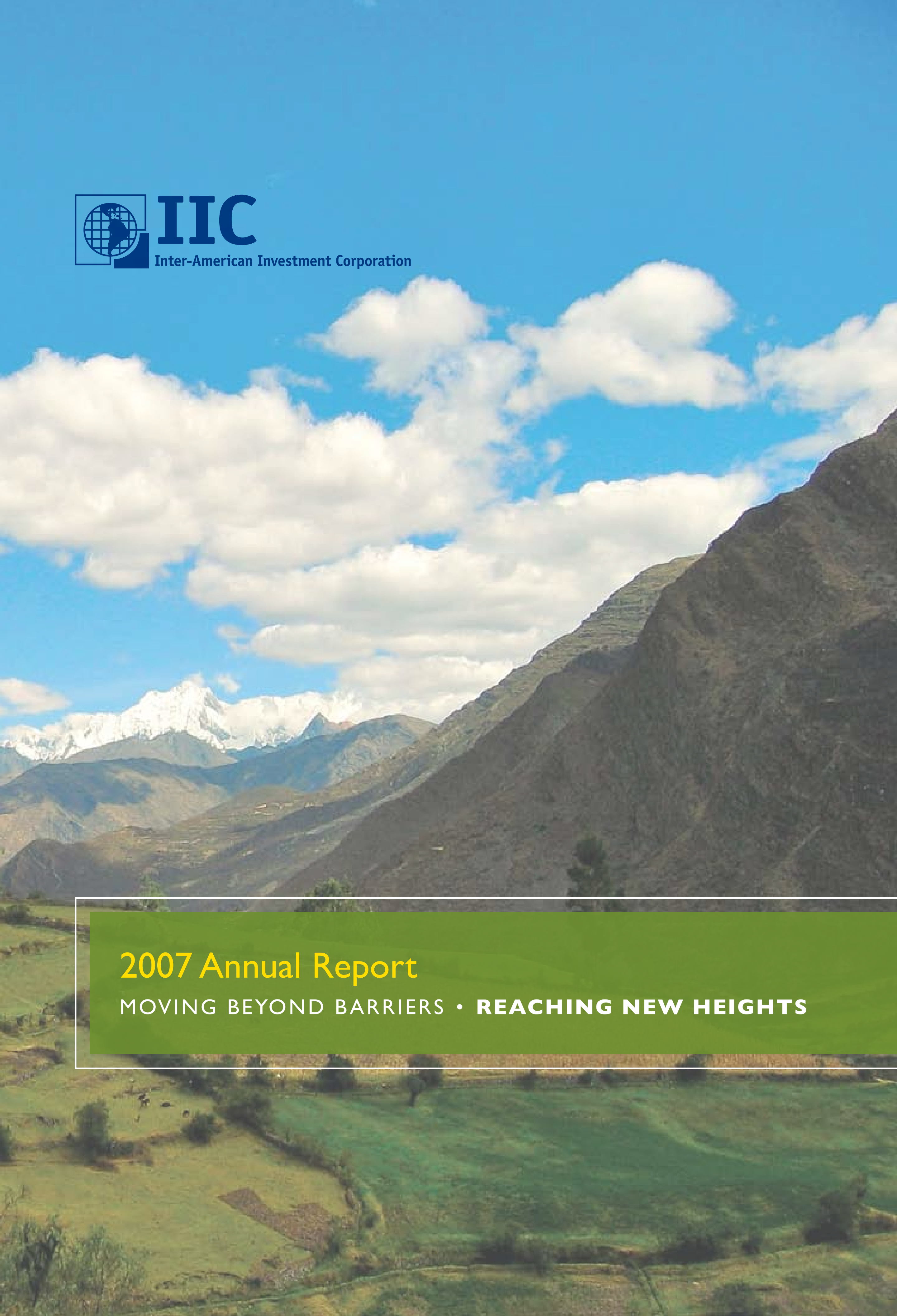

IIC
Inter-American Investment Corporation

2007 Annual Report

MOVING BEYOND BARRIERS • **REACHING NEW HEIGHTS**

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February 19, 2008

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

Mr. Chairman:

Pursuant to the provisions of Article IV, Section 9(a) of the Agreement Establishing the Inter-American Investment Corporation, I transmit to you the Annual Report of the Corporation for 2007 and the audited financial statements, including the balance sheet as of December 31, 2007, and the related statements of income, comprehensive income, changes in equity, and cash flows for the year then ended.

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

Yours sincerely,

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

IIC Senior Management

Letter from the General Manager

In 2007 the Inter-American Investment Corporation reached a number of important milestones. Its total assets tripled in the past five years, passing the one billion dollar mark for the first time. More than sixty loan and equity investment operations totaling nearly $500 million were approved during the year. Of these operations, thirty-three were with financial intermediaries; through them the Corporation reached more than 300,000 clients in its core target market of small and medium-size enterprises.

With this volume of operations, the Corporation posted a net profit for the fifth consecutive year, reversing all of the losses accrued during the region's crisis in 2001 and 2002. The Corporation is, then, in excellent financial health and is well positioned to pursue its developmental mission in the years to come.

As reported herein, the IIC's institutional and financial achievements and progress over the past five years have been significant. Management and the Board of Directors' ongoing commitment to working together made this, the longest period of profits in the history of the IIC, possible.

The IIC continues to pursue its core developmental mandate, enhanced not only by new programs for reaching local small and medium-size enterprises but also by projects tailored for such companies, which make up its main target market.

