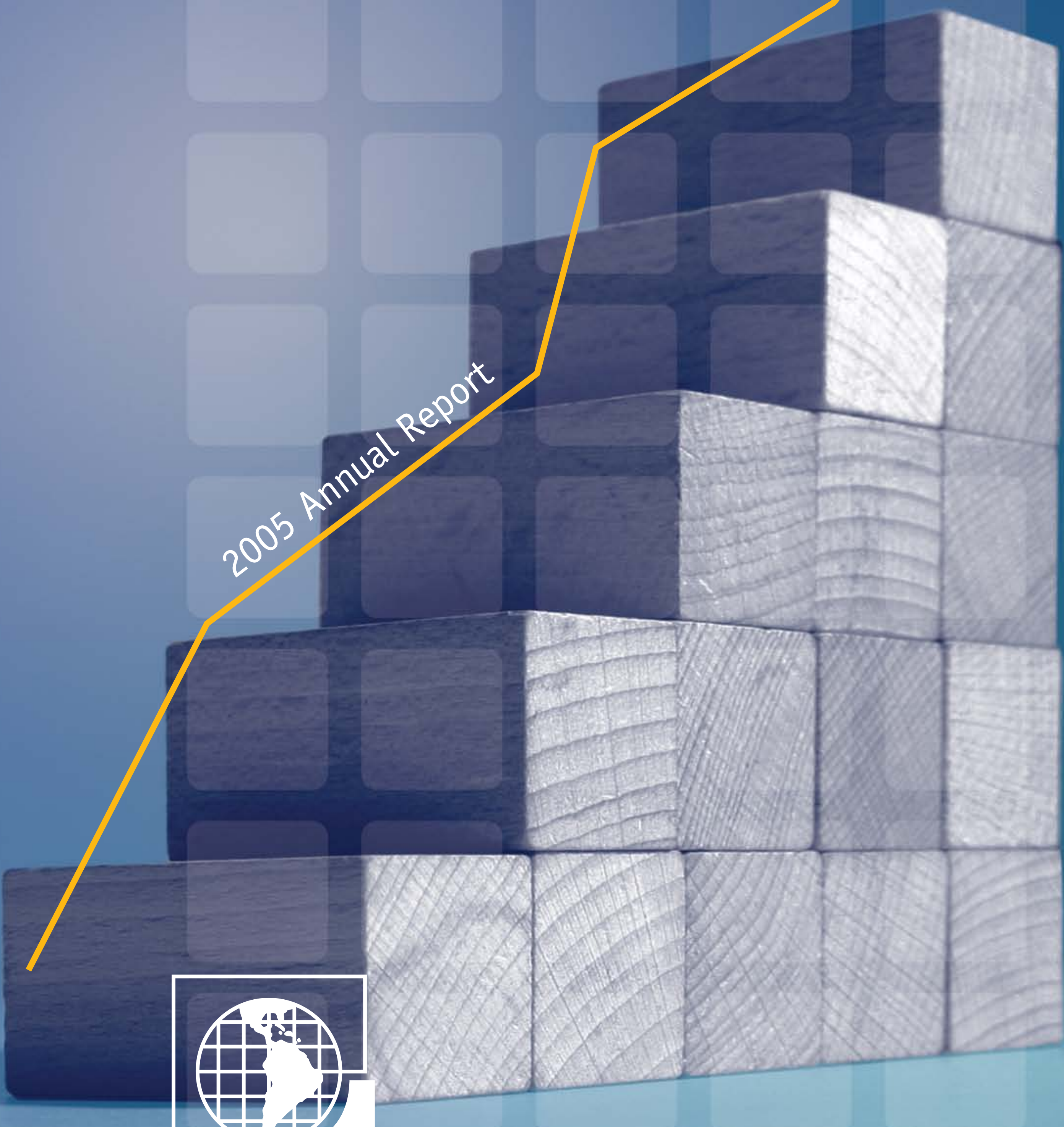
Inter-American Investment Corporation



2005 Annual Report

Member Countries:

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

Inter-American Investment Corporation

2005 Annual Report

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February 10, 2006

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

Mr. Chairman:

Pursuant to the provisions of Article IV, Section 9(a) of the Agreement Establishing the Inter-American Investment Corporation, I transmit to you the Annual Report of the Corporation for 2005 and the audited financial statements, including the balance sheet, income and retained earnings statement, and cash flow statement for the fiscal year ended December 31, 2005.

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

Yours sincerely,

Luis Alberto Moreno
Chairman
Board of Executive Directors
Inter-American Investment Corporation

Letter from the General Manager

The trajectory and results of the Corporation during 2005 mark a distinctive phase in our mission to respond to the developmental needs of the private sector in Latin America and the Caribbean, most particularly our small and medium-size enterprise client base.

This report highlights the Corporation's accomplishments for 2005 in a climate of an improving regional economy with positive growth trends. These results are more significant when seen against the backdrop of the 2002–2003 financial crises that impacted the business and investment climate in several countries in the region and contributed to negative financial results for the IIC. While the improving financial results recorded by the Corporation in the last three years are attributable in large measure to the joint efforts of Management and the Board of Executive Directors in implementing the policy and operational initiatives introduced as of 2002, the impact of an improving economic environment in the region also played a fundamental role. Because the Corporation's assets and income are derived primarily from its developmental mission, the IIC's improving financial performance is a positive reflection of the economic health of the region.

The Corporation's achievements in the implementation of its two-year business plan were highlighted by the successful placement of its first bond issue—a local currency-denominated bond issued and onlent in local currency in Colombia. The relevance of the Corporation's first bond issuance—the first of this type among multilaterals operating in Latin America and the Caribbean—is threefold. First, it provided the Corporation with an innovative method to raise developmental capital on highly competitive terms. Second, the proceeds of the bond were simultaneously injected back into the local economy, providing local-currency funding to support leasing of capital equipment to small and medium-size companies. Lastly, this operation seeks to enhance the availability of investment instruments for local investors, thereby promoting the development of local capital markets helping to raise the level of domestic savings, a condition for sound investment growth. Building on this first successful transaction, we will pursue comparable transactions in other countries where suitable conditions exist.

Another major initiative was prompted by the heads of state and government of our hemisphere when they adopted the Declaration of Nuevo León. As it pertains to the Corporation, the objective stated in the Declaration is to significantly expand financing to small and medium-size companies through financial intermediaries, leading us to launch a new program designed to achieve a threefold increase in this type of finance by 2007. Moreover, as a result of this initiative, the Corporation reviewed the financial institution lending programs of other multilateral institutions to incorporate the best practices of these institutions in programs that target micro, small, and medium-size companies. In reporting program results this year, we have undertaken to harmonize the reporting methodology so that it better conforms to the practice of our peers in the field, thus providing a fuller account of its impact.

It is from this perspective that I invite you to read our 2005 Annual Report.

Jacques Rogozinski
General Manager
Inter-American Investment Corporation

New Stage, Positive Results

The financial results and developmental effectiveness achieved by the Corporation after embarking on a new stage in its operating history are trending steadily up. Thanks to the enhanced flexibility and innovative business approach achieved in a joint effort undertaken with the Board of Executive Directors, the Corporation has posted a profit for the third straight year. This process entailed broadening the range of financial products and services that the Corporation places at the service of small and medium-size private enterprise in Latin America and the Caribbean. The developmental impact of this joint effort includes the following:

IIC places its first bond issue

- Local funding for local development. Issuing Colombian peso bonds for the equivalent of $66 million made the IIC the first multilateral institution operating in Latin America to earmark the proceeds for developmental projects in the country of issue instead of swapping and repatriating them to add to its own liquid assets.
- More than one-half million loans totaling more than $3 billion in the last five years.[1]
- 18 infrastructure projects with a total cost in excess of $2.248 billion.
- 4,900 leasing operations.
- More than 131,000 small and microloans under $1,000 each.

First time that a multilateral operating in Latin America does not swap local-currency bond issue proceeds

The IIC Achieves a First in Local-Currency Financing

Understanding the characteristics and financing needs of small and medium-size companies enabled the IIC to develop an innovative funding program for smaller companies in Colombia. Most small and medium-size companies do not export and do not have alternative ways to hedge foreign currency loan exposure. Borrowing in local currency is the preferred option for these companies when acquiring long-term assets. In Colombia in December 2005, the IIC completed its first bond issue and used the proceeds to fund loans to small and medium-size Colombian enterprises through leasing companies.

Local currency for development—150 billion Colombian pesos channeled to SMEs

This is the first time that a multilateral organization operating in Latin America obtains local-currency funding, onlends the proceeds in the country of issue, and earmarks them for operations that will promote local development. The proceeds from the bond issue were placed immediately with five Colombian leasing

[1] Following reporting methodology of other international development finance institutions.

companies that in turn provided Colombian peso-denominated leases ranging from $170,000 to $1 million with at least 1,000 small and medium-size companies, thus providing them with long-term, local-currency financing at a competitive rate.

This operation will help the Corporation meet the goals set out in its 2005–2006 business plan and in the Declaration of Nuevo León. This pioneering operation could be replicated in other countries in the region, both by the IIC and by other multilateral institutions.

The IIC Creates Specialized Infrastructure Lender

Even small-scale infrastructure projects require relatively large-scale financing beyond the scope of IIC's own financial resources. In response to the growing demand for long-term financing for infrastructure projects, in 2001 the IIC participated in the creation of Corporación Interamericana para el Finaciamiento de Infraestructura (CIFI). The IIC, jointly with Caja Madrid, is a founding shareholder of CIFI.

Through this innovative joint venture institution, the IIC has leveraged its own resources and helped build a unique investment partnership of development finance and private commercial institutions from Europe and Latin America. To date, CIFI has provided more than $100 million in funding for eighteen infrastructure projects in fourteen Latin American and Caribbean nations costing more than $2 billion.

The IIC and CIFI have financed twenty-two infrastructure projects in fourteen countries

The total cost of infrastructure projects financed directly and through CIFI is $3.39 billion

Infrastructure Projects Financed by CIFI

Country	Sector	Project Cost
Argentina	Transportation	$55 million
Belize	Energy	$46 million
Bolivia	Gas	$220 million
Brazil	Energy	$416 million
Brazil	Infrastructure-Related Services	$400 million
Brazil	Infrastructure-Related Services	$280 million
Costa Rica	Energy	$75 million
Dominican Republic	Ports	$282 million
Dominican Republic	Transportation	$48 million
Ecuador	Energy	$35 million
Ecuador	Energy	$31 million
El Salvador	Energy	$85 million
Guatemala	Energy	$90 million
Guatemala	Energy	$82 million
Guatemala	Energy	$75 million
Honduras	Energy	$40 million
Nicaragua	Telecommunications	$87 million
Panama	Energy	$361 million
Panama	Social Infrastructure	$15 million
Peru	Energy	$16 million
Peru	Transportation	$21 million
Trinidad and Tobago	Water Supply	$148 million
Total		**$2.9 billion**

CIFI Shareholders

Inter-American Investment Corporation	18.52%
Caja Madrid (Spain)	18.52%
Central American Bank for Economic Integration	9.26%
Primer Banco del Istmo (Panamá)	9.26%
NORFUND (Norway)	9.26%
Caixa Banco de Investimento (Portugal)	7.41%
Caribbean Development Bank	5.56%
FINNFUND (Finland)	5.56%
Banco Pichincha (Ecuador)	4.63%
Republic Bank (Trinidad and Tobago)	1.85%
Banco Galicia y Buenos Aires (Argentina)	0.93%

The IIC Promotes Sustainable Infrastructure

Aware of the developmental impact of infrastructure projects, the Corporation has since its creation financed small-scale infrastructure projects. The IIC has primarily focused on small-scale renewable energy projects.

The Corporation is the first member of the IDB Group to finance renewable energy projects eligible for carbon credits. The Kyoto Protocol to reduce greenhouse emissions includes an innovative financing mechanism for renewable energy projects in less industrialized countries. The Clean Development Mechanism allows eligible projects to obtain emission reduction credits when they reduce gases that cause global warming, creating a new source of revenues for renewable energy projects in Latin America and the Caribbean.

IIC is first member of IDB Group to finance renewable energy projects eligible for carbon credits

In Ecuador, the IIC is financing the construction of the Hidroabanico hydroelectric plant in the Amazon River basin. The power generated by the project will displace approximately 800,000 tons of greenhouse gas emissions over a six-year period. In December 2004, the World Bank Carbon Finance Unit signed an agreement to purchase carbon credits for the Hidroabanico project in the framework of the Kyoto Protocol. The IIC has drawn on the U.S. Trade and Development Agency Evergreen Trust Fund to provide technical assistance for supervising this project.

In Peru, the IIC provided technical assistance to Sindicato Energético, S.A. (SINERSA) through the IIC Austrian Technical Assistance Trust Fund to support SINERSA in verifying and certifying the latter's greenhouse gas reductions, a requirement for receiving annual payments for carbon credits under the Kyoto Protocol. In 2004, SINERSA and the World Bank signed the first emission reductions purchase agreement in Peru for the Hidroeléctrica Poechos 1 power plant. The SINERSA hydropower plant was built in 2002 with financing from the IIC.

The IIC Provides Flexible Financing for Micro, Small, and Medium-Size Companies

Working with partner financial intermediaries, the IIC has been able to provide financing for more than 500,000 micro, small, and medium-size companies since 2000. There is enormous diversity in the financial instruments and delivery mechanisms that the IIC uses to reach smaller companies. To harmonize data presentation and facilitate comparison with other development finance institutions, the IIC is modifying the way it reports the impact of its financial institution lending and investing activities.

4,900 leases for SMEs through financial intermediaries

Capital Equipment Investments Financed through Leasing

The IIC is providing an increasing amount of funding for leases as demand for this financing option grows in the region. Leasing is advantageous for small and medium-size companies because it does not require the expenditure of limited capital resources and makes it possible to upgrade productive equipment without worrying about obsolescence. Leasing leverages the IIC's resources; as leases are paid off, the leasing companies use the proceeds to extend new leases to other companies. Since 2000, this developmental tool has made it possible to finance 4,900 lease operations[2] for the benefit of small and medium-size companies in the region.

Financing through financial intermediaries—Banco de Desarrollo: 213,000 loans for $2.55 billion

Expanding Lending Capabilities with Equity

Reaching smaller entrepreneurs requires the utilization of specialized financial institutions and instruments. The IIC is continuously seeking to identify new financing partners to work together to address the needs of this vibrant market. In 2001, the IIC made a $10 million investment in Banco de Desarrollo, which specializes in the micro and small business sector in Chile. Since then, Banco de Desarrollo has lent the equivalent of $2.55 billion to more than 213,000 micro and small enterprises. The average loan size for small companies is $29,000; for microenterprises it is $900.

Financing for Small Farmers

Financing through a specialized financial intermediary—Almer: 180,000 loans for $96 million

Small farmers are employment generators and are essential for sustainable development. Lending to agricultural producers requires the utilization of specific financial products and services that address the unique needs of small farmers. A $10 million IIC loan to Almacenadora Mercader S.A. (Almer), a Mexican warehouse deposit company, enabled Almer to provide financing for small local producers of corn, wheat, and sorghum under forty-five-day repurchase arrangements. Through this IIC facility, approved in 2000, Almer provided more than $96.4 million in financing to small farmers in more than 180,000 transactions. To date, this mechanism has leveraged the financing provided by the IIC by a factor of more than nine.

Creating New Financing Options with Partners

Financing through financial intermediaries—Rabobank: financing for more than 140,000 companies

The IIC, working jointly with Rabobank in Brazil, participated in providing financing for an innovative structure to securitize receivables from small and medium-size companies. Prior to 2005, the IIC approved two $100 million transactions for Banco Rabobank International Brasil S.A. to finance the securitization of receivables. Both transactions were cofinanced with Rabobank Curaçao N.V. The proceeds of these transactions were used to fund Rabobank's acquisition of the senior quotas of receivables investment funds—Fundo de Investimento em Direitos Creditorios (FDIC)—in Brazil. The FDIC was created by the Comissão de Valores Mobiliários (the Brazilian equivalent of the Securities and Exchange Commission in the United States of America) as a mechanism through which companies can transfer ownership of receivables to an FDIC. The funds were established to acquire discounted receivables issued by selected companies that finance small and medium-size clients. Since inception, the proceeds of the combined $200 million facility have been used to finance 140,825 small and medium-size companies with an average amount per company of approximately $1,500.[3]

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[2] Excludes peso leasing companies in Colombia.

[3] Number of clients receiving financing through Rabobank based on client tax identification numbers.

The IIC Provides Financing for a Key Sector: Education

Private education is an economic sector that is critical to development because it creates the foundation for a skilled labor force capable of adding value and adapting to innovation and changing technologies. Lending to private educational institutions, particularly those owned by foundations or not for profit entities, involves special legal and other risk factors that have discouraged lending by financial institutions in the region. In response to a lack of alternative sources of financing and a growing demand for expanded and more modern educational facilities, the IIC is developing expertise and a market presence in this sector.

IIC invests in human capital through financing for education

The IIC Contributes to Innovative Synergy within the IDB Group

The IIC's private sector expertise and developmental innovation are contributing to the success of other private sector activities within the IDB Group.

Consolidating Capital Markets

In 2000, the IIC broke new ground when it signed an agreement to purchase mortgage-backed securities from Brazilian Securities Companhia de Securitização. These were the first investment grade mortgage-backed securities issued in the Brazilian capital market that were later sold to institutional investors. As demand for mortgage-backed securities increased, in 2001 the IIC provided Brazilian Securities Companhia de Securitização with a purchase facility for acquiring and warehousing collateralized real estate loan obligations. This IIC facility enabled Brazilian Securities to acquire larger volumes of mortgages for subsequent securitization, thus furthering its ability to develop a liquid secondary mortgage market in Brazil. Demand for mortgage-backed securities developed with the financial support of the IIC increased beyond the IIC's ability to provide the financing required by Brazilian Securities. The IIC, working with the Private Sector Department of the IDB, assisted Brazilian Securities in obtaining a $75 million collateralized revolving credit facility for warehousing mortgage instruments. As a member of the IDB Group, the IIC was able to mobilize a new and larger funding source for Brazilian Securities from within the IDB Group that will build on the pioneering work in the Brazilian mortgage market financed by the IIC.

Coordination with IDB

Microfinance with MIF

Expanding Funding for Microfinance Institutions

In collaboration with the Multilateral Investment Fund (MIF), a leader in microfinance lending and investing in the region, the IIC made loans to four microfinance lenders in Bolivia, Ecuador, El Salvador, and Nicaragua in 2005. These loans were the first joint financings provided by the IIC and the MIF for microfinance institutions. IIC's expertise in lending to regulated financial institutions and the MIF's understanding of microfinance lending were combined to provide a comprehensive financing solution for this network of microfinance banks controlled by Internationale Micro Investitionen Aktiengesellschaft (IMI) of Germany.

These four projects are part of the IDB Group's efforts to respond to the development objectives laid out in the Declaration of Nuevo León to utilize the banking sector to channel loans to micro and small private enterprises in Latin America and the Caribbean.

IDB Group members support housing

Promoting Low-Cost Housing

A referral from Spain's Caja Madrid led to a loan from the IIC, DEG Deutsche Investitions-und Entwicklungsgesellschaft mbH, and FMO Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. to Hipotecaria Su Casita, S.A. de C.V. SOFOL for financing low-income housing in Mexico.

