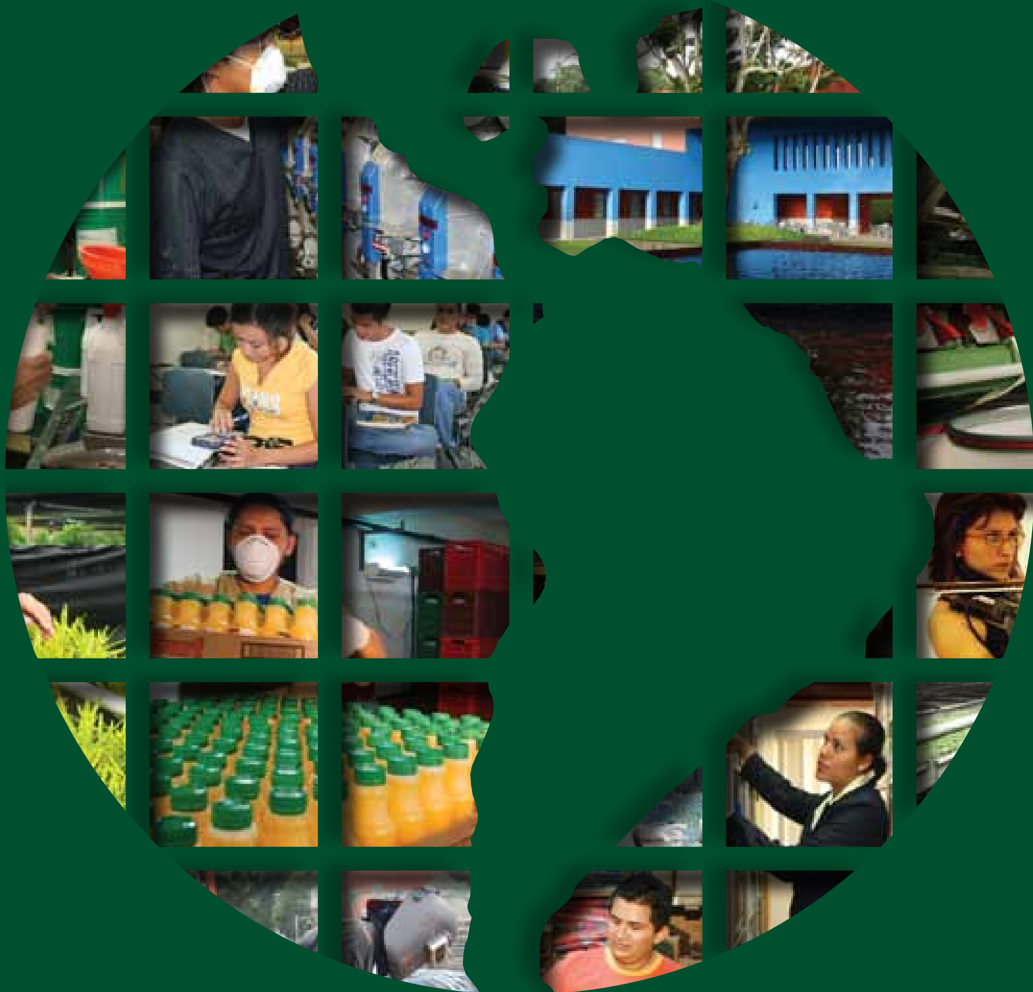
IIC

Inter-American Investment Corporation

BEYOND FINANCING



2008 Annual Report

43 Member Countries

Argentina ▪ Austria ▪ Bahamas ▪ Barbados ▪ Belgium ▪ Belize ▪ Bolivarian Republic of Venezuela ▪ Bolivia ▪ Brazil
Chile ▪ Colombia ▪ Costa Rica ▪ Denmark ▪ Dominican Republic ▪ Ecuador ▪ El Salvador ▪ Finland ▪ France
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Nicaragua ▪ Norway ▪ Panama ▪ Paraguay ▪ Peru ▪ Portugal ▪ Republic of Korea ▪ Spain ▪ Suriname ▪ Sweden
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LETTER OF TRANSMITTAL

February 17, 2009

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

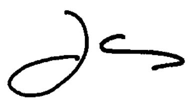
Mr. Chairman:

Pursuant to Article IV, Section 9(a) of the Agreement Establishing the Inter-American Investment Corporation, I am pleased to transmit the Annual Report of the Corporation for 2008 and the Audited Financial Statements, including the balance sheet as of December 31, 2008, and the related statements of income, comprehensive income, changes in equity, and cash flows for the year then ended.

The achievements highlighted in this report bear witness to the bonds of partnership among relevant developmental stakeholders, to the strategic guidance and oversight extended by the Board of Executive Directors to IIC Management and staff, and to Board of Executive Directors' support for the initiatives and programs launched during the year in the pursuit of enhanced developmental service.

I also wish to express my appreciation for the trust vested in the Corporation by its regional and nonregional member countries, notably through the expanding network of technical assistance funds that are making it possible to provide invaluable know-how and expertise benefiting small and medium-size enterprises in Latin America and the Caribbean.

Yours sincerely,



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

LETTER FROM THE GENERAL MANAGER

The IIC's accomplishments this year once again give evidence of its unwavering commitment to the economic and social development of its constituents and partners in the region and the imperative need to adapt and evolve—this time in the context of a severe global financial crisis. The IIC's operating results are positive for the sixth consecutive year, enabling the institution to expand its reach and serve new market niches.

The performance of the IIC over time depends on its capacity for continuous innovation and flexibility in how it provides services, how it broadens its reach, and how it intensifies and accounts for its developmental impact. In this regard, I want to underscore two key initiatives launched during 2008 that exemplify this capacity.

The first initiative, known by its acronym DIAS (Development Impact and Additionality Scoring System), consolidates a series of steps that the IIC has taken since 1989 to measure, track, and report on the results of each and every operation. The essence of this management tool is twofold: it monitors and assesses project performance, and it ascertains the distinctive contribution of the IIC in each intervention. Under this system, all projects must reach a minimum DIAS score to be eligible for submission for Board of Executive Directors approval.

The second initiative responds to a long-recognized need to create a new business area to channel technical assistance and manage donor relations. The overriding purpose of the TAS (Technical Assistance and Strategic Partnerships) division is to more systematically extend value-added services to SMEs. Its agenda will initially concentrate on the existing FINPYME® program, foster investments in renewable energy and energy efficiency, promote good governance practices in SMEs, and, overall, organize consulting services better.

As the IIC pursues its mission in the years ahead as a productive member of the IDB Group, it must be prepared to weather global financial shocks and help address other contingencies faced by its partners and clients. From this standpoint, 2009 should be seen as a year of challenges in which continued success will necessitate disciplined business planning and an unflagging search for delivery instruments that will yield efficiency gains and ever-greater developmental impact. In this endeavor, the IIC is reaping the returns of a proven track record and a strong degree of financial soundness and sustainability built over the years.

I am pleased to present this Annual Report highlighting the IIC's achievements and developments during 2008.

Jacques Rogozinski
General Manager
Inter-American Investment Corporation

BEYOND FINANCING

A multilateral organization with a mission and profile like the Inter-American Investment Corporation's has a number of unique features and challenges. The events and accomplishments highlighted in the IIC's annual report for 2008 underscore these challenges, at a time when the global economy is going through an unprecedented financial crisis and must face contingencies whose implications are not yet fully understood. It is within this broader picture that the trajectory of the IIC during 2008 can be better appreciated.

A number of developments within the IIC configure this larger picture, all of which evince the top priority that the institution has always given and continues to give to small business development. The IIC's learning process has added greater depth to its organization, opened some new horizons, and enhanced its presence throughout its target region and in its less-developed member countries. A change of direction has taken place with the end of one cycle and the beginning of a new one. The IIC has gained in institutional maturity, stability, and know-how.

This year's annual report presents several motifs that are introduced under concise headings and themes. First and foremost is the IIC's unwavering focus on supporting the development of its partners and clients. Two major initiatives were launched during 2008, respectively known as DIAS and TAS. The latter is a newly-created division that will extend much-needed technical expertise to small and medium-size enterprises. The former is a new tool designed to assess, track, and report on the Corporation's development effectiveness. Together, these initiatives reaffirm the IIC's aptitude for innovation and adaptation in responding to market changes and the quest for greater relevance in the region.

These changes are enabling the IIC to position itself as a reliable source of funds for small and medium-size enterprises (SMEs) and gain a competitive edge over commercial banks in an environment of financial stringency and credit restrictions. This relevance is also evidenced by the increasing importance of the Latin American food and energy sectors in the IIC's portfolio.

During its twenty years of operation the IIC has gained in expertise that it is now leveraging in the form of internal streamlining measures that are yielding greater efficiency and effectiveness at a time when shareholders expect better performance and accountability for results. The IIC's 2008 annual report will be useful in accounting for and disseminating these results, and, more generally, for highlighting the contributions that are best made by the IIC in close cooperation and partnership within the IDB Group.

EXPANDING OUR REACH

Penetrating New, Hard-to-Reach Market Niches

In 2008, the IIC stepped up its commitment to increase its direct financing to private enterprises in the smaller economies in the region. Although the IIC has always been active in these markets, their importance as a strategic objective has increased. Commensurate with this emphasis, the IIC launched several initiatives during the year.

Among these initiatives, the IIC has expanded its presence in these markets by posting staff in Guatemala and El Salvador. This expansion will complement the IIC's established presence in its smaller markets, including Costa Rica, Honduras, Nicaragua, Paraguay, and Uruguay. In future years, the IIC will continue to increase its presence in smaller markets.

In Bolivia, the IIC joined forces with Fundación Bolivia Exporta (FBE), continuing its effort (which began in 2007) to enter into agency agreements in countries where the IIC lacks a local presence. Agreements were in place in El Salvador with Escuela Superior de Economía y Negocios (ESEN) and in the English-speaking Caribbean with Insurance Company of the West Indies (ICWI). The role of these new partners is to identify and evaluate small and medium-size enterprises that could be eligible for direct financing under the IIC's Small Business Revolving Line (SBRL) program.

With ICWI, the IIC signed another agency agreement in 2008. ICWI will identify and evaluate companies in the English-speaking Caribbean that might be eligible for IIC equity investments with an exit or repayment mechanism based on their sales revenue.

This focus on the English-speaking Caribbean has expanded to include other IIC operating areas such as FINPYME and a training workshop on the governance of family-owned SMEs.

Although recent, these initiatives are yielding results in the form of an increase in the number and volume of operations in these smaller markets (see chart 1). Operations in these newly targeted countries went from twenty-eight (for a total of $154.7 million) in 2007 to thirty-seven ($124.8 million) in 2008.

BOS Blocks & Tiles Limited, Jamaica

Focus on SME Lending

This year, the IIC reaffirmed its commitment to SME lending by expanding two key programs: the IFEM program for funding specialized financial institutions in Mexico and the SBRL. It also took steps to streamline its own credit approval procedures to expedite the approval process and boost efficiency.

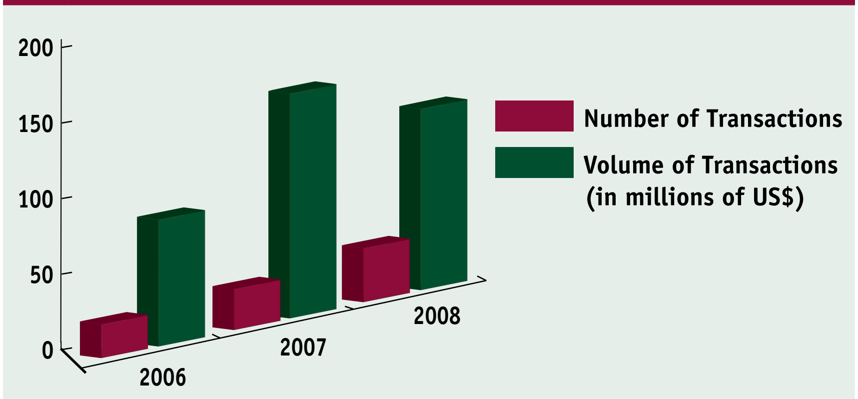
The IFEM program was created in 2007 to provide a streamlined process for approving loans to and equity investments in specialized small and medium-size financial institutions in Mexico. The program seeks to strengthen selected IFEMs by broadening their sources of funding and to improve their technical and corporate governance practices by providing technical assistance. The IFEM program helps mobilize additional resources for these institutions through parallel financing from other multilateral and bilateral institutions.

In 2008, the IIC approved three IFEM operations totaling $8 million—$17.65 million since the approval of the program. Management estimates that the $30 million authorized under the program will be fully utilized by the end of 2009.

IFEM operations are highly diversified in terms of type of intermediary, economic sector, and location. Intermediaries approved under the program operate in most of Mexico's states. Of the eight operations approved under the program, four were with Sofoles, three were with Sofomes, and one was with a credit union. Three of the intermediaries work primarily on lending to SMEs; three lend to the agricultural, farming, and aquaculture sectors; one provides financing for agricultural and construction equipment; and one funds mortgage loans.

The SBRL, now entering its fourth year of operation, is designed to offer standardized small loans to eligible SMEs under standardized eligibility requirements and operational terms with prudent limits for individual operations and overall exposure. The program offers competitive interest rates and maturities that differentiate it from the terms offered by local banks. In 2008, the SBRL mandate was further expanded to include Belize and Guatemala, and the IIC signed a partnership agreement with ESEN in El Salvador to assist with promotion and business development.

CHART 1. NUMBER AND VOLUME OF OPERATIONS IN SMALLER MARKETS



SBRL financing is now available in seventeen countries throughout Latin America and the Caribbean; four partnerships are now in place to cover countries where the IIC either does not yet have a local presence or has only recently established one. These agents are Development Finance Limited S.A. (DFLSA) and ICWI in the Caribbean, FBE in Bolivia, and ESEN in El Salvador.

In 2008, a total of twelve operations were approved under the SBRL for an aggregate $4.3 million and an average loan amount of $358,000. The SBRL portfolio now consists of twenty-six operations approved in seven countries, up from fourteen operations just one year ago. Noteworthy among the new operations are five in Bolivia (see box 1) and two in Jamaica (see box 2), which resulted directly from the IIC's agreements with its local agents.

To streamline its credit approval procedures and to more efficiently deliver financing to its clients, the IIC implemented a new procedure for categorizing projects according to the amount of financing requested and the risk involved. The result is a matrix-based system that maps the responsibilities for documenting, evaluating, and validating the creditworthiness of operations before final approval by the Board of Executive Directors. The matrix establishes different levels of approval based on the amount of financial exposure and the assessed credit risk of a proposed operation. Although the evaluation criteria are the same for all operations, smaller, lower-risk operations require fewer committee meetings than larger, riskier proposals. This approach directly benefits SMEs because it shortens the internal processing time for small operations.

Supporting the Energy and Food Sectors

High oil and food prices continue to be a concern for the region. Thus, the energy and food sectors are of special interest for the IIC. Growing international demand and the region's high potential in terms of natural resources and competitive advantages have prompted the IIC to channel resources toward developing projects in these sectors (see boxes 3, 4, 5, and 6).

IIC Strategy for Financial Institutions: Focus on Smaller Banks

In 2008 the IIC's Financial Institutions and Structured Finance Coordination area entered a new phase. As per the IDB's Integrated Business Plan for Private Sector Operations guidelines and the IIC's Business Plan for 2008–2010, financial intermediaries with assets equal to or less than $500 million are the IIC's main target market. The IIC business plan also made working in the smaller economies of the region a priority for the period.

With this new focus on banks with assets of less than $500 million the IIC seeks to reach smaller companies and play a catalytic role in the development of these financial institutions. The resources

1. Small Business Revolving Line in Bolivia

This year, five family-owned Bolivian companies received a combined total of nearly $2 million under the SBRL. This is 99 percent of the amount available for Bolivia under the program. The beneficiary companies are representative of the sectors in which they operate and are also examples of growth in their respective industries.

The Bolivian companies that received financing under the SBRL belong to diverse sectors ranging from manufacturing to services: La Francesa operates in the food sector, Nexcom in satellite telecommunications, Río Selva Resort in the tourism sector, Artes Gráficas Sagitario in the graphics arts industry, and Empresa de Transportes El Porvenir in domestic overland transportation services.

Among other accomplishments, the beneficiary companies have been able to create new business lines, enter export markets, invest in technology, improve their term matching, and structure their sources of funding.

The SBRL's success in Bolivia is due to the collaborative effort between the IIC and Fundación Bolivia Exporta, a strategic partner that became the IIC's SBRL agent in Bolivia in 2007. The program also received financial support from the Danish and the Korean trust funds.

Loan to La Francesa, S.A. under the SBRL

Sociedad Industrial y Comercial "La Francesa", S.A. is a small Bolivian company that has been producing and distributing high-quality, price-competitive baked goods and milk beverages for more than fifty years. Its products have won several international awards for quality.

When the time came for the company to consider expanding its production capacity, the IIC, through its local agent in Bolivia, provided La Francesa with the requisite financial assistance on competitive terms. In May 2008, La Francesa received a $428,000 loan that it used to refinance some of its short-term debt and make capital investments in an automated production system.

"The IIC offered us an operation that was different from traditional loans, and the main feature was the personalized attention we got as clients," said Mario Antonio Yaffar de la Barra, general manager of La Francesa. "Thanks to the IIC, my company will be able to access greater amounts of credit in my country. The IIC loan will give us the opportunity we have been looking for to increase our production capacity. This will help us better prepare for competition. Thanks to the loan, we will finally be able to make solid progress towards our targets for growth."

2. BOS Blocks & Tiles Limited in Jamaica

BOS Blocks & Tiles Limited is a Jamaican company that provides transport services to the bauxite industry, the principal source of aluminum, and manufactures cement blocks. The company, which has been operating for more than thirty years, has evolved from being a small family-owned and family-managed entity to a company employing more than seventy workers and including a management team with a wider range of industrial and business expertise.

According to Baron Stewart, founder and managing director of BOS Blocks & Tiles, "the IIC loan does more than give us the financial support we need to continue growing as a company. It will also enable us to improve the level and quality of service to the sector."

In July 2008, BOS Blocks & Tiles received a $350,000 loan under the IIC's SBRL program. The loan was used to augment its fleet of industrial mining equipment by purchasing an additional, larger capacity excavator. This new equipment enables BOS Blocks & Tiles to mine and transport larger quantities of ore, thus increasing its operational capacity.

"The IIC is thus furthering the development of the mining industry, which is a key part of our economy," stressed Mr. Stewart.

provided by the IIC still target specific activities carried out by financial intermediaries, be they multipurpose banks or specialized financial institutions. Priority is given to those that share the IIC's core mission, which is to provide financing for SMEs.

To maintain portfolio quality, the IIC will continue working with its traditional clients regardless of their size and will renew operations, where applicable, in accordance with the guidelines agreed on with the Board of Executive Directors. On a selective basis, the IIC may originate new operations with local banks linked to international financial institutions with which it maintains strategic relationships. These include the HSBC Group, the BBVA Group, and Rabobank, although banks in these groups are not part of the smaller bank sector.

Focusing on this new market segment has led to new market opportunities for the IIC, especially in terms of identifying new ways to channel financing to SMEs. Noteworthy in this regard are operations with several financial institutions specialized in factoring, including Financiera Desyfin in Costa Rica. The projects with Demerara Bank Limited in Guyana and Financiera de Occidente in Guatemala are also of particular interest because of their recipients and geographic location. Other significant operations are those with Corporativo Financiero Vimifos, CNH Servicios Comerciales, and Unión de Crédito General, approved in 2008 under the IFEM program.

In addition to SMEs, another noteworthy segment of the IIC's target market includes specialized microfinance institutions that provide financing to microenterprises. Operations approved in 2008 with Empresa

3. Guanaquitas, S.A. E.S.P. and Caruquia, S.A. E.S.P. in Colombia

Increased demand resulting from rapid economic growth means that Colombia still depends on thermopower plants, and the nation's numerous hydrological basins hold significant potential for power generation. This represents an opportunity for such companies as Helm Energy & Engineering Ltd.

