, 2007	60
January 1, 2008–December 31, 2008	100
January 1, 2009–December 31, 2009	140
January 1, 2010–December 31, 2014	1,250

Appendixes

Latin America and the Caribbean in 2004: Economic Outlook

The Latin American and Caribbean region is expected to post a gross domestic product (GDP) growth rate of around 5.5 percent in 2004, compared with 1.5 percent in 2003. Most of the region's economies have recovered from the slowdown that started in 1998. This positive performance is the result of favorable conditions at the regional and international levels, including stronger commodity prices, growth of non-oil exports, and increased tourism flows to the region. Moreover, it is estimated that the regional inflation rate for 2004 was 7.7 percent, lower than the 8.5 percent rate posted in 2003, or more than four percentage points lower than the rate for 2002 (12.1 percent). These results have also been made possible by the implementation of domestic economic policies that emphasize tighter fiscal and monetary policies as well as more competitive exchange rates. Maintaining the renewed economic growth trend will require a strengthening of domestic demand, continued efforts to balance external accounts, and stronger world economic growth.

Worldwide economic activity began to recover in the second half of 2003 and the first half of 2004. Although the pace of growth is projected to slow in the second semester of 2004, global GDP growth for the year is forecast at around 3.8 percent. World trade is projected to be growing at the rate of 7 percent by the end of 2004. The forecast for 2005 is for continued strength in world economic activity, led by the economies of the United States, India, and China. Economic growth in the European Union accelerated in the first quarter of 2004, with an annualized rate of 2.5 percent.

In this context, the Latin American and Caribbean economies are expected to benefit from strong demand for commodities, especially from China. In addition, the terms of trade are expected to recover in 2004, with an improvement of nearly 3 percent over 2003. The region has been posting a positive merchandise trade balance since mid-2002 as a result of stronger export growth. Higher export revenues were registered in 2003 in most of the MERCOSUR, the Andean Community member countries, and Chile. In most cases, this growth was the result of higher export volumes rather than higher prices. In 2004, it is estimated that exports grew by 22 percent, while the increase in prices is projected at 6 percent.

The modest recovery in capital inflows to the region posted in 2003 is expected to be more robust in 2004, reaching 1.8 percent of GDP, fueled mainly by a strong increase in private capital flows. Foreign direct investment is expected to reach $35 billion in 2004 compared with $29 billion in 2003. However, the region is expected to post a negative transfer of capital of around $22 billion. Although the average cost of external financing declined from 12.7 percent to 9.9 percent in 2003 and to 9.4 percent in the first quarter of 2004, a more recent increase in risk premiums has brought such costs to levels above 10 percent.

GDP in the largest regional economies is forecast to grow by about

4 percent in 2005 and 2006, ranging from a low of 2.9 percent to a high of 5.4 percent. Inflation in this group of countries is expected to remain in check, with an estimated increase in consumer prices of about 8.2 percent in 2005 and 7.3 percent in 2006. Unemployment is forecast to average about 12 percent for the largest countries in the region, ranging from a low of 6.8 percent to a high of 16.2 percent in 2005. In 2006, the unemployment rate is likely to show a slight improvement, ranging from 6.5 percent to 15.7 percent.

Several factors may have an impact on these forecasts and therefore affect regional economic activity and the balance of payments. In particular, regional economic forecasts assume the following:

- The continuation of a strong domestic demand throughout most of the region;
- No reduction in the level of commodity prices;
- The continuation of the current levels of remittances sent by nationals living abroad;
- Some moderation of oil prices from current levels;
- Some further recovery in the rate of foreign direct investment; and
- Relatively low international interest rates.

Notwithstanding the uncertainty about the sustainability of the regional and global economic recovery, the Latin American and Caribbean region appears poised to continue to benefit from the progress made on the macroeconomic and microeconomic fronts. Indeed, in 2004 Standard and Poor's upgraded the sovereign dept of six countries in the region and downgraded only one, in view of lower debt levels and inflation, continued growth, and a current account surplus for the region as a whole. To unlock the region's productive potential, it will be necessary to deepen regional integration, expand open trade, maintain responsible fiscal policies, improve the regulation of financial systems, and modernize the legal framework for investment. The region's long-term financing needs will have to be met, channeling resources to foster production, improve economic infrastructure, and raise standards of living.

Latin American and Caribbean companies are in the process of reshaping their business to compete in the global economy. This process should favor small and medium-size enterprises. To maintain and expand their share of domestic and foreign markets, they will need access to suitable sources of financing. The Corporation will seek to meet the needs of its target market by deploying its resources in the most effective manner, both directly and indirectly. It will maintain a disciplined approach to lending to its target market of small and medium-size enterprises and diligently manage its resources to achieve a balance between its developmental mandate and the pursuit of sustainable financial returns.

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Uruguay	Isaac Alfie	Ariel Davrieux
Venezuela	Nelson J. Merentes D.	Jorge Giordani

*Information as of December 2004.

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*Information as of December 2004

Channels of Communication

Country	*Institution*
Argentina	Ministerio de Economía
Austria	Federal Ministry of Finance
Bahamas	Ministry of Finance
Barbados	Ministry of Economic Development
Belgium	Ministère des finances
Belize	Ministry of Budget, Planning and Management, Economic Development, Investment and Trade
Bolivia	Ministerio de Hacienda
Brazil	Ministério do Planejamento, Orçamento e Gestão
Chile	Ministerio de Hacienda
Colombia	Ministerio de Hacienda y Crédito Público
Costa Rica	Ministerio de Hacienda
Denmark	Danish International Development Agency—DANIDA
Dominican Republic	Banco Central de la República Dominicana
Ecuador	Ministerio de Economía y Finanzas
El Salvador	Secretaría Técnica de la Presidencia
Finland	Ministry for Foreign Affairs
France	Ministère de l'économie, des finances et de l'industrie
Germany	Federal Ministry for Economic Cooperation and Development
Guatemala	Ministerio de Finanzas Públicas
Guyana	Ministry of Finance
Haiti	Ministère de l'économie et des finances
Honduras	Banco Central de Honduras
Israel	Bank of Israel
Italy	Ministry of the Economy and Finance
Jamaica	Ministry of Finance and Planning
Japan	Ministry of Finance
Mexico	Secretaría de Hacienda y Crédito Público
Netherlands	Ministry of Finance
Nicaragua	Ministerio de Hacienda y Crédito Público
Norway	Royal Norwegian Ministry of Foreign Affairs
Panama	Ministerio de Economía y Finanzas
Paraguay	Ministerio de Hacienda
Peru	Ministerio de Economía y Finanzas
Portugal	Direção Geral de Assuntos Europeus e Relações Internacionais Ministério das Finanças
Spain	Subdirección General de Instituciones Financieras Multilaterales
Suriname	Ministry of Finance
Sweden	Ministry for Foreign Affairs Department for International Development Co-operation
Switzerland	Office fédéral des affaires économiques extérieures
Trinidad and Tobago	Ministry of Finance, Planning and Development
United States	Treasury Department
Uruguay	Ministerio de Economía y Finanzas
Venezuela	Banco Nacional de Desarrollo

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