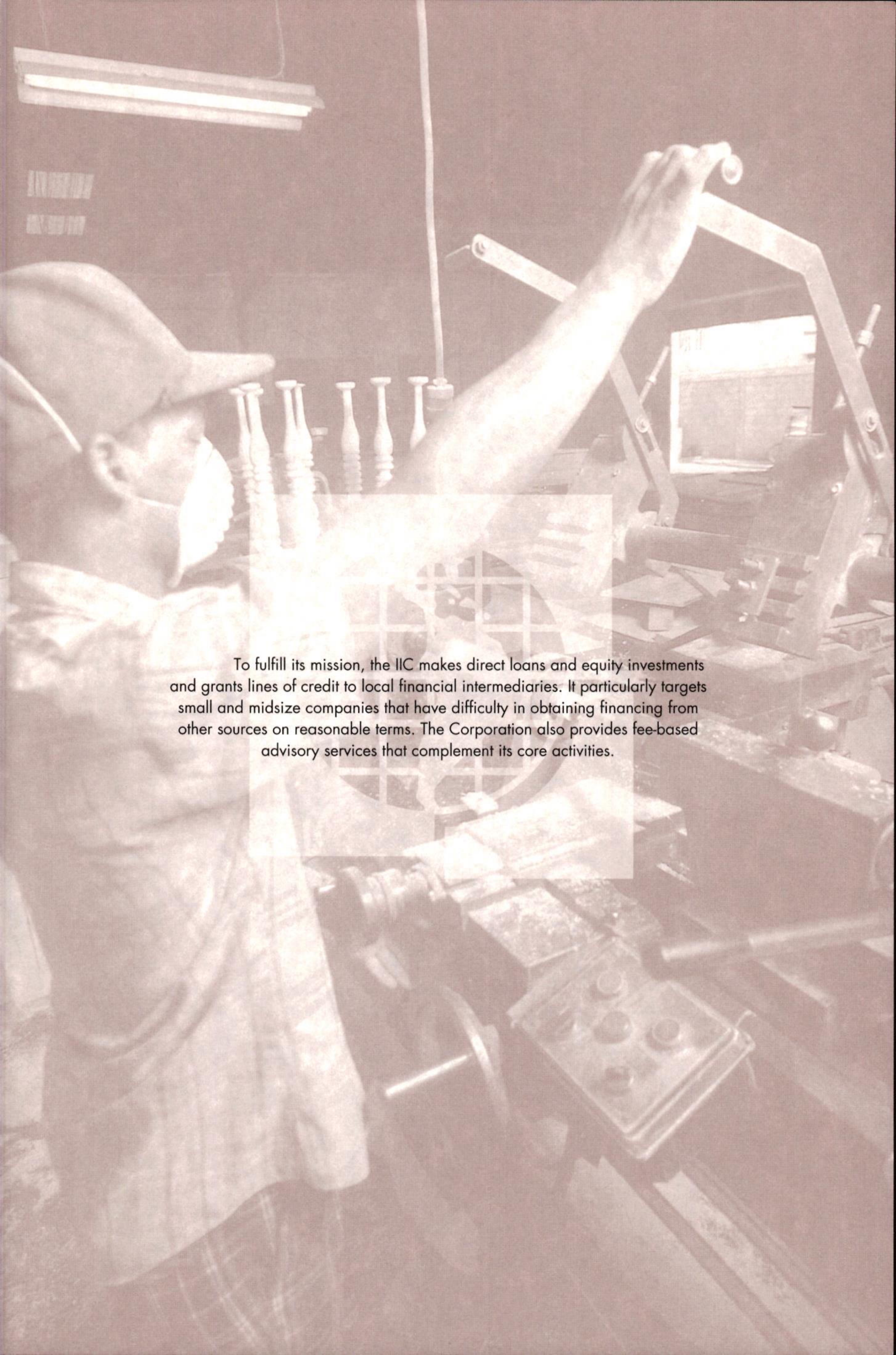
IIC 1995 Annual Report

Inter-American Investment Corporation



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THE INTER-AMERICAN INVESTMENT CORPORATION (IIC) is a multilateral investment corporation. It began operations in 1989 to promote the economic development of its Latin American and Caribbean member countries by financing small and medium-size private enterprise.

To fulfill its mission, the IIC makes direct loans and equity investments and grants lines of credit to local financial intermediaries. It particularly targets small and midsize companies that have difficulty in obtaining financing from other sources on reasonable terms. The Corporation also provides fee-based advisory services that complement its core activities.

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

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

As a natural outgrowth of its project financing, the IIC offers fee-based advisory services. These services include counseling private companies on financial engineering and corporate reorganizations and helping member governments modernize their foreign investment policies and develop capital markets.

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, promoting local savings, and/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 representative and alternate 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 part 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.

Thirty-four countries are shareholders in the IIC: twenty-four Latin American and Caribbean countries (Argentina, Bahamas, Barbados, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Trinidad and Tobago, Uruguay, Venezuela); seven European countries (Austria, France, Germany, Italy, the Netherlands, Spain, Switzerland); and Israel, Japan, and the United States.

Contents

Letter of Transmittal from the Chairman of the Board of Executive Directors

February 5, 1996

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

Mr. Chairman:

Pursuant to Article IV, Section 9 (a), of the Agreement Establishing the Inter-American Investment Corporation, I transmit to you the 1995 Annual Report of the Corporation and the audited financial statements, including the balance sheet, a statement of income and retained earnings, and a statement of cash flows for the year ended December 31, 1995.

The Inter-American Investment Corporation turned the corner this year. The favorable financial results set out in the Corporation's Annual Report for 1995 are those of an institution that is achieving the difficult dual goal set by the IIC's Board of Governors in its action plan for the Corporation for the period 1995–1997: developmental impact and profitability. The IIC has become a major contributor to the IDB Group's mission to promote the development of small and medium-size enterprises, which play such an important role in the development of the private sector in the region.

I want to thank the Corporation's Board of Directors, Management, and staff for their continued commitment to an institution that is destined to play a key role in the development of the private sector in Latin America and the Caribbean.

Yours sincerely,

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

The Year in Review

The Inter-American Investment Corporation completed its sixth full year of operations in 1995, reaping the benefits of the successful implementation of its two-year program of major institutional change. IIC income from all sources amounted to $26.5 million. Total expenses were $20.9 million, producing a net profit of $5.6 million. Income from lending operations totaled $20 million ($19.2 million from interest and $0.8 million from fees). Administrative expenses for the year totaled $8.9 million.

The Corporation's Board of Governors, during its tenth Annual Meeting in Jerusalem in April 1995, unanimously approved a strategic action plan for the IIC. This set in motion the process for amending the Corporation's Charter to increase the institution's funding and enable it to operate more flexibly. Well before the end of the year, Charter amendments were in place to increase the Corporation's borrowing capacity, authorize the admission of non-IDB member countries, and ease the regional ownership requirement for companies receiving IIC funding.

With its borrowing capacity—i.e., the allowable debt-to-equity-ratio—increased from 1:1 to 3:1, the IIC will be able to leverage its capital plus reserves (totaling $218.4 million as of December 31, 1995) to mobilize more than $650 million for financing projects in Latin America and the Caribbean.

The new business plan calls for the Corporation to make more direct equity investments; participate in development capital funds; channel more resources to the region through cofinancing arrangements; and provide advisory services to investment funds, small and medium-size companies, the Multilateral Investment Fund (MIF), and the IDB's Private Sector Department (PRI).

Implementation of the plan began immediately, leading to the Board of Directors' approval, during the second half of the year, of a total of $36.6 million for fourteen transactions in the manufacturing, agricultural, petrochemical, and financial sectors. In keeping with action plan guidelines, eleven of the projects involve equity investments totaling $27.5 million. Seven of these equity investments are in investment funds. During the year, the IIC also approved $36.4 million in new cofinancing to be managed by the IIC, and raised a record $74 million from fourteen international banks under existing cofinancing mandates. The total cost of projects that will benefit from funds provided or mobilized by the Corporation exceeds $360 million. In addition, the IIC carried out ten assignments for the MIF and evaluated two projects for the PRI. Exemplifying its advisory services for private companies, the IIC provided financial engineering that enabled a Chilean mining company to obtain a $34 million funding package from four international banks and assisted a Bolivian telephone company with its modernization plan.

Internally, the downsizing was completed, and streamlined procedures for project processing were implemented. All staff were provided with fully networked state-of-the-art electronic workstations, and the IIC-developed automated project supervision system was successfully installed. This greatly increased management's ability to monitor and control the growing project portfolio.

Other development-oriented agencies and funds, as well as international commercial banks and the IDB Group itself, responded quickly to the IIC's new status. During the year, the Corporation signed agreements with the MIF and the PRI to carry out assignments related to their private sector development activities. The United States Trade Development Agency established an Evergreen Fund on which the IIC may draw to finance project design and implementation services provided by U.S.-based consultants. The Corporation signed a letter of intent to enter into an advisory agreement with the soon-to-be-created AIG-GE Capital Corporation Latin American Infrastructure Fund, which will make equity investments in infrastructure projects and related industries in the Americas. A framework agreement was signed between the Programa Bolívar and the IIC to foster the development of private sector joint ventures in the region. Deutsche Bank Luxembourg S.A. granted the Corporation a $75 million five-year revolving credit facility to enhance the IIC's lending program. The Basle Committee recommended that European Union countries update legislation enacted before the IIC was created in order to include the Corporation among the multilateral development banks eligible for a lower capital adequacy ratio (20 percent) for loans from financial institutions. The Banking Commission of the European Union enacted similar legislation. These measures will greatly reduce the IIC's borrowing costs.

The business climate in the region reflects the progress made in modernizing the national economies, which have generally become more open and are increasingly linked by agreements for regional integration. This internationalization has not only benefited the commercial sector, but has made itself felt in the financial sector as well. Several of the region's economies are among the world's most attractive emerging markets.

Economic activity picked up in the second half of 1995, following the earlier slowdown caused by an outflow of capital. It is estimated that the region's gross domestic product grew nearly 1 percent in 1995. Higher growth rates, averaging nearly 5 percent annually, are expected through the end of the decade. The average rate of inflation decreased considerably, from almost 250 percent in 1994 to 80 percent in 1995. For the largest of the region's economies, the average fell to approximately 25 percent.

Industrial production in Mexico strengthened in the second half of the year, despite earlier concerns about the Mexican economy among foreign investors. Entrepreneurs in the manufacturing sector foresee further strengthening in 1996. In Argentina, demand is expected to rally, giving new impetus to economic growth in 1996 and 1997. The Brazilian economy should continue to post solid growth. Colombia, Chile, and Peru show signs of economic growth continuing at rates similar to those reported for 1995, i.e., an average 5 percent per year. Worthy of note is the economic performance of the Central American countries, with GDP growing at an average of almost 4 percent in 1995. Growth rates of 6 percent to 7 percent are expected for 1996 and 1997. Most of South America's smaller economies are projecting 2 percent to 5 percent growth for 1996. Many Caribbean countries have reversed the negative economic growth rates of previous years. Venezuela is taking steps to arrange funding from the IMF for its adjustment program. The program is expected to facilitate access to market-based funding to meet the country's external and fiscal financing needs.

Bolstered by the unanimous support of its member countries, the Inter-American Investment Corporation has now completed the adjustment process that began in 1993. It has adapted to the new dynamics of the world's development institutions by updating management techniques and increasing productivity. The IIC has renewed its commitment to respond effectively to the needs of a private sector that will lead economic development in the region into the twenty-first century. The Inter-American Investment Corporation, created to further sustainable, environmentally-sound development in Latin America and the Caribbean by supporting the private sector—particularly small and medium-size enterprise—will continue the task begun six years ago and deploy its resources to fulfill its member countries' mandate.

John C. Rahming
IIC General Manager, ad interim

INVESTMENT ACTIVITIES

Six full years of operations have brought cumulative approvals to 131 projects in twenty–two countries, for a total of $536 million (see Table 1). Commitments total $412 million; $306 million have been disbursed to eighty- seven projects. Fifty-one projects are now fully disbursed (see Figure 1). In addition, participating banks have committed $128 million under IIC-administered cofinancings, of which $83 million have been disbursed. The total cost of projects financed is nearly $3 billion.

The projects approved by the IIC to date will generate approximately 80,000 new jobs in the region and more than $800 million in annual exports from the beneficiary countries. IIC–funded projects have resulted in more than $350 million in exports of capital goods and services from non–borrowing member countries.

