

1998

IIC Annual Report



Inter-American Investment Corporation

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 provides project financing in the form of direct loans and equity investments, lines of credit to local financial intermediaries, and investments in local and regional investment funds. It particularly targets small and midsize companies that have difficulty 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 also offers fee-based advisory services. These services include counseling private companies on financial engineering and corporate reorganizations.

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-six countries are shareholders in the IIC: twenty-five 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, Suriname, Trinidad and Tobago, Uruguay, Venezuela); eight European countries (Austria, Denmark, France, Germany, Italy, the Netherlands, Spain, Switzerland); and Israel, Japan, and the United States.

Promote and support the development of the private sector and the capital markets in its Latin American and Caribbean member countries

by investing, lending, innovating, and leveraging resources as the IDB Group institution charged with fostering the development of small and medium-size enterprises

to further sustainable economic development.

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

January 29, 1999

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



From left to right: Enrique V. Iglesias, Chairman of the Board of Executive Directors of the IIC, and John C. Rahming, General Manager of the IIC.

Mr. Chairman:

Pursuant to Article IV, Section 9(a) of the Agreement Establishing the Inter-American Investment Corporation, I transmit to you the 1998 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, 1998.

Proof of the Corporation's institutional relevance is the decision of new countries to join its membership. In this regard, the process for admitting those IDB member countries that are still not members of the Corporation continues to progress satisfactorily.

The Corporation's very specific mandate to serve small and medium-size enterprises rests on the ability to provide them with capital resources via loans and equity investments, with a view to contributing to the development of capital markets.

The Corporation's Board of Directors, Management, and staff will redouble their efforts to strengthen the region's small and medium-size enterprises as one of the pillars of economic stability and prosperity in Latin America and the Caribbean.

Yours sincerely,

A handwritten signature in dark ink, appearing to read "E. Iglesias", written over a horizontal line.

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

The Year in Review

This year's annual report marks my fifth full year of service at the helm of this dynamic institution. When in September 1993 the Chairman of the Board of Directors asked me to step in as interim General Manager, it was a time of rethinking the role of a young multilateral institution embarked on an ambitious mission: to serve the funding needs of small and medium-size enterprises of Latin America and the Caribbean. The Corporation has accomplished a lot since then, and, in December of this eventful year, the Board of Executive Directors appointed me as General Manager. In consultation with the Chairman of the Board and the Board of Executive Directors, I designated Jacques Rogozinski as Deputy General Manager. He will take office in early 1999.

With the assistance of an external advisory group and our Board of Executive Directors, in 1995 a plan was devised to restructure the Corporation and redirect its activities. Based upon this, the Board of Governors approved a three-year (1995–1997) operating plan to be followed by consideration of a capital increase. That three-year plan was successfully implemented, and during the 1998 annual shareholders' meeting instructions were given to develop a formal request for a general increase in the Corporation's resources.

That request has been formulated in the context of the *Blueprint 2000: a Ten-Year Plan for the IIC*. A vote on the proposed capital increase by IIC's shareholders is expected in 1999.

In addition, the efforts to attract IDB member countries that currently are not shareholders of IIC are bearing fruit. Following Denmark's entry in 1997, Suriname joined this year, and applications for membership have been received from Belize, Canada, Finland, Norway, Portugal, and Sweden. The United Kingdom applied in January 1999, and Belgium is considering applying for membership. Strong shareholder support and new members will help the Corporation meet the increasing demand for its developmental services.

The Corporation *Fiscal 1998* In 1998 the Corporation continued to meet the operating and developmental goals set by the Board of Governors. The IIC's Board of Directors approved twenty-eight projects in fourteen countries totaling \$223 million. Sixteen percent of the funds approved was for equity investments and 84 percent was for loans. All of the five equity investments went to developmentally-oriented country or regional investment funds. These funds have a total capitalization of \$370 million, providing 10:1 leverage of the IIC's own equity investments for the year. Five of the loans will be cofinanced; these operations will use \$56 million of the Corporation's own resources to mobilize a total of \$169 million in funding from banks and other third parties. Noteworthy have been the Corporation's efforts to direct more resources to the smaller regional economies: more than 50 percent of the total amount approved this year will go to the less-developed countries in the region. The IIC is working closely with other members of the IDB Group to develop a comprehensive program for attenuating the disastrous consequences of El Niño and hurricanes Georges and Mitch on the peoples, businesses, and infrastructure of several member countries.

The confluence of these natural disasters and the effects of the Asian and Russian economic crises on the economies of the region have greatly challenged the private sector in much of our market. The IIC's financial health has not been affected, but its operating results for the year were not immune to these events, as seen in the reduction in portfolio income and cofinancing fees compared with last year and in our decision to prudently increase provisions for potential project losses.

IIC income from all sources in 1998 amounted to \$27.7 million. Income from lending operations totaled \$18.2 million (\$15.7 million from interest and \$2.5 million from fees). Capital gains and dividend income from the equity investment portfolio amounted to \$2.8 million. Total expenses, including \$14.2 million in provisions, were \$32.0 million, producing a net loss of \$4.3 million. Administrative expenses for the year were \$12.8 million.

Developmental Impact The IIC's activities to promote the economic development of Latin America and the Caribbean continue to yield positive results. It is expected that 1998 approvals will lead to the creation of 10,590 jobs, generate annual exports worth \$1.1 billion, and contribute \$1 billion per year to the region's gross domestic product. The \$223 million approved in 1998 will support the execution of projects with a total cost of \$1.3 billion. For every dollar earmarked by the Corporation for 1998 approvals, six dollars will go to investment projects.

Performance to Date Cumulatively, the IIC has channeled funding to about 1,700 companies in the productive and service sectors in Latin America and the Caribbean since it began operations in 1989. Projects with an aggregate cost in excess of \$4.5 billion have been or are being undertaken thanks to the \$763 million in funding provided by the IIC in the form of loans and equity investments, plus \$291 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 will create 103,000 jobs and generate \$1 billion in foreign currency for the region each year. A and B country operations amount to \$415.6 million, while C and D country operations total \$224.0 million i.e., 57.7 percent and 31.1 percent of the portfolio, respectively. Projects with regional coverage total \$80 million. Of the IIC's committed investments, 85.7 percent had been fully disbursed by December 31, 1998.

Extending IIC's Reach Operating with financial intermediaries and equity investment funds has enabled the IIC to reach many small and medium-size companies efficiently and leverage its resources many times over to the benefit of the region's private sector.

Seventy-two financial intermediaries (banks, finance corporations and leasing companies, and private equity funds) have received \$381.4 million in IIC loans and equity investments and nearly \$291 million more through cofinancing arrangements. It has thus been possible to channel funding to 1,611 companies in the region in the form of loans and equity investments averaging less than \$265,000.

Equity investment funds were one of the priorities set out in the action plan approved by the Governors in Jerusalem in 1995. In this regard, I am pleased to report that the Corporation has increased its participation in equity funds from seven at the end of 1994 to twenty-one at present. These funds are currently in the fund-raising or active investment stage. Their total capitalization is in excess of \$1 billion, with IIC investments on the order of \$95 million. These investment funds have already made investments in more than one hundred private sector companies.

The Corporation now has a diversified portfolio that is managed in keeping with the strict limitations set by the Board to mitigate financial and operating risks. The portfolio comprises the following major sectors:

- financial services, which account for one-fourth of the Corporation's active operations and enable it to provide financing to the smallest companies;
- manufacturing, which has received 18 percent of the funding provided by the Corporation;
- agribusiness, with 15 percent;
- venture capital funds, in which 11 percent of the portfolio is invested;
- small and medium-scale infrastructure, with 10 percent of the portfolio; and
- mining, fisheries, and tourism, which account for the remaining 20 percent.

Regional Presence The IIC has increased its presence in the field in order to serve its market better and benefit from local market intelligence. In 1996 an office was opened in Uruguay to cover the southern cone countries, based on the success of the first office in Costa Rica that covers Central American nations. A third office was opened in Colombia in 1997 to cover the Andean countries. These offices, housed in IDB country offices, have proven to be valuable instruments for identifying new business and for administering the IIC's portfolio.

Multilateral Investment Fund The Multilateral Investment Fund (MIF) was established in 1992 to promote the economic and social viability of market economies in Latin America and the Caribbean. The MIF is administered by the Inter-American Development Bank and engages the IIC for investment project appraisal services. In 1998 the Corporation carried out fourteen advisory assignments for the MIF related to its support for small and microenterprise development. Eight operations involved equity investment initiatives that are regional in scope. The others were evaluations of MIF-supported investment funds in Bolivia, Brazil, Mexico, and Venezuela.

AIG-GE Capital Corporation Latin America Infrastructure Fund The IIC also lent its regional expertise as adviser to the Emerging Markets Partnership for its fund investments in oil and gas and other natural resource industries, as well as telecommunications, transportation, and potable water. During the year, IIC provided advisory services for thirty-five projects located in Argentina, Bolivia, Chile, Colombia, Dominican Republic, Mexico, Panama, Trinidad and Tobago, Uruguay, and Venezuela.

Institutional Affairs *1998 Annual Meeting* The XIII Annual Meeting of the Board of Governors took place in Cartagena, Colombia, from March 16 to 18, 1998. During the meeting the Governors approved the IIC's financial statements for the year ended December 31, 1997, as well as the Corporation's annual report. Prior to the meeting, the IIC hosted a seminar on the risks and opportunities of investing in the emerging markets of Latin America and the Caribbean. The seminar was attended by more than two hundred private investors, bankers, and government officials. The event was cosponsored by Colombia's national investment promotion agency, COINVERTIR.

The Partnership Grows In early 1998 the Republic of Suriname became the IIC's thirty-sixth member country. Suriname occupies an area of 63,064 square miles on the northern coast of South America. Its neighbor countries are French Guiana to the east, Brazil to the south, and Guyana to the west. The bulk of Suriname's approximately 440,000 inhabitants live in the area near the Atlantic coast. Most of the interior is dense, uncultivated rain forest. Suriname's major industries include bauxite, aluminum, agriculture, and fisheries.

Italian Trust Fund and TDA Evergreen Fund The Corporation has benefitted from the use of these funds provided by the Italian and the United States governments, respectively. During 1998, the IIC utilized resources from these funds to undertake studies as part of the technical evaluation of projects and help assess the needs of IIC clients to confront the Year 2000 computer problem.

SMEStat The Corporation published the *SMEStat* database to provide private-sector investors, financial institutions, researchers, and policymakers with an analytical tool that will help them to move from awareness to targeted action: to chart more effective strategies for fostering the growth of and investment in small and medium-size enterprise in Latin America and the Caribbean.

This unique database assembles transnational statistics, based on a region-wide sampling of nearly 150,000 companies. It provides information on the number of small and medium-size manufacturing enterprises, the number of people they employ, their production and investment volume, and their recent manufacturing export performance.

OAS Roundtables The Corporation was invited to the Inter-American Program for Environment Technology Cooperation in Key Industry Sectors sponsored by the Organization of American States. IIC field officers participated in three of the roundtables organized in Costa Rica (agri-food sector), Colombia (metal-plating), and Chile (forestry). The Corporation presented its activities and accomplishments and secured the participation of client companies from Brazil, Ecuador, and Uruguay.

The Region

The IIC's target region is changing. The economies of Latin American and the Caribbean are poised for renewed economic growth after a period of adjustment, structural reform programs, and stabilization. The recent turmoil affecting other emerging economies will confront the region with new challenges that will require the decisive support of multilateral institutions. The private sector has emerged as the main engine of economic growth in the region. But despite the flow of direct and institutional investment enjoyed by the region until recently, private equity participation in the long-term financing of SMEs is still at low levels. To realize their full potential, such enterprises increasingly require equity capital, loans on reasonable terms, and assistance in developing efficient production, marketing, and financial strategies. If the advances made by Latin American and Caribbean economies are to be sustainable, the region needs private investment that is willing to commit for the long term. And it needs institutions capable of providing and catalyzing those investment flows while shaping their developmental impact. Cooperative arrangements between government agencies, multilateral institutions, and private sector participants are imperative to ensure success in the execution of strategies that will cement the macroeconomic policies and structural reforms required to attract new financial flows. Creative partnership approaches to mitigate the impact of the financial turmoil affecting emerging economies will also be needed.

Focus on Small and Medium-Size Enterprises Small and medium-scale enterprises in Latin America and the Caribbean have few options available to obtain long-term funding for their operating, maintenance, and growth needs. Commercial banks are often reluctant to lend to companies other than large, well-capitalized firms. Foreign investors and financial institutions do not normally focus on SMEs because they perceive the potential returns to be less attractive than those in the larger-scale segment of the market. The lack of long-term funding on reasonable terms has led to severe decapitalization of the region's SMEs. Given the underdeveloped nature of many of the region's capital markets, IIC-sponsored private equity funds and direct loans and equity investments in these markets are an appropriate mechanism to partially address SME's long-term financing needs.

Looking Ahead

The Corporation will continue to search actively for innovative projects that have valuable demonstration effects and the potential to be replicated. Through its presence, as well as by means of its cofinancing program, the Corporation will seek to mobilize the largest amount possible of private sector funds that would not be available without IIC's participation.

The Corporation was created as an instrument for development, designed to strengthen the small and medium-size private enterprises of the region. It will continue to carry out that mission.