This IIC operation complements a MIF loan and nonreimbursable technical-cooperation funding for a pilot project with Hipotecaria Su Casita as the executing agency. The MIF project seeks to direct savings by Mexicans living in the United States toward the purchase of housing in Mexico and thus enhance the development impact of workers' remittances. The IIC project also complements an operation that the IDB's Private Sector Department is considering with Su Casita. The IDB operation would consist of a partial credit guarantee for a warehouse facility backed by newly originated mortgages, the proceeds of which would be used by Su Casita to augment its residential mortgage origination capacity.

The IIC in Facts and Figures

The IIC is a multilateral financial institution with forty-three member countries and is part of the IDB Group. The IIC is mandated by its Charter to promote the economic development of its regional developing member countries by encouraging the establishment, expansion, and modernization of private enterprises, preferably those that are small and medium-scale, in such a way as to complement the activities of the IDB.

To fulfill its mandate, the IIC offers a range of financial products and services, either directly (e.g., long-term loans, guarantees, equity investments, and issue underwritings) or indirectly by means of lines of credit through local financial intermediaries that provide funding for corporate investments, refinancings, and working capital, as well as guarantee facilities and financial and operating lease facilities. The IIC also provides structured loans, financing for private equity funds, and loans for supply chain support programs.

IIC Basic Financial Indicators*

Start-Up of Operations	1989
Member Countries	43
Authorized Capital	$703.7 million
Paid-In Capital	$500.9 million
Outstanding Loan Portfolio	$510.7 million
Cumulative Loans Approved	$1.9 billion
Authorized Headcount	100 employees

* Figures rounded. Details in financial statements.

All of the IIC's clients are private enterprises—preferably, although not exclusively, small and medium-size companies. Through financial engineering, the IIC tailors its financial products to its clients' specific funding requirements.

The IIC works **directly** with the private sector through several tools, including the following:

- Short-term loans up to two years (working capital or trade financing).
- Medium-term loans up to five years (working capital, corporate loans, or project financing).
- Long-term loans up to ten years (corporate loans or project financing).
- Subordinated loans.
- Equity and quasi-equity investments.
- Credit guarantees for loans and debt instruments.

Indirectly, the IIC makes financing available to private enterprises by:

- Acquiring equity participations in private equity funds that make equity and quasi-equity investments.
- Providing funding for private financial intermediaries (lines of credit, leasing, factoring).
- Extending agency lines of credit with third-party partners.
- Making financing available through supply chains and cofinancing arrangements with development agencies.

The following charts provide an overview of the IIC's operations and show how their developmental impact is leveraged many times over by working through local financial institutions and other intermediaries.

Looking ahead, the IIC is committed to expanding its presence in the region and fostering long-term relationships with its clients as they grow and diversify, helping them make a sustainable contribution to the local economy and improve the lives of the region's inhabitants. The results achieved to date and the IIC's goals for the future are set out in more detail in this Annual Report.

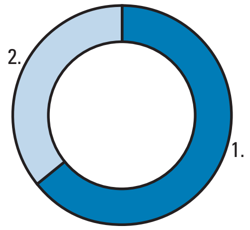
Key Operating Indicators in 2005

Approvals less than $3.0 million	9
Approvals between $3.0 million and $10.0 million	14
Approvals above $10.0 million	14
Average financing approved, corporate	$3.7 million
Average financing approved to financial intermediaries	$11 million
Average financing through financial intermediaries with IIC resources	$4,900
Average number of months required for approving operations with financial intermediaries	2 months
Average number of months required for approving operations with companies, programs, and supply chains	3 months
Total write-offs/total loan equity investment disbursements (aggregate as of 12/31/05)	4.22%
Provisions/loan and equity investment portfolio (December 2005)	11.19%
Number of companies requesting IIC financing	932
Number of projects and programs approved	37
Number of projects under supervision	153
Number of loans through financial intermediaries and investment funds	23

Harmonized Reporting*

Number of loans through financial intermediaries and investment funds	548,712

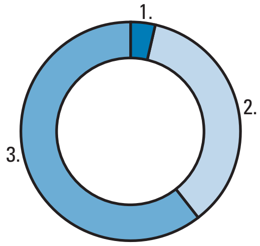
*Cumulative since 2000.



67% ***of the IIC's assets are placed in the private sector***

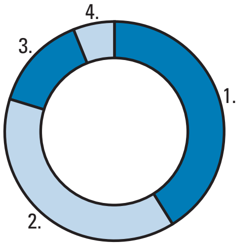
Composition of the IIC's Assets
(as of December 31, 2005)

1. Loans to and equity investments in the private sector: **67%**
2. Other assets: **33%**



Breakdown of Aggregate Approvals
(as of December 31, 2005)

1. Approvals less than \$3 million: **3.8%**
2. Approvals between \$3 million and \$10 million: **35.9%**
3. Approvals more than \$10 million: **60.3%**

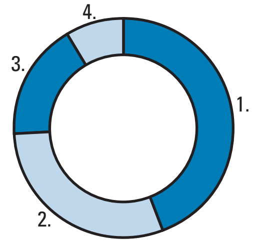


41.1% ***of the active projects in the portfolio are direct projects***

Distribution of Net Active Approved Portfolio by Financial Product
(as of December 31, 2005)

Number of projects

1. Direct Projects: **63**
2. Financial Institutions: **59**
3. Investment Funds: **22**
4. Agency Lines: **9**

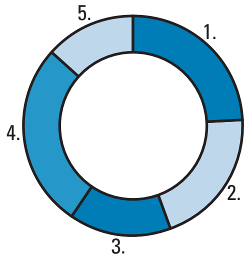


Distribution of Net Active Approved Portfolio by Financial Product

(as of December 31, 2005)

Financing approved

1. Financial Institutions:	**44.4%**
2. Direct Projects:	**29.9%**
3. Agency Lines:	**17.1%**
4. Investment Funds:	**8.6%**



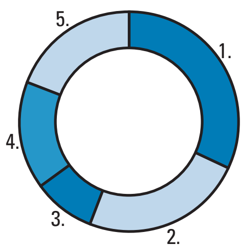
***41.8%** of the projects were in C and D countries*

Distribution of Net Active Approved Portfolio by Country Group

(as of December 31, 2005)

Number of projects

1. Group A:	**37**
2. Group B:	**31**
3. Group C:	**22**
4. Group D:	**42**
5. Regional:	**21**



***20.1%** of approved financing went to C and D countries*

Distribution of Net Active Approved Portfolio by Country Group

(as of December 31, 2005)

Financing approved

1. Group A:	**34.4%**
2. Group B:	**25.0%**
3. Group C:	**7.3%**
4. Group D:	**12.8%**
5. Regional:	**20.5%**

Sector Distribution in 2005 Number of Projects Outstanding

(as of December 31, 2005)

Sector	%
Financial Services	40.0%
Investment Funds	16.9%
Agriculture and Agribusiness	11.5%
Utilities and Infrastructure	5.4%
Aquaculture and Fisheries	3.8%
Education	3.1%
General Manufacturing	3.1%
Chemicals and Plastics	2.3%
Food, Bottling, and Beverages	2.3%
Tourism and Hotels	2.3%
Wood, Pulp, and Paper	2.3%
Industrial Processing Zones	1.5%
Livestock and Poultry	1.5%
Textiles, Apparel, and Leather	1.5%
Nonfinancial Services	0.8%
Oil and Mining	0.8%
Transportation and Warehousing	0.8%

Sector Distribution in 2005 Financing Approved Outstanding

(as of December 31, 2005)

Sector	%
Financial Services	52.9%
Investment Funds	10.6%
Agriculture and Agribusiness	9.7%
Aquaculture and Fisheries	3.9%
Utilities and Infrastructure	3.3%
Education	2.7%
Chemicals and Plastics	2.5%
Wood, Pulp, and Paper	2.4%
Livestock and Poultry	2.1%
General Manufacturing	2.0%
Food, Bottling, and Beverages	1.8%
Industrial Processing Zones	1.5%
Tourism and Hotels	1.4%
Nonfinancial Services	0.9%
Textiles, Apparel, and Leather	0.9%
Transportation and Warehousing	0.8%
Oil and Mining	0.7%

Disbursements through Trust Funds

Austrian Fund	$10,000
Danish Trust Fund	$37,800
Italian Fund	$470,218
United States Trade and Development Agency	$50,000

The Year in Review

Highlights 2005

Additionality and Developmental Impact

Year 2005 approvals are expected to lead to the creation of more than 66,000 jobs. The $341.7 million approved in 2005 will support the implementation of projects with a total cost of $537.1 million. For every dollar earmarked by the Corporation for operations approved in 2005, $2.70 will be mobilized from other sources.

Of the IIC's committed investments, 95 percent had been fully disbursed by December 31, 2005.

Operating Results

This year, the IIC's Board of Executive Directors approved thirty-seven projects and programs in fifteen countries—plus three regional projects—totaling $341.65 million. The average amount per operation was $9.2 million, broken down as follows:

- Twelve direct corporate operations for an average amount of $3.8 million.
- Nineteen operations with financial intermediaries averaging $11.0 million, to finance small and medium-size enterprises.
- Two colending programs and other agreements for an average amount of $15.0 million, to channel loans to small producers.

Two of the year's loans will be cofinanced, thus mobilizing $100.0 million in funding from banks and other sources. The total amount of resources channeled by the IIC in 2005 is $441.7 million.

The year's approvals followed identification of 932 potential projects in twenty-five countries; 801 were not considered because they did not meet basic IIC criteria regarding size, additionality, or perceived risk, among other factors. The remaining 131 projects moved to subsequent phases. Thirty-seven transactions were submitted for consideration and approval by the Board of Executive Directors.

Financial Results

IIC income from all sources in 2005 amounted to $37.6 million. Income from lending operations totaled $24.1 million ($22.3 million from interest and $1.8 million from fees and other loan investment income). Capital gains, dividends, and other income from the equity investment portfolio totaled $2.2 million for the year. Total expenses were $18.7 million, producing a net profit of $13.7 million.

Net income increased to $13.7 million in 2005 from $3.5 million in 2004. The improvement in net income is attributed to the following:

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

The Partnership Grows

In early 2005 the Republic of Korea became the IIC's forty-third member country. The Republic of Korea will contribute to a trust fund to provide targeted support of the Corporation's mission and operations in its regional developing member countries, with preference for small and less developed economies. For more details on this trust fund, see the section on special funds.

Other Events

Latin American Federation of Banks Annual Meeting

The IIC was among the sponsors of the thirty-ninth annual meeting of the Latin American Federation of Banks (FELABAN), which took place in late November 2005. FELABAN's members include banking associations and other organizations in nineteen countries throughout Central and South America: more than 700 banks and financial institutions in all. Its annual meeting of Latin American banks is the largest of its kind. One thousand bankers from the region attended the meeting, as did 100 delegates from major European, Canadian, and U.S. banks that do business with Latin America. The IIC took advantage of the event to reinforce existing relationships and make new contacts and had a stand showcasing its promotional videos and providing information about the IIC as an organization that is seeking to work with companies in the region and to provide them with financial solutions.

Environmental Course for Financial Intermediaries
The IIC held its ninth workshop on improving corporate environmental management for representatives of Latin American and Caribbean financial institutions on May 25–27, 2005. The purpose of the workshop, titled Competitive Business Advantage: Environmental Management in the Financial Sector, was to train financial institutions in developing environmental strategies for their small and medium-size private enterprise financing programs, as well as to raise awareness of the comparative advantages that these programs entail. The workshop, cosponsored by the International Finance Corporation (IFC), a member of the World Bank Group, and by the IDB's PRI, was attended by forty-six people representing thirty financial institutions from seventeen countries in Latin America and the Caribbean.

The three days of presentations and working group sessions covered environmental sustainability management systems, reviewed how to incorporate environmental analysis in the credit process, and discussed how to identify potential environmental problems and opportunities. Two of the banks attending the seminar that are already implementing sustainable management systems provided information on their experience.

Caja Madrid
At the Annual Meeting of its Board of Governors in Okinawa, Japan, the IIC signed a loan agreement with Caja de Ahorros y Monte de Piedad de Madrid under a structured financing arrangement for up to $50 million granted by Caja Madrid to the IIC.

Japan Bank for International Cooperation
Also at the Annual Meeting, the IIC signed a memorandum of understanding with Japan Bank for International Cooperation (JBIC, www.jbic.go.jp) to provide a general framework that will facilitate cooperation between JBIC and the IIC to propose and implement financial initiatives at the regional, national, and sectoral level, and to support institutional networking and capacity building in the financial domain.

JBIC was established to contribute to sound development in Japan through Japanese exports and imports and Japanese economic activities overseas and to support economic and social development and economic stability in developing areas.

WUB International
The IIC signed a memorandum of understanding with WUB International, an association initially organized among businesspeople in Hawaii and Okinawa to build a worldwide business network.

The main purpose of the memorandum of understanding is to promote investment and identify transactions in the Latin American and Caribbean member countries of the IIC in which WUB International would be interested in participating.

Institutional Affairs

Annual Meeting

The twentieth Annual Meeting of the Board of Governors of the IIC took place in Okinawa, Japan, on April 10–12, 2005, in conjunction with the forty-sixth Annual Meeting of the Board of Governors of the IDB. During this meeting, the Governors approved the IIC's financial statements for the year ended December 31, 2004, as well as its annual report.

Board of Executive Directors

Among the matters considered by the Board of Executive Directors of the Corporation in 2005 were the following:

- The 2005–06 business plan.
- Oral status report on capital subscriptions.
- Lending proposal for the financial institutions programs toward fulfilling the goals of the Declaration of Nuevo León.
- Two reports from the IDB's Office of Evaluation and Oversight (OVE): Third Independent Evaluation report, and Action Plan for Enhancing Evaluability of IIC Program Initiatives and Business Plans.
- Report on the IIC headquarters move to 1350 New York Avenue.
- Modification of the IIC's disclosure policy.
- IIC report on experience with investment funds.

Key developments related to matters brought before the Board are discussed elsewhere in this annual report.

Cumulative Approvals by Country, Net of Droppages and Cancellations

(as of December 31, 2005)

Country	% of Total
Argentina	7.30%
Bahamas	0.27%
Barbados	0.31%
Belize	0.04%
Bolivia	2.82%
Brazil	12.84%
Chile	4.77%
Colombia	9.28%
Costa Rica	2.92%
Dominican Republic	2.68%
Ecuador	3.60%
El Salvador	0.95%
Guatemala	2.73%
Guyana	0.16%
Haiti	0.04%
Honduras	3.00%
Jamaica	1.81%
Mexico	10.83%
Nicaragua	2.24%
Panama	1.41%
Paraguay	1.36%
Peru	6.08%
Trinidad and Tobago	0.90%
Uruguay	3.76%
Venezuela	2.81%
Regional A/B Only	3.15%
Regional A/B/C & D	5.47%
Regional C/D Only	6.46%

Cumulative Approvals by Sector, Net of Droppages and Cancellations

(as of December 31, 2005)

Sector	% of Total
Agency Lines	10.36%
Agriculture and Agribusiness	8.15%
Aquaculture and Fisheries	3.01%
Capital Markets	1.13%
Chemicals and Plastics	2.88%
Education	1.09%
Financial Services	38.15%
Food, Bottling, and Beverages	1.64%
General Manufacturing	3.18%
Health	0.66%
Industrial Processing Zones	1.65%
Investment Funds	9.65%
Livestock and Poultry	1.01%
Nonfinancial Services	0.85%
Oil and Mining	2.06%
Small Loan Program	0.89%
Technology, Communications, and New Economy	1.22%
Textiles, Apparel, and Leather	1.15%
Tourism and Hotels	2.92%
Transportation and Warehousing	1.99%
Utilities and Infrastructure	3.40%
Wood, Pulp, and Paper	1.34%
Others	1.64%

Declaration of Nuevo León Goals

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

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

Among the measures mentioned to this end is to triple "lending through the banking system to micro, small, and medium-sized enterprises, striving to benefit all of the countries that participate in the Summits of the Americas process." The Declaration's emphasis on expanding financing to such enterprises was ratified in the G8 Action Plan for Applying the Power of Entrepreneurship to the Eradication of Poverty approved at the Sea Island Summit in June 2004.

The IIC is working to meet the Declaration of Nuevo León goal of tripling its small and medium-size enterprise portfolio financed through Latin American and Caribbean financial institutions by the end of 2007. It expects to meet these goals by offering short-term and trade financing; establishing new credit limits that permit higher exposure to large, creditworthy financial institutions; increasing the number of B loans to financial institutions; promoting, jointly with the MIF, the financing of small and medium-size companies by Latin American and Caribbean financial institutions; expediting internal approval of smaller transactions; offering fixed and floating rate financing options; granting credit enhancements to local currency issues in order to lower their costs and extend their terms; and providing local financial institutions with guarantees for local currency projects with small and medium-size companies. Much of this will be pursued through the Financial Intermediaries Program approved by the Board of Executive Directors this year.

Among the internal steps the IIC has taken to bolster its efforts to meet the Declaration of Nuevo León goals are the creation of a financial institutions unit; the creation of an IIC/MIF small and medium-size enterprise financing facility to package MIF technical assistance with IIC credit and guarantees to local financial institutions to increase lending to small and medium-size companies; amendment of exposure guidelines to offer larger loans to qualified financial institutions for onlending to small and medium-size companies; extension of the IIC's authority to finance short-term transactions; obtainment of a temporary waiver of IIC's financial institution sector limit; and design of a standard loan agreement for financial institutions to streamline transactions.

Decentralization

Seeking to provide more effective service to its clients, the IIC has continued to increase both the staff based in the region and the number of countries where they are located. In 2005, IIC regional staff increased to twenty located in eight offices in eight countries, compared with fifteen staff members in three countries in 2002.

Decentralization of business origination and portfolio supervision is increasing new business opportunities and fostering more frequent and timely interaction with existing clients. This process will therefore continue to be a major focus of the IIC's strategy in the years ahead.

