IIC Annual Report 96

Inter-American Investment Corporation

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

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

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

February 4, 1997

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 1996 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, 1996.

The Corporation's results for 1996 reflect Management's successful implementation of the action plan drawn up in conjunction with the Board of Directors and approved by the Governors. In the two years that have gone by since adoption of the new strategy, the number of small and medium-size private companies that have received direct or indirect financial and technical support from the Corporation for their projects has doubled.

The provision of advisory services to private sector companies and to the Multilateral Investment Fund was another important part of the year's operations. Such joint efforts exemplify the enhanced coordination and complementary action among IDB Group units that were established to foster private sector development in the region.

I want to thank the Corporation's Board of Executive Directors, Management, and staff for their valuable contribution to the continuing improvement in the institution's performance as it seeks to balance the objectives of developmental impact and corporate profitability.

Sincerely yours,

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

The Year in Review

The Corporation

Ten years ago, thirty-four countries created a unique multilateral organization committed to the development of the small and medium-size enterprises that are now the re-discovered engine of economic growth and prosperity in Latin America and the Caribbean. That forward-looking decision to establish the Inter-American Investment Corporation is now a well-established reality.

Operational since 1989, the Corporation has channeled funding to more than one thousand companies in the productive and service sectors. Projects with an aggregate cost in excess of $2.5 billion have been or are being undertaken thanks to the $450 million in funding provided by the IIC in the form of loans and equity investments, plus $350 million in funds that the Corporation has mobilized through cofinancing arrangements. For each dollar that the IIC has invested, six dollars are going to companies that are creating jobs and generating foreign currency and domestic and regional wealth. Ninety percent of the IIC's committed investments had been fully disbursed by December 31, 1996.

In 1996 the IIC's Board of Directors approved twenty projects totaling $72 million, with continued emphasis on equity investments. Such investments accounted for 44 percent of the year's total. The Corporation also boosted its efforts to attract more resources for small and medium-size enterprise in the region through its cofinancing program. This year's cofinancing transactions involve fifteen international banks and will provide a total of $95 million in funding.

Twelve countries in the region will benefit from the operations approved in 1996. And IIC regional participation in equity investment funds will extend that coverage to even more countries. This year's approvals encompass the agribusiness, fishing, manufacturing, power generation, potable water, transportation, oil and gas, venture capital, and financial service sectors. These are technically, financially, and legally innovative projects that will benefit from IIC's efforts to make them even more attractive to other lending institutions and other investors. This effort is part of the Corporation's institution-building role that also entails the transfer of financial, technological, and management know-how to project sponsors. Environmental protection is another basic element of the Corporation's approach to project evaluation and implementation.

The Corporation continues to provide advisory services to the other members of the IDB Group. In 1996 the IIC carried out ten advisory assignments related to equity investments or capital market development programs of the Multilateral Investment Fund administered by the IDB. Under a cooperation agreement signed in July with the Association of

Enterprises and Industries of Spain, the Corporation will support the Association and the government of Spain in their efforts to promote investment projects and business cooperation in Ibero-America. The first closing ($656 million) of the AIG-GE Capital Corporation Latin America Infrastructure Fund, in which the IIC has a key advisory role, took place in November.

Pursuant to the Board of Governor's mandate that the IIC seek new members from among the IDB's member countries, the Board of Executive Directors agreed to submit Denmark's formal application for IIC membership for consideration by the Board of Governors.

IIC income from all sources in 1996 amounted to $28 million. Total expenses, including $11 million in provisions, were $27 million, producing a net profit of $1 million. Income from lending operations totaled $19 million ($18 million from interest and $1 million from fees). Capital gains and dividend income amounted to $4 million. Administrative expenses for the year totaled $10 million.

The Region

The economies of Latin America and the Caribbean are facing the challenge of international competition. In this context, private companies are positioning themselves to enter the twenty-first century by bringing in state-of-the-art technology, designing better products, and helping build infrastructure that will make them more productive and give them better market access. The difficult adjustment process that cornered the attention of the world's economic forces during the eighties and early nineties showed public and private economic agents alike that economic growth, albeit a long-term process, requires swift action because economic change can be precipitous.

In the new development model that is taking shape in the region, pragmatism is paramount when it comes to making planning decisions in the face of the difficulties posed by the introduction of market forces. The region's economic strategists understand that producing for the export markets is a requisite for growth. Increasing exports enables countries to specialize in what they do best and to produce on a scale that improves efficiency and cuts costs. Moreover, only those countries that can compete on the international markets will manage to attract foreign investors.

The key to the long-term success of this development model lies in increasing domestic savings in order to raise investment levels. Recent studies show that the countries that have posted the highest rates of economic growth have high levels of investment as well.

Domestic savings rates must increase if levels of investment are to rise markedly in the next few years. The eighties saw efforts to maintain high rates of investment without providing the requisite support from domestic savings. This strategy, which entailed turning to the international markets (i.e., foreign savings), came up short during the Mexican crisis of December 1994.

The key to increasing savings in most countries lies in encouraging corporate savings because in most cases neither the government nor private individuals are in a position to provide the resources needed for sustainable growth in investment. Corporate savings can be increased sustainably only if companies increase their income by improving their productivity and efficiency. So the introduction of new technologies is another crucial factor in the economic growth equation. Development of private pension funds should also be encouraged as a way to channel domestic savings to businesses in need of equity funding.

Progress in economic policy reform has spurred the flow of capital into the region. The remarkably rapid recovery of a market that investors avoided in 1995 brought new bond issues to record levels in 1996. Work has only begun, however, and many small and medium-size companies in the region's smaller economies still do not have access to suitable long-term funding to finance operations, expand, and repay debt. Very high interest rates and a lack of financing from the capital markets make equity funding a necessity for capital-starved businesses. One of the Corporation's priorities is therefore to help speed the development of capital markets in the region. It will do so by playing a catalytic role in mobilizing and providing equity and long-term financing, especially for small and medium-scale companies.

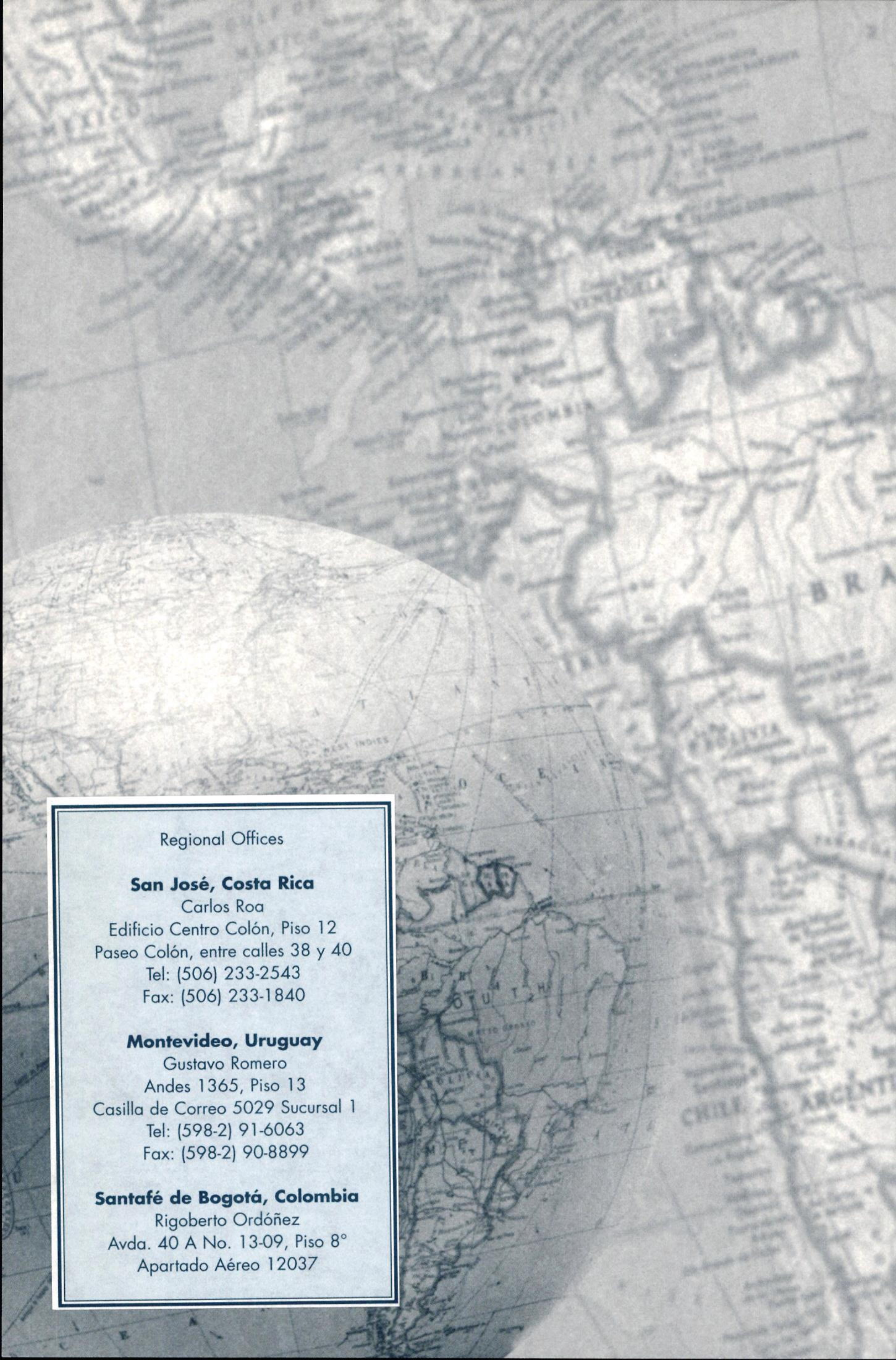
Sound economic policies are still a prerequisite for viable, lasting economic growth. Most of the economies of Latin America and the Caribbean have improved their performance in this regard. The passage of legislation to update investment, taxation, monetary, and foreign exchange regulations and bring them into line with the new, open economies, is paving the way for sustained economic growth. After posting GDP growth of less than 1 percent in 1995, the region rebounded to an average growth of more than 3 percent in 1996. Some projections show that the region will grow at an even healthier rate over the next five years, with GDP growth averaging more than 4.5 percent.