John C. Rahming
IIC General Manager

Developmental

Investment

Activities



Developmental Investment Activities

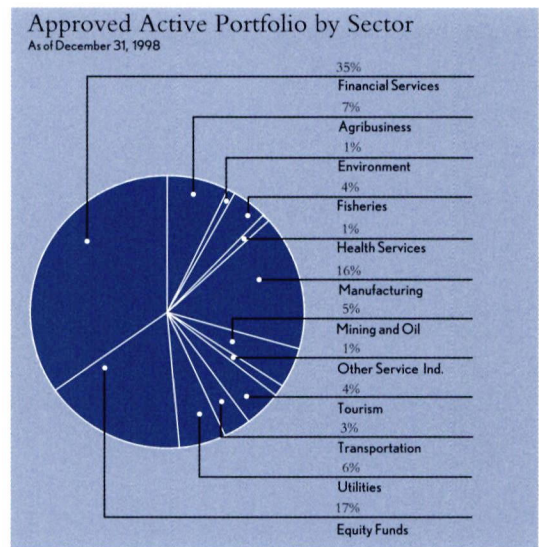
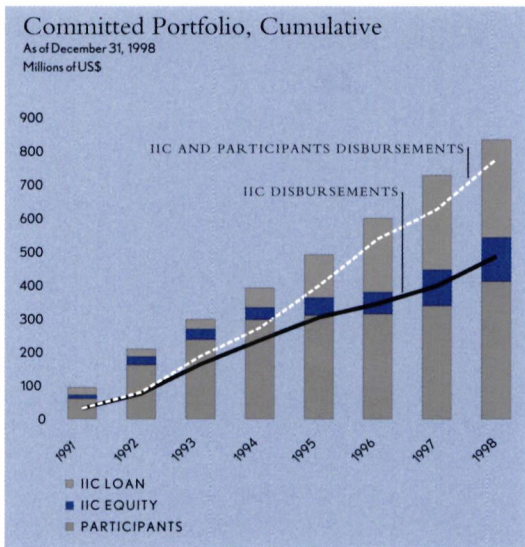
The IIC's development financing program targets small and medium-size private companies in Latin America and the Caribbean with limited access to long-term financing.

IIC loans are denominated in United States dollars. Loan amounts may be up to 33 percent of the cost of a new project or up to 50 percent of the cost of an expansion project. Loan repayment periods generally range from five to eight years (with a maximum of twelve years), including an appropriate grace period. The loans, which are priced in keeping with international market conditions, are usually variable in rate and based on LIBOR. In certain cases, the IIC may provide convertible, subordinated, or participated loans.

The IIC also makes equity investments of up to 33 percent of the investee company's capital. At the end of the investment period, the IIC sells its shareholding. Possible exit mechanisms include sale on the local stock market, private placement with interested third parties, and sale to the project sponsors under a prenegotiated put option agreement.

Twenty-three of the operations described below include loans totaling \$187.7 million; five include equity investments totaling \$35 million. The year's five cofinanced loans will mobilize an additional \$169 million in funding, and the five investment funds in which the IIC acquired an equity participation will further leverage the resources available for the region's small and medium-size companies. The total cost of the projects financed as a result of the operations approved by the IIC in 1998 is \$1.3 billion.

Regional Although there do exist equity funds that focus on infrastructure in Latin America and the Caribbean, most of them provide financing for \$100-million-and-up projects in the region's larger countries. The IIC seeks out investment funds structured to embrace the smaller projects, often not acceptable to the markets' bigger players. For example, by subscribing up to \$5 million of the \$100 million target capitalization of Caribbean Basin Power Fund, Ltd., the IIC will provide long-term capital support to an equity fund that will finance small power plants, mainly in Central America and the Caribbean. The average generating capacity of these plants will be 28 megawatts. The IIC's investment will help fund approximately twelve power generation projects—more than the IIC could have financed directly.



The transaction will help support smaller power projects in Central America and the Caribbean that cannot secure adequate equity capital from other sources. It will also enable the IIC to pursue its strategy for the Caribbean by participating in multicountry and regional equity investment funds that specifically target its Caribbean member countries.

The IIC's Board of Directors also approved the establishment of a \$100 million parallel debt facility to provide term financing for projects in which the Caribbean Basin Power Fund, Ltd. makes an equity investment. This parallel debt facility will be structured by Dresdner Bank AG and the IIC, utilizing the Corporation's cofinancing program to enhance the effectiveness of the fund by allowing it to offer both equity and long-term debt to potential investee companies. This type of debt financing is not readily available to smaller power projects.

There is a large and growing need for new investments in the power sector in Latin America and the Caribbean. About two-thirds of the \$18 billion to \$20 billion needed per year for the next ten years is expected to come from the private sector. **Scudder Latin Power Fund II** is a \$150 million, twelve-year regional private equity fund that will invest in equity and quasi-equity securities of medium-size power companies and build-own-transfer or build-own-operate projects that require capital for growth. The fund will invest in approximately fifteen power projects with an average installed capacity of 100 megawatts. One-half of Latin Power's investments will be in the less-developed IIC member countries, and the rest will target niche projects in larger, more developed countries. The IIC invested \$7 million of the total capital of Latin Power Fund II.

The fund's preferred divestment vehicle will be initial public offerings on the local stock exchanges, so the project will contribute to the deepening and widening of the local securities market and to the democratization of capital. Moreover, the power plants in which the fund will invest will create about three hundred jobs and contribute \$750 million to the region's gross domestic product. All investments must comply with IIC's environmental, health, and safety standards.

WestSphere Latin America Private Equity Growth Fund II, L.P. is a diversified regional fund with a target capitalization of \$500 million. The fund will make equity and equity-related investments in midsize companies throughout Latin America. It will thus provide long-term capital support to middle-market companies, and its exit mechanisms will contribute to the democratization of capital and the widening and deepening of local capital markets. At target capitalization, the fund could reach some ten to twenty final beneficiaries over its expected life, preserving and creating significant employment opportunities and an estimated \$250 million in annual export earnings, and contributing about \$750 million annually to the region's gross domestic product.

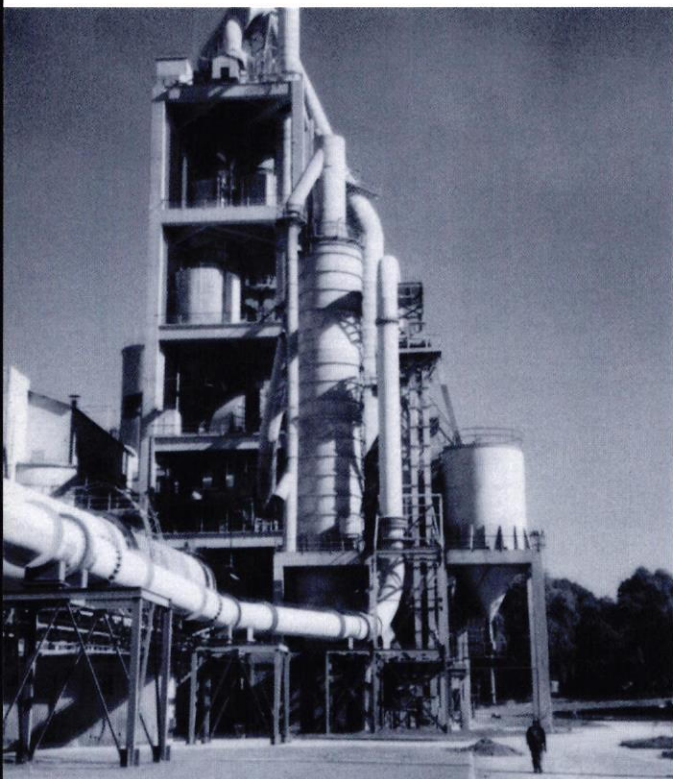
The IIC invested \$10 million in the fund. By participating in the fund the IIC will enhance the institutional credibility of the fund and leverage its own contribution by attracting other investors.

In all three of the above instances, the fund's investment manager will use IIC's environmental, occupational, and safety standards for the investments made by the fund. Once these funds reach target capitalization, the developmental multiplier impact will thus be thirty-five times the amount of the IIC's investment.

Argentina The Corporation approved a \$10 million A loan and a \$50 million B loan to Banco de Galicia y Buenos Aires S.A. to provide small and medium-size Argentine companies in the industrial and agribusiness sectors financing for equipment, machinery, and working capital.

The IIC loan will supplement the line of credit it granted to Banco de Galicia in 1992 and enable the bank to expand its successful small and medium-size enterprise lending program.

The estimated four hundred end beneficiaries of the new IIC loan will bring to more than 1,300 the total number of small and medium-size companies that will have benefited from IIC funding channeled through Banco de Galicia. Each subloan results in approximately ten new jobs, bringing the total employment generated to 4,000. The IIC loan will also generate more than \$60 million in foreign exchange earnings per year as well as create \$200 million in value added for the Argentine economy.



Cement plant in Córdoba, Argentina, that will convert to 80 percent alternative fuels supplied by Desler S.A.

\$1.64 million subordinated loan, was approved for Desler S.A., a small private joint venture engaged in the handling and safe disposal of medical and industrial waste. EQ Corporation of the United States has joined forces with Argentine entrepreneurs to undertake this important project involving the expansion of the company's incineration capacity and construction and operation of an integrated series of modern waste treatment facilities. The strong developmental impact of this project should lead to similar initiatives in other regional economies. The Corporation will stand ready to support them.

IIC's financing for the Desler project is consistent with its strategy of supporting financially sound ventures and fostering innovative projects that have unique developmental characteristics. The project will provide Argentine industrial and medical service customers access to environmentally sound and economically feasible waste management systems. Simultaneously it will further IIC's and the Argentine govern-

Leather accounts for approximately 3 percent of Argentina's total exports; the nation's tanneries export about 85 percent of their output. But the lack of capital investment in this sector has kept Argentina's leather industry from modernizing in line with international standards. An \$8 million loan from the IIC will help Curtiembre Arlei S.A. carry out a \$21 million project that includes investing in machinery and equipment, improving plant layout, expanding and upgrading its effluent treatment plant, and making other environmental improvements.

The IIC's loan will provide long-term financing for a labor-intensive company whose facilities are located in areas of Argentina that require investments to create wealth from natural resources. The project will create two hundred direct jobs and generate foreign exchange earnings of \$457 million during the first ten years after completing the expansion.

An IIC investment of \$6.64 million consisting of a \$5 million senior loan and a

ment's environmental protection objectives. In addition, this venture will create eighty-five direct, local jobs, generate needed revenue for host municipalities, introduce new technology, and help Argentine industry control its increasing amounts of industrial waste.

Bolivia A cost-effective way for the IIC to meet the needs of its target market is to help local financial institutions provide small and medium-size companies with funding. In addition to reaching a larger number of small companies than it can directly, the IIC also ensures that the proceeds are used in keeping with its own developmental and environmental guidelines. BISA Leasing S.A. will use a \$4 million loan to provide some fifteen to twenty-five small and medium-size Bolivian companies with financing in the form of leases for the purchase of production equipment. The leases will be capped at \$500,000, with the average being \$250,000.

The IIC loan will further the development of a new financial product in Bolivia, improving access to capital on reasonable terms and stimulating capital investment—one of the government's stated priorities.

A \$2 million credit line and a \$5 million subordinated loan were approved for Banco Económico, S.A. The credit line will make medium-term financing available to small and medium-size industrial and agribusiness companies for purchasing equipment and machinery and for working capital. The subordinated loan, classified as tier two capital, will strengthen Banco Económico's capital structure. These funds will also be



used for on-lending to companies in the industrial and service sectors.

The funding from the IIC will enable Banco Económico to expand its lending operations by eight to ten times the IIC's capital contribution. The expected result: more than 50 beneficiary companies; 1,500 jobs; \$100 million per year in foreign exchange; and \$125 million yearly for Bolivia's gross domestic product.

Brazil Banco Industrial do Brasil S.A. is a small, full-service commercial bank located in the state of São Paulo. The bank requested an \$8 million loan from the IIC for on-lending to medium-size Brazilian industrial and service companies located primarily in or near the greater metropolitan area of the city of São Paulo. The loan will provide critical U.S. dollar medium-term financing to medium-size local companies for the purchase of fixed assets and equipment to modernize or expand their production capacity.

The facility will provide a maximum of \$500,000 per individual transaction and will reach at least fifty final beneficiaries over its expected eight-year life. The IIC loan will thus help create more than 1,500 jobs and over \$60 million a year in export earnings. It will also contribute more than \$60 million annually to Brazil's gross domestic product.



The IIC's 1994 \$1.6 million loan to Tahuamanu S.R.L., an environmentally friendly Bolivian company, has improved the standard of living in a remote region of the country and brought technology, productivity, and efficiency in the production and processing of Brazil nuts.

The IIC approved a \$6.4 million senior loan and a \$1.6 million subordinated loan to Leasecorp El Camino Arrendamento Mercantil S.A. The company is a joint venture between Brazilian investors and the Brazilian subsidiary of El Camino Resources International (ECRI) of the United States. Through its thirty-three offices in the United States, Europe, Asia, and Latin America, ECRI has established a diversified business operation. It provides a full range of services, including sales and leasing of new and used high technology and telecommunications equipment, software and systems integration, hardware and software maintenance, and on-site support and technology asset management. This new joint venture will make it possible to provide small and medium-size Brazilian companies with medium and long-term financing via leasing operations for the acquisition of capital goods. The average size of the lease contracts is expected to be about \$200,000.