Building on its experience with power projects, Helm Energy & Engineering created Guanaquitas and Caruquia, two small, eco-friendly, run-of-the-river hydropower projects in the Guadalupe River basin, 95 kilometers from Medellín. The plants will have an installed capacity of approximately 9.8 megawatts each. Combined, these plants will generate 124 gigawatt-hours of clean energy per year.

In spite of Colombia's extensive natural resources for generating renewable energy, the local financial system does not offer financing on appropriate terms for hydropower projects, especially those under 10 megawatts of installed capacity. To address this issue and enable the projects to become a reality, the IIC, along with the International Finance Corporation, offered the company long-term senior and subordinated loans. The IIC also provided technical assistance for both projects through the Korea-IIC SME Development Trust Fund.

Financiera Edyficar in Peru, BancoSol in Bolivia, and Microfinanzas del Uruguay in Uruguay build on prior-year efforts.

As of year-end 2008, IIC operations with microfinance institutions focused on established institutions in which the IDB's Multilateral Investment Fund (MIF) has been or continues to be a shareholder, subordinated lender, or provider of technical assistance. The IIC expects to continue working with other microfinance institutions, especially those that serve smaller companies as well as microenterprises. In 2008, the IIC approved an operation with the microfinance institution Visión Banco in Paraguay and renewed the credit facility with Banco ProCredit in El Salvador.

Also in 2008, the IIC provided financing through financial intermediaries for building and purchasing homes, and for home improvements, mainly for the middle- and low-income segments of the population. Of particular note is the operation with Coöperatieve Spaar- en Kredietbank Godo G.A., in Suriname. Godo, with more than 45,000 members, is the biggest credit union in Suriname. It serves more than 25 percent of the country's households. The loan from the IIC is intended to improve Godo's ability to match the terms of its mortgage lending operations.

Another highlight is the operation with Mexico's Hipotecaria Vértice, a financial intermediary that also works in the new market segment that the IIC is targeting. This is an especially innovative project; it is structured in local currency, and the loan proceeds will be used to finance green mortgages that encourage the use of systems to reduce household energy and water use. The financing provided by the IIC includes incentives such as reducing certain components of the cost of the operation in proportion to the amount of the loan used for green mortgages.

4. Energía Pacífico, S.A. in Chile

Chile's burgeoning domestic power demand, power generation shortfall, and dependence on imported fossil fuels have created the need for alternative energy projects. This is the rationale behind Energía Pacífico, a start-up biomass power cogeneration project located in San Francisco de Mostazal, 63 kilometers south of Santiago. The plant will have an installed capacity of 15.6 megawatts and generate 131.5 gigawatt-hours of clean energy and 297,500 tons of steam per year. The plant will use waste biomass, including forest, agribusiness, and industrial waste and construction wood scraps. Much of this waste is currently burned in open fields.

Empresas Coipsa, a vertically integrated group, and its affiliate, Compañía Papelera del Pacífico, S.A., are the project's sponsors and will purchase all of the steam and part of the energy produced by Energía Pacífico. The remainder will be sold to the central interconnected system.

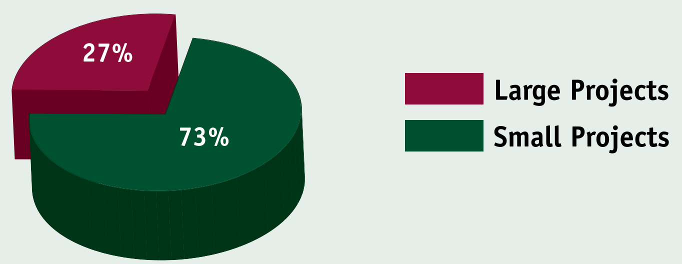
Chile's power shortfall has resulted in high spot prices. Therefore, this project is vital for Compañía Papelera del Pacífico because it will enable the company to save about $3.5 million in energy costs in 2009 and $1.5 million in 2010, thereby ensuring its continued competitiveness.

Despite the evident need for such projects, medium- and long-term financing for them is limited in Chile, so the loan from the IIC is seen as key to the success of the operation. The IIC provided approximately 22 percent of the total project cost and will bring in financial institutions to meet an additional 50 percent.

As an added value, the IIC provided technical assistance to Energía Pacífico with resources from the Korea-IIC SME Development Trust Fund. This funding was used to validate the biomass logistics model, forecast supply and demand in the Chilean power market, and supervise project implementation.

Many of the objectives set in the IDB Integrated Business Plan and in the IIC Business Plan for 2008–2010 were met in 2008 (see charts 2 and 3). As regards institutions to which resources were channelled for the first time, more than 73 percent of the operations were with financial institutions in the new market niche. The average amount per operation with new clients dropped from $11.21 million in 2007 to $6.44 million in 2008. Subloans in 2008 averaged $254,700; this is above the $173,250 registered in 2007.

CHART 2. NEW OPERATIONS BY SIZE OF THE INTERMEDIARY FINANCIAL INSTITUTION (number)



5. Sugarcane Ethanol Project: ERPAR, S.A.E. in Paraguay

The increasing domestic and international demand for ethanol made ERPAR a promising project for Paraguay. Mennonite Economic Development Associates (MEDA), the project's main sponsor, is an international nongovernmental organization that supports socioeconomic development programs in several Latin American countries, as well as countries in southern Africa and the former Soviet Union. For this project, MEDA worked with well-known local entrepreneurs to build a plant to produce ethanol from sugarcane and cassava. ERPAR will be able to produce 12 million liters of ethanol per year when operating at full capacity. This will reduce Paraguay's need for imported fuel. The ERPAR project also includes a sugarcane production component that will supply part of the raw material to be processed at the plant.

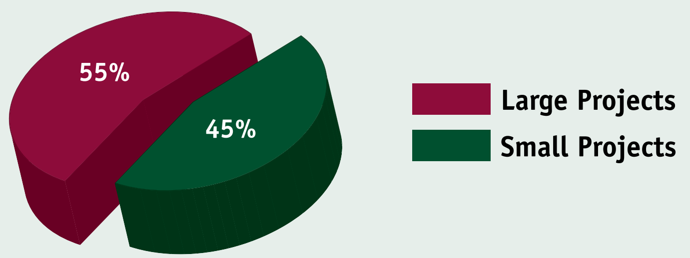
The project is expected to benefit at least 400 local sugarcane producers and 500 local cassava producers. Its innovative features include social and environmental benefits—the project will create at least eighty-two jobs in a rural area and help diversify the growers' crops by introducing sugarcane to their single-crop farming operations.

The ten-year IIC loan is ideal for ERPAR and will be complemented by a loan of up to $1 million from the IDB's Multilateral Investment Fund on substantially similar terms and by a loan of up to $1.3 million from a local bank.

The IIC met its goal to step up operations in the smaller economies of the region. Of the twenty-one operations approved with new clients, thirteen (61.9 percent of the total) were with financial institutions in the smaller economies. These operations accounted for 68.4 percent of the total amount approved with new financial institutions.

Other business plan priorities were to initiate or expand IIC participation in institutions in the Caribbean. In 2008, operations were carried out in three Caribbean countries. In two of them it was the IIC's first operation with a local financial institution. These operations total 6.7 percent of the volume of approvals for new clients.

CHART 3. NEW OPERATIONS BY SIZE OF THE INTERMEDIARY FINANCIAL INSTITUTION (volume)



6. Distribuidora de Carnes Zamora, S.A. in Costa Rica

Carnes Zamora has been processing and selling value-added pork products for more than ten years. It sells its products in the local and international markets and is the only pork processor in Central America that is certified to export to Panama and Japan. In addition, the company provides technical assistance to help its suppliers become more efficient.

The company participated in the IIC's FINPYME program, underwent a diagnostic review, and received the resulting competitiveness improvement plan. In addition, the IIC provided $1.1 million in financing to support the company's business growth.

This operation enabled Carnes Zamora to restructure a portion of its short- and medium-term debt in line with its growing needs for long-term permanent working capital. The IIC loan also enabled the company to improve the processing plant and purchase new industrial equipment. Local financial intermediaries only provide short- or medium-term financing for such investments, but the IIC was able to provide the long-term financing the company needed.

DEVELOPMENT AS A TOP PRIORITY

Development Impact and Additionality Scoring System

The IIC has a very clear mandate, expressed in 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." Therefore, it is of prime importance to assess, track, evaluate, and report on the extent to which the IIC is complying with its mandate.

Throughout its history, the IIC has sought ways to demonstrate that its operations not only meet objective financial viability criteria but also reach high levels of developmental impact and additionality. In its earliest years, the organization measured expected project results. These metrics were soon followed by the creation of an additionality matrix and the implementation of rigorous self-evaluation exercises via Extended Annual Supervision Reports. In 2005, the IIC incorporated good practice standards in accordance with the recommendations of the Multilateral Development Banks Evaluation Cooperation Group.

To remain viable in the medium to long term, the IIC must also preserve the value of its shareholders' capital. The Governors made this mandate explicit in the capital increase documents. A more comprehensive expression of the IIC's mission would therefore require it to maximize developmental impact within the bounds of long-term financial sustainability. During 2007, Management proposed and the Board of Executive Directors approved a new strategic framework for the 2008–2010 planning cycle designed to formally address both aspects of the IIC's mission.

Under this strategic framework, the "portfolio approach" enables the IIC to account for each project's developmental and financial contribution. Each project is evaluated in terms of its contribution to the IIC's overall portfolio, with the understanding that the goal is not to have all projects achieve the same level of development impact and/or financial contribution. Instead, projects are analyzed from a broader and more balanced portfolio perspective; each project contributes according to its individual strengths and characteristics. To implement the approach, adequate metrics were necessary to measure expected financial contribution and developmental impact. Designing metrics to assess a project's financial contribution is relatively straightforward. The challenge was to develop a qualitative-quantitative counterpart for developmental impact and additionality.

The IIC must show that its operations are financially viable and have high developmental impact and additionality.

To address this challenge, the Development Impact and Additionality Scoring (DIAS) system was created as an essential component of the new strategic framework. DIAS is a comprehensive tool that effectively builds on each of the IIC's previous efforts. It is also the natural next step.

The DIAS methodology provides a systematic approach for ex-ante assessment, tracking, and reporting on the extent to which the IIC is achieving its developmental mandate. The system's two main components—developmental impact and additionality—provide complementary views of, respectively, a project's potential regardless of the source of financing, and the IIC's added value through its involvement in the project.

Looking Deeper into the DIAS System's Architecture

The system's structure closely follows best practices at peer development institutions, which are set out in the Good Practice Standards compiled by the Multilateral Development Banks Evaluation Cooperation Group mentioned above, with the notable exception of category 5 under Development Outcome in table 1.

This category was included to reflect specific strategic objectives in the IIC's Business Plan for 2008–2010, such as geographic diversification, focus on smaller companies, and projects outside major metropolitan areas. This category provides flexibility, allowing the system to adjust to the strategic objectives of successive planning cycles.

The table also shows the other four categories under development outcome, which evaluate the project's contribution to a country's economic and social development, as well as the two categories under additionality outcome, which allow the IIC to assess its specific contribution to the project.

Each category includes two to nine indicators, so each project is carefully evaluated using more than thirty indicators and receives a score from zero to ten. Sixty-five percent of the score is based on development outcome and 35 percent on additionality outcome. To be eligible for IIC financing, projects must have a minimum DIAS score at or above a threshold that increases as the project's expected financial contribution decreases.

TABLE 1. MAIN DIAS CATEGORIES

	Development Outcome
1	Project or Company Performance
2	Contribution to Economic Development
3	Project-specific Environmental and Social Effects
4	Private Sector Development
5	IIC's Strategic Development Objectives
	Additionality Outcome
1	Financial Additionality
2	Nonfinancial Additionality

The DIAS System's Workflow from Origination to Evaluation

Ultimately, development is a story—a story centered around people, a story that impacts communities and creates good examples that can be replicated. Development is about changing the old story for the better. The right data are what make proactive action based on the right ex-ante assessment possible. The DIAS system addresses this issue by providing a set of comprehensive indicators to ensure that a balanced score is obtained. With a clear set of indicators to measure and track developmental impact and additionality, planning and execution of the IIC's mandate come into much clearer focus.

Origination	Investment officers make an important contribution by providing the necessary data to score each project ex-ante. The more data available, the higher the project is likely to score. The fact that the average DIAS score for the projects proposed by each investment officer and approved by the Board of Executive Directors is a central part of the investment officer's performance evaluation provides further incentives to improve the quantity and quality of development-related data. Objectivity is ensured by an independent additionality officer who validates and submits the final score.
Approval	The DIAS system gives Executive Directors more information to understand the benefits related to financing each proposal. With this and other objectives in mind, the system was designed to answer five main questions: ■ Does the IIC have a role in this project? ■ Is the project financially viable; can it reasonably be expected to succeed? ■ Does the project meet high environmental, social, and labor standards? ■ Does the project target the IIC's market of preference? ■ Will the IIC add value through technical assistance and know-how transfer?
Monitoring and Reporting	The DIAS system will also allow for better monitoring of the IIC's investments starting in 2009. The IIC will validate the DIAS scores with each Annual Supervision Report, eliminating the monitoring and reporting gap left by the previous evaluation framework in which a project was evaluated only twice during its life (usually four to five years).
Evaluation	When the project matures and the time comes for a full evaluation, four or five years of data and subsequent DIAS assessments will be available to inform the Extended Annual Supervision Report. The final evaluation will continue to be independently validated in full compliance with good practice standards.

Testing the DIAS System: 2005–2007 Retrofit Exercise

In parallel to the actual implementation of the system in 2008, a retrofit exercise was undertaken to test the system on a broad universe of projects of all countries, sectors, and sizes. A total of 140 projects were evaluated; table 2 provides a breakdown by year and type of intervention. Projects evaluated also encompassed operations in twenty-two of the IIC's twenty-six regional member countries and seventeen economic sectors. The retrofit exercise showed that the model works and produced a wealth of information that will be used to adjust and improve the system in 2009.

Applying the DIAS System: 2008 Projects

TABLE 2. RETROFIT BY YEAR AND TYPE OF OPERATION				
	Corporate (Small)	Corporate (Other)	Financial Intermediaries	TOTAL
2005	0	11	21	32
2006	8	17	21	46
2007	8	21	33	62
TOTAL	**16**	**49**	**75**	**140**

The DIAS system has been in full use since January 1, 2008. Ninety-six projects were scored during the year; these projects, in addition to projects evaluated through the retrofit exercise, bring the number of projects in the IIC's new developmental database to 236. This achievement is a direct product of the hard work and close collaboration between investment officers and additionality officers throughout 2008. The system has been fully mainstreamed and is now an integral part of the IIC's IT-based project management workflow.

The IIC has only just started to mine the wealth of data produced by the new system, but it is clear that from now on there will be more definitive answers to questions that range from expected job creation and successful implementation of environmental, social, and labor standards to the effective use of technical assistance to improve the quality of the IIC's interventions. Furthermore, monitoring and tracking these data will enable the IIC to act frequently and proactively during the life of each project in order to maximize developmental impact in all of its interventions.

CREATION OF THE TECHNICAL ASSISTANCE AND STRATEGIC PARTNERSHIPS DIVISION

Management has long recognized the need to create a new business support area for the IIC that would focus on technical assistance and donor relations. The members of the Board of Executive Directors had a strong interest in expanding the IIC's activities in support of SMEs. This interest is consistent with the IIC's Charter and with Blueprint 2000, the document that supported the IIC's capital increase approved by the Board of Governors in 1999.

In 2008, Management further developed the thinking behind such an initiative and drafted a detailed proposal to more systematically provide value-added services to SMEs. The initiative was approved by the Board of Executive Directors, and the IIC's General Manager formally allocated the human and financial resources necessary for the new division, called Technical Assistance and Strategic Partnerships (TAS). The division carries out such activities to attract donor interest and potential funding and human resources. This new division, included as one of the Management initiatives in the IIC's Business Plan for 2008–2010, will focus on supporting the IIC's lending and investing activities by delivering nonfinancial services to its target market.

The TAS Division's mission is to help the IIC's business development units deliver value-added services to SMEs. These efforts will improve their competitiveness and their access to financing from the IIC and commercial sources. The new division will provide support in a way that involves strategic partnerships with public and private sector donors and partners to leverage the IIC's financial resources and expertise.

The TAS Agenda

The IIC's unique status as the premier multilateral organization that focuses on direct and indirect SME financing in Latin America and the Caribbean is reflected in its ability to offer an ample range of nonfinancial products and services for SMEs. TAS will enable it to do so increasingly by

- providing more nonfinancial value-added services to SMEs in Latin America and the Caribbean through direct technical assistance and strategic programs;
- expanding its network of alliances with public and private sector entities to benefit the region's SMEs through access to knowledge and technical assistance resources; and
- rolling out new activities to support the region's SMEs in coordination with the IDB and the MIF.

The IIC is seeking to become the leading multilateral institution providing technical assistance to SMEs in Latin America and the Caribbean. For its nonfinancial services to have significant impact, the IIC has recognized that its initiatives must be limited in number, well coordinated with other IIC business areas, practical in nature, and highly relevant to the region's SMEs. Moreover, to achieve the desired impact, these activities must further its goals and be consistent with the IIC's business plan.

TAS will initially focus on four strategic and complementary programs: FINPYME, renewable energy and energy efficiency, promotion of good and sound practices for governance of family-owned SMEs, and general consulting services.

FINPYME

FINPYME (www.finpyme.org) is a methodology used to perform diagnostic reviews of SMEs, including a systematic evaluation of their operations. The methodology may determine the competitive position of an SME and provides a road map for improvement.

As of the end of 2008, 134 companies in Central America, the Dominican Republic, and Panama had completed diagnostic reviews of their operations. Of these companies, twenty are being considered by the IIC for financing and five have received financing from the IIC. In addition, twenty-seven were referred to local banks, which provided two with financing. Moreover, in the last quarter of 2008, four universities and one nonprofit organization in the Caribbean received training in the FINPYME methodology. In 2009, the IIC will train six FINPYME agents in Colombia.

FINPYME Agent ULACIT, Costa Rica

In the Caribbean, where FINPYME is just starting up, the program will cover five English-speaking countries: the Bahamas, Barbados, Belize, Jamaica, and Trinidad and Tobago. Also in 2009, the diagnostic review program will start up in Colombia.

The FINPYME program in Central America and the Caribbean has received strong support from the Korea-IIC SME Development Trust Fund, including resources for the production of a Web-based platform for performing diagnostic reviews. The Government of Austria approved technical assistance resources for the program in the Caribbean, and the Government of Spain has provided resources for the program to start operating in Colombia.

Renewable Energy and Energy Efficiency

Renewable energy projects obtain energy from sources that are essentially inexhaustible—unlike, for example, fossil fuels, of which there is a finite supply. The IIC is particularly interested in renewable energy projects, such as small-scale hydroelectric power, biomass/biogas (landfill), wind, solar, and geothermal projects.

Energy-efficiency projects lower costs for SMEs by decreasing energy consumption. Such energy savings are generally achieved by installing more technologically advanced equipment to produce the same level of end-use services (e.g., lighting, heating, motor drive, and boiler upgrades) with less electricity. Potential energy-efficiency projects include those that improve energy use in buildings (such as hospitals, homes, universities, and hotels) as well as in industrial and agricultural processes.

In 2008, the IIC provided technical assistance for two projects under the renewable energy and energy-efficiency program. One project in Chile (Energía Pacífico) consisted of a study to determine the biomass supply and an assessment of the suitability of the technology to be used. The second project (Caruquia and Guanaquitas) monitored the construction of two hydroelectric power projects in Colombia. In both cases, the technical assistance was financed by the Korea-IIC SME Development Trust Fund. The projects were also approved for financing from the IIC.