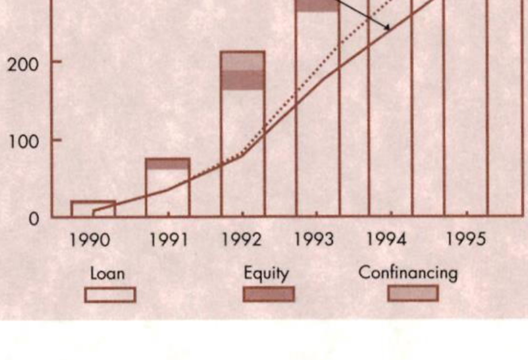
In 1995 the Corporation implemented the action plan approved by its Board of Executive Directors and Board of Governors. Among other strategic parameters, the plan calls for the IIC to make more equity investments. Eleven of the operations approved in 1995 involved equity investments, which total $27.5 million. Also under the plan, the IIC approved $21.9 million for seven investment funds in 1995. Three of the funds are regional in scope, three are local, and one is a pension fund management company. Another goal is to do more cofinancing. During the year, IIC approved $36.4 million in new cofinancing mandates and secured $74 million from eleven international banks under existing agreements.

The operations approved by the Board of Executive Directors of the Inter-American Investment Corporation, as well as the cofinancing operations closed in 1995, are described below.

TABLE 1. IIC PORTFOLIO, CUMULATIVE AS OF DECEMBER 31, 1995
(In millions of US$ unless otherwise indicated)

	1989	1990	1991	1992	1993	1994	1995
CUMULATIVE APPROVALS							
Number of Projects	3	22	48	78	109	122	131
IIC Investment	6	73	175	333	457	500	536
Total Estimated Cost of Projects	42	422	874	1,699	2,333	2,712	2,961
CUMULATIVE COMMITMENTS							
Number of Projects	0	7	23	49	73	90	99
IIC Investment	0	19	74	189	296	374	412
DISBURSEMENTS							
Number of Projects Disbursed	0	6	16	33	54	68	87
IIC Disbursements	0	7	33	77	165	237	306
Outstanding	0	7	32	76	161	221	273
COFINANCING ADMINISTERED BY IIC							
Amount Committed by Participants	0	0	22	22	29	58	128
Amount Disbursed for Participants	0	0	0	4	23	37	94

FIGURE 1. IIC COMMITTED PORTFOLIO
Cumulative in US$ millions



Regional Activities

Andean Emerging Growth Fund

The IIC approved a $4 million equity investment in the Andean Emerging Growth Fund, a five-year investment fund that will seek capital appreciation through direct and indirect investments in equity securities issued by small and medium-scale enterprises in Bolivia, Peru, and Chile. Through the fund, the IIC will contribute to the widening and deepening of these three countries' capital markets because its divestments will be through initial public offerings.

The proposed capitalization for the fund is $50 million, which will be obtained from foreign institutional investors.

By participating in the Andean Emerging Growth Fund, the IIC will create a mechanism through which it will support a number of small and medium-size companies that have strong growth potential but lack access to outside sources of equity.

Central American Investment Fund (CAIF)

The Corporation approved the acquisition of $3 million of the capital of an investment fund that will operate in Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Panama, and Belize. CAIF's target capitalization is $25 million. These funds will be provided by the Commonwealth Development Corporation, Swedfund, and Central American investors. The IIC's share will be 16 percent of the fund's total capital.

The Central American investors are six local financial institutions: Banco Continental de Costa Rica; Capitales, a Salvadorean capital markets firm; Corplatin, a Guatemalan capital markets firm; Banco del País, from Honduras; Banco Mercantil, from Nicaragua; and Belize Holdings-Panama Holdings Group.

As an integral part of its financing, CAIF will provide the entrepreneurs with assistance in the areas of management, technology, and market development. The fund will have a life of ten years, with an option to extend it for another two years. Some twenty-five to thirty companies are expected to benefit from the fund during its existence.

The fund will target companies that generate hard currency and envision regional or extra-regional expansion and sales. It will also seek to invest in companies with the potential to become listed on regional stock exchanges at the end of the investment period.

Latin American Energy and Electricity Fund (FondElec)

The IIC signed an agreement with five U.S. institutional investors to establish the Latin American Energy and Electricity Fund and increased its original commitment from $4 million, approved by the IIC Board of Directors in 1994, to $5 million. The $50 million fund will make private investments in existing and new power generation and distribution facilities throughout Latin America. As is the case with other types of infrastructure that are key to the region's development, power generation projects are often hampered by insufficient funding.

The IIC is a strategic investor with AYP Capital, Inc. and Chemical Latin American Associates, L.P., of New York; Constellation Energy International, of Baltimore, Maryland; PMDC Energy Limited, of Fairfax, Virginia; and Williams International Investments Ltd., of Tulsa, Oklahoma. FondElec Group, Inc., of Delaware, will manage the fund.

FondElec's first two investments will be in Peru and Bolivia. Luz del Sur, a distribution company created through the privatization of Edelsur, serves the southern part of Lima, Peru. Empresa Valle Hermoso will generate nearly one-fourth of Bolivia's electricity. The fund is reviewing other investment prospects in Argentina, Brazil, and Peru.

Argentina

Banco de Galicia y Buenos Aires, S.A

The IIC's Board of Directors approved an additional $25 million cofinancing operation for Banco de Galicia. The IIC had already committed and disbursed a $10 million A loan to the bank, and raised $25 million in cofinancing from six major European banks. These are: Berliner Bank ($2.5 million); Banco Exterior ($2.5 million); Deutsch-Südamerikanische Bank ($5 million); Crédit Suisse ($5 million); Union Bank of Switzerland ($5 million); and Swiss Bank Corporation ($5 million). Banco de Galicia used the funds during 1995 to provide medium to long-term financing for export-oriented small and medium-size firms in Argentina that could not access the international financial markets directly. Banco de Galicia has requested the additional $25 million from the IIC to continue its term lending activities to small and medium-size enterprises (see details in "Success Stories").

Petroquímica Comodoro Rivadavia (PCR)

In April 1995, the first tranche ($11 million) of a total $27 million cofinancing approved by the IIC was completed. This tranche consisted of funds from three Austrian banks: Bank of Austria ($4 million); Investkredit ($4 million); and RZB-Austria Bank ($3 million). The funds, along with a $5 million loan from the IIC, were used to work the oil and gas concessions that PCR acquired during the privatization of the Argentine state-owned oil company Yacimientos Petrolíferos Fiscales. Seven months after the drawdown of the initial tranche, the IIC began arranging a second tranche of $11 million, which was increased to $16 million in early 1996, to complete the total cofinancing package.

During 1995, the Corporation also exercised a warrant to purchase shares in Petroquímica Comodoro Rivadavia, using $1 million of its original loan commitment. This will further PCR's plans to list its shares on the Buenos Aires stock market.

Sagemüller S.A.

With an $8 million cofinancing package and a $2 million equity investment, the IIC is supporting the second expansion project undertaken by Sagemüller S.A., an Argentine company founded in 1896.

Sagemüller is an integrated producer of poultry meat products, rice, flour, and animal feeds. The company seeks to enhance its position as a low-cost, high-quality producer by incorporating advanced production technology and marketing high value-added products. With the IIC's assistance, Sagemüller launched a two-stage expansion program aimed at transforming the company from a domestically-oriented producer of commodities to a fast-growing, value-added consumer products firm able to compete in the regional market.

Phase I received financial support from the IIC in the form of a $4.6 million loan. Phase I was completed successfully, on time and within budget, in late 1994. The company will now proceed to Phase II of the expansion program, which calls for a 42 percent increase in sales.

The total cost of Phase II of the project is $18.8 million. It will be financed by a $2 million IIC equity investment, $8 million from Rabobank under a cofinancing package arranged by the IIC, and a $700,000 loan from the United States Export-Import Bank. The company's cash generation will cover the remainder. Rabobank is one of the largest banks in the Netherlands specializing in financing agricultural projects worldwide.

Brazil

Brazil

Brazilian Equity Investment III, Ltd.

The Board of Executive Directors of the IIC approved a $5 million equity investment in Brazilian Equity Investment III, Ltd. The capitalization of this investment fund is $84 million, of which 20 percent was contributed by BEA Associates (a New York investment bank 80 percent owned by Crédit Suisse) and Garantia Banking Ltd., a Bahamas-based subsidiary of Banco de Investimentos Garantia. The balance of the fund's capitalization consists of $5 million from the IIC, $27 million from U.S. pension funds and European and U.S. asset management firms, and $35 million from individual international investors.

IIC's participation in Brazilian Equity Investment III, Ltd. will help make long-term capital available to private companies in such sectors as transportation, construction, and consumer goods. Two companies have already received equity capital from the IIC through the fund: a shirt manufacturer in northwestern Brazil, and an electric home appliance company in São Paulo. The fund is expected to reach about fifteen medium-size companies and create approximately 900 new jobs. It will generate an estimated $400 million in export earnings per year. The fund's eventual investments will contribute approximately $1 billion to Brazil's gross domestic product.

Banco de Crédito Nacional (BCN)

The IIC committed and disbursed to BCN a $6 million A loan approved in 1994 and initiated the closing of an additional $35 million from participant banks under its cofinancing program. Comerica, a U.S. bank, committed $3 million, and Deutsch-Südamerikanische Bank committed up to $5 million. Three other banks are considering participating with up to $15 million. BCN will use the funds to provide medium to long-term financing for small and medium-size firms in Brazil that cannot access the international financial markets directly. Approximately 90 percent of the funds are to be used to finance leases to eligible small and medium-size businesses. The remaining 10 percent of funds will be on-lent as medium-term loans to eligible sub-borrowers for capital investments.

Chile

Minera Yolanda

The IIC shared a mandate with Swiss Bank Corporation to arrange financing for this $80 million mining project in northern Chile. The project is designed to produce 255,000 tons of potassium nitrate, 55,000 tons of sodium nitrate, and 300 tons of iodine per year. In 1993, the IIC approved $2 million in equity and a $7 million long-term loan. In execution of its mandate to raise additional funds for the project, in 1995 the Corporation raised its largest cofinancing transaction to date: $34 million from four participating European banks. These are: Swiss Bank Corporation ($12 million); Bank of Austria ($10 million); Union Européenne de CIC, France ($7 million); and Mediocredito Centrale, Italy ($5 million).

Colombia

Corfinsura Fondo de Desarrollo de Empresas

The IIC approved a $3.33 million equity investment in Corfinsura Fondo de Desarrollo de Empresas, Colombia's first development capital fund. IIC's participation in the fund will provide development capital to export-oriented companies in the agribusiness, manufacturing, mining, and emerging technologies sectors.

The expected capitalization for the fund is $10 million, of which one-third will be contributed by Corfinsura (one of the best-run finance corporations in Colombia), one-third by the IIC, and one-third by Colombian capital investors. The fund, to be managed by Corfinsura, will seek long-term capital gains by investing in equity and quasi-equity securities issued by small and medium-size businesses that need capital for growth. The fund will assist entrepreneurs in the areas of management, technology, and market development.

By investing in the fund, the IIC will help to support a larger number of beneficiaries than it could reach directly.

Impsat S.A.

During 1995 IIC completed the execution of a cofinancing mandate to complement an $8 million IIC loan approved in 1992 to finance the construction and operation of Impsat S.A., Colombia's first private satellite telecommunications network. The IIC mobilized $4 million from ING Bank (including the sale of $2 million of IIC's A loan) to complete the requisite financing for this $48 million project. Previously, the IIC had raised $4 million from Swiss Bank Corporation.

Ecuador

Finagro Banco del Agro, S.A.

The Corporation approved an additional $500,000 equity investment in Finagro Banco del Agro. In 1992, the IIC granted a $2 million loan and made a $500,000 equity investment in Financiera del Agro, S.A. This Ecuadorean financial corporation established in 1989 became a bank in early 1995 (see details in "Success Stories").

The IIC's participation in Finagro's capital increase will enable the company to continue to grow as a bank. The IIC presence will also help Finagro tap international capital markets and maintain a solid capital base in keeping with the minimum capitalization requirements of Ecuadorean law.

The decision to participate in the capital increase enables the IIC to continue to own 9.14 percent of Finagro's shares, which have been quoted on the Quito and Guayaquil stock markets since September 1994. Since then the number of shareholders has risen from twenty-two to 120.

Finagro has always specialized in financing investment projects in activities that foster economic development. It is the only private financial institution in Ecuador that makes loans to small and medium-size farmers and rural microentrepreneurs. Its credit model includes technical assistance, farm mechanization, provision of inputs, production marketing, technology transfer, and user training.

Mexico

Finlam, S.A. de C.V.

The Board of Directors of the Inter-American Investment Corporation approved a $5.8 million financing package for Finlam, S.A. de C.V., a Mexican agribusiness company. Finlam will use the funds to expand a pilot project to produce premium-quality cut foliage for the floral industry. The expansion project is expected to yield important economic benefits for the Laguna Sayula region in the state of Jalisco, where Finlam is located. These benefits include the generation of 500 new jobs and more than $15 million in annual export revenues, as well as the modernization of the Mexican floriculture sector through the transfer of technology from Dutch and U.S. companies.

The IIC will provide a $0.4 million eight-year loan, a $1 million eight-year convertible loan, and a $1 million direct equity investment to acquire 10.4 percent of Finlam's capital stock. An additional $3.4 million loan will be arranged by IIC under a cofinancing package.