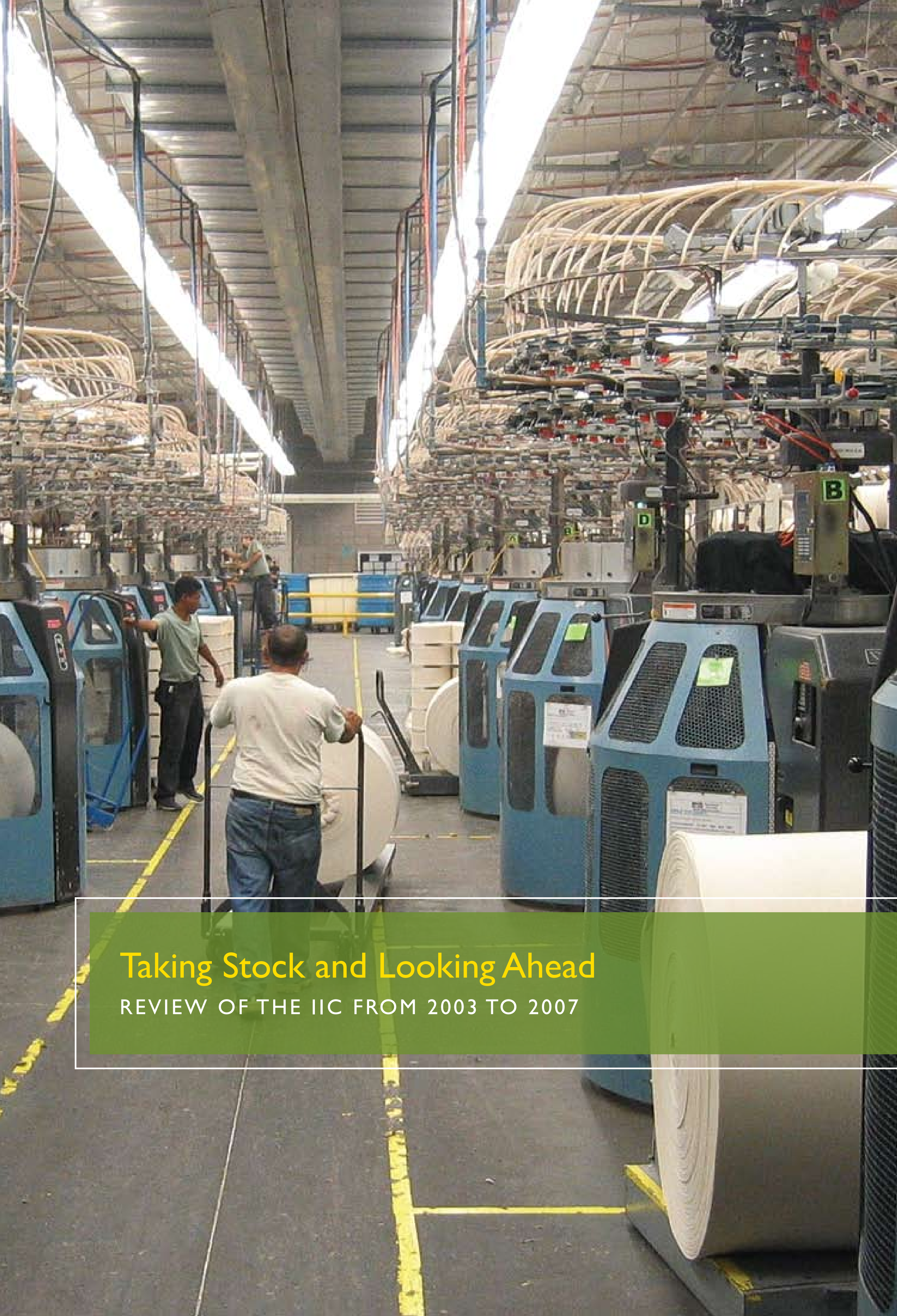
Some of the examples provided in this annual report are

- The expansion of the Small Business Revolving Line to Bolivia, El Salvador, and the English-speaking Caribbean
- The search for smaller projects through financial institutions
- The redoubling of efforts to continue local-currency placements
- The creation of the Development Effectiveness and Corporate Strategy Unit that will, among other things, enable us to more transparently measure the IIC's developmental impact in the region through the operations that it finances

- A closer working relationship with technical assistance funds that support new initiatives (such as FINPYME)
- Efforts such as the first training course on family business governance for our clients

This annual report looks back on five years of growth and achievements. It also marks the end of one era and the beginning of another. The IDB Group's private sector windows, under the guidance of the Office of the Vice President for Private Sector and Non-Sovereign Guaranteed Operations, are emerging from a realignment process and are, along with the IIC, entering a period of coordination, cooperation, and support that we know will be successful in its quest to better serve the private sector in the region.

Jacques Rogozinski
General Manager
Inter-American Investment Corporation



Taking Stock and Looking Ahead

REVIEW OF THE IIC FROM 2003 TO 2007

INTRODUCTION

Every institution must go through its own distinct process of internal growth and evolution. Experience, that extremely valuable commodity, can be obtained only by traversing the inevitable learning curve. For the Corporation, an institution that according to Standard & Poor's is charged with "the most difficult mandate of any rated Multilateral Development Financial Institution," that learning curve could have easily proven to be too steep to climb.

Nevertheless, thanks to the constant support of the Corporation's shareholding member countries, under the stewardship of the Board of Executive Directors and senior management, and especially as a consequence of the hard work and dedication of all its staff, the Inter-American Investment Corporation concludes the year 2007 strong and financially sound, having achieved all the major strategic objectives set forth in three consecutive business plans since 2002. More important, the IIC's future outlook is, perhaps as never before, promising from the developmental, operational, and financial perspectives.

The Corporation turned eighteen during 2007 and celebrated by proving that it is a financially viable vehicle fully capable of accomplishing its developmental mission. However, the IIC's Management and staff remain fully aware that there is still much to learn and that the institution can do a great deal more for its regional developing member countries. It is in this context that the Corporation looks ahead to a new stage, during which it expects to fulfill its assigned role as part of a realigned IDB Group private sector.