Operations Approved in 2005

(as of December 31, 2005—US$ millions)

Country	Sector	Investment	Gross Loan & Equity Approved	Total Cost
Bolivia	Textiles, Apparel, and Leather	Altifibers	0.4	1.5
Brazil	Agency Lines	RABOBANK III	15.0	15.0
	Financial Services	Banco Itaú	30.0	100.0
		Unibanco	10.0	40.0
	Others	Sofisa Guarantee	2.4	2.4
Chile	Agriculture and Agribusiness	Ben David	3.0	7.0
	Financial Services	FACTORLINE II	2.0	2.0
Colombia	Financial Services	Bancóldex	30.0	30.0
		FNG	10.0	10.0
		Leasing Colombia (Pesos)	20.0	20.0
		Leasing Bolívar (Pesos)	9.0	9.0
		Leasing de Crédito (Pesos)	10.0	10.0
		Leasing Occidente (Pesos)	20.0	20.0
		Leasing del Valle (Pesos)	11.0	11.0
Costa Rica	Financial Services	Multivalores	1.0	1.0
		IMPROSA - GARANTIA	3.5	3.5
Dominican Republic	Financial Services	BHD	5.0	5.0
Ecuador	Financial Services	Bolivariano II	7.0	7.0
	Utilities and Infrastructure	Abanico II	4.0	12.0
Guatemala	Financial Services	Banco de Occidente II	10.0	10.0
Honduras	Textiles, Apparel, and Leather	Caracol III	3.8	15.6
Mexico	Agency Lines	GB NAFIN CII	30.0	68.0
	Agriculture and Agribusiness	ALMER II	10.0	10.0
	Financial Services	Su Casita	20.0	100.0
Nicaragua	Agriculture and Agribusiness	Café Soluble III	7.0	14.2
	Financial Services	BDF	5.0	5.0
	Livestock and Poultry	La Estrella	4.2	4.2
Panama	Utilities and Infrastructure	Ternor II	1.9	9.4
Paraguay	Agency Lines	Banco Regional II	1.0	1.0
	Agriculture and Agribusiness	Agrofértil	2.0	2.0
	Financial Services	Financiera Familiar	1.0	1.0
Peru	Agriculture and Agribusiness	Green Peru	1.5	4.5
Uruguay	Agency Lines	CU Agency Line	5.0	10.0
	Food, Bottling, and Beverages	CONAPROLE	5.0	5.0
Regional A/B/C and D	Agency Lines	LAAD II	6.0	12.0
		CAF	30.0	60.0
Regional C/D Only	Financial Services	Interfin Regional	5.0	10.0
Total		**37**	**341.7**	**635.3**

Flexibility and New Products

The IIC has expanded its product capabilities to include a broader mix of financing alternatives. Among these products are short- and medium-term loans for a variety of purposes, including trade finance and working capital. In addition to improving the IIC's financial performance, enhanced product flexibility and new product capabilities seek to address the unmet financial needs of IIC's target market and step up the IIC's lending and investing activities in the smaller economies of the region.

The intended financial and developmental benefits of greater product flexibility were achieved in 2005. New products accounted for 30 percent of the number of the year's project approvals. Transactions with financial institutions, another primary focus of new business activities in 2005, accounted for about $209.5 million, or 61 percent of the volume of project approvals for the year. The IIC will also mobilize an additional $100 million for financial institutions through colending operations.

Working within the IDB Group

Combined action among the institutions that make up the IDB Group is a powerful agent for development in Latin America and the Caribbean. The IIC works with the IDB on developing the private-sector segments of IDB country strategies and programming. To this end, the IIC's Credit Committee acts, in effect, as the "investment committee" for MIF operations in the latter's equity investment and loan review process.

Private Sector

The IIC has been actively involved in the private sector development strategy process for the entire IDB Group. This country-based process provides a shared framework to ensure coordination at the country level among the IIC, the MIF, and the PRI. While both the IIC and the PRI provide financing to infrastructure projects, the PRI's cost structure does not allow it to operate profitably with transactions below $25 million. The IIC participates in the working groups and the missions organized to implement the strategy, such as trips to several Central American and Caribbean countries in 2005. The Business Climate Initiative now being implemented by the IDB will enable the IIC to contribute its knowledge of and experience with the small and medium-size enterprise sector.

Multilateral Investment Fund

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

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

In 2004 the IIC and the IDB, as administrator of the MIF, entered into a memorandum of understanding to continue their joint collaboration and pursue new mechanisms to provide technical assistance and financing to small and medium-size companies. They agreed to work together to seek out private financial institutions that are willing to commit their own human and financial resources to develop specific small and medium-size finance programs and could benefit from a combination of MIF technical assistance and financing from IIC to strengthen their capacity to work with the small and medium-size company sector.

The resulting IIC/MIF Small and Medium-Size Enterprise Finance Facility aims to help financial institutions address the issues of funding, transaction costs, and risk management that limit their lending to small and medium-size companies. The facility is designed to complement the IDB's efforts to enhance the environment for secured transactions and remove other structural impediments through its Business Climate Initiative. It is also consistent with the IDB Group's approved private sector strategy, which calls for greater coordination among the various private sector arms of the IDB Group and the development of strategic partnerships to leverage additional resources.

To date, IIC loans and equity investments under the joint facility have totaled $9.6 million and, combined with MIF loans, equity investments, and technical assistance, are

Approvals, Disbursements, and Outstanding

(as of December 31, 2005—US$ millions)

	Gross Approved			Disbursements			Outstanding		
Country	Loan/ Other	Equity	Total	Loan/ Other	Equity	Total	Loan/ Other	Equity	Total
Argentina	153.74	10.97	164.71	124.32	9.41	133.73	20.03	0.61	20.64
Bahamas	6.00	0.00	6.00	1.00	0.00	1.00	0.00	0.00	0.00
Barbados	3.00	4.00	7.00	0.00	0.00	0.00	0.00	0.00	0.00
Belize	1.00	0.00	1.00	1.00	0.00	1.00	0.00	0.00	0.00
Bolivia	61.75	1.93	63.68	53.32	1.33	54.65	9.33	0.00	9.33
Brazil	271.20	18.50	289.70	177.43	13.03	190.46	82.28	2.76	85.04
Chile	77.35	30.33	107.67	58.55	24.08	82.63	29.10	14.97	44.07
Colombia	196.37	12.88	209.25	125.39	9.51	134.89	91.01	0.92	91.93
Costa Rica	64.45	1.50	65.95	53.25	0.50	53.75	17.72	0.00	17.72
Dominican Republic	60.55	0.00	60.55	26.92	0.00	26.92	0.00	0.00	0.00
Ecuador	78.78	2.50	81.28	46.70	1.80	48.50	25.38	0.00	25.38
El Salvador	16.88	4.50	21.38	16.40	2.00	18.40	10.96	0.00	10.96
Guatemala	61.05	0.50	61.55	18.88	0.00	18.88	0.46	0.00	0.46
Guyana	3.30	0.20	3.50	0.80	0.00	0.80	0.00	0.00	0.00
Haiti	1.00	0.00	1.00	0.00	0.00	0.00	0.00	0.00	0.00
Honduras	66.60	1.00	67.60	32.70	0.00	32.70	12.28	0.00	12.28
Jamaica	39.30	1.52	40.82	9.03	0.00	9.03	2.53	0.00	2.53
Mexico	195.99	48.25	244.24	62.94	25.06	87.99	19.03	10.18	29.21
Nicaragua	49.15	1.40	50.55	34.85	0.90	35.75	17.33	0.00	17.33
Panama	31.88	0.00	31.88	31.88	0.00	31.88	6.60	0.00	6.60
Paraguay	30.60	0.00	30.60	23.94	0.00	23.94	4.89	0.00	4.89
Peru	126.25	10.83	137.08	76.14	4.48	80.62	20.48	0.00	20.48
Trinidad and Tobago	17.50	2.80	20.30	9.61	0.60	10.20	0.16	0.60	0.76
Uruguay	78.59	6.20	84.79	47.66	6.05	53.70	20.14	0.25	20.39
Venezuela	58.75	4.74	63.49	29.50	0.00	29.50	11.56	0.00	11.56
Regional A/B Only	0.00	71.00	71.00	0.00	53.84	53.84	0.00	21.99	21.99
Regional A/B/C and D	76.00	47.50	123.50	10.00	26.69	36.69	8.18	13.66	21.84
Regional C/D Only	111.18	34.50	145.68	33.13	17.73	50.86	22.80	12.50	35.31
Total	**1,938.18**	**317.55**	**2,255.73**	**1,105.33**	**197.00**	**1,302.33**	**432.7**	**78.31**	**510.68**

expected to reach more than 101,000 micro, small, and medium-size enterprises. The IIC and MIF are stepping up marketing of the facility. New loan and technical cooperation proposals are likely to focus on lending to small and medium-size companies and new instruments such as factoring. In 2005, the Corporation also supervised several projects for the MIF, participated in the structuring and due diligence of small business investment funds, and provided oversight on the preparation of new MIF investments.

Special Programs

Financial Institutions Program
The Financial Institutions Program, approved this year, is designed to provide up to $160 million per year in expanded credit to small and medium-size companies through local financial intermediaries. This financing will be made available to such companies through the financing modalities the IIC is authorized to provide, such as leasing, factoring, working capital loans, documentary credits, pre- and post-export lending, and medium- and long-term expansion financing. The program has been approved for an initial three-year period from 2005 through 2007. The Board of Executive Directors of the Corporation will assess the performance of the program at regular intervals to determine whether it should be continued beyond the initial three-year period. Performance of the program will be assessed on the basis of the following criteria:

- Amount of IIC financing made available to small and medium-size companies through the program.
- Amount of additional lending to such companies beyond that funded through the program.
- Number of companies benefiting from the program.
- Estimated employment supported by lending through the program.
- Number of banks participating in the program as lenders.
- Number of banks participating in the program as B lenders.

The IIC's financial institution staff is responsible for originating, analyzing, structuring, and supervising all operations with financial institutions that receive financing under the program.

Promoting the use of the Financial Institutions Program for projects that could qualify under the Clean Development Mechanism under the Kyoto Protocol will further increase funding to small and medium-size enterprises in the region. To this end, the IIC is including information about carbon credits in its financial institutions environmental training program. The training program will continue to be an integral component of the assistance provided to financial intermediaries.

Local-Currency Financing
In addition to its own natural mandate to provide long-term financing for projects in U.S. dollars, the IIC is beginning to explore alternative structures to support small and medium-size companies with local-currency financing. Because of changes in foreign exchange regulations and because some companies prefer to borrow in local currency to fund long-term investments, the IIC is broadening the scope of its mandate in local currency. This year, operations involving a local-currency component were approved with Banco Sofisa in Brazil (local-currency guarantee program) and Nacional Financiera, S.N.C. in Mexico (partial loan guarantee program). For more information on local-currency operations, see page 1.

Colending Programs
To further expand its mandate, the IIC is establishing parallel financing programs with development institutions to finance direct small and medium-size projects in their member countries.

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

Countries of Origin and Aggregate Procurement, 1989–2005

(as of December 31, 2005—US$ thousands)

Argentina	289,188
Austria	358
Bahamas	2,612
Barbados	3,000
Belgium	272
Bolivia	12,142
Brazil	186,519
Chile	135,458
Colombia	32,755
Costa Rica	72,169
Denmark	8,038
Dominican Republic	30,043
Ecuador	21,893
El Salvador	15,921
Finland	2,240
France	15,757
Germany	78,559
Guatemala	49,657
Guyana	600
Honduras	57,498
Israel	13,367
Italy	45,747
Jamaica	4,940
Japan	18,170
Korea, Republic of	43
Mexico	99,254
Netherlands	36,807
Nicaragua	23,593
Norway	7,551
Panama	13,913
Paraguay	5,890
Peru	72,813
Spain	21,857
Sweden	677
Switzerland	11,897
Trinidad and Tobago	1,000
United States	405,137
Uruguay	69,698
Venezuela	37,281
Regional	18,530
Total	**1,922,844**

Korean Trust Fund

In the context of the Republic of Korea's admission as the forty-third member country of the Corporation on March 16, 2005, the Republic of Korea and the Corporation entered into an agreement for the establishment of the Korea–IIC SME Development Trust Fund. Under the agreement, Korea pledged $40 million to the fund. As of December 2005, Korea had made a cash contribution of $11.4 million as scheduled. The Korean trust fund, the largest established for the IIC to date, will help further the Corporation's developmental mandate.

The general goal of the fund is to finance nonreimbursable technical assistance and other activities in support of the IIC's mission and operations in its regional developing member countries, with preference for the smaller and less developed economies. The fund will support initiatives at the core of the Corporation's mandate, including the following activities:

- Preinvestment studies, including sector and market studies.
- Project identification.
- Development and implementation of new financing mechanisms.
- Project structuring and provision of accounting, legal, and environmental consultancy services.
- Organization of seminars, forums, and workshops to disseminate knowledge and experience related to the Corporation's mandate and objectives.

Supply Chain Programs

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

Supply chain programs provide the IIC with an opportunity to leverage its scope and reach a greater number of small and medium-size companies while supporting the development of supply chains.

AIG-GE Capital Latin American Infrastructure Fund

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

Special Funds: Sharing Resources, Fostering Private Sector Development

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

For this purpose, the IIC currently administers and can draw on trust funds set up by donor countries, including Austria, Denmark, Italy, the Republic of Korea, and the United States. The objective of the Italian Special Trust Fund is to finance technical assistance concerning the technical, economic, and financial sustainability of economic activities with high social impact proposed by small and medium-size Argentinean and Italo-Argentinean companies.

The Italian Small and Medium-Size Enterprise Development Program

The Italian Small and Medium-Size Enterprise Development Program is an initiative for creating a network between Italian, Latin American, and Caribbean companies that are linked by import, export, and foreign direct investment operations. The goal is to reach small and medium-size enterprises in Latin America and the Caribbean that have a working relationship with Italian companies and need financing for their expansion investments, and to refer them to the Corporation. The program has already created a large network with development agencies, regional and central governments, banks, international organizations, and companies in Italy and in Latin America and the Caribbean that are promoting and doing business within the region. Several conferences and workshops to introduce the IIC and the program have been held in Italy and in Latin America with the support of Italian partners, reaching an audience of local institutions and selected companies.

Initiatives have been launched with the Italian Trade Commission in Peru, Venezuela, and Brazil; with the Regione Emilia Romagna in Chile, Argentina, and Brazil; with Tuscany Chambers of Commerce in Peru, Mexico, and Brazil; with automotive companies from Piedmont; and in Brazil with the Italian Ministry of Production.

Italian banks such as Monte Paschi di Siena and Banco Sanpaoloimi are creating cofinancing tools to participate in the IIC's cofinancing program. As a result of these efforts, Banco Sanpaoloimi cofinanced a transaction in Brazil with Bicbanco.

Particular attention has been focused on the supply chain concept, which is aimed at reaching and financing companies that are part of an Italian company's supply chain (e.g., Pirelli S.A. Brasil and Fiat Brasil).

A comprehensive database of 500 Italian and Latin American companies has been built to create a map of business connections and interactions. This data will be used to target marketing efforts with the ultimate goal of having the IIC finance some of the investments. Some of these companies are already in the IIC's pipeline to be analyzed for their financial needs.

The program is creating business opportunities and supporting the development of the private sector in Latin America and the Caribbean, creating a business network that provides more opportunities and reinforces partnerships between Italy and small and medium-size Latin American and Caribbean enterprises.

The Corporation also has access to the Swiss Technical Cooperation Trust Fund for Consulting Services and Training Activities administered by the IDB. The use of trust fund resources is of particular importance for the IIC because of its unique mandate to promote the economic development of its Latin American and Caribbean member countries by financing, preferably, small and medium-size private enterprises.

In 2005, some $568,000 in technical cooperation resources were channeled through the above-mentioned cooperation funds.

Governance

IIC Structure

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

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

Standing Committees

Credit Committee
Chair: Chief Credit Officer

- Reviews new operations and makes recommendations to General Manager concerning submission for approval by the Board of Executive Directors.

Finance and Treasury Committee
Chair: Manager, Corporate Finance and Financial Institutions

- Reviews proposed strategies for managing liquid assets, bearing in mind expected investments, potential consequences of interest rate movements, and liquidity requirements.

Human Resources Management Committee
Chair: Chief, Credit Unit

- Oversees staff training programs and deals with staff concerns.
- Advises the human resources unit on promotions and staff evaluations.

Policy and Internal Controls Committee
Chair: Chief, Corporate Affairs Unit

- Designs policies, procedures, and guidelines conducive to efficient operations and the free flow of information.

Portfolio Supervision Committee
Chair: Chief, Finance and Risk Management Division

- Monitors overall quality of IIC portfolio and reviews status of portfolio supervision cycle, including validation and approval of risk classifications.
- Approves supervision guidelines and procedures.
- Reviews specific actions to mitigate risks and protect IIC interests in individual projects.

Special Operations Committee
Chair: Chief, Credit Unit

- Makes recommendations and suggestions to the Special Operations Unit on general strategies, priorities, and specific proposals for loan recoveries and workouts.

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

Management. The President of the IDB is ex-officio Chairman of the Board of Executive Directors of the Corporation. He presides over meetings of the Board of Executive Directors but does not have the right to vote except in the event of a tie. He may participate in but not vote at meetings of the IIC Board of Governors.

The Board of Executive Directors appoints the General Manager of the Corporation by a four-fifths majority of the total voting power, on the recommendation of the Chairman of the Board of Executive Directors. The General Manager is the chief of the officers and staff of the Corporation. Under the direction of the Board of Executive Directors and the general supervision of the Chairman of the Board of Executive Directors, he conducts the ordinary business of the Corporation and, in consultation with the Board of Executive Directors and the Chairman of the Board of Executive Directors, is responsible for the organization, appointment, and dismissal of the officers and staff. The General Manager may participate in meetings of the Board of Executive Directors but cannot vote at those meetings.

The General Manager also determines the operating structure of the IIC and may change it as the organization's needs evolve.

Staffing. To fulfill its multilateral mission, the IIC has 100 staff positions as of December 31, 2005. There are twenty regional staff members in eight countries (Argentina, Chile, Colombia, Costa Rica, Honduras, Nicaragua,

The Corporation's Enhanced Public Disclosure Policy

The Corporation reaffirms its commitment to transparency and accountability in all of its activities. The Corporation's disclosure of information policy is based on the following principles:

- Information concerning the Corporation and its activities will be made available to the public in the absence of a compelling reason for confidentiality.
- Access to all public Corporation information should be available in any of the Corporation's member countries.
- Information provided to the public shall be made available in a form and at a time that enhances the transparency and therefore the quality of Corporation activities.

For every loan, equity investment, guarantee, or other financing operation, an investment summary will be made available to the public at least thirty days before the Board of Directors approves the project proposal. The investment summary includes the Corporation's environmental classification for the project in question, a summary of potential environmental impacts and safety issues, and pertinent recommendations or Corporation requirements to address these issues during project implementation.

For Category IV projects, which could potentially result in diverse and significant environmental impact, an environmental review summary will be made available to the public, together with the investment summary, at least 120 days before the Corporation's Board of Directors makes its final decision on the underlying project.

Some restrictions on the availability of Corporation information to the public are necessary to avoid material harm to the business and competitive interests of the Corporation's clients. Unless otherwise specified in the disclosure policy, proprietary or sensitive financial or business documents or information received by the Corporation from private sector entities will not be disclosed.

See the full text of the Corporation's public disclosure policy at www.iic.int.

Paraguay, and Uruguay) and eighty at the head office in Washington, D.C. Among the latter are twenty investment officers who work directly on originating and developing new projects and six who are assigned full time to direct supervision of a portfolio of 153 projects (corporate and financial institutions), including annual field visits. The remaining staff provides support for Operations and include the Legal Division; the Finance and Risk Management Division; and the Credit, Environmental Engineering, Special Operations, Portfolio Management and Supervision, and Corporate Affairs Units.

Key Policies

Public Disclosure Policy. After a public consultation period, the Board of Executive Directors approved a new, broader disclosure policy that will apply to data or documents prepared after December 1, 2005. Documents prepared between January 15, 1999, and December 1, 2005, will continue to be subject to the disclosure policy approved on January 15, 1999, and any applicable agreements between the Corporation and its clients. The policy is generally in line with the levels of disclosure required for the IDB Group as a whole, adapted to reflect the IIC's mandate to encourage the establishment, expansion and modernization of small and medium-size enterprises within the private sector.