In financing the growth of Leasecorp, IIC will encourage capital investment by enhancing

access to reasonably priced capital through further development of leasing in general and the introduction of operating leases, a new financial product for Brazil. These are major priorities of the Brazilian government. Supporting Leasecorp will also enable the Corporation to provide foreign exchange resources to eighty to one hundred small and medium-size Brazilian companies that need to acquire equipment for productive purposes and complement locally-sourced financing. Through a single transaction, the IIC will reach a larger number of private sector companies in its target market while ensuring that resources are used according to IIC's operating policies and guidelines.



Quality control at Fábrica de Papel Santa Therezinha S.A., Brazil's best paper and cellulose manufacturer for 1997. The company's achievements have had the support of an \$8 million loan granted by the IIC in 1993.

small and medium-size Costa Rican companies with limited access to medium and long-term credit. Most of the approximately twenty end beneficiaries of the IIC loan will be involved in nontraditional exports. Eligible companies must be incorporated in Costa Rica and be majority-owned by Latin American or Caribbean nationals. Their assets may not exceed \$35 million, and, as with all IIC financings, they must comply with IIC environmental standards.



Corporación Privada will use part of the IIC funding to finance commercial and industrial equipment leasing transactions and engage in investment banking activities. The IIC will thus contribute to the development of the commercial leasing market in

Costa Rica as a viable alternative for financing the equipment needed to undertake expansion projects.

Dominican Republic

Tourism is the Dominican Republic's largest generator of foreign exchange. The country's tourist industry has been expanding at a robust rate: tourist arrivals rose from 1.9 million in 1996 to 2.2 million in 1997, and the number of hotel rooms went from 33,600 to 36,000 during the same period. Banco Nacional de Crédito S.A. will use a \$20 million credit line (\$7.5 million funded by IIC and \$12.5 million funded by international commercial banks) to increase its lending activities, chiefly in the Dominican Republic's



tourism sector. Bancrédito will target medium-size locally-owned tourist-related companies that do not have direct access to the international financial markets. The IIC loan will enable Bancrédito to meet the medium and long-term financing needs of small and medium-size hotels in a sector in which the Dominican Republic has clear

comparative advantages. The loan, which is geared to medium-size projects and companies, complements the line granted in 1996 to Banco Intercontinental, S.A., a Dominican bank that targets smaller companies.

Ecuador

The IIC approved a \$10 million loan to Banco del Progreso, S.A., which will on-lend the proceeds to locally-owned small and medium-size companies.

Lending to local financial intermediaries is one of the most effective ways for the IIC to meet the funding needs of small and medium-size companies in the smaller countries in its target market. The Banco del Progreso loan, for example, will provide project financing for nearly twenty small Ecuadoran companies, creating some six hundred jobs in the process.



Other benefits will be foreign currency revenue totaling \$5 million a year and a \$40 million contribution to Ecuador's gross domestic product each year.

The IIC is also providing \$5 million to Compañía de Titularización Hipotecaria (CTH), created in 1997 as a secondary mortgage finance institution, thereby expanding the capital markets in Ecuador. CTH will issue mortgage-backed securities and bonds, working with institutional investors, pension funds, and savers on one side and mortgage banks, developers, and households on the other.

CTH's operations will further the development of the capital markets and the standardization of mortgage finance products, thus increasing the supply of funds for housing. Local capital market development



Worker at Compañía Agrícola e Industrial Ecuaplantación, S.A., an ecologically sound operation that has incorporated new crop varieties, modern techniques, and integrated business practices in Ecuador through a \$21 million loan granted by the IIC in 1993.

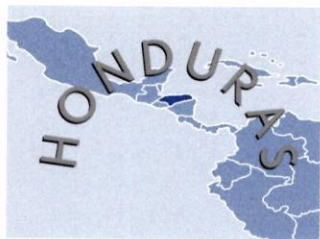
is essential for sustainable development because such markets can be an efficient tool for channeling and distributing wealth, making mortgage financing accessible to a broader segment of the population. Financial intermediaries such as CTH also play a crucial role in the development of the construction industry by providing the liquidity necessary for the primary housing market to function successfully. And the construction industry is one of the key engines of economic activity, providing employment to a significant portion of the workforce while generating demand for housing-related goods and services. Many of these services are provided by small and medium-scale manufacturers and contractors. Through this operation, the IIC will be promoting two key sectors of the Ecuadorian economy: the capital markets and the housing industry.

Guatemala The IIC will provide a \$20 million long-term loan consisting of a \$10 million A loan and a \$10 million B loan to The Central American Bottling Corporation (CABCORP). CABCORP is a private holding company of several soft drink bottling companies in Guatemala, Honduras, and Nicaragua. CABCORP will use the funds to finance capital investments and refinance part of its short-term debt as part of a \$38.9 million effort to improve its productivity, the quality and volume of output, and the cost and terms of its current debt. CABCORP produces, bottles, and distributes several soft drink brands throughout Guatemala. Among the improvements will be the installation of new manufacturing and refrigeration equipment. New transportation vehicles will smooth the distribution process, and the construction of a water treatment plant will improve the company's environmental record.



Through this transaction, IIC will be supporting an important industry in Guatemala in terms of its socioeconomic impact on microenterprises; its distribution network includes a large number of small retailers throughout the country. Moreover, the project will have a positive impact on direct and indirect employment generation, and on the development of other productive sectors that provide inputs to the soft drink industry. The project will create 250 direct jobs as well as indirect jobs in the sugar, glass and plastic bottles, packaging, and retail sales and marketing industries.

Honduras The IIC will lend \$10 million to Luz y Fuerza de San Lorenzo, S.A. de C.V., a Honduran company that will construct and operate a 60-megawatt thermoelectric plant at a total cost of \$49 million. The plant will provide power to Honduras' state-owned utility under a new law that grants private companies the right to install power plants for public service. The project will help reduce the country's energy shortage caused by overdependence on hydroelectric power, which is vulnerable to drought. It will also increase the private sector's presence in a business that is still dominated by the public sector.



The IIC's loan will complement the Inter-American Development Bank's efforts to help Honduras define an energy strategy that is compatible with its macroeconomic policy; set rates that reflect the long-term marginal costs of generating electricity; reconfigure the distribution network in several Honduran cities; and review the regulatory framework of the country's energy sector. The project will generate fifty direct, highly-skilled jobs in a key sector and will have an indirect multiplier effect on job creation: increased power availability should boost productivity and create more jobs in various sectors of the economy. The project will also involve training Honduran nationals to operate and manage a state-of-the-art power plant.

Mexico With an \$8 million loan to Grupo Manatí, S.A., the IIC will help develop the nature and archeological tourism sector in Mexico, create direct and indirect employment for about 2,000 people in a poor economic area of the Yucatan peninsula, and complement the IDB Group's efforts within the framework of the Mayan World project.



Under the Mayan World accord, the countries where the Maya had their homeland (Belize, El Salvador, Guatemala, Honduras, and Mexico) agreed to encourage preservation and promote tourism to Mayan archaeological sites. Grupo Manatí's \$27.5 million hotel will be Mexico's first devoted to the promotion and development of the Mayan historical sites. The project will have a low environmental impact and involves no resettlement of people.

Since the 1995 peso crisis, the Mexican banking system has been unable to meet the long-term funding needs of the country's small and medium-size companies. To help reduce the funding shortage, in 1993 the IIC made a \$3 million equity investment in Fondo de Optimización de Capitales, S.A. de C.V. (OPCAP), a private equity investment company. OPCAP is managed by OPTICAP, S.A. de C.V., Sociedad Operadora de Sociedades de Inversión, a special-purpose entity that also provides technical, financial, and managerial assistance to its investee companies.

By making an \$8 million equity investment in OPCAP Co-Investment Trust, the IIC will provide funding for a parallel investment trust that will allow OPCAP to continue its investment activities and consolidate its position as one of the leaders in Mexico's young private equity investment industry. The IIC will thus bolster a special investment vehicle the Mexican government created to promote the growth of small and medium-size enterprises and encourage long-term investing. In the process, it will help create about 180 jobs, generate an estimated \$180 million in annual export earnings, and contribute more than \$180 million per year to Mexico's gross domestic product over the expected six-year life of the trust.

The IIC will subscribe \$5.2 million in the third closing of The Baring Private Equity Fund, L.P., a ten-year fund that focuses on investments in small and medium-size Mexican companies. The main promoter of the fund is the Baring Private Equity Partners Group, headquartered in London. The fund will take minority positions, generally in companies not listed on any stock exchange. Investments will range between \$2 million and \$7 million across a broad spectrum of industrial sectors and geographic areas in Mexico.

With the additional capital provided by the IIC and other limited partners during the third closing, the fund will increase its committed resources from \$36.4 million to \$50.1 million. It will thus be able to reach at least four additional small and medium-scale companies, creating an estimated 120 jobs, generating \$40 million annually in export earnings, and contributing \$120 million per year to the Mexican gross domestic product. Participation in this transaction will allow the Corporation to further its goal of democratizing capital because the preferred divestment vehicle will be initial public offerings on the Mexican stock exchanges.

Nicaragua The IIC's \$4 million loan to Financiera Delta, S.A. will supply medium-term funds for small and medium-size companies in Nicaragua that need to invest in fixed assets to modernize and expand their operations. Financiera Delta will use the proceeds of the IIC's loan to finance about two hundred leasing transactions with such companies. The average size of lease contracts is expected to be \$40,000.



Leasing operations benefit small and medium-size companies because the security arrangements are simpler, the transaction costs are lower, and more of the cost of equipment can be financed than is possible with conventional bank loans. On a broader scale, leasing encourages investment, broadens competition in financial services, and introduces businesses

and financiers to innovations such as cash-flow-based credit analysis. Since Financiera Delta is a fully-regulated financial entity in Nicaragua entering the leasing business on a large scale, IIC's support will lend credibility to the activity, furthering the development of the local leasing industry. The IIC will also play a catalytic role, enabling Financiera Delta to access medium and long-term funds provided by the Financiera Nicaragüense de Inversiones and the Banco Centroamericano de Integración Económica to support small and medium-size enterprises.

Panama As leasing becomes available to small and medium-scale enterprises in Latin America and the Caribbean, such companies are turning to this financing vehicle in increasing numbers. The fact that the lessor retains legal ownership of the leased assets enables a firm to qualify for use of leased equipment based on its generated cash flow rather than its credit history, assets, or capital base. Before the introduction of leasing, it was hard for small and medium-size companies without collateral or a credit history to obtain financing. Today, the growth of the leasing industry has made much-needed equipment available to a broad range of enterprises.



Grupo Financiero Delta Corporation (Delta) will use a \$4 million loan from the IIC to finance leasing for small and medium-size companies in Panama in various industries. The individual leases to be granted to about seventy small and medium-size companies will not exceed \$250,000, and the lessees will have to satisfy the ownership, legal, and environmental eligibility criteria required by the IIC.

The loan provides continuing IIC support for Delta, which leveraged a \$3 million loan received from the IIC in 1993 to finance leases ranging between \$10,000 and \$210,000 for sixty-five small and medium-size companies in Panama.

Although there is ample short-term and some medium-term funding in Panama's financial markets, long-term funding is difficult to obtain. IIC's loan of \$6.5 million to Grupo Melo, S.A. will finance one-half of the \$14 million expansion project that this diversified producer of poultry and wood products will undertake.

Melo's poultry division will invest in improving its hatching and raising processes; it will also upgrade the processing plant where poultry is slaughtered and the finished products are made. The wood products division seeks to upgrade its sawmill and its door plant in order to increase exports. The project will create fifty direct jobs and provide for foreign exchange earnings on the order of \$31.2 million during the first ten years of operations.

Paraguay Multibanco S.A.E.C.A. will on-lend a \$5 million loan from the IIC to eligible Paraguayan small and medium-size companies, mainly for export-related or import substitution projects. The subloans, which will not exceed \$500,000, will finance the acquisition of fixed assets and working capital. Financing of operating capital will be restricted to 30 percent of the line, which is expected to reach about thirty-five end beneficiaries, creating some 350 jobs in the process and contributing \$70 million to Paraguay's gross domestic product.



The credit line to Multibanco is part of the IDB Group program to support financial intermediaries and small and medium-size companies in Paraguay and stimulate private sector investment.

Peru The IIC approved a \$10 million line of credit to Banco del Nuevo Mundo S.A. to finance permanent working capital needs of small and medium-size enterprises and to provide long-term debt and lease financing for the acquisition of equipment and machinery by small and medium-size enterprises in the industrial, manufacturing, fishing, mining, construction, chemical, energy, tourism, and agribusiness sectors.

The IIC funding will allow the bank to provide lease financing, which is a valuable source of long-term funds for small and medium-size companies in Peru. The IIC will also be supporting the local private banking system by enhancing Nuevo Mundo's ability to compete with foreign and larger banks.

Supporting financial institutions that provide financing to small and medium-size companies is one of the most cost-effective ways for the IIC to reach its target market. Supporting Banco del Nuevo Mundo S.A. will enable the Corporation to provide funding to about thirty such companies in Peru over the life of the credit line.