Looking Ahead

The objective of the Corporation since its inception has been to foster the economic development of its regional member countries by encouraging the establishment, modernization, and expansion of private enterprises, particularly those of small and medium scale. In recent years, the private sector has assumed a more prominent role as an engine of development within the region. In this context, the Corporation's mandate becomes even more relevant. The IIC will continue its efforts to provide an increasing number of entrepreneurs with the long-term financing and objective advice that they need to establish, expand, and modernize productive companies.

The Inter-American Investment Corporation is uniquely positioned to act as a bridge between the public and private sectors: a partnership that must be maintained to further the region's development.

John C. Rahming
IIC General Manager, *ad interim*



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DEVELOPMENTAL INVESTMENT ACTIVITIES

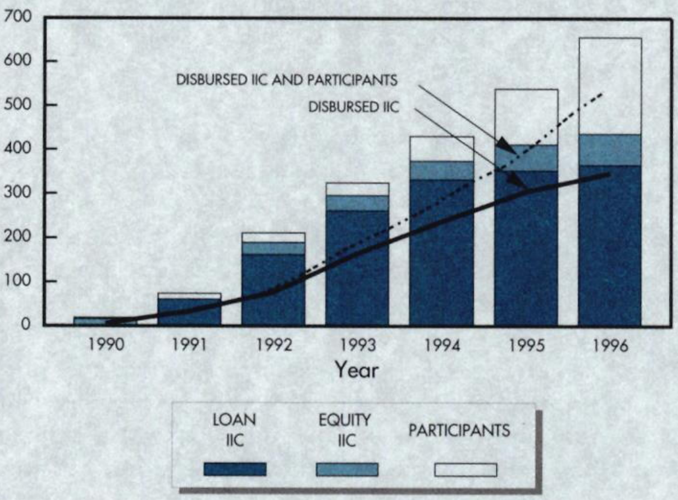
Throughout 1996, the IIC continued executing its 1995-1997 action plan and pursuing its developmental goals. The action plan calls for the IIC to step up its equity investments in small and medium-size enterprises while continuing to provide them with long-term loans. Investing in development capital funds and leveraging its own resources through cofinancing are other keystones of the plan. Since adoption of the plan in 1995, the number of companies receiving IIC financial support has more than doubled, rising from 431 at the end of 1994 to 1,008 at the end of 1996. More than 90 percent are small or medium-scale enterprises.

Equity investments in small and medium-size enterprises accounted for 44 percent of the year's approvals. Efforts to mobilize additional resources for the region through cofinancing operations raised a total of $95 million from fifteen international banks on behalf of IIC clients. Participation in four developmentally-oriented investment funds highlighted the Corporation's commitment to supporting this investment vehicle. Investing in such funds enables the IIC to play a catalytic role in promoting investments in small and medium-size enterprises and fostering responsible environmental practices.

The twenty operations described below will have a significant developmental impact. Their demonstration effect will increase confidence in both the soundness of the changes taking place in the region and the positive investment environment in which the private sector can now operate. Implementation of these projects will create 5,299 jobs, foreign

IIC COMMITTED PORTFOLIO

Cumulative in US$ millions



exchange earnings on the order of $515 million annually, and $530 million in yearly contributions to the region's GDP. The $72 million in IIC funding will support the execution of projects with a total cost in excess of $500 million. Thus, for every dollar earmarked by the Corporation for 1996 approvals, more than six dollars will go to investment projects in a wide variety of economic sectors in the region.

REGIONAL

Inter-American Capital Fund

The IIC approved a $5 million equity investment for the establishment of an up to $50 million, ten-year fund. The Inter-American Capital Fund is the first of IIC's sixteen venture capital funds designed exclusively to invest in small and medium-size Latin American financial institutions. The additional capital is to be raised from shareholders of Hamilton Bank N.A. (founded in 1988 by an investor group of Latin American and U.S. businesspeople) and institutional investors in the United States and Europe. The Inter-American Capital Fund will contribute to the strengthening of an important segment of the recipient countries' banking sector. The ultimate beneficiaries will be the small and medium-sized enterprises in the region.

The IIC's knowledge of the region's financial systems and its oversight of the Inter-American Capital Fund's investment activities will enhance the fund's credibility. By investing in the fund, IIC will help support financial institutions that lack access to capital markets to finance their own growth and provide better services. One of the fund's goals will be to promote the listing of beneficiary institutions on local stock exchanges. This will increase the availability of investment instruments to local investors and provide an exit mechanism for the IIC.

Another IIC contribution will be to ensure that the fund invests in accordance with internationally-accepted environmental protection guidelines. The fund, in turn, will promote compliance with these guidelines by its investee financial institutions and end beneficiaries.

Inversiones Privadas Latinoamericanas, L.P.

With the approval of a $5 million equity investment, the IIC will contribute to the establishment of a $200 million ten-year fund that will invest in private Mexican companies and in other Latin American businesses that have a significant Mexican component. The fund will also invest in Mexican companies with cross-border growth potential.

The fund, Inversiones Privadas Latinoamericanas, L.P., will take advantage of the vast project identification network provided by its sponsor (Grupo Financiero Bancomer, one of Mexico's largest financial groups) and by its sponsor's international affiliates and partners, including the Bank of Montreal. The fund is one of the first international private equity funds sponsored and managed by a Mexican group to attract capital from abroad. It is also the only fund that targets Mexican cross-border investment in the rest of Latin America.

Inversiones Privadas Latinoamericanas will provide equity funds to medium-size Mexican companies—a severely decapitalized sector that has few alternatives for financing growth. The fund will provide the expertise needed for its portfolio companies to go public, thus contributing to the democratization of capital in Mexico and complementing the efforts of the Mexican government and the IDB to develop the first-tier and intermediate stock exchanges. The fund will reach some fifteen final beneficiaries, creating about 750 jobs and an estimated $300 million in annual export earnings. It will also add $300 million annually to Mexico's GDP.

ARGENTINA

Banco de Galicia y Buenos Aires, S.A.

In 1992 the IIC approved a $10 million loan to Banco de Galicia y Buenos Aires for onlending to small and medium-size companies in Argentina. In 1993 the original loan was expanded through a $25 million B Loan with the participation of five international financial institutions. In 1995 the participated portion of the loan was to be expanded by up to $25 million. Expressions of interest from financial institutions exceeded the proposed expanded loan. So in 1996 the IIC Board of Directors approved a $35 million extension that was taken by six financial institutions, bringing the total loan package up to $70 million. This B Loan was extended again in December 1996, by $30 million.

Banco de Galicia y Buenos Aires will continue to use the funds to provide medium and long-term financing for projects to be carried out by small and medium-size companies that cannot tap the financial markets directly. The average subloan size has been $183,000, enabling the IIC to support a larger number of projects than it could reach directly.

Buyatti S.A.I.C.A.

The IIC will fund $4 million of a $12 million loan that its Board of Directors approved for Buyatti S.A.I.C.A., an Argentine oilseed processor. The remainder of the loan will be cofinanced by an international commercial bank, although the IIC will be the lender of record for the entire amount. Buyatti will use the funds to add a cotton gin and expand and upgrade its seed delinting and milling operations. The company plans to export the oil and by-products it will obtain after completion of the $23.4 million project.

Argentine cotton production has increased dramatically in recent years; the country's raw cotton exports have risen 275 percent. An increase in milling capacity will enable local farmers to sell more cottonseed, thus providing them with additional revenue from their cotton crops. By using cottonseed to produce oil and pellets, Buyatti will also add value to an agricultural by-product that was being thrown away or used unprocessed as a feed supplement for livestock.

The Buyatti project will create seventy jobs. Most of these jobs will be in an area that has endured a prolonged recession. The project will also indirectly support job generation in the cotton-growing sector and generate a total of $400 million in foreign exchange earnings for Argentina. The project's contribution to Argentina's GDP is estimated at nearly $100 million.

PASA S.A.

PASA S.A. is an Argentine petrochemical company that produces nitrogen-based fertilizer, elastomers, and hydrocarbons for the domestic and regional markets. With a $3 million loan and a $2 million quasi-equity investment from the IIC, as well as a $15 million B Loan from international commercial banks mobilized by the IIC, PASA will undertake a $38.1 million project to upgrade and expand its urea and ammonia plants and build a new ethyl benzene plant.

Once the project is completed, PASA will no longer have to import ethyl benzene, a key raw material. Argentina's urea imports will also decrease. The net result for Argentina's balance of payments will be foreign exchange savings on the order of $120 million during the first ten years of operations. Implementation of the project will contribute more than $92 million to Argentina's GDP.

Approximately 20 percent of the total project investment will be made directly in environmental protection systems. Emissions of pollutants after project completion will be significantly lower and will bring PASA into compliance with strict environmental protection guidelines.

Petroquímica Comodoro Rivadavia S.A.

In 1993 the IIC approved a $27 million loan to Petroquímica Comodoro Rivadavia S.A. (PCR) to help PCR acquire oil fields and work its proven reserves. The IIC was to provide up to $5 million and mobilize $22 million in additional loans through its cofinancing program for this $54 million project. The IIC had the option to convert $1 million of its loan into equity.

The first $11 million cofinancing tranche closed in early 1995. The IIC exercised its debt-to-equity option in late 1995. The second cofinancing tranche, completed in early 1996, was oversubscribed by $5 million, for a total of $16 million. The IIC Board of Directors approved increasing the loan in the amount of the oversubscription. PCR will use the proceeds to finance additional oil and gas wells. The adjusted cost of the project is $62 million.

BAHAMAS

Waterfields Company Limited

The island of New Providence accounts for less than 2 percent of the area of the Bahamas but is home to 68 percent of its people. The island is chronically short of water and must bring in between two million and three million gallons of drinking water a day by barge. Some of the water that is drawn from private wells has a high particulate content.

Waterfields Company Limited will build, own, and operate a reverse osmosis seawater desalination plant on New Providence. The total cost of the project is estimated at $11.6 million, $7.6 million of which will be financed with equity and $4 million with debt. The IIC has approved a $1.5 million loan as part of the debt financing. The Royal Bank of Canada (Bahamas) will lend the remainder.

The desalinated water produced by Waterfields will be sold exclusively to the local water company under a fifteen-year agreement. The 2.4 million gallons of water to be produced daily will not only meet up to one-fourth of the island's needs but will also comply with World Health Organization standards for drinking water. Moreover, the project will further the island's economic development, which has been hindered by the lack of water. For this reason, both the Bahamian government and the IDB Group have made it a priority to improve the water supply throughout the Bahamian archipelago. The project will create six direct permanent jobs and contribute $30 million to the Bahamian GDP.