Being the only multilateral institution specifically charged with providing direct financial support to small and medium-size companies (SMEs) in the region is certainly a challenge, but over the last eighteen years the institution has learned that it is also a very rewarding one. The IIC's main target market is largely composed of family-owned businesses. Getting to know these companies, how they work, what their expectations are, and what are the most effective delivery mechanisms to reach them, either directly or through partners in and outside the financial sector, has effectively turned a challenging mandate into a valuable competitive advantage.

This is certainly true of the last five years, a period that not only saw the prompt and effective reaction of both Executive Directors and Management to address the aftermath of a regional crisis but also the bulk of the capital increase encashments and the design and deployment of a three-year strategy to fulfill the Nuevo León mandate to triple support to SMEs via financial intermediaries.

As a result of the application of fresh capital resources—paid-in capital almost doubled in this period—and the impact of effective planning and execution, net income was positive in each of the last five years, producing, by December 2006, a complete reversal of all losses incurred during the crisis of 2001 and 2002. The Corporation's total assets tripled and passed the billion dollar mark in September 2007. In the same period, the IIC's project work quality rating—independently validated and judged by IDB's Office of Evaluation and Oversight—increased from 38 percent to 87 percent. These are only a handful of financial and developmental indicators that serve to frame these last five years in the Corporation's institutional life.

Management believes that at this point in time, when an important period in the IIC's institutional life is ending and a new cycle framed in a significant organizational change is about to begin, it is instructive to reflect on the last five years and to take stock. Not only to celebrate accomplishments but, what is more important, to record the lessons learned, highlight those areas where the Corporation's performance has been weaker, and identify opportunities for future improvement.

LOOKING BACK AND TAKING STOCK: LIFE AT THE CORPORATION FROM 2003 TO 2007

Strategic Planning in the Last Five Years

One indispensable factor that greatly contributed to the success of the last five years has been the fluid and productive dialogue between the IIC's Board of Executive Directors and Management. During this period, three consecutive business plans and five administrative budgets were considered and approved by the Board.

Also, between 2003 and 2004, important events generated the need for three additional strategy documents to be prepared by Management and considered by the Board of Executive Directors.

The first of these documents was the result of prompt reaction to the regional crisis that took place between 2001 and 2002. The 2003 Action Plan was presented in March of that year; it merited the approval of the Executive Directors and was considered by the Governors at their Annual Meeting in Milan. This plan was instrumental for the expansion of the IIC's toolbox, added flexibility to its operations, and greatly improved the Corporation's ability to diversify its portfolio.

An External Review Group (ERG) comprising notables from the IIC's member countries convened in late 2002 to evaluate the IIC's future prospects. The group delivered its report in July 2003, and the document was debated by both the IIC and the IDB Boards of Executive Directors during the following six months. In February 2004, right after the discussions concluded, Management presented the second strategy document delineating ten specific actions to follow up on the ERG's recommendations. All of these actions were completed by the end of 2006.

Finally, at a special summit of the Americas held in Monterrey, Mexico, in January 2004, the heads of government in attendance lent their strong support to the goal of tripling the level of lending to small and medium-size enterprises through the banking system by the year 2007. This support, outlined in the Declaration of Nuevo León, took the form of a mandate for the Inter-American Development Bank and the Inter-American Investment Corporation. Five months later, in June 2004, Management presented for Board consideration a planning options paper with the dual purpose of initiating the dialogue toward the preparation of the 2005–2006 Business Plan and defining the parameters for the implementation of the Nuevo León mandate, which became the major driving force behind the IIC's operational strategy from 2004 to the present.

Each of the strategy documents outlined above established clear objectives, defined specific performance agreements between Management and the Board, and set baseline

CHART 1. PLANNING AND ACTION TIMELINE

parameters and indicators to track and monitor progress. Each document in its own context paved the way for important policy changes; included new products and initiatives; gave the Corporation the tools to diversify its portfolio, thus improving the quality of its assets; and fostered measures to increase the IIC's operational efficiency, which in turn contributed to a much improved revenue generation capacity. In short, it is unequivocal that strategic thinking and close cooperation between the Board of Executive Directors and Management set the stage for unprecedented growth, not only in the volume but also in the quality and complexity of the IIC's interventions.

Reporting Back on the Strategic Objectives

Unprecedented Growth

It is very difficult to overstate the significance of the member countries' 1999 decision to increase the IIC's capital resources. This decision committed an additional $500 million to be paid in between 2000 and 2007. This year marks the end of the original capital payment period. To date, 87 percent or $433.2 million of the total subscription has been encashed. Of these resources, 70 percent ($303.6 million) became available in the five-year span since 2003. But as important as, if not more important than, the resources themselves is the expression of support from member countries that the decision implies, at a time when the Corporation was a young institution and, in many ways, a much more distant promise than today.

The Corporation had registered an annual average growth rate in total assets of 9.75 percent in its initial decade of operations that preceded the capital increase decision. With the new capital resources as a solid foundation, growth was expected to be at least as robust. The 9.15 percent growth registered in the year 2000—the first of the capital payment period—was consistent with past behavior. Yet in the following two years, mainly as a consequence of difficulties in the region, the trend was reversed and total assets actually dropped 2.3 percent.

In absolute terms, growth in the last five years was very strong. Total assets tripled, rising from $385 million to $1.24 billion at the end of 2007. But more important, average asset quality at the end of 2007 is significantly higher than at the end of 2002. In concurrence with planning and execution, it is important to recognize that favorable economic conditions in the region during the last five years also played a very significant role in the improvement of the IIC's current portfolio.