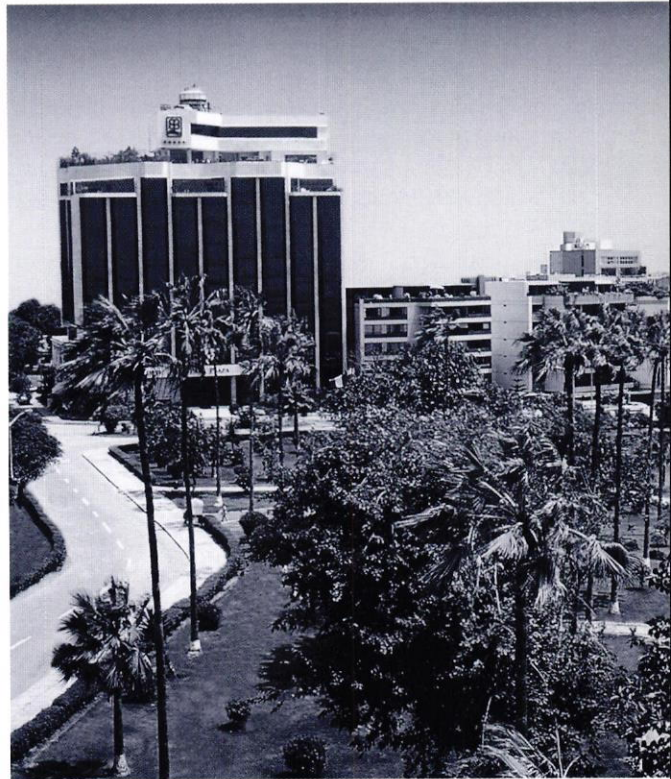
With a \$10 million loan to Banco del Progreso, the IIC will enhance the ability of a relatively small Peruvian bank to compete in a system dominated by four large commercial banks and where foreign banks are making significant inroads by offering better terms at lower cost. Of the total amount of the loan, \$3.75 million will be used to finance permanent working capital needs of small and medium-size enterprises. The balance will be used to provide long-term debt and lease financing that such companies need to acquire production equipment and machinery and for expansion projects. Approximately twenty-five small and medium-size enterprises will benefit from this loan.

Empresa Eléctrica de Piura S.A. (EEPSA) is a Peruvian power generation company that came into being when the state-owned electric company, Petroperú, was privatized. EEPSA utilizes natural gas to fuel its turbines. It also processes natural gas at its gas-drying plant to obtain liquefied petroleum gas and natural gasoline, which are sold on the local market. A \$10 million A loan from the IIC and a B loan of up to \$12 million funded by an international financial institution will help EEPSA replace its



obsolete gas-drying plant. The new facility, which will cost a total of \$38 million, will be the second cryogenic gas processing plant to be built in Peru; it will provide efficiencies of nearly 95 percent and cut the company's gas processing costs by more than half.

The more efficient technology will enable EEPSA to recover substantially more natural gas liquids that can be offered for sale on the local market at lower rates, thereby reducing the need for imports and saving a net \$78.5 million in foreign exchange during the first ten years of operations. The increased local production



The Miraflores Park Plaza, a wholly Peruvian owned and operated hotel in Lima, Peru, received a \$6.5 million loan from the IIC approved in 1997.

of dry gas, liquefied petroleum gas, and natural gasoline will also develop the local market, lower costs to the end consumer, and create about fifty indirect jobs.

Venezuela The IIC will lend \$10 million to Digas-Tropiven, S.A., a Venezuelan liquefied petroleum gas (LPG) distribution company. Tropiven will undertake a \$20 million project, adding to its plant and equipment in order to expand distribution of LPG for home consumption. Long-term financing for such projects is scarce in Venezuela.



Tropiven's expansion project should have a valuable demonstration effect for further deregulation of Venezuela's energy sector. Other developmental benefits include the generation of \$44.7 million in value added during the first ten years of operations and the creation of one hundred jobs. Tropiven has operations and offices throughout Venezuela, mostly in rural areas that are not normally served by the business centers located in Caracas and Maracaibo. These areas will benefit greatly from the Tropiven project.



Control tower at the Tres Cruces bus terminal in downtown Montevideo, Uruguay. A \$4.5 million loan and a \$300,000 equity investment were approved by the IIC in 1992, as was \$6.5 million in cofinancing.

The Principle One of the main concerns of economics as a social science is the relationship between resources and needs—how individuals and societies use the resources available to them to satisfy their needs. Trying to meet such primary requirements as food, shelter, and employment is perhaps the most basic of all economic problems. It is often compounded by what economists call the problem of *scarcity*, when there are not enough resources to provide people with everything they need.

Scarcity can skew any one of the factors required for a productive economy: land, labor, and capital. Capital, which is a stock of accumulated goods used to produce other goods or the funds to acquire them, is one of the scarcest resources, particularly in developing economies.

The companies that produce the goods that people need have three main sources of capital: internally-generated funds, loans from financial institutions, and financing raised in the capital markets. A company's financial health and growth prospects are determined by its specific mix of these forms of funding. In the Latin American and Caribbean economies, where both long-term loans and equity capital are scarce, small and medium-scale enterprises find it very difficult to raise funds for operating, expanding, and competing. They have few alternatives other than often-expensive short-term bank loans and funds raised from family and friends.

Developmental lending and investing through financial institutions can help redress the problems caused by this scarcity of affordable debt and equity funding. It is a form of interme-

	HC LOAN/ EQUITY INV.	AVERAGE SUBLOAN OR SUBINVEST- MENT	TOTAL COST OF SUBPROJECTS	JOB CREATION
Argentina				
Banco de Galicia y Buenos Aires, 1992/1998, for funding a small enterprise development program. Subprojects: 1,322. Average subproject cost: \$348,000. Cofinancing/Other equity: \$177,000,000.	\$20,000,000	\$173,000	\$460,000,000	3,000
Banco Velox, 1993, for on-lending. Subprojects: 5. Average subproject cost: \$2,300,000.	\$6,000,000	\$1,200,000	\$15,500,000	150
Bolivia				
Banco Solidario, 1990, for providing credit, savings, and other financial services to microenterprises. Subprojects: 12,000 per month.	\$1,300,000	\$500		
Banco Boliviano Americano, 1992, for funding industrial and agribusiness projects. Subprojects: 25. Average subproject cost: \$620,000.	\$6,000,000	\$260,000	\$16,000,000	325
Banco Económico, 1998, for providing long-term funding for equipment, machinery, and working capital. Subprojects: 50. Average subproject cost: \$400,000.*	\$7,000,000	\$200,000	\$20,000,000	1,500
Bisa Leasing, 1998, for financing equipment and machinery leases. Subprojects: 25. Average subproject cost: \$250,000. *	\$4,000,000	\$250,000	\$6,250,000	750*
Brazil				
CRP-Capital de Risco S.A., 1989, for making venture capital investments in agribusiness and manufacturing. Subprojects: 9. Average subproject cost: \$425,000.	\$2,000,000	\$200,000	\$3,825,000	270
Banco BMC, S.A., 1991, for on-lending. Subprojects: 8. Average subproject cost: \$3,100,000.	\$8,000,000	\$1,000,000	\$25,000,000	250

diation in which application of a principle can help achieve the desired results, that is, marshaling scarce resources to achieve sustainable improvement in the standard of living, create national wealth by supporting viable production and infrastructure projects, and expand the financial services sector. Intermediation is particularly valuable to small and medium-size enterprises, which often have no direct access to formal credit mechanisms or operate in countries with relatively underdeveloped capital markets.

A financial intermediary, such as a commercial bank, leasing company, or investment fund, gathers financial resources from sources of cash such as savers and investors and distributes them to productive units in need of debt or equity financing. When financial intermediaries operate well, they enable their ultimate beneficiaries to tap sources of funding that would otherwise be unavailable. Among the factors that make direct debt and equity financing unavailable to end beneficiaries is small company size or perceived risk, and the cost inefficiency of making small loans and investments.

Since it began operations in 1989, the Inter-American Investment Corporation has been pressing forward with a financial intermediation program that has made financing available to a large number of small and medium-scale enterprises while supporting the development of sound domestic financial institutions. The program has proven to be a cost-efficient way for the Corporation to reach more small and midsize companies by leveraging the available financial resources without losing control over solid project financing and environmental protection

	IIC LOAN/ EQUITY INV.	AVERAGE SUBLOAN OR SUBINVEST- MENT	TOTAL COST OF SUBPROJECTS	JOB CREATION
Banco Itamarati, 1992, for providing lease financing. Subprojects: 63. Average subproject cost: \$1,200,000. Cofinancing/Other equity: \$18,000,000.	\$10,000,000	\$160,000	\$78,900,000	250
Banco de Crédito Nacional, 1994, for providing lease financing to manufacturing companies. Subprojects: 43. Average subproject cost: \$186,000. Cofinancing/Other equity: \$13,000,000.	\$6,000,000	\$186,000	\$8,000,981	1,545
Brazilian Equity Investments Ltd., 1995, for providing long-term capital. Subprojects: 9. Average subproject cost: \$560,000. Cofinancing/Other equity: \$75,000,000.	\$5,000,000	\$560,000	\$38,000,000	270*
Bozano Advent Fundo Mutuo de Investimento em Empresas Emergentes, 1996, for providing investment capital. Subprojects: 7. Average subproject cost: \$5,500,000. Cofinancing/Other equity: \$43,000,000.	\$4,000,000	\$570,000	\$39,100,000	210*
Banco Industrial do Brasil S.A., 1998, for on-lending. Subprojects: 50. Average subproject cost: \$320,000.*	\$8,000,000	\$160,000	\$32,000,000	1,500
Leasecorp El Camino Arrendamiento, 1998, for financing leases for capital goods. Subprojects: 100. Average subproject cost: \$200,000.*	\$8,000,000	\$200,000	\$20,000,000	3,000*
MG Fundo Mútuo de Investimento em Empresas Emergentes, 1997, for investing in small and medium-size companies in Minas Gerais. Subprojects: 10. Average subproject cost: \$8 million.*	\$4,000,000	\$4,000,000	\$80,000,000	300
Colombia				
Corporación Financiera del Norte S.A., 1992, for providing long-term financing. Subprojects: 18. Average subproject cost: \$862,000.	\$8,000,000	\$450,000	\$15,500,000	544
Leasing Colmena, S.A., 1993, for providing lease financing. Subprojects: 28. Average subproject cost: \$110,000.	\$3,000,000	\$84,000	\$3,080,000	840*

requirements. The introduction of new financial instruments and private banking services to small and medium-size companies has been instrumental in the Corporation's efforts to support sustainable economic development.

This section of the IIC's *1998 Annual Report* presents an overview of the financial intermediation process and the results of the IIC's efforts to increase the amount of resources made available to its target market: small and medium-size enterprises in Latin America and the Caribbean.

Applying the Principle In Latin America and the Caribbean, the development of sound financial systems and institutions is one of the key factors to consider when trying to improve financial intermediation. Such systems and institutions are essential for making formal sources of financing more accessible to the region's more than six million small and medium-size enterprises. Improved financial intermediation can connect this important segment of the region's economies—which is often on the sidelines of the formal financial system—to the sources of funds that are required to further economic development.

One of the ways in which the Corporation pursues its developmental finance goals is by working through a variety of private sector financial intermediaries using different financial market instruments and mechanisms. The institutions through which the Corporation operates include

- commercial banks, which intermediate short and medium-term funds and instruments;

	IIC LOAN/ EQUITY INV.	AVERAGE SUBLOAN OR SUBINVEST- MENT	TOTAL COST OF SUBPROJECTS	JOB CREATION
Corporación Financiera de Occidente, 1994, for making subloans in the coffee-growing region. Subprojects: 5. Average subproject cost: \$1,400,000.	\$3,000,000	\$282,000	\$7,000,000	270*
Leasing Bolívar, 1997, for financing leases. Subprojects: 61. Average subproject cost: \$200,000.	\$6,000,000	\$100,000	\$6,000,000	1,800*
Costa Rica				
Banco Continental S.A., 1992, for project finance. Subprojects: 14. Average subproject cost: \$1,300,000.	\$3,500,000	\$250,000	\$18,200,000	389
Corporación Privada de Inversiones de Centroamérica S.A., 1998, for on-lending to export-oriented companies. Subprojects: 4. Average subproject cost: \$650,000.	\$6,000,000	\$480,000	\$2,600,000	600*
Dominican Republic				
Banco Intercontinental S.A., 1992, for on-lending. Subprojects: 19. Average subproject cost: \$1,000,000.	\$4,000,000	\$400,000	\$16,000,000	1,213
Banco Mercantil S.A., 1994, for small and microbusiness project finance. Subprojects: 3. Average subproject cost: \$770,000.	\$1,500,000	\$500,000	\$2,273,000	1,061
Banco Intercontinental S.A., 1996, for on-lending. Subprojects: 4. Average subproject cost: \$451,250.*	\$3,000,000	\$451,250	\$1,805,000	120*
Banco Nacional de Crédito, S.A., 1998, for financing local companies. Subprojects: 20. Average subproject cost: \$1,875,000. Cofinancing/Other equity: \$12,500,000.	\$7,500,000	\$1,000,000	\$37,500,000	2,000

- development finance and investment banks, which intermediate medium and long-term funds;
- specialized institutions, such as leasing, securities, mortgage finance, and microenterprise finance companies; and
- venture capital companies and investment funds, which provide risk or equity capital.