7. AMPO Limitada in Costa Rica

AMPO is a Costa Rican–owned company that produces cardboard file folders, binders, and a wide array of other office supplies for export to Central and South America and the Caribbean. AMPO has production plants in Costa Rica and Nicaragua and recently opened a small plant in Panama. It registered for the IIC's FINPYME program in 2007 and is the first operation in Costa Rica originating from the program.

In Costa Rica, Universidad Latinoamericana de Ciencia y Tecnología (ULACIT) has been identifying and evaluating SMEs and, ultimately, improving their competitive profile and making it easier for them to access financing. The FINPYME program in Costa Rica is funded with resources from the Korea-IIC SME Development Trust Fund.

Family Business Governance Workshop

Many SMEs recognize the benefits of energy efficiency but they do not implement the necessary measures because of a lack of funding, concerns that the promised savings might not materialize, or a lack of knowledge about where to find energy-efficient products and services. To help address this issue, the IIC, with support from the Korea Trust Fund, teamed with Scotiabank to sponsor workshops in Jamaica and Belize. The main objectives of these workshops were to highlight the importance of energy-efficiency measures for SMEs and to suggest practical ways for SMEs to reduce their energy expenses.

8. Family Business Governance Workshop

The IIC hosted a corporate governance workshop in Jamaica in October 2008. The workshop was funded primarily by the Korea-IIC SME Development Trust Fund; it was organized in association with the MONA School of Business of the University of the West Indies.

The goal of the workshop was to offer family businesses the opportunity to learn about typical governance issues to boost their competitiveness and increase their chances of long-term continuity. It addressed the following common challenges faced by family-owned SMEs: developing a responsible and united business ownership; understanding the succession process; and preparing the next generation to ensure successful business continuity.

Twenty-four participants from thirteen family-owned Jamaican businesses attended the workshop. The IIC plans to continue organizing and sponsoring this type of capacity-building workshop in the Caribbean to further its mission of supporting and strengthening SMEs.

Promotion of Good and Sound Practices for Governance of Family-Owned SMEs

Corporate governance received much public attention during 2008. The IIC has kept pace with this international trend by bringing attention, resources, and best practices to Latin American and Caribbean companies, with a focus on the needs and challenges of family-owned businesses. In Jamaica, in 2008, the IIC sponsored a training workshop for its clients on the governance of family-owned businesses. It was the IIC's first event under this program in the Caribbean (see box 8).

General Consulting Services

This program provides assistance to potential and existing client SMEs, carrying out specific consulting work in such areas as environmental compliance, financial reviews, and technical assessments. The program facilitates workshops for knowledge sharing and dissemination (see table 3 for a list of projects carried out in 2008).

TABLE 3. TECHNICAL ASSISTANCE PROJECTS AND PROGRAMS CARRIED OUT IN 2008

Fund	Project or Program	Country
Korean Trust Fund	***Aglomerados Cotopaxi, S.A.***—Environmental review	Ecuador
	Apícola de Oriente, S.A.—Technical assistance for the design of a bee honey processing plant for export and domestic consumption	Nicaragua
	Cañazas Natural Power and Resources, S.A.—Technical review of feasibility of a mini-hydroelectric power project and construction monitoring	Panama
	Caruquia, S.A. E.S.P. and Guanaquitas, S.A. E.S.P.—Construction monitoring for two hydroelectric power projects	Colombia
	Energía Pacífico, S.A.—Biomass supply and suitability of technology assessment; consulting assistance to develop market projections; construction monitoring of a biomass-fueled cogeneration plant	Chile
	Energy Efficiency Program—Energy-efficiency audit initiative	Belize and Jamaica
	Energy Efficiency Program—Energy-efficiency workshops and energy audits	Costa Rica, El Salvador, Honduras, and Nicaragua
	FINPYME—Caribbean program	Bahamas, Barbados, Belize, Jamaica, and Trinidad and Tobago
	FINPYME—Creation of a portal for the FINPYME program	Regional
	FINPYME—Technical assistance program phase I	Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, Nicaragua, and Panama
	Governance—Family business governance training workshop	Jamaica
	Legal Technical Assistance—Paraguayan guarantee trust instrument	Paraguay
	SBRL—Caribbean appraisal program	English-speaking countries
	SBRL—Eligibility preparation and legal advice	Bahamas, Barbados, Costa Rica, Dominican Republic, El Salvador, Guyana, Haiti, Honduras, Jamaica, Nicaragua, Paraguay, Suriname, Trinidad and Tobago, and Uruguay

TABLE 3 (cont.). TECHNICAL ASSISTANCE PROJECTS AND PROGRAMS CARRIED OUT IN 2008		
Fund	**Project or Program**	**Country**
Danish Trust Fund	***Cajas y Bolsas, S.A.***—Environmental impact assessment	El Salvador
	Demerara Bank Limited—Design of environmental management system	Guyana
	SBRL—Bolivia and El Salvador appraisal program	Bolivia and El Salvador
	SBRL—Eligibility preparation and legal advice	Bolivia
Swiss Fund	***Cañazas Natural Power and Resources, S.A.***—Social and environmental review of a hydroelectric power project	Panama
	FINPYME—Caribbean program (technical assistance)	Bahamas, Barbados, Belize, Jamaica, and Trinidad and Tobago
Infrafund	***Reliant Enterprise Communications Ltd.***—Expansion project	Jamaica

Note: The balance of funds in the Austrian Trust Fund has been allocated to the FINPYME Caribbean program, to be launched in March 2009.

Strategic Partnerships

The IIC is disseminating information about these initiatives to ensure visibility among existing and potential strategic partners. TAS is establishing formal strategic partnerships with public and private sector organizations to continue the execution and rollout of its strategic programs. The IIC is currently working with the following donors to carry out its strategic programs in Latin America and the Caribbean:

Austria: This fund was set up between the IIC and Finanzierungsgarantie-Gesellschaft m.b.H., an Austrian government agency, in September 1999. It focuses on financing technical assistance throughout Latin America and the Caribbean.

The Austrian Trust Fund has earmarked more than $100,000 to provide technical assistance to SMEs in the Caribbean under the FINPYME program in the Bahamas, Barbados, Belize, Jamaica, and Trinidad and Tobago.

Denmark: The Government of Denmark and the IIC established the Consulting Services Trust Fund in 2003. Since then, the fund has provided financing for consulting services related to the IIC's technical and operational support for SMEs in Latin America and the Caribbean.

During 2008, the Danish Trust Fund sponsored the implementation of the SBRL in Bolivia and El Salvador. One of the major objectives of this project is to identify and train local partners in the IIC's credit and noncredit methodologies to enable them to identify small companies that the IIC potentially could finance with medium- and long-term loans, and to appraise and supervise the companies after the IIC loans have been disbursed.

Italy: The IIC's first trust fund was established in 1992 with the Directorate General for Development Cooperation of the Ministry of Foreign Affairs of the Government of the Republic of Italy. The fund may be drawn on to prepare prefeasibility and feasibility studies, set up pilot programs, provide technical assistance related to improvements in existing projects, and facilitate technology transfer.

Current activities include the Italian SME Development Program designed to strengthen Italy's ties with Latin America and the Caribbean. The program identifies Italian and Latin American and Caribbean companies interested in creating partnerships in supply chains, technology transfer, and foreign direct investment. It has created a large network of almost sixty organizations in Italy and Latin America and the Caribbean, including development agencies, regional and central governments, banks, international organizations, and companies. The network is an example of decentralized cooperation that is able to access new regions and identify interested SMEs.

The IIC is forging strategic partnerships with public and private sector organizations and working closely with donors. Donor funding is instrumental for the advancement of IIC programs.

In 2008, the IIC signed cooperation agreements with the Chamber of Commerce of Turin and two business organizations of the Marche Region: Meccano SpA (Centro per l'Innovazione Tecnologica delle Imprese del Settore Meccanico) and COSMOB (Centro Tecnologico Settore Legno Arredo). Through these agreements, the IIC will receive support from these strategic partners to step up its outreach activities and the provision of technical assistance to Latin American and Caribbean SMEs pursuing business opportunities in Italy.

Republic of Korea: In 2005, the IIC and the Government of the Republic of Korea established the Korea-IIC SME Development Trust Fund 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. This financial support enabled the IIC to roll out its FINPYME program (see box 9).

The IIC has signed separate memorandums of understanding with the Export-Import Bank of Korea, the Small Business Corporation of Korea, and the Korea International Trade Association to support business development between Korean and Latin American and Caribbean companies and institutions. The Korea-IIC SME Development Trust Fund has focused on the strategic programs mentioned above and also has shown interest in other initiatives that the IIC plans to undertake as it grows its capacity to deliver technical assistance.

9. Donor Perspective: Korea-IIC SME Development Trust Fund

Eog-Weon Lee is a trust fund officer at the IIC from the Ministry of Strategy and Finance in Korea. Following is his impression of the Korea-IIC SME Development Trust Fund:

> Within a period of only three years since it was established in 2005, the Korea-IIC SME Development Trust Fund became the main vehicle supporting the IIC's nonfinancial value-added activities. To date, the fund has approved twenty-eight projects totaling around $4 million, accounting for more than 70 percent of the IIC's trust fund activities.
>
> I believe that the strong partnership between the IIC and the Government of the Republic of Korea as a donor has yielded remarkable results. Consultative and collaborative efforts between the IIC and the Government of Korea made it possible to target priority areas and define strategic programs. These collaborative efforts have resulted in exciting new programs such as FINPYME, energy efficiency, and promotion of good and sound practices for governance of family-owned SMEs.
>
> As someone who has been working with the Korean Trust Fund, it has been an unforgettable experience to witness the creation of the TAS division, triggered in part by the significant support provided by the fund. I join my colleagues in looking forward to TAS playing a key role in carrying out the critical mission of the IIC: to support SME development in the region.

One such initiative includes the development and implementation of new financing mechanisms. This program supports and develops new financing mechanisms that are not available on the local market but that could play a catalytic role in providing new financing alternatives to SMEs by strengthening the local capital market. Specifically, the IIC's current business plan includes a component to support new product development, the structuring of complex financing mechanisms, and legal feasibility analyses geared toward providing SMEs with alternative types of financing. These new financing mechanisms could include local-currency funding mechanisms such as bond issues, swaps, and guarantees.

Also in 2008 the IIC received generous financial support from the Korea-IIC SME Development Trust Fund to design a strategic framework for developing creative equity-type financing instruments for SMEs in Latin America and the Caribbean. Support from Korea will enable the IIC to design a flexible equity-like long-term financing program suitable for SMEs that are at the point in their business life cycle where conventional bank financing does not meet their needs.

Spain: Under an agreement between the Government of Spain and the IDB, the IIC has access to resources from the Spanish Framework–General Cooperation Fund. In 2007, the fund approved the use of resources for supporting FINPYME in Colombia (which will be launched in early 2009), for hiring staff to support FINPYME, and for the SME corporate governance workshop.

Switzerland: In 1994, the IDB and the Government of the Swiss Confederation signed a technical cooperation trust fund to provide consulting services and training activities. Although this fund is administered by the IDB, the agreement was amended in June 2004 to include projects submitted for funding by the IIC.

The focus of the Swiss Technical Cooperation Trust Fund is on providing technical assistance in Bolivia, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Nicaragua, and Peru. In 2008, it financed two key initiatives:

- **Environmental impact assessment for Cajas y Bolsas, S.A.:** Under this initiative, an environmental impact assessment was developed for a project to collect waste paper products and to build a mill that uses locally sourced waste paper and recycles it to produce linerboard and corrugated cardboard in El Salvador.
- **Hydroelectric power project:** A social and environmental review was performed for the Cañazas mini-hydropower project in Panama.

STABILITY IN CHALLENGING TIMES

A Leader in Long-Term Financing

During 2008, the IIC continued its commitment to providing long-term financing to private enterprises throughout Latin America and the Caribbean. Even though market conditions were favorable for private financing in the first half of the year, SMEs in many markets still had limited to no access to long-term financing on reasonable terms. As the year progressed and market conditions worsened, the need for long-term financing only increased.

Throughout 2008, the IIC provided long-term financing for three types of needs: working capital, asset acquisition, and project finance. It provided working capital on three- to five-year terms to companies whose growing sales required financing for larger inventories and accounts receivable. Although suppliers often provided a portion of the financing necessary for this growth, it was often insufficient. In these instances, the IIC worked with the companies to determine their working capital needs and establish a reasonable timetable for them to raise the capital needed to retire the IIC's loan and permanently fund the new, higher level of sales. The IIC's loans to Comohogar and Comercial Kywi in Ecuador, AMPO in Costa Rica, and Agrofértil in Paraguay are examples of this type of financing.

Private enterprises often need to invest in capital equipment before they can take advantage of growth opportunities. Such investments range from purchases of additional production equipment to discrete investments designed to reduce production bottlenecks. SMEs often turn to financing from the IIC to undertake these investments because local credit lines are fully utilized for working capital or because the terms of these lines are too short for financing a long-term investment.

In these cases, the IIC not only provides the capital on appropriate terms but also frequently helps companies draw up appropriate financial plans to execute the project, manage the new debt, and manage a larger operation. As appropriate, the IIC brings in outside experts to address specific engineering, environmental, or project execution challenges.

During 2008, the IIC financed the acquisition and planting of new vineyards by Argentina's Fincas Patagónicas and the purchase of new heavy equipment by BOS Blocks & Tiles in Jamaica. It also financed the purchase of two new graphic publishing production units for Artes Gráficas Sagitario in Bolivia.

The IIC provides working capital and often helps beneficiary companies prepare financial plans for project execution, debt management, and growth.

The IIC offers long-term financing on a project finance basis. As is the case with SMEs, long-term project financing is often hard to obtain for midsize projects, most commonly power generation. The IIC continues to serve this niche by working with project sponsors and offtakers to develop sound structures along with appropriate long-term financing. As part of the services it brings to these projects, the IIC can provide nonreimbursable technical assistance that ensures proper environmental mitigation, sound engineering, and satisfactory supervision of project execution.

Despite difficult market conditions, the IIC approved loans for mini-hydropower projects in Colombia and for a biomass cogeneration facility in Chile. It also approved a loan to a start-up ethanol producer in Paraguay.

Moving On

Looking toward 2009, the IIC will continue to build on its successful long-term financing experience. Current market volatility has made the IIC's ability to provide long-term financing more important than ever to the continued development of private enterprises in Latin America and the Caribbean and to the region's SMEs in particular.

In 2009, the IIC expects to broaden its capacity for long-term financing with the China-IIC SME Equity Investment Fund. This fund will enable the IIC to offer risk capital and quasi-equity to private companies that warrant and merit direct investments in their equity or similar instruments. Through this fund, the IIC will be in a position to better meet the long-term financing needs of private enterprises in Latin America and the Caribbean.

Sale of Shares in CIFI

In 2001, the IIC, together with Caja Madrid and other private and multilateral institutions, founded Corporación Interamericana para el Financiamiento de Infraestructura, S.A. (CIFI) to channel financing to private sector infrastructure projects throughout Latin America and the Caribbean. Since then, CIFI's portfolio has grown, its shareholder base has expanded, and it has obtained financing from several multilateral financial institutions.

As a result of CIFI's success, in 2008 the International Finance Corporation expressed an interest in becoming a shareholder. The IIC determined that CIFI would benefit greatly from the additional financial and technical resources the International Finance Corporation could provide and agreed to sell a portion of its shareholding. In September 2008, the IIC finalized the sale of a portion of its investment in CIFI to the International Finance Corporation. It maintains a 5.5 percent share.

IIC FACTS AND FIGURES

The IIC is a multilateral financial institution with forty-three member countries. It 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 products and services:

- Short-term loans, up to two years (working capital or trade finance)
- Medium-term loans, three to eight years (working capital, corporate loans, or project finance)
- Long-term loans, eight to fifteen years (corporate loans or project finance)
- Syndicated A and B loans
- Equity and quasi-equity investments
- Credit guarantees for loans and debt instruments

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

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

All of the IIC's clients are private enterprises—preferably, although not exclusively, SMEs. Through financial engineering, the IIC tailors its financial products to its clients' specific funding requirements.

Tables 4 through 13 provide an overview of the IIC's operations and show how its developmental impact is leveraged by working through financial institutions and other local intermediaries.

TABLE 4. IIC BASIC FINANCIAL INDICATORS AS OF DECEMBER 31, 2008

Start-up of Operations	1989
Member Countries	43
Authorized Capital	70,590 Shares (Par $10,000)
Paid-in Capital	$657.6 million
Outstanding Loan and Equity Portfolio	$998.9 million
Cumulative Loans and Equity Investments Approved	$3.4 billion
Authorized Headcount	107

TABLE 5. COMPOSITION OF ASSETS

Development Assets (loans and equity investments)	62.6%
Other Assets	37.4%

TABLE 6. DISTRIBUTION OF 2008 APPROVALS BY FINANCIAL PRODUCT

	Approved Amounts	Number of Projects
Financial Intermediaries	$172.8 million	26
Corporate Projects, Investment Funds, and Agency Lines	$127.7 million	38
Total	**$300.5 million**	**64**

TABLE 7. DISTRIBUTION OF OUTSTANDING PORTFOLIO BY FINANCIAL PRODUCT

	Outstanding Amount	Number of Outstanding Projects
Investment Funds	$24.5 million	14
Financial Intermediaries	$733.1 million	89
Corporate Projects and Agency Lines	$241.4 million	100
Total	**$998.9 million**	**203**

TABLE 8. SECTOR DISTRIBUTION IN 2008			
Sector	**Outstanding Amount**	**Outstanding Amount %**	**Total of Projects %**
Agency Lines	$0.0 million	0.0%	0.0%
Agriculture and Agribusiness	$57.4 million	6.1%	10.9%
Aquaculture and Fisheries	$24.5 million	2.6%	3.0%
Capital Markets	$0.0 million	0.0%	0.0%
Chemicals and Plastics	$11.4 million	1.2%	1.0%
Education	$8.4 million	0.9%	2.0%
Financial Services	$733.1 million	71.5%	43.3%
Food, Bottling, and Beverages	$19.0 million	2.0%	6.0%
General Manufacturing	$23.9 million	2.6%	7.0%
Health	$0.1 million	0.0%	0.5%
Industrial Processing Zones	$4.1 million	0.4%	1.0%
Investment Funds	$24.5 million	2.6%	7.0%
Livestock and Poultry	$7.1 million	0.8%	2.0%
Nonfinancial Services	$0.2 million	0.0%	0.5%
Oil and Mining	$1.8 million	0.2%	0.5%
Small Loan Program	$0.0 million	0.0%	0.0%
Technology, Communications, and New Economy	$0.3 million	0.0%	1.0%
Textiles, Apparel, and Leather	$23.3 million	2.5%	2.0%
Tourism and Hotels	$3.7 million	0.4%	2.0%
Transportation and Warehousing	$3.9 million	0.4%	1.5%
Utilities and Infrastructure	$29.2 million	3.1%	5.5%
Wood, Pulp, and Paper	$12.8 million	1.4%	2.5%
Others	$10.2 million	1.1%	1.0%
Total	**$998.9 million**	**100.0%**	**100.0%**

TABLE 9. KEY OPERATING INDICATORS IN 2008	
Number of approvals up to $3.0 million	37
Number of approvals above $3.0 million and up to $10.0 million	21
Number of approvals above $10.0 million	6
Average financing approved, corporate	$3.4 million
Average financing approved to financial intermediaries	$6.6 million
Average financing through financial intermediaries with IIC resources	$254,700
Allowance for loans / total loans	6.1%
Number of companies requesting IIC financing	270
Number of projects and programs approved	64
Number of loans through financial intermediaries	26
Number of projects under supervision	203

TABLE 10. SME LENDING PROGRAMS

Distribution	Sector	Country	Loan
IFEM	Financial Services	Mexico	$2,000,000
IFEM	Financial Services	Mexico	$3,000,000
IFEM	Financial Services	Mexico	$3,000,000
SBRL	Agriculture and Agribusiness	Paraguay	$215,000
SBRL	Food, Bottling, and Beverages	Bolivia	$428,000
SBRL	Food, Bottling, and Beverages	Costa Rica	$600,000
SBRL	Food, Bottling, and Beverages	Nicaragua	$190,000
SBRL	General Manufacturing	Bolivia	$375,000
SBRL	General Manufacturing	Costa Rica	$200,000
SBRL	General Manufacturing	Jamaica	$170,000
SBRL	General Manufacturing	Nicaragua	$190,000
SBRL	General Manufacturing	Paraguay	$200,000
SBRL	Livestock and Poultry	Paraguay	$600,000
SBRL	Technology, Communications, and New Economy	Bolivia	$180,000
SBRL	Tourism and Hotels	Bolivia	$600,000
SBRL	Transportation and Warehousing	Bolivia	$400,000
SBRL	Transportation and Warehousing	Jamaica	$350,000
Small Bank Program	Financial Services	Costa Rica	$2,000,000
Small Bank Program	Financial Services	Guyana	$2,000,000
Small Bank Program	Financial Services	Suriname	$1,000,000
Small Bank Program	Financial Services	Uruguay	$1,500,000

TABLE 11. CUMULATIVE APPROVALS BY COUNTRY

Country	Approved Amounts	Total Amount %	Number of Approved Projects
Argentina	$246.3 million	7.3%	41
Bahamas	$6.0 million	0.2%	2
Barbados	$7.0 million	0.2%	2
Belize	$7.0 million	0.2%	2
Bolivarian Republic of Venezuela	$63.5 million	1.9%	12
Bolivia	$73.7 million	2.2%	24
Brazil	$416.7 million	12.4%	49
Chile	$232.2 million	6.9%	35
Colombia	$278.9 million	8.3%	33
Costa Rica	$88.1 million	2.6%	27
Dominican Republic	$60.6 million	1.8%	10
Ecuador	$143.3 million	4.3%	30
El Salvador	$55.3 million	1.6%	14
Guatemala	$74.6 million	2.2%	12
Guyana	$5.5 million	0.2%	4
Haiti	$1.0 million	0.0%	1
Honduras	$67.6 million	2.0%	16
Jamaica	$47.3 million	1.4%	11
Mexico	$394.7 million	11.7%	57
Nicaragua	$83.7 million	2.5%	31
Panama	$66.9 million	2.0%	9
Paraguay	$63.4 million	1.9%	26
Peru	$344.1 million	10.2%	38
Suriname	$5.0 million	0.1%	2
Trinidad and Tobago	$60.3 million	1.8%	5
Uruguay	$85.6 million	2.5%	25
Regional A and B Only	$71.0 million	2.1%	12
Regional A, B, C, and D	$153.5 million	4.6%	16
Regional C and D Only	$165.7 million	4.9%	16
Total	**$3,368.2 million**	**100.0%**	**562**

Note: The 2008 count includes the IFEM program and IFEM projects.