BRAZIL

Bozano Advent Fundo Mútuo de Investimento em Empresas Emergentes

Approval of a $4 million equity investment in Bozano Advent Fundo Mútuo de Investimento em Empresas Emergentes brought to four the local funds established as part of the Latin American Development Capital Program. The program is a regional initiative cosponsored by the Inter-American Investment Corporation and Advent International Corporation of Boston, Massachusetts. The local sponsor is Grupo Bozano, Simonsen.

The fund closed after raising $43 million, $3 million more than the initial target capitalization. Bozano, Simonsen contributed $4 million and the IIC $4 million. The remaining $35 million were raised primarily from Brazilian pension funds and secondarily from international investors.

The Bozano Advent fund will provide small and medium-size Brazilian businesses with investment capital for growth. The fund will especially target companies that could become listed on the Rio de Janeiro or São Paulo stock exchanges at the end of the investment period, thus furthering the IIC's goal of democratizing capital. The fund will reach some fifteen final beneficiaries over its ten-year life, creating about 450 jobs and $40 million in export earnings and contributing $300 million to Brazil's GDP.

CHILE

Invertec Pesquera Mar de Chiloé

The worldwide demand for fish is increasing at the rate of 1.4 million metric tons per year. This demand will be met to an increasing degree by fish farming as overfishing depletes wild fish stocks. Chile's competitive advantages for fish farming include a long coastline and neritic conditions such as water temperature that are ideal for growing salmon.

A $10 million cofinanced loan ($5 million from the IIC and $5 million from an international commercial bank) and an IIC equity investment of up to $5 million will help Invertec Pesquera Mar de Chiloé build on Chile's and its own competitive advantages. The company plans to increase its production of farmed Atlantic salmon by purchasing and refurbishing an existing hatchery and acquiring 50 percent ownership of a salmon feed plant and sole ownership of a processing plant. This vertical integration will lower Invertec's production costs and enable the company to increase its sales to Japan, its main client country. Invertec also plans to enter the U.S. market.

The Invertec Pesquera Mar de Chiloé project will generate $320 million in foreign exchange earnings for Chile and more than $130 million for the country's GDP during the first ten years of operations. The project will also create 115 direct jobs. Moreover, Invertec's sponsors are committed to taking the company public in the near future. This will further one of the Inter-American Investment Corporation's basic goals of promoting broader ownership of local enterprises.

COLOMBIA

Termoeléctrica de La Dorada S.A.E.S.P.

The IIC will provide a $4.9 million A Loan, and international commercial banks will provide $15 million in a B Loan for construction of a gas-fired power plant in central Colombia. The total cost of the project is estimated at $28.5 million.

Termoeléctrica de La Dorada S.A.E.S.P. (Termodorada) will design and build the fifty-megawatt plant. International Power Leasing Company will own the equipment and lease it to Termodorada. Equipment and training will be provided by a leading U.S. manufacturer of thermoelectric equipment and a well-known U.S. power plant operator, respectively. Termodorada will sell all the power it generates to the local state-owned utility company.

Termodorada will be one of the first private power generation projects in Colombia. The Colombian government is promoting private sector participation in the generation of electricity to meet increasing demand and address a power shortage problem. Having a reliable power supply will enable the city of La Dorada to attract industrial, commercial, hotel, and agricultural development projects. This will generate employment in addition to the jobs that the project will create—170 jobs for building the power plant and 12 for operating it. The project's contribution to the Colombian GDP is estimated at more than $100 million.

DOMINICAN REPUBLIC

Banco Intercontinental S.A.

The IIC will provide a $2.5 million senior loan and a $0.5 million subordinated loan as part of a $6.5 million initial financing package for the development of a leasing division at Banco Intercontinental. The bank will use the proceeds to provide lease financing for the acquisition of fixed assets and equipment by small and medium-size Dominican companies that have limited access to medium and long-term credit. The quasi-equity investment in the form of a subordinated loan will enable the bank to establish core funding for the development of peso-denominated leasing operations. The lessee companies must comply with local, state, and national environmental laws, regulations, and standards as well as applicable IIC policies.

By offering medium-term financing at reasonable interest rates, Banco Intercontinental will contribute to the development of the Dominican economy. The IIC, through this operation, will be supporting the Dominican government's newly-instituted program to strengthen the financial sector and promote private sector growth. The proceeds of the IIC loan will provide financial support for more than sixty companies in the Dominican Republic.

EL SALVADOR

Bon Appetit, S.A.

The IIC will invest in the expansion of Bon Appetit, S.A., a Salvadoran producer of noncarbonated beverages. The $2 million equity investment will help Bon Appetit to carry out a $5.8 million project and to become one of the most modern and efficient companies of its kind in Central America. The project will enable Bon Appetit to enhance its presence throughout the region.

Bon Appetit has a wide range of products that covers many target markets in the beverage industry. To help launch its products in new markets, the company plans in an initial stage to set up distribution subsidiaries in Guatemala and Costa Rica. This market expansion will strengthen a company that is owned by Salvadoran investors and operates in an industry in which many of its competitors are large multinational companies.

Other Latin American countries supply a large percentage of the inputs that Bon Appetit uses in the manufacture of its products. By increasing production and expanding its distribution network, Bon Appetit will enjoy more balanced foreign exchange operations and will gain more direct access to regional markets. Both the company and the economy of El Salvador will benefit. Implementation of the project will create 170 direct permanent jobs, generate $60 million in export earnings, and contribute more than $120 million to the country's GDP.

GUATEMALA

Factorrent S.A.

A $3 million loan and an equity investment of up to $0.5 million from the IIC will help a Guatemalan leasing company to provide financial and operating leases for small and medium-size businesses. Factorrent S.A. will channel the proceeds of the IIC loan to at least fifty Guatemalan companies through leases that will average $60,000 and will not exceed $250,000 per client. The lessee companies will be required to meet strict environmental and other guidelines established by the IIC.

Financial leasing is a good way to provide medium and long-term funding for the modernization and growth of small and medium industry, which is the main user of this type of financing. The IIC's participation in this operation will complement the IDB's efforts to strengthen and modernize the financial sector in Guatemala by providing long-term, foreign-currency funding for small and medium-size companies.

MEXICO

Christianson, S.A. de C.V.

Christianson, S.A. de C.V. (CHSA) is a small Mexican manufacturer of specialty chemicals that are used to make industrial and consumer products. In 1991 the IIC Board of Directors approved a $3.2 million loan to help finance the expansion of CHSA's production capacity. In 1996 the Board approved an additional loan of up to $6 million to be provided by a private commercial bank under the IIC cofinancing program. The Board also approved an equity investment of up to $1.5 million. These funds will help the company to carry out a $10.2 million project that involves building a new nitrile plant and refinancing certain short-term debts. The loan will also provide CHSA with the working capital it needs to continue to expand.

Building the nitrile plant will enable CHSA to integrate vertically, thus ensuring availability of a key raw material. CHSA will be able to increase production, cut production costs by 45 percent, and increase domestic and export sales by up to $10 million. The project will generate $90 million in foreign exchange earnings during the first six years of operations, contribute $120 million to Mexico's GDP, and create twenty direct jobs.

Mexico Private Equity Fund

With a $3 million equity investment, the IIC will participate in the creation of Mexico Private Equity Fund. The fund will seek to provide small and medium-size export-oriented companies in northwestern Mexico with the capital they need to expand. The initial capitalization of the fund is expected to be $30 million.

By investing in the fund, the IIC will further its own developmental goals by helping to create a mechanism for supporting small and medium-size companies that need long-term capital to increase production capacity in such sectors as manufacturing, economic infrastructure, and consumer goods. The preferred divestment vehicle will be initial public offerings on the Mexican stock market, thus furthering the IIC's goal of democratizing capital and broadening and deepening the local capital markets. Mexico Private Equity Fund will target export-oriented companies and their suppliers located in a part of Mexico where the industrial base is relatively underdeveloped. Over its expected life, the fund will benefit some twelve to fifteen companies. It will also create about 450 jobs, generate approximately $60 million in export revenue each year, and contribute nearly $50 million a year to Mexico's GDP.

Monarch S.A.

The Corporation approved a $2.6 million equity investment in, and a $7 million loan to, Monarch S.A., a new flower-growing operation. IIC funding will help develop a $34 million, 100-hectare flower farm and related packing facilities. Monarch will be an export-oriented producer of high-quality flowers, primarily roses.

The project's proximity to the U.S. border will allow the company to ship flowers by low-cost refrigerated truck to all U.S. markets. Monarch's freight costs will thus be considerably lower than those of other international producers, and the flowers will have a longer shelf life thanks to reduced handling. Participation in the project company by U.S. investors (including growers and distributors) will strengthen its ability to penetrate the U.S. market, taking full advantage of regional integration under NAFTA.

The project will create 2,000 direct and 800 indirect jobs and will generate $170 million in export earnings for Mexico. The contribution to the country's GDP is estimated at $150 million.

Merco-Fluvial S.A.

Merco-Fluvial S.A. is a Paraguayan company that transports liquid fuels from Argentina to Paraguay. With a senior loan of $2.5 million and a $0.5 million subordinated loan from the IIC, Merco-Fluvial will increase its river shipping of liquefied petroleum gas (LPG). The $6.1 million expansion project, which will be carried out by Hidro Gas S.A., involves the purchase of three barges especially designed for the river transportation of LPG. Hidro Gas has already signed a contract with Petróleos Paraguayos for shipping LPG from Argentina to Paraguay.

In addition to being much safer than trucks for the transportation of LPG, use of the barges will cut shipping costs considerably. One round trip by barge convoy will replace about 115 round trips by truck. The resulting benefit for end consumers will be lower gas prices, mainly for households in Paraguay. The project will create fourteen direct jobs and thirty-seven indirect jobs, besides contributing to the revitalization of ports along the Paraná-Paraguay waterway. Value-added contributed by the project to Paraguay's GDP is estimated at nearly $60 million.

Paraleva S.A.

The Board of Directors approved a $2 million loan and a $0.5 million subordinated loan to Paraleva S.A. of Paraguay. Paraleva is a joint venture between Levapan S.A. of Colombia and Azucarera Paraguaya S.A. of Paraguay. The total project cost is estimated at $8.2 million, of which $2 million will be provided by local banks and $3 million in equity by the sponsors. The remainder will be obtained from cash-flow generation.

Paraleva will build a plant capable of producing 12,000 metric tons of fresh baker's yeast per year. Sales will target the regional (northern and central Argentina, and southern Brazil) and local markets. The project is expected to create 43 direct and 172 indirect jobs, exports on the order of $66 million during the first ten years of operations, and more than $50 million for the country's GDP.