When operating through such intermediaries, the Corporation has two sets of goals. One set concerns the financial intermediary itself, and the other set concerns the small and medium-size companies to which the intermediary channels the Corporation's resources.

IIC operations with financial intermediaries seek to

- strengthen the intermediary's project finance capabilities;
- improve the intermediary's term financing conditions for small and medium-size enterprises;
- support new financing initiatives that deepen the financial markets;
- diversify the intermediary's funding sources and diversify its portfolio;
- improve the intermediary's managerial and operational structures, including credit analysis, administration, and supervision, as well as the adoption and enforcement of environmental protection guidelines; and
- foster institution building and the development of new financial products.

	IIC LOAN/ EQUITY INV.	AVERAGE SUBLOAN OR SUBINVEST- MENT	TOTAL COST OF SUBPROJECTS	JOB CREATION
Ecuador				
Finagro, Banco del Agro, 1992, for providing financial assistance to rural entrepreneurs. Subprojects: 35. Average subproject cost: \$690,000.	\$3,000,000	\$110,000	\$24,180,000	990
Banco del Progreso S.A., 1998, for on-lending. Subprojects: 20. Average subproject cost: \$1,000,000.*	\$10,000,000	\$500,000	\$20,000,000	600
Compañía de Titularización, 1998, for providing mortgage finance and capital markets products. Average subproject cost: \$5,000,000.*	\$5,000,000			
Honduras				
Banco La Capitalizadora Hondureña, S.A., 1993, for financing export-oriented projects. Subprojects: 11. Average subproject cost: \$697,000.	\$3,500,000	\$320,000	\$7,664,000	123
Jamaica				
Eagle Merchant Bank of Jamaica Limited, 1993, for project finance. Subprojects: 11. Average subproject cost: \$870,000.	\$5,000,000	\$500,000	\$10,000,000	117
Mexico				
Banca Serfín, 1990, for on-lending. Subprojects: 18. Average subproject cost: \$5,400,000. Cofinancing/Other equity: \$19,300,000.	\$5,500,000	\$270,000	\$97,000,000	540
Fondo de Optimización de Capitales, SINCA, S.A. de C.V., 1991, for providing venture capital and technical, financial, and managerial assistance. Subprojects: 13. Average subproject cost: \$3,700,000. Cofinancing/Other equity: \$54,500,000.	\$3,000,000	\$230,000	\$48,100,000	390

The overarching goals are, of course, to foster the development of small and medium-size private enterprise in Latin America and the Caribbean by reducing the high cost of banking and other financial services that has made project finance inaccessible to small borrowers and seekers of equity capital.

Developmental credit through financial intermediaries The Corporation structures credit lines, primarily with commercial banks, investment banks, and development finance companies, and operates with other, specialized financial intermediaries. A credit line involves an IIC loan to a financial intermediary for on-lending to enterprises that the Corporation would not be able to reach directly. In this case, the Corporation takes the risk of the financial intermediary, which in turn carries the risk of the individual subloans.

The Corporation also structures operations with other specialized institutions engaged, for example, in leasing operations or providing funding to micro and small enterprises. The IIC helps such entities develop new financial mechanisms and instruments, provide better financial services, mobilize and channel increased resources to private sector enterprises, and promote the development of local capital markets.

For instance, many small and medium-scale enterprises in Latin America and the Caribbean use leasing to finance their investments. Because the leasing company retains legal ownership of the leased assets, it enables the lessee to qualify for use of leased equipment

	IIC LOAN/ EQUITY INV.	AVERAGE SUBLOAN OR SUBINVEST- MENT	TOTAL COST OF SUBPROJECTS	JOB CREATION
Banco del Centro, S.A., 1992, for channeling resources to private sector companies. Subprojects: 22. Average subproject cost: \$430,000.	\$10,000,000	\$290,000	\$7,500,000	173
Ficen S.A. de C.V., 1994, for providing short-term working capital and long-term financing. Subprojects: 10. Average subproject cost: \$430,000.	\$4,300,000	\$290,000	\$430,000	18
Baring Mexico Private Equity Fund, L.P., 1997, for providing equity capital. Subprojects: 3. Average subproject cost: \$3,400,000. Cofinancing/Other equity: \$50,000,000.	\$5,000,000	\$1,700,000	\$10,200,000	450*
Opticap, S.A. de C.V., 1998, for making parallel investments with Fondo de Optimización de Capitales. Subprojects: 6. Average subproject cost: \$3,000,000.*	\$8,000,000	\$1,300,000	\$18,000,000	180
Baring Mexico Private Equity Fund, L.P., 1998, for providing equity capital. Subprojects: 4. Average subproject cost: \$4,000,000.*	\$5,187,000	\$2,000,000	\$12,000,000	120
Nicaragua				
Banco Mercantil, 1991, for providing medium and long-term loans. Subprojects: 7. Average subproject cost: \$880,000.	\$3,000,000	\$280,000	\$6,200,000	315
Financiera Delta, 1998, for providing financing to small and medium-size companies. Subprojects: 300. Average subproject cost: \$40,000.*	\$4,000,000	\$40,000	\$12,000,000	1,500*
Panama				
Financiera Delta, 1993 and 1998, for providing lease financing. Subprojects: 134. Average subproject cost: \$47,000.*	\$7,000,000	\$47,000	\$7,000,000	750*

based on its generated cash flow rather than its credit history, assets, or capital base. At present, leasing accounts for more than 15 percent of the financing of capital equipment in Latin America and the Caribbean countries, up from less than 4 percent in 1988.

Agency lines are another form of financial intermediation that the Corporation can use—in this case under a two-year pilot program approved by the Board of Directors in 1998. An agency line is similar to a credit line in aspects such as the reliance placed by the Corporation on the financial intermediary in identifying subprojects, evaluating them, and carrying out disbursement and supervision tasks. Under the agency line trial program, however, the Corporation will make the loans directly to the small enterprises according to preestablished lending limits that are lower than those set for direct IIC loans. When submitting a loan recommendation, the agent is required to extend a loan under generally comparable terms funded with its own resources.

Developmental investing through financial intermediaries The IIC makes equity investments in local private sector financial institutions to foster institution building and the development of new financial products. It also participates in private equity and venture capital funds as a vehicle for providing capital to small and medium-size companies in the region. In such operations, the IIC chooses professionally-managed funds that can complement IIC's own resources by mobilizing funds from institutional investors. The diversification provided by investment

	IIC LOAN/ EQUITY INV.	AVERAGE SUBLOAN OR SUBINVEST- MENT	TOTAL COST OF SUBPROJECTS	JOB CREATION
Wall Street Securities, 1994, for underwriting primary issues on the local securities market. Subprojects: 3. Average subproject cost: \$10,000,000.	\$3,500,000	\$3,500,000	\$32,000,000	
Paraguay				
Banco Alemán Paraguayo, 1994, for a project finance program. Subprojects: 11. Average subproject cost: \$1,300,000.	\$4,000,000	\$440,000	\$15,000,000	279
Multibanco, S.A.E.C.A., 1998, for on-lending. Subprojects: 35. Average subproject cost: \$450,000.*	\$5,000,000	\$300,000	\$15,750,000	350*
Peru				
Banco Santander-Perú, 1992, for on-lending. Subprojects: 18. Average subproject cost: \$1,300,000.	\$8,000,000	\$440,000	\$24,200,000	37
Banco Banex, 1997, for financing leases. Subprojects: 2. Average subproject cost: \$270,000.	\$6,000,000	\$270,000	\$540,000	300*
Banco del Nuevo Mundo, 1998, for providing long-term loans and leases. Subprojects: 30. Average subproject cost: \$330,000.*	\$10,000,000	\$330,000	\$19,800,000	900*
Banco del Progreso, 1998, for financing permanent working capital and providing long-term loans and lease financing. Subprojects: 25. Average subproject cost: \$800,000.*	\$10,000,000	\$400,000	\$40,000,000	600*
Trinidad and Tobago				
Development Finance Limited, 1991, for providing dollar-denominated loans. Subprojects: 6. Average subproject cost: \$540,000.	\$2,970,000	\$286,000	\$3,200,000	158

funds allows the IIC to mitigate some of the risks entailed in making direct equity investments in smaller, unlisted companies.

Ensuring developmental impact

Choosing the financial intermediary The Corporation determines its loan or equity participation in each operation through a financial intermediary based on an evaluation of the institution, its funding needs, and its capabilities. For example, operations involving a credit line may also include an equity investment in the borrower institution. Financial intermediaries receiving IIC loan or equity funding must be financially sound, meet appropriate standards of creditworthiness, have sound management, and have proven capabilities in corporate finance and project lending and supervision. Similarly, operations that involve new institutions may entail equity investments by the IIC and an active institution-building role.

To assess the creditworthiness and institutional capabilities of financial intermediaries, the Corporation weighs several factors, including management; capital adequacy and asset quality; accounting and reporting systems; liquidity and asset and liability structure policies; and project lending, supervision, and credit systems. The IIC also looks into the competitiveness of the financial intermediary, its market position and plans, and its performance and outlook as contrasted with other financial institutions that operate in the same market.

	IIC LOAN/ EQUITY INV.	AVERAGE SUBLOAN OR SUBINVEST- MENT	TOTAL COST OF SUBPROJECTS	JOB CREATION
Uruguay				
Banco Surinvest S.A., 1992, for project finance. Subprojects: 8. Average subproject cost: \$2,000,000.	\$6,000,000	\$750,000	\$15,800,000	189
Fondo para el Financiamiento de la Inversión Privada, 1992, to make equity and quasi-equity investments. Subprojects: 12. Average subproject cost: \$1,637,500. Cofinancing/Other equity: \$14,800,000.	\$2,000,000	\$167,000	\$19,650,000	272
Regional				
Latin America Private Equity Fund, 1993, to invest in industrial and financial service companies in Argentina, Brazil, and Mexico. Subprojects: 6. Average subproject cost: \$4,740,000. Cofinancing/Other equity: \$89,200,000	\$5,000,000	\$325,000	\$28,430,000	180*
Latin American Energy and Electricity Fund, 1994, to invest in private power projects. Subprojects: 4. Average subproject cost: \$13,000,000. Cofinancing/Other equity: \$60,300,000.	\$5,000,000	\$1,663,000	\$51,750,000	120*
Central America Investment Fund, 1995, to provide equity capital to entrepreneurs in Belize, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and Panama. Subprojects: 8. Average subproject cost: \$905,000. Cofinancing/Other equity: \$26,600,000.	\$3,000,000	\$206,000	\$7,240,000	240*
Fondelec Essential Services Growth Fund, L.P., 1997, to invest in medium-scale infrastructure projects. Subprojects: 3. Average subproject cost: \$12,300,000. Cofinancing/Other equity: \$50,000,000.	\$5,000,000	\$1,600,000	\$36,900,000	90*
South America Private Equity Growth Fund Coinvestors, L.P., 1997, to coinvest in South American companies. Subprojects: 10. Average subproject cost: \$12,280,000. Cofinancing/Other equity: \$217,000,000.	\$10,000,000	\$720,000	\$122,800,000	300*

Screening the end beneficiaries Through its operations with financial intermediaries, the Corporation seeks to reach the same kind of enterprises that it generally deals with one-to-one but that are smaller and, therefore, require smaller amounts of financing than the Corporation could provide directly. The Corporation thus requires that the end beneficiaries of Corporation financing be

- located in a regional member country;
- controlled by private shareholders, with a majority of the voting shares owned by Latin American and/or Caribbean shareholders; and
- financially sound and well-managed.

The projects financed indirectly by the IIC through financial intermediaries must have a demonstrable developmental impact by enhancing the production capacity of the private businesses receiving financing, ensuring secure employment opportunities, and creating jobs and new sources of revenue. All projects must meet the applicable local environmental laws, regulations, and standards, and occupational health and safety requirements, as well as comply with applicable IIC environmental policies. The Corporation does not lend or invest, directly or indirectly, in high-risk sectors or companies involved in armaments or speculative activities.

To ensure that all these requirements are met, the IIC reviews each subloan before authorizing disbursement. This screening process effectively turns local financial institutions into agents of the IIC, ensuring compliance with its investment and environmental guidelines.

	IIC LOAN/ EQUITY INV.	AVERAGE SUBLOAN OR SUBINVEST- MENT	TOTAL COST OF SUBPROJECTS	JOB CREATION
Newbridge Andean Partners, L.P., 1997, to invest in equity and quasi-equity securities in Bolivia, Colombia, Ecuador, Peru, and Venezuela. Subprojects: 4. Average subproject cost: \$18,250,000. Cofinancing/Other equity: \$160,000,000.	\$5,000,000	\$725,000	\$73,000,000	120*
Latin HealthCare Fund, L.P., 1997, to invest in health-care companies. Subprojects: 1. Average subproject cost: \$1,920,000. Cofinancing/Other equity: \$50,000,000.	\$5,000,000	\$1,000,000	\$1,920,000	780*
Westphere Latin America Private Equity Growth Fund II, L.P., 1998, to make developmental equity investments in Argentina, Brazil, Chile, Colombia, Mexico, Peru, and Venezuela. Subprojects: 1. Average subproject cost: \$32,500,000. Cofinancing/Other equity: \$500,000,000.	\$10,000,000	\$3,370,000	\$32,500,000	1,200*
Scudder Latin Power II Fund, 1998, to invest in medium-size electric companies, particularly in smaller countries. Subprojects: 1. Average subproject cost: \$27,500,000. Cofinancing/Other equity: \$200,000,000.	\$7,000,000	\$1,530,000	\$27,500,000	300*
Caribbean Basin Power Fund, Ltd., 1998, to make long-term investments in private sector power generation projects. Subprojects: 12. Average subproject cost: \$8,330,000. Cofinancing/Other equity: \$100,000,000.*	\$5,000,000	\$420,000	\$100,000,000	360*
CBPF Debt Facility, 1998, to provide term financing for projects in which the Caribbean Basin Power Fund makes an equity investment. Cofinancing/Other equity: \$80,000,000.*	\$20,000,000		\$100,000,000	
TOTAL	\$368,357,000	\$570,000	\$2,000,000,000	33,219
*Projected				

The Corporation also provides guidance to financial institutions in order to channel resources where they are most needed.