Development-related assets (DRAs) constitute the large majority of the IIC's assets. In the last five years, net DRAs represented 71.2 percent of total assets, well above the 42 percent and 44 percent registered by the International Finance Corporation (IFC) and the European Bank for Reconstruction and Development (EBRD), respectively, at the end of 2006. To fuel the 147 percent growth that this asset class experienced in the period analyzed, it was necessary to significantly increase the operational tempo at the Corporation. Table 2 shows average annual projected and approved number and volume of projects for each business plan cycle in the last five years.

TABLE 1. ASSETS AND PAID-IN CAPITAL ANNUAL GROWTH RATE (2003–2007)

	2003	2004	2005	2006	2007
Total Assets	10.6%	14.4%	38.7%	39.0%	32.4%
Paid-In Capital	16.7%	14.3%	12.9%	13.4%	12.1%

TABLE 2. PROJECTED AND APPROVED NUMBER AND VOLUME OF PROJECTS (2002–2007)				
Planning Cycle	**Projected Number of Operations (yearly average)**	**Approved Number of Operations (yearly average)**	**Projected Volume of Operations (yearly average)**	**Approved Volume of Operations (yearly average)**
2002 to 2004	27	26	$153 million	$157 million
2005 to 2006	32	42	$204 million	$341 million
2007	53	62	$255 million	$470 million

As Table 2 shows, each successive planning cycle set more ambitious goals than the previous cycle; except for the first, these goals were amply exceeded.

Although the number and volume of approvals are the right variables to assess in order to measure the work that needs to be done to achieve growth, the critical variable to evaluate what portion of those approvals effectively became assets is the level of disbursements.

Chart 2 shows the strong expansion in this critical variable for loan investments registered from 2002 to 2007, where the level of disbursements in the last year of the period is 5.7 times larger than the level registered in the first year. On the other hand, in the case of equity investments as determined by the 2003 Action Plan, the level of disbursements contracted during the same period, as shown in Chart 3. The 2008–2010 Business Plan addresses this important development product and includes a new equity investment initiative as one of its key objectives.

Improvements in Asset Quality

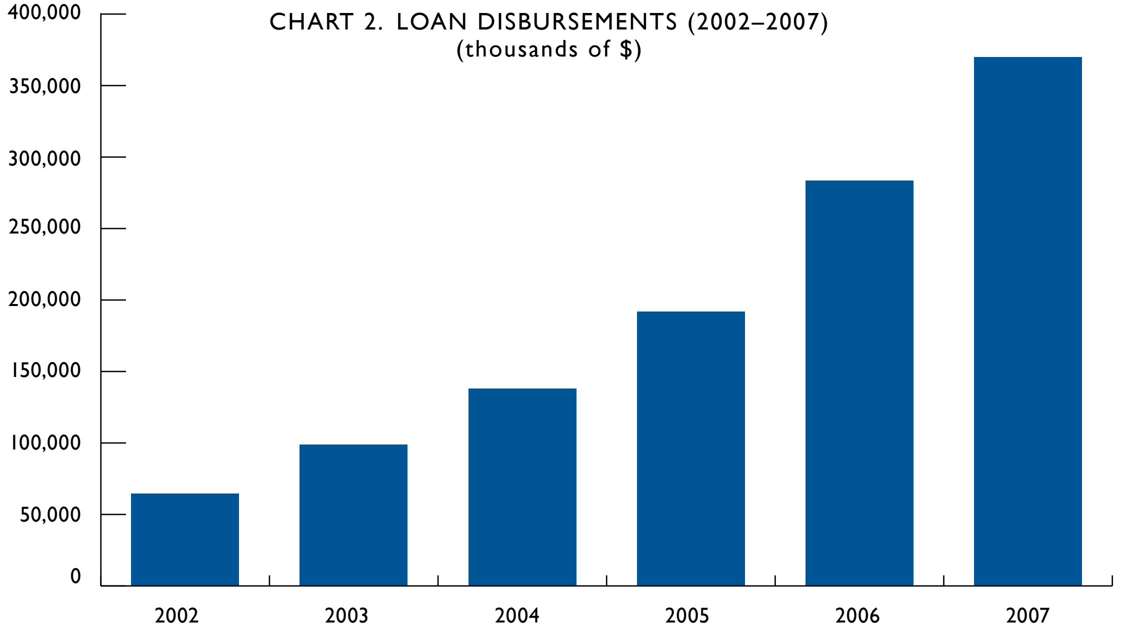
Improving the IIC's overall asset quality was a dominant goal throughout the last five years. A number of actions taken before and during the analyzed time period contributed to the achievement of this goal.

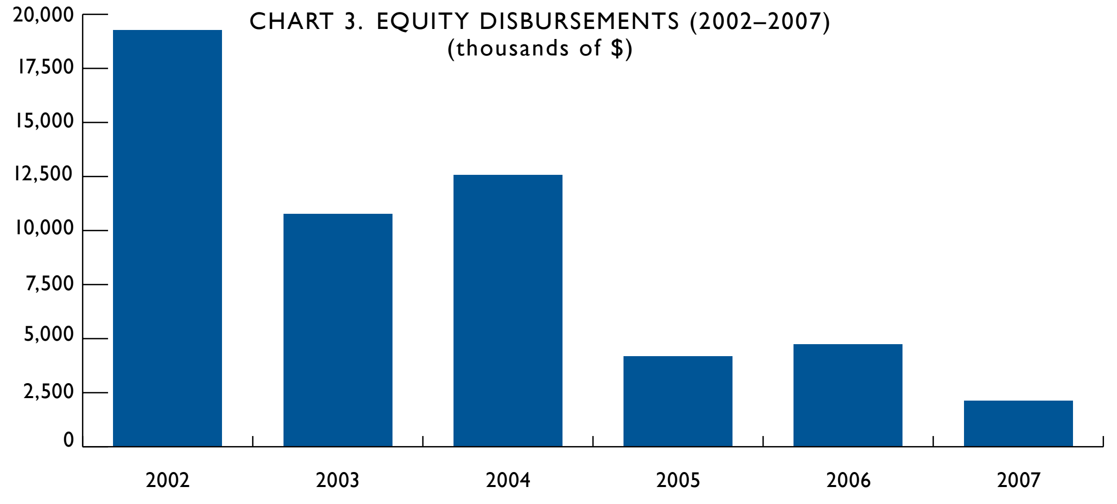
The 2003 Action Plan identified the need to diversify the IIC's product and client mix and introduced changes to achieve this goal. The plan allowed for shorter-term working capital loans and loans to larger companies that in turn made it possible to originate larger individual loans. A decision was also made at that time to decrease the IIC's equity investment portfolio. Later in 2004, with the implementation of the Nuevo León initiative, the IIC increased its portfolio allocation for financial institutions, expanding the number of client relationships with strong financial institutions with which it could assume even larger exposures, and, more important, reach hundreds of thousands of SMEs.