State-of-the-art European technology will make the Paraleva yeast plant one of the most advanced in Latin America. Paraleva will use sugarcane molasses, a by-product of Azucarera Paraguaya's sugar production, as its primary raw material. The company will also have access to low-cost electricity from the power grid. These factors, combined with modern high-yield fermentation technology, will enable Paraleva to deliver a high-quality product at very competitive prices.

Paraleva will build a desalination pool to decrease the salt content of the wastewater used for irrigation. The company will also follow strict guidelines to mitigate the potential environmental impact of the project.

TRINIDAD AND TOBAGO

Mora Oil Venture Limited

The Corporation approved a $1.5 million equity investment and a $7 million cofinanced loan to Mora Oil Venture Limited (MoraVen), a small, locally-owned oil and natural gas company. The IIC will provide $2.5 million of the cofinanced funding. The long-term resources provided by the IIC will be used in an $11.6 million project to sidetrack (redirect) two existing wells owned by the company, drill two new wells, and purchase equipment that will increase the company's oil production. MoraVen will exploit the Mora block oil field under a twenty-five year license from the government. The oil deposit was sold by its discoverer because its rate of production was lower than that of several, much larger, nearby projects. The government of Trinidad and Tobago, recognizing that the oil reserves in the Mora block could be of economic value to a smaller, local producer, granted the license to MoraVen.

Since receiving the license, the company has repaired or upgraded five of the original wells. Production has now reached 360 barrels per day, for an annualized production of 131,400 barrels. This is well above the original production level. The project is expected to increase production to more than 400,000 barrels in 1997 and 530,000 barrels in 1998. Implementation of the project will create twenty direct jobs, generate export earnings of about $50 million during the first six years of operations, and contribute $40 million to the country's GDP.

URUGUAY

Zona Franca de Montevideo

Zona Franca de Montevideo (ZFM) is the first private sector free trade zone in Uruguay to offer a high-quality industrial park for companies whose primary markets are in Latin America. ZFM, facing a growing demand for lease area, plans to build 15,300 square meters of additional office and warehouse space at a total cost of $10 million. To finance this expansion and to solidify its financial situation by reducing its short-term debt, ZFM decided to increase its capital and issue negotiable debentures on the Uruguayan financial market.

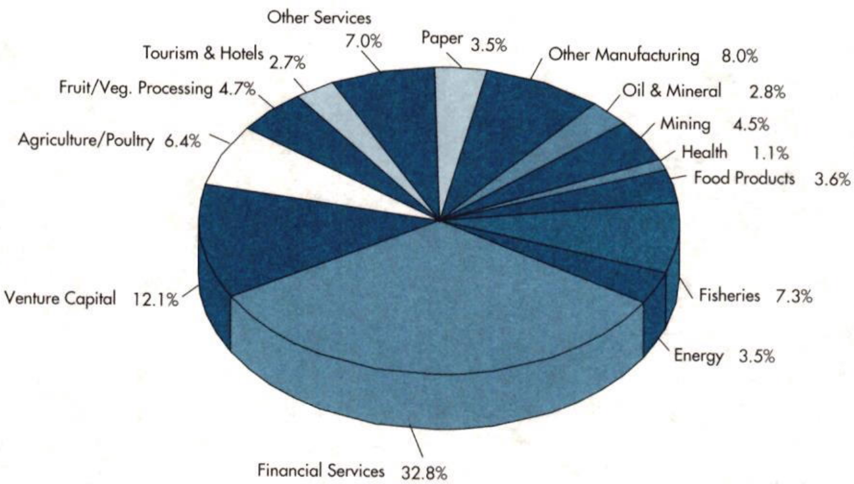
The capital increase adds $3 million to the original paid-in capital. Sources of funds are the capitalization of $1.67 million in sponsors' debt and the contribution of fresh funds totaling $1.33 million. The continuing support of IIC as a shareholder contributing $375,000 to the capital increase is of strategic importance to the company as it enters the capital market.

IIC Project Finance Activities 1989–1996

- 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, yeast
- 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
- Flower farm
- Potable water
- Noncarbonated beverages
- Barge transportation

APPROVED ACTIVE PORTFOLIO BY SECTOR

As of December 31, 1996



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MULTIPLYING RESOURCES TO SUPPORT THE PRIVATE SECTOR

The developing nations of Latin America and the Caribbean are in transition. They are moving from government-controlled, underdiversified economies to complex, market-based systems. They are also implementing economic stabilization and adjustment programs that will stimulate economic growth in the long run but that have created some rises in unemployment as the public sector (which already accounts for less than one-third of total employment in some countries) ceases to create jobs.

Pulling the regional economies out of this transitional period will be up to the private sector, which can generate employment and spur economic activity by expanding and successfully facing foreign competition. But the private sector can neither grow nor drive growth if it cannot obtain financing in the form of loans and equity capital. The modern tertiary sector (finance, communications, social services) has considerable growth potential but needs managerial and technological expertise as well as debt and equity financing. The region's infrastructure has the same needs. However, such financing is not easy to obtain in most of the region's emerging economies. The Inter-American Investment Corporation is using innovative mechanisms to provide small and medium-size private companies with financing that will enable them to generate the jobs and the foreign-currency income needed to get the region's emerging economies through the transition.

The private sector is being called upon to play a major role in promoting economic growth.

The Inter-American Investment Corporation is helping the private sector to respond to this challenge.

Developmentally-oriented investment funds are one such mechanism. All investment funds pool equity capital available for investing. But traditional investment funds seek the maximum yield for their investors. They are not necessarily committed to the long-term economic and environmental well-being of the countries in which they invest. Developmentally-oriented investment funds do have that firm commitment.

Direct investment has become the largest single channel of external finance in emerging economies.

Traditional investment funds tend to concentrate on countries such as Argentina, Brazil, Chile, Colombia, Mexico, Peru, and Venezuela, which have stronger capital markets. Moreover, they invest an average of $20 million to $80 million in companies with a market value ranging between $50 million and $300 million. Investment funds supported by the IIC make smaller investments (as small as $0.5 million) in smaller companies.

Traditional investment funds, then, shy away from investing in countries or sectors that they see as risky. But those countries and sectors are the ones that are in the greatest need of—and have the hardest time obtaining—capital for growth. They often must resort to borrowing on the domestic market at high interest rates. Or they must try, often unsuccessfully, to borrow from foreign sources that may be unwilling to lend to small and medium-size companies in countries they see as—once again—risky. Such difficulties in obtaining equity and debt financing on reasonable terms have hindered the development of the private sector throughout Latin America and the Caribbean.

Developmentally-oriented investment funds are an alternative source of financing.

By participating in developmentally-oriented investment funds, the IIC seeks to help to meet these needs in all of the region's countries, not just those with the strongest economies. The IIC also works to attract commercial banks and other international investors that would otherwise not operate in these markets. This has the double advantage of

- channeling more resources to equity-starved companies than the IIC could invest on its own; and
- strengthening the local stock markets and thus providing more opportunities for local investors.

IIC investment funds will pull in over $800 million to benefit small and medium-size companies.

Small and medium-size enterprises in Latin America and the Caribbean often lack more than capital and long-term debt financing. They may be short on the technical and managerial know-how necessary to keep pace with the region's economic and technological transformation. The IIC can foster the flow of knowledge by helping entrepreneurs to structure sound investment projects and bringing to bear its experience in financing projects throughout Latin America and the Caribbean. Preservation of the environment is a cornerstone of IIC's approach to private sector investment.

The Corporation has helped to create sixteen regional, sectoral, or national investment funds since it began operations in 1989. The total capitalization of these funds exceeds $800 million. Set out below are examples of IIC-sponsored investment funds that are

- helping small and medium-size companies in Latin America and the Caribbean to break the cycle of dependence on expensive debt financing;
- channeling technological and managerial know-how to the region; and
- leveraging IIC resources to promote the sustainable, environmentally responsible growth of small and medium-size private enterprise in the region.

The funds sponsored by the IIC have specialized management teams.

The first operation approved by IIC's Board of Directors was a $2 million equity investment in a risk capital company in Brazil. The Corporation participated in the initial $10 million capitalization of CRP-Capital de Risco S.A. (CADERI) in conjunction with institutional investors in Brazil.

CADERI's objective is to achieve long-term capital gains while investing directly in small and medium-size enterprises in southern Brazil. The fund has raised almost $10 million from six Brazilian groups, the Brazilian national development bank, and two multilaterals.

Eight companies have benefited from the fund's operations, three of which have already been divested—providing good returns to the fund's investors. Investee companies are in the electronics, food processing equipment, paper, and metal products subsectors.

In 1991 the Corporation acquired a 16.8 percent holding in Fondo de Optimización de Capitales, SINCA (OPCAP). The remainder of the fund's initial $15 million capital was provided by Mexican investors and NAFINSA. The IIC was the first multilateral institution to invest in a Mexican venture capital company, thus strengthening a special investment vehicle created by the Mexican government to encourage long-term investments in the private sector.

IIC was the first multilateral to invest in a special kind of Mexican venture capital fund.

OPCAP provides investment capital for the growth and modernization of small and medium-size companies in Mexico. To date, the fund has invested $30.7 million in ten companies. Thanks to the fund's solid performance, the value of IIC shares has increased 93 percent.

The IIC encourages funds to focus on small and medium-size enterprises, instead of large, publicly-listed businesses.

One of OPCAP's most successful investees is a Mexican builder of low-cost housing. The capital and consulting services that the builder received through OPCAP enabled it to tap the Mexican and international capital markets and go public. Access to financing helped the builder weather the Mexican economic crisis. The company expected to sell 12,000 good-quality, low-cost homes in 1996. Such a performance will help palliate the large unmet demand for low-income housing in Mexico. The homebuilder's shares are quoted at almost double the price of their initial placement.

In 1992 the Corporation approved a $2 million equity investment in the first venture capital fund to be established in Uruguay, Fondo para el Financiamiento de la Inversión Privada (FOFIP). The Citibank branch in Uruguay cosponsored the $17 million fund, which makes equity and quasi-equity investments and provides medium and long-term financing to develop and modernize small and medium-size private companies in Uruguay.

Particularly in smaller countries, the local fund manager can appraise and supervise smaller projects in a more cost-efficient manner than the IIC could from its headquarters in Washington.

The project financing that FOFIP has provided since it began operations in 1992 totals nearly $12 million.