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

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

Environmental and Labor Standards. Before new operations are submitted to the Board of Executive Directors they go through an environmental and labor review process that includes an assessment of the following, as applicable: baseline environmental situation; degree of compliance with applicable national environmental laws, regulations, and standards; sustainable use of natural resources; pollution controls; waste management; use of dangerous substances; major hazard analysis; occupational health and safety; fire and life safety; protection of human health, cultural properties, tribal peoples, endangered species, and sensitive ecosystems; and resettlement issues. This process applies both to projects that the IIC will finance directly and to those that it will finance through a financial intermediary.

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

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

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

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

The IIC's anti-fraud mechanism integrates the institution with the IDB's investigative office and oversight committee, thus enhancing the synergies between the two institutions on fraud and corruption matters.

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

IIC/IDB Technical Assistance Trust Funds, 2005

	Objective and Brief Description	Projects	Consultant's Job Summary/Results
Austrian Fund Established in 1999 Amount: $500,000 Activity in 2005: $10,000 Balance available: $158,340	Untied funds to finance technical assistance activities. Austrian companies are preferable. Study or company activities must benefit Austrian companies (i.e., increase potential for Austrian investors, equipment suppliers, etc.).	Sinersa Hydroelectric Project (Peru)	The Austrian trust fund covered the cost of the consultancy fee related to the carbon credits to be generated by Sinersa at the Poechos 15.4 MW hydroelectric plant. The fees covered the cost of a designated operational entity to carry out the verification report that independently assesses the annual emission reduction report and the amount of greenhouse gas reductions generated for Sinersa. *The IIC approved an $8.5 million loan for the project.*
Danish Fund Established in 2003 Amount: $500,000 Activity in 2005: $30,000 Replenishment: $157,411 Balance available: $257,009	Finance consulting services related to IIC's technical and operational activities. At least 25% of the resources of the Fund will benefit projects in Bolivia and Nicaragua. At least 75% of the resources under each contract will be used to finance consulting services by Danish consultants or consulting firms.	GESCA Power Project (Guatemala)	IIC retained a Danish engineering consulting firm to assist in the evaluation of the technical and financial viability of the construction of a 15.4 MW thermal power plant 60 Km from Guatemala City. GESCA seeks a $7 million loan for the project.
		Altifibers Textile Plant (Bolivia)	Preparation of an Environmental Assessment (*Manifiesto Ambiental Industrial*) and Environmental Management Plan for a textile plant, Altifibers, that will receive a loan under the IIC's Bolivia Small Loan Program.
		Ciramar Shipyard Project (Dominican Republic)	IIC retained a Danish consultant to conduct a technical analysis of the feasibility of a project involving ship repair and construction services as well as a variety of ship agency services. The project company is seeking a US$ 4.1 million loan for investments and debt restructuring.
Italian Fund Established in 1992 Amount: $2,200,000 Activity in 2005: $470,218 Balance available: $691,855.27	Finance technical assistance activities to be provided by Italian companies or individuals in connection with the IIC's operations. Funds can be used for (i) the preparation of pre-feasibility and feasibility studies; (ii) setting up of pilot operations; (iii) technical assistance related to the rehabilitation of existing projects; (iv) technology transfer.	Diproinduca (Venezuela)	IIC retained an Italian engineering company to conduct the environmental due diligence of the Diproinduca project in Venezuela, an environmental restoration project for the Acapulco Lagoon, involving recovery of iron ore from the old tailings deposits in the Lagoon. Diproinduca was seeking an $8 million loan for the project.
		Vendor financing program (Latin America/ Caribbean)	IIC retained an Italian consultant to assist the IIC in designing and structuring a vendor financing facility as a new way to provide small and medium-size companies with a source of financing to obtain equipment from different manufacturers and their affiliates.
Korean Fund Established in 2005 Amount: $40,000,000 Balance available: $10,806,245.69	Finance nonreimbursable technical assistance and other activities in support of the IIC's mission and operations in its regional developing member countries, with preference for the smaller and less developed economies.		
Swiss Fund Amendment to IDB Agreement in 2003 Amount: $3,000,000 Activity in 2005: n.a.	Finance technical assistance in Bolivia, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Nicaragua, and Peru to engage Swiss consultants. IIC may access the fund directly under separate rules from the IDB.		
U.S. Trade and Development Agency Fund Established in 1995 Amount: $250,000 (revolving) Activity in 2005: $50,000 Balance available: $100,193	Finance technical assistance for projects that provide potential opportunities for U.S. companies (equipment suppliers, service providers, etc.). Consultant/firm must be U.S. citizen or resident.	Abanico Hydroelectric Project (Ecuador)	IIC retained a U.S. engineering firm to assist in the construction monitoring of the project. *The IIC approved a $7 million loan for this project.*

Investing in Development, 2005

Summary of the Year's Developmental Investments

Direct Operations

The year's operations are set out in a format that reflects the complete impact of the IIC's financing activities. In addition to direct project approvals, there is information about the loans, investments, and cofinancing operations approved in 2005 that, through financial intermediaries, substantially leverage the resources provided directly by the IIC. Also provided are figures on procurement opportunities for regional and nonregional member countries ($34.1 million in 2005).

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

Sources of Funding

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

IIC loans are denominated in U.S. dollars or local currency. 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 terms generally range from five to eight years (up to a maximum of twelve years), including an appropriate grace period. The loans are priced in accordance with international market conditions; they are usually variable in rate and are based on the London Interbank Offered Rate (LIBOR). When beneficial, the IIC may also provide fixed-rate, convertible, subordinated, or participated loans. In participated loans, the IIC grants a loan to a client and provides a portion of the funds (the "A" loan). The rest of the loan (the "B" loan) is provided by another financial institution that purchases a participation in the loan under an agreement with the IIC. The lender of record is the IIC, and the client deals directly with the IIC.

The IIC also makes equity investments of up to 33 percent of the investee company's capital. At the end of the investment period, the IIC sells its shareholding. Possible exit mechanisms include sale on the local stock market, private placement with interested third parties, and sale to the project sponsors under a prenegotiated share purchase agreement. The IIC also invests in equity capital funds whose operations have a positive developmental impact in the region. Doing so makes efficient use of the IIC's equity resources to reach many more small and medium-size companies. Working through equity funds also promotes mobilization of capital by bringing in other institutional investors. The IIC may also make quasi-equity investments.

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

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

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

Regional

Arrendadora Interfin S.A.
Loan
$5 million

A $5 million IIC loan to Arrendadora Interfin El Salvador S.A. de C.V., Arrendadora Interfin Guatemala S.A., and Costa Rica's Arrendadora Interfin S.A. will provide financing for leasing operations that will offer small and medium-size companies in El Salvador and Guatemala a competitive alternative to conventional bank loans for purchasing fixed assets and machinery. This leasing alternative is relatively unavailable in those countries for companies of this size. Leasing is advantageous for smaller enterprises because guarantees are simpler and transaction costs are lower. Leasing also makes it possible to finance a higher percentage of the cost of investing in equipment compared with conventional bank loans. Advantages for the leasing company include ownership of the asset, which provides it with a more secure guarantee, as well as relatively simple documentation that serves to minimize transaction costs and thus makes it possible to efficiently conduct a significant volume of leasing operations. Governments also benefit because leasing promotes investment, fosters competition in the financial services sector, and places innovations such as cash flow based credit analysis within the reach of businesses and lenders alike.

This operation will make it possible to carry out some 100 leasing operations with small and medium-size enterprises in El Salvador and Guatemala, at an average of $70,000 per operation.

Corporación Andina de Fomento
Colending Program
IIC: $30 million
CAF: $30 million

The IIC and Corporación Andina de Fomento (www.caf.com) signed an agreement establishing a $60 million colending program to provide financing for small and medium-size private enterprises in CAF beneficiary countries that are also IIC regional member countries. The IIC and CAF will coordinate the implementation of the program through parallel financing of operations, jointly identifying, evaluating, structuring, and supervising the loans and benefiting from their respective sector and regional expertise. The underlying goal of the program is to help recipient businesses—particularly those that create jobs and have a significant effect on aggregate demand—become more competitive and thus more profitable.

The program will provide financing of up to $5 million per individual project for prefinancing and financing of exports, expansions of production capacity, equipment and infrastructure, and long-term financing for fixed assets. This colending program, which is expected to benefit between ten and twenty businesses in the region, underscores the IIC's commitment to strengthening its relationships with peer multilateral institutions operating in the region.

Latin American Agribusiness Development Corporation S.A. (LAAD)
Colending Program
IIC: $6 million
LAAD: $6 million

The IIC approved a colending program to promote private sector investment and employment in rural areas of Latin America and Caribbean countries through the financing of small and medium-size agribusiness companies. The agent, Latin American Agribusiness Development Corporation S.A., will manage the facility and provide loans to the borrowers jointly with the IIC. This is the IIC's second colending program with LAAD, and it has been structured taking into consideration the experiences of the first LAAD colending program.

Agribusiness companies that meet LAAD and IIC credit requirements and are domiciled in eligible countries (Argentina, Bahamas, Barbados, Belize, 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, and Venezuela) and have assets or sales less than $15 million are eligible for funding to expand production capacity, refinancing, working capital, and purchase of assets. This operation is expected to reach between ten and fifteen small and medium-size agribusiness companies with loans ranging between $300,000 and $1.5 million, creating between 500 and 750 jobs in the process.

The colending program provides a cost-effective way for the IIC to reach a larger number of companies in its target market by relying on a specialized financial institution in the agribusiness sector that is willing to share the risk of long-term lending to small and medium-size companies. IIC funds will be matched by LAAD in each transaction, thus helping the IIC fulfill its catalytic role by leveraging its own resources and benefiting companies that create jobs and essential goods in the region's economies. The joint effort with LAAD, an experienced lender in the agribusiness sector with a long track record supporting small and medium-size companies, is expected to increase the awareness of other commercial lenders regarding business opportunities in this key sector of activity.

Bolivia

Altifibers
Loan
$400,000

Altifibers, a small family-run export company located in the city of El Alto in the Bolivian Altiplano, received an IIC loan for the construction of a spinning and dyeing plant for sheep, alpaca, and llama yarns. The project will increase Altifibers' sales capacity and margins by enabling it to offer higher-value-added products. The financing will also be used to acquire machinery and equipment and to build a plant to vertically integrate the company and enable it to operate a complete natural fiber spinning and dyeing line using domestic raw material. The IIC is also providing capital resources to be used for working capital to sustain the growth rate of the firm and refinance short-term debt to optimize the company's capital structure.

With this operation, the IIC seeks to maintain its critical presence among Bolivia's small export-oriented companies, which have over time demonstrated their ability to operate efficiently in difficult environments. Through this project, the IIC will help the company move away from the export of intermediate goods toward the export of semifinished goods, which have higher value added and quality, and will allow Altifibers to consolidate its position in its market niche.

Altifibers currently employs 125 people and has a significant impact on more than 2,300 camelid-farming families in economically depressed regions of Bolivia. These families supplement their income with the sale of wool. The project is expected to provide direct employment for eighteen additional workers and strengthen the relationship with the farmers through educational programs, improvements in the shearing process, and inventory maintenance.

Brazil

Banco Itaú S.A.
Loan
A Loan: $30 million
B Loan: $70 million

Access to appropriate sources of financing is essential for small and medium-size companies to grow and survive by competing in an increasingly globalized economy. In Brazil, it is very difficult for small and medium-size companies to obtain financing, especially long- and medium-term financing under appropriate conditions. The IIC loan to Banco Itaú will help address this issue by enabling the bank to onlend the funds to thousands of small and medium-size companies in Brazil. The average lease transaction is expected to be $35,000.

As with all IIC's operations with financial institutions, Banco Itaú must monitor beneficiary company compliance with domestic and international environmental, labor, and worker protection regulations and standards and send representatives to the IIC's environmental seminar for financial institutions. This operation is expected to have a demonstration effect by encouraging other financial institutions to focus on small and medium-size companies and provide more services to the sector.

Banco Sofisa S.A.
Local-Currency Guarantee Program
$2.4 million

The IIC will provide local-currency guarantees (with a cap on IIC dollar exposure) for loans granted by Banco Sofisa to eligible project companies. The IIC will guarantee 50 percent of the principal in reais due by each eligible project company to Banco Sofisa, or 50 percent of the capped equivalent in U.S. dollars, whichever is less, up to a U.S. dollar cap of 20 percent above the U.S. dollar equivalent at the time the guarantee is issued. Loans will be for a maximum of six months (renewable should both Banco Sofisa and IIC agree), and will be at least 100 percent backed by receivables (*duplicatas*) to be monitored and administered by Banco Sofisa in accordance with its standard credit processes.

IIC participation in the program will allow eligible companies to receive working capital (including preexport) financing through Banco Sofisa. This pilot project for the IIC will enable it to issue local-currency guarantees in Brazil with a bank that is respected for its prudent credit policies, its high asset quality, and its expertise in identifying, structuring, and monitoring its clients' accounts receivable.

Banco Rabobank International Brasil S.A.
Partial Credit Guarantee Program
$15 million

The IIC established a partial credit guarantee program to guarantee rural loans to farmers originated and held by Rabobank Brasil. Each loan will be between $5 million and $10 million, of which Rabobank Brasil will retain up to $5 million, and the IIC will provide a partial credit guarantee for the remainder of the principal amount of the loan, with a maximum amount of up to $5 million each.

This partial credit guarantee will enable Rabobank Brasil to expand its volume of business by up to 50 percent allowing it to reach a greater number of farmers in Brazil. About five to ten farmers will form this portfolio with an average loan size of $8 million. The partial credit guarantee program provides a cost-effective way for the IIC to support an innovative form of financing in the agricultural sector. Relying on a specialized financial institution in the agribusiness sector willing to share the risk of short-term lending initially to medium-size and large farmers in Brazil should provide a demonstration effect; the ultimate goal is to offer the same financing to smaller farmers in Brazil.

Unibanco
Loan
A Loan: Up to $10 million
B Loan: Up to $30 million

The IIC loan to Unibanco will provide resources for small and medium-size companies to finance their medium-term general corporate needs. Small and medium-size companies in Brazil have very limited access to financing, especially long- and medium-term financing under appropriate conditions. Such financing is necessary for the sustainable growth of small and medium-size companies, which are also the most vulnerable to economic cycles. The loan seeks to alleviate these impediments, and the proceeds will be used to finance subloans for small and medium-size companies in Brazil. It is expected that the subloan amounts will range between $50,000 and $3 million, with the average expected to be around $200,000. As a result, approximately 320 small and medium-size Brazilian companies will benefit from this operation. It is expected that operations will be carried out throughout Brazil.

This operation is expected to have a demonstration effect that will encourage other financial institutions to focus on small and medium-size companies and provide more services to the sector. By providing funding, the IIC will be transferring know-how and best practices that will enable Unibanco to improve its environmental policies. The bank will thus be able to better monitor the practices of the companies that receive financing.

Chile

Ben David S.A.
Loan
$3 million

The IIC continues to support the development of the Chilean agribusiness sector through projects that increase operating and marketing efficiencies as well as export growth. Ben David is a medium-size company that grows and processes high-quality fruit for the export markets. The tailor-made IIC loan will help Ben David establish a permanent working capital base and gain marketing and financial flexibility by eliminating its dependence on short-term loans that are based on production orders and those from the financial sector that have inappropriate terms for the company.

The Corporation expects that the company will consolidate its expansion and vertical integration process, increase its exports to off-season markets in the northern hemisphere, capture new markets, and introduce new varieties in fruit production to more effectively compete in the world market. This project is critical for Ben David to significantly increase its independence from tight financing and to establish a more secure source of fruit. This project will create ninety-four jobs.

FactorLine S.A.
Loan
$2 million

The factoring industry has been one of the most important areas of growth in Chilean financial markets; the IIC has been supporting the growth of the leading company in this sector since 2003. FactorLine purchases, at a discount, trade invoices, bills of exchange, and checks issued by small and medium-size

Chilean companies in the normal course of business. Factoring is used chiefly by smaller companies that do not have easy access to bank financing.

This IIC loan—its second to FactorLine—will provide financing through a leading financial institution that specializes in serving the needs of small and medium-size import and export companies. This financing will enable these companies to more rapidly convert export receivables into cash and to provide import companies with additional capacity to increase supplier credit financing for the purchase of raw materials or other imported goods. Loans to final beneficiaries under the IIC loan are expected to average $300,000. With this loan, the IIC expects to reach between twenty and forty small and medium-size companies over the life of the loan. Indeed, in the first year of the IIC's original loan to FactorLine, 356 factoring operations were financed for twenty companies, with an average transaction size of $25,500.

Colombia

Banco de Comercio Exterior de Colombia S.A. (Bancóldex)
Correspondent Facility
$30 million

The IIC is expanding its support programs for the region's private sector and encouraging financial institutions to extend the scope of their activities to include financial products that are suitable for small and medium-size companies. The Bancóldex transaction achieves both of these objectives and is in line with the IIC's efforts to provide financial instruments that respond to the needs of its target market.

By extending a medium and long-term credit line to Bancóldex, the IIC will help Bancóldex meet the financing needs of parties that purchase Colombian products and services through financial intermediaries abroad. A portion of the credit line will also be used for medium-term export prefinancing by funding loans (with an average amount of $250,000) to finance the export activities of export-oriented small and medium-size companies in Colombia, helping them become more competitive and generating foreign exchange for Colombia. Bancóldex will also be monitoring the environmental practices of intermediary banks and beneficiary exporters.

Fondo Nacional de Garantías S.A. (FNG)
Partial Credit Guarantee Program
Up to $10 million

Fondo Nacional de Garantías S.A. is a financial institution regulated by the Colombian government's bank regulatory agency. Its mission is to facilitate access to financing for small and medium-size Colombian companies by providing partial credit guarantees. FNG is the only Colombian institution that assumes exposure on credit guarantees for micro, small, and medium-size companies. It works chiefly with clients of financial intermediary institutions.

Under the joint IIC/FNG partial credit guarantee program, the Corporation will guarantee 50 percent of an FNG guarantee portfolio that is acceptable to the IIC. The program's objective is to increase access to credit for small and medium-size enterprises in Colombia and encourage financial institutions to provide financing that will enable this important sector to meet its investment and working capital needs. It is estimated that 90 percent of Colombia's businesses are small or medium in size, generating between 60 percent and 70 percent of the nation's jobs and some 40 percent of domestic production.

Between 500 and 1,000 companies are expected to benefit from the IIC/FNG program. It is an ideal marketing tool to promote the development of financial products offered by Colombian financial institutions, stimulating competition and increasing small and medium-size companies' access to credit.

Leasing Bolívar S.A.
Leasing Colombia S.A. Compañía de Financiamiento Comercial
Leasing de Crédito S.A.
Leasing del Valle S.A.
Leasing de Occidente S.A.
Loans
150 billion Colombian pesos

Leasing Bolívar was one of the first companies to develop and implement leasing operations in Colombia and is the sixth largest leasing company in Colombia today. Leasing Colombia has maintained the largest share of the Colombian leasing market since its founding in 1981. Leasing de Crédito is the fourth largest, in terms of assets, of Colombia's ten commercial financing companies specializing in leasing and has a 12 percent market share. Leasing del Valle has more than twelve years of market experience. Leasing de Occidente maintains a strong position in Colombia's leasing market. The IIC granted a loan, denominated in Colombian pesos, to each of these five leasing companies. This is the first time that a multilateral institution operating in Latin America had obtained local-currency funding for granting local-currency loans.