These measures, together with an improved risk management framework via the strengthening of an independent credit unit, the creation of a portfolio management unit, and the effective work of a dedicated special operations unit tasked with the recovery of impaired assets, significantly reduced the IIC's overall portfolio risk. Past-due loans as percentage of gross loans decreased from 22.1 percent in 2002 to less than 1 percent in 2007. In the same period, loan loss provision coverage increased from less than one time to close to eight times the level of past-due loans.

Improved Efficiency

To put this issue in the correct perspective, it is important to note that the last five years saw a marked increase in the level of activity at the Corporation. Twenty projects were approved during 2002; the number was doubled





by 2005 and tripled by 2007. The volume of approvals grew accordingly, from close to $130 million in 2002 to nearly $500 million in 2007. More important, IIC operations also grew in complexity, increasing from one currency to seven and from essentially one product to a whole array of products designed to effectively support private sector development in the region.

This growth in number, volume, and complexity of operations was realized with no headcount increase and with administrative expenses that in real terms remained essentially flat and decreased significantly as a percentage of total assets, from 4.2 percent to 1.8 percent between 2002 and 2007. When compared with total revenues, net of interest expense, the decrease in percentage is also significant. Administrative expenses represented 85.7 percent of total revenues, net of interest expense, in 2002 and only 20.6 percent in 2007. Table 3 shows the evolution of total assets and total revenues per employee during

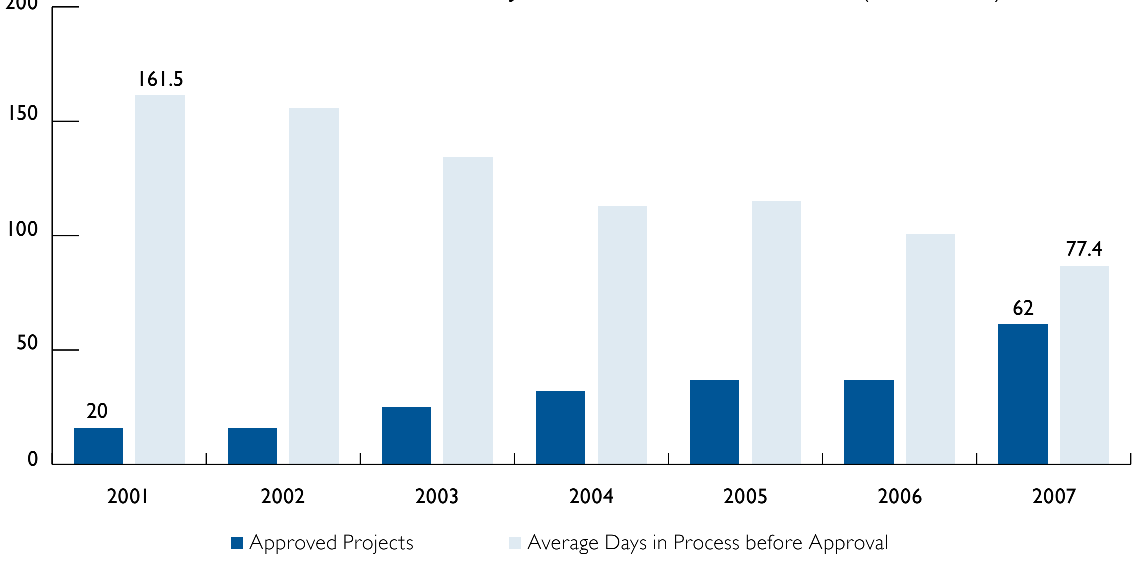
TABLE 3. SELECTED IIC EFFICIENCY INDICATORS (2002–2007)	2002	2003	2004	2005	2006	2007
Net Income	–41,116.0	2,177.0	3,521.0	13,735.0	39,409.0	83,473.6
Approved Budget Growth in Real Terms (Base 1989)		0.13%	–1.35%	0.63%	4.65%	–0.60%
Administrative Expenses/Total Assets	4.2%	3.6%	3.4%	2.8%	2.0%	1.8%
Administrative Expenses/Total Revenues, Net of Interest Expense	85.7%	87.3%	70.9%	54.3%	33.2%	20.6%
Net Loan Interest and Fees/ Administrative Expenses	75.4%	67.9%	94.0%	101.4%	143.5%	151.0%
Number of Employees*	88	87	96	94	92	94
Total Assets per Employee	4,377.7	4,898.7	5,076.9	7,191.5	10,215.9	13,236.3
Total Revenues per Employee	214.4	252.4	275.4	420.9	781.4	1,402.1

**Actual End of Year Headcount*
(Amounts in thousands of $)

the period analyzed. These variables grew 3.0 and 6.5 times, respectively, since 2002.