The IIC conceived the Latin American Private Equity Fund program in 1992 as one of the first true regional venture capital initiatives in Latin America. The program consists of a regional fund and, so far, four national funds in Argentina, Brazil, Chile, and Mexico. Advent Corporation of Boston, Massachusetts, was selected by IIC to cosponsor the program. Advent operates an international network of sixteen affiliated private equity investment firms in twenty countries, managing $1.75 billion in committed capital and a combined portfolio of more than 750 companies worldwide. The companies in which the IIC/Advent network invests benefit from the transfer of technology and the opening of new international markets through linkages established with the companies in which Advent has invested.

The IIC created the first regional development venture capital program in Latin America.

The $165 million regional fund will make venture capital investments in small and medium-scale enterprises in Latin America. The maximum investment in any one project is $20 million, but the average investment will be considerably lower.

The IIC and Advent invited Banco de Santiago to cosponsor the Chilean portion of the network. The IIC approved its $1.5 million investment in the Chilean fund in 1994. Other contributors include Chilean and U.S. institutional investors. This fund will make equity investments of up to $4 million in small and medium-size Chilean companies that have strong growth potential but lack access to international equity markets.

The Corporation plays a catalytic role in launching investment funds.

In 1994 the Corporation approved a $2 million investment for the establishment of the Argentine portion of the IIC/Advent regional program. The IIC selected Banco de Galicia y Buenos Aires as cosponsor of the $50 million Argentine fund. Galicia is one of the few Argentine banks with a specific program for small and medium-size enterprises. Argentine and foreign institutional investors will also contribute to the fund, whose investments are expected to average $1 million per project.

The Mexican link in the IIC/Advent network is Procorp Investment Trust, a $9 million fund to be set up with Procorp, a Mexican venture capital company. This is the second project that the IIC has undertaken involving a venture capital firm in Mexico.

The investment trust will invest jointly with Procorp in companies that will benefit from linkage with Advent's worldwide network of companies. The IIC will use the trust to channel funds to small and medium-size companies that need capital to diversify, reconvert, or restructure their operations. Procorp's team of professionals will provide technical, financial, and managerial assistance to the investee companies. The IIC's participation in this fund amounts to $3 million, approved in 1995.

Grupo Bozano, Simonsen, one of the most diversified industrial groups in Brazil, is cosponsor of the Brazilian portion of the network. Bozano Advent Fundo Mútuo de Investimento em Empresas Emergentes is the first local mutual fund in Brazil to focus on investing in small and medium-size companies. The IIC was instrumental in fostering changes in Brazilian investment regulations that allow foreign investors to participate in the capital of small and medium-size Brazilian companies through a listed local fund.

The $43 million Bozano Advent fund was capitalized by the IIC; Grupo Bozano, Simonsen; Brazilian pension funds; and international investors. It will be listed on the Rio de Janeiro stock exchange. Investee companies to date are in such sectors as textiles and apparel, small appliances, and packaging.

Sectoral specialization facilitates identification of good investment opportunities.

In 1993 the Corporation approved a $1.5 million investment in Jamaica Production Fund Limited, a development capital fund based in Kingston, Jamaica and cosponsored by a group of Jamaican financial institutions.

The fund targets small and medium-size Jamaican companies in need of investment capital and financing for growth. It uses equity and quasi-equity instruments to acquire minority positions. The fund will also make some medium-term loans and provide administrative, technical, and marketing assistance to investee companies. Target companies are in the tourism, manufacturing, agribusiness, and mining sectors. The fund is focusing on export-oriented projects that can competitively produce importsubstitution goods or services. The expected average size of the investments is $80,000.

The Latin American Energy and Electricity Fund (FONDELEC) is an investment fund established to originate and invest in private power generation projects throughout Latin America. The IIC approved its $4 million initial investment in FONDELEC in 1994 and increased its participation to $5 million in 1995. The remainder of FONDELEC's $60 million capitalization has come primarily from U.S. investors.

FONDELEC is initially focusing on investing in the privatization of existing facilities. The first two investments were made in Argentina and Peru: Empresa Distribuidora de Entre Ríos, S.A, the principal electricity distributor in the province of Entre Ríos in Argentina; and Luz del Sur, a distribution company serving the southern part of Lima, Peru. The fund is reviewing other investment prospects in Argentina, Bolivia, Brazil, Colombia, and Peru.

Private-sector involvement is crucial in infrastructure development.

In 1995 the IIC approved a $5 million investment in Brazilian Equity Investments III, Ltd. The purpose of this $85 million fund is to make long-term capital available to medium-size private companies in such sectors as transportation, construction, and consumer goods manufacturing. Contributors include U.S. pension funds and Latin American, U.S., and European asset management firms.

The fund expects to invest in at least fifteen companies over its nine-year life. So far, 48 percent of its funding has been invested in four companies in the textile and apparel, packaging, and small appliance sectors.

With more diversification there is less risk of loss. Diversification also attracts investors that might otherwise be reluctant to invest in risky countries or sectors.

Corfinsura Fondo de Desarrollo de Empresas is the second development capital fund to be created in Colombia. The $10 million Corfinsura fund will provide development capital to export-oriented companies in the agribusiness, manufacturing, mining, and emerging technologies sectors. It will do so by investing in equity and quasi-equity securities issued by small and medium-size businesses that need capital for growth. The fund will assist these companies in the areas of management, technology, and market development. Corfinsura's investments will range between $0.5 million and $1.5 million.

One-third of the fund's expected capitalization will be contributed by Corfinsura, one-third by the IIC, and one-third by other Colombian investors.

In 1995 the IIC approved a $3 million investment for the establishment of the $26.4 million Central American Investment Fund (CAIF). Along with the Commonwealth Development Corporation (CDC), Central American Bank for Economic Integration, and Swedfund, six local financial institutions will provide capital. CAIF will invest in small and medium-size companies in Belize, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and

Investment funds have a demonstration effect for the growth of the local capital markets, because the preferred vehicle for divestment is an initial public offering on the local stock exchanges.

Panama. It will focus on companies that generate foreign exchange and seek regional or extraregional expansion and sales. As an integral part of its equity contributions, CAIF will provide management, technology, and market development assistance to its investee companies. The fund will focus on companies that could eventually go public.

The sixteen investment funds approved by the IIC represent a total investment of $53.6 million by the Corporation. The table on the following page presents a profile of IIC investment funds.

The IIC's presence has attracted other investors by providing credibility and technical support in fund structuring. Third-party investments in IIC-sponsored investment funds are more than ten times the IIC resources invested in those funds.

Fund	**Multiplier Effect of Investment Funds**
CADERI	4:1
OPCAP	4:1
FOFIP	8.5:1
FONDELEC	11:1
Brazilian Equity	16:1
CAIF	7.7:1
IIC/ADVENT	32:1
Bozano, Simonsen	9:1
Banco de Galicia*	22.5:1
Banco de Santiago*	24:1
Corfinsura*	2:1
Jamaica Production Fund*	5:1
Procorp*	2:1
IPL Bancomer*	40:1
Inter-American Capital Fund*	10:1
Mexico Private Equity Fund*	10:1

*Expected

INVESTMENT FUNDS IN THE IIC PORTFOLIO

Year Approved by IIC	Fund Name	Country	Total Capitalization (US$)	IIC Contribution (US$)	Investment Size (US$)	Target Investees
1989	CADERI	Brazil	10,000,000	2,000,000	416,000	Venture Capital SME
1991	OPCAP	Mexico	15,000,000	3,000,000	2,200,000	Venture Capital SME
1992	FOFIP	Uruguay	17,000,000	2,000,000	3,800,000	Venture Capital & Recapitalization of Selected Industries
1993	Advent-Regional	Regional	165,000,000	5,000,000	max.20,000,000	Venture Capital SME
1993	JPF	Jamaica	6,000,000	1,518,000	82,000	Venture Capital SME
1994	FONDELEC	Regional	60,500,000	5,050,000	max.12,000,000	Electric Power Sector Fund Privatization & New Construction
1994	Advent-Santiago	Chile	40,000,000	1,600,000	max.4,000,000	Venture Capital SME
1994	Advent-Galicia	Argentina	50,000,000	2,100,000	1,000,000	Venture Capital SME
1995	Brazilian Equity	Brazil	85,000,000	5,000,000	7–10,000,000	Medium to Large Companies
1995	Corfinsura	Colombia	10,000,000	3,333,000	500,000–1,500,000	Venture Capital SME
1995	Procorp	Mexico	9,000,000	3,000,000	3,000,000	Venture Capital SME
1995	CAIF	Central America	26,356,588	3,000,000	250,000–2,000,000	Venture Capital SME
1996	Bozano Advent Brazil Fund	Brazil	43,000,000	4,000,000	3,000,000	Venture Capital SME
1996	IPL/Bancomer	Regional	200,000,000	5,000,000	max. 50,000,000	Venture Capital SME
1996	Inter-American Capital Fund	Regional	50,000,000	5,000,000	2-3,000,000	Small and Medium-Size Financial Institutions
1996	Mexico Private Equity Fund	Mexico	30,000,000	3,000,000	2,000,000	Venture Capital SME
TOTAL			816,856,588	53,601,000		

Conclusions

IIC's experience with investment funds to date has enabled it to pinpoint key factors that can guide future operations of this type.

Fund-raising efforts are key to success.

The sponsors' fund-raising ability is a key factor in ensuring a fund's successful closing. Although a fund manager's name and recognition in the marketplace are very important for attracting other investors, they are no substitute for sponsor capital or committed core investors. While the IIC itself, as a core investor, can influence fund-raising, it does so only in partnership with other private investors.

It is also crucial for the Corporation to get involved early enough in the process to influence target market, environmental criteria, and other critical developmental considerations.

Early IIC participation has been crucial to meet developmental objectives.

The success of each fund's investments hinges on (1) having a manager with private equity experience, a good network, and a local presence; and (2) good timing in launching the fund. Macroeconomic conditions are also decisive. For example, in the case of FONDELEC, the trend towards utilities privatization, increased private sector interest in economic infrastructure, and appropriate legislation, allowed this regional energy fund to start up quickly.

In addition to developmental impact and multiplication of resources, IIC investments should provide an adequate financial return to the Corporation. This is because the IIC must be self-sustaining in the long run and because the profits from successful investments can be reinvested in other funds without eroding IIC's own capital. It is still too early to determine the profitability of most of the funds in which the IIC has invested. The funds that have a track record long enough to calculate returns for the Corporation show positive, although different, levels of capital gains.