TABLE 12. CUMULATIVE APPROVALS BY SECTOR

Sector	Approved Amounts	Total Amount %	Number of Approved Projects
Agency Lines	$221.8 million	6.6%	15
Agriculture and Agribusiness	$258.1 million	7.7%	66
Aquaculture and Fisheries	$93.8 million	2.8%	21
Capital Markets	$28.0 million	0.8%	5
Chemicals and Plastics	$75.4 million	2.2%	14
Education	$30.8 million	0.9%	8
Financial Services	$1,663.4 million	49.4%	209
Food, Bottling, and Beverages	$55.1 million	1.6%	20
General Manufacturing	$104.8 million	3.1%	36
Health	$25.1 million	0.7%	4
Industrial Processing Zones	$37.2 million	1.1%	10
Investment Funds	$222.6 million	6.6%	44
Livestock and Poultry	$26.5 million	0.8%	8
Nonfinancial Services	$19.3 million	0.6%	5
Oil and Mining	$46.4 million	1.4%	10
Small Loan Program	$20.0 million	0.6%	1
Technology, Communications, and New Economy	$29.9 million	0.9%	8
Textiles, Apparel, and Leather	$46.0 million	1.4%	8
Tourism and Hotels	$67.3 million	2.0%	14
Transportation and Warehousing	$50.1 million	1.5%	13
Utilities and Infrastructure	$120.3 million	3.6%	19
Wood, Pulp, and Paper	$55.8 million	1.7%	13
Others	$70.6 million	2.1%	11
Total	**$3,368.2 million**	**100.0%**	**562**

Note: The 2008 count includes the IFEM program and IFEM projects.

TABLE 13. COUNTRIES OF ORIGIN AND AGGREGATE PROCUREMENT, 1989–2008 (as of December 31, 2008, US$ thousands)	
Argentina	293,209
Austria	358
Bahamas	2,612
Barbados	11,250
Belgium	272
Belize	8,227
Bolivarian Republic of Venezuela	37,281
Bolivia	13,231
Brazil	199,789
Chile	149,123
Colombia	32,755
Costa Rica	72,902
Denmark	8,102
Dominican Republic	30,043
Ecuador	21,896
El Salvador	15,921
Finland	2,240
France	15,811
Germany	81,356
Guatemala	49,707
Guyana	600
Honduras	57,498
Israel	13,530
Italy	48,922
Jamaica	43,043
Japan	22,170
Mexico	100,437
Netherlands	55,593
Nicaragua	23,687
Norway	7,551
Panama	13,949
Paraguay	18,097
Peru	72,813
Republic of Korea	457
Spain	28,276
Sweden	5,895
Switzerland	27,972
Trinidad and Tobago	1,000
United States	412,310
Uruguay	69,698
Regional	18,530
Total	**2,088,113**

THE YEAR IN REVIEW

OPERATING RESULTS

In 2008, the IIC approved direct projects as well as loans, investments, and cofinancing operations through financial intermediaries that substantially leverage the resources provided directly by the IIC.

The operations summarized in table 14 are for loans and programs totaling $300.5 million. This year's six cofinanced loans will mobilize an additional $300.6 million in funding, further leveraging the resources available for the region's SMEs (see table 15).

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

TABLE 14. OPERATIONS APPROVED IN 2008 (Amounts in US$)

Country	Sector	Company Name	Approved Amount	Total Project Cost
Argentina	Agriculture and Agribusiness	Industrias Alimenticias Mendocinas, S.A.	3,000,000	25,400,000
	Financial Services	Banco Patagonia, S.A.	5,000,000	5,000,000
	Food, Bottling, and Beverages	Fincas Patagónicas, S.A.	2,000,000	2,100,000
	General Manufacturing	BGH, S.A.	7,000,000	30,000,000
	Nonfinancial Services	Desler, S.A.	200,000	200,000
	Tourism and Hotels	Termas de Lahuen Co, S.A.	750,000	1,473,000
Bolivia	Financial Services	Banco Solidario, S.A.	5,000,000	5,000,000
	Food, Bottling, and Beverages	Sociedad Industrial y Comercial "La Francesa", S.A.	428,000	500,000
	General Manufacturing	Artes Gráficas Sagitario, S.R.L.	375,000	470,000
	Technology, Communications, and New Economy	Nexcom, S.R.L.	180,000	817,000
	Tourism and Hotels	Río Selva Resort, S.A.	600,000	700,000
	Transportation and Warehousing	Empresa de Transportes El Porvenir Limitada, S.R.L.	400,000	500,000
Brazil	Agriculture and Agribusiness	Vale do Paraná, S.A.	15,000,000	111,000,000
	Financial Services	Banco Rabobank International Brasil, S.A.	27,000,000	185,000,000
Chile	Financial Services	Eurocapital, S.A.	5,000,000	5,000,000
	Financial Services	Factotal, S.A.	5,000,000	5,000,000

Project Description
IAMSA is one of Argentina's largest producers and marketers of canned fruit and tomatoes. The loan will help the company consolidate during a period of significant growth.
Banco Patagonia, Argentina's fifth largest private bank in terms of deposits, focuses chiefly on the retail segment and SMEs. The loan will support medium-term financing for SMEs in Argentina.
Fincas Patagónicas specializes in fine wine, chiefly for export. The loan will enable the company to expand its production capacity and increase export sales, thus meeting its export commitments and satisfying growing demand.
BGH is one of Argentina's leading manufacturers and marketers of products and services in the areas of household appliances, telecommunications, technology, and computers. The loan proceeds will be used to finance the rebuilding of one of BGH's production plants and to build a new distribution center that will enable the company to manage inventory more flexibly and efficiently.
Desler is one of the largest players in Argentina's waste management sector. The loan will finance the purchase of a modern hydraulic excavator. By doing so, the IIC will contribute to the company's sustainability and foster environmental protection.
Termas de Lahuen Co operates a mountain spa in a natural environment with high tourist potential. The project consists of building an eleven-room lodge adjacent to the thermal spa. The IIC's participation will stimulate development and spur employment in a rural area in Argentina.
BancoSol specializes in microenterprise lending in Bolivia. This loan will enable BancoSol to offer longer-term financing and expand its lending to microenterprises in Bolivia.
La Francesa is a leading producer of baked goods and milk beverages in Bolivia. It will use the loan proceeds to refinance liabilities and finance working capital to ensure business continuity and profitability.
Artes Gráficas Sagitario offers graphic publishing products and services. The loan will finance the purchase of two new pieces of production equipment as part of the company's expansion and modernization plan.
Nexcom supplies high-tech products and services. The loan will help the company acquire a state-of-the-art satellite teleport that will enable it to offer new telecommunications services and improve those it already provides.
Río Selva Resort is a well-known four-hotel chain. The loan proceeds will be used to refinance liabilities and finance working capital to ensure an appropriate capital structure for the business.
El Porvenir provides domestic and international ground transportation services. The loan proceeds will be used to purchase new trailer and tanker trucks to increase the company's overland transportation capacity.
Vale do Paraná grows sugar cane and processes and markets raw sugar and hydrated alcohol. It will use the loan proceeds to build a state-of-the-art sugar mill for producing and marketing ethanol, thereby increasing the supply of renewable energy.
Rabobank is a financial institution that provides financing mainly to the agribusiness sector, where it has a substantial share of the SME market. The IIC's subordinated loan will be considered Tier II capital; this will have a multiplier effect on Rabobank's lending capacity.
Eurocapital is a factoring company. Factoring is widely used by Chilean SMEs that need working capital. The loan proceeds will be used to help SMEs, particularly export-oriented SMEs, meet this need. This will give Chilean SMEs better access to appropriate sources of credit.
Factotal purchases invoices, bills of exchange, and checks issued by SMEs, which are its target market. The loan will enable the company to serve SMEs that usually do not have easy access to bank financing.

TABLE 14. (cont.) OPERATIONS APPROVED IN 2008 (Amounts in US$)

Country	Sector	Company Name	Approved Amount	Total Project Cost
Chile, *cont.*	Food, Bottling, and Beverages	Frigorífico La Cantera Copiapó, S.A.	1,000,000	1,800,000
	Utilities and Infrastructure	Energía Pacífico, S.A.	8,000,000	35,731,300
	Wood, Pulp, and Paper	Neopak, S.A.	5,000,000	40,600,000
Colombia	Utilities and Infrastructure	Caruquia, S.A. E.S.P.	7,650,000	21,800,000
	Utilities and Infrastructure	Guanaquitas, S.A. E.S.P.	7,850,000	22,400,000
Costa Rica	Financial Services	Financiera Desyfin, S.A.	2,000,000	2,000,000
	Food, Bottling, and Beverages	Distribuidora de Carnes Zamora, S.A.	1,100,000	1,700,000
	Food, Bottling, and Beverages	Industria Los Patitos, S.A.	600,000	600,000
	General Manufacturing	AMPO Limitada	1,200,000	1,350,000
	General Manufacturing	Corrugadora de Costa Rica, S.A.	1,500,000	1,500,000
	General Manufacturing	Materiales y Techos para Construcción, S.A.	200,000	200,000
Ecuador	Marketing and Distribution	Comercial Kywi, S.A.	6,000,000	14,100,000
	Marketing and Distribution	Comohogar, S.A.	10,000,000	15,000,000

Project Description
Copiapó was created by fruit exporter Exportadora Subsole, S.A. The project consists of building a cold-storage facility in the Copiapó area in order to provide more and better-quality cold storage services to local growers. This will result in a better product for the end consumer.
Energía Pacífico was established to carry out a biomass power cogeneration project. Coipsa, which owns the project, will use the loan to build and operate a cogeneration plant that is needed to ensure the company's future profitability.
Neopak, a plant built by Papelera Carrascal, produces corrugated cardboard boxes for exporters of fruit, salmon, wine, and other products.
Caruquia and Guanaquitas are renewable energy projects that comprise building and operating two hydroelectric power plants 95 kilometers from Medellín. They will have an installed capacity of 9.8 megawatts each and will generate 124.1 gigawatt-hours of clean energy per year. By providing financing, the IIC is demonstrating that it is viable for the private sector to invest in small hydropower projects and grant them long-term financing.
Financiera Desyfin is a factoring company that provides bid and performance bonds, working capital loans, revolving credit lines, pledge- and mortgage-backed loans, and other financial services. The loan will be used mainly to finance the growth of Desyfin's medium- and long-term loan portfolio, for onlending to SMEs in Costa Rica.
Carnes Zamora processes and distributes value-added pork products. It will use the loan to upgrade the processing plant and purchase new equipment as part of its plan to improve quality and competitiveness.
Industria Los Patitos produces and markets achiote (annatto), condiments, and spices. The loan will help Los Patitos update and automate its facilities and finance working capital for inventories. This will enable the company to improve its products and processes.
AMPO produces cardboard hanging file folders, binders, and a wide variety of other office supplies for export to Latin America and the Caribbean. The loan will provide the company with financing for working capital, for expanding its warehouses and main production facility in Costa Rica, and for opening a new plant in Panama.
Cocorisa produces corrugated and microcorrugated cardboard boxes. The IIC's participation will help improve Cocorisa's cash flow by providing financing for permanent working capital, which will free up revolving credit lines for financing its seasonal and short-term growth. This will benefit the export sector, which needs differentiated packaging to protect perishable products.
Mateco imports and markets products for the construction industry, especially roofing, railings, and wrought iron. With the loan proceeds, the company will finance permanent and temporary working capital and install equipment to manufacture plastic tiles in-house, thus avoiding the need to import them.
Comercial Kywi is a leading company in Ecuador in the field of hardware and products for the construction industry. More than 50 percent of the products that the company sells are made by small artisans and SMEs in Ecuador and in Andean region countries. The loan will be used to finance the company's permanent working capital needs and to open new stores nationwide. This will help strengthen Kywi's financial position in the current climate of declining liquidity in international financial markets.
Comohogar is a leading Ecuadorian retailer of household and kitchen products. The loan will be used as working capital. In addition, the operation will stimulate demand for local and regional products because approximately 30 percent of the products that Comohogar sells are sourced in Ecuador or in Andean region countries.

TABLE 14. (cont.) OPERATIONS APPROVED IN 2008 (Amounts in US$)

Country	Sector	Company Name	Approved Amount	Total Project Cost
El Salvador	Financial Services	Banco Multisectorial de Inversiones	10,000,000	10,000,000
	Financial Services	Banco ProCredit, S.A.	2,000,000	2,000,000
	General Manufacturing	Cajas y Bolsas, S.A.	1,000,000	1,000,000
Guatemala	Financial Services	Banco de América Central	10,000,000	10,000,000
	Financial Services	Financiera de Occidente, S.A.	3,000,000	3,000,000
Guyana	Financial Services	Demerara Bank Limited	2,000,000	2,000,000
Jamaica	Financial Services	First Global Bank Limited	6,000,000	6,000,000
	General Manufacturing	Horace Holdings Limited	170,000	200,000
	Transportation and Warehousing	BOS Blocks & Tiles Limited	350,000	400,000
Mexico	Agriculture and Agribusiness	Almacenadora Mercader, S.A.	5,000,000	5,000,000
	Financial Services	CNH Servicios Comerciales, S.A. de C.V. (SOFOL)	3,000,000	3,000,000
	Financial Services	Corporativo Financiero Vimifos, S.A. de C.V. (SOFOL)	3,000,000	3,000,000

Project Description
BMI, a second-tier banking institution, ranks among the largest providers of long-term financing for financial institutions in El Salvador, particularly medium-size institutions. With this loan, BMI will be able to step up its support for institutions serving micro, small, and medium-size enterprises.
ProCredit is one of El Salvador's leading financial institutions. It makes loans to micro and small enterprises. This is the IIC's second operation with ProCredit. The loan will help ProCredit expand the financing it provides to local micro and small enterprises for working capital and capital expenditures. It is expected that ProCredit will provide financing to between 7,000 and 10,000 new clients with the proceeds of the IIC loan.
Cajas y Bolsas manufactures boxes and graphic arts products. The IIC loan proceeds will be used to improve the company's cash flow by providing financing for permanent working capital. This will enable Cajas y Bolsas to use its revolving credit lines for financing seasonal and short-term growth. The export sector, which needs differentiated packaging to protect perishable products, will benefit indirectly from the loan.
BAC Guatemala is a financial institution that specializes in corporate and personal banking. It is part of the regional BAC Credomatic group, one of the largest financial conglomerates in Central America. The loan will provide BAC Guatemala with a source of funding on appropriate terms for channeling to SMEs and individuals in Guatemala.
Fidosa is a financial institution whose core business consists of placing trust, mortgage, and pledge loans. The IIC loan will enable Fidosa to provide medium- and long-term financing to Guatemalan SMEs.
Demerara Bank is the only bank in Guyana that is wholly locally-owned. With the loan proceeds it will provide medium- and long-term financing to Guyanese SMEs.
First Global Bank is Jamaica's only locally-owned commercial bank. The loan proceeds will be used to provide medium- and long-term financing to SMEs.
Horace Holdings provides high-quality lithographic printing services. The loan proceeds will be used to purchase raw materials in bulk and at a discount, which will ensure the company's competitiveness and enable it to pass on the savings to its end customers.
BOS Blocks & Tiles manufactures cement blocks and provides transport services for the aluminum industry. With the loan proceeds, the company will purchase industrial machinery that will increase its capacity to transport mining equipment. With this loan, the IIC is supporting one of Jamaica's most important companies.
ALMER is a leading grain warehouser. The loan will provide additional financing for the company's grain storage program for small grain growers. ALMER will therefore be able to provide financing to these growers by either purchasing their production with a buyback option or warehousing it until it is sold.
CNH provides financing for the agribusiness and construction sectors. The loan proceeds will be used to finance farm equipment purchased by SMEs.
Vimifos is a specialized financial institution that supports SMEs, particularly in the agricultural sector, by providing credit lines for working capital and term loans to purchase fixed assets. The loan proceeds will be used to finance farm and agribusiness equipment purchased by SMEs.