The proceeds of the loans will be used to provide financing to small and medium-size companies in Colombia via medium- and long-term finance leases for upgrading and/or purchasing fixed assets. Colombian companies need such financing alternatives to carry out expansion projects that increase their production capacity and make them more competitive domestically and internationally.

The loans, totaling the equivalent of $66 million, will primarily finance operations ranging between 12 million Colombian pesos ($5,000) and 390 million Colombian pesos ($170,000) and will have an average term of three to five years. By providing funding for financial leases in Colombia, where this type of funding is not readily available, the Corporation will be contributing to the Declaration of Nuevo León goal of trebling resources channeled to small and medium-size companies through financial intermediaries. More than 1,000 small and medium-size companies are expected to benefit from these five operations.

Costa Rica

Banco Improsa S.A.
Credit Guarantee
$3.5 million

Seeking to diversify its funding sources, Banco Improsa registered a $10 million standard bond issue with Bolsa Nacional de Valores de Costa Rica and Bolsa de Valores de Panamá (the Costa Rican and the Panamanian Stock Exchanges) for placement of the two series with Panamanian investors. Because this is its first issue in the Panamanian stock market, Banco Improsa requested a partial issue guarantee from the Corporation to enhance the issue rating in Panama, thus making it more attractive to the market.

Banco Improsa targets the small and medium-size company niche (80 percent of its portfolio is made up of companies with sales below $4.5 million). To better serve these companies, Banco Improsa has diversified its product range to include warehouse receipts, factoring, letters of credit, commodity pledges, collection services, trusts, and leasing.

Financiera Multivalores S.A.
Loan
$1 million

Financiera Multivalores is a non-bank financial institution whose main focus is to provide personal loans and mortgages. The company focuses on mortgage loans in U.S. dollars averaging $37,000. The financing provided by the IIC will make it possible to build some forty housing units at an average price of $30,000. The construction sector is one of the main engines of Costa Rica's economic activity; it accounts for nearly 4 percent of the gross domestic product (GDP), provides jobs for a significant portion of the working population, and generates demand for goods and services related to the housing industry. Many of these services can be provided by small and medium-size manufacturers and contractors.

By helping consolidate a liquid secondary mortgage market in Costa Rica, the operation will improve the quality of life for lower-middle and middle-income families by making it easier for them to purchase a home and providing them with an opportunity to move to a better home or neighborhood. Moreover, by providing funding, the IIC will be transferring know-how and best practices that will enable Financiera Multivalores to improve its environmental policies.

Dominican Republic

Banco BHD, S.A.
Loan
$5 million

The $5 million trade finance loan to Banco BHD will be used to provide financing to small and medium-size Dominican companies for foreign trade activities such as exporting and importing, as well as for working capital related to import-export operations. Banco BHD will onlend the trade finance loan proceeds to private companies that have assets or net annual sales of less than $35 million and operate in the export, trade, manufacturing, and service industries. The IIC loan will help finance operations ranging from $10,000 to $500,000. This transaction is expected to benefit between forty and eighty small and medium-size companies. The proposed transaction is in line with the Corporation's efforts to provide trade finance in the Dominican Republic, where this type of financing is not easy to obtain.

Ecuador

Banco Bolivariano C.A.
Loan
$7 million

Access to appropriate sources of long-term financing is essential for companies to grow, especially in the current climate and with the challenges of a globalized economy. As in other countries in the region, companies in Ecuador have very limited access to financing, especially long- and medium-term financing on appropriate terms. Such financing is necessary for the sustainable growth of the private sector.

The IIC loan to Banco Bolivariano takes this reality into account; the proceeds will be onlent to small and medium-size companies in Ecuador in the form of working capital and medium- and long-term loans for upgrading or expanding their production capacity. These loans will range from $500,000 to $1.5 million and will go to companies that meet Banco Bolivariano's credit criteria, the IIC's procurement policy, and the IIC's environmental and occupational safety and health standards.

Hidroabanico S.A.
Loan
$4 million

Ecuador has an electric power generation deficit because of an increase in demand since the 1990s. Hidroabanico is a mini hydropower plant in the city of Macas that will generate 37.5 megawatts of clean energy and contribute to the supply of electricity in Ecuador. This hydropower plant will replace polluting energy sources and create jobs in an economically depressed area. By participating in Hidroabanico's capital structure, the IIC recognizes the project's contribution to the generation of clean energy in Ecuador. The World Bank is also participating in the project as trustee of the Netherlands Clean Development Mechanism Facility, which will purchase the project's emissions rights. The revenues from the emission reduction purchase agreement will lower both the project's risk and its financial costs. According to the World Bank Carbon Finance Unit, the electric power generated by the Hidroabanico project will displace the equivalent of approximately 800,000 tons of the greenhouse gas CO_2 over a six-year period.

This project will also help improve Ecuador's ability to generate relatively clean energy from renewable natural resources instead of using hydrocarbon fuels or importing power from neighboring countries. It is also in line with the Ecuadorian government's strategy to boost private sector participation in the energy sector, which has, in recent years, accounted for a significant portion of total public investment.

The Hidroabanico project will generate power and decrease Ecuador's energy shortfall without consuming nonrenewable resources or requiring the construction of large dams that would involve deforestation or displacement of human settlements.

Guatemala

Banco de Occidente, S.A.
Loan
$10 million

Banco de Occidente will use the proceeds from the IIC loan to finance long-term operations for companies in the agricultural, industrial, and trade sectors. These loans, which are expected to range from $1 million to $3 million, will help address the lack of funding for medium-size companies in Guatemala; such funding is essential for the sustainable growth of the private sector.

Banco de Occidente has committed to ensuring that the companies to which it onlends the funding from the IIC comply with domestic and international environmental, labor, and worker protection regulations and standards.

Honduras

Caracol Knits, S.A. de C.V.
Loan
$3.84 million

Caracol Knits' main line of business is manufacturing, dyeing, cutting, and printing circular knit fabric (cotton, flannel, and blend fabrics). The company is a major generator of foreign currency, as well as a major employer, with more than 2,100 employees. Caracol Knits will use the IIC loan to carry out a project with three components. The first component will be the construction of a 12.2 megawatt thermoelectric plant to ensure a constant power supply for production, generate steam and cold water for the plant, and reduce the cost of electric power. The IIC loan will also be used to purchase and install new printing technology, which will enable the company to expand its product line by adding print apparel. The third component will be the purchase and installation of an ozone water treatment unit that will enable the company to use ozone at its water treatment plant instead of certain chemicals, thus cutting costs and improving wastewater quality.

Financing from the IIC will further the cost-cutting strategy of this Honduran company, which is regarded as a model for the domestic textile industry.

Mexico

Almacenadora Mercader S.A. de C.V. (ALMER) Loan
$10 million

This IIC loan will enable ALMER, a leading grain warehousing company, to purchase more white corn from small farmers and provide them with financing by purchasing their production with an option to repurchase or storing their grain until it is sold. In both cases ALMER will issue warehouse receipts that will secure the IIC's loan. The ALMER project thus supports the development of the Mexican capital market by laying the groundwork for the eventual securitization of grain purchase instruments (warehousing receipts). The most immediate benefit will be to small agricultural producers by giving them access to competitive sources of credit, modern distribution systems, and hedging instruments.

Through this operation, the IIC will increase its support for a successful initiative that provides Mexican farmers with a financing tool tailored to their needs. The IIC will also continue its support for a supply chain in which hundreds of growers of white corn provide the raw material used to make staple foods in Mexico, such as tortillas and corn flour. This program has a significant demonstration effect because it is the first of its kind in Mexico to operate without government subsidies and it promotes support from commercial banks for agriculture, a key sector of the Mexican economy. The IIC is considering the possibility of replicating the program with other warehousers in Mexico.

Hipotecaria Su Casita, S.A. de C.V. SOFOL Loan
IIC: $20 million
DEG: $20 million
FMO A: $20 million
FMO B (Caja Madrid): $40 million

The mortgage company Hipotecaria Su Casita will use the IIC loan, plus $60 million from the development finance company Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. in the Netherlands (www.fmo.nl) and $20 million from the German development finance institution Deutsche Investitions- und Entwicklungsgesellschaft mbH (www.deginvest.de), to originate or acquire home mortgage loans, chiefly for funding personal loans to purchase or build medium-to-low-income housing units in Mexico.

The financing provided by the IIC will make it possible to build 2,600 to 3,200 new housing units with an average price of $30,000. The construction sector is one of the main engines of economic activity and is a significant source of jobs and of demand for goods and services related to the housing industry. Many of these services can be provided by small and medium-size manufacturers and contractors.

This project will help consolidate a liquid secondary mortgage market in Mexico, thus improving the quality of life for low- and middle-income families by making it easier for them to purchase a home and providing them with an opportunity to move to a better home or neighborhood.

Securitizing the mortgage portfolio assigned to the IIC to secure the loan will make it possible for institutional investors to purchase investment instruments with terms that are more in line with their own liabilities. The institutional investors are private pension funds that receive and manage most of the domestic private savings. As these funds invest in instruments resulting from the trading of home mortgages, domestic savings will be channeled as the main, permanent source of funding for building low- and middle-income housing.

Nacional Financiera, S.N.C. Partial Loan Guarantee Program
$60 million

The IIC and Nacional Financiera, S.N.C. (www.nafin.com) established a local-currency equivalent partial loan guarantee program to support non-bank financial intermediaries and medium-size companies seeking to broaden and diversify their sources of funding by issuing debt securities for the first time, thus increasing the supply of credit for small and medium-size companies in Mexico. The partial credit guarantees will enhance the issue ratings and promote their purchase by pension funds and mutual funds, thus channeling savings to long-term private investment and, collaterally, fostering the development of the securities market.

Non-bank financial intermediaries will use the proceeds chiefly to fund new transactions with small and medium-size companies. Companies will use the proceeds to acquire fixed assets, finance working capital, and/or refinance debt.

The program, which is expected to benefit some eighty small and medium-size Mexican companies, will also broaden the range of investment options for institutional investors. Moreover, the partial credit guarantee program is a product that can easily be replicated in other markets that have identical needs. IIC support for this project will encourage other development banks to use this kind of financing to help meet the investment needs of companies in the countries in which they operate.

Nicaragua

Avícola La Estrella S.A.
Loan
Tranche A: $2.2 million
Tranche C: $2.0 million

The poultry industry has strategic value for Nicaragua because it produces affordable food, provides hundreds of jobs, and drives local economic activity with its purchases of production inputs. Avícola La Estrella is a medium-size company that produces and markets chicken, chicken-based products, and table eggs. It provides permanent employment to some 1,100 people.

Tranche A (the long-term portion) of the IIC loan will be used to refinance some of the short- and medium-term loans on Avícola La Estrella's balance sheet. The shorter-term portion, tranche C, is for an initial term of two years and will provide the company with working capital at a reasonable cost. This financing package from the IIC will help enhance the company's competitive position by enabling it to continue introducing modern production processes and good practices to make its operations more efficient, consolidate its vertical integration, and take advantage of increased economies of scale. This will benefit the Nicaraguan economy and encourage competition in the poultry industry, thus providing better product price options for consumers.

Banco de Finanzas S.A.
Loan
$5 million

The IIC loan to Banco de Finanzas will be used to finance medium- or long-term operations carried out by small and medium-size companies in the agricultural, industrial, trade, and service sectors. Based on Banco de Finanzas' experience, it is estimated that the loans to be made with proceeds from the IIC loan will range between $1,000 and $150,000, with an average of $100,000. It is also expected that operations will cover the entire Republic of Nicaragua and that fifty small and medium-size Nicaraguan companies will benefit from this transaction.

This operation will provide Banco de Finanzas with long-term funding for onlending to small and medium-size companies in Nicaragua under terms that usually are not available on the market. In Nicaragua, such companies have limited access to medium-term and, especially, long-term funding. It is expected that this operation will have a demonstration effect that will encourage other financial institutions to focus on small and medium-size companies and provide more services to them.

Café Soluble, S.A.
Loan
$7 million

Café Soluble produces roasted, ground, and instant coffee for the local and export markets. The company also produces cereal and soy products and markets domestic and international brands of consumer products. At 450 employees, Café Soluble is a major source of jobs in Nicaragua. This loan from the Corporation will enable the company to double its production plant capacity and green coffee storage facilities. It will also build two new warehouses to store packaging material and jars and a facility for its development engineering and laboratory staff.

This IIC loan will help strengthen the competitive position of a medium-size Nicaraguan agribusiness that produces and exports high-value-added products. It will indirectly support a large number of Nicaraguan coffee producers by enabling the company to process more coffee beans that are below export grade but can be used to produce instant coffee for sale on the local market.

Panama

Térmica del Noreste, S.A. (Ternor)
Loan
$1.85 million

Térmica del Noreste operates thirteen small power plants in remote areas that are not connected to Panama's national grid. The company needs to expand its main power plant (Santa Fe in the province of Darien) to meet the growing demand for electrical energy in this area, while maintaining sufficient backup generation capacity. This financing from the IIC—the only long-term financing available to the company—will help enhance Ternor's competitive position and make it possible for this small power company to expand basic coverage in its service areas. Improved access to electric power should spur economic and social growth in these areas, promoting new economic activities that will increase job opportunities and provide more access to higher-quality goods and services.

This project complements the rural electrification program financed partially by the IDB in Panama.

Paraguay

Agrofértil S.A.
Loan
$2 million

Agrofértil, one of Paraguay's largest exporters, sells grains and agricultural inputs. Through agronomists and other specialists, Agrofértil also provides small growers with technical assistance, advising them on agricultural and business issues.

The loan from the IIC will partially cover Agrofértil's permanent working capital requirements and help the company consolidate investments to upgrade agricultural machinery, improve storage facilities, and improve environmental protection. The loan will thus help a local company compete in a sector in which international corporations have a high profile.

The Agrofértil project is part of the IIC's supply chain financial support program, which seeks to increase the flow of funding to small and medium-size companies in Latin America and the Caribbean.

Banco Regional
Colending Program
$1 million

This colending program with Banco Regional will promote investment in the Paraguayan agricultural and agribusiness sectors by offering terms and conditions that are more appropriate for their business cycles.

Banco Regional has an excellent track record in the agricultural sector and the largest presence of any local bank in the nation's main productive areas. The IIC has had a positive experience with lending to Banco Regional with a direct loan that was approved in 2003, benefiting some twenty-five farmers. This second transaction should have an even more favorable socioeconomic impact on the sector; it is expected to assist some eight to ten small and medium-size companies. This will not only improve the financial structure of these companies, but also create jobs, boost production, and consequently increase exports. In addition, this transaction will consolidate poles of development in rural areas of Paraguay. It will benefit growers and small and medium-size entrepreneurs in a country in which agriculture accounts for almost 30 percent of GDP and 70 percent of exports. The program is expected to create between 70 and 100 direct and indirect jobs in the sector.

Financiera Familiar, S.A.E.C.A.
Loan
$1 million

Financiera Familiar is a small, locally-owned financial company in a country whose financial sector is relatively underdeveloped and is dominated by international banks. This medium-term loan to Financiera Familiar will be onlent to between ten and fifteen small and medium-size companies in Paraguay in amounts ranging from $70,000 to $100,000 and will specifically target the country's agribusiness sector, which is one of the most dynamic sectors in the country and which drives Paraguayan exports.

Through this operation, the IIC is supporting a financial intermediation process. This loan will help financial institutions obtain medium-term funding that will benefit small and medium-size companies in need of such funding to finance their longer-term needs, such as equipment purchases and permanent working capital, and to introduce modern environmental and labor management practices. The loan will also help the IIC meet goals of its own: triple lending to micro, small, and medium-size companies in Latin America and the Caribbean by 2007 as spelled out in the Declaration of Nuevo León, and, under its new small bank program, expand access to appropriate sources of funding by financial institutions that finance small and medium-size enterprises.

Peru

Green Perú S.A.
Loan
$1.5 million

Green Perú is a medium-size company that grows and processes high-quality agricultural products for the export markets and involves local universities in agricultural research projects. The IIC loan will help the company as it embarks on an expansion and vertical integration project to build on its comparative and competitive advantages in asparagus production. This project will enable Green Perú to more effectively compete in the world market by increasing and diversifying its production capacity and adding more value to primary products by installing a canning plant, ensuring product quality, and securing better prices.

The company had no alternative financing sources in Peru, but the IIC's long-term loan attracted the participation of a local financial institution as well. IIC financing for the project will also ensure that Green Perú continues to comply with the standards for agricultural production and the sustainable use of natural resources and adequate operational controls established by the Euro-Retailer Produce Working Group for Good Agricultural Practice (www.eurep.org). The Green Perú project is a case study, and its business model could be followed by other agribusinesses in the region.

Uruguay

Cooperativa Nacional de Productores de Leche (Conaprole)
Loan
$5 million

Cooperativa Nacional de Productores de Leche is a dairy producer cooperative that processes approximately 800 million liters of milk annually, which it receives from some 2,600 producers. The cooperative produces pasteurized milk and a broad range of products that it sells on the domestic and export markets in forty countries. It is one of the top three exporters in Uruguay.

The IIC loan will be used to complete Conaprole's permanent working capital financing structure and raise its borrowing limits with local financial institutions so that it can take on short-term loans for financing seasonal needs and, in the future, obtain access to securities market financing under debt issues. The loan will also help enhance the economic viability of a dairy producer cooperative that acquires raw material from small and medium-size local producers.

The Conaprole project is in line with the IIC's supply chain financial support program, which seeks to increase the flow of financing to small and medium-size companies in Latin America and the Caribbean by identifying potential IIC clients.

Crédit Uruguay Banco S.A.
Colending Program
IIC: $5 million
Crédit Uruguay: $5 million

The IIC approved a colending program to promote private sector investment and employment in Uruguay through the financing of eligible companies. Crédit Uruguay, the Uruguayan subsidiary of Crédit Agricole, will manage the facility and provide loans jointly with the IIC. Each loan will be between $400,000 and $3 million, with the IIC's portion of the loan not to exceed 50 percent of the total loan amount. Under this colending program the IIC will share the risk of long-term lending to eligible companies with Crédit Uruguay, providing a cost-effective way of reaching the IIC's target market. The operation will allow the IIC to reach a larger number of companies at a lower cost. IIC funds will be matched by Crédit Uruguay in each transaction,

Loans through Financial Intermediaries in 2005

Country	Project Name	Number	Outstanding (US$)
Bolivia	Caja de los Andes	636	$ 1,607,142
Bolivia	Prodem	42	750,000
Brazil	Banco Itaú	4,173	30,000,000
Brazil	Banco Rabobank	60,769	15,000,000
Brazil	Banco Rabobank	38,160	15,000,000
Chile	FactorLine S.A.	19	1,000,000
Colombia	CONFAMA	7	3,000,000
Colombia	Leasing Bolívar S.A	125	7,031,947
Colombia	Leasing Colombia S.A.	460	17,579,867
Colombia	Leasing de Crédito	40	10,108,423
Colombia	Leasing de Occidente S.A.	200	20,216,847
Colombia	Leasing del Valle S.A.	175	10,987,417
Costa Rica	Financiera Multivalores	35	1,000,000
Ecuador	Banco Bolivariano	6	7,000,000
Ecuador	Banco ProCredit	893	1,808,035
El Salvador	Banco ProCredit	690	2,000,000
Mexico	Almer	6,140	10,000,000
Nicaragua	Banco de Finanzas	419	5,000,000
Nicaragua	Financeria ProCredit	—	1,000,000
Nicaragua	FINDESA	106	614,285
Panama	BAC International	26	17,802,197
Paraguay	Financiera Familiar	12	1,000,000
Regional	Arrendadora Interfin S.A.	46	5,000,000
TOTAL		**113,179**	**$ 184,506,160**

thus helping the IIC fulfill its catalytic role by leveraging its own resources and benefiting companies that create jobs and essential goods in Uruguay. This operation is expected to reach between ten and fifteen eligible companies in Uruguay.