In the future, the IIC will selectively evaluate new funds that comply with its own objectives of becoming self-supporting or that have unique developmental characteristics justifying a longer payback time. Such characteristics include being located in a targeted region or focusing on a critical sector or industry.

Latin American and Caribbean private sector companies are poised to benefit from the reforms that have taken place in the region. International investors are looking anew to a region where good investment opportunities are emerging in a variety of sectors and locations. Domestic savings are finding new vehicles that ensure an appropriate balance between risks and rewards.

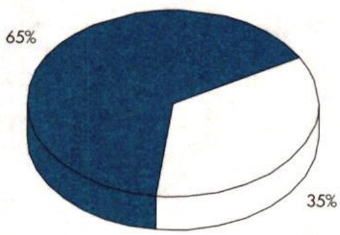
IIC will continue to support venture capital activities in Latin America and the Caribbean.

Since its inception in 1989, the Inter-American Investment Corporation has played a catalytic role in support of small and medium-scale enterprises through its lending and investment activities. In particular, the IIC is accomplishing its mission by participating in the creation of venture capital investment funds that target small and medium-scale enterprises with good track records and strong growth potential, but that lack access to long-term sources of capital.

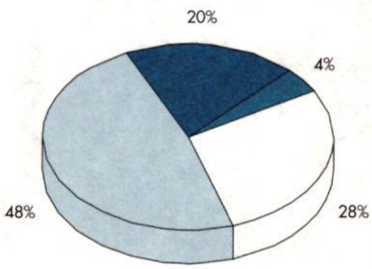
APPROVALS, COMMITMENTS, AND DISBURSEMENTS AS OF DECEMBER 31, 1996
In millions of US$

	APPROVALS				COMMITMENTS TO DATE				DISBURSEMENTS TO DATE		OUTSTANDING AT 12/31/1996		
Country	Number of projects	Loan	Equity	Total	Loan	Equity	Cancel.	Net comm.	Loan	Equity	Loan	Equity	Total
Argentina	20	82.6	11.0	93.6	53.6	8.9	0.1	62.4	52.6	8.8	43.7	7.4	51.1
Bahamas	2	6.5	0.0	6.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Bolivia	7	18.1	1.9	20.0	14.4	1.9	3.1	13.1	11.8	1.3	5.0	1.3	6.3
Brazil	13	56.8	14.5	71.3	54.8	14.0	3.4	65.4	45.9	12.9	40.4	10.0	50.3
Chile	9	27.3	15.3	42.7	21.3	5.8	5.0	22.2	15.5	4.1	12.3	2.9	15.2
Colombia	9	33.2	6.9	40.0	28.2	3.6	0.1	31.7	26.0	3.5	19.2	3.4	22.6
Costa Rica	6	27.5	1.5	29.0	25.0	0.5	5.0	20.5	18.0	0.5	17.0	0.5	17.5
Dominican Rep.	4	13.0	0.5	13.5	10.5	0.0	1.6	8.9	6.9	0.0	5.7	0.0	5.7
Ecuador	5	8.0	2.5	10.5	8.0	2.5	1.7	8.8	6.9	1.8	3.7	0.9	4.7
El Salvador	2	4.0	2.0	6.0	4.0	0.0	0.0	4.0	4.0	0.0	3.6	0.0	3.6
Guatemala	5	20.1	0.5	20.6	14.1	0.0	7.0	7.1	7.1	0.0	5.0	0.0	5.0
Guyana	2	3.3	0.0	3.3	3.3	0.0	2.5	0.8	0.8	0.0	0.7	0.0	0.7
Honduras	3	10.9	1.0	11.9	10.9	1.0	5.9	6.0	5.0	0.0	3.8	0.0	3.8
Jamaica	6	19.3	1.5	20.8	11.7	1.5	2.7	10.5	5.6	0.0	4.6	0.0	4.6
Mexico	16	46.3	19.0	65.3	30.3	7.4	4.7	33.1	24.4	6.6	13.7	6.6	20.3
Nicaragua	2	3.0	1.4	4.4	3.0	1.4	0.5	3.9	3.0	0.9	2.8	0.9	3.7
Panama	2	6.5	0.0	6.5	6.5	0.0	0.0	6.5	6.5	0.0	6.2	0.0	6.2
Paraguay	3	9.0	0.5	9.5	4.0	0.0	0.3	3.7	3.7	0.0	2.7	0.0	2.7
Peru	9	32.0	6.8	38.8	21.0	1.7	3.3	19.4	17.9	1.5	14.8	1.5	16.3
Trinidad and Tobago	3	7.5	2.8	10.3	2.5	0.6	0.8	2.3	1.7	0.6	0.0	0.6	0.6
Uruguay	7	24.9	6.4	31.3	24.9	6.4	0.1	31.2	24.3	6.0	19.3	6.0	25.4
Venezuela	7	23.8	4.7	28.5	13.8	1.0	7.0	7.8	7.8	0.0	7.3	0.0	7.3
Regional	7	0.0	29.0	29.0	0.0	13.1	0.0	13.1	0.0	2.8	0.0	2.5	2.5
TOTAL	149	483.5	129.7	613.2	365.7	71.2	54.6	382.3	295.4	51.3	231.5	44.5	276.0

COMPOSITION OF IIC COMMITTED PORTFOLIO
As of December 31, 1996



LOAN PORTFOLIO



EQUITY PORTFOLIO

Privatizations | Expansions | Venture Capital | Greenfields

OPERATIONS APPROVED BY IIC IN 1996

In millions of US$

	Country	Sector	Project Cost	IIC Participation Loan	Equity	Total	Co-financing	Annual Foreign Exchange Generation	Annual Value-Added	Number of New Jobs	Procurement US$ millions by Country	Total
NEW PROJECTS APPROVED												
BANCO INTERCONTINENTAL	DO	Multipurpose Bank	18.0	2.5	0.5	3.0	—	NA	NA	NA	NA	
BON APPETIT	ES	Other Manufacturing	5.8	0.0	2.0	2.0	—	6.0	12.3	170	US 3.6/ES 2.4/JP 0.6	6.6
BOZANO ADVENT FUND	BR	Venture Capital	24.0	0.0	4.0	4.0	—	4.0	30.0	450	NA	
BUYATTI	AR	Agribusiness	23.4	4.0	0.0	4.0	8.0	49.0	2.5	70	US 2.0/AR 22.4	22.5
CHRISTIANSON II	MX	Chemicals and Drugs	10.2	0.0	1.5	1.5	6.0	14.6	17.9	20	US 0.4/MX 0.8	1.2
FACTORRENT	GT	Leasing Co.	21.0	3.0	0.5	3.5	—	NA	NA	NA	NA	
INTER-AMERICAN CAPITAL FUND	REG	Investment Fund	30.0	0.0	5.0	5.0	—	NA	NA	NA	NA	
INVERTEC PESQUERA MAR DE CHILOE	CL	Fishing	21.0	5.0	5.0	10.0	5.0	31.8	13.1	115	US 0.7/IE 0.8/NO 0.9/CH 3.0/ KR 0.8/JP 0.5/DE 0.3/IT 0.01/ DK 0.2/BR 0.1/IC 0.06	7.6
INV. PRIVADAS LATINOAMERICANAS	REG	Venture Capital	30.0	0.0	5.0	5.0	—	300.0	300.0	750	NA	
MERCO-FLUVIAL	PY	Overland & Air Transport.	6.1	2.5	0.5	3.0	—	0.0	5.7	51	US 0.3/AR 3.7/BR 1.0	5.0
MEXICO PRIVATE EQUITY FUND	MX	Investment Funds	18.0	0.0	3.0	3.0	—	60.0	50.0	450	NA	
MONARCH	MX	Flower Prod. & Packing	34.0	7.0	2.6	9.6	—	16.9	14.9	2,800	FR 6.0/NL 4.0/MX 14.8	24.8
MORA	TT	Oil and Gas	4.7	2.5	1.5	4.0	4.5	7.6	6.5	20	US 9.15/TT 1.15	10.3
PARALEVA	PY	Other Food Products	8.2	2.5	0.0	2.5	—	6.6	5.3	215	DE 2.2/AT 0.6/BR 0.2/ US 0.1/PR 0.2	
PASA	AR	Fertilizers	38.1	5.0	0.0	5.0	15.0	11.7	9.3	0	US 7.6/BR 0.2/NL 2.3/ AR 27.2/DE 0.2/FR 0.2/ IT 0.2	37.9
TERMODORADA	CO	Electricity	28.5	5.0	0.0	5.0	15.0	0.0	7.0	182	US 17.3/CO 2.3	19.6
WATERFIELDS	BS	Water	11.6	1.5	0.0	1.5	—	0.0	3.9	6	US 7.0/BS 2.61	9.6
ADDITIONAL INVESTMENTS IN EXISTING PROJECTS												
BANCO DE GALICIA	AR	Multipurpose Bank	240.0	0.0	0.0	0.0	40.0	6.3	50.0	0	NA	
MIGRANJA	UY	Agribusiness	NA	0.4	0.0	0.4	—	0.0	0.0	0	NA	
PETROQUIMICA COMODORO RIVADAVIA	AR	Oil and Gas	NA	0.0	0.0	0.0	2.0	0.0	0.0	0	NA	
ZONA FRANCA MONTEVIDEO	UY	Free Trade Zone	NA	0.0	0.4	0.4	—	0.0	0.0	0	NA	
		TOTAL	572.6	40.9	31.5	72.4	95.5	514.5	528.5	5,299		145.1
		AVERAGE						42.9	35.2	408		

Report of Independent Accountants

Board of Governors
Inter-American Investment Corporation

In our opinion, the accompanying balance sheets and 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, 1996 and 1995, and the results of its operations and its cash flows for the years then ended 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.