Finlam will sell its cut foliage in the United States and Europe under an exclusive agreement with Ironwood Enterprises, an established western and tropical greens marketer.

Procorp, S.A. de C.V.

The Corporation will contribute $3 million to an investment trust to be set up with Procorp, an existing SINCA, managed by Promotora Probursa. Probursa is a subsidiary of Grupo Financiero Probursa (GFP), one of Mexico's leading diversified financial groups.

GFP has been chosen as the Mexican partner of Advent International, which, along with the IIC, sponsors Latin American Private Equity Fund, a regional capital investment fund. The fund will invest jointly with Procorp in selected companies that can benefit from the links established with the more than 750 companies worldwide in which the Advent Network has invested.

The IIC will use the trust to channel funds to medium-size companies that need capital to expand, diversify, reconvert, or restructure. Promotora Probursa's team of professionals will also provide technical, financial, and managerial assistance to the companies identified. Advent International will help with their international expansion.

The trust fund will have a life of seven years. Procorp will establish specific exit mechanisms for each IIC investment. This is the Corporation's second operation in support of a Mexican capital investment company. The IIC thus lends greater credibility to a special investment vehicle created by the Mexican government to spur the growth of small and medium-size business and stimulate long-term investment.

Peru

AFP Nueva Vida

A $2.5 million IIC equity investment has been approved for AFP Nueva Vida, a private pension-fund manager that seeks to provide Peruvian nationals with an alternative to the country's social security system. Nueva Vida will be IIC's first investment in a pension fund management company.

AFP Nueva Vida was established in 1993 by a group of Peruvian, Spanish, and Chilean businesspeople. It has become the most profitable private pension-fund manager in Peru, despite being the smallest. In 1994, for the second consecutive year, Nueva Vida posted both the highest growth rate and the highest real annualized yield of the local private pension fund system.

IIC's investment in Nueva Vida will help support Peru's private pension system, which started operating in 1993 to improve pension benefits for Peruvians and foster domestic savings, thereby reducing the nation's dependence on foreign sources of capital.

By investing in Peru's emerging private pension-fund system, the IIC will be supporting the development of longer-term investment instruments, thus helping develop the local capital market.

Pesquera Diamante, S.A.

The IIC raised $3 million under a cofinancing arrangement from Rabobank to complement the $2 million loan and $0.8 million equity investment approved by the IIC in 1994. This modern fishmeal plant located in Pisco entered operation in April 1995 and is successfully producing high-quality fishmeal as planned. The company's state-of-the-art technology has enabled it to produce efficiently while meeting high environmental standards.

Compañía Papelera Industrial del Perú, S.A. (PIPSA)

With a $2.1 million equity investment and a $5 million loan, the IIC will support the establishment of PIPSA, a new 25,000 ton-per-year tissue paper plant to be built seven and one-half miles from Lima, Peru. The plant will make toilet paper, paper towels, and paper napkins for the domestic market. The total project cost is $42 million.

PIPSA's chief raw material will be waste paper, thereby increasing paper recycling in Lima. This will both benefit the environment and provide sources of income for small paper-recycling companies.

The plant will create about 120 new permanent jobs. It will also generate more than 100 indirect jobs through the purchase of waste paper and the distribution of finished products.

PIPSA will bring modern technology to a growing sector, spurring competition and benefiting consumers. This is the first integrated paper plant to be built in Peru since the early eighties.

Uruguay

Migranja, S.A.

The IIC approved an additional $500,000 loan to Migranja, S.A., an export-oriented fruit grower. The loan is part of a financial and managerial restructuring package for the company.

Migranja was one of the first companies to receive assistance from the IIC. In 1989 the Corporation approved a $2,350,000 loan and a $1 million equity investment for an agricultural project that has made the project company Uruguay's largest fruit exporter.

Migranja has created 370 direct and fifty indirect jobs. By restructuring, the company has positioned itself strategically to step up its exports to the European market and increase its sales under the Mercosur free trade agreement.

Union Star, S.A.

Union Star is a state-of-the-art bicycle tire and tube manufacturing company located in the free trade zone of Nueva Palmira, Uruguay. The IIC, together with several international and local financial institutions, was asked to restructure the company's debt. The Corporation devised a plan calling for $2,250,000 in new debt financing for the company and an eighteen-month extension of the grace period and total term of its existing loan. The IIC also acquired 100 percent of the company's share capital in 1995.

Under the plan, Union Star increased production from 8,500 units per day to the current 12,000. The plant's full capacity of 18,000 units per day is expected to be achieved by the third quarter of 1996.

After the restructuring, Union Star's sales increased 100 percent. Greater productivity has improved the company's operating profit and lowered administrative expenses by 52.3 percent despite higher production levels.

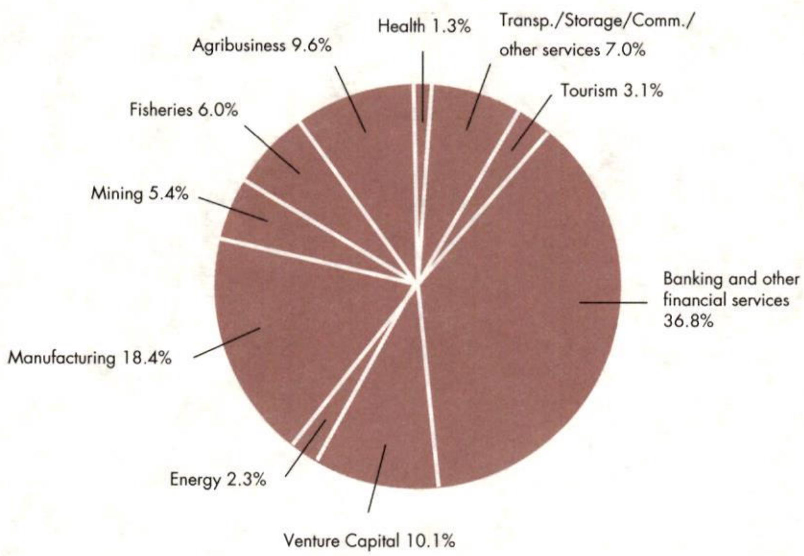
The IIC's original $500,000 equity investment and $3 million eight-year loan to Union Star were approved in 1991. The Corporation's commitment to Union Star enables the company to produce a high-quality product and has helped create employment in a depressed region of Uruguay. Union Star is now one of the major employers in the area. At full production, the company's annual exports will bring in $12 million in revenues, or almost 0.6 percent of Uruguay's total exports. Union Star will need 150 semi-skilled and unskilled employees to operate at full capacity.

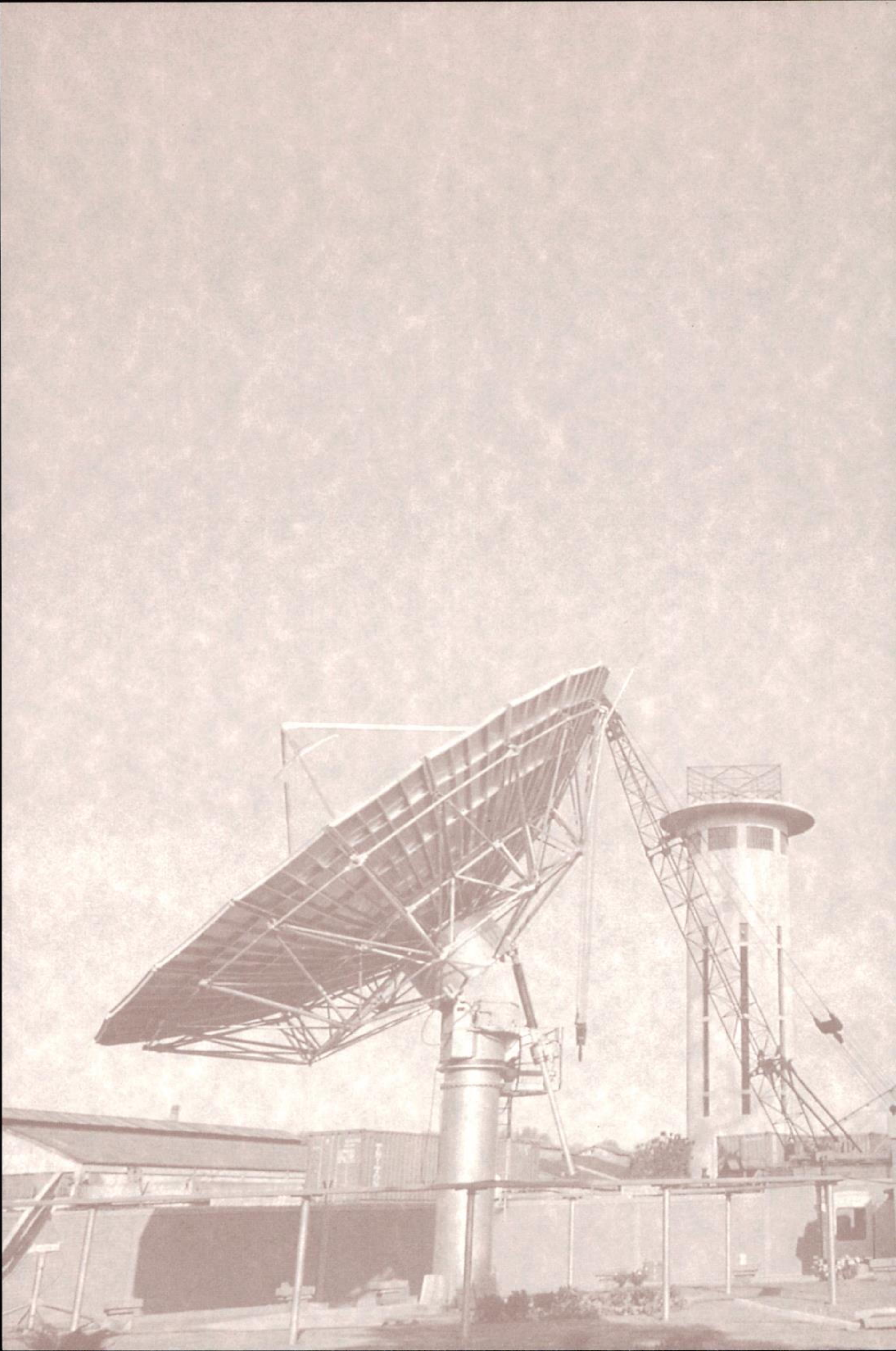
IIC Project Finance Activities 1989–1995

- $ Financial services: credit lines to financial intermediaries, leasing companies, and investment banks
- Venture & joint capital funds: local/regional
- Industrial businesses: formica, chemical, methionine, zinc, quartz crystals, galvanized pipes
- Free trade zones & industrial parks
- Banking & underwriting facilities: new facilities, microenterprise bank
- Shrimp/lobster farms & producers
- Mining companies: potash & sodium nitrate
- Agribusiness & agricultural development
- Resort & hotel facilities
- Power plants
- Satellite communications
- Cardboard/kraft manufacturing: flexible packaging & corrugated boxes
- Poultry producers
- Paper producers: tissue & paper bags
- Fishmeal processor
- Freezing facility for fruits & vegetables
- Mango & papaya farm
- Furniture factory
- Bus terminal
- Bicycle tire & tube manufacturing
- Private clinic
- Oil & gas production
- Port & storage facility
- Food processing: grains & flour
- Bio-hydrolyzed pet food
- Sawn & semi-finished wood
- Fishing fleet & fishmeal plant
- Aquaculture
- Brazil nuts
- Boric acid
- Grape juice
- Electro-erosion machines
- Orange grower/processor
- Warehouse service for air cargo
- Shark fin & tuna products
- Instant coffee
- Fruit & juice processing
- Small airplane manufacturer
- Ceramic, porcelain manufacturing
- Pension fund

FIGURE 2. IIC APPROVED ACTIVE PORTFOLIO BY SECTOR

As of December 31, 1995





SUCCESS STORIES

When talking about macroeconomic trends, added value, or lack of long-term credit, it is easy to lose sight of individual companies and people who seek to advance in an environment that is not always favorable. This section is dedicated to those projects that, with the help of the IIC, have overcome economic and technological barriers and whose achievements particularly benefit the economic development of the region.

Most of the projects that receive IIC loans and/or equity investments are innovative, either in the way they are financed or in the way they approach technical and organizational matters. Many are the first of their kind.

In all cases the funding provided by the IIC is crucial, both in itself and because of its catalytic effect. The Corporation lends credibility that mobilizes third-party resources for projects whose size or degree of risk may have prevented them from obtaining financing from other domestic or foreign sources.

From the evaluation stage, with help to improve project concept and design, through project execution, with progress closely monitored, IIC professionals work with the project sponsors. Thus, the IIC not only helps projects toward completion, but, in so doing, maintains the quality of its own loan and equity investment portfolio. This protects the resources that the member countries entrusted to the institution for fulfilling its developmental mission.