Loans through Local Financial Intermediaries

Local financial intermediaries, drawing on loans from the IIC, can make smaller loans to smaller companies than the IIC can provide directly. Such lending has a significant multiplier effect, because the borrowing institutions are required to reinvest loan proceeds as they are paid off but are not yet due to be paid by the bank to the IIC. Since 1989, the IIC has approved 127 loans to local financial intermediaries for a total of $860 million, not including $727 million in syndications. These financial intermediaries have in turn made loans to more than 153,000 small and medium-size companies in Latin America and the Caribbean.

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
Suite 900
1800 Tysons Boulevard
McLean VA 22102
Telephone (703) 918 3000
Facsimile (703) 918 3100
www.pwc.com

Report of Independent Auditors

To Board of Governors:
Inter-American Investment Corporation

In our opinion, the accompanying balance sheets and the related statements of income and accumulated deficit and of cash flows present fairly, in all material respects, the financial position of Inter-American Investment Corporation at December 31, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Washington, D.C.
February 10, 2006

Balance Sheet

USD Thousands	December 31 2005	December 31 2004
ASSETS		
Cash and Cash Equivalents	$ 49,407	$ 63,512
Marketable Securities	158,362	46,257
Investments		
Loan Investments	432,307	342,010
Less Allowance for Losses	(47,743)	(45,466)
	384,564	296,544
Equity Investments	78,377	100,898
Less Allowance for Losses	(9,415)	(30,681)
	68,962	70,217
Total Investments	453,526	366,761
Receivables and Other Assets	14,703	10,854
Total Assets	**$ 675,998**	**$ 487,384**
LIABILITIES AND EQUITY		
Accounts Payable and Other Liabilities	10,197	8,867
Interest and Commitment Fees Payable	835	5
Borrowings and Long-Term Debt	195,668	80,000
Total Liabilities	**$ 206,700**	**$ 88,872**
Capital		
Authorized: 70,370 shares (Par $10,000)		
Subscribed Shares: 70,069 shares (Par $10,000)	700,690	696,300
Less: Subscriptions Receivable	(199,789)	(252,450)
	500,901	443,850
Accumulated Deficit	(31,603)	(45,338)
Total Liabilities and Equity	**$ 675,998**	**$ 487,384**

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

Statement of Income and Accumulated Deficit

USD Thousands	Year ended December 31 2005	2004
REVENUES		
Loan Investments		
Interest	$ 22,293	$ 17,061
Front-End Fees	1,001	755
Commitment Fees	417	339
Other Loan Investment Income	415	443
	24,126	18,598
Equity Investments		
Dividends	1,864	1,698
Gain on Sale of Equity Investments	370	1,560
Other Equity Investment Income	3	961
	2,237	4,219
Mortgage-Backed Securities		
Interest	—	35
	—	35
Marketable Securities	5,315	1,079
Advisory Service, Cofinancing, and Other Income	4,319	2,506
Total Revenues	**$ 35,997**	**$ 26,437**
Borrowings and Long-Term Debt-Related Expense	5,185	2,937
Total Revenues, net	**$ 30,812**	**$ 23,500**
EXPENSES		
Administrative	18,672	16,667
Provision for Loan and Equity Investment Losses	(42)	3,312
Unrealized Loss on Foreign Exchange Transactions	35	—
Other Expenses	66	—
Total Expenses	**$ 18,731**	**$ 19,979**
INCOME BEFORE NET UNREALIZED GAINS ON OTHER FINANCIAL INSTRUMENTS	**12,081**	**3,521**
Effect of Nontrading (Borrowings-Related) Derivative Instruments	1,654	—
NET INCOME	**13,735**	**3,521**
ACCUMULATED DEFICIT AS OF JANUARY 1	**$ (45,338)**	**$ (48,859)**
ACCUMULATED DEFICIT AS OF DECEMBER 31	**$ (31,603)**	**$ (45,338)**

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

Statement of Cash Flows

USD Thousands	Year ended December 31 2005	2004
CASH FLOWS FROM INVESTING ACTIVITIES		
Loan Disbursements	$ (183,469)	$ (138,981)
Equity Disbursements	(4,184)	(12,577)
Mortgage-Backed Security Disbursements	—	(2,062)
Loan Repayments	89,255	102,913
Marketable Securities		
Purchases	(558,722)	(9,320)
Sales, Maturities, and Repayments	448,553	28,387
Sales of Equity Investments	8,837	3,703
Return of Capital from Closed-End Investments	—	400
Capital Expenditures	(309)	(200)
Mortgage-Backed Security Repayments	—	2,062
Proceeds from Recovered Assets	2,829	6,706
Net cash used in investing activities	**$ (197,210)**	**$ (18,969)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Drawdown of Borrowings, net	50,000	—
Proceeds from Issuance of Bonds	65,925	—
Capital Subscriptions	57,051	55,455
Net cash provided by financing activities	**$ 172,976**	**$ 55,455**
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	13,735	3,521
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Provision for Loan and Equity Investment Losses	(42)	3,312
Change in Receivables and Other Assets	(2,451)	(1,853)
Change in Accounts Payable and Other Liabilities	2,081	2,219
Unrealized (Gain) Loss on Marketable Securities	(1,936)	517
Unrealized Gain on Nontrading Derivative Instruments	(1,552)	—
Net Loss from Sales of Recovered Assets	66	—
Other, net	263	200
	(3,571)	4,395
Net cash provided by operating activities	**$ 10,164**	**$ 7,916**
Net effect of exchange rate changes on cash and cash equivalents	**$ (35)**	**$ —**
Net (decrease) increase in cash and cash equivalents	(14,105)	44,402
Cash and cash equivalents as of January 1	63,512	19,110
Cash and cash equivalents as of December 31	**$ 49,407**	**$ 63,512**
Supplemental disclosure:		
Interest paid during the period	$ 4,135	$ 2,760

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

Notes to the Financial Statements

(dollars in thousands, unless otherwise indicated)

Purpose

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

1. Basis of Presentation

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

Certain reclassifications have been made to the prior period's financial statements to conform to the current period's presentation.

2. Summary of Significant Accounting Policies

Use of estimates—The preparation of financial statements 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 revenues and expenses during the reporting period. Actual results could differ from those estimates. A significant degree of judgment has been used in the determination of the adequacy of the allowance for losses on loan and equity investments and the fair value of mortgage-backed securities and derivative instruments. There are inherent risks and uncertainties related to the Corporation's operations. The possibility exists that changing economic conditions could have an adverse effect on the financial position of the Corporation.

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

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

Loan and equity investments—Loan and equity investment commitments are created when the loan or equity agreement is signed and are recorded as assets when disbursed. Loans are carried at the principal amounts outstanding adjusted for allowance for losses. It is the Corporation's practice to obtain collateral security such as, but not limited to, mortgages and third-party guarantees. Equity investments without a readily determinable market value are initially carried at cost. Loans and equity investment carrying amounts are periodically reviewed and, if considered

Notes to the Financial Statements

(dollars in thousands, unless otherwise indicated)

necessary, adjusted for impairment. The Corporation considers a loan impaired when, based on current information and events, it is probable that the Corporation will be unable to collect all amounts due according to the loan's contractual terms. Investments in venture capital funds are reflected in Equity Investments and are recorded at the most recent net asset value as of the end of each period.

Allowance for losses on loan and equity investments—The Corporation recognizes portfolio impairment in the balance sheet through the allowance for losses on loan and equity investments, recording a provision or release of provision for losses on loan and equity investments in net income on a monthly basis, which increases or decreases the allowance for losses on loan and equity investments. Investments written off, as well as any subsequent recoveries, are recorded through the allowance account. The allowance for losses is maintained at a level that, in management's judgment, is adequate to absorb estimated losses in the loan and equity portfolio. Management's judgment is based on the risk ratings and performance of individual investments, the size and diversity of the Corporation's portfolio, economic conditions, and other factors considered significant by management.

The allowance for losses on loan and equity investments reflects estimates of both probable losses already identified and probable losses inherent in the portfolio but not specifically identifiable. The determination of identified probable losses represents management's best judgment of the creditworthiness of the borrower or the value of the investee company and is established based upon the periodic review of individual larger-balance loan and equity investments. This estimate considers all available evidence including, as appropriate, the present value of the expected future cash flows discounted at the loan's contractual effective date, the fair value of collateral less disposal costs, and other observable market data. Because of the purpose of the Corporation, secondary market value is usually not available. The allowance for losses attributed to the remaining portfolio is established via a process that estimates the probable loss inherent to the portfolio based on various analyses. Those analyses are based on past experience and available market information and include country risk, the risk of correlation or contagion of losses between markets, nonperformance under sponsor guarantees and support agreements, as well as on financial statements prepared in accordance with accounting principles other than those generally accepted in the United States of America.

The equity securities impairment analyses are performed and reviewed on an ongoing basis based on the latest financial information and any supporting research reports available. These analyses are very subjective and based on, among other things, relevant financial data. Also considered are the issuer's industry trends, the historical performance of the stock, and the Corporation's intent to hold the security for an extended period. If there is a low probability of recovering book value in a reasonable time frame, then impairment will be recorded by writing the security down to fair market value, which in most cases approximates net asset value. An impairment charge is generally recognized when an equity security has remained significantly below cost, taking into consideration where the fund is in its life cycle, i.e., investment, maturation, or divestment.

Revenue recognition on loan and equity investments—Interest and fees, except front-end fees, are recognized as income in the periods in which they are earned. The Corporation does not recognize income on loans where collectibility is in doubt or, generally, whenever payments of interest or principal are past due more than 90 days. Any uncollected interest accrued on a loan placed in nonaccrual status is reversed out of income and is thereafter recognized as income only when received and management has concluded that the borrower's ability to make periodic interest and principal payments has been demonstrated. Interest not previously recognized but capitalized as part of a debt restructuring is recorded as deferred income and credited to income only when the related principal is received. Such capitalized interest is considered in the computation of the allowance for losses on loans in the balance sheet.

Notes to the Financial Statements

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Front-end fees and incremental direct costs associated with the origination of loan investments are not deferred and amortized over the life of the loan because front-end fees serve only to reimburse the Corporation for the cost of originating a loan. Any non-refundable loan origination fees in excess of loan origination costs are considered immaterial for the financial statements.

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

Investments in mortgage-backed securities—Investments in mortgage-backed securities are classified as trading and are carried at fair value in accordance with U.S. Statement of Accounting Standards 115 (SFAS 115), *Accounting for Certain Instruments in Debt and Equity Securities*. Changes in fair value and gains and losses are reported in Gain or Loss on mortgage-backed securities.

Guarantees—The Corporation offers credit guarantees covering, on a risk-sharing basis, third party obligations on loans undertaken for or securities issued in support of projects located within a member country to enhance their credit standing and enable them to complete a wide variety of business transactions. These financial guarantees are commitments issued by the Corporation to guarantee payment performance by a borrower to a third party. Guarantees are regarded as issued when the Corporation executes the guarantee agreement, outstanding when the underlying financial obligation of the third party is incurred, and called when the Corporation's obligation under the guarantee has been invoked. There are two obligations associated with the guarantees: (1) the stand-ready obligation to perform, and (2) the contingent obligation to make future payments. The stand-ready obligation to perform is recognized at the issuance date unless a contingent liability exists at that time or is expected to exist in the near term. The contingent liability associated with the financial guarantee is recognized when it is probable that the guarantee will be called and when the amount of the guarantee can be reasonably estimated. Any stand-ready and contingent liabilities associated with guarantees are included in Other Liabilities. The offsetting entry is consideration received or receivable and is included in Other Assets on the balance sheet. When the guarantees are called, the amount disbursed is recorded as a loan investment and specific reserves are established based on the estimated probable loss. These reserves are included in the allowance for losses on the balance sheet. Guarantee fees, which typically involve initial fees and continuing fees, are recorded as income as the Corporation is released from risk upon the expiration or settlement of the guarantee.

Effective January 1, 2005, the Corporation changed its method of accounting for credit guarantees. Under the new method, guarantee fees are recorded as income as the Corporation is released from risk upon the expiration or settlement of the guarantee. Prior to this change in accounting method, guarantees were recorded as income over the term of the guarantee. Management believes that the new method of accounting is preferable in that it provides for an approach in line with the risk assumed under the guarantee. Had the Corporation applied this principle in 2004, the cumulative effect of this accounting change would have implied a revenue deferral amounting to $5 that would have been recognized entirely in 2005. The amounts involved are considered immaterial for additional disclosures.

Risk management activities: Derivatives used for nontrading purposes—The Corporation enters into transactions in certain derivative instruments for financial risk management purposes. The Corporation manages its exposure to interest rate movements through the use of derivative financial products, which include interest rate swaps and purchased options positions (i.e., interest rate caps). The derivatives modify the interest rate characteristics of the respective operation to produce the desired interest. The Corporation does not use derivatives for speculative purposes.

Notes to the Financial Statements

(dollars in thousands, unless otherwise indicated)

The Corporation complies with the derivative accounting requirements of SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended. Following SFAS 133, derivatives are recognized in the balance sheet at their fair value and are classified as either assets or liabilities, depending on their nature and their net fair value amount. The Corporation has elected not to define any qualifying hedging relationships. Therefore, all changes in fair value of borrowings-related derivatives are recognized in Effect of Nontrading (Borrowings-Related) Derivative Instruments, without an offset for interest expense on hedged borrowings.

Deferred expenses—Costs related to the issuance of debt and other financial arrangements are deferred and amortized over the life of the related debt on a straight-line basis, which approximates the costs that would be incurred under the effective interest method.

Fixed assets—The Corporation records fixed assets at cost less accumulated depreciation and amortization. Depreciation and amortization are recognized using the straight-line method over the estimated useful lives of the assets, which range from three to seven years.

Foreign currency translation—Assets and liabilities denominated in non-U.S. dollar currencies are translated into U.S. dollar equivalents using year-end spot foreign exchange rates. Revenues and expenses are translated monthly at amounts that approximate weighted average exchange rates, with resulting gains and losses included in income.

Fair value of financial instruments—SFAS 107, *Disclosures about Fair Value of Financial Instruments*, requires entities to disclose information about the estimated fair value of their financial instruments, whether or not those values are recognized on the balance sheet.

For many of the Corporation's financial instruments it is not practicable to estimate the fair value, and therefore, in accordance with SFAS 107, additional disclosures pertinent to estimating the fair value, such as the carrying amount, interest rate, and maturity, are provided.

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

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

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

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.

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. For additional information on how the Corporation determines fair value for Equity Investments, refer to *Loan and Equity Investments* within this Note and to Note 4.

Borrowings: The carrying amounts for borrowings approximate their respective fair value.

Taxes—The Corporation, its property, other assets, income, and the operations and transactions it carries out pursuant to the *Agreement Establishing the Inter-American Investment Corporation*, as amended, are immune from all taxation and from all custom duties.

Notes to the Financial Statements

(dollars in thousands, unless otherwise indicated)

Accounting and financial reporting developments—In May 2005, the Financial Accounting Standards Board (FASB) issued SFAS 154, *Accounting Changes and Error Corrections*. This new standard replaces Accounting Principles Board Opinion 20, *Accounting Changes* (APB 20), and FASB Statement 3, *Reporting Accounting Changes in Interim Financial Statements*. Among other changes, SFAS 154 requires that a voluntary change in accounting principle be applied retrospectively with all prior period financial statements presented using the new accounting principle, unless it is impracticable to do so. The new standard is effective for accounting changes and correction of errors made in fiscal years beginning after December 15, 2005. Management believes the adoption of the provisions of SFAS 154 will not have a material impact on operations, financial positions, or liquidity results.

In March 2004, FASB ratified the consensus reached by the Emerging Issues Task Force (EITF) on Issue 03-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments* (EITF 03-1). EITF 03-1 addresses the meaning of other-than-temporary impairment and its application to certain equity investments. EITF 03-1 aids in the determination of impairment of an investment and gives guidance as to the measurement of impairment loss and the recognition and disclosures of other-than-temporary impairments. EITF 03-1 also provides a model to determine other-than-temporary impairment using evidence-based judgment about the recovery of the fair value up to the cost of the investment by considering the severity and duration of the impairment in relation to the forecasted recovery of the fair value. In July 2005, FASB adopted the recommendation of its staff to replace key parts of EITF 03-1. The staff's recommendations were to replace the guidance on the determination of whether an investment is impaired as set forth in paragraphs 10-18 of Issue 03-1 and not to provide additional guidance on the meaning of other-than-temporary impairment. Instead, the staff recommends entities recognize other-than-temporary impairments by applying existing accounting literature such as paragraph 16 of SFAS 115. The final FASB Staff Position (FSP) was retitled FSP FAS 115-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments.* This guidance should be applied to reporting periods beginning after December 15, 2005. The Corporation does not expect the adoption of FSP FAS 115-1 to have a material impact on its financial position or results of operations.

In addition, during the year ended December 31, 2005, FASB issued and/or approved various FASB Staff Positions, EITF Issues Notes, and other interpretive guidance related to Statements of Financial Accounting Standards and APB Opinions. The Corporation analyzed and incorporated the new guidance, as appropriate, with no material impact on either its financial position or results of its operations.

Notes to the Financial Statements

(dollars in thousands, unless otherwise indicated)

3. Marketable Securities

Marketable securities at market value consisted of the following:

	December 31	
USD Thousands	2005	2004
Corporate Securities	$ 154,352	$ 25,333
Asset-Backed Securities	4,010	12,011
Government and Agency Obligations	—	8,913
	$ 158,362	**$ 46,257**

The following reflects net income from marketable securities by source:

	Year ended December 31	
USD Thousands	2005	2004
Interest Income	$ 1,866	$ 1,712
Realized Gain (Loss)	1,513	(116)
Unrealized Gain (Loss)	1,936	(517)
	$ 5,315	**$ 1,079**

Notes to the Financial Statements

(dollars in thousands, unless otherwise indicated)

4. Loan and Equity Investments

The Corporation monitors its outstanding loan and equity portfolios for geographic concentration of credit risk. One of the Corporation's largest exposures is designated as Regional, which consists primarily of multi-country private equity investment funds. As of December 31, 2005, individual countries with the largest aggregate credit exposure to the Corporation included Colombia, Brazil, and Chile (Brazil, Chile, and Mexico—year ended December 31, 2004). As of December 31, 2005, outstanding local-currency loans amounted to $65,668 (equivalent to approximately 150 billion Colombian pesos). There was no local-currency portfolio in 2004.