TABLE 14. (cont.) OPERATIONS APPROVED IN 2008 (Amounts in US$)

Country	Sector	Company Name	Approved Amount	Total Project Cost
Mexico, *cont.*	Financial Services	Hipotecaria Vértice, S.A. de C.V. (SOFOM E.N.R.)	4,800,000	4,800,000
	Financial Services	Unión de Crédito General, S.A. de C.V.	2,000,000	2,000,000
	Marketing and Distribution	Melones Internacional, S.A. de C.V.	10,000,000	70,000,000
Nicaragua	Food, Bottling, and Beverages	Delicarnes, S.A.	190,000	200,000
	Livestock and Poultry	Químicas Veterinarias, S.A.	190,000	215,000
Panama	Financial Services	Banco Bilbao Vizcaya Argentaria Panamá, S.A.	10,000,000	67,000,000
	Financial Services	Banco General, S.A.	25,000,000	25,000,000
Paraguay	Agriculture and Agribusiness	Agrofértil, S.A.	2,000,000	2,000,000
	Agriculture and Agribusiness	Agrofield, S.R.L.	215,000	400,000
	Agriculture and Agribusiness	ERPAR, S.A.E.	1,800,000	6,600,000
	Financial Services	Banco Bilbao Vizcaya Argentaria Paraguay, S.A.	12,000,000	42,000,000
	Financial Services	Financiera El Comercio, S.A.E.C.A.	1,000,000	1,000,000
	Financial Services	Visión Banco, S.A.E.C.A.	5,000,000	5,000,000

Project Description
Hipotecaria Vértice provides financing to housing developers and home mortgages to end buyers. The IIC loan will be onlent in the form of medium-term bridge loans to finance the construction of homes, focusing on environmentally friendly developments under Hipotecaria Vértice's green mortgage program.
Unión de Crédito General, a financial institution that targets SMEs, will use the loan proceeds to finance farms and agribusinesses in Mexico's Puebla and Querétaro states.
Melones Internacional produces and exports premium-quality greenhouse products, particularly tomatoes, seedless cucumbers, and peppers. With the loan proceeds, it will increase the capacity of its greenhouses. The IIC loan will therefore help the company grow, increase its production, and become more competitive in international markets.
Delicarnes is a well-known producer and marketer of beef and pork sausages. The loan proceeds will be used to purchase new equipment and improve existing equipment, purchase raw materials, and build a new shipping area. This will result in better product quality and ensure the company's continuity.
Quimvetsa is a small manufacturer and distributor of veterinary drugs. With the loan proceeds, it will purchase raw materials and new machinery and remodel and equip a distribution, retail, and wholesale center in Managua. The IIC will thus help the company improve the marketing of its products nationwide.
BBVA Panamá is Panama's fifth-largest bank in terms of assets and loans and has a growing market share in the SME sector. The loan proceeds will be used to finance the purchase of fixed assets and machinery and working capital for Panamanian SMEs.
Banco General is one of Panama's leading banks. The loan proceeds will be used to finance the purchase of homes for medium- and low-income individuals.
Agrofértil imports and sells agricultural inputs. It provides technical assistance to its clients and financing to its suppliers. The company will use the loan proceeds to finance its working capital needs, enabling it to make more financing available to growers so they may expand the area they have planted, invest in better fertilizers and crop protection, and improve yield and profits.
Agrofield produces and markets products for the farming, veterinary, home and garden, environmental protection, and horticulture sectors. The loan will be used to purchase high-tech machinery and equipment for Agrofield's new production plant and to open a new branch in the nation's interior, thus expanding the company's product range and creating jobs.
The ERPAR project consists of building a plant to produce ethanol from sugar cane and cassava in one of Paraguay's least developed areas. This loan will enable ERPAR to promote the economic development of some 1,000 small farmers by creating profitable, integrated, and environmentally friendly businesses.
BBVA Paraguay is one of Paraguay's leading banks; it focuses on the agricultural and livestock sectors and operates in the SME market, too. The loan proceeds will enable the bank to continue increasing its presence in the SME sector in Paraguay.
El Comercio is the second-largest finance company in Paraguay. With the loan, it will be able to help Paraguayan micro, small, and medium-size companies finance their medium-term needs, such as permanent working capital and equipment and machinery purchases. This operation will benefit more than fifty microenterprises and SMEs in Paraguay.
Visión Banco provides specialized financial services and products for micro and small enterprises to promote the social and economic development of middle- and low-income individuals. The funds will be lent to micro and small enterprises for productive investments or working capital.

TABLE 14. (cont.) OPERATIONS APPROVED IN 2008 (Amounts in US$)

Country	Sector	Company Name	Approved Amount	Total Project Cost
Paraguay, *cont.*	General Manufacturing	Molino Asunceno Alberto Heilbrunn, S.A.	200,000	300,000
	Livestock and Poultry	Agrícola Ganadera San Marcos, S.R.L.	600,000	2,200,000
Peru	Financial Services	Banco Santander Perú, S.A.	15,000,000	15,000,000
	Financial Services	Empresa Financiera Edyficar, S.A.	5,000,000	5,000,000
	Marketing and Distribution	Citibank del Perú, S.A.	20,000,000	20,000,000
Suriname	Financial Services	Coöperatieve Spaar-en Kredietbank Godo G.A.	1,000,000	1,000,000
Uruguay	Financial Services	Microfinanzas del Uruguay, S.A.	1,500,000	1,500,000
Regional A, B, C, and D	Capital Markets	The Currency Exchange Fund N.V.	2,500,000	2,500,000
	General Manufacturing	Bandex, S.A.	1,000,000	1,000,000
	General Manufacturing	Braspack Embalagens do Nordeste, S.A.	5,000,000	5,000,000
Total			**300,548,000**	**862,256,300**

Project Description
MAAHSA produces toiletries, cleaning products, and animal care products. The loan proceeds will be used to finance the purchase of an automatic packing machine for powdered soap and other products and will help the company diversify its products and improve its competitiveness in the market.
Agrícola Ganadera San Marcos is a cattle and agriculture production operation whose main crops are soybeans, corn, and wheat. The loan proceeds will be used to finance the construction of a model farm facility as well as working capital needs. With this loan, the IIC is supporting the company's growth and helping ensure its continuity.
Banco Santander Perú is a newly founded bank that focuses on corporate lending. The loan proceeds will be used to provide medium-size Peruvian companies with financing, mainly in the form of financial leases, for fixed assets and machinery.
Edyficar is a financial institution established by CARE Perú, a nongovernmental organization that lends to micro and small enterprises. The loan proceeds will enable Edyficar to provide financing to microenterprises that have limited access to suitable sources of financing.
Grupo de Supermercados Wong is a major food distribution company. The project consists of providing Citibank del Perú with a guarantee that will enable it to provide financing for the group to expand its working capital loan program for its suppliers. This will in turn decrease its small and medium-size suppliers' financing costs, improve their product quality, and cut their delivery times.
Godo is the largest credit union in Suriname. It provides loans geared primarily toward home purchases and improvements. The loan will help Godo finance the growth of its mortgage loan portfolio and improve the term matching of its assets and liabilities.
Microfin is one of the first institutions to provide financial services to micro and small entrepreneurs in Uruguay. It will use the loan proceeds to provide short- and medium-term local-currency and dollar-denominated loans to micro and small businesses in Uruguay. This loan will complement the MIF's investment and will help Microfin attract other lenders.
TCX promotes economic development through the creation and strengthening of local-currency capital markets by taking the market risks associated with unhedged swaps. By participating in the IDB's subordinated loan to TCX, the IIC seeks to use TCX's local-currency hedging services in countries with smaller economies where swap markets are limited or nonexistent.
Bandex and Braspack are Grupo Inplast, S.A.'s largest operating companies. They manufacture and market a wide range of polystyrene containers and plastic packaging for the food industry. The company will use the loan proceeds to refinance debt in order to consolidate the group's rapid growth and increase Braspack's production volume.

TABLE 15. COFINANCING OPERATIONS IN 2008		
	Gross Approvals	
Company	**IIC**	**Cofinancing**
Banco Rabobank International Brasil, S.A.	$27.0 million	$159.0 million*
Melones Internacional, S.A. de C.V.	$10.0 million	$30.0 million
Banco Bilbao Vizcaya Argentaria Paraguay, S.A.	$12.0 million	$30.0 million
Energía Pacífico, S.A.	$8.0 million	$20.6 million
Industrias Alimenticias Mendocinas, S.A.	$3.0 million	$5.0 million
Banco Bilbao Vizcaya Argentaria Panamá, S.A.	$10.0 million	$56.0 million
Total	**$70.0 million**	**$300.6 million**

* The exchange rate as of June 24, 2008, was R$1.6038 per U.S. dollar. Source IIC/FIN.

FINANCIAL RESULTS

The IIC's profitability improved during the period 2007–2008 in relation to previous years thanks to the action plan adopted by the Board of Executive Directors and the favorable economic environment in the region.

The action plan enabled the IIC to substantially increase the number and volume of loans approved and disbursed. As a result, the IIC's income before capital gains, dividends, and other income from the equity investment portfolio increased 6.7 percent in 2008.

Net profit in 2008 was $13.9 million, compared with $83.5 million in 2007 that included a $56 million gain from the sale of equity investments. Results for 2008 were impacted by the allowance for loan losses, which increased $16 million (from $39 million in 2007 to $55 million in 2008).

It is expected that as the current global economic slowdown impacts the region further in 2009 the IIC's profitability will continue to suffer somewhat going forward. A policy response to a more difficult economic environment will be to preserve margins through careful pricing coupled with a more conservative approach to growth.

Efficiency decreased slightly in 2008 as measured by the net interest income to administrative expense ratio, which went from 2.1 times in 2007 to 1.9 times in 2008.

Treasury Investment Portfolio Risk

The IIC's treasury investment portfolio ended the year in good standing, and no losses were incurred despite a major world financial crisis in 2008.

This was the result of careful monitoring of markets and instruments, together with more frequent portfolio rebalancings in order to avoid certain instruments and market segments that were severely affected by a wave of downgrades and defaults.

In addition, it was decided that a higher level of diversification was necessary, together with a higher weight of government-backed securities than in previous years.

Asset Quality

Earning assets, net of provisions, grew steadily during the year, from $800 million in 2007 to $878 million in 2008. Asset quality continued to be satisfactory during the period. The past-due portfolio went from 0 percent in 2007 to 0.56 percent in 2008. As of the end of 2008 the ratio of allowance for loan losses to past-due loans was healthy, at 11 times.

This adequate asset quality resulted from Management's implementation of stricter credit processes, a favorable regional credit cycle in 2007 and the first half of 2008, and the write-off of past-due loans.

The IIC will monitor asset quality closely in 2009 for any signs of deterioration as Latin American economies feel the pinch of a world financial crisis that has resulted in an economic slowdown.

However, with its adequate past-due portfolio coverage, the IIC is currently well-positioned to withstand the impact of a regional economic slowdown on portfolio quality.

Capital Adequacy

The Agreement Establishing the IIC limits borrowing to three times net worth. In practice, the IIC has maintained leverage levels below this limit. The liabilities-to-equity ratio has risen slightly in recent years, from 0.69 in 2007 to 1.03 in 2008.

Liquidity

The IIC's liquidity was lower in 2008 as the ratio of liquidity-to-debt went from 0.81 in 2007 to 0.64 in 2008. Nevertheless, this ratio is still healthy and grants the IIC the degree of flexibility needed to cope with a more difficult credit environment.

Pension and Postretirement Benefit Plans

The value of the assets that back the IIC's benefit obligations decreased 21.2% in 2008 due to the impact the financial crisis has had on securities markets. As a result, the pension assets to liabilities coverage ratio fell to 78.8%, leading to a direct US$25.4 million charge to equity. Despite the extraordinary nature of the crisis, Management and the Board of Executive Directors decided to increase the IIC's contributions to the pension and postretirement benefit plans.

Standard and Poor's Outlook

In 2008, Standard and Poor's revised its credit rating outlook for the IIC from stable to positive, based on the IIC's lower loan portfolio risk, better diversity of funding sources, higher profitability, and stronger institutional framework. The Standard and Poor's report highlighted the IIC's positive strategic and operational changes, which will enable it to reach its business objectives without jeopardizing its financial position.

Local-Currency Financing

In 2008, the IIC continued its efforts to provide financing in local currency. This work began in December 2005 with the approval of funding for five Colombian leasing companies with the proceeds of a bond placed in the local market. By year-end 2008, the IIC had carried out $158 million in local-currency operations in several countries in the region.

The IIC funds its local-currency operations by tapping the capital markets or negotiating loans with leading local financial institutions. The IIC's ultimate goal is to access local capital markets, but operations are funded via bilateral loans when the critical mass required for a bond issue has not been achieved. In such cases, or when it is harder for the IIC to tap the capital market on optimal terms, bridge loans are arranged and subsequently repaid with bond issue proceeds.

The IIC will continue to promote financing in local currency and will seek to offer this funding tool to a greater number of countries and financial intermediaries. At a later stage, it will consider providing direct financing to companies and managing local-currency investments to operate more responsively and flexibly.

Sources of Funding

Historically, the IIC's primary source of funding has been capital contributions from member countries and some bilateral loans from commercial banks. In 2005, however, the IIC began to diversify its sources of funding because the period for paying installments under the 1999 capital increase was to end in 2007.

In 2008, the IIC obtained lines of credit denominated in Brazilian reais and Peruvian nuevos soles to finance the growth of its development portfolio. This year as well, the IIC, with advice from Mizuho Corporate Bank, Ltd., signed two syndicated loans in Japan totaling $120 million. This raised the IIC's profile in the key Japanese market and enabled it to broaden its sources of funding. The IIC also drew down $100 million of its $300 million, fifteen-year line with the IDB, thus improving the structure of its borrowings.

As of December 2008, the IIC had $734 million in borrowings and its available lines of credit totaled $562 million. Combined with its sound treasury position, this substantially reduced the IIC's credit risk.

WORKING WITH PARTNERS

IIC Presence in External Forums

The IIC participates in forums where it adds value as the only multilateral financial institution specializing in SMEs in Latin America and the Caribbean. It also sponsors events in the region. In 2008, the IIC leveraged its experience at a variety of events.

At a meeting of the Asociación Hondureña de Pequeños Productores de Energía Renovable, the IIC gave a presentation on the system for trading emission reduction certificates. The IIC explained the benefits of the Certified Emission Reductions Sale and Purchase Agreement (CERSPA) trading model for the carbon credits market and provided guidelines for negotiating clauses in these contracts.

In keeping with its higher profile in the Caribbean, the IIC attended the Caribbean Development Bank Annual Meeting in Nova Scotia, Canada, and the 35th Annual Conference of the Caribbean Association of Indigenous Banks in Barbados, where it shared with major Caribbean banks its experience in organizing the environmental training workshops for banking institutions, which it has been hosting since 1999. It also hosted a family business governance workshop in Jamaica.

The IIC sponsored and attended the 2008 Latin American Social Forum organized by *Foreign Policy* magazine in Washington, D.C., as part of a discussion on the importance of social and human investment and the role it plays in the private sector.

The IIC attended the Americas Competitiveness Forum in Atlanta, Georgia, in the United States. The IIC was on the panel on SME trade capacity building, making it the first time it has participated as a speaker.

For the second time, the IIC attended the Caribbean–Central American Action Conference, where it signed a memorandum of understanding with Scotiabank for the latter to act as a partner in FINPYME projects in the Caribbean. During the Inter-American Forum on Microenterprise (FOROMIC), the IIC signed a loan agreement with Visión Banco.

Among other events, the IIC attended the Annual Meeting of the Latin American Federation of Banks (FELABAN); the XIII Foro Iberoamericano de Sistemas de Garantía; the VI Conferencia Latinoamericana de Leasing; the 2008 Latin American Cities Conference; and the Foro Internacional de Donantes, where the IIC reported on its new initiatives in energy efficiency, family business governance, and other issues.

Additionally, the IIC has presented workshops on environmental risk management (see box 10) and assessed financial reporting and management controls.

New Partners: People’s Republic of China

In 2008, the People’s Republic of China and the IDB Group engaged in discussions concerning China’s membership in the IDB Group. On October 15, the IIC Board of Governors approved the conditions for China to become the forty-fourth member of the IIC. It is expected that China will acquire 110 shares in the IIC and will make a further special financial contribution to an equity fund to be administered exclusively by the IIC.

China’s endowment would be dedicated to investments in equity and quasi-equity operations to benefit SMEs in the IIC’s regional developing member countries, consistent with the IIC business plans approved by the IIC Board of Executive Directors. All profits from these investments would be returned to the fund for reinvesting. The IIC would earn compensation for managing the fund and would leverage

10. Workshops on Environmental Management in the Financial Sector

Institutions that actively manage for environmental risk are more efficient because they decrease environmental impacts, improve their image within the financial sector, and increase their probability of obtaining financing in the international market. For this reason, in October 2008 the IIC held its twelfth environmental management course for the financial sector, in Playa del Carmen, Mexico. This year the course was developed in collaboration with the Environmental and Social Safeguards Group of the IDB. Fifty-three participants from thirty-seven financial institutions in thirteen countries (Argentina, Bolivia, Brazil, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Mexico, Panama, Paraguay, Peru, and Uruguay) attended the seminar.

The purpose of the seminar was to show financial institutions that are IIC and IDB clients how to develop their own environmental risk management systems and thus become more competitive and profitable. In addition, guest speakers from Banco Itaú (Brazil), Finterra (Mexico), and Banco Multisectorial de Inversiones (El Salvador) gave presentations on their environmental risk management systems and the opportunities related to environmental sustainability.

The IIC has been organizing these seminars since 1999; since then, 386 participants representing more than 150 financial institutions have attended. With these seminars on environmental risk management, the IIC and the IDB promote the exchange of information among financial institutions in Latin America and the Caribbean and disseminate new market opportunities.

The IIC broke new ground in Latin America and the Caribbean with its first seminar on environmental risk management systems for financial institutions. Now, nine years later, institutions in the region are increasingly committed to developing environmental risk management systems like those being adopted by financial institutions worldwide.

the impact of the IIC's invested capital. It is hoped that the combination of IIC resources and China's contribution will lead to a demonstration effect and open doors to additional equity investment resources for the IIC and the region it serves.

GOVERNANCE

IIC Structure

Board of Governors

All the powers of the IIC 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 IIC's audited financial statements, and amendment of the Agreement Establishing the IIC.

Board of Executive Directors

The Board of Executive Directors is responsible for approving operations. For this purpose, the Board of Executive Directors 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 IIC, including the number and general responsibilities of the principal administrative and professional positions. It also approves the IIC's budget. 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 IIC.

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 IIC, two people from among the Directors representing the regional developing member countries of the IIC, and one person from among the Directors representing the other member countries. This committee considers all of the IIC'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 IIC. 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 IIC 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 IIC. 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 IIC 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 determines the operating structure of the IIC and may change it as the organization's needs evolve.

Prioritizing Our Growth in the Region

Seeking to provide more effective service to its clients, the IIC has redoubled its efforts to increase both the number of staff based in the region and the number of countries where they are located. In 2008, the IIC expanded its regional presence to eleven countries, compared with three countries in 2002. This strategy has brought the organization closer to its clients and enabled it to work alongside other IDB Group private sector windows.

11. Anticorruption and Anti–Money Laundering 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 it may be subject. An example of such a risk would be corrupt practices, for which the IIC has a zero-tolerance policy. The IIC's antifraud mechanism integrates the institution with the IDB's Office of Institutional Integrity and Oversight Committee on Fraud and Corruption, thus enhancing the synergies between the two institutions on fraud and corruption matters.

In 2008, the IIC, the Office of Institutional Integrity, and the other IDB Group private sector windows worked together to commission an integrity due diligence framework performance evaluation. The evaluation will analyze the mechanism's effectiveness and recommend any improvements needed.

The IIC also reviews each host country's regulations on money laundering. It assesses each financial institution's compliance with such regulations (if any) and the adequacy of its deposit-taking and management controls. The investment officers and attorneys involved in originating and structuring IIC projects, along with their IDB and MIF counterparts, receive training on integrity guidelines.

The IDB Group has secure telephone, e-mail, fax, and mail arrangements for anyone who wishes 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/integrity/contact.cfm.

Staff

To fulfill its multilateral mission, the IIC has 107 authorized staff positions as of December 31, 2008. There are twenty-four staff members in eleven countries in the region (Argentina, Chile, Colombia, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Paraguay, Peru, and Uruguay). The remaining staff are located at the head office in Washington, D.C. Among the latter are sixteen investment officers who work directly on originating and developing new projects and eleven who are assigned full time to direct supervision of a portfolio of 203 corporate and financial institution projects. This supervision includes annual field visits.

The remaining staff members provide support for operations and are divided among the Finance and Risk Management, Legal, and Technical Assistance and Strategic Partnerships divisions; and the Corporate Affairs, Credit, Development Effectiveness and Corporate Strategy, Portfolio Management and Supervision, and Special Operations units.