By establishing maximum loan amounts, strict financial and environmental standards, and limits on subborrower company size, assets, and sales, the IIC promotes the development of financial systems that support companies that have the potential to contribute to the region's sustainable economic growth, utilizing human and material resources in ways that benefit the local economy and expanding the economic base of its member countries.

Results: The Principle Proven The Inter-American Investment Corporation has approved financing in excess of \$660 million to seventy-two financial institutions—private commercial banks, finance and leasing corporations, and venture capital and private equity funds—for on-lending to and investing in its target market of small and medium-size enterprises. Of this amount, \$284 million represents funds provided by international banks that have participated in the Corporation's cofinancing program and benefit from the institution's multilateral status. This intermediation program has enabled small and medium-size enterprises to undertake 1,611 projects with a total cost close to \$3 billion. And the average amount of the individual subloans is only \$265,000.

Estimated Economic Impact of Approved Active Projects¹

(As of December 31, 1998—Millions of US\$)

	Number of Active Projects	Number of Countries	Project Cost	IIC PARTICIPATION			Annual Export Revenues ²	Annual Value Added	Jobs Created ³
				Loan	Equity	Total			
DIRECT FINANCE TRANSACTIONS	79	21	1,559	320.3	34.5	354.9	578.1	685.9	48,297
FINANCIAL INTERMEDIARIES AND INVESTMENT FUNDS ⁴	72	18	2,986	260.8	120.7	381.4	450.0	3,600.0	54,000
TOTAL	151	22	4,545	585.0	155.3	763.3	1,028.1	4,285.9	102,297

¹ Approvals net of dropped or canceled projects.

² Includes estimated value of exports and import substitution.

³ Includes both direct and indirect jobs.

⁴ Each financial intermediary transaction finances an average of twenty-five subprojects. Each final beneficiary exports \$0.25 million per year on average, creates \$2 million per year in value added, and generates thirty jobs.

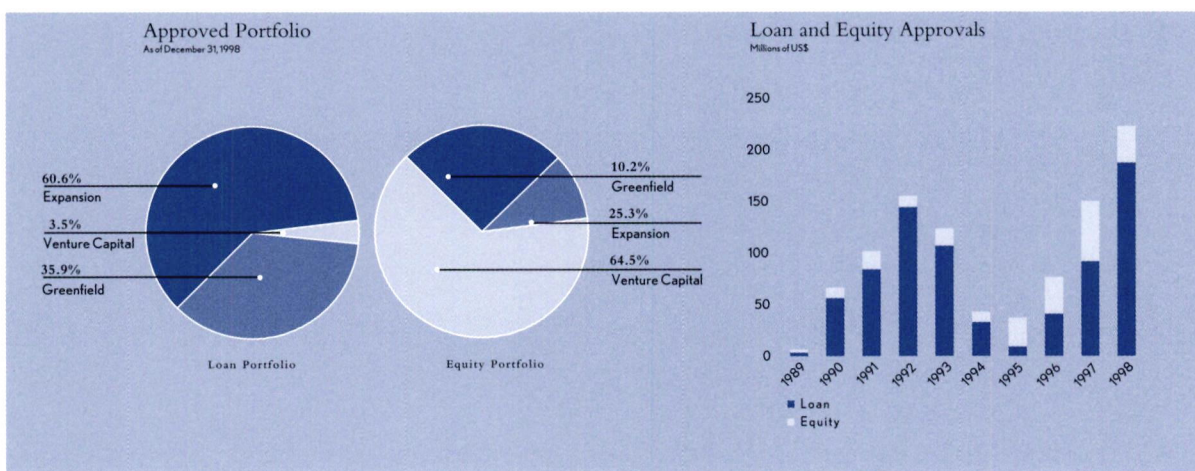
As the table shows, the developmental impact—in terms of individual project cost, value added, and number of jobs created—of IIC operations through financial intermediaries is proportionally higher than that of direct IIC operations. The Corporation should continue to do both: direct operations where their size permits or their demonstration effect or innovative approach so warrant, and indirect operations that would otherwise not be cost-effective.

Working through financial intermediaries preserves and even enhances the Corporation's developmental impact in the region because it makes developmental funding from the Corporation available to companies that would otherwise not have access to it.

Approvals, Commitments, and Disbursements

(As of December 31, 1998—Millions of US\$)

Country	Number of projects	GROSS APPROVALS			NET COMMITMENTS			DISBURSEMENTS		
		Loan	Equity	Total	Loan	Equity	Total	Loan	Equity	Total
Argentina	25	127.2	11.0	138.2	80.4	8.8	89.2	72.4	8.8	81.2
Bahamas	2	6.0	0.0	6.0	1.0	0.0	1.0	1.0	0.0	1.0
Barbados	1	0.0	4.0	4.0	0.0	0.0	0.0	0.0	0.0	0.0
Bolivia	9	29.1	1.9	31.0	22.8	1.3	24.1	20.8	1.3	22.1
Brazil	18	90.8	18.5	109.3	63.9	16.9	80.9	55.9	12.9	68.9
Chile	9	27.3	15.3	42.7	21.3	9.1	30.5	21.1	9.1	30.2
Colombia	12	51.2	12.9	64.0	26.0	9.5	35.5	26.0	9.5	35.5
Costa Rica	7	33.5	1.5	35.0	26.0	0.5	26.5	23.1	0.5	23.6
Dominican Republic	5	21.0	0.0	21.0	16.9	0.0	16.9	16.4	0.0	16.4
Ecuador	7	23.0	2.5	25.5	7.0	1.8	8.8	7.0	1.8	8.8
El Salvador	3	4.0	4.5	8.5	4.0	2.0	6.0	4.0	2.0	6.0
Guatemala	6	30.1	0.5	30.6	7.1	0.0	7.1	7.1	0.0	7.1
Guyana	2	3.3	0.0	3.3	0.8	0.0	0.8	0.8	0.0	0.8
Haiti	1	1.0	0.0	1.0	0.0	0.0	0.0	0.0	0.0	0.0
Honduras	5	22.4	1.0	23.4	7.5	0.0	7.5	7.5	0.0	7.5
Jamaica	6	19.3	1.5	20.8	5.6	0.0	5.6	5.6	0.0	5.6
Mexico	20	55.0	37.3	92.2	25.9	15.3	41.1	25.9	12.2	38.1
Nicaragua	5	15.4	1.4	16.8	11.4	0.9	12.3	7.3	0.9	8.2
Panama	4	17.0	0.0	17.0	6.5	0.0	6.5	6.5	0.0	6.5
Paraguay	4	14.5	0.0	14.5	6.7	0.0	6.7	6.7	0.0	6.7
Peru	15	75.5	10.8	86.3	51.4	5.5	56.9	28.9	4.5	33.4
Trinidad and Tobago	3	7.5	2.8	10.3	4.2	0.6	4.8	4.2	0.6	4.8
Uruguay	7	25.1	6.2	31.3	24.8	6.0	30.9	24.8	6.0	30.9
Venezuela	9	41.8	4.7	46.5	15.8	0.0	15.8	12.0	0.0	12.0
Regional	17	23.5	84.0	107.5	0.0	55.0	55.0	0.0	33.7	33.7
TOTAL	202	764.4	222.3	986.7	437.0	133.3	570.2	384.9	103.9	488.8



Operations Approved by IIC in 1998

(In US\$ Millions)

Country	Sector	Total Project Cost	IIC Participation			Co-financing	Annual Export Revenues	Annual Value Added	New Jobs	Procurement US\$ Millions by Country	Total
			Loan	Equity	Total						
NEW PROJECTS APPROVED											
ARLEI	AR Manufacturing	22.30	8.00	0.00	8.00	5.00	45.70	26.97	1,006	AR 12.4 / IT 2.8	15.2
DESLER	AR Waste Management	30.00	6.64	0	6.64			65.00	85	AR 8.4 / US 4.9	13.3
GALICIA II	AR Multipurpose Banking	60.00	10.00	0.00	10.00	50.00					
BANCO ECONÓMICO	BO Multipurpose Banking	42.00	7.00	0.00	7.00		100.00	125.00	1,500		
BISA LEASING	BO Leasing Co.	24.00	4.00	0.00	4.00				125		
BANCO INDUSTRIAL	BR Financial Services	48.00	8.00	0.00	8.00		60.00	60.00	1,500		
LEASECORP	BR Leasing Co.	48.00	8	0	8.00				500		
CORPORACIÓN PRIVADA DE INVERSIONES	CR Multipurpose Banking	36.00	6.00	0.00	6.00		10.00	40.00	600		
BANCO NACIONAL DE CRÉDITO	DO Multipurpose Banking	45.00	7.50	0.00	7.50	12.00	500.00	500.00	2,000		
BANCO PROGRESO	EC Multipurpose Banking	60.00	10.00	0.00	10.00		5.00	40.00	600		
COMPAÑÍA DE TITULARIZACIÓN	EC Specialized Finance Corp.	30.00	5	0	5.00						
CABCORP	GT Manufacturing	34.60	10.00	0.00	10.00			13.00	250	US 8.5 / IT 6.9 / AR 5.8 / JP 2.9 / GT 2.9 / CA 0.9 / MX 0.9 / DE 0.1	28.9
LUZY FUERZA DE SAN LORENZO	HN Utility	49.00	10.00	0.00	10.00				50	NL 29.4 / FI 2.2 / HN 4.3 / US 0.9 / EU 0.8	37.6
BARING PRIVATE EQUITY FUND	MX Investment Fund	20.00	0	5.2	5.2				120		
GRUPO MANATÍ	MX Hotel and Restaurant	30.00	8	0	8.00		10.35	11.00	2,000	MX 20.6	20.6
OPCAP II	MX Investment Fund	16.00	0.00	8.00	8.00				180		
FINANCIERA DELTA	NI Multipurpose Banking	24.00	4.00	0.00	4.00				1,500		
MELO	PA Manufacturing	13.00	6.53	0.00	6.53		3.12	5.71	50	PA 6.5 / US 4.1 / IT 1.4 / BR 0.3 / DE 0.2	12.5
FINANCIERA DELTA II	PA Leasing Co.	24.00	4.00	0.00	4.00				1,750		
MULTIBANCO	PY Multipurpose Banking	30.00	5	0	5.00		70.00	70.00	350		
BANCO DEL NUEVO MUNDO	PE Multipurpose Banking	60.00	10.00	0.00	10.00				900		
BANCO DEL PROGRESO	PE Multipurpose Banking	60.00	10.00	0.00	10.00		5.00	40.00	600		
EEPSA	PE Energy	34.30	10.00	0.00	10.00	12.00				PE 9.2 / US 28.5	37.7
GBP Debt Facility	REG Investment Fund	100.00	20	0	20.00	90.00					
SCUDDER LATIN POWER II	REG Investment Fund	151.00	0.00	7.00	7.00				300		
WESTPHERE LATIN AMERICA	REG Investment Fund	108.00	0.00	10.00	10.00		250.00		1,200		
CARIBBEAN BASIN POWER FUND	REG Investment Fund	75.00	0.00	5.00	5.00						
DIGAS-TROPIVEN, S.A	VE Energy	20.00	10.00	0.00	10.00					VE 11.9 / IT 6.6	18.5
	TOTAL	1,294.2	187.7	35.2	222.9	169.0	1,059.2	996.7	17,166		184

Financial Statements

December 31, 1998 and 1997

Report of Independent Accountants

Board of Governors
Inter-American Investment Corporation

In our opinion, the accompanying balance sheets and the related statements of income and retained earnings and of cash flows present fairly, in all material respects, the financial position of the Inter-American Investment Corporation at December 31, 1998 and 1997, 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.