Serving the private sector demanded that the Corporation significantly improve its response time in order to deliver much-needed support at the right time. To achieve this goal, Management revamped its lending and approval procedures and, at the same time, designed new products and in some cases obtained delegated authority from the Board of Executive Directors in order to speed up the delivery of financing to companies in the region. A significant undertaking in this regard was the consolidation of the IIC's operating policies into one comprehensive document, which greatly clarified the issue and produced clear efficiencies. Chart 4 shows the main result of these efforts,

CHART 4. EVOLUTION OF PROJECT APPROVAL EFFICIENCY (2001–2007)



in that processing times after the first credit revision were halved, from 161 days to 77 days, while the number of operations tripled.

One of the special programs approved was the Financial Institutions Program (FIP). Under this program, processing times averaged even less, at forty-eight days. Also as a result, costs per project were reduced and revenue generation was improved.

More specifically, the number of annual approvals per origination staff member rose from one to four, and the volume of annual approvals per origination staff member increased from $5 million to close to $25 million.

Improved Financial Results

Unprecedented growth and increased efficiency produced the desired financial results, completely reversing by the end of 2006 the losses incurred during the 2001–2002 crisis. Net income was a record $39.4 million during that year. Table 4 below shows the main balance sheet figures from 2003 to 2007.

Fulfilling the IIC's Mission— Responsiveness and Developmental Impact

During the last five years, the Corporation has sought to transform itself from a Washington, D.C.-based organization to a decentralized one, getting much closer to its preferred target market and thus becoming more responsive to that market's needs. As stated before, during the last five years the Corporation maintained the same headcount; therefore, the move to the field was essentially accomplished by reassigning headquarters personnel. Through this strategic approach, the proportion of field staff increased from 13 percent in 2004 to 24 percent of all staff in 2007.

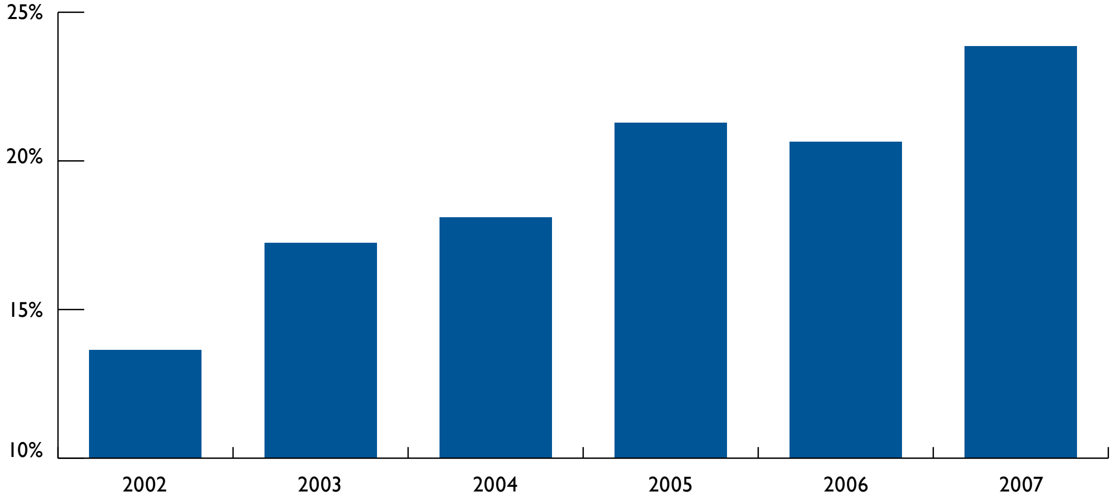
Country coverage was also significantly increased. At the beginning of 2003, the IIC had a presence in three countries in the region. By 2007 eight countries had an IIC presence, and not only for origination, but also for credit supervision, legal services, and environmental and engineering functions. The map on the facing page shows in green the countries where the Corporation has a presence at the end of 2007.

TABLE 4. SUMMARY BALANCE SHEET

	2003	2004	2005	2006	2007
Total Assets	$426,189	$487,384	$675,998	$939,861	$1,244,216
Treasury	$84,951	$109,769	$207,769	$260,207	$410,379
Loans (net)	$261,050	$296,544	$384,564	$579,457	$757,429
Equity Investments	$71,187	$70,217	$68,962	$67,423	$43,017
Other Assets	$9,001	$10,854	$14,703	$32,774	$33,391
Liabilities	$86,653	$88,872	$206,700	$352,955	$509,676
Borrowings	$80,000	$80,000	$195,668	$342,229	$498,966
Other Liabilities	$6,653	$8,872	$11,032	$10,726	$10,710
Equity	$339,536	$398,512	$469,298	$586,906	$734,540
Capital	$388,395	$443,850	$500,901	$568,060	$636,526
Retained (Deficit) Earnings	**($48,859)**	**($45,338)**	**($31,603)**	**$7,806**	**$90,168**
Accumulated Other Comprehensive Income	—	—	—	$11,040	$7,846

(Amounts in thousands of $)
Net income in 2007 set a new record at $83.5 million, while total assets reached $1.2 billion.

CHART 5. FIELD OFFICE HEADCOUNT AS % OF TOTAL HEADCOUNT



REGIONAL COVERAGE MAP

The countries in yellow are expected to be covered by the end of 2008.

One important advantage of this increased country coverage has been the ability to reach small companies in the smaller economies via transactions of up to $600,000 through a special program called the Small Business Revolving Line. In its first two years of operation, this program benefited fifteen companies in Costa Rica, El Salvador, Nicaragua, Paraguay, and Uruguay. A new enterprise size definition approved by the Board of Directors in 2007, which takes into account the relative development of the economies in the region as well as the sector in which each company operates, will take full force in 2008 and help the Corporation sharpen its focus on its preferred target market.