Office of the General Manager


Office of the Deputy General Manager


Operations Team
Portfolio Management and Supervision Unit, Special Operations Unit,
Financial Institutions and Structured Finance Coordination,
Corporate Projects Coordination


Development Effectiveness and Corporate Strategy Unit


Technical Assistance and Strategic Partnerships Division


General Counsel and Legal Division


Finance and Risk Management Division


Credit Unit


Corporate Affairs Unit


Environmental Engineers

Standing Committees

- Credit Committee—Reviews new operations as well as amendments to and waivers for active operations and makes recommendations to the General Manager concerning submission for IIC Board of Executive Directors approval.
- Expanded Credit Committee—Reviews transactions submitted by the IDB's MIF related to microenterprise equity investment funds.
- Ethics Committee—Promotes and facilitates consultation and resolution by staff and management on ethical issues as they arise. Responsible for interpreting, implementing, and enforcing the IIC code of ethics and recommending any changes it deems necessary.
- Finance and Treasury Committee—Reviews proposed strategies for managing liquid assets, funding, market risk, liquidity risk, financial planning, potential consequences of interest rate movements, and liquidity requirements.
- Human Resources Committee—Oversees staff training programs and deals with staff concerns. Advises the human resources area on promotions and staff evaluations.
- Information and Records Management Committee—Reviews, approves, and enforces document and archive management policies and procedures.
- Internal Procedures and Guidelines Committee—Designs policies, procedures, and guidelines conducive to efficient operations and the flow of information.
- Investment Committee—Reviews and evaluates equity and quasi-equity investment activities in private equity funds and project companies.
- Portfolio Policy and Strategy Committee—Periodically reviews internal prudential credit limits and decides on credit and portfolio policy, guidelines, the credit process, and strategy matters.
- Portfolio Supervision Committee—Monitors overall quality of the IIC portfolio and reviews the status of the 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—Makes recommendations and suggestions to the Special Operations Unit on general strategies, priorities, and specific proposals for loan recoveries and workouts.

FINANCIAL STATEMENTS

REPORT OF INDEPENDENT AUDITORS

To the Board of Governors
Inter-American Investment Corporation

We have audited the accompanying balance sheet of Inter-American Investment Corporation (the Corporation) as of December 31, 2008 and 2007, and the related statements of income, comprehensive income/(loss), changes in equity, and cash flows for the years then ended. 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 in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Corporation's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Inter-American Investment Corporation at December 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 of the financial statements, in 2007 the Corporation changed its method of accounting for certain financial assets and financial liabilities due to its adoption of Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities.*

Ernst + Young LLP

McLean, Virginia
February 6, 2009

BALANCE SHEET

USD Thousands (except share data)	December 31 2008	December 31 2007
ASSETS		
Cash and Cash Equivalents	$ 111,326	$ 70,046
Investment Securities		
Trading	312,321	157,283
Held-to-Maturity	156,273	183,050
Available-for-Sale	20,090	—
Investments		
Loan Investments	904,170	796,910
Less Allowance for Losses	(55,124)	(39,481)
	849,046	757,429
Equity Investments ($14,408 and $19,532 at fair value, respectively)	29,680	43,017
Total Investments	878,726	800,446
Receivables and Other Assets	28,308	33,391
Total Assets	**$ 1,507,044**	**$ 1,244,216**
LIABILITIES AND EQUITY		
Accounts Payable and Other Liabilities	$ 24,869	$ 8,003
Interest and Commitment Fees Payable	4,110	2,707
Borrowings, Short-Term	30,000	—
Borrowings and Long-Term Debt ($51,032 and $50,926 at fair value, respectively)	703,817	498,966
Total Liabilities	**762,796**	**509,676**
Capital		
Authorized:		
70,590 and 70,370 shares, respectively (Par $10,000)		
Subscribed Shares:		
70,480 and 70,370 shares, respectively (Par $10,000)	704,800	703,700
Less Subscriptions Receivable	(47,199)	(67,174)
	657,601	636,526
Retained Earnings	104,081	90,168
Accumulated Other Comprehensive Income	(17,434)	7,846
Total Equity	**744,248**	**734,540**
Total Liabilities and Equity	**$ 1,507,044**	**$ 1,244,216**

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

STATEMENT OF INCOME

USD Thousands	Year ended December 31 2008	2007
INCOME		
Loan Investments		
Interest	$ 57,333	$ 54,969
Front-End Fees	1,198	1,514
Commitment Fees	110	158
Other Income	480	546
	59,121	57,187
Equity Investments		
Gain on Sale	3,380	48,665
Changes in Carrying Value	(1,297)	5,202
Dividends and Distributions	148	2,035
Other Income	251	130
	2,482	56,032
Investment Securities	18,790	12,440
Advisory Service, Cofinancing, and Other Income	3,030	6,135
Total Income	**83,423**	**131,794**
Borrowings and Long-Term Debt Related Expense (net of changes in fair value of related financial instruments)	30,599	23,494
Total Income, Net of Interest Expense	**52,824**	**108,300**
PROVISION FOR LOAN INVESTMENT AND GUARANTEE LOSSES	**14,179**	**3,189**
OPERATING EXPENSES		
Administrative	24,725	22,307
Loss/(Gain) on Foreign Exchange Transactions, net	7	(669)
Total Operating Expenses	**24,732**	**21,638**
NET INCOME	**$ 13,913**	**$ 83,473**

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

STATEMENTS OF COMPREHENSIVE INCOME/(LOSS) AND CHANGES IN EQUITY

STATEMENT OF COMPREHENSIVE INCOME/(LOSS)

USD Thousands	Year ended December 31 2008	2007
NET INCOME	$ 13,913	$ 83,473
OTHER COMPREHENSIVE LOSS		
Net Actuarial Loss	(25,597)	(3,432)
Amortization of:		
Prior Service Cost	64	64
Transition Obligation	174	174
Other	(11)	—
	(25,370)	(3,194)
Unrealized Gain on Investment Securities Available-for-Sale	90	—
COMPREHENSIVE (LOSS)/INCOME	**$ (11,367)**	**$ 80,279**

STATEMENT OF CHANGES IN EQUITY

USD Thousands	Retained Earnings	Accumulated Other Comprehensive Income	Capital Stock (*)	Total Equity
As of December 31, 2006	**$ 7,806**	**$ 11,040**	**$ 568,060**	**$ 586,906**
Year Ended December 31, 2007				
Net Income	83,473	—	—	83,473
Adjustments to Initially Apply SFAS No. 159	(1,111)	—	—	(1,111)
Other Comprehensive Loss	—	(3,194)	—	(3,194)
Payments Received for Capital Stock Subscribed	—	—	68,466	68,466
As of December 31, 2007	**$ 90,168**	**$ 7,846**	**$ 636,526**	**$ 734,540**
Year Ended December 31, 2008				
Net Income	13,913	—	—	13,913
Other Comprehensive Loss	—	(25,280)	—	(25,280)
Payments Received for Capital Stock Subscribed	—	—	21,075	21,075
As of December 31, 2008	**$ 104,081**	**$ (17,434)**	**$ 657,601**	**$ 744,248**

(*) Net of Subscriptions Receivable

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

STATEMENT OF CASH FLOWS

USD Thousands	Year ended December 31 2008	2007
CASH FLOWS FROM INVESTING ACTIVITIES		
Loan Disbursements	$ (264,644)	$ (296,327)
Equity Disbursements	(1,618)	(2,535)
Guarantee Disbursements	(8)	(85)
Loan Repayments	132,262	121,617
Sales of Equity Investments	15,539	80,808
Held-to-Maturity Securities		
Purchases	—	(108,318)
Maturities and Repayments	20,000	20,000
Available-for-Sale Securities		
Purchases	(20,000)	—
Capital Expenditures	(134)	(107)
Proceeds from Recovered Assets	1,717	2,140
Net cash used in investing activities	**$ (116,886)**	**$ (182,807)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Drawdown of Borrowings, net	266,244	103,525
Proceeds from Issuance of Notes	—	43,869
Capital Subscriptions	21,075	66,785
Net cash provided by financing activities	**$ 287,319**	**$ 214,179**
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	13,913	83,473
Adjustments to reconcile net income to net cash used in operating activities:		
Realized Capital Gains on Equity Sales	(2,981)	(48,665)
Change in Receivables and Other Assets	(2,933)	(5,555)
Change in Carrying Value of Equity Investments	2,396	(5,202)
Provision for Loan and Guarantee Losses	14,179	3,189
Change in Pension Benefit Plan and PRBP Net Assets	(1,254)	523
Unrealized Gain on Investment Securities	(1,120)	(174)
Equity Recoveries	(318)	(126)
Change in Accounts Payable and Other Liabilities	2,039	1,629
Unrealized Gain on Non-trading Derivative Instruments	(578)	(745)
Change in Value of Borrowings at Fair Value	817	1,616
Other, net	606	627
	10,853	(52,883)
Trading Securities		
Purchases	(1,802,481)	(807,890)
Sales, Maturities, and Repayments	1,648,563	746,516
	(153,918)	(61,374)
Net cash used in operating activities	**$ (129,152)**	**$ (30,784)**
Net effect of exchange rate changes on cash and cash equivalents	(1)	7
NET INCREASE IN CASH AND CASH EQUIVALENTS	41,280	595
CASH AND CASH EQUIVALENTS AS OF JANUARY 1	70,046	69,451
CASH AND CASH EQUIVALENTS AS OF DECEMBER 31	**$ 111,326**	**$ 70,046**
SUPPLEMENTAL DISCLOSURE:		
Interest Paid During the Year	$ 28,904	$ 20,841

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

NOTES TO FINANCIAL STATEMENTS

(USD thousands, unless otherwise indicated)

Purpose

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 U.S. generally accepted accounting principles.

In February 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) 159, *The Fair Value Option for Financial Assets and Financial Liabilities, Including an Amendment of FASB Statement No. 115*. The Corporation adopted this standard effective January 1, 2007. The standard permits the Corporation to choose, at specified election dates, to measure eligible items at fair value (the fair value option). For items for which the fair value option has been elected, the Corporation reports unrealized gains and losses in earnings at each reporting date. At the effective date, the Corporation elected the fair value option for certain eligible items that existed at that date. The effect of the first remeasurement to fair value is reported as a cumulative-effect adjustment to the opening balance of retained earnings. The reconciliation of the cumulative-effect adjustment to retained earnings for the elected items as of January 1, 2007, is as follows:

USD Thousands	Balance Sheet at 1/1/07 Prior to Adoption	Net Gain/(Loss) Upon Adoption	Balance Sheet at 1/1/07 After Adoption
Borrowings	$ (50,822)	$ 690	$ (50,132)
Derivatives	1,404	(1,801)	(397)
Limited Liability Partnerships	30,918	—	30,918
Cumulative effect of adoption of the fair value option (charged to retained earnings)		(1,111)	

Management decided to elect the fair value option for those investments in limited liability partnerships (LLPs) where it has an interest that is more than minor, as it reduces the complexity of the equity method of accounting. In addition, the fair value for financial assets and financial liabilities, in general, provides more relevant and understandable information than cost-based measures. For the borrowing and related derivatives, management decided to elect the fair value option, as SFAS 159 provides the Corporation with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently, without having to apply complex hedge accounting provisions. Included in the terms of the borrowing for which the fair value option was elected was an embedded derivative. The terms of the embedded derivative were mirrored in a freestanding derivative with an equivalent fair value. Prior to the adoption of SFAS 159, the fair values of both instruments were netted. After the adoption of SFAS 159, the embedded derivative is reported as a component of the fair value of the borrowing.

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 investments and guarantees, the fair value of loan and equity investments, borrowings, and derivative instruments, and the determination of the net periodic benefit cost from pension and postretirement benefit plans and the present value of benefit obligations. 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.

Investment securities – As part of its overall portfolio management strategy, the Corporation invests in government and agency obligations, time deposits, commercial paper, bank instruments, 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. Investment securities held by the Corporation are classified based on management's intention on the date of purchase and recorded as of the trade date. The Corporation's portfolio classified as trading includes securities bought and held for the purpose of resale in the near term and are stated at fair value with unrealized gains and losses reported in income from investment securities. Fixed-term securities classified as held-to-maturity represent securities that the Corporation has both the ability and the intent to hold until maturity and are carried at amortized cost. All other securities are classified as available-for-sale and carried at fair value with net unrealized gains or losses included in accumulated other comprehensive income. Interest and dividends on securities, amortization of premiums, and accretion of discounts are reported in income from investment securities. The Corporation's investments in debt securities in Latin American and Caribbean markets resulting from development activities are classified as held-to-maturity and carried at amortized cost on the balance sheet.

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 amount outstanding adjusted for allowance for losses. The Corporation, in certain instances, obtains collateral security such as, but not limited to, mortgages and third-party guarantees. Equity investments, which include direct equity investments and investments in LLPs, are initially recorded at cost, which generally is the fair value of the consideration given. Direct equity investments and certain LLPs for which the Corporation maintains specific ownership accounts on which the Corporation does not have significant influence are carried at cost less impairment. Fair value accounting is applied to equity investments in LLPs where the Corporation's interest is considered more than minor.

Loan and equity investment carrying amounts are periodically reviewed and, if considered 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. Equity investments are assessed for impairment at least once a year on the basis of the latest financial information and any supporting research documents available. These analyses are subjective and are 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 investment for an extended period. When impairment is identified and is deemed to be other than temporary, the equity investment is written down to the impaired value, which becomes the new cost basis for the equity investment. Impairment losses are not reversed for subsequent recoveries in value of the equity investment until it is sold.

Allowance for losses on loan investments – The Corporation recognizes loan portfolio impairment in the balance sheet through the allowance for losses on loan investments, recording a provision or release of provision for losses on loan investments in net income, which increases or decreases the allowance for losses on loan investments. Loan 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 probable losses in the loan portfolio. Management's judgment is based on the risk ratings and performance of individual loan investments, economic conditions, and other factors considered significant by management.

The allowance for losses on loan 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 and is established based upon the periodic review of individual loan 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 loan 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.

Revenue recognition on loan 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, when 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 is returned to accrual status once 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.

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 nonrefundable loan origination fees under/over loan origination costs are considered immaterial for the financial statements.

Revenue recognition on equity investments – Dividend and profit participations received from equity investments that are accounted for under the cost less impairment method are recorded as income when such distributions are declared. Capital gains on the sale or redemption of equity investments accounted for under the cost less impairment method are recorded as income when received. For LLPs carried at fair value, dividends are considered on the assessment of each underlying investment net asset value and recorded as changes in carrying value of equity investments.

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. 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. 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 and is reported at fair value. 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 with the latter 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 as allowance for losses in other liabilities. Income is earned as the Corporation is released from risk upon the expiration or settlement of the guarantee.

Risk management activities: Derivatives used for non-trading 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 purchase 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.

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. Changes in fair value of borrowings-related derivatives are disclosed as 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 how the costs would be reflected 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 transactions – Assets and liabilities not denominated in United States dollars (U.S. dollars, USD, or $) are translated into U.S. dollar equivalents using those foreign exchange rates at which the related asset or liability could be reasonably settled at that date. 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*, and SFAS 157, *Fair Value Measurements*, require entities to disclose information about the estimated fair value of their financial instruments and their fair value measurement, whether or not those values are recognized on the balance sheet.

The Corporation adopted the provisions of SFAS 157 effective January 1, 2007. SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date.

In determining fair value, the Corporation uses various valuation approaches, including market, income and/or cost approaches. SFAS 157 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Corporation. Unobservable inputs are inputs that reflect the Corporation's assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the reliability of inputs as follows:

- Level 1—Valuations based on quoted prices in active markets for identical assets or liabilities that the Corporation has the ability to access. Valuation adjustments and block discounts are not applied to Level 1 instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.

  Assets and liabilities utilizing Level 1 inputs include investment securities that are actively traded and certain other sovereign government obligations.

- Level 2—Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, directly or indirectly.

  Assets and liabilities utilizing Level 2 inputs include investment securities that are not actively traded, derivative contracts, certain corporate loans, and structured borrowings.

- Level 3—Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

  Assets and liabilities utilizing Level 3 inputs include certain corporate loans and private equity investments.

For many of the Corporation's corporate loans it is not practicable to estimate the fair value, and therefore, in accordance with SFAS 107 and SFAS 157, additional disclosures pertinent to estimating the fair value, such as the carrying amount, interest rate, and maturity are provided.

The availability of observable inputs can vary from product to product and is affected by a wide variety of factors, including, for example, the type of product, and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by the Corporation in determining fair value is greatest for instruments categorized in Level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

Fair value for many financial instruments is derived using pricing models. Pricing models take into account the contract terms (including maturity) as well as multiple inputs, including, where applicable, interest rate yield curves, credit curves, creditworthiness of the counterparty, option volatility, and currency rates. In accordance with SFAS 157, the impact of the Corporation's own credit spreads is also considered when measuring the fair value of liabilities, including derivative contracts. Where appropriate, valuation adjustments are made to account for various factors, including bid-ask spreads, credit quality, and market liquidity. These adjustments are applied on a consistent basis and are based upon observable inputs where available.

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.

Investment Securities: Fair values for investment securities are based on quoted prices in active markets for identical assets as of the balance sheet date, when observable. For those investments for which prices and other relevant information, generated by market transactions involving identical or comparable assets, are not available, the income approach valuation has been used, using yield curves, bond or credit default swap spreads and recovery rates based on collateral values as key inputs. Investment securities are generally categorized in Level 1 of the fair value hierarchy.

Loan Investments: In 2007, the Corporation implemented a methodology to measure the fair value of those loans provided to certain financial institutions through agreements that foster economic development, and for which a combination of observable and unobservable inputs was available.

The methodology implemented requires the use of estimates and present value calculations of future cash flows. The fair value of loan investments is estimated using recently executed transactions, market price quotations (where observable) and market observable credit default swap levels along with proprietary valuation models where such transactions and quotations are unobservable. The Corporation has never sold its loans from its portfolio, and there is no comparable secondary market. Determining future cash flows for fair value estimation purposes is subjective and imprecise, and minor changes in assumptions or methodologies may materially affect the estimated values. The lack of objective pricing standards adds a greater degree of subjectivity and volatility to these derived or estimated fair values. Therefore, while disclosure of estimated fair values is required, users of these financial statements are cautioned in using the fair value of loans for the purpose of evaluating the financial position of the Corporation.

As of December 31, 2008, the carrying amount of loan investments, plus accrued interest, that were measured using this methodology was $260,224 ($273,532 as of December 31, 2007), and their estimated fair value amounted to $251,470 ($277,589 as of December 31, 2007). Management believed that it was not practicable to determine the fair value of the remainder of the loan portfolio, which included custom-tailored financing to small and medium-size enterprises operating in the Corporation’s member countries. As of December 31, 2008, the carrying value of this remainder portfolio, without including accrued interest, was $652,690 ($523,378 as of December 31, 2007).

Any excess or deficit resulting from the difference between the carrying amounts of the loan portfolio and the fair value presented above does not necessarily reflect either the realizable values (since the Corporation generally holds investments with contractual maturities with the aim of realizing their recorded values and, therefore, maximizing the developmental aspects of the investment) or exit values (as the developmental impact reflected in loan spreads could differ from those used by market participants in orderly transactions).

Equity Investments: The Corporation purchases the capital stock of small and medium-size private sector enterprises in Latin America and the Caribbean and also invests in LLPs. In most cases, market prices are not available and alternate valuation techniques require a significant degree of judgment. The carrying value of equity investments carried at cost less impairment amounts to $15,272 as of December 31, 2008 ($23,485 as of December 31, 2007). The carrying value of equity investments carried at fair value amounts to $14,408 as of December 31, 2008 ($19,532 as of December 31, 2007). Fair value for investments in LLPs was determined using the partnership net asset value. For this type of investments, net asset value is considered to be the best estimate of fair value. Adjustments to the net asset value are made when evidence indicates that fair value differs significantly from net asset value. Additional information about LLPs carried at fair value is included in Note 9.

Derivative Contracts: These include swap and option contracts related to interest rates. Fair values are determined by obtaining the present value of estimated future cash flows using appropriate discount rates. The pricing models used do not entail material subjectivity because the methodologies employed do not necessitate significant judgment, and the pricing inputs are observed from actively quoted markets, as is the case for generic interest rate swap and option contracts. All the derivative products valued by the Corporation using pricing models fall into this category and are categorized within Level 2 of the fair value hierarchy. The estimated fair value of derivatives is disclosed in Note 9.