PricewaterhouseCoopers LLP

Washington, D.C.
January 29, 1999

INTER-AMERICAN INVESTMENT CORPORATION

Balance Sheets

(Expressed in thousands of United States dollars)

	DECEMBER 31,	
	1998	1997
ASSETS		
CASH AND DUE FROM BANKS.....	\$ 70	\$ 38
MARKETABLE SECURITIES.....	45,547	69,602
LOAN AND EQUITY INVESTMENTS		
Loan Investments.....	220,927	207,594
Less Allowance for Losses.....	(28,149)	(26,041)
	<u>192,778</u>	<u>181,553</u>
Equity Investments.....	78,843	58,624
Less Allowance for Losses.....	(9,645)	(5,354)
	<u>69,198</u>	<u>53,270</u>
Total Investments.....	261,976	234,823
FIXED ASSETS.....	225	282
RECEIVABLES AND OTHER ASSETS.....	6,724	6,383
TOTAL ASSETS.....	<u>\$314,542</u>	<u>\$311,128</u>
LIABILITIES AND EQUITY		
ACCOUNTS PAYABLE.....	\$ 2,354	\$ 2,290
ACCRUED INTEREST AND COMMITMENT FEES.....	1,250	246
BORROWINGS.....	90,000	85,000
Total Liabilities.....	<u>93,604</u>	<u>87,536</u>
CAPITAL		
Authorized: 20,340 shares (Par value \$10,000)		
Subscribed: 20,340 shares.....	203,400	203,100
Less Subscriptions Receivable.....	(225)	(1,550)
	<u>203,175</u>	<u>201,550</u>
RETAINED EARNINGS.....	17,763	22,042
TOTAL LIABILITIES AND EQUITY.....	<u>\$314,542</u>	<u>\$311,128</u>

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,	
	1998	1997
INCOME		
Marketable Securities	\$ 4,060	\$ 4,288
Loan Investments		
Interest.....	15,694	19,046
Commitment Fees	216	124
Front-end Fees.....	1,061	310
Other Loan Investment Income	1,241	641
	<u>18,212</u>	<u>20,121</u>
Equity Investments		
Gain on Sale of Equity Investments.....	2,497	3,976
Dividends	266	806
Other Equity Investment Income	65	130
	<u>2,828</u>	<u>4,912</u>
Advisory Service, Cofinancing and Other	2,625	4,234
	<u>27,725</u>	<u>33,555</u>
EXPENSES		
Administrative	12,818	12,051
Provision for Loan and Equity Investment Losses	14,159	13,676
Borrowing	5,027	5,686
	<u>32,004</u>	<u>31,413</u>
NET (LOSS) INCOME	(4,279)	2,142
RETAINED EARNINGS AT BEGINNING OF YEAR	22,042	19,900
RETAINED EARNINGS AT END OF YEAR	<u>\$17,763</u>	<u>\$22,042</u>

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,	
	1998	1997
CASH FLOWS FROM INVESTING ACTIVITIES		
Loan and Equity Investments		
Loan disbursements.....	\$ (63,820)	\$ (25,707)
Loan repayments	43,431	42,245
Equity disbursements.....	(25,270)	(23,398)
Sales of equity investments	4,112	5,266
	<u>(41,547)</u>	<u>(1,594)</u>
Proceeds from recovered assets.....	235	—
Purchase of Fixed Assets	<u>(154)</u>	<u>(205)</u>
NET CASH USED IN INVESTING ACTIVITIES.....	(41,466)	(1,799)
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings		
Loan proceeds	90,000	—
Loan repayments	(85,000)	(10,000)
Capital		
Payments of Capital Subscriptions	<u>1,625</u>	<u>1,550</u>
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	6,625	(8,450)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (Loss) Income	(4,279)	2,142
Marketable Securities		
Purchases	(3,206,313)	(4,725,855)
Sales and repayments.....	<u>3,230,243</u>	<u>4,717,126</u>
	23,930	(8,729)
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
(Increase) Decrease in Receivables and Other Assets	(341)	2,762
Increase in Accounts Payable	64	167
Increase (Decrease) in Accrued Interest and Commitment Fees	1,004	(54)
Provision for Loan and Equity Investment Losses	14,159	13,676
Unrealized loss on Marketable Securities	125	54
Depreciation and amortization expense.....	<u>211</u>	<u>259</u>
	15,222	16,864
NET CASH PROVIDED BY OPERATING ACTIVITIES.....	<u>34,873</u>	<u>10,277</u>
NET INCREASE IN CASH.....	32	28
CASH AT BEGINNING OF YEAR	38	10
CASH AT END OF YEAR.....	<u>\$ 70</u>	<u>\$ 38</u>
SUPPLEMENTAL DISCLOSURES		
Interest paid during the year	\$ 3,961	\$ 5,694

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

Notes to the Financial Statements

December 31, 1998 and 1997

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 United States 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 1998 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 guidelines approved by the Board of Directors which include duration, credit risk, government or governmental-guaranteed issuer and single country concentration limits.

LOAN AND EQUITY INVESTMENTS

Loan and equity investments are committed when the loan or equity agreement is signed. 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. 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. Equity investments without a readily determinable market value are initially carried at cost. This carrying amount, as described below, is periodically reviewed and adjusted for impairments. See Note C.

Interest and all fees except front-end fees are recognized as income in the periods in which they are earned. Front-end fees and incremental direct costs associated with the origination of loan and equity investments are not amortized since the net 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 and places loans in nonaccrual status when any loan is in arrears for 90 days or when sufficient doubt exists as to the timely collection of principal or interest. Income is subsequently recognized only to the extent that cash payments are received and management has concluded that the borrower's ability to make periodic interest and principal payments has been demonstrated.

Notes to the Financial Statements

December 31, 1998 and 1997

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, recognized as part of the allowance for losses, 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.

ALLOWANCE FOR LOSSES

The allowance for losses is maintained at a level that, in management's judgement, is adequate to absorb estimated losses 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 periodic 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 in the Corporation's portfolio.

FIXED ASSETS

Fixed assets are stated at cost less accumulated depreciation. Depreciation is computed and expensed on a straight-line basis over the estimated useful lives of the assets that range from three to seven years. Costs associated with the development of computer software used internally are capitalized and amortized over the useful life of the software.

OTHER INCOME

Other income includes fees collected for cofinancing activities, administrative commissions, and miscellaneous fees. These fees are recognized as income when received. The Corporation performs advisory services and recognizes these fees in the periods in which they are earned.

Notes to the Financial Statements

December 31, 1998 and 1997

FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

Cash and 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 the majority of loans and related commitments, management is of the opinion that due to the Corporation's unique position in its lending operations and the absence of an established secondary market, it is not practicable to estimate a fair value for the Corporation's lending portfolio at this time. See Note C.

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

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

NEW ACCOUNTING PRONOUNCEMENTS

In 1998, the Corporation adopted SFAS No. 132 entitled "Employers' Disclosures About Pensions and Other Postretirement Benefits." This statement revises employers' disclosures about pension and other postretirement benefits. It requires additional information on changes in the benefit obligations and fair values of plan assets that will facilitate financial analysis and eliminates certain disclosures that are no longer as useful. The new disclosure requirements are incorporated in these financial statements.

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." The statement establishes accounting and reporting standards requiring that all derivative instruments (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at its fair value. The statement requires that changes in the derivative's fair value be recorded each period in earnings or as other comprehensive income depending on whether a derivative is designated as part of a hedge transaction.

Notes to the Financial Statements

December 31, 1998 and 1997

SFAS No. 133 is effective for the Corporation's fiscal year 2000 and must be applied to (a) derivative instruments and (b) certain derivative instruments embedded in hybrid contracts that were issued, acquired, or substantially modified after December 31, 1997. Management has not yet determined the impact of adopting this statement on the Corporation's financial statements.

Note B — Marketable Securities

The Corporation had unrealized losses of \$125,000 and \$54,000 at December 31, 1998 and 1997, respectively, which are included in income from marketable securities.

Notes to the Financial Statements

December 31, 1998 and 1997

Note C — Loan and Equity Investments

The Corporation's operations are limited to its twenty-five regional member countries. At December 31, 1998, there was no concentration of credit exposure in any single county. See the Summary of Projects by Country as of December 31, 1998, in Note L.

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)	
	1998	1997
Investments Approved but not Committed		
Loan	\$127,168	\$ 84,050
Equity	20,700	27,150
Total	\$147,868	\$111,200
Investments Committed but not Disbursed		
Loan	\$ 52,050	\$ 18,809
Equity	33,457	34,837
Total	\$ 85,507	\$ 53,646

LOAN INVESTMENTS

The Corporation's loans accrue interest at one, three, and six-month London Inter-Bank Offered Rate (LIBOR) plus a spread ranging from 2.25% to 5.00%. At December 31, 1998, the one, three and six-month average LIBOR rates were 5.12%, 5.17%, and 5.17%, respectively. At December 31, 1997, the one, three, and six-month average LIBOR rates were 6.08%, 6.05%, and 6.05%, respectively.

Notes to the Financial Statements

December 31, 1998 and 1997

The maturity structure of the Corporation's loan investments is as follows:

	DECEMBER 31, (IN THOUSANDS)			
	1998		1997	
	PRINCIPAL OUTSTANDING	AVERAGE SPREAD OVER LIBOR	PRINCIPAL OUTSTANDING	AVERAGE SPREAD OVER LIBOR
Due in one year or less	\$ 58,589	3.61%	\$ 63,908	3.54%
Due after one year through five years	129,860	3.66%	122,194	3.68%
Due after five years through ten years	32,478	3.85%	21,492	3.89%
Total.....	\$220,927		\$207,594	

In accordance with the nonaccrual policy discussed in Note A, loans placed in nonaccrual status at December 31, 1998 and 1997, totaled \$41,859,000 and \$34,242,000, respectively. During the year ended December 31, 1998, six projects were transferred to nonaccrual status, while two projects were transferred for the same period ended December 31, 1997.

Income reversals for nonaccrual loan investments were \$3,775,000 and \$3,771,000 for the years ended December 31, 1998 and 1997, respectively. Cash collections on reversed income totaled \$249,000 and \$1,846,000 for the same periods resulting in a net income reversal of \$3,526,000 and \$1,925,000 for the years ended December 31, 1998 and 1997, respectively.

In accordance with the impairment policy discussed in Note A, the Corporation's investment in impaired loans at December 31, 1998 and 1997, totaled \$36,773,000 and \$23,969,000, respectively. Allowances for losses against impaired loans at December 31, 1998 and 1997, totaled \$18,631,000 and \$16,734,000, respectively. The average recorded investment in impaired loans for the years ended December 31, 1998 and 1997, was \$30,371,000 and \$24,302,000, respectively.

The Corporation did not recognize interest income from impaired loans in 1998. During 1997, the Corporation recognized \$641,000 in interest income from impaired loans. Cash collections relate to interest earned in current and prior years.

ALLOWANCE FOR LOSS ON LOAN AND EQUITY INVESTMENTS

Activity in the allowance for loan and equity losses was as follows:

	DECEMBER 31, (IN THOUSANDS)			
	LOANS		EQUITY	
	1998	1997	1998	1997
Balance at beginning of year.....	\$26,041	\$24,018	\$5,354	\$2,941
Investments written off.....	(7,056)	(6,338)	(939)	(2,902)
Recoveries.....	15	—	220	—
Provision for losses	9,149	8,361	5,010	5,315
Balance at end of year.....	\$28,149	\$26,041	\$9,645	\$5,354

Notes to the Financial Statements

December 31, 1998 and 1997

Note D — Fixed Assets

Fixed assets represent furniture, office equipment, leasehold improvements, 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)	
	1998	1997
Furniture, Office Equipment, and Leasehold Improvements	\$1,042	\$1,030
Computer Hardware, Software, and Systems Development	1,948	1,806
Accumulated Depreciation and Amortization	(2,765)	(2,554)
Total	\$ 225	\$ 282

Note E — Receivables and Other Assets

Receivables and other assets are summarized below:

	DECEMBER 31, (IN THOUSANDS)	
	1998	1997
Accrued Income on Marketable Securities	\$ 903	\$1,268
Accrued Income on Loan Investments	4,089	4,492
Receivable on Equity Sales, net	1,728	—
Recovered Assets, net	—	600
Other	4	23
Total	\$6,724	\$6,383

During 1997, the Corporation recovered assets securing a loan investment with an estimated fair value of \$923,000 and a related valuation allowance of \$323,000. These assets were disposed of in 1998.

During 1998, the Corporation sold its participation in certain equity investments and recorded notes receivable with an estimated fair value of \$1,800,000 and a related valuation allowance of \$72,000. The Corporation recognized a \$416,000 gain related to these equity sales which is included in gain on sale of equity investments.

Notes to the Financial Statements

December 31, 1998 and 1997

Note F — Borrowings

Borrowings consist of the following:

	DECEMBER 31, (IN THOUSANDS)	
	1998	1997
Fuji Bank	\$ —	\$75,000
Deutsche Bank Luxembourg, S.A.	20,000	10,000
Caja de Ahorros y Monte de Piedad de Madrid	70,000	—
Total	\$90,000	\$85,000

The Corporation's weighted-average cost of borrowings during 1998 and 1997 was 5.85% and 5.94%, respectively.

The Corporation had an outstanding balance of \$75,000,000 under a nonrenewable credit agreement with Fuji Bank. In June 1998, the Corporation paid off this outstanding balance. At December 31, 1997, the loan accrued interest at a variable rate of 6.09%.

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, 1998. Interest accrued on the first \$10,000,000 outstanding balance at a variable rate of 5.89% and 5.95% at December 31, 1998 and 1997, respectively. Interest accrued on the remaining \$10,000,000 outstanding balance at a variable rate, which was 5.27% at December 31, 1998. Borrowings under the credit agreement are due six months after disbursement and can be renewed. Additionally, the Corporation accrued commitment fees at 0.10% of the average daily unused balance as of December 31, 1998. The Corporation paid Deutsche Bank Luxembourg, S.A. \$46,000 and \$40,000 in commitment fees during 1998 and 1997, respectively. The credit agreement terminates in 2000.