These success stories are the result of genuine teamwork. They show that dedication, willingness to change, and a transnational vision of how to increase productivity, improve financial management, enter foreign markets, and diversify sources of funding are the key to empowering small and medium-size enterprises in Latin America and the Caribbean.

CENTRAL AMERICA TAKES OFF

The economies of Central America resumed growth in the nineties. From Guatemala to Costa Rica and Panama, private entrepreneurs have proven their commitment to projects that are transforming their region. The increased flow of capital into Central America has been one of the salient characteristics of this transformation. The IIC has contributed to this economic resurgence by providing the private sector with financial support for investment projects ranging from agriculture to manufacturing, tourism, and financial services. The Corporation thus supports the IDB's efforts, on a macro level, to consolidate political and social stability.

Pioneers in Nicaragua

Camarones del Pacífico, S.A. (CAMPA) was established in 1992 to operate the first technology-based semi-intensive shrimp farm in Nicaragua. Overall, the project cost approximately $4.5 million. The IIC contributed a $1 million loan and $400,000 in equity, as did the Commonwealth Development Corporation of Great Britain. CAMPA now operates 989 acres in the Estero Real region of northeastern Nicaragua, under a government concession to the project sponsors. The project has created more than 170 jobs in a region with limited opportunities for formal employment. The company exports all of its production and, thanks to the preventive measures suggested by its foreign technical advisors as well as to its local technical staff, is generating profits despite the problems caused by the taura syndrome that has affected shrimp farms in Central America and Mexico.

"IIC funding, with the right amount and terms, made it possible to carry out a pioneering, risky project that has sparked interest in promoting the development of shrimp farming in Nicaragua. The IIC was flexible enough to finance and invest in a project with a very broad-based, diverse shareholder structure."

Emilio Baltodano • General Manager

World-class tourism in Guatemala

Increased investment is evidence of Guatemala's economic development since the mid-eighties. Tourism—second only to coffee as a generator of foreign exchange—has returned to the country, leading the Guatemalan real estate company Desarrollos Hoteleros to build Hotel Guatemala Quality Suites—a first in the country. A $4.2 million loan from the IIC partially financed the construction of a fourteen-story all-suites hotel that opened in September 1995. Richfield Hotel Management, Inc., with twenty-two years of experience in hotel administration and services, operates the hotel under a concession from Choice Hotels International, the world's largest hotel franchiser. The Corporation's involvement provided the requisite credibility and comfort for Desarrollos Hoteleros' successful 1994 preferred share offering and helped the company complete the project on time and within budget.

"The IIC played a catalytic role in putting together the project's long-term financing, which in Guatemala is not available from other sources. The IIC promoted the issuance of such innovative financial instruments as preferred shares on the stock exchange, thus contributing to the completion of the funding package for the project."

Javier Tessari • Vice President

Renewable energy for Costa Rica, and...

In 1990, the government of Costa Rica approved Law 7200 that allows the participation of private companies in the energy sector. The goal was to provide a new source of financing to meet the country's energy needs and reduce its dependence on imported fossil fuels. Hidroeléctrica Platanar, S.A. was the first project that the Instituto Costarricense de Electricidad declared eligible for private investment under the new law.

"We want to thank the Inter-American Investment Corporation for its support in making a dream come true. The IIC's involvement as principal financier and financial advisor was of crucial importance to assemble a group interested in supporting the project. The IIC once again fulfilled its mission of supporting investment projects for the development of Latin America."

Javier Matamoros Agüero • General Manager

When the project sponsors turned to the IIC, they had a government water-use concession and 10 percent of the capital required to carry out a project that would cost about $20 million. The IIC helped structure a financial plan that brought in other investors, including Saret de Costa Rica S.A.

The IIC provided $1 million in quasi-capital and a $5 million long-term loan, as did the Commonwealth Development Corporation. The IIC also secured long-term loans from Banco Continental de Costa Rica and Banco Centroamericano de Integración Económica. The Platanar power plant, with a generating capacity of 15 megawatts, went on line in July 1995.

...long-term financing for SMEs

In 1992 the Corporation approved a $3 million loan and a $500,000 equity investment in Banco Continental, S.A. of Costa Rica. The goal was to provide a source of medium and long-term financing for small and medium-size companies in Costa Rica. In less than two years, Banco Continental placed all of the Corporation's funds for the benefit of more than a dozen small and medium-size entrepreneurs. Moreover, the bank has grown considerably and is now one of the largest private banks in the country.

"Receiving a long-term loan from the IIC helped us increase our support for productive projects in Costa Rica, and its equity investment strengthened our capital base and spurred the bank's development. One valuable aspect of the IIC's involvement was the experience we gained in the negotiation process, which put us on the road to initiating other international relationships that have progressed quite well in a relatively short period of time with an excellent success rate."

Juan José Flores • General Manager

New products for the financial market in Panama

Wall Street Securities (WSS), a Panamanian company serving the country's financial community, received a $3.5 million loan from the IIC in 1994. The company is using the funds to underwrite primary issues on the securities market in Panama, where the lack of underwriting mechanisms has made it hard for companies to issue equity subscriptions.

"Doing business with the Inter-American Investment Corporation added a lot of credibility to the operations of Wall Street Securities on both the domestic and the international market. Having met the IIC's strict requirements was the best sign of confidence for our clients. The IIC has improved the image and credibility of the local securities market in Panama."

Arturo Tapia • President

WSS makes it easier to fund productive expansion and modernization projects by assuming the risk of placing securities issued by small and medium-size companies. WSS has also used its own resources to support the development of the secondary market.

A new, broader secondary market is encouraging new investors by giving them exit mechanisms that make their investments more liquid. A more active debt security market, in turn, fosters more accurate valuation of securities. Issuing securities complements bank financing, which is often not sufficient to cover private enterprise funding requirements.

TAILOR-MADE ECONOMIC INFRASTRUCTURE

Inadequate economic infrastructure hinders economic growth. In many developing countries in Latin America and the Caribbean, it is virtually impossible for governments to obtain sufficient funding for designing, building, and operating infrastructure projects. So the private sector is increasingly asked to undertake transportation, warehousing, potable water, telecommunications, and power-generation projects, among others.

Because it is subject to market forces and has access to other sources of financing, the private sector brings competence, efficiency, better management methods, and the ability to mobilize additional resources for infrastructure projects.

The Inter-American Investment Corporation has played an active role in structuring and financing ten infrastructure projects. Many of the other operations in its portfolio have a significant economic infrastructure component. These projects encompass key subsectors such as power generation (Hidroeléctrica Platanar is described in the previous section), as well as other subsectors that, while less spectacular, are equally important for economic development and the well-being of the general public.

Efficient cargo warehousing

After thirty years of government monopoly, Peruvian air cargo services were privatized in 1991. Serlipsa Cargo-Center was created that same year to take over warehousing and handling services previously provided by the Jorge Chávez international airport in Lima/Callao. The IIC contributed $684,000 in equity and $1.4 million in the form of a seven-year loan. After three years of operations, Serlipsa has a 50 percent share of the market; it serves fifteen airlines and employs 250 people. Yearly sales total $7.5 million—50 percent more than initially expected. Serlipsa saves its users $30 million per year compared to the cost of service provided by the previously state-run company.

"The relationship with the IIC provided a constant stream of advice for relevant decision-making at Serlipsa, transferring the expertise, culture, and image that add value to the firm. Since 1991 the IIC played a key role as the long-term funding window for the Serlipsa project, providing venture capital by subscribing an 18 percent share in the company in addition to granting a loan on terms that at the time were the deciding factor in the viability of the project."

Alfonso García-Miró • Executive Director

Modern intercity transport terminal for Montevideo

In 1990 a private Uruguayan company won the public bidding for the twenty-year concession to build and operate the first bus terminal in downtown Montevideo. Uruguay has no passenger rail service, and air transport to the interior is not economically viable because the towns are too small and close together. So almost all transport is by bus. The lack of a central station in the capital city had led to the proliferation of dispersed terminals to handle passengers and small cargo. This worsened the city's traffic problems and air and noise pollution.

"The Inter-American Investment Corporation's financial support and advice in structuring and executing the Tres Cruces bus terminal project in Montevideo was critical in that it attracted foreign investors and banks, ensuring the start-up of an innovative project that has really improved people's lives."

Carlos A. Lecueder • President

Gralado S.A. built the Tres Cruces terminal with help from the IIC in the form of a $4.5 million loan and $300,000 in equity. The IIC's cofinancing program secured the participation of Swiss Bank Corporation and Galicia y Buenos Aires Casa Bancaria with loans totaling $11.1 million that completed the project's financial plan. The terminal opened in 1994 and now handles 35,000 passengers per day (thirteen million per year), as well as 10,200 tons of cargo per year.

Breakthrough in satellite telecommunications

International telecommunications traffic has grown exponentially during the past decade. Technological developments in this field (satellites, fiber optics, and digital technology) have drastically reduced infrastructure costs while improving the performance of communications networks. Impsat Argentina, with the support of two Argentine firms experienced in engineering and telecommunications, sought IIC assistance for installing a hub antenna in Buenos Aires and 900 site-specific terminals to provide data transmission services via satellite. The project, with a total cost of $40 million, received a $3 million loan and $1.4 million in equity from the IIC in 1991.

> "These results would not have been possible had the IIC not been heavily involved in structuring the long-term financing. This support, in the form of a $12 million loan with the participation of international financial institutions, was vital in spurring the company's enormous growth."
>
> Héctor R. Alonso • President

Based on Impsat Argentina's success, similar projects were undertaken in Colombia, Ecuador, Mexico, Peru, and Venezuela. In 1992 the IIC approved an $8 million loan and $11 million in cofinancing for Impsat Colombia, $12 million of which ($4 million from IIC and $8 million in cofinancing) was used to implement a satellite transmission network in 1994. Improved banking services, and image transmission and database access for hospitals, are among the benefits the company has provided. The demand for Impsat Colombia's services is such that in 1995 the sponsors requested another $6 million under the IIC cofinancing program, in order to finance the company's growth and establish a strategic venture with the Bogota phone company for providing digital services.

"Made in Colombia" air transport

The IIC was asked to help finance an initiative that involved designing, manufacturing, and marketing an all-purpose, piston-driven single-engine aircraft. Aeromercantil, S.A., a company with more than forty years of experience in the assembly and operation of small aircraft, developed the project in order to meet the demand created when other aircraft of this type disappeared from the market. The Gavilán 358 was designed and engineered by General Aviation Technical Services, a U.S.

> "The IIC played a vitally important role in carrying out the Gavilán project. First, they transformed our feasibility study, turning it into a document that met the standards set by financial institutions. Then they helped us spell out a strategy for executing the project. And it was the Corporation's seal of approval that led other institutions to support the project so that it could finally take off."
>
> Eric Leaver • General Manager

consulting company located in Lock Haven, Pennsylvania. The aircraft meets the specifications required by South American air-taxi and private-plane pilots.

The production plant in Bogota employs fifty highly-skilled workers and creates indirect employment at companies in the aeronautical, mechanical, and industrial sectors. At full capacity the plant will employ 200 people. The Gavilán prototype is nearing completion, and obtainment of U.S. Federal Aviation Agency structural, system, and flight certifications is proceeding on schedule.

MANUFACTURING FOR EXPORT

Many Latin American companies have successfully confronted the challenge posed by the worldwide shift to market economies. To do so, they have undertaken major organizational, managerial, financial, and technical changes. In the manufacturing and agribusiness sectors, the challenges are most demanding for small and medium-size companies that need to adjust rapidly on all these fronts to avoid losing their market share to mature foreign companies. The following examples of IIC-supported projects reveal the extent to which private regional entrepreneurs have proven their readiness to enter the next century as leaders in their respective fields.

Jobs and modernization of the Uruguayan poultry industry

Granja Moro S.A., a family-owned Uruguayan poultry product company, needed to modernize and diversify its operations and alleviate its burden of long-term debt. In 1991, with a $2.5 million loan, a $1 million equity investment, and financial

"We didn't want to miss this opportunity to stress the significant role the Corporation played in carrying out the project. Had it not been for your involvement in both financing the investments and contributing venture capital, the project might never have materialized. Even more important was the technical and operational guidance we received from you for implementing our project—proof of your excellent staff and technical consultants."

Gustavo San Martín • Director and General Manager

advice from the IIC, Granja Moro carried out a financial and management reorganization. The company reduced its long-term debt and restructured its capital. It also built a balanced poultry feed plant, the first of its kind in Mercosur, which has brought considerable cost savings to Granja Moro by enabling it to fully integrate its poultry operations. The company diversified its production by adding such high value-added processed poultry products as special cuts and chicken sausage.

Granja Moro is now a corporation with more than 50 percent of the domestic poultry product market. It employs 760 people directly and generates 550 indirect jobs through its system of contract growers. The company provides these growers with technical assistance, raw materials, and working capital.