Borrowings and Long-Term Debt: Fair values are determined by obtaining the present value of estimated future cash flows using appropriate discount rates. The estimated fair value of borrowings and long-term debt is disclosed in Note 9.

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.

Accounting and financial reporting developments – In December 2008, the FASB Staff Position 132(R)-1 amended FASB Statement 132(R) *Employers' Disclosures about Pensions and Other Postretirement Benefits*. FSP 132(R)-1 provides guidance on an employer's disclosures about plan assets of a defined benefit pension or other postretirement plan that would be similar to the disclosures about fair value measurements required by SFAS 157. It also includes a technical amendment that requires a nonpublic entity to disclose net periodic benefit cost for each annual period for which a statement of income is presented. The disclosures about plan assets required by this FSP shall be effective for fiscal years ending after December 15, 2009, and are not expected to have a material impact on the Corporation's financial position, results of operations, or cash flows.

In May 2008, the FASB issued SFAS 163, *Accounting for Financial Guarantee Insurance Contracts – an interpretation of FASB Statement No. 60*. SFAS 163 requires insurance enterprises that issue financial guarantee contracts to initially recognize the premium received as unearned premium revenue and to recognize that premium revenue over the period in which the protection is provided and in proportion to it. It also requires recognition of a claim liability before an event of default if there is evidence that credit deterioration of the guaranteed obligation has occurred. SFAS 163 is effective for financial statements issued for fiscal years beginning after December 15, 2008. SFAS 163 is not expected to apply to the Corporation.

In May 2008, the FASB issued SFAS 162, *The Hierarchy of Generally Accepted Accounting Principles*. SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in accordance with US GAAP. SFAS 162 will be effective 60 days following the U.S. Securities and Exchange Commission's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles*. Adoption of SFAS 162 is not expected to have a material impact on the Corporation's financial position, results of operations, or cash flows.

In March 2008, the FASB issued SFAS 161, *Disclosures about Derivative Instruments and Hedging Activities*. SFAS 161 requires enhanced disclosures about derivatives and hedging activities to enable a better understanding of their effects on the reporting entity's financial position, financial performance, and cash flows. It is effective for the first set of financial statements for a reporting period, annual or interim, that begins after November 15, 2008, and is not expected to have a material impact on the Corporation's financial position, results of operations, or cash flows.

In December 2007, the FASB issued SFAS 160, *Noncontrolling Interests in Consolidated Financial Statements - an amendment of ARB 151*. SFAS 160 clarifies that noncontrolling interests in a consolidated entity should be reported as equity in the consolidated financial statements. It requires consolidated net income to be reported at amounts attributable to both the parent and the noncontrolling interest and disclosure on the consolidated statement of income of the amounts of income attributable to the parent and to the noncontrolling interest. SFAS 160 clarifies that all changes in a parent's ownership interest that do not result in loss of control are equity transactions and requires that a parent recognize gain or loss when a subsidiary is deconsolidated. SFAS 160 is effective for fiscal years beginning on or after December 15, 2008, and is not expected to have a material impact on the Corporation's financial position, results of operations, or cash flows.

In December 2007, the FASB issued SFAS 141 (Revised 2007), *Business Combinations*. SFAS 141(R) replaces SFAS 141, *Business Combinations*, but retains its fundamental requirement that the acquisition method of accounting (formerly referred to as the purchase method) be used for all business combinations and for the acquirer to be identified for each business combination. Among other things, SFAS 141(R) requires the acquirer to recognize the assets acquired, liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date measured at their fair values, with limited exceptions. SFAS 141(R) requires acquisition related costs to be recognized separately from the acquisition. Acquirers in a step acquisition must recognize the identifiable assets and liabilities, as well as the full amount of the noncontrolling interests in the acquiree, at the full amounts of their fair value under SFAS 141(R). SFAS 141(R) is effective prospectively to business combinations/acquisitions on or after the beginning of the first annual reporting period beginning on or after December 15, 2008, and is not expected to have a material impact on the Corporation's financial position, results of operations, or cash flows.

In February 2007, the FASB issued SFAS 159. This statement permits a fair value option under which an entity may irrevocably elect fair value as the initial and subsequent measurement attribute for certain financial assets and financial liabilities on a contract-by-contract basis, with changes in fair value recognized in earnings as those changes occur. Adoption of this statement is required as of the beginning of an entity's first fiscal year that begins after November 15, 2007. As of the date of initial adoption, an entity is permitted to elect the fair value option for any existing financial asset or financial liability within the scope of this statement. The Corporation adopted this statement early, effective January 1, 2007. The required disclosures are included in Note 1, Note 7, and Note 9.

In addition, during the year ended December 31, 2008, FASB issued and/or approved various FASB Staff Positions, Emerging Issues Task Force 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 the Corporation's financial position, results of operations, or cash flows.

3. Investment Securities

The following reflects net income from investment securities by source:

	Year ended December 31	
USD Thousands	**2008**	**2007**
Interest Income	$ 13,195	$ 11,078
Net Realized Gain	4,475	1,188
Net Change in Unrealized Gain	1,120	174
	$ 18,790	**$ 12,440**

Trading securities consist of the following:

	December 31	
USD Thousands	**2008**	**2007**
Corporate Securities	$ 277,198	$ 105,584
Investment Funds	35,123	51,699
	$ 312,321	**$ 157,283**

NOTES TO FINANCIAL STATEMENTS

(USD thousands, unless otherwise indicated)

The amortized cost of investments held-to-maturity is as follows:

	December 31	
USD Thousands	2008	2007
Corporate Securities	$ 83,458	$ 100,274
Government and Agency Obligations	72,815	82,776
	$ 156,273	**$ 183,050**

Included in Corporate Securities is a non-negotiable certificate of deposit denominated in Mexican pesos approximately equivalent to $23,857 that cannot be liquidated until October 2010. This certificate is a development asset approved and supervised accordingly. The fair value of this financial instrument, disclosed below, has been determined using significant other observable inputs. In addition, Corporate Securities includes a security amounting to $41,199 corresponding to another development asset, approved and supervised accordingly, with similar characteristics to other investment securities held-to-maturity.

The fair value of investments held-to-maturity is as follows:

	December 31, 2008		
USD Thousands	Amortized Cost	Unrealized (Loss)/Gain	Fair Value
Corporate Securities	$ 83,458	$ (1,787)	$ 81,671
Government and Agency Obligations	72,815	4,404	77,219
	$ 156,273	**$ 2,617**	**$ 158,890**

The maturity structure of investments held-to-maturity is as follows:

	December 31	
USD Thousands	2008	2007
Less than twelve months	$ 20,033	$ 19,994
Between twelve and twenty-four months	36,016	20,115
Over twenty-four months	100,224	142,941
	$ 156,273	**$ 183,050**

The composition of available-for-sale securities is as follows:

	December 31	
USD Thousands	2008	2007
Corporate Securities	$ 20,090	$ —
	$ 20,090	**$ —**

NOTES TO FINANCIAL STATEMENTS

(USD 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, 2008, individual countries with the largest aggregate credit exposure to the Corporation included Brazil, Peru, and Chile (Colombia, Brazil, and Peru as of December 31, 2007). As of December 31, 2008, outstanding local-currency loans amounted to $133,929 (local-currency loans amounted to $112,808 as of December 31, 2007).

NOTES TO FINANCIAL STATEMENTS

(USD thousands, unless otherwise indicated)

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

USD Thousands	December 31					
	2008			2007		
	Loan	Equity	Total	Loan	Equity	Total
Brazil	$ 147,049	$ —	$ 147,049	$ 144,841	$ —	$ 144,841
Peru	126,408	—	126,408	116,144	—	116,144
Chile	113,129	2,683	115,812	90,523	4,136	94,659
Colombia	115,334	429	115,763	145,264	429	145,693
Mexico	67,869	7,047	74,916	54,656	7,685	62,341
Regional	36,866	17,722	54,588	33,214	28,448	61,662
Ecuador	49,338	—	49,338	38,974	—	38,974
Argentina	45,263	1,061	46,324	31,058	1,247	32,305
Panama	36,270	—	36,270	2,117	—	2,117
Nicaragua	32,392	—	32,392	34,506	—	34,506
Costa Rica	30,846	—	30,846	32,036	—	32,036
Paraguay	26,126	—	26,126	12,366	—	12,366
El Salvador	19,186	—	19,186	21,194	—	21,194
Bolivia	10,608	—	10,608	2,545	—	2,545
Uruguay	10,050	—	10,050	14,559	334	14,893
Guatemala	10,000	—	10,000	—	—	—
Honduras	8,519	—	8,519	11,340	—	11,340
Belize	5,624	—	5,624	1,537	—	1,537
Jamaica	4,216	—	4,216	1,421	—	1,421
Suriname	4,000	—	4,000	4,000	—	4,000
Dominican Republic	3,077	—	3,077	4,615	—	4,615
Guyana	2,000	140	2,140	—	140	140
Trinidad and Tobago	—	598	598	—	598	598
	$ 904,170	**$ 29,680**	**$ 933,850**	**$ 796,910**	**$ 43,017**	**$ 839,927**
Financial Services	$ 662,810	$ 5,227	$ 668,037	$ 599,616	$ 12,413	$ 612,029
Agriculture and Agribusiness	57,426	—	57,426	53,188	—	53,188
Utilities and Infrastructure	29,186	—	29,186	24,395	—	24,395
Aquaculture and Fisheries	24,518	—	24,518	16,081	—	16,081
Investment Funds	—	24,453	24,453	—	30,604	30,604
General Manufacturing	23,926	—	23,926	11,758	—	11,758
Textiles, Apparel, and Leather	23,294	—	23,294	21,519	—	21,519
Food, Bottling, and Beverages	19,007	—	19,007	18,724	—	18,724
Wood, Pulp, and Paper	12,830	—	12,830	7,606	—	7,606
Chemicals and Plastics	11,385	—	11,385	11,001	—	11,001
Education	8,390	—	8,390	10,126	—	10,126
Livestock and Poultry	7,113	—	7,113	7,549	—	7,549
Industrial Processing Zones	4,064	—	4,064	5,143	—	5,143
Transportation and Warehousing	3,888	—	3,888	4,173	—	4,173
Tourism and Hotels	3,725	—	3,725	3,390	—	3,390
Oil and Mining	1,818	—	1,818	2,545	—	2,545
Tech, Comm. & New Economy	347	—	347	—	—	—
Nonfinancial Services	190	—	190	—	—	—
Health	72	—	72	96	—	96
Other	10,181	—	10,181	—	—	—
	$ 904,170	**$ 29,680**	**$ 933,850**	**$ 796,910**	**$ 43,017**	**$ 839,927**

NOTES TO FINANCIAL STATEMENTS

(USD thousands, unless otherwise indicated)

Loan and equity investments committed but not disbursed (net of cancellations) are summarized below:

	December 31	
USD Thousands	2008	2007
Loan	$ 81,724	$ 73,143
Equity	12,445	9,062
	$ 94,169	**$ 82,205**

The Corporation's loans accrue interest at variable and fixed rates. The fixed rate loan portfolio amounted to $255,787 as of December 31, 2008 ($219,472 as of December 31, 2007).

Loans on which the accrual of interest has been discontinued totaled $13,985 as of December 31, 2008 ($13,943 as of December 31, 2007). Interest collected on loans in nonaccrual status for the year ended December 31, 2008, was $1,103 ($3,620 for the year ended December 31, 2007). Interest income on nonaccruing loans during the year ended December 31, 2008, totaled $841 ($2,084 for the year ended December 31, 2007).

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

	December 31			
USD Thousands	2008		2007	
	Principal Outstanding	**Average Yield**	**Principal Outstanding**	**Average Yield**
Due in one year or less	$ 193,060	5.54%	$ 117,449	7.23%
Due after one year through five years	672,257	6.47%	584,583	7.54%
Due after five years through eleven years	38,853	8.41%	94,878	6.65%
	$ 904,170		**$ 796,910**	

The Corporation's investment in impaired loans as of December 31, 2008, was $1,092 ($1,000 as of December 31, 2007). The average investment in impaired loans for the year ended December 31, 2008, was $1,046 ($5,171 for the year ended December 31, 2007).

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

	December 31					
	2008			2007		
USD Thousands	Loans	Guarantees	Total	Loans	Guarantees	Total
Balance as of January 1	$ 39,481	$ 72	$ 39,553	$ 39,933	$ 36	$ 39,969
Investments Written Off, net	—	(10)	(10)	(5,534)	(85)	(5,619)
Recoveries	1,401	1	1,402	2,014	—	2,014
Provision/(Credit) for Losses	14,242	(63)	14,179	3,068	121	3,189
Balance as of December 31	**$ 55,124**	**$ —**	**$ 55,124**	**$ 39,481**	**$ 72**	**$ 39,553**

5. Receivables and Other Assets

Receivables and other assets are summarized below:

	December 31	
USD Thousands	2008	2007
Other Current Assets:		
Interest Receivable on Loan Investments	$ 10,417	$ 8,990
Interest Receivable on Investment Securities	2,552	2,481
Other Current Receivables	665	1,006
	13,634	12,477
Other Non-Current Assets:		
Interest Receivable on Loan Investments	10,624	8,398
Receivable on Equity Sales, net	914	1,662
Pension Benefit Plan and PRBP Net Assets	—	8,524
Other Non-Current Assets	3,136	2,330
	14,674	20,914
Total Receivables and Other Assets	**$ 28,308**	**$ 33,391**

Pension and PRBP Benefit Plan Net Assets reflect the net overfunded status of the Plans. Refer to Note 14.

Non-current Interest Receivable on Loan Investments includes interest accrued on loans for which interest payment will be received upon expiration or termination of the loan.

NOTES TO FINANCIAL STATEMENTS

(USD thousands, unless otherwise indicated)

6. Accounts Payable and Other Liabilities

Accounts payable and other liabilities are summarized below:

USD Thousands	December 31 2008	2007
Pension Benefit Plan and PRBP Net Liabilities	$ 15,592	$ —
Employment Benefits Payable	3,392	2,922
Deferred Revenue	3,290	2,156
Accounts Payable	1,467	1,456
Due to Other IDB Group Entities	285	300
Other Liabilities and Other Deferred Revenue	843	1,169
Total Accounts Payable and Other Liabilities	**$ 24,869**	**$ 8,003**

Pension and PRBP Benefit Plan Net Liabilities reflect the net underfunded status of the Plans. Refer to Note 14.

7. Borrowings and Long-term Debt

Borrowings and long-term debt outstanding, by currency, are as follows:

USD Thousands	December 31 2008		2007	
Borrowings and Long-Term Debt (By Currency)	**Amount Outstanding**	**Weighted Avg. Cost**	**Amount Outstanding**	**Weighted Avg. Cost**
US Dollars	$ 575,000	3.07%	$ 355,000	5.34%
Colombian Peso	66,857	9.35%	74,451	7.26%
Mexican Peso	34,701	9.05%	43,973	7.88%
Brazilian Real	32,103	11.88%	16,944	11.30%
Peruvian Nuevo Sol	16,241	6.45%	7,672	6.25%
Euro	4,191	4.61%	—	—
Argentine Peso	3,692	9.57%	—	—
	$ 732,785		**$ 498,040**	
Fair Value Adjustments	1,032		926	
Short-Term Borrowings	(30,000)		—	
	$ 703,817		**$ 498,966**	

The Corporation has available a borrowing facility with the IDB amounting to $300,000. In August 2008, the Corporation borrowed $100,000 under this facility. There were no amounts outstanding under this facility as of December 31, 2007. Borrowings under the IDB facility are due fifteen years after the respective disbursement and are renewable. The Corporation has the right to use this facility until November 2010. In addition, as of December 31, 2008 the Corporation has available a stand-by credit facility with a AAA institution amounting to $100,000. The Corporation has the right to use this stand-by credit facility until June 2011. Other credit facilities available amount to $262,192.

The Corporation's outstanding borrowings as of December 31, 2008, consist of term and revolving credit facilities.

Also, the Corporation includes, within the Long-Term Debt category, the following bonds and notes issuances:

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 before underwriting and other issuance costs, maturing in 2010. The proceeds were used entirely to provide financing for 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 other general creditors. The notes may not be redeemed prior to their maturity. The indentures do not contain restrictive covenants.

On November 27, 2007, the Corporation issued interbank reference rate (TIIE) minus 0.06% local-currency notes in the amount of 480 million Mexican pesos before underwriting and other issuance costs, maturing in 2010. The proceeds were used to provide financing for reinvestment in local markets. Interest on the notes is payable monthly and at maturity. The notes are negotiable on the Mexican Stock Exchange. The notes represent unsecured obligations of the Corporation ranking equal in right of payment to all existing and future debt including claims of other general creditors. The notes may not be redeemed prior to their maturity.

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

USD Thousands	2009	2010	2011	2012	Through 2023
Borrowings	$ 30,000	$ —	$ 107,324	$ 261,981	$ 232,954
Bonds and Notes	—	101,558	—	—	—
	$ 30,000	**$ 101,558**	**$ 107,324**	**$ 261,981**	**$ 232,954**

8. Capital

The Corporation's authorized share capital was increased to $705.9 million through $500 million and $2.2 million capital increase resolutions approved in 1999 and 2008, respectively. The resolutions together allocated a total of $502.2 million for subscriptions by member countries during the subscription periods. The Corporation issues only full shares, with a par value of ten thousand dollars.

Given that certain capital subscription installments due in connection with the 1999 $500 million capital increase were not paid in accordance with the original deadlines, the Corporation established new terms that received unanimous approval from its Board of Governors in 2008 and continues to work with its member countries concerning the matter. Subscriptions receivable related to the 1999 capital increase amount to $46.1 million. It is expected that all shares authorized under the capital increases will be paid in.

NOTES TO FINANCIAL STATEMENTS

(USD thousands, unless otherwise indicated)

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 from Members	Payments Received on Account of Pending Subscriptions
	Shares	Amount		
		USD Thousands		USD Thousands
Argentina	7,767	$ 77,670	$ —	$ —
Austria	345	3,450	—	—
Bahamas	144	1,440	—	—
Barbados	101	1,010	—	—
Belgium	169	1,690	—	—
Belize	101	1,010	—	—
Bolivarian Republic of Venezuela	4,311	43,110	—	—
Bolivia	624	6,240	—	—
Brazil	7,767	77,670	—	—
Chile	2,003	20,030	—	—
Colombia	2,003	20,030	—	—
Costa Rica	314	3,140	1,100	—
Denmark	1,071	10,710	—	—
Dominican Republic	420	4,200	—	—
Ecuador	420	4,200	—	—
El Salvador	314	3,140	—	—
Finland	393	3,930	—	—
France	2,162	21,620	—	—
Germany	1,334	13,340	—	—
Guatemala	420	4,200	—	—
Guyana	120	1,200	—	—
Haiti	314	3,140	—	—
Honduras	314	3,140	—	—
Israel	173	1,730	—	—
Italy	2,162	21,620	—	—
Jamaica	420	4,200	—	—
Japan	2,393	23,930	—	—
Mexico	5,000	50,000	—	—
Netherlands	1,071	10,710	—	—
Nicaragua	314	3,140	—	—
Norway	393	3,930	—	—
Panama	314	3,140	—	—
Paraguay	314	3,140	—	—
Peru	2,003	20,030	—	—
Portugal	182	1,820	—	—
Republic of Korea	110	1,100	—	—
Spain	2,393	23,930	—	—
Suriname	101	1,010	—	—
Sweden	393	3,930	—	—
Switzerland	1,071	10,710	—	—
Trinidad and Tobago	314	3,140	—	—
United States	17,600	176,000	46,099	—
Uruguay	828	8,280	—	—
Total 2008	**70,480**	**$ 704,800**	**$ 47,199**	**$ —**
Total 2007	**70,370**	**$ 703,700**	**$ 67,174**	**$ —**

9. Measurements and Changes in Fair Value

The Corporation's assets and liabilities recorded at fair value have been categorized based on a fair value hierarchy in accordance with SFAS 157. See Note 2 for a discussion of the Corporation's policies regarding this hierarchy.