In March 1998, the Corporation executed a credit agreement with Caja de Ahorros y Monte de Piedad de Madrid allowing the Corporation to borrow up to \$100,000,000 until March 2006. Borrowings under this credit agreement are due six months after disbursement and can be renewed. Of the outstanding balance at December 31, 1998, \$20,000,000 accrued interest at 5.13% and \$50,000,000 accrued interest at 5.56%.

In 1997, the Corporation and the Inter-American Development Bank (IDB) executed a loan agreement allowing the Corporation to borrow up to \$300,000,000 until November 2001. No funds were drawn under this loan agreement during 1998 or 1997.

Notes to the Financial Statements

December 31, 1998 and 1997

Note G — Capital

The following table lists the capital stock subscribed and subscriptions receivable for each member country at December 31, 1998 (in thousands):

	CAPITAL STOCK SUBSCRIBED		SUBSCRIPTIONS RECEIVABLE FROM 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	
Denmark	310	3,100	
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	
Suriname	30	300	\$ 225
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 1998	20,340	\$203,400	\$ 225
Total 1997	20,310	\$203,100	\$1,550

Notes to the Financial Statements

December 31, 1998 and 1997

Note H — 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 \$62,000,000 and \$36,647,000 of participants' funds during 1998 and 1997, respectively. The undisbursed participants' commitments were \$1,000,00 and \$53,000,000 at December 31, 1998 and 1997, respectively.

Note I — Related Party Transactions

The Corporation is affiliated with the 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 that 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)	
	1998	1997
Office Space.....	\$1,081	\$1,049
Support Services.....	644	613
Total	\$1,725	\$1,662

Accounts payable and accrued expenses due to the IDB were \$153,000 and \$62,000 at December 31, 1998 and 1997, respectively.

In 1998 and 1997, no amounts were outstanding to the IDB under an existing loan agreement. See Note F.

Note J — 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 \$968,000 and \$915,000 for the years ended December 31, 1998 and 1997, respectively.

Notes to the Financial Statements

December 31, 1998 and 1997

Note K — 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 an actuarially determined expense to the IDB's Postretirement Benefits Plan (the Plan) annually. The Corporation's portion of total assets is prorated to the Plan based upon the Corporation's funding rate and the rate of return on the assets, net of any payments to employees for postretirement benefits. The Corporation funded \$917,000 and \$962,000 to the Plan for the years ended December 31, 1998 and 1997, respectively. Future funding contributions to the Plan are projected to equal the annual actuarial cost.

The following tables provide a reconciliation of the changes in the Plan's benefit obligations and fair value of assets:

	DECEMBER 31, (IN THOUSANDS)	
	1998	1997
<i>Reconciliation of benefit obligation</i>		
Obligation at January 1	\$6,027	\$5,136
Service cost	674	653
Interest cost	288	333
Actuarial gain	(1,250)	(95)
Obligation at December 31	5,739	6,027
<i>Reconciliation of fair value of Plan assets</i>		
Fair value of Plan assets at January 1	3,814	2,240
Actual return on Plan assets	806	612
Employer contributions	917	962
Fair value of Plan assets at December 31	5,537	3,814
<i>Funded status</i>		
Funded status at December 31	(202)	(2,213)
Unrecognized transition obligation	2,793	2,968
Unrecognized gain	(2,425)	(761)
Net amount recognized	\$ 166	\$ (6)

Actuarial gains and losses that exceed 10% of the accumulated postretirement benefit obligation are amortized over the average remaining life of active participants of approximately 11.4 years. Unrecognized net transition obligations are amortized over 15 years.

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

	1998	1997
Discount rate	5.25%	6.00%
Expected return on Plan assets	6.00%	7.25%
Rate of compensation increase	6.00%	6.00%

Notes to the Financial Statements

December 31, 1998 and 1997

The accumulated postretirement benefit obligation was determined using health care cost trend rates of 7.8% to 10.3% for those participants assumed to retire in the United States. The rate was assumed to decrease gradually to 3.8% in 2011 and thereafter. For those participants assumed to retire outside of the United States, a 10.3% increase was used.

The net periodic benefit cost consists of the following components:

	DECEMBER 31, (IN THOUSANDS)	
	1998	1997
Service cost	\$674	\$653
Interest cost	288	334
Amortization of unrecognized obligation	42	587
Less: Expected return on Plan assets	(260)	(612)
	\$744	\$962

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

	ONE-PERCENTAGE POINT INCREASE	ONE-PERCENTAGE POINT DECREASE
Effect on total of service and interest cost components	\$200,000	\$(151,000)
Effect on postretirement benefit obligation	974,000	(756,000)

Note L — Summary of Projects by Country

The following tables list the outstanding loan and equity investments by country at December 31, 1998 (in thousands):

Notes to the Financial Statements

December 31, 1998 and 1997

LOAN INVESTMENTS

MEMBER COUNTRIES WHERE LOANS HAVE BEEN MADE	LOANS APPROVED AND COMMITTED	CANCELED BALANCE	UNDISBURSED BALANCE	REPAYMENTS AND WRITE-OFFS	LOAN INVESTMENTS OUTSTANDING	
					1998	1997
Argentina.....	\$ 81,600	\$ 1,248	\$ 8,000	\$ 21,402	\$ 50,950	\$ 49,780
Bahamas	1,000	—	—	120	880	1,000
Bolivia.....	25,350	2,529	2,000	9,453	11,368	3,465
Brazil.....	70,800	6,870	8,000	19,508	36,422	38,624
Chile.....	26,348	5,000	250	8,598	12,500	10,625
Colombia.....	28,215	2,250	—	14,571	11,394	15,312
Costa Rica.....	31,000	5,000	2,921	4,126	18,953	17,882
Dominican Republic.....	21,000	4,080	569	3,511	12,840	4,409
Ecuador.....	8,000	1,000	—	4,746	2,254	2,716
El Salvador.....	4,000	—	—	1,818	2,182	2,908
Guatemala.....	14,050	7,000	—	2,921	4,129	4,701
Guyana.....	3,300	2,500	—	236	564	564
Honduras.....	12,400	4,900	—	2,669	4,831	3,219
Jamaica.....	11,700	6,141	—	4,942	617	2,556
Mexico.....	30,988	5,114	—	19,540	6,334	8,013
Nicaragua.....	11,400	—	4,100	2,998	4,302	2,721
Panama.....	6,500	—	—	4,864	1,636	2,182
Paraguay.....	7,000	263	—	3,003	3,734	5,038
Peru.....	54,450	3,051	22,460	14,483	14,456	11,617
Regional.....	3,500	3,500	—	—	—	—
Trinidad & Tobago.....	5,000	783	—	1,839	2,378	2,000
Uruguay.....	24,937	96	—	16,771	8,070	11,457
Venezuela.....	21,750	6,000	3,750	1,430	10,570	7,333
Less the effect of restructured interest....	—	—	—	—	(437)	(528)
TOTAL 1998.....	\$504,288	\$ 67,325	\$52,050	\$163,549	\$220,927	
TOTAL 1997.....	\$398,388	\$58,485	\$18,809	\$112,972		\$207,594

EQUITY INVESTMENTS

MEMBER COUNTRIES WHERE EQUITY HAS BEEN INVESTED	EQUITY APPROVED AND COMMITTED	CANCELED BALANCE	UNDISBURSED BALANCE	SALES AND WRITE-OFFS	EQUITY INVESTMENTS OUTSTANDING	
					1998	1997
Argentina.....	\$ 8,872	\$ 74	\$ —	\$ 2,798	\$ 6,000	\$ 6,428
Bolivia.....	1,925	600	—	1,325	—	—
Brazil.....	17,963	1,031	4,000	3,063	9,869	9,964
Chile.....	10,826	1,708	—	2,118	7,000	7,000
Colombia.....	9,550	45	—	2,952	6,553	551
Costa Rica.....	500	—	—	500	—	500
Ecuador.....	2,500	698	—	860	942	942
El Salvador.....	2,000	—	—	—	2,000	2,000
Honduras.....	1,000	1,000	—	—	—	—
Jamaica.....	1,518	1,518	—	—	—	—
Mexico.....	15,472	198	3,080	2,669	9,525	8,239
Nicaragua.....	1,400	500	—	275	625	900
Peru.....	5,734	250	1,000	1,484	3,000	1,484
Regional.....	55,050	50	25,377	229	29,394	15,093
Trinidad & Tobago.....	598	—	—	—	598	598
Uruguay.....	6,350	303	—	2,710	3,337	4,925
Venezuela.....	1,000	1,000	—	—	—	—
TOTAL 1998.....	\$142,258	\$8,975	\$33,457	\$20,983	\$78,843	
TOTAL 1997.....	\$118,258	\$8,975	\$34,837	\$15,822		\$58,624

Governors and Alternate Governors

Country	Governor	Alternate Governor
Argentina	Roque B. Fernández	Pedro Pou
Austria	Rudolf Edlinger	Hans Dietmar Schweisgut
Bahamas	William C. Allen	Ruth Millar
Barbados	Owen S. Arthur	Erskine Griffith
Bolivia	Herbert Müller	Alberto Valdez
Brazil	Paulo de Tarso Almeida Paiva	Gustavo Henrique de Barroso Franco
Chile	Eduardo Aninat	Manuel Marfán Lewis
Colombia	Juan Camilo Restrepo	Jaime Ruiz
Costa Rica	Leonel Baruch	Eduardo Lizano Fait
Denmark	Ellen Margrethe Loej	Torben Brylle
Dominican Republic	Héctor Valdez Albizu	Luis Manuel Piantini Munnigh
Ecuador	Fidel Jaramillo Buendía	José Carrera Espinosa
El Salvador	Manuel Enrique Hinds	Eduardo Zablah-Touché
France	Dominique Strauss-Kahn	Jean Lemierre
Germany	Uschi Eid	Klaus Regling
Guatemala	Pedro Miguel Lamport	Edín Homero Velásquez Escobedo
Guyana	Bharrat Jagdeo	Michael Shree Chan
Haiti	–	Fred Joseph
Honduras	Gabriela Núñez de Reyes	Emin Barjum Mahomar
Israel	Jacob Frenkel	Shay Talmon
Italy	Carlo Azeglio Ciampi	Vincenzo Desario
Jamaica	Omar Davies, MP	Shirley Tyndall
Japan	Kiichi Miyazawa	Masaru Hayami
Mexico	José Angel Gurría Treviño	Martín Werner
Netherlands	Gerrit Zalm	E.L. Herfkens
Nicaragua	Noel Sacasa	David Robleto
Panama	Guillermo Chapman	Miguel Heras
Paraguay	H. Gerhard Doll	Aníbal Fernando Paciello Rodríguez
Peru	Jorge F. Baca Campodónico	Germán Suárez Ch.
Spain	Rodrigo de Rato y Figaredo	Elena Pisonero Ruiz
Suriname	Tjandrikapersad Gobardhan	Lesley Winter
Switzerland	Nicolas Imboden	Adrian Schläpfer
Trinidad and Tobago	Trevor Sudama	Carlyle Greaves
United States	Robert E. Rubin	–
Uruguay	Luis Mosca	Ariel Davrieux
Venezuela	Maritza Izaguirre	Teodoro Petkoff

Information as of December 1998

Executive Directors and Alternate Executive Directors

Name	Country
Raúl Boada Javier Bonilla Saus	Bolivia, Paraguay, and Uruguay
Lawrence Harrington	United States of America
A. Humberto Petrei José María Cartas	Argentina and Haiti
George L. Reid Roderick G. Rainford	Bahamas, Barbados, Guyana, Jamaica, and Trinidad and Tobago
Antônio Cláudio Sochaczewski Elcior Ferreira de Santana	Brazil and Suriname
Moisés A. Pineda Ernesto Selman	Dominican Republic and Mexico
Mario Marcel Oswaldo Zavala-Egas	Chile and Ecuador
Bruno Mangiatordi Maria Kronsteiner	Austria, Denmark, Italy, and The Netherlands
Julio Ángel Alberto Yagui	Colombia and Peru
Georges Cahuzac Andreas Hartmann	France, Germany, and Switzerland
María Antonieta Del Cid de Bonilla Edgard A. Guerra	Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua
Luis Raúl Matos Azócar Rogelio Novey	Panama and Venezuela
Juan Francisco Martínez Toru Kodaki	Israel, Japan, and Spain

Information for the month of December - CII/DR-198-7

Management and Senior Staff

IIC Management

General Manager	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
Special Operations Unit Coordinator	Mario Mahler
Chief Engineer	Philip James
Chief Economist	Jorge Roldán

Operations Department

REGION I

(Argentina, Bahamas, Barbados, Bolivia,
Brazil, Chile, Dominican Republic, Guyana,
Haiti, Jamaica, Paraguay, Suriname,
Trinidad and Tobago, Uruguay)

Coordinator	Steven L. Reed
-------------	----------------

REGION II

(Colombia, Costa Rica, Ecuador, El Salvador,
Guatemala, Honduras, Mexico, Nicaragua,
Panama, Peru, Venezuela)

Coordinator	Jean Philippe Prosper
-------------	-----------------------

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Personnel and Administration	Mildred Arroyo
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Carlos Ferdinand	Armando Chuecos
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