Colombia exports

In 1993 the IIC helped finance the purchase, relocation, and modernization of a high-pressure decorative laminate production line. The Corporation also contributed to the construction of an industrial complex in Cartagena with an installed

"The project was financed by the Corporation and monitored closely during the three years it took to complete, making Lamitech S.A. the region's most modern factory in its field. For Colombia, the project has created more than 100 new jobs and an annual export potential of $5,000,000 in the short term."

Andrés Uribe Giraldo • Financial Director

capacity of 38,750,000 square feet. The borrower, Lamitech S.A., has successfully faced the stiffer competition resulting from the opening of the Colombian economy. It has maintained its share of the domestic market despite the influx of foreign-produced laminates. Exports have risen to 20 percent of Lamitech's total sales. The company expects them to reach 50 percent within three years.

Sustainable development in Amazonia

In 1994 the IIC lent a small company in a remote region of Bolivia $1.6 million to help finance the construction of a Brazil-nut processing plant.

Tahuamanu SRL is adding value to a raw material that was being exported without processing. By increasing the nut-gatherers' income, the project is also having a positive environmental impact. It is now less attractive to fell trees and sell the wood as a supplemental source of income.

The purchase of machinery for shelling and grading the nuts has made the use of rudimentary manual presses unnecessary.

"The IIC's contribution to the Tahuamanu SRL project was the seed for sustainable development in the Bolivian Amazonia, a remote, absolutely undeveloped region. The project made it possible to bring in technology and, thus, productivity and efficiency in the production and processing of Brazil nuts, making the product competitive and reliable on the international markets."

Enrique Nelkenbaum • General Manager

RESOURCES FOR SMEs

One of the Corporation's most significant accomplishments so far has been to channel resources through financial intermediaries to small entrepreneurs whom it could not effectively reach directly. This not only fulfills the IIC's basic mission of promoting the establishment and expansion of private enterprise, but also helps strengthen the financial systems of its member countries. Of the forty-five operations approved by the Board of Executive Directors related to financial entities, twenty-four include an equity investment by the Corporation.

The IIC invested in the creation of the first private commercial bank in Nicaragua after the nationalization of the banking system in 1979. It also played a crucial role in the privatization of the Corporación Financiera Popular de Colombia, now Corporación Financiera de Desarrollo. The Corporation is unique among the multilateral finance institutions in that it often works with financial intermediaries that, in addition to funding, require strengthening of their institutional framework to impose financial discipline and banking prudence, or to improve credit quality and cost control. The existence of solid, well-managed financial intermediaries benefits the small and medium-size companies of the region. Here are some examples.

First private bank in Latin America to serve microenterprise

Fundación para la Promoción y el Desarrollo de la Microempresa (PRODEM) is a non-profit organization that was established to provide loans to Bolivian microenterprises. During the five-year period ended in 1991, PRODEM granted

"The IIC was influential both in the design of the bank and in recruiting other investors. In addition, IIC's commitment to the project provided a "seal of approval", which fostered a sense of the bank's credibility within the international community."

From: *The New World of Microenterprise Finance: Building Healthy Financial Institutions for the Poor* (West Hartford, Conn.: Kumarian Press, Inc., 14 Oakwood Ave., West Hartford, CT 06119 USA, 1994), Chapter 12 "The Creation of BancoSol in Bolivia", from p. 239.

loans totaling almost $30 million, with an average loan of $273 and a near-zero default rate. Not only did the demand for credit among microentrepreneurs far exceed what the donors could contribute, but it extended to other financing services, from education and housing loans to time deposits and dollar accounts.

The sponsors turned to the IIC to expand and restructure the lending program and to create Latin America's first for-profit commercial bank for microenterprise. With the support of the Corporation as one of its founding shareholders, BancoSol opened its first branch in La Paz in 1992. By August of that same year, the bank had six branches strategically located near popular city markets.

The bank's loans average less than $500 each, while for the rest of the Bolivian banking system loans average $35,000 to $120,000. BancoSol's minimum loan is $80, and the maximum is $5,000. In other Bolivian commercial banks, the minimum loan is $3,000. Seventy percent of BancoSol's customers are women, compared to less than 40 percent in the rest of the banking system. BancoSol processes about 12,000 loans each month. They go to microentrepreneurs who form small solidarity groups that jointly guarantee the individual loans received by each member of the group.

Forty percent of the borrowers in the Bolivian financial system owe their access to formal credit to the work done by BancoSol. In 1994, the bank's ratios of profitability were the highest of Bolivia's thirteen private banks.

Venture capital for Mexico

Fondo de Optimización de Capitales, SINCA S.A. de C.V. (OPCAP), a Mexican venture capital enterprise, was created in 1989 with initial capital of $3 million. After its first cycle of investments, the fund's share price had increased by 39 percent in dollar terms, and the company had investments covering different sectors of the economy such as clothing, beverages, and special chemicals. In 1993 the Corporation approved a $3 million equity investment in OPCAP that was matched by contributions from Mexican investors and Nacional Financiera (NAFIN).

"Besides injecting fresh resources so our company could grow and develop, the Corporation provided us with moral backing that enhanced our credibility vis-a-vis other investors and the government. This also made us more confident in contacting domestic and foreign investors and improving our relationship with the local authorities."

José Carral Cuevas • Managing Partner

OPCAP's most successful investee to date is GEO, Mexico's largest builder of low-cost housing. After receiving additional capital and consulting services, this company tapped the Mexican and international capital markets by issuing American Depositary Shares and Global Depositary Shares. The company thus became quoted on the stock exchange. The underwriting syndicate was led by Casa de Bolsa Bancomer in Mexico and Goldman Sachs abroad. Despite the problems caused by the devaluation of the peso toward the end of 1994, GEO shares are quoted at almost double the price of their initial placement on the market.

From finance company to agricultural bank

In 1992, the Corporation granted a $2 million loan to and made a $0.5 million equity investment in Financiera del Agro, S.A. (FINAGRO), an Ecuadorean finance company established in 1989. This is the only private institution in the country that

"We are convinced that the best financial decision for a private entrepreneur in a developing country is to invest in the development process itself."

Ramón Espinel • President and General Manager grants loans to small and medium-size farmers and rural microentrepreneurs. By contrast, the private financial sector in developing countries takes resources from rural areas and invests them in urban projects.

FINAGRO was the first Ecuadorean company to issue bonds on the foreign market. In 1993 it placed $8 million in Euronotes, and in 1994 it placed another $12 million in the United States and Europe. Since September 1994, when FINAGRO's shares were first quoted on the Quito and Guayaquil stock exchanges, their price has risen sharply, reflecting the institution's solid performance and the support of its shareholders. FINAGRO recovers 100 percent of its funds, and its profit margin in dollar terms has ranged from 26 percent to 28 percent for six consecutive years. During the same period its total assets increased 980 percent in sucres, and its loan portfolio went from 548 million sucres to almost 120 billion sucres.

In early 1995, FINAGRO became a bank. Nevertheless, Finagro, Banco del Agro S.A. is still a private institution committed to financing economic and social development. The Inter-American Investment Corporation agreed to participate in FINAGRO's recent capital increase by purchasing $442,300 in new shares. The IIC also approved a seven-year, $10 million loan to be funded by other financial institutions under the IIC's cofinancing program (see "Investment Activities"). FINAGRO plans to expand its shareholding base overseas in 1996, possibly by issuing American Depositary Receipts or Global Depositary Receipts.

Multiplying resources for SMEs in Argentina

Banco de Galicia y Buenos Aires is one of Argentina's oldest banks; it was founded in 1905. In 1990 the bank created the Instituto para el Desarrollo de la Pequeña y Mediana Empresa (IPYME) in order to provide training and technical assistance for small and medium-size companies, which in Argentina are often family-owned and operated. IPYME is a non-profit organization, and all its training seminars are free.

"The strategic alliance that arose from the facilities granted by the Inter-American Investment Corporation to Banco de Galicia y Buenos Aires enabled our bank to finance medium and long-term projects for small and medium-size companies in Argentina—a sector that does not have access to the international capital market."

Bernard Bayne • International Officer

In 1992, in order to support the bank's strategy for expanding small and medium-size enterprise project financing, the IIC approved a $10 million line of credit and arranged a six-year cofinancing operation with three Swiss banking institutions (Swiss Bank, Union Bank of Switzerland, and Crédit Suisse), two German banks (Deutsch-Südamerikanische Bank, and Berliner Bank), and a Spanish bank (Banco Exterior), for an additional $25 million. Galicia has used these funds to provide financing for 145 small and medium-size companies in the agricultural, agribusiness, industrial, and tourism sectors. The average loan amount is $256,000, and the average total project cost is $620,000. An additional $25 million cofinancing operation was approved in 1995 to expand this program.

Funds for leasing

Banco Itamarati, S.A. of Brazil, founded in 1937, has changed significantly in keeping with the new economic and business dynamics in Latin America and the Caribbean. The rationalization of operations and the internationalization of its activities have begun a new era for this medium-size financial institution. In 1992,

"The relationship that was established between our bank and the IIC enabled us to offer competitive financing to our clients and broaden our client base. Not only did the IIC grant a $28 million line of credit to support our growth, but it also provided us with the guidance we needed to successfully embark on granting long-term financing for projects undertaken by small and medium-size companies. Thanks to the IIC's ongoing cooperation, we have established financial relationships with other international financial institutions, such as Eximbank in the United States. The quality of our portfolio is good because the resources that the IIC channels through us are used to fund productive activities that benefit the Brazilian economy."

Denis Mori • Director

the Corporation granted a $10 million loan, and in 1994 it arranged a cofinancing deal with four international banks (Berliner Bank, Deutsch-Südamerikanische Bank, National Westminster, and Union Bank of Switzerland) for an additional $18 million. This enabled Itamarati Leasing, an Itamarati group company, to grant more than fifty financial leases. Individual loans average $533,000; the average cost of the beneficiary projects is $1.2 million.

Not only has the IIC channeled resources to small and medium-size businesses that have limited access to credit, but it has also enabled the Itamarati group to obtain long-term debt funding from abroad. The IIC helped draw up credit guidelines for financing small and medium-size enterprise projects—a new activity for Itamarati—and establish the requisite risk control mechanisms.

TABLE 2. APPROVALS, COMMITMENTS, AND DISBURSEMENTS AS OF 12/31/95
(In thousands of US$)

COUNTRY	Number of projects	APPROVALS Loan	APPROVALS Equity	APPROVALS Total	COMMITMENTS TO DATE Loan	COMMITMENTS TO DATE Equity	COMMITMENTS TO DATE Cancel.	COMMITMENTS TO DATE Net comm.	DISBURSEMENTS TO DATE Loan	DISBURSEMENTS TO DATE Equity	OUTSTANDING AT 12/31/1995 Loan	OUTSTANDING AT 12/31/1995 Equity	OUTSTANDING AT 12/31/1995 Total
ARGENTINA	18	73,600	10,972	84,572	44,600	6,872	70	51,402	43,600	6,798	39,890	6,798	46,688
BAHAMAS	1	5,000	0	5,000	0	0	0	0	0	0	0	0	0
BOLIVIA	7	18,050	1,925	19,975	14,350	1,925	1,378	14,897	11,222	1,325	8,112	1,325	9,437
BRAZIL	12	56,800	10,500	67,300	54,800	10,000	3,401	61,399	42,430	8,969	41,179	8,969	50,148
CHILE	7	22,348	5,826	28,174	21,348	4,326	5,000	20,674	11,055	2,118	9,057	892	9,949
COLOMBIA	8	28,215	6,883	35,098	28,215	3,550	59	31,706	22,503	3,482	18,503	3,387	21,890
COSTA RICA	6	27,500	1,500	29,000	22,000	500	5,000	17,500	15,400	500	15,200	500	15,700
DOMINICAN REP.	3	10,500	0	10,500	10,500	0	1,580	8,920	6,670	0	5,989	0	5,989
ECUADOR	5	8,000	2,500	10,500	8,000	2,500	1,640	8,860	6,378	1,802	4,044	942	4,986
EL SALVADOR	1	4,000	0	4,000	4,000	0	0	4,000	4,000	0	4,000	0	4,000
GUATEMALA	4	17,050	0	17,050	14,050	0	7,000	7,050	7,050	0	5,332	0	5,332
GUYANA	2	3,300	0	3,300	3,300	0	2,500	800	800	0	800	0	800
HONDURAS	3	10,900	1,000	11,900	10,900	1,000	5,900	6,000	5,009	0	4,072	0	4,072
JAMAICA	6	19,300	1,518	20,818	11,700	1,518	0	13,218	5,000	0	5,000	0	5,000
MEXICO	13	39,333	11,915	51,248	30,333	5,887	2,135	34,085	23,428	4,780	18,433	4,780	23,213
NICARAGUA	2	3,000	1,400	4,400	3,000	1,400	500	3,900	2,326	900	2,326	900	3,226
PANAMA	2	6,500	0	6,500	6,500	0	0	6,500	6,314	0	6,314	0	6,314
PARAGUAY	1	4,000	0	4,000	4,000	0	0	4,000	3,738	0	3,398	0	3,398
PERU	9	31,950	6,834	38,784	20,950	1,734	2,300	20,384	17,900	684	16,089	684	16,773
TRINIDAD & TOBAGO	2	5,000	1,299	6,299	2,500	599	784	2,315	1,717	598	341	598	939
URUGUAY	7	24,500	5,975	30,475	24,500	5,975	53	30,422	23,561	5,552	21,681	5,552	27,233
VENEZUELA	7	23,750	4,740	28,490	13,750	1,000	7,000	7,750	7,250	0	6,833	0	6,833
REGIONAL	5	0	19,000	19,000	0	10,050	0	10,050	0	803	0	803	803
TOTAL	131	442,596	93,787	536,383	353,296	58,836	46,301	365,831	267,351	38,311	236,591	36,130	272,722