The following fair value hierarchy table presents information about the Corporation's assets and (liabilities) measured at fair value on a recurring basis as of December 31, 2008:

		December 31, 2008		
USD Thousands	Balance as of December 31, 2008	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
ASSETS				
Non-U.S. Sovereign Government Obligations	$ 44,986	$ 44,986	$ —	$ —
Corporate and Other Debt	287,425	287,425	—	—
Limited Liability Partnerships (*)	14,408	—	—	14,408
Derivative Contracts	926	—	926	—
LIABILITIES				
Borrowings	(51,032)	—	(51,032)	—

(*) Represents investments that would otherwise be accounted for under the equity method of accounting.

The following fair value hierarchy table presents information about the Corporation's assets and (liabilities) measured at fair value on a recurring basis as of December 31, 2007:

		December 31, 2007		
USD Thousands	Balance as of December 31, 2007	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
ASSETS				
Non-U.S. Sovereign Government Obligations	$ —	$ —	$ —	$ —
Corporate and Other Debt	157,283	157,283	—	—
Limited Liability Partnerships (*)	19,532	—	—	19,532
Derivative Contracts	348	—	348	—
LIABILITIES				
Borrowings	(50,926)	—	(50,926)	—

(*) Represents investments that would otherwise be accounted for under the equity method of accounting.

NOTES TO FINANCIAL STATEMENTS

(USD thousands, unless otherwise indicated)

The following table presents gains and (losses) due to changes in fair value for items measured at fair value pursuant to the fair value option election for the year ended December 31, 2008:

	December 31, 2008		
USD Thousands	Other Gains and (Losses)	Interest Expense on Long-Term Debt	Total Changes in Fair Values Included in Earnings for the Year
ASSETS			
Non-U.S. Sovereign Government Obligations	$ 42	$ —	$ 42
Corporate and Other Debt	6,958	—	6,958
Limited Liability Partnerships (*)	(1,297)	—	(1,297)
Derivative Contracts	779	—	779
LIABILITIES			
Borrowings	(337)	(1,930)	(2,267)

(*) Represents investments that would otherwise be accounted for under the equity method of accounting.

The following table presents gains and (losses) due to changes in fair value for items measured at fair value pursuant to the fair value election for the year ended December 31, 2007:

	December 31, 2007		
USD Thousands	Other Gains and (Losses)	Interest Expense on Long-Term Debt	Total Changes in Fair Values Included in Earnings for the Year
ASSETS			
Non-U.S. Sovereign Government Obligations	$ —	$ —	$ —
Corporate and Other Debt	5,409	—	5,409
Limited Liability Partnerships (*)	4,772	—	4,772
Derivative Contracts	644	—	644
LIABILITIES			
Borrowings	(758)	(2,728)	(3,486)

(*) Represents investments that would otherwise be accounted for under the equity method of accounting.

Changes in Level 3 assets measured at fair value on a recurring basis for the years ended December 31, 2007 and 2008, are as follows:

USD Thousands		Fair Value Measurements for LLPs Using Significant Unobservable Inputs (Level 3)
As of January 1, 2007	$	30,918
Net Asset Change Due to Gains		4,772
Distributions Received		(17,707)
Additional Investments		1,549
As of December 31, 2007	**$**	**19,532**
As of January 1, 2008	$	19,532
Net Asset Change Due to Losses		(1,297)
Distributions Received		(4,944)
Additional Investments		1,117
As of December 31, 2008	**$**	**14,408**

The amount of total net gains and losses for the year ended December 31, 2008, included in changes in carrying value of equity investments attributable to the change in unrealized net loss relating to assets still held at that date was $2,769 ($217 as of December 31, 2007).

Some of the Corporations' financial instruments are not measured at fair value on a recurring basis but nevertheless are recorded at amounts that approximate fair value due to their liquid or short-term nature. Such financial assets and financial liabilities include: Cash and Cash Equivalents, Receivables—customers, Receivables—other, and Payables—other.

The Corporation's borrowings and long-term debt are recorded at historical amounts unless elected under the SFAS 159 fair value election. The fair value of the Corporation's borrowings and long-term debt was estimated using either quoted market prices or discounted cash flow analyses based on the Corporation's current borrowing rates for similar types of borrowings and long-term debt arrangements. As of December 31, 2008, the carrying value of the Corporation's borrowings and long-term debt, plus accrued interest, was approximately $7,096 higher than fair value ($721 higher than fair value as of December 31, 2007). As of December 31, 2008, the estimated fair value of fixed rate term facilities is $90,663 ($74,471 as of December 31, 2007) and the estimated fair value of the bonds issued in Colombia amounted to $67,097 ($74,675 as of December 31, 2007). The carrying amounts for the remaining borrowings and long-term debt approximated their respective fair value.

NOTES TO FINANCIAL STATEMENTS

(USD thousands, unless otherwise indicated)

10. Guarantees

As of December 31, 2008, no notices of default have been received since inception of the outstanding guarantees ($87 as of December 31, 2007). 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 $7,016 as of December 31, 2008 ($10,632 as of December 31, 2007). Of that amount approximately $5,766 corresponds to guarantees provided in currencies other than the United States dollar ($6,086 as of December 31, 2007). None of these amounts bears any relationship to the anticipated losses on these guarantees, and they greatly exceed anticipated losses. Refer to Note 4 for changes in the allowance for guarantee losses.

11. Contingencies

The Corporation, in the ordinary course of business, is defendant or codefendant 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.

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 year ended December 31, 2008, the Corporation called and disbursed $187,718 in Participants' funds ($243,944 for the year ended December 31, 2007). There was $0 in undisbursed Participants' funds commitments as of December 31, 2008 ($33,224 as of December 31, 2007).

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	2008	2007
Office Space (Headquarters and Other)	$ 1,711	$ 1,661
Support Services	764	598
Other IDB Services	161	150
	$ 2,636	**$ 2,409**

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

USD Thousands	2009	2010	2011–2014
Office Space (Headquarters)	$ 1,676	$ 1,726	$ 5,495
	$ 1,676	**$ 1,726**	**$ 5,495**

Accounts payable to the IDB were $285 as of December 31, 2008 ($300 as of December 31, 2007).

As of December 31, 2008, the Corporation had borrowed $100,000 from the IDB credit facility (as of December 31, 2007, no amounts were outstanding to the IDB Group under this facility). Refer to Note 7.

The Corporation provides advisory services to IDB Group entities. During 2008, the total value of these services amounted to $100 ($163 for the year ended December 31, 2007).

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. Under 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.

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 Benefit 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 and assets of the Corporation solely for the purpose of payment of benefits under the PRBP.

Since both the IDB and the Corporation participate in the Pension Plan and the PRBP, each employer presents its respective share of them. The amounts presented below reflect the Corporation's proportionate share of costs, assets, and obligations of the Pension Plan and the PRBP.

NOTES TO FINANCIAL STATEMENTS

(USD thousands, unless otherwise indicated)

Obligations and funded status

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

	Pension Benefits		Postretirement Benefits	
USD Thousands	2008	2007	2008	2007
Reconciliation of Benefit Obligation				
Obligation as of January 1	$ 41,707	$ 38,379	$ 23,496	$ 15,356
Service Cost	1,901	1,874	1,054	1,060
Interest Cost	2,641	2,355	1,509	1,355
Participants' Contributions	725	637	—	—
Actuarial (Gain)/Loss	615	(791)	701	5,922
Benefits Paid	(514)	(747)	(141)	(197)
Retiree Part D Subsidy	—	—	3	—
Obligation as of December 31	47,075	41,707	26,622	23,496
Reconciliation of Fair Value of Plan Assets				
Fair Value of Plan Assets as of January 1	50,961	46,048	22,774	19,928
Actual Return on Assets	(13,385)	4,067	(6,418)	1,281
Benefits Paid	(514)	(747)	(138)	(197)
Participants' Contributions	725	637	—	—
Employer Contributions	725	956	3,375	1,762
Fair Value of Plan Assets as of December 31	38,512	50,961	19,593	22,774
Funded Status				
Funded Status as of December 31	(8,563)	9,254	(7,029)	(722)
Net Amount Recognized as of December 31	$ (8,563)	$ 9,254	$ (7,029)	$ (722)
Amounts Recognized as Assets/(Liabilities) Consist of:				
Pension and Postretirement Benefit Assets/(Liabilities)	(8,563)	9,254	(7,029)	(722)
Other	—	(19)	—	11
Net Amount Recognized as of December 31	**$ (8,563)**	**$ 9,235**	**$ (7,029)**	**$ (711)**
Amounts Recognized in Accumulated Other Comprehensive Income Consist of:				
Net Actuarial (Gain)/Loss	8,568	(8,648)	7,702	(679)
Prior Service Costs	77	91	124	174
Net Initial Asset	—	—	1,053	1,227
Other	—	—	—	(11)
Net Amount Recognized as of December 31	**$ 8,645**	**$ (8,557)**	**$ 8,879**	**$ 711**

The accumulated benefit obligation attributable to the Corporation for the Pension Plan was $37,870 and $31,458 as of December 31, 2008 and 2007 respectively.

Components of net periodic benefit cost

Net periodic benefit cost consists of the following components:

	Pension Benefits		Postretirement Benefits	
	Year ended December 31		Year ended December 31	
USD Thousands	2008	2007	2008	2007
Service Cost	$ 1,901	$ 1,874	$ 1,054	$ 1,060
Interest Cost	2,641	2,355	1,509	1,355
Expected Return of Plan Assets	(3,216)	(2,783)	(1,350)	(1,128)
Amortization of:				
Transition Obligation and Asset	—	—	174	174
Unrecognized Net Actuarial Gain	—	—	85	251
Prior Service Cost	14	14	50	50
Net Periodic Benefit Cost	**$ 1,340**	**$ 1,460**	**$ 1,552**	**$ 1,762**

The estimated net actuarial gain or loss, prior service cost, and net initial obligation for the Pension Plan and the PRBP that will be amortized from accumulated other comprehensive income into net periodic benefit cost during 2009 amount to a net of $14 for the Pension Plan and $352 for the PRBP.

Actuarial assumptions

The actuarial assumptions used 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 year are amortized over the average remaining service period of active participants expected to receive benefits under the Pension Plan and PRBP, which approximates 11.4 and 11.9 years, respectively.

Unrecognized prior service cost is amortized over 10.5 years for the Pension Plan and 7.9 years for the PRBP.

(USD thousands, unless otherwise indicated)

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

	Pension Benefits		Postretirement Benefits	
	2008	2007	2008	2007
Weighted Average Assumptions Used to Determine Benefit Obligation as of December 31				
Discount Rate	5.75%	6.25%	5.75%	6.25%
Rate of Compensation Increase	5.50%	6.00%		

	Pension Benefits		Postretirement Benefits	
	2008	2007	2008	2007
Weighted Average Assumptions Used to Determine Net Periodic Benefit Cost for Years Ended December 31				
Discount Rate	6.25%	6.00%	6.25%	6.00%
Expected Long-Term Return on Plan Asset	6.75%	6.75%	6.75%	6.75%
Rate of Compensation Increase	6.00%	6.00%		

The expected yearly rate of return on plan assets reflects the historical rate of return of asset categories employed by the plans and applied conservatively in formulating the investment policy asset allocations. The discount rates used in determining the benefit obligation are selected by reference to the year-end AAA and AA corporate bond rates.

For participants assumed to retire in the United States, the accumulated postretirement benefit obligation was determined using the following health care cost trend rates:

	Postretirement Benefits	
	2008	2007
Rate to Which the Cost Trend Rate is Expected to Decline (Ultimate Trend Rate)	4.50%	5.00%
Year that the Rate Reaches the Ultimate Trend Rate	2018	2018
Health Care Cost Trend Rate Assumed for Next Year		
Medical	9.50%	10.00%
Prescription Drugs	9.50%	10.00%
Dental	6.50%	6.50%
Outside U.S. (*)	10.00%	10.00%

(*) Refers to all services provided to those participants assumed to reside 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	2008	2007	2008	2007
Effect on Total of Service and Interest Cost Components	$ 511	$ 493	$ (372)	$ (360)
Effect on Postretirement Benefit Obligation	5,453	4,236	(4,072)	(3,162)

Plan assets

The Pension Plan and PRBP weighted-average asset allocations by asset category are as follows:

	Pension Benefits		Postretirement Benefits	
	December 31		December 31	
Asset Category	2008	2007	2008	2007
U.S. Equities	30%	34%	35%	39%
Non-U.S. Equities	22%	29%	23%	30%
Fixed-Income Bonds and Funds	21%	20%	20%	20%
U.S. Inflation-Indexed Bonds	9%	7%	14%	10%
Real Estate Investment Funds and Equities	5%	6%	0%	0%
Commodity Index Futures	1%	2%	0%	0%
Other	12%	2%	8%	1%
Total	**100%**	**100%**	**100%**	**100%**

The assets of the Pension Plan and the PRBP are managed primarily by investment managers employed by the IDB who are provided with investment guidelines that take into account the Pension Plan and 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.

NOTES TO FINANCIAL STATEMENTS

(USD thousands, unless otherwise indicated)

Investments maintain an average exposure between 60% and 70% to a well-diversified pool of equities. Assets are also invested in fixed-income securities (20%) to protect against severe disinflation, and a mix of other types of investments (10% to 20%) that are expected to react positively to rising inflation to provide protection against loss of purchasing power, emerging market equities (0% to 5%), and emerging market debt (0% to 5%). The investment policy target allocations as of December 31, 2008, are as follows:

	Pension Plan	PRBP
U.S. Equities	35%	40%
Non-U.S. Equities	25%	30%
Emerging Market Securities (*)	5%	0%
Fixed Income	20%	20%
Inflation-Sensitive Investments (**)	15%	10%

(*) Comprised of emerging market equities and debt.

(**) Comprised of inflation-indexed U.S. government bonds (5%–15%), real estate investment equities and funds (0%–6%), fully-collateralized commodity index futures (0% to 4%) for the Pension Plan, and inflation-indexed U.S. Government bonds (10%) for the PRBP.

Risk management is achieved by the continuous monitoring of each asset category level and investment manager. The investments are rebalanced toward the policy target allocations to the extent possible from cash flows. If cash flows are insufficient to maintain target weights, transfers among the managers' accounts are made at least annually. Investment managers generally are not allowed to invest more than 5% of their respective portfolios in the securities of a single issuer other than the U.S. Government. The use of derivatives by an investment manager must be specifically approved for each instrument.

Cash flows

Contributions from the Corporation to the Pension Plan and the PRBP during 2009 are expected to be approximately $900 and $2,033 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, 2008.

USD Thousands	Pension Plan	PRBP
Estimated Future Benefit Payments		
January 1, 2009 – December 31, 2009	900	340
January 1, 2010 – December 31, 2010	1,200	370
January 1, 2011 – December 31, 2011	1,200	480
January 1, 2012 – December 31, 2012	1,300	490
January 1, 2013 – December 31, 2013	1,700	640
January 1, 2014 – December 31, 2018	11,200	4,300

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. This fee is shown as advisory service fee in the statement of income.

APPENDIXES

GOVERNORS AND ALTERNATE GOVERNORS*

Country	Governor	Alternate Governor
Argentina	Carlos Fernández	Martín P. Redrado
Austria	Wilhelm Molterer	Edith Frauwallner
Bahamas	Zhivargo S. Laing	Collin Higgs
Barbados	David J. H. Thompson	Grantley Smith
Belgium	Didier Reynders	Franciscus Godts
Belize	Dean Barrow	Carla Barnett
Bolivarian Republic of Venezuela	Alí Rodríguez Araque	Haiman El Troudi
Bolivia	Carlos Villegas Quiroga	Luis Alberto Arce Catacora
Brazil	Paulo Bernardo Silva	Alexandre Meira da Rosa
Chile	Andrés Velasco Brañes	María Olivia Recart Herrera
Colombia	Oscar Iván Zuluaga Escobar	Carolina Rentería Rodríguez
Costa Rica	Guillermo Zúñiga Chaves	Francisco de Paula Gutiérrez
Denmark	Susan Ulbæk	Lars Bredal
Dominican Republic	Vicente Bengoa	Juan Temístocles Montás
Ecuador	María Elsa Viteri Acaiturri	Roberto Murillo Cavagnaro
El Salvador	Eduardo Ayala Grimaldi	William J. Handal
Finland	Marjatta Rasi	Pekka Hukka
France	Christine Lagarde	Xavier Musca
Germany	Karin Kortmann	Rolf Wenzel
Guatemala	Juan Alberto Fuentes	María Antonieta de Bonilla
Guyana	Bharrat Jagdeo	Ashni Singh
Haiti	Daniel Dorsainvil	Jean-Max Bellerive
Honduras	Rebeca Patricia Santos Rivera	Edwin Araque Bonilla
Israel	Stanley Fisher	Oded Brook
Italy	Giulio Tremonti	Mario Draghi
Jamaica	Audley Shaw, MP	Wesley Hughes, CD
Japan	Shoichi Nakagawa	Masaaki Shirakawa
Mexico	Agustín Carstens Carstens	Alejandro Werner Wainfeld
Netherlands	Bert Koenders	Ruud Treffers
Nicaragua	Alberto José Guevara Obregón	Antenor Rosales Bolaños
Norway	Hakon Arald Gulbrandsen	Henrik Harboe
Panama	Héctor Ernesto Alexander Hansell	—
Paraguay	Dionisio Borda	Manuel Vidal Caballero Giménez
Peru	Luis Miguel Valdivieso Montano	José Arista Arbildo
Portugal	Fernando Teixeira dos Santos	Carlos Costa Pina
Republic of Korea	Mansoo Kang	Seongtae Lee
Spain	Pedro Solbes Mira	David Vegara Figueras
Suriname	Humphrey Stanley Hildenberg	—
Sweden	Jan Knutsson	Anders Bengtcén
Switzerland	—	Roger Denzer
Trinidad and Tobago	Emily Gaynor Dick-Forde	Esme Rawlins-Charles
United States	Henry M. Paulson, Jr.	Reuben Jeffery III
Uruguay	Álvaro García Rodríguez	Enrique Rubio

* As of December 2008

EXECUTIVE DIRECTORS AND ALTERNATE EXECUTIVE DIRECTORS*	
Argentina and Haiti	Eugenio Díaz-Bonilla Martín Bès
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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
Bolivarian Republic of Venezuela	Banco de Desarrollo Económico y Social
Bolivia	Ministerio de Planificación del Desarrollo
Brazil	Ministério do Planejamento, Orçamento e Gestão
Chile	Ministerio de Hacienda
Colombia	Ministerio de Hacienda y Crédito Público
Costa Rica	Ministerio de Hacienda
Denmark	Danish International Development Agency (DANIDA)
Dominican Republic	Banco Central de la República Dominicana
Ecuador	Ministerio de Economía y Finanzas
El Salvador	Secretaría Técnica de la Presidencia
Finland	Ministry for Foreign Affairs
France	Ministère de l'économie, des finances et de l'industrie
Germany	Federal Ministry for Economic Cooperation and Development
Guatemala	Ministerio de Finanzas Públicas
Guyana	Ministry of Finance
Haiti	Ministère de l'Économie et des Finances
Honduras	Banco Central de Honduras
Israel	Bank of Israel
Italy	Ministry of the Economy and Finance
Jamaica	Ministry of Finance and Planning
Japan	Ministry of Finance
Mexico	Secretaría de Hacienda y Crédito Público
Netherlands	Ministry of Finance
Nicaragua	Ministerio de Hacienda y Crédito Público
Norway	Royal Norwegian Ministry of Foreign Affairs
Panama	Ministerio de Economía y Finanzas
Paraguay	Ministerio de Hacienda
Peru	Ministerio de Economía y Finanzas
Portugal	Direcção Geral de Assuntos Europeus e Relações Internacionais–Ministério das Finanças
Republic of Korea	Ministry of Finance and Economy
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
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* As of December 2008

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