Price Waterhouse LLP

Price Waterhouse LLP
Washington, D.C.
February 4, 1997

Inter-American Investment Corporation

Balance Sheets

(Expressed in thousands of United States dollars)

	December 31, 1996	December 31, 1995
ASSETS		
CASH AND DUE FROM BANKS	$ 10	$ 137
MARKETABLE SECURITIES	60,927	43,724
LOAN AND EQUITY INVESTMENTS		
Loan Investments	231,513	236,591
Less Allowance for Losses	(24,018)	(16,422)
	207,495	220,169
Equity Investments	42,145	35,040
Less Allowance for Losses	(2,941)	(2,702)
	39,204	32,338
Total Investments	246,699	252,507
OTHER INVESTMENT (net of allowance for losses of $1,122 and $336, respectively)	—	786
FIXED ASSETS	336	480
OTHER ASSETS	9,145	8,565
TOTAL ASSETS	$317,117	$306,199
LIABILITIES AND EQUITY		
ACCOUNTS PAYABLE AND ACCRUED EXPENSES	$ 3,167	$ 2,528
ACCRUED INTEREST AND COMMITMENT FEES	300	228
BORROWINGS	95,000	85,000
Total Liabilities	98,467	87,756
CAPITAL		
Authorized: 20,000 shares (Par value $10,000)		
Subscribed:20,000 shares	200,000	200,000
Less Subscriptions Receivable	—	(481)
	200,000	199,519
RETAINED EARNINGS	19,900	18,892
UNREALIZED (LOSS) GAIN ON EQUITY INVESTMENT AVAILABLE-FOR-SALE	(1,250)	32
Total Equity	218,650	218,443
TOTAL LIABILITIES AND EQUITY	$317,117	$306,199

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, 1996	1995
INCOME		
Marketable Securities	$ 2,955	$ 3,831
Loan Investments		
Interest	18,087	19,230
Commitment Fees	125	259
Front-end Fees	97	150
Other Loan Investment Income	754	399
	19,063	20,038
Equity Investments		
Gain (Loss) on Sales of Equity Investments	2,890	(551)
Dividends	299	283
Other Equity Investment Income	315	404
	3,504	136
Advisory Service, Cofinancing and Other	2,358	2,453
	27,880	26,458
EXPENSES		
Administrative	9,705	8,860
Provision for Losses	10,838	6,180
Non-Pension Post Retirement Benefits	1,003	795
Borrowing	5,326	5,070
	26,872	20,905
NET INCOME	1,008	5,553
RETAINED EARNINGS AT BEGINNING OF YEAR	18,892	13,339
RETAINED EARNINGS AT END OF YEAR	$19,900	$18,892

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, 1996	Years ended December 31, 1995
CASH FLOWS FROM INVESTING ACTIVITIES		
Loan and Equity Investments		
Loan Disbursements	$ (28,036)	$ (60,132)
Loan Repayments	31,865	14,187
Equity Disbursements	(13,032)	(8,493)
Sales of Equity Investments	3,677	954
	(5,526)	(53,484)
Marketable Securities		
Purchases	(2,023,940)	(1,817,098)
Sales Prior to Maturity	—	42,931
Repayments at Maturity	2,006,809	1,808,534
	(17,131)	34,367
Purchases of Fixed Assets	(126)	(161)
Dispositions of Fixed Assets	—	71
NET CASH USED IN INVESTING ACTIVITIES	(22,783)	(19,207)
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings		
Proceeds from Borrowings	10,000	10,000
Capital		
Payments of Capital Subscriptions	481	720
NET CASH PROVIDED BY FINANCING ACTIVITIES	10,481	10,720
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	1,008	5,553
Adjustments to reconcile net income to net cash provided by operating activities:		
Increase in accrued interest and commitment fees	72	52
Provision for losses	10,838	6,180
Unrealized gain on marketable securities	(72)	(366)
Increase in other assets	(580)	(2,136)
Increase (decrease) in accounts payable and accrued expenses	639	(1,288)
Loss on dispositions of fixed assets	—	134
Depreciation and amortization expense	270	357
NET CASH PROVIDED BY OPERATING ACTIVITIES	12,175	8,486
NET DECREASE IN CASH	(127)	(1)
CASH AT BEGINNING OF YEAR	137	138
CASH AT END OF YEAR	$ 10	$ 137
SUPPLEMENTAL DISCLOSURES		
Interest paid during the year	$ 5,199	$ 5,004
Conversions of loans to equity investments	—	$ 150

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

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.

USE OF ESTIMATES

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expense during the reporting period. Actual results could differ from these estimates.

RECLASSIFICATION

Certain reclassifications have been made in the amounts presented for the prior year to conform with the 1996 presentation.

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.

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

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.

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

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.

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. Developmental 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 unrealized gains and losses for 1996 and 1995 are included in income from marketable securities. The net change in the unrealized holding gains for securities classified as trading included in earnings during 1996 and 1995 were $72,000 and $366,000, respectively.

Net losses of $220,000 and $110,000 were realized on sales of marketable securities in 1996 and 1995, respectively.

Note C Receivables

Receivables are included in other assets and summarized below:

	December 31, (in thousands)	
	1996	1995
Accrued Income on Marketable Securities	$1,315	$ 959
Accrued Income on Loan Investments	5,269	6,312
Receivable on Equity Sale	2,386	—
Total	$8,970	$7,271

Note D Loan, Equity and Other Investments

The Corporation's operations are limited to its twenty-four regional member countries. At December 31, 1996 there was no concentration of credit exposure in any single country. See the Summary of Projects by Country as of December 31, 1996 in Note M.

In accordance with the nonaccrual policy discussed in Note A, loans placed in non-accrual status at December 31, 1996 and 1995 totaled $38,333,000 and $23,132,000, respectively. Allowances for losses against these loans at December 31, 1996 and 1995 totaled $15,768,000 and $5,572,000, respectively. If these loans had not been in non-accrual status, income from loan investments would have been $3,925,000 and $2,143,000 higher in 1996 and 1995, respectively. A portion of this income was earned in prior years.

Effective January 15, 1997, two loans with a total outstanding balance of $2,788,000 were placed in non-accrual status. Interest accrued but not collected at December 31, 1996, in the amount of $78,000 was reversed from the Corporation's results of operations for the year then ended. Management believes the borrowers have both the capacity and intent to make payment and that receipt of funds will be forthcoming shortly.

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)	
	1996	1995
Investments Approved but not Committed		
Loan	$32,850	$ 9,400
Equity	34,983	24,533
Total	$67,833	$33,933
Investments Committed but not Disbursed		
Loan	$20,036	$43,595
Equity	15,838	16,574
Total	$35,874	$60,169

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, 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 $5,153,000 loan to the company included in loan investments. The allowance for loss against this loan was $4,106,000 at December 31, 1996.

The Corporation's loans accrue interest at the six-month London Inter-Bank Offered Rate (LIBOR) plus a spread ranging from 2.25% to 5.00% at December 31, 1996. At December 31, 1996 and 1995, the six-month LIBOR was 5.69% and 5.63%, respectively.

MATURITY STRUCTURE OF LOANS

	December 31, (in thousands)			
	1996		1995	
	Principal Outstanding	Average Spread over LIBOR	Principal Outstanding	Average Spread over LIBOR
Due in one year or less	$ 42,711	3.56%	$ 31,498	3.65%
Due after one year through five years	158,516	3.60%	157,693	3.63%
Due after five years through ten years	30,286	3.79%	47,400	3.65%
Total	$231,513		$236,591	

The total investment in impaired loans at December 31, 1996 was $24,544,000 for which a related allowance for losses of $14,233,000 had been recorded. 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 average recorded investment in impaired loans for the years ended December 31, 1996 and 1995 was $16,146,000 and $7,941,000, respectively. During 1996, $970,000 received from impaired loans was recognized in loan interest income. During 1995, $242,000 received from an impaired loan was recognized in loan interest income. Cash collections relate to interest earned in current and prior years.

Activity in the allowance for loan losses was as follows:

	December 31, (in thousands)	
	1996	1995
Balance at beginning of year	$16,422	$12,631
Investments written off	(1,250)	(1,600)
Provision for losses	8,846	5,391
Balance at end of year	$24,018	$16,422

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 and losses excluded from earnings for the period and recorded as a separate component of equity. At December 31, 1996, the Corporation held one equity investment in its available-for-sale portfolio with a cost of $2,849,000 and a market value of $1,599,000. During 1996, the Corporation received $8,000 for 123,000 shares of this investment thereby realizing a $3,000 loss on sale that is included in gain (loss) on sales of equity investments. 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 (loss) 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)	
	1996	1995
Cumulative Adjustment, beginning of year	$ 32	$3,875
Valuation Adjustment for the year	(1,282)	(3,843)
Cumulative Adjustment, end of year	$(1,250)	$ 32

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 $97,220,000 and $56,778,000 of participants' funds during 1996 and 1995, respectively. The undisbursed participants' commitments were $28,647,000 and $30,867,000 at December 31, 1996 and 1995, 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)	
	1996	1995
Furniture and Office Equipment	$1,007	$ 991
Computer Hardware, Software and Systems Development	1,626	1,516
Accumulated Depreciation and Amortization	(2,297)	(2,027)
Total	$ 336	$ 480

Unamortized computer software costs of $119,000 and $123,000 relating to internally developed computer software are included in fixed assets as of December 31, 1996 and 1995, respectively. Amortization expense on internally developed software of $62,000 and $96,000, respectively, is included in results of operations for the years 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 for office space and certain administrative support services:

	December 31, (in thousands)	
	1996	1995
Office Space	$ 741	$ 738
Support Services	593	627
Total	$1,334	$1,365

Accounts payable and accrued expenses due to the IDB were $258,000 and $52,000 at December 31, 1996 and 1995, respectively.

In 1996 and 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 $934,000 and $782,000 for the years ended December 31, 1996 and 1995, 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.

The Corporation contributes its annual actuarially determined expense to the IDB's Postretirement Benefits Plan (the Plan). The Corporation's portion of total assets is 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 1996, the Corporation funded $540,000 to the Postretirement Benefits Plan. The following table summarizes the Plan's investments:

	December 31, (in thousands)			
	1996		1995	
	Cost	Fair Value[1]	Cost	Fair Value[1]
Common stock fund	$332,547	$366,833	$256,730	$287,145
Fixed income fund	89,433	90,412	72,995	75,284
Cash and short term investments	3,339	4,883	12,046	12,046
Total	$425,319	$462,128	$341,771	$374,475

[1] Does not include accrued income, accounts receivable and accounts payable in the amount of $3,016,000 and $2,353,000 as of December 31, 1996 and 1995, respectively.

As of December 31, 1996 and 1995, $2,240,000 and $1,439,000, respectively, of the above assets had been allocated to the Corporation.

The annual actuarial cost for the year ended December 31, 1996, was $1,003,000. 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.