FIGURE 3. TOTAL FINANCING APPROVED IN 1995
US$ Millions

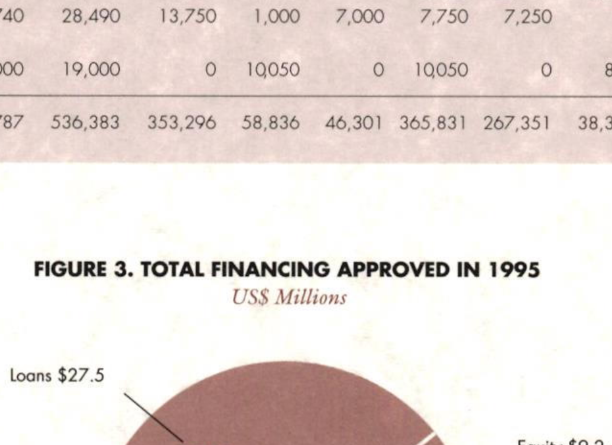
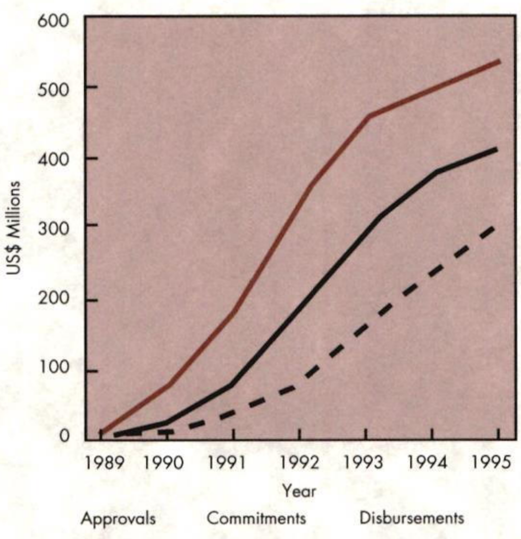


TABLE 3. OPERATIONS APPROVED BY IIC IN 1995
In US$ Millions

	COUNTRY	SECTOR	PROJECT COST	IIC PARTICIPATION Loan	Equity	Total	CO-FINANCING	ANNUAL FX GENERATION	ANNUAL VALUE-ADDED	NUMBER OF NEW JOBS	PROCUREMENT US$ MILLION BY COUNTRY	TOTAL
NEW PROJECTS APPROVED												
ANDEAN EMERGING GROWTH FUND	RG	Investment Funds	24.0	0.0	4.0	4.0		3.0	24.0	360		
BRAZILIAN EQUITY INVESTMENT	BR	Investment Funds	30.0	0.0	5.0	5.0		400.0	142.9	900		
CENTRAL AMERICAN INVESTMENT FUND	RG	Venture Capital	18.0	0.0	3.0	3.0		75.0	60.0	900		
CORFINSURA FONDO DE DESARROLLO	CO	Development Finance	20.0	0.0	3.3	3.3		2.5	20.0	300		
FINLAM	ME	Flower production and packing	18.5	1.4	1.0	2.4	3.4	11.6	10.2	500	6.7 US/4.2 ME/0.6 NE	11.5
NUEVA VIDA	PE	Pension Funds	15.0	0.0	2.5	2.5		n.a.	n.a.	n.a.		
PIPSA	PE	Paper & Paper Products	42.0	5.0	2.1	7.1		0.0	25.1	220	16.4 BR/9.6 PE /4.3 ITA/2.7 US/ 0.8 GER/0.4 CH/O.2 JAP/0.2 BE	34.6
PROMOTORA PROBURSA, S.A	ME	Venture Capital	18.0	0.0	3.0	3.0		150.0	328.6	300		
SAGEMÜLLER-II	AR	Other Food Products	18.1	0.0	2.0	2.0	8.0	9.6	16.9	71	2.4 US/3.0 BR	5.4
ADDITIONAL INVEST. IN EXISTING PROJECTS												
FINAGRO	EC	Multi-purpose Banks	3.0	0.0	0.5	0.5						
FONDELEC	RG	Venture Capital	6.3	0.0	1.1	1.1						
MIGRANJA	UR	Fruit Production	0.0	0.5	0.0	0.5						
UNION STAR	UR	Other Manufacturing	0.0	2.3	0.0	2.3						
BANCO DE GALICIA	AR	Multi-purpose Banks	150.0	0.0	0.0	0.0	25.0	62.5	500.0	750		
		TOTAL	362.9	9.2	27.5	36.6	36.4	714.2	1,127.6	4,301		51.5
						AVERAGE		183.2	512.8	422		

FIGURE 4. IIC PORTFOLIO
Cumulative as of December 31, 1995



Report of Independent Accountants

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 at December 31, 1995 and 1994, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 1995, in conformity with generally accepted accounting principles. 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 generally accepted auditing standards which 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 the opinion expressed above.

As discussed in Note I, effective January 1, 1995 the Corporation changed its method of accounting for Non-Pension Postretirement Benefits.

Price Waterhouse LLP

Price Waterhouse LLP
Washington, D.C.
February 5, 1996

Inter-American Investment Corporation

Balance Sheets

(Expressed in thousands of United States dollars)

	December 31, 1995	December 31, 1994
ASSETS		
CASH AND DUE FROM BANKS	$ 137	$ 138
MARKETABLE SECURITIES	43,724	77,725
LOAN AND EQUITY INVESTMENTS		
Loan Investments	236,591	192,395
Less Allowance for Losses	(16,422)	(12,631)
	220,169	179,764
Equity Investments	35,040	32,317
Less Allowance for Losses	(2,702)	(2,249)
	32,338	30,068
Total Investments	252,507	209,832
OTHER INVESTMENT (net of allowance for losses of $336)	786	-
FIXED ASSETS	480	881
OTHER ASSETS	8,565	6,429
TOTAL ASSETS	$306,199	$295,005
LIABILITIES AND EQUITY		
ACCOUNTS PAYABLE AND ACCRUED EXPENSES	$ 2,528	$ 3,816
ACCRUED INTEREST AND COMMITMENT FEES	228	176
BORROWINGS	85,000	75,000
Total Liabilities	87,756	78,992
CAPITAL		
Authorized: 20,000 shares (Par value $10,000)		
Subscribed: 20,000 shares	200,000	200,000
Less subscriptions receivable	(481)	(1,201)
	199,519	198,799
RETAINED EARNINGS	18,892	13,339
UNREALIZED GAIN ON EQUITY INVESTMENT AVAILABLE-FOR-SALE	32	3,875
Total Equity	218,443	216,013
TOTAL LIABILITIES AND EQUITY	$306,199	$295,005

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

Inter-American Investment Corporation

Statements of Income and Retained Earnings

(Expressed in thousands of United States dollars)

	Years ended December 31, 1995	1994
INCOME		
Marketable Securities	$ 3,831	$ 3,814
Loan Investments		
Interest	19,230	12,584
Commitment Fees	259	547
Front-end Fees	150	726
Other Loan Investment Income	399	727
	20,038	14,584
Equity Investments		
(Loss) Gain on Sales of Equity Investments	(551)	620
Dividends	283	135
Other Equity Investment Income	404	50
	136	805
Advisory Service, Cofinancing and Other	2,453	1,197
	26,458	20,400
EXPENSES		
Administrative	8,860	12,110
Provision for Losses	6,180	1,490
Non-Pension Postretirement Benefits	795	-
Borrowing	5,070	5,751
	20,905	19,351
NET INCOME	5,553	1,049
RETAINED EARNINGS AT BEGINNING OF YEAR	13,339	12,290
RETAINED EARNINGS AT END OF YEAR	$18,892	$13,339

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

Inter-American Investment Corporation

Statements of Cash Flows

(Expressed in thousands of United States dollars)

	Years ended December 31, 1995	1994
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings		
Repayments of borrowings		$ (75,000)
Gross proceeds from borrowings	$ 10,000	-
Capital		
Payments of capital subscriptions	720	414
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	10,720	(74,586)
CASH FLOWS FROM INVESTING ACTIVITIES		
Loan and Equity Investments		
Loan disbursements	(60,132)	(67,782)
Loan repayments	14,187	10,274
Equity disbursements	(8,493)	(3,959)
Sales of equity investments	954	1,226
	(53,484)	(60,241)
Marketable Securities		
Purchases	(1,817,098)	(3,841,607)
Sales prior to maturity	42,931	578,736
Repayments at maturity	1,808,534	3,395,855
	34,367	132,984
Purchases of fixed assets	(161)	(71)
Dispositions of fixed assets	71	8
NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES	(19,207)	72,680
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	5,553	1,049
Adjustments to reconcile net income to net cash provided by operating activities:		
Increase (decrease) in interest payable	52	(574)
Provision for losses	6,180	1,490
Unrealized (gain) loss on marketable securities	(366)	351
Increase in other assets	(2,136)	(2,128)
(Decrease) increase in accounts payable and accrued expenses	(1,288)	258
Loss (gain) on dispositions of fixed assets	134	(2)
Depreciation and amortization expense	357	353
NET CASH PROVIDED BY OPERATING ACTIVITIES	8,486	797
NET DECREASE IN CASH	(1)	(1,109)
CASH AT BEGINNING OF YEAR	138	1,247
CASH AT END OF YEAR	$ 137	$ 138
SUPPLEMENTAL DISCLOSURES		
Interest paid during the year	$ 5,004	$ 6,324
Conversions of loans to equity investments	$ 150	$ 3,000
Conversions of equity investments to loans	$ 0	$ 1,500

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

Inter-American Investment Corporation

Notes to the Financial Statements

December 31, 1995 and 1994

Note A Significant Accounting Policies

The financial reporting and accounting policies of the Inter-American Investment Corporation (the Corporation) are in conformity with generally accepted accounting principles in the United States. The Corporation conducts its operations only in U.S. dollars. The following is a summary of the significant accounting policies.

MARKETABLE SECURITIES

The Corporation classifies its liquid investment portfolio as trading, reporting investments at estimated market value and including unrealized, as well as realized, gains and losses in net income.

LOAN AND EQUITY INVESTMENTS

Loan investments are carried at the principal amounts outstanding. The Corporation's practice is to obtain collateral security such as, but not limited to, mortgages and third party guarantees. Equity investments without a readily determinable market value are carried at cost. Equity investments with a readily determinable market value are carried at market value. See Note D.

Loan and equity investments are committed when the loan or equity agreement is signed. Incremental direct costs associated with the origination of loan and equity investments are recognized when incurred. Commitment fees, front-end fees and direct origination costs are not capitalized and amortized since the net of these costs and fees is considered immaterial.

Interest, commitment fees and front-end fees are recognized as income when due. All other fees are recorded when received.

The Corporation follows the policy of periodically reviewing the collectibility of outstanding receivables for principal, interest and other charges and establishing an allowance based on that review. The Corporation ceases to accrue income when any loan is overdue for 90 days or when sufficient doubt exists as to the timely collection of principal or interest; previously accrued and uncollected income is reversed and income is recorded thereafter only as it is collected.

The Corporation recognizes loan impairment when it is probable that it will be unable to collect all amounts due according to the contractual terms of the loan agreement. Impairment is measured as the excess of the recorded investment in the impaired loan over the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan is collateral dependent. Once a loan is considered impaired, income is recognized thereafter on a cash basis.

ALLOWANCE FOR LOSSES

The allowance for losses is maintained at a level that, in management's judgement, is adequate to absorb losses inherent in the loan and equity portfolio. Management's judgement 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 calculation of the allowance for losses includes the use of estimates of collateral values and other potential sources of cash flow. The allowance for losses is established through annual charges to income. The write-off of investments, as well as subsequent recoveries, are recorded through the allowance account. Management believes the year-end allowance for losses adequately reflects the risk of loss inherent in the Corporation's portfolio.

OTHER INCOME

Other Income includes fees collected for advisory services, cofinancing activities, administrative commissions, and miscellaneous fees, which are recognized when received.

FIXED ASSETS

Fixed assets are carried at cost less accumulated depreciation. Depreciation is charged to expense over the estimated useful lives of the assets, generally three to seven years. Consulting costs associated with the development of systems are capitalized and amortized over the useful lives of the systems once placed in service.