The distribution of the outstanding portfolio by country and by sector is as follows:

	December 31					
USD Thousands	2005			2004		
	Loan	Equity	Total	Loan	Equity	Total
Colombia	$ 91,068	$ 857	$ 91,925	$ 18,634	$ 857	$ 19,491
Brazil	82,280	2,764	85,044	56,632	7,226	63,858
Regional	30,984	48,152	79,136	22,490	60,248	82,738
Chile	29,100	14,967	44,067	28,939	14,967	43,906
Mexico	19,030	10,177	29,207	20,452	13,459	33,911
Ecuador	25,381	—	25,381	18,088	—	18,088
Argentina	20,032	612	20,644	24,769	2,612	27,381
Peru	20,481	—	20,481	27,095	—	27,095
Uruguay	20,140	250	20,390	12,885	931	13,816
Costa Rica	17,720	—	17,720	21,237	—	21,237
Nicaragua	17,327	—	17,327	10,378	—	10,378
Honduras	12,279	—	12,279	15,503	—	15,503
Venezuela	11,558	—	11,558	14,794	—	14,794
El Salvador	10,957	—	10,957	9,900	—	9,900
Bolivia	9,326	—	9,326	8,500	—	8,500
Panama	6,602	—	6,602	17,125	—	17,125
Paraguay	4,887	—	4,887	4,935	—	4,935
Jamaica	2,532	—	2,532	3,470	—	3,470
Trinidad and Tobago	159	598	757	988	598	1,586
Guatemala	464	—	464	4,246	—	4,246
Belize	—	—	—	950	—	950
	$ 432,307	**$ 78,377**	**$ 510,684**	**$ 342,010**	**$ 100,898**	**$ 442,908**

Financial Services	$ 245,057	$ 23,033	$ 268,090	$ 150,964	$ 23,033	$ 173,997
Venture Capital Funds	—	55,344	55,344	—	75,865	75,865
Agriculture and Agribusiness	47,492	—	47,492	33,437	2,000	35,437
Aquaculture and Fisheries	20,352	—	20,352	23,555	—	23,555
Utilities and Infrastructure	17,330	—	17,330	16,517	—	16,517
Education	13,939	—	13,939	15,352	—	15,352
Chemicals and Plastics	12,726	—	12,726	6,014	—	6,014
Wood, Pulp, and Paper	12,642	—	12,642	14,540	—	14,540
Livestock and Poultry	11,358	—	11,358	8,000	—	8,000
General Manufacturing	10,174	—	10,174	15,401	—	15,401
Food, Bottling, and Beverages	9,371	—	9,371	10,305	—	10,305
Industrial Processing Zones	7,818	—	7,818	9,322	—	9,322
Tourism and Hotels	7,441	—	7,441	8,889	—	8,889
Textiles, Apparel, and Leather	4,457	—	4,457	6,239	—	6,239
Non-financial Services	4,429	—	4,429	5,572	—	5,572
Transportation and Warehousing	3,903	—	3,903	13,903	—	13,903
Oil and Mining	3,818	—	3,818	4,000	—	4,000
	$ 432,307	**$ 78,377**	**$ 510,684**	**$ 342,010**	**$ 100,898**	**$ 442,908**

Notes to the Financial Statements

(dollars in thousands, unless otherwise indicated)

Loan, equity, and mortgage-backed security investments committed but not disbursed (net of cancellations) are summarized below:

USD Thousands	December 31 2005	December 31 2004
Loan	$ 50,441	$ 36,730
Equity	15,083	19,267
Mortgage-Backed Securities	—	25,000
	$ 65,524	**$ 80,997**

The Corporation's loans accrue interest at one-, three-, and six-month London Interbank Offered Rate (LIBOR) plus a spread ranging from 1.50% to 6.09%. In 2005, the one-, three- and six-month average LIBOR rates were 3.40%, 3.57%, and 3.79%, respectively (1.50%, 1.62%, and 1.79%, respectively as of December 31, 2004).

The maturity structure of the Corporation's loan investments is summarized below:

USD Thousands	December 31 2005		December 31 2004	
	Principal Outstanding	Average Spread over LIBOR	Principal Outstanding	Average Spread over LIBOR
Due in one year or less	$ 88,632	3.54%	$ 84,996	3.40%
Due after one year through five years	315,657	2.34%	202,808	3.96%
Due after five years through ten years	28,018	3.22%	54,206	4.07%
	$ 432,307		**$ 342,010**	

Loans on which the accrual of interest has been discontinued totaled $51,085 at December 31, 2005 ($64,278 at December 31, 2004). Interest income not recognized on non-accruing loans during the period ended December 31, 2005, totaled $2,499 ($1,502 for the period ended December 31, 2004). Interest collected on loans in nonaccrual status for the period ended December 31, 2005, was $2,227 ($1,485 for the period ended December 31, 2004).

The Corporation's investment in impaired loans at December 31, 2005, was $32,815 ($32,536 at December 31, 2004). The average recorded investment in impaired loans for the period ended December 31, 2005, was $32,676 ($38,011 for the period ended December 31, 2004).

Notes to the Financial Statements

(dollars in thousands, unless otherwise indicated)

Changes in the allowance for loan and equity losses are summarized below:

USD Thousands	December 31					
	2005			2004		
	Loan	Equity	Total	Loan	Equity	Total
Balance at beginning of year	$ 45,466	$ 30,681	$ 76,147	$ 45,264	$ 41,177	$ 86,441
Investments written off, net	(3,660)	(17,867)	(21,527)	(372)	(19,940)	(20,312)
Recoveries	2,486	173	2,659	6,526	180	6,706
Provision for losses	3,530	(3,572)	(42)	(5,952)	9,264	3,312
Other reclassifications	(79)	—	(79)	—	—	—
Balance at end of period	**$47,743**	**$ 9,415**	**$57,158**	**$45,466**	**$30,681**	**$76,147**

Management has determined that the unrealized losses on the Corporation's investments in equity as of December 31, 2005, are temporary in nature. The Corporation conducts a periodic review to identify and evaluate investments that have indications of possible impairment. An investment in equity is impaired if its fair value falls below its cost and the decline is considered other-than-temporary. Factors considered in determining whether a loss is temporary include the length of time and extent to which fair value has been below cost, the financial condition and near-term prospects of the issuer, and the Corporation's ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery. The Corporation's review for impairment generally entails, as required under its accounting policies: the identification and evaluation of investments that have indications of possible impairment; the analysis of individual investments that have fair values less than 50% of amortized cost, including consideration of the length of time the investment has been in an unrealized loss position; the discussion of evidential matter, including an evaluation of factors or triggers that would or could cause individual investments to qualify as having other-than-temporary impairments and those that would not support other-than-temporary impairment; and the documentation of the results of these analyses. In 2005, the Corporation determined that certain equity investments met the conditions for impairment. As a result, the amount written off was $16,850. An additional write-off was recorded amounting to $1,017 based on certain circumstances surrounding an equity investment.

In 2001, the Corporation entered into a commitment to make investments in mortgage-backed securities. In accordance with SFAS 115, *Accounting for Certain Investments in Debt and Equity Securities*, the Corporation classified these mortgage-backed securities as trading securities upon acquisition and carried them at their estimated fair value. In 2004 management initiated efforts to exit existing mortgage-backed securities investment commitments and to phase out the use of this investment product. In 2004, the Corporation sold all of its mortgage-backed securities investments. The Corporation also entered into derivative financial instruments related to these mortgage-backed securities that were designed to minimize the variability of the interest and principal repayments due to interest and foreign exchange risk. The Corporation exited the related derivative instruments upon the sale of the related mortgage-backed securities. Key assumptions and estimates used to determine the estimated fair value of the mortgage-backed security and related derivative financial instrument included credit risk, prepayments, foreign exchange rates, inflation rates, and counterparty risks. Management's estimates sometimes differed from the actual value ultimately realized.

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(dollars in thousands, unless otherwise indicated)

5. Receivables and Other Assets

Receivables and other assets are summarized below:

USD Thousands	December 31 2005	December 31 2004
Other current assets:		
Interest Receivable on Loan Investments	$ 7,941	$ 4,855
Interest Receivable on Marketable Securities	13	433
Derivative Asset	203	—
Guarantee Fee Receivable	125	108
Unamortized Debt Issue Costs	111	60
Other Postretirement Benefits, Prepaid Asset	—	224
Other Receivables	188	429
	8,581	6,109
Other non-current assets:		
Receivable on Equity Sales, net	2,632	2,773
Derivative Asset	1,349	—
Recovered Assets	934	956
Fixed Assets, net	560	478
Unamortized Debt Issue Costs	415	267
Guarantee Fee Receivable	232	271
	6,122	4,745
Total Receivables and Other Assets	**$ 14,703**	**$ 10,854**

The Corporation may enter into a sales agreement to sell its participation in certain equity investments and record a note receivable and the related gain in Gain on Sale of Equity Investments. The amounts receivable for equity sales, net of related valuation allowances, are summarized below:

USD Thousands	December 31	
Sale Price (2003)	**2005**	**2004**
6,266	2,632	2,773
	$ 2,632	**$ 2,773**

6. Accounts Payable and Other Liabilities

Accounts payable and other liabilities are summarized below:

USD Thousands	December 31 2005	December 31 2004
Other current liabilities:		
Capital Subscription Residual Payments	$ 3,363	$ 1,840
Deferred Revenue	2,674	2,399
Employment Benefits Payable	2,492	1,927
Installment Payments on Equity Dispositions	—	983
Accounts Payable	883	871
Due to Other IDB Group Entities	386	—
Other Liabilities	399	847
	$ 10,197	**$ 8,867**

Notes to the Financial Statements

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The Corporation enters into agreements with equity investment sponsors to exit the Corporation's positions in equity investments. These agreements involve installment payments made to the Corporation whereupon at the end of the installment payments the Corporation's position is released to the equity investment sponsor. Installment payments on Equity Dispositions reflected in Accounts Payable and Other Liabilities totaled $983 at December 31, 2004. In 2005, based on the circumstances surrounding the agreement, the installment payments outstanding were applied against the outstanding equity investment.

7. Borrowings and Long-Term Debt

Credit facilities, the related borrowings outstanding, and bonds issued by the Corporation are as follows:

	December 31			
USD Thousands	2005		2004	
Credit Agreements	**Facility**	**Outstanding**	**Facility**	**Outstanding**
IDB, expiring November 2010 (amended date)	$ 300,000	$ —	$ 300,000	$ —
Caja Madrid, expiring October 2007	50,000	—	—	—
Caja Madrid, expiring December 2009 (amended amount and date)	50,000	—	100,000	—
Shinkin, expiring December 2009	30,000	30,000	30,000	30,000
Caja Madrid, expiring January 2011	50,000	50,000	50,000	50,000
Caja Madrid, expiring March 2015	50,000	50,000	—	—
		$ 130,000		**$ 80,000**

Other long-term debts included the issuance of a local-currency bond as indicated below:

	December 31			
USD Thousands	2005		2004	
Bonds Issued/Currency	**Amount**	**Wgtd. Avg. Cost**	**Amount**	**Wgtd. Avg. Cost**
Colombian pesos (expiring December 2010)	$ 65,668	6.51%	$ —	—
	$ 65,668	**6.51%**	**$ —**	**—**

The Corporation's outstanding borrowings as of December 31, 2005, consist of term and revolving credit facilities with the Inter-American Development Bank (IDB), Caja de Madrid (Caja), and Shinkin Central Bank (Shinkin). Borrowings under the IDB facility are due fifteen years after the respective disbursement and are renewable. Caja's revolving credit facilities, expiring in October 2007 and December 2009, are due within different terms ranging from seven days to twelve months after disbursement and are renewable. Borrowings under the Shinkin facility are due and payable in December 2009, with interest payable semiannually. Borrowings under the fixed-rate Caja facility are due and payable in January 2011, with interest payable quarterly. Borrowings under the variable-rate Caja facility are due and payable in March 2015, with interest payable semiannually. In 2005, the Corporation renewed the loan agreement with the IDB that allows the Corporation to borrow up to $300 million until November 2010.

On December 14, 2005, the Corporation issued Certificate of Deposit Rate (DTF) + 0.42% (Series A) and Consumer Price Index (IPC) + 1.62% (Series C) local-currency bonds in the amount of 150 billion Colombian pesos (equivalent to approximately $65,925), before underwriting and other issuance costs, maturing in 2010. The proceeds were used entirely to provide financing for

Notes to the Financial Statements

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small and medium-size companies in Colombia. Interest on the bonds is payable quarterly and at maturity. The bonds are negotiable on the Colombian Stock Exchange. The bonds represent unsecured obligations of the Corporation ranking equal in right of payment to all existing and future debt including claims of depositors and other general creditors. The notes may not be redeemed prior to their maturity. The indentures do not contain restrictive covenants.

Interest on borrowings accrues at variable rates based on one-, three-, or six-month LIBOR set at the effective date of each borrowing or the interest reset date. The interest rate on the Caja term facility was set at disbursement and will remain fixed until maturity. The Corporation's weighted average cost of borrowings for the period ended December 31, 2005, was 4.07% (3.42% for the period ended December 31, 2004). The Corporation's weighted average cost of borrowings and long-term debt for the period ended December 31, 2005, was 4.89% (3.42% for the period ended December 31, 2004).

The carrying amounts for borrowings and bonds approximate their respective fair value.

The maturity structure of borrowings and bonds outstanding, by type of debt, is as follows:

USD Thousands	2009	2010	2011	Through 2015
Borrowings	$ 30,000	$ —	$ 50,000	$ 50,000
Bonds	—	65,668	—	—
	$ 30,000	**$ 65,668**	**$ 50,000**	**$ 50,000**

8. Capital

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

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The following table lists the capital stock subscribed, subscriptions receivable, and fractional or advance shares pending issuance.

	December 31			
	TOTAL Capital Stock Subscribed		Subscriptions Receivable	Payments Received on Account of
	Shares	Amount	From Members	Pending Subscriptions
		USD Thousands		USD Thousands
Argentina	7,767	$ 77,670	$ 54,400	$ —
Austria	345	3,450	612	—
Bahamas	144	1,440	252	—
Barbados	101	1,010	177	—
Belgium	169	1,690	410	—
Belize	101	1,010	355	—
Bolivia	624	6,240	1,092	—
Brazil	7,767	77,670	20,817	—
Chile	2,003	20,030	3,283	3,283
Colombia	2,003	20,030	3,282	—
Costa Rica	94	940	—	—
Denmark	1,071	10,710	1,902	—
Dominican Republic	420	4,200	735	—
Ecuador	420	4,200	735	—
El Salvador	94	940	—	—
Finland	393	3,930	953	—
France	2,162	21,620	3,840	—
Germany	1,334	13,340	1,770	—
Guatemala	420	4,200	735	—
Guyana	120	1,200	210	—
Haiti	314	3,140	1,925	—
Honduras	314	3,140	550	—
Israel	173	1,730	308	—
Italy	2,162	21,620	3,840	—
Jamaica	420	4,200	735	—
Japan	2,393	23,930	4,418	—
Korea, Republic of	110	1,100	—	—
Mexico	5,000	50,000	8,755	63
Netherlands	1,071	10,710	1,903	—
Nicaragua	314	3,140	2,200	—
Norway	393	3,930	954	—
Panama	314	3,140	550	—
Paraguay	314	3,140	2,200	—
Peru	2,003	20,030	3,960	—
Portugal	182	1,820	442	—
Spain	2,393	23,930	4,417	17
Suriname	101	1,010	710	—
Sweden	393	3,930	1,431	—
Switzerland	1,071	10,710	1,903	—
Trinidad and Tobago	314	3,140	550	—
United States	17,600	176,000	53,080	—
Uruguay	857	8,570	1,740	—
Venezuela	4,311	43,110	7,658	—
Total 2005	**70,069**	**$ 700,690**	**$ 199,789**	**$ 3,363**
Total 2004	**69,630**	**$ 696,300**	**$ 252,450**	**$ 1,840**

Of the shares subscribed, 29 are expected to be released in the short term.

Notes to the Financial Statements

(dollars in thousands, unless otherwise indicated)

9. Derivatives

In 2005, the Corporation entered into a structured borrowing agreement which included certain derivative instruments. The purpose of this transaction was to reduce the overall cost of the operation as part of the Corporation's funding and risk management strategy using an interest rate swap.

The effect of nontrading derivative instruments in the statement of income for the year ended December 31, 2005, amounted to $1,654. Unrealized gains will be realized throughout the term of the borrowing producing the desired interest payments (i.e., LIBOR plus a spread). Of that amount, $1,552 corresponds to changes in fair value (unrealized gains) and $102 to realized gains.

10. Guarantees

The Corporation provides a variety of financial guarantees to certain clients. The Corporation stands ready to perform once a guarantee is registered, will compensate the guaranteed party upon notification of default, and will seek recovery, if any, on any defaulted amounts.

Financial guarantees represent irrevocable assurances, subject to the satisfaction of certain conditions, that the Corporation will make payment in the event that a client cannot meet its obligations to third parties. The terms of the outstanding guarantees range up to four years. The Corporation's policy for requiring collateral security with respect to these instruments and the types of collateral security held is generally the same as for loans. The carrying value includes amounts representing deferred revenue to be recognized as the Corporation is released from risk under the guarantee. Depending on the nature of the guarantee, the Corporation's release from risk is recognized upon either expiration or settlement of the guarantee.

As of December 31, 2005 and 2004, no notices of default have been received since inception. The maximum potential amount of future payments, which represents the notional amounts that could be lost under the guarantees if there were a total default by the guaranteed parties without taking into consideration possible recoveries under recourse provisions or from collateral held or pledged, amounted to $725 as of December 31, 2005. This amount corresponds to guarantees provided in currencies other than the United States dollar. As of December 31, 2004, the amount of future payments amounted to $5,245. None of these amounts bears any relationship to the anticipated losses on these guarantees, and they greatly exceed anticipated losses.

11. Contingencies

The Corporation, in the ordinary course of business, is defendant or co-defendant or party in various litigation matters incidental to and typical of the operations in which it is engaged. In the opinion of the Corporation's management, the ultimate resolution of these legal proceedings would not have a material adverse effect on the financial position of the Corporation but, if involving monetary liability, may be material to the Corporation's operating results for a particular period.

12. Participations

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

During the period ended December 31, 2005, the Corporation called and disbursed $94,984 of Participants' funds ($181,735 for the period ended December 31, 2004). The undisbursed Participants' funds commitments were $21,000 as of December 31, 2005 ($938 as of December 31, 2004).

Notes to the Financial Statements

(dollars in thousands, unless otherwise indicated)

13. Related Party Transactions

The Corporation obtains some administrative and overhead services from the IDB in those areas where common services can be efficiently provided by the IDB. The Corporation has a lease agreement with the IDB for its head office space that will expire in 2013.