The net periodic postretirement benefits cost includes the following components:

	December 31, (in thousands)	
	1996	1995
Service cost	$ 661	$ 775
Interest cost	268	333
Amortization of unrecognized obligation	335	369
Less: Actual return on Plan assets	(261)	(188)
	1,003	1,289
Gain from curtailment	—	(494)
	$1,003	$ 795

Reconciliation of Plan assets based on the December 31, 1996 valuation of the Plan (in thousands):

Obligation at December 31, 1996	
Accumulated postretirement benefits obligation:	
Retirees	$ 0
Fully eligible active Plan participants	1,306
Other active Plan participants	3,830
	5,136
Plan assets at December 31, 1996	2,240
Accumulated postretirement benefit obligation in excess of Plan assets	(2,896)
Unrecognized items:	
Net transition obligation	3,142
Net actuarial gain	(253)
Accrued postretirement benefits cost	$ (7)

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 14.2 years.

Actuarial assumptions:	
Weighted average assumed discount rate	6.50%
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 10.7% to 13.9% 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 13.9% 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, 1996, by $800,000 and the net periodic postretirement benefits cost for the year then ended by $179,000.

Note J Borrowings

Borrowings consist of the following:

	December 31, (in thousands)	
	1996	1995
Fuji Bank	$75,000	$75,000
Deutsche Bank Luxembourg, S.A.	20,000	10,000
	$95,000	$85,000

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. 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 1996 or 1995. Management is in the process of negotiating a new $300,000,000 loan from the IDB to replace the previous agreement.

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 5.80% at December 31, 1996, 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 $20,000,000 at December 31, 1996. Interest accrues on the outstanding balance at a variable rate, which was 5.70% at December 31, 1996. Borrowings under the credit agreement are due six months after disbursement and can be renewed. Additionally, the Corporation accrued commitment fees at 0.1% of the average daily unused balance as of December 31, 1996. The Corporation paid Deutsche Bank Luxembourg, S.A. $48,000 in commitment fees during 1996. The credit agreement terminates in 2000.

The weighted average cost of borrowings during 1996 and 1995 was 5.87% and 6.53%, 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 1996, no benefits were paid and charged against the liability for the 1993 restructuring program. During 1995, the actual termination benefits paid and charged against the liability for the 1993 restructuring program totaled $12,000. During 1996, the liability for the 1993 restructuring had been further reduced by $34,000 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 1996 and 1995, the actual termination benefits paid and charged against the liability for the 1994 restructuring totaled $58,000 and $780,000, respectively. During 1996, the liability for the 1994 restructuring had been further reduced by $224,000 to reflect unused repatriation benefits.

Note L Capital

The following table lists the capital stock subscribed and subscriptions receivable for each member country at December 31, 1996 (in thousands):

	Capital Stock Subscribed		Subscriptions Receivable from Members
Members	Shares	Amount	
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	
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 1996	20,000	$200,000	—
Total 1995	20,000	$200,000	$481

Note M Summary of Projects by Country

The following tables list the outstanding loan and equity investments by country at December 31, 1996 (in thousands):

LOAN INVESTMENTS

Members in whose country loans have been made	Loans Approved and Committed	Cancelled Balance	Undisbursed Balance	Repayments	Loan Investments Outstanding 1996	Loan Investments Outstanding 1995
Argentina	$ 53,600		$ 1,000	$ 8,904	$ 43,696	$ 39,890
Bahamas	—		—	—	—	—
Bolivia	14,350	$ 2,528	—	5,231	4,991 *	8,112
Brazil	54,800	3,370	5,500	4,320	40,360 **	41,180
Chile	21,348	5,000	853	3,174	12,321	9,057
Colombia	28,215	14	2,236	6,793	19,172	18,504
Costa Rica	25,000	5,000	2,000	1,012	16,988	15,200
Dominican Republic	10,500	1,580	2,000	1,266	5,654	5,988
Ecuador	8,000	1,000	111	3,142	3,747	4,044
El Salvador	4,000	—	—	364	3,636	4,000
Guatemala	14,050	7,000	—	2,062	4,988	5,332
Guyana	3,300	2,500	—	146	654	800
Honduras	10,900	4,900	991	1,250	3,759	4,071
Jamaica	11,700	2,700	3,441	909	4,650	5,000
Mexico	30,333	4,621	1,307	10,676	13,729	18,432
Nicaragua	3,000	—	—	200	2,800	2,326
Panama	6,500	—	—	273	6,227	6,314
Paraguay	4,000	263	—	1,019	2,718	3,397
Peru	20,950	3,050	—	3,122	14,778	16,089
Trinidad & Tobago	2,500	783	—	1,717	—	341
Uruguay	24,937	—	597	5,028	19,312	21,681
Venezuela	13,750	6,000	—	417	7,333	6,833
TOTAL 1996	$365,733	$50,309	$20,036	$61,025	$231,513	
TOTAL 1995	$353,296	$42,350	$43,595	$29,160		$236,591

*Net of $1,600,000 write-off.

**Net of $1,250,000 write-off.

EQUITY INVESTMENTS

Members in whose country equity has been invested	Equity Approved and Committed	Cancelled Balance	Undisbursed Balance	Sold	Equity Investments Outstanding 1996	1995
Argentina	$ 8,872	$ 74		$1,372	$ 7,426	$ 6,798
Bolivia	1,925	600		—	1,325	1,325
Brazil	13,963	31	$ 1,000	2,000	9,964*	8,969
Chile	5,826	—	1,707	1,226	2,893	892
Colombia	3,550	45	—	107	3,398	3,387
Costa Rica	500	—	—	—	500	500
Ecuador	2,500	698	—	860	942	942
Honduras	1,000	1,000	—	—	—	—
Jamaica	1,518	—	1,518	—	—	—
Mexico	7,387	34	778	—	6,575	4,780
Nicaragua	1,400	500	—	—	900	900
Peru	1,734	250	—	—	1,484	684
Regional	13,050	—	10,585	—	2,465	803
Trinidad & Tobago	599	1	—	—	598	598
Uruguay	6,350	53	250	—	6,047	5,552
Venezuela	1,000	1,000	—	—	—	—
TOTAL 1996	$71,174	$4,286	$15,838	$5,565	$44,517	
TOTAL 1995	$58,835	$3,950	$16,574	$2,181		$36,130

*Net of $968,000 write-off.

Governors and Alternate Governors

Country	Governor	Alternate Governor
Argentina	Roque B. Fernández	Pedro Pou
Austria	Viktor Klima	Hans Dietmar Schweisgut
Bahamas	William C. Allen	Ruth Millar
Barbados	Owen S. Arthur	Erskine Griffith
Bolivia	Fernando Candia Castillo	Gonzalo Afcha de la Parra
Brazil	Antônio Kandir	Gustavo Jorge Laboissière Loyola
Chile	Eduardo Aninat	Manuel Marfán Lewis
Colombia	José Antonio Ocampo	Juan Carlos Ramírez
Costa Rica	Francisco de Paula Gutiérrez	Leonardo Garnier Rimolo
Dominican Republic	Héctor Valdez Albizu	Luis Manuel Piantini Munnigh
Ecuador	Pablo Concha Ledergerber	Pedro Pablo Baqueriza
El Salvador	Manuel Enrique Hinds	Alfredo Mena Lagos
France	Jean Arthuis	Jean Lemierre
Germany	Klaus-Jürgen Hedrich	Klaus Regling
Guatemala	José Alejandro Arévalo Alburéz	Willy Waldemar Zapata Sagastume
Guyana	Bharrat Jagdeo	Michael Shree Chan
Haiti	Jean Eric Deryce	Fred Joseph
Honduras	Guillermo Bueso	Juan F. Ferrera
Israel	Jacob Frenkel	Shay Talmon
Italy	Carlo Azeglio Ciampi	Vincenzo Desario
Jamaica	Omar Davies, MP	Shirley Tyndall
Japan	Hiroshi Mitsuzuka	Yasuo Matsushita
Mexico	Guillermo Ortiz	José Julián Sidaoui
Netherlands	Gerrit Zalm	J.P. Pronk
Nicaragua	Pablo Pereira Gallardo	Emilio Pereira A.
Panama	Guillermo Chapman	Miguel Heras
Paraguay	Carlos Alberto Facetti Masulli	José Ernesto Buttner Limprich
Peru	Jorge Camet Dickmann	Germán Suárez Chávez
Spain	Rodrigo de Rato y Figaredo	José Manuel Fernández Norniella
Switzerland	Nicolas Imboden	Adrian Schläpfer
Trinidad and Tobago	Trevor Sudama	Carlyle Greaves
United States	Robert E. Rubin	Joan E. Spero
Uruguay	Luis Mosca	Ariel Davrieux
Venezuela	Luis Raúl Matos Azócar	Teodoro Petkoff

Information as of December 1996

Executive Directors and Alternate Executive Directors

Name	Country
Andrés Solimano Carlos Vera	Chile and Ecuador
Javier Bonilla Saus Orlando Bareiro Aguilera	Bolivia, Paraguay, and Uruguay
María Antonieta del Cid de Bonilla Arturo J. Cruz	Costa Rica, El Salvador, Guatemala Honduras, and Nicaragua
Antonio Cláudio Sochaczewski Mauro Marcondes Rodrigues	Brazil
Julio Angel Ernesto Mitsumasu Fujimoto	Colombia and Peru
Maritza Izaguirre Rogelio Novey	Panama and Venezuela
Barry Malcolm George Reid	Bahamas, Barbados, Guyana, Jamaica, and Trinidad and Tobago
L. Ronald Scheman Lawrence Harrington	United States of America
Jan Willem van der Kaaij Giorgio Leccesi	Austria, Italy, and the Netherlands
Gert-Robert Liptau Marco Ferroni	France, Germany, and Switzerland
Germán Bejarano Marina Barda	Israel, Japan, and Spain
A. Humberto Petrei José María Cartas	Argentina and Haiti
Moisés A. Pineda Ernesto Selman	Mexico and Dominican Republic

Information as of November 27, 1996 - CII/DR-150-10

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IIC Management

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

Operations Department

Chief Economist	Jorge Roldán
Chief Engineer	Carlos Aguilar

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

Coordinator and Principal Investment Officer	Steven L. Reed

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

Coordinator and Principal Investment Officer	Carlos Aguilar

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

Coordinator and Principal Investment Officer	Jean Philippe Prosper

Special Operations Unit Coordinator and Principal Investment Officer	Mario Mahler

Support Staff

Chief Accountant	Barbara D. McGowan
Personnel and Administration Officer	Mildred Arroyo
Sr. Portfolio Officer/Sr. Credit Officer	Candace L. Smith
External Relations	Magaly R. Hamm
Treasurer	Jorge Ciurlizza

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