FAIR VALUES OF FINANCIAL INSTRUMENTS

Statement of Financial Accounting Standards No. 107, "Disclosures about Fair Value of Financial Instruments," (SFAS107) requires entities to disclose information about the estimated fair values 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 SFAS107, 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 Due from Banks: The carrying amount reported in the balance sheet approximates fair value.

Marketable Securities: Fair values for marketable securities are based on quoted market prices. See Note B.

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 all 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 D.

Equity and Other Investments: The Corporation also 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 D.

Borrowings: The carrying amount reported in the balance sheet for borrowings approximates fair value. See Note J.

Note B Marketable Securities

The net change in the unrealized holding gains and losses for securities classified as trading included in earnings during 1995 and 1994 was $366,000 and $150,000, respectively. The net unrealized gains and losses for 1995 and 1994 are included in Income from Marketable Securities.

Net losses of $110,000 and of $3,110,000 were realized on sales of marketable securities in 1995 and 1994, respectively.

As part of its overall portfolio management strategy, the Corporation periodically sells and purchases positions in financial futures contracts calling for a delayed delivery of securities in which the seller/buyer agrees to make delivery of/purchase at a specified future date a specified instrument at a specific price or yield. The Corporation had no trading in financial future contracts during 1995. Net losses on this activity of $171,000 in 1994, are included in Income from Marketable Securities. The Corporation did not hold positions in any financial futures contracts as of December 31, 1995 and 1994.

The Corporation has investment criteria which include duration and credit guidelines as well as single issuer and single country concentration limits.

Note C Receivables

Receivables are included in Other Assets and summarized below:

	December 31, (in thousands)	
	1995	1994
Accrued Income on Marketable Securities	$ 959	$ 754
Accrued Income on Loan Investments	6,312	5,605
Total	$7,271	$6,359

Note D Loan, Equity and Other Investments

The Corporation's operations are limited to its twenty-four regional member countries. At December 31, 1995 there was no concentration of credit exposure in any single country. See the Summary Statements of Projects as of December 31, 1995 in Annexes I and II.

In accordance with the nonaccrual policy discussed in Note A, loans placed in non-accrual status at December 31, 1995 and 1994 totaled $23,132,000 and $8,132,000, respectively. Allowances for losses against these loans at December 31, 1995 and 1994 totaled $5,572,000 and $3,286,000, respectively. If these loans had not been in non-accrual status, income from loan investments would have been $2,143,000 and $653,000 higher in 1995 and 1994, respectively.

Effective January 16, 1996 a project with an outstanding loan balance of $3,250,000 was placed in non-accrual status, due to problems in remitting foreign currency. Interest accrued but not collected at December 31,1995 in the amount of $264,000 was reversed from the Corporation's results of operations for the year then ended. Management believes the borrower has both the capacity and intent to make payment and that receipt of funds will be forthcoming once approved by the local authorities.

The provision for losses and recoveries on loan and equity investments represent additions to the allowance. Write-offs of loan and equity investments represent reductions to the allowance.

Investments approved by the Board of Executive Directors but not signed as investment commitments, and commitments signed for which disbursements have not been made (net of cancellations) are as follows:

	December 31, (in thousands) 1995	1994
Investments Approved but not Committed		
Loan	$ 9,400	$30,100
Equity	24,533	18,818
Total	$33,933	$48,918
Investments Committed but not Disbursed		
Loan	$43,595	$90,791
Equity	16,574	8,467
Total	$60,169	$99,258

During 1995, the Corporation obtained control over a company, in which it had previously made an equity investment, by purchasing in a public auction all remaining outstanding stock of the company in order to protect the Corporation's financial interest. At the date of acquisition, management decided to dispose of its interests in the company in an orderly manner and has a plan for and reasonable expectation of disposition. The Corporation's investment in this company, reported as Other Investment as of December 31, 1995, is accounted for at the cost of the equity investment less an allowance to adjust the carrying value to its fair value less any costs of disposal. In addition to the equity investment, the Corporation maintains a $4,810,000 loan to the company included in Loan Investments.

The Corporation's loans accrue interest at the six-month London Inter-Bank Offered Rate (LIBOR) plus a spread ranging from 2.25% to 5.0% at December 31, 1995. At December 31, 1995 and 1994, the six-month LIBOR was 5.6% and 7.0%, respectively.

MATURITY STRUCTURE OF LOANS

	December 31, (in thousands) 1995		1994	
	Principal Outstanding	Average Spread over LIBOR	Principal Outstanding	Average Spread over LIBOR
Due in one year or less	$ 31,498	3.65%	$ 14,904	3.49%
Due after one year through five years	182,692	3.62%	125,120	3.44%
Due after five years through ten years	22,401	3.75%	52,140	3.51%
Due after ten years	–		231	3.30%
Total	$236,591		$192,395	

Effective January 1, 1995, the Corporation adopted Statement of Financial Accounting Standards No. 114 "Accounting by Creditors for Impairment of a Loan," (SFAS 114) and Statement of Financial Accounting Standards No. 118 "Accounting by Creditors for Impairment of a Loan-Income Recognition and Disclosures, an amendment of FASB Statement No. 114 " (SFAS 118). As the Corporation's previous loss provisioning policy was consistent with the requirements of SFAS 114 and SFAS 118, there was no material impact on the Corporation's financial position or results of operations as a result of implementation.

The total investment in impaired loans at December 31, 1995 was $7,749,000 for which a related allowance for losses of $4,354,000 had been recorded. The total investment in impaired loans at December 31, 1994 was $8,132,000 for which a related allowance for losses of $3,286,000 had been recorded. The average recorded investment in impaired loans for the years ended December 31, 1995 and 1994 was $7,941,000 and $5,716,000, respectively. During 1995, $242,000 received on an impaired loan was recognized in loan interest income.

Activity in the allowance for loan losses was as follows (in thousands):

	1995	1994
Balance at January 1	$12,631	$ 8,675
Additions	5,391	3,956
Write-off	(1,600)	–
Balance at December 31	$16,422	$12,631

Investments in equity securities that have a readily determinable fair value have been classified as available-for-sale and are recorded at their market value, with unrealized holding gains excluded from earnings for the period and recorded as a separate component of equity. At December 31, 1995, the Corporation held one equity investment in its available-for-sale portfolio with a cost of $2,860,000 and a market value of $2,892,000. During 1995, the Corporation received $193,000 for 1,000,000 shares of this investment thereby realizing a $98,000 gain on sale that is included in Gain on Sales of Equity Investments. The cost of the shares sold was determined using the average cost method.

Adjustments resulting from the recognition of unrealized holding gains and losses on equity investments classified as available-for-sale consist of the following:

	December 31, (in thousands)	
	1995	1994
Cumulative Adjustment, beginning of year	$3,875	$ 0
Valuation Adjustment for the year	(3,843)	3,875
Cumulative Adjustment, end of year	$ 32	$3,875

Note E Participations

The Corporation mobilizes funds from commercial banks and other financial institutions through loan participations, which are sold by the Corporation without recourse, but are administered and serviced on behalf of the participants. The Corporation called and disbursed $56,778,000 and $14,735,000 of participants' funds during 1995 and 1994, respectively. The undisbursed participants' commitments were $30,867,000 and $17,645,000 at December 31, 1995 and 1994, respectively.

Note F Fixed Assets

Fixed assets represent furniture, office equipment, computer hardware and software, and capitalizable systems development costs.

Fixed assets and the related accumulated depreciation and amortization balances are as follows:

	December 31, (in thousands)	
	1995	1994
Furniture and Office Equipment	$ 991	$1,109
Computer Hardware, Software and Systems Development	1,516	1,637
Accumulated Depreciation and Amortization	(2,027)	(1,865)
Total	$ 480	$ 881

Unamortized computer software costs of $86,000 relating to internally developed computer software are included in Fixed Assets as of December 31, 1995; related amortization expense of $10,000 is included in results of operations for the year then ended.

Note G Related Party Transactions

The Corporation is affiliated with the Inter-American Development Bank (IDB). In accordance with a 1995 amendment to the Agreement Establishing the Inter-American Investment Corporation, shareholders of the Corporation are no longer limited to shareholders of the IDB. Historically, not all shareholders of the IDB have been shareholders of the Corporation.

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 lease agreement with the IDB for office space which expires in 2002. Payments for office space may vary based on actual usage.

The Corporation paid the following amounts to the IDB during 1995 and 1994 for office space and certain administrative support services (in thousands):

	1995	1994
Office Space	$ 738	$ 782
Support Services	627	745
Total	$1,365	$1,527

Accounts payable and accrued expenses due to the IDB were $52,000 and $333,000 at December 31, 1995 and 1994, respectively.

In 1995 no amounts were outstanding to the IDB under an existing Loan Agreement. See Note J.

Note H Retirement Plan

The IDB sponsors a defined benefit retirement 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 upon 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 total allocated expense to the Corporation for the purposes of the Retirement Plan was $782,000 and $1,166,000 for the years ended December 31, 1995 and 1994, respectively.

Note I Non-Pension 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.

In prior years, the cost of retiree health care and other benefits, net of retiree contributions was recognized in expense on a cash basis. Effective January 1, 1995, the Corporation adopted Statement of Financial Accounting Standards No. 106 "Employers' Accounting for Postretirement Benefits Other Than Pensions" (SFAS 106). Under this standard, the cost of providing these benefits is required to be recognized over the employees' service period on an actuarially determined basis. The Corporation's cost of non-pension postretirement benefits for 1995 increased by $795,000 as a result of the change in accounting method. Upon adoption, as permitted by SFAS 106, the Corporation elected to amortize the accumulated postretirement benefit obligation aggregating $5,710,000 as of January 1, 1995 over 20 years.

FUNDING POLICY AND TYPE OF ASSETS

The Corporation contributes its annual actuarially determined expense to the IDB's Postretirement Benefit Plan (the Plan). The Corporation's portion of total assets are prorated to the Plan based upon the Corporation's funding rate and the rate of return on the assets, net any payments to employees for postretirement benefits. During 1995, the Corporation funded $1,251,000 to the Postretirement Benefits Plan. The following table summarizes the Plan's investments:

	December 31, 1995 (in thousands)	
	Cost	Fair Value[1]
Common stock fund	$256,730	$287,145
Fixed income fund	72,995	75,284
Cash and short term investments	12,046	12,046
Total	$341,771	$374,475

As of December 31, 1995 $1,439,000 of the above assets has been allocated to the Corporation.

The annual actuarial cost for the year ended December 31, 1995 is $795,000; excess funding is recorded as prepaid pension costs in Other Assets and will be amortized on a straight-line basis during the first semester of 1996. Future funding contributions to the Postretirement Benefits Plan are projected to equal the annual actuarial cost. A $494,000 gain was recognized during 1995 for a curtailment as a result of the restructuring. See Note K.

1 Does not include accrued income, accounts receivable and accounts payable in the amount of $2,353,000.

COMPONENTS OF POSTRETIREMENT BENEFITS COSTS

The following table sets forth the Plan's status at January 1, 1995 (in thousands):

Fully eligible Plan participants	$1,080
Other active Plan participants	4,630
Total	$5,710

The net periodic postretirement benefits cost for 1995 includes the following components (in thousands):

Service cost	$ 775
Interest cost	333
Amortization of unrecognized obligation	215
Less: Actual return on Plan assets	(34)
	1,289
Gain from curtailment	(494)
	$ 795

Reconciliation of Plan assets based on the December 31, 1995 valuation of the Plan (in thousands):

Obligation at December 31, 1995	
Accumulated postretirement benefits obligation:	
Retirees	$ 0
Fully eligible active plan participants	1,054
Other active plan participants	3,091
	4,145
Plan assets at December 31, 1995	1,439
Accumulated postretirement benefit obligation in excess of plan assets	(2,706)
Unrecognized items:	
Net transition obligation	3,317
Net actuarial gain	(154)
Prepaid postretirement benefits cost	$ 457

Actuarial gains and losses which exceed 10% of the accumulated postretirement benefit obligation are amortized over the average remaining life of active participants of approximately 14.3 years.

Actuarial assumptions:	
Weighted average assumed discount rate	6.00%
Weighted average expected long-term rate of return	6.75%
Weighted average rate of salary increases	6.50%

For measurement purposes, an initial annual rate of increase in the per capita cost of covered health care benefits ranging from 11.1% to 14.7% was used for those participants assumed to retire in the United States. The rate was assumed to decrease gradually to 6.0% in 2011 and thereafter. For those participants assumed to retire outside of the United States a 14.7% increase was assumed. Increasing the assumed health care cost trend rates by one percentage point would increase the accumulated postretirement benefits obligation as of December 31, 1995 by $888,000 and the net periodic postretirement benefits cost for the year then ended by $258,000.