The Corporation paid the following amounts to the IDB for office space and certain administrative support services:

	Year ended December 31	
USD Thousands	2005	2004
Office Space (Headquarters and Other)	$ 1,570	$ 1,565
Support Services	515	536
Other IDB Services	175	—
	$ 2,260	**$ 2,101**

Expected payments under the current lease agreement with the IDB are as follows:

USD Thousands	2006	2007	2008	2009–2013
Office Space (Headquarters)	$ 1,534	$ 1,580	$ 1,627	$ 8,897
	$ 1,534	**$ 1,580**	**$ 1,627**	**$ 8,897**

Accounts payable to the IDB were $386 as of December 31, 2005. Accounts receivable from the IDB were $64 as of December 31, 2004.

In 2005 and 2004, no amounts were outstanding to the IDB under an existing loan agreement (refer to Note 7).

The Corporation has advisory service agreements with the IDB. Fees for the amount of $275 were accrued for the period ended December 31, 2005 ($175 were accrued for the period ended December 31, 2004).

14. Pension and Postretirement Benefit Plans

The IDB sponsors a defined benefit plan (the Pension Plan) covering substantially all of the staff of the Corporation and the IDB. The Pension Plan covers international and local employees. According to the provisions of the Pension 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 Pension Plan benefits. Any and all of the contributions to the Pension Plan are irrevocable and are held separately in retirement funds solely for the payment of benefits under the Plan. They can be used for the benefit of the Pension Plan participants and their beneficiaries, until all liabilities to them have been paid or provided for. The Corporation's required contribution to the Pension Plan was $1,011 for the year ended December 31, 2005 ($750 for the year ended December 31, 2004) and is relected in administrative expense.

The Corporation also provides certain health care and other benefits to retirees. All current staff who contribute to the Pension Plan while in active service and who meet certain requirements are eligible for postretirement benefits under the Postretirement Benefits Plan (PRBP). Retirees contribute toward the health care program based on an established premium schedule. The Corporation contributes the remainder of the actuarially determined cost of future health and other benefits. While all contributions and all other assets and income of the PRBP remain the property of the Corporation, they are held and administered separately and apart from the other property

Notes to the Financial Statements

(dollars in thousands, unless otherwise indicated)

and assets of the Corporation solely for the purpose of payment of benefits under the PRBP and are not included on the balance sheet.

Effective January 1, 2005, the Corporation transferred to its Postretirement Benefit Plan the related assets and liabilities of a certain number of retirees. Those Postretirement Benefit Plan assets and liabilities were previously allocated to the IDB Postretirement Plan. The effect of such transfer on the 2004 Financial Statements *Nonpension Postretirement Benefits* disclosure is indicated below (only those headings affected by the transfer are presented):

USD Thousands	Postretirement Benefits		
	Reported	**Change**	**As Amended**
Reconciliation of Benefit Obligation			
Obligation as of January 1, 2004	$ 9,668	$ 2,697	$ 12,365
Actuarial (Gain)/Loss	(2,066)	170	(1,896)
Obligation as of December 31, 2004	8,809	2,867	11,676
Reconciliation of Fair Value of Plan Assets			
Fair Value of Plan Assets as of January 1, 2004	10,105	4,153	14,258
Net Transfer	—	(1,564)	(1,564)
Fair Value of Plan Assets as of December 31, 2004	11,748	2,589	14,337
Funded Status			
Funded Status at December 31, 2004	2,938	(278)	2,660
Unrecognized Net Gain from Past Experience Different from that Assumed and from Changes in Assumption	(4,787)	278	(4,509)

Considering the aforementioned transfer of assets and liabilities, the effect of a one-percentage-point change in assumed health care cost trend rates would have the following effects:

USD Thousands	One-Percentage-Point Increase			One-Percentage-Point Decrease		
	As Reported	**Change**	**As Amended**	**As Reported**	**Change**	**As Amended**
Effect on total of service and interest cost components	$ 278	$ 21	$ 299	$ (207)	$ (16)	$ (223)
Effect on postretirement benefit obligations	1,676	257	1,933	(1,179)	(281)	(1,460)

The transfer of assets and liabilities did not have an effect on net income for 2004 or previous periods. Management considers that the effect of this transfer is immaterial for the 2004 financial statement disclosures.

Notes to the Financial Statements

(dollars in thousands, unless otherwise indicated)

Obligations and funded status

The Corporation uses a December 31 measurement date for the PRBP. The following table summarizes the change in benefit obligation, the change in plan assets, the funded status, and the amount recognized on the balance sheet:

	Postretirement Benefits	
USD Thousands	2005	2004
Reconciliation of Benefit Obligation		
Obligation as of January 1	$ 11,676	$ 12,365
Service Cost	982	769
Interest Cost	676	438
Actuarial Loss (Gain)	540	(1,896)
Benefits Paid	(61)	—
Obligation as of December 31	13,813	11,676
Reconciliation of Fair Value of Plan Assets		
Fair Value of Plan Assets as of January 1	14,337	14,258
Actual Return on Assets	1,666	1,216
Net Transfer	—	(1,564)
Benefits Paid	(61)	—
Employer Contributions	661	427
Fair Value of Plan Assets as of December 31	16,603	14,337
Funded Status		
Funded Status as of December 31	2,790	2,660
Remaining Unrecognized Net Transition Asset	1,575	1,749
Unrecognized Net Gain from Past Experience Different from that Assumed and from Changes in Assumptions	(4,733)	(4,509)
Unrecognized Prior Service Cost	274	324
Other Postretirement Benefit (Liability) Prepaid Asset	$ (94)	$ 224
Reconciliation of Accrued Prepaid Benefit Cost		
Prepaid as of January 1	224	380
Pension Cost	(979)	(583)
Actual Contribution	661	427
Net Amount Recognized as of December 31	**$ (94)**	**$ 224**

Notes to the Financial Statements

(dollars in thousands, unless otherwise indicated)

Components of net periodic benefit cost

Net periodic benefit cost related to the PRBP consists of the following components:

	Postretirement Benefits	
	Year ended December 31	
USD Thousands	2005	2004
Service Cost	$ 982	$ 769
Interest Cost	676	438
Expected Return on Plan Assets	(848)	(687)
Amortization of:		
Unrecognized Transition Obligation and Asset	174	174
Unrecognized Net Gain	(55)	(161)
Prior Service Costs	50	50
Net Periodic Benefit Cost	**$ 979**	**$ 583**

Actuarial assumptions

The actuarial assumptions used for the PRBP are based on financial market interest rates, past experience, and management's best estimate of future benefit changes and economic conditions. Changes in these assumptions will impact future benefit costs and obligations. Actuarial gains and losses occur when actual results are different from expected results. Unrecognized actuarial gains and losses that exceed 10% of the greater of the benefit obligation or market-related value of the plan assets at the beginning of the period are amortized over the average remaining service period of active participants expected to receive benefits under the PRBP, which approximates 11.7 years. Unrecognized prior service cost is amortized over 7.5 years for the PRBP.

The weighted average assumptions used to determine the benefit obligations were as follows:

	Postretirement Benefits	
	2005	2004
Weighted Average Assumptions Used to Determine Benefit Obligations as of December 31		
Discount Rate	5.50%	5.50%

The weighted average assumptions used to determine net periodic cost were as follows:

	Postretirement Benefits	
	2005	2004
Weighted Average Assumptions Used to Determine Net Periodic Cost for Years Ended December 31		
Discount Rate	5.50%	5.75%
Expected Long-Term Return on Plan Assets	6.75%	6.75%

The expected yearly rate of return on plan assets reflects the historical rate of returns of asset categories employed by the PRBP and conservatively applying those returns in formulating the investment policy asset allocations.

Notes to the Financial Statements

(dollars in thousands, unless otherwise indicated)

The accumulated postretirement benefit obligation was determined using the following health care cost trend rates:

	2005	2004
Health Care Cost Trend Rate Assumed for Next Year		
Medical	8.00%	8.00%
Prescription Drugs	9.50%	11.00%
Dental	6.50%	6.50%
Outside U.S. (*)	8.00%	8.00%
Rate to which the Cost Trend is Assumed to Decline (the Ultimate Trend Rate)	4.50%	4.50%
Year that the Rate Reaches the Ultimate Trend Rate	2013	2013

(*) Refers to all services provided to those participants assumed to retire outside the United States.

Assumed health care cost trend rates have a significant effect on the amounts reported for the PRBP. 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	
	Year ended December 31		Year ended December 31	
USD Thousands	2005	2004	2005	2004
Effect on Total of Service and Interest Cost Components	$ 344	$ 299	$ (258)	$ (223)
Effect on Postretirement Benefit Obligation	2,261	1,933	(1,708)	(1,460)

Plan assets

The assets of the PRBP are managed primarily by investment managers employed by the IDB who are provided with investment guidelines that take into account the PRBP investment policies. Investment policies have been developed so that, consistent with historical returns, there is a high equity allocation with the expectation of sufficient returns to meet long-term funding needs.

Cash flows

Contributions from the Corporation to the Pension Plan and the PRBP during 2006 are expected to be approximately $900 and $400, respectively. All contributions are made in cash.

Estimated future benefit payments

The following table summarizes the benefit payments, which reflect expected future service, as appropriate, expected to be paid in each of the next five years and in the aggregate for the subsequent five years. These amounts are based on the same assumptions used to measure the benefit obligation as of December 31, 2005:

USD Thousands	Postretirement Benefits
Estimated Future Benefit Payments	
January 1, 2006–December 31, 2006	$ 120
January 1, 2007–December 31, 2007	130
January 1, 2008–December 31, 2008	170
January 1, 2009–December 31, 2009	220
January 1, 2010–December 31, 2010	260
January 1, 2011–December 31, 2015	1,920

Notes to the Financial Statements

(dollars in thousands, unless otherwise indicated)

15. Management of External Funds

The Corporation administers on behalf of donors, which include members and other entities, funds restricted for specific uses that include the cofinancing of certain projects, technical studies for borrowers, project-related studies, and research and training programs. These funds are held in trust by the Corporation and are not commingled with the Corporation's funds, nor are they included in the assets of the Corporation. The Corporation receives a management fee that is generally a percentage of the funds received.

Appendixes

Latin America and the Caribbean in 2005: Economic Outlook

The Latin American and Caribbean economies posted a third consecutive year of positive growth, with GDP rising at a rate of 4.3 percent in 2005. This positive performance was made possible by a continued improvement in the terms of trade, robust domestic demand, and a 3.3 percent expansion of the world economy. This trend is expected to continue in 2006, with GDP forecast to grow in the region at a rate of 4.1 percent. Inflation is expected to remain in single digits and around the same 6 percent level recorded in 2005.

According to the Economic Commission for Latin America and the Caribbean (ECLAC),[4] a distinctive characteristic of this positive performance is the increasing surplus in the current account balance of the balance of payments, which posted a rate equivalent to 1.3 percent of GDP in 2005, after the 0.9 percent and 0.5 percent rates posted in 2004 and 2003, respectively. The 9.5 percent expansion of the Chinese economy, together with the 3.5 percent growth of the United States economy and the 2.5 percent growth of developed economies as a group, continue to drive world economic growth. The Latin American and Caribbean region experienced a growth in export volumes of 8 percent on average, complemented by continued growth in remittances from migrant workers.

According to ECLAC, another engine of growth has been investment, with a 10 percent increase in gross fixed capital formation. The economies of South America achieved the highest rates of capital formation, with an average of 12 percent. Capital investments rose by 6.1 percent in Mexico and 2 percent in Central America. However, when measured as a percentage of GDP, investment is not growing at rates that would allow for faster growth and more job creation. Investment in the region remains below 1998 levels.

The improved economic conditions have resulted in rising fiscal revenues that, coupled with conservative public spending policies, have allowed regional governments to reduce public debt, increase international reserves and, hence, reduce the region's vulnerability to external shocks. Moreover, the region's improving economic performance has translated into better labor market conditions and declining unemployment. The unemployment rate fell from 10.3 percent in 2004 to 9.3 percent in 2005 with a growing participation of the formal sector's share of total employment. Moreover, although the poverty rate is still very high, the region achieved a four-percentage-point decrease in poverty since 2003. The poverty rate is estimated at slightly more than 40 percent at the end of 2005.

The continued appreciation of most of the region's currencies is generating concerns regarding the competitiveness of its exports. In order to maintain export growth and achieve further improvements in economic conditions, the Latin American and Caribbean economies need to foster productivity, adding more value to their exports and improving the quality of their products and services.

The Corporation will continue to support economic and social development in the region by maintaining its focus on the growth of its development-related assets by lending directly and indirectly to its target market of small and medium-size enterprises. The IIC will continue to seek innovative ways to support private sector development in the region and achieve its own goal of sustainable financial returns.

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[4] Source: Economic Commission for Latin America and the Caribbean: 2005 Preliminary Overview of the Economies of Latin America and the Caribbean.

Governors and Alternate Governors*

Country	Governor	Alternate Governor
Argentina	Felisa Josefina Miceli	Martin P. Redrado
Austria	Karl-Heinz Grasser	Kurt Bayer
Bahamas	James H. Smith, CBE	Ruth Millar
Barbados	Owen S. Arthur, MP	Grantley Smith
Belgium	Didier Reynders	Franciscus Godts
Belize	Mark A. Espat	Carla Barnett
Bolivia	Waldo M. Gutiérrez Iriarte	Rodrigo Castro
Brazil	Paulo Bernardo Silva	José Carlos Rocha Miranda
Chile	Nicolás Eyzaguirre	María Eugenia Wagner Brizzi
Colombia	Alberto Carrasquilla Barrera	Santiago Montenegro
Costa Rica	David Fuentes	Francisco de Paula Gutiérrez
Denmark	Ole E. Moesby	Bo Lidegaard
Dominican Republic	Héctor Valdez Albizu	Temístocles Montás
Ecuador	—	Fausto Ortiz De la Cadena
El Salvador	Eduardo Zablah-Touché	Guillermo López Suárez
Finland	Marjatta Rasi	Annelli Vuorinen
France	Thierry Breton	Xavier Musca
Germany	Karin Kortmann	Rolf Wenzel
Guatemala	María Antonieta de Bonilla	Lizardo Sosa
Guyana	Bharrat Jagdeo	Saisnarine Kowlessar
Haiti	Henri Bazin	Roland Pierre
Honduras	William Chong Wong	María Elena Mondragón de Villar
Israel	Stanley Fisher	Dan Catarivas
Italy	Giulio Tremonti	Vincenzo Desario
Jamaica	Omar Davies, MP	Collin Bullock
Japan	Sadakazu Tanigaki	Toshihiko Fukui
Korea, Republic of	Duck-Soo Han	Seung Park
Mexico	Francisco Gil Díaz	Alonso P. García Tamés
Netherlands	Gerrit Zalm	Agnes van Ardenne van der Hoeven
Nicaragua	Mario Arana Sevilla	Mario Alonso
Norway	Anne Margareth Fagertun Stenhammer	Nils Haugstveit
Panama	Ricaurte Vásquez	Héctor Alexander
Paraguay	Ernst Ferdinand Bergen Schmidt	Jorge Luis Von Horoch Casamada
Peru	Fernando Zavala Lombardi	Waldo Mendoza Bellido
Portugal	Fernando Teixeira dos Santos	Carlos Costa Pina
Spain	Pedro Solbes Mira	David Vegara Figueras
Suriname	Humphrey Stanley Hildenberg	Stanley B. Ramsaran
Sweden	Ruth Jacoby	Stefan Emblad
Switzerland	Oscar Knapp	Peter Bischof
Trinidad and Tobago	Camille R. Robinson-Regis	Joseph Howard
United States	John W. Snow	—
Uruguay	Danilo Astori	Carlos Viera
Venezuela	Nelson J. Merentes D.	Jorge Giordani

* Information as of December 2005.

Executive Directors and Alternate Executive Directors*

Argentina and Haiti	Eugenio Díaz-Bonilla Martín Bès
Austria, Belgium, Germany, Italy, and the Netherlands	Pieter Moorrees Karla Schestauber
Bahamas, Barbados, Guyana, Jamaica, and Trinidad and Tobago	Havelock Brewster Jerry Christopher Butler
Belize, Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua	Luis Cosenza-Jiménez Nelly Lacayo-Anderson
Bolivia, Paraguay, and Uruguay	Juan E. Notaro Fraga Jorge Crespo Velasco
Brazil and Suriname	Rogério Studart Arlindo Villaschi
Chile and Ecuador	Germán Quintana Gustavo A. Palacio
Colombia and Peru	Luis Guillermo Echeverri Jaime Pinto Tabini
Denmark, Finland, France, Norway, Sweden, and Switzerland	Olivier Myard Seija Toro
Israel, Korea, Japan, Portugal, and Spain	Tsuyoshi Takahashi Luis Linde
Mexico and Dominican Republic	Agustín García-López Roberto B. Saladín
Panama and Venezuela	Adina Bastidas Fernando Eleta Casanovas
United States of America	Héctor E. Morales Jan E. Boyer

* Information as of December 2005.

Channels of Communication

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

Regional Offices

Andean Regional Office (Bolivia, Colombia, Ecuador, Peru, and Venezuela)
Carrera 7 No. 71-21, Torre B, Piso 19
Edificio Bancafé
Bogotá, Colombia
Telephone: (571) 325-7058
Fax: (571) 325-7057

Central America Regional Office (Belize, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and Panama)
Edificio Centro Colón, Piso 12
Paseo Colón, entre calles 38 y 40
Apartado postal 1142-1007
San José, Costa Rica
Telephone: (506) 257-1418
Fax: (506) 257-0083

Southern Cone Regional Office (Argentina, Brazil, Chile, Paraguay, and Uruguay)
Rincón 640
11.000 Montevideo, Uruguay
Telephone: (598 2) 915-3696
Fax: (598 2) 916-2607

Office in Argentina
Esmeralda 130 Piso 18
C1035ABD, Buenos Aires, Argentina
Telephone: (54 11) 4320-1890
Fax: (54 11) 4320-1837

Office in Chile
Avda. Pedro de Valdivia 0193, Piso 10
Providencia
Santiago, Chile
Telephone: (562) 431-3700
Fax: (562) 431-3713

Office in Honduras
Boulevard Morazán
Edificio Los Castaños 5º Piso
Colonia Los Castaños
Tegucigalpa, Honduras
Telephone: (504) 221-6152
Fax: (504) 239-7953

Office in Nicaragua
Edificio BID
Km. 4½ Carretera a Masaya
Managua, Nicaragua
Telephone: (505) 267-0831
Fax: (505) 267-3469

Office in Paraguay
Quesada 4616 esq. Legión Civil Extranjera – Piso 2
Asunción, Paraguay
Telephone: (595 21) 616-2320
Fax: (595 21) 615-681

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

The Corporation serves as a catalyst for attracting additional financing from other sources, technology, and know-how. These resources are mobilized through cofinancing and syndication, supporting security underwritings, and identifying joint venture partners.

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

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

The Corporation is a member of the Inter-American Development Bank (IDB) Group. The IIC is legally autonomous, and its resources and management are separate from those of the IDB. In addition to its head office in Washington, D.C., the Corporation has eight offices in the region.

Inter-American Investment Corporation
1350 New York Avenue, N.W.
Washington, DC 20577
United States of America
Telephone: (202) 623-3900
Fax: (202) 623-3815
www.iic.int