As part of the initiative for consolidating the Corporation's policies into a single document, a new financial instrument was included to give the IIC the option of financing operations in any currency or any combination of currencies. This important step enabled the Corporation to provide local-currency financing for small and medium-size companies in the region that because of their business profile could not engage in foreign-currency borrowing. As of December 2007, the IIC has ten outstanding lending operations in local currency: one in Brazil, two in Peru, two in Mexico, and five in Colombia. It also has one local-currency operation approved and pending disbursement (in Argentina), as well as a euro-denominated operation in Chile.

During the last five years, the Corporation has developed important partnerships with more than eighty financial intermediaries in the region. This effort was further expanded in light of the Declaration of Nuevo León. To implement this mandate received from the summit of heads of state of the Americas, in March 2005 the IIC Board of Executive Directors approved a regional lending program for 2005–2007, the Financial Institutions Program (FIP), directed at increasing financing to small and medium-size companies in Latin America and the Caribbean by channeling funds through eligible local financial intermediaries. The program provided up to $380 million in IIC financing. The funds could be channeled to leasing operations, factoring operations, documentary credit operations, working capital loans, pre- and post-export lending, and medium- and long-term expansion financing. Furthermore, given the great interest in the region in accessing these funds for mortgage financing operations—which are closely aligned with the objectives of the IDB Group Opportunities for the Majority Initiative—the Board of Executive Directors approved broadening the program in 2007 to include mortgage financing.

Success in complying with the Nuevo León mandate was defined using five distinct targets at the Corporation. Both through regular financial intermediary operations and through the FIP, all five targets were exceeded, as can be seen in Table 5. It is important to note that 91 percent of approvals were disbursed by the end of 2007, which, together with the level of cofinancing achieved, effectively channeled over $1 billion to more than half a million small and medium-size enterprises in the region.

Also noteworthy is the fact that the Corporation actively sought to diversify its financial intermediary portfolio in order to reach a broader array of institutions. Chart 6 shows two aspects of this effort. The first graph in Chart 6 shows that at the end of 2003, the IIC's financial intermediary portfolio included operations targeted only at the broad SME and leasing sectors. By 2007, six subsectors were represented in the IIC's financial intermediary portfolio, including food and agribusiness, microfinance, and mortgage.

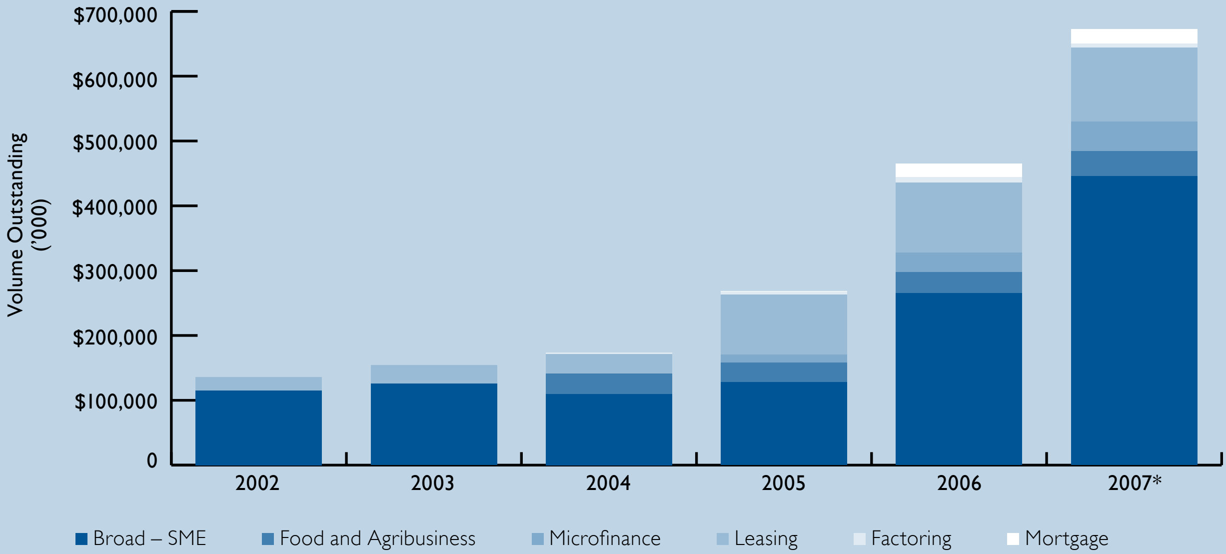
One of the goals of building a financial intermediary portfolio was to improve the IIC's overall portfolio quality by partnering with strong financial institutions in the region. But Management also sought to provide resources to smaller financial institutions. The second graph in Chart 6 shows that in 2007, 17 percent of the IIC's financial institution portfolio was with small or medium-scale institutions. This segment is expected to grow in the next planning cycle. To better serve smaller-scale institutions, extensive research was conducted to clearly identify institutions that could be targeted to receive financial and technical assistance support.