Note J Borrowings

Borrowings consist of the following (in thousands):

	December 31, 1995	December 31, 1994
Fuji Bank	$75,000	$75,000
Deutsche Bank Luxembourg, S.A.	10,000	–
	$85,000	$75,000

In 1993, the Corporation and the IDB executed a Loan Agreement allowing the Corporation to borrow up to $210,000,000 until March 1997. Funds drawn in 1993 were prepaid in September 1994, leaving an available balance of $135,000,000. Interest on the loan is charged at the IDB's variable cost of funding plus 0.5%, payable semi-annually. No interest was paid to the IDB in 1995. The Corporation paid $3,005,000 in interest to the IDB in 1994.

The Corporation has an outstanding balance of $75,000,000 under a credit agreement with Fuji Bank. The loan is fully drawn and accrues interest at a variable rate, which was 5.84% at December 31, 1995, and is payable semi-annually. The principal balance of the loan is due in full in 2001.

Under a $75,000,000 revolving line of credit agreement with Deutsche Bank Luxembourg, S.A. the Corporation had an outstanding balance of $10,000,000 at December 31, 1995. Interest accrues on the outstanding balance at a variable rate, which was 5.95% at December 31, 1995. Borrowings under the credit agreement are due six months after receipt, consequently the $10,000,000 outstanding loan balance is due in 1996. Additionally, the Corporation accrued commitment fees at 0.1% of the average daily unused balance as of December 31, 1995. In accordance with the Deutsche Bank Luxembourg, S.A. agreement, the Corporation's borrowing costs will be reduced when the German bank regulatory authorities sanction a 20% Cooke Ratio for the Corporation, which management expects to occur in early 1996. The Corporation paid Deutsche Bank Luxembourg, S.A. $12,000 in commitment fees during 1995. The credit agreement terminates in 2000.

The weighted average cost of borrowings during 1995 and 1994 was 6.53% and 4.38%, respectively.

Note K Restructuring Costs

In 1993, the Board of Executive Directors of the Corporation approved a reorganization plan which reduced the number of approved positions, resulting in the termination of 16 professional and administrative employees. Termination costs accrued and charged to Administrative Expense in 1993 were $1,139,000. During 1995 and 1994, the actual termination benefits paid and charged against the liability for the 1993 restructuring program totaled $12,000 and $744,000, respectively. During 1995 the liability for the 1993 restructuring had been further reduced by $70,000 to reflect unused repatriation benefits.

In 1994, the Board of Executive Directors of the Corporation approved another restructuring which resulted in the termination of an additional 16 professional and administrative employees. Termination benefits accrued and charged to 1994 Administrative Expense as a result of the 1994 restructuring aggregated $1,213,000. During 1995, the actual termination benefits paid and charged against the liability for the 1994 restructuring totaled $780,000.

Note L Capital

(Expressed in thousands of United States dollars)

The following table lists the Capital Stock subscribed and subscriptions receivable for each member country at December 31, 1995:

Members	Capital Stock Subscribed Shares	Capital Stock Subscribed Amount	Subscriptions Receivable from Members
Argentina	2,327	$23,270	
Austria	100	1,000	
Bahamas	43	430	
Barbados	30	300	
Bolivia	187	1,870	
Brazil	2,327	23,270	
Chile	690	6,900	
Colombia	690	6,900	
Costa Rica	94	940	$ 481
Dominican Republic	126	1,260	
Ecuador	126	1,260	
El Salvador	94	940	
France	626	6,260	
Germany	626	6,260	
Guatemala	126	1,260	
Guyana	36	360	
Haiti	94	940	
Honduras	94	940	
Israel	50	500	
Italy	626	6,260	
Jamaica	126	1,260	
Japan	626	6,260	
Mexico	1,498	14,980	
Netherlands	310	3,100	
Nicaragua	94	940	
Panama	94	940	
Paraguay	94	940	
Peru	420	4,200	
Spain	626	6,260	
Switzerland	310	3,100	
Trinidad and Tobago	94	940	
United States	5,100	51,000	
Uruguay	248	2,480	
Venezuela	1,248	12,480	
Total 1995	20,000	$200,000	$ 481
Total 1994	20,000	$200,000	$1,201

Inter-American Investment Corporation

Summary Statement of Projects - Note D

December 31,1995 and 1994

(Expressed in thousands of United States dollars)

Annex I

Loan Investments

Member in whose country loans have been made	Loans Approved and Committed	Cancelled Balance	Undisbursed Balance	Repayments	Loan Investments Outstanding 1995	Loan Investments Outstanding 1994
Argentina	$ 44,600		$ 1,000	$ 3,710	$ 39,890	$ 37,100
Bolivia	14,350	$ 778	2,350	1,510	8,112[1]	10,222
Brazil	54,800	3,370	9,000	1,250	41,180	29,930
Chile	21,348	5,000	5,293	1,998	9,057	7,500
Colombia	28,215	14	5,697	4,000	18,504	16,017
Costa Rica	22,000	5,000	1,600	200	15,200	6,975
Dominican Republic	10,500	1,580	2,250	682	5,988	4,687
Ecuador	8,000	1,000	622	2,334	4,044	4,049
El Salvador	4,000	-	-	-	4,000	-
Guatemala	14,050	7,000	-	1,718	5,332	3,055
Guyana	3,300	2,500	-	-	800	800
Honduras	10,900	4,900	991	938	4,071	2,959
Jamaica	11,700	-	6,700	-	5,000	5,000
Mexico	30,333	2,125	4,780	4,996	18,432	16,362
Nicaragua	3,000	-	674	-	2,326	1,505
Panama	6,500	-	186	-	6,314	1,522
Paraguay	4,000	-	263	340	3,397	2,738
Peru	20,950	2,300	750	1,811	16,089	14,000
Trinidad & Tobago	2,500	783	-	1,376	341	769
Uruguay	24,500	-	939	1,880	21,681	20,372
Venezuela	13,750	6,000	500	417	6,833	6,833
TOTAL 1995	$353,296	$42,350	$43,595	$29,160	$236,591[1]	
TOTAL 1994	$333,196	$35,038	$90,791	$14,972		$192,395

[1] Net of $1,600,000 write-off.

Inter-American Investment Corporation
Summary Statement of Projects - Note D
December 31,1995 and 1994
(Expressed in thousands of United States dollars)

Equity Investments

Member in whose country equity has been invested	Equity Approved and Committed	Cancelled Balance	Undisbursed Balance	Sold	Equity Investments Outstanding 1995	Equity Investments Outstanding 1994
Argentina	$ 6,871	$ 70	$ 3		$ 6,798	$ 5,796
Bolivia	1,925	600	-		1,325	1,325
Brazil	10,000	31	1,000		8,969	3,769
Chile	4,326	-	2,208	$ 1,226	892	839
Colombia	3,550	45	23	95	3,387[2]	3,412[2]
Costa Rica	500	-	-	-	500	500
Ecuador	2,500	640	58	860	942	1,360
Honduras	1,000	1,000	-	-	-	-
Jamaica	1,518	-	1,518	-	-	-
Mexico	5,887	10	1,097	-	4,780	4,364
Nicaragua	1,400	500	-	-	900	807
Peru	1,734	-	1,050	-	684	450
Regional	10,050	-	9,247	-	803	-
Trinidad and Tobago	599	1	-	-	598	598
Uruguay	5,975	53	370	-	5,552	5,222
Venezuela	1,000	1,000	-	-	-	-
TOTAL 1995	$ 58,835	$ 3,950	$16,574	$ 2,181	$36,130[2]	
TOTAL 1994	$ 40,902	$ 2,767	$ 8,467	$ 1,226		$28,442[2]

[2] Amount excludes unrealized gain of $32,000 and $3,875,000 as of December 31, 1995 and 1994, respectively.

Governors and Alternate Governors

Country	Governor	Alternate Governor
Argentina	Domingo Cavallo	Roque Fernández
Austria	Andreas Staribacher	Hans Dietmar Schweisgut
Bahamas	William C. Allen	Ruth Millar
Barbados	Owen S. Arthur	George Reid
Bolivia	Fernando Candia Castillo	Gonzalo Afcha de la Parra
Brazil	José Serra	Gustavo Jorge Laboissière Loyola
Chile	Eduardo Aninat	Manuel Marfán Lewis
Colombia	Guillermo Perry Rubio	José Antonio Ocampo
Costa Rica	Fernando Herrero Acosta	Leonardo Garnier Rimolo
Dominican Republic	Héctor Valdez Albizu	Luis Manuel Piantini Munnigh
Ecuador	Iván Andrade	—
El Salvador	Ramón González Giner	J. Roberto Orellana M.
France	Jean Arthuis	Jean Lemierre
Germany	Klaus-Jürgen Hedrich	Klaus Regling
Guatemala	Ana Ordóñez de Molina	Willy Waldemar Zapata Sagastume
Guyana	Bharrat Jagdeo	Michael Shree Chan
Haiti	Fred Joseph	Jean-Marie Chérestal
Honduras	Guillermo Bueso	Juan F. Ferrera
Israel	Jacob Frenkel	Shay Talmon
Italy	Lamberto Dini	Vincenzo Desario
Jamaica	Omar Davies, MP	Shirley Tyndall
Japan	Masayoshi Takemura	Yasuo Matsushita
Mexico	Guillermo Ortiz	José Julián Sidaoui
Netherlands	Gerrit Zalm	J.P. Pronk
Nicaragua	Pablo Pereira Gallardo	Emilio Pereira A.
Panama	Guillermo Chapman	Olmedo David Miranda
Paraguay	Orlando Bareiro	Hermes Gómez Ginard
Peru	Jorge Camet Dickmann	Germán Suárez Chávez
Spain	Javier Gómez-Navarro	Apolonio Ruiz Ligero
Switzerland	Nicolas Imboden	Adrian Schläpfer
Trinidad and Tobago	Lenny Saith	Carlyle Greaves
United States	Robert E. Rubin	Joan E. Spero
Uruguay	Luis Mosca	Ariel Davrieux
Venezuela	Luis Raúl Matos Azócar	Edgar Humberto Paredes Pisani

Information as of November 29, 1995

Executive Directors and Alternate Executive Directors

Name	Country
Hiroshi Toyoda Germán Bejarano	Israel, Japan, and Spain
Antonio Cláudio Sochaczewski Jacinto Vélez	Brazil and Ecuador
Sylvia Saborío Jorge Ramón Hernández-Alcerro	Costa Rica, El Salvador, Guatemala, Haiti, Honduras, and Nicaragua
Andrés Solimano Julio Angel	Chile and Colombia
Ernesto Mitsumasu Fujimoto Manuel Deza	Peru
L. Ronald Scheman Lawrence Harrington	United States of America
Havelock Brewster Barry Malcolm	Bahamas, Barbados, Guyana, Jamaica, and Trinidad and Tobago
Maritza Izaguirre Rogelio Novey	Panama and Venezuela
Gert-Robert Liptau Paul Deram	France, Germany, and Switzerland
Javier Bonilla Saus Ovidio Otazú	Bolivia, Paraguay, and Uruguay
A. Humberto Petrei José María Cartas	Argentina
Moisés A. Pineda Ruddy E. Pérez	Dominican Republic and Mexico
Jan Heidsma Paolo Cappellacci	Austria, Italy, and the Netherlands

Information as of December 1, 1995 - CII/DR-136-10

Management and Senior Staff

IIC Management

General Manager, ad interim	John C. Rahming
Manager, Operations	John C. Rahming
Division Chief, Finance, Risk Management and Administration	Jean-Olivier Fraisse
Division Chief, General Counsel	Raúl Herrera

Operations Department

REGION I
(Argentina, Bolivia, Chile, Paraguay, Peru, Uruguay)

Coordinator and Sr. Investment Officer	Roldán C. Trujillo

REGION II
(Costa Rica, Dominican Republic, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Regional)

Coordinator and Sr. Investment Officer	Carlos Aguilar

REGION III
(Bahamas, Barbados, Brazil, Colombia, Ecuador, Guyana, Jamaica, Trinidad and Tobago, Venezuela)

Coordinator and Sr. Investment Officer	Steven L. Reed

SUPPORT STAFF

Chief Accountant	Barbara D. McGowan
Personnel Officer	Mildred Arroyo
Portfolio Supervision Officer	Candace Lynn Smith
Senior Economist	Jorge Roldán

SECRETARIAT

Carlos Ferdinand	Oscar Rodríguez-Rozic

Head Office

1300 New York Avenue, N.W.
Mail Stop NW-0206
Washington, DC 20577
Tel: (202) 623-3900
Fax: (202) 623-2360

Regional Offices

San José, Costa Rica

Edificio Centro Colón, Piso 12
Paseo Colón, entre calles 38 y 40
Tel: (506) 233-2543
Fax: (506) 233-1840

Montevideo, Uruguay

To be opened in 1996

Printed on recycled paper

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Inter-American Investment Corporation
1300 New York Ave., N.W.
Washington, D.C. 20577
United States of America

Tel: (202) 623-3900
Fax: (202) 623-2360