Extensive work was also undertaken to deliver nonfinancial products to our clients in the region. Since 2003 the IIC has approved and disbursed more than seventy technical cooperation operations, channeling resources from seven different donor country trust funds. In 2007 the IIC conducted its eleventh environmental training seminar for financial institutions in the region. To date, close to 200 institutions have participated and more than 350 individuals from these institutions have received training. Even more important, although contractually these institutions are only obligated to apply the IIC's environmental requirements to operations

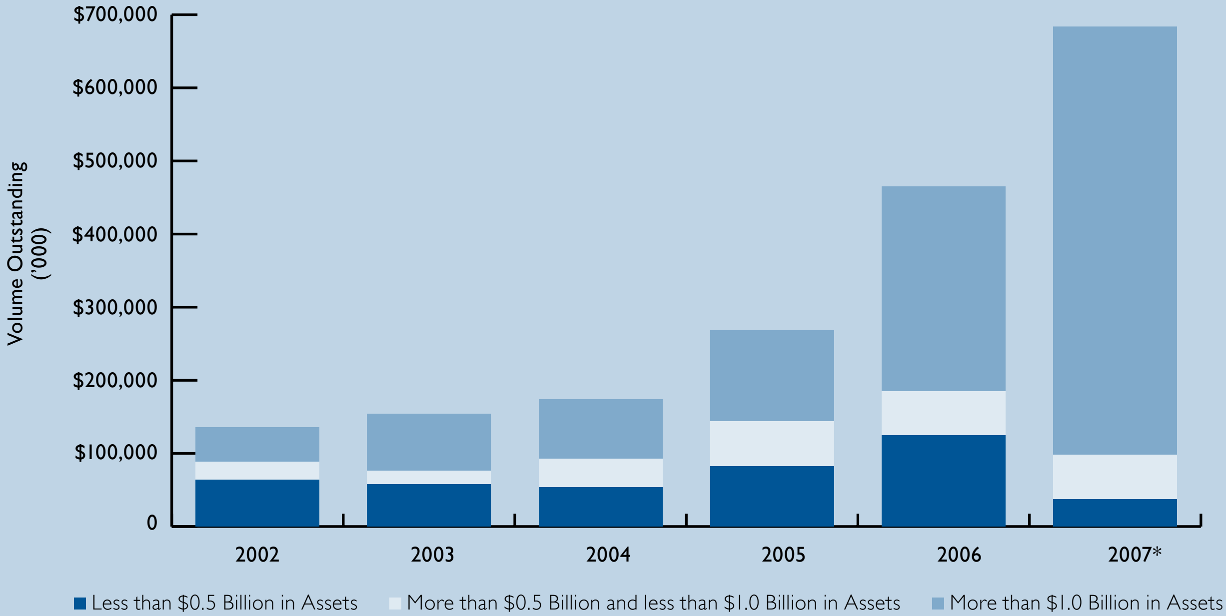
TABLE 5. NUEVO LEÓN INITIATIVE (2004–2007)

Goals	**Targets (by Dec. 31, 2007)**	**Results (as of Dec. 31, 2007)**
Net Active Approvals	$630 million	$775 million
Total Commitments	$480 million	$987.6 million
Total Cofinancing	$225 million	$541.2 million
FI Clients	60	85
FI Approvals	30	87

CHART 6. FI PORTFOLIO GROWTH AND DIVERSIFICATION



As of December 2007



As of December 2007

financed with funds from the Corporation, after coming to understand the importance of applying these norms, many financial institutions have extended these requirements to all operations in their respective portfolios.

Another flagship initiative that the Corporation deployed in 2007 was the second phase of the FINPYME (Financiación Innovadora de PYME) initiative to provide innovative financing for SMEs. After FINPYME was piloted in Bolivia and Chile, the FINPYME methodology was modified and universities in seven countries in Central America, Panama, and the Dominican Republic received training on the methodology. Seventy-three companies have already completed the diagnostic phase, and eight are ready to receive financing either directly through the Corporation or through one of its partner financial institutions in the region.

Also in 2007, the first seminar on family business governance was held in Panama City. Thirty businesspeople representing ten client companies shared experiences and formed the nucleus of another promising avenue of support from the Corporation to small and medium-size companies in the region.

The IDB's Office of Evaluation and Oversight (OVE) will deliver its fifth independent report on the IIC's own evaluation function in early 2008. Again, every maturing project—seventy-six so far—was evaluated for this report, far exceeding the norm in the Good Practice Standards set by the Multilateral Development Banks' Evaluation and Cooperation Group, which only calls for the evaluation of a sample. OVE's last report indicates that 63 percent of the IIC's operations achieved high developmental outcomes, 69 percent achieved high additionality, and 87 percent showed high IIC work quality.

As for the IIC's performance among its comparator institutions, the last independent evaluation ranked the Corporation as the second most harmonized multilateral financial institution with operations in the private sector, with a score of 82 percent, up from 62 percent in the previous evaluation.

LOOKING AHEAD

Management has always acknowledged that a great deal of work remains to be done. Looking back yields four main lessons that the Corporation has learned and will apply in the next planning cycle:

1. Equity investments are a valuable instrument for development, and the Corporation now has the financial strength to reengage in this important activity.
2. Increasing the delivery of value-added nonfinancial products must also be a priority. The last two evaluation cycles have pointed toward these activities as an important source of competitive advantage for the Corporation.
3. Although always central in every planning exercise, the goal of maintaining a significant portfolio in every single regional member country has remained elusive. The next three years must see a redoubling of efforts to achieve a more geographically diversified portfolio.
4. Finally, development is the Corporation's core mandate, and further efforts to refine and improve measuring, tracking, and reporting on development effectiveness and additionality must remain at the core of any and all strategic planning and implementation.

The Corporation must continue evolving as an institution; it must increase its flexibility and responsiveness and continue its efforts to get closer to its target market in the region. The 2008–2010 Business Plan is the most ambitious yet. If it succeeds, $1.1 billion in 250 new operations will be approved, and by the end of its implementation period every regional developing member country is expected to show some level of IIC activity.

But broad targets are only a starting point, especially since the goal of increasing country diversification of the Corporation's portfolio remains central. This is both a significant challenge and a great opportunity as the next three-year planning cycle begins. For instance, organizing concerted efforts to generate operations in the four regional developing member countries where currently there is no IIC exposure requires detailed planning and setting country-by-country targets.

It is with such objectives in mind that a new strategic planning approach has been adopted for the design and execution of the next three-year business plan.

Planning for the Next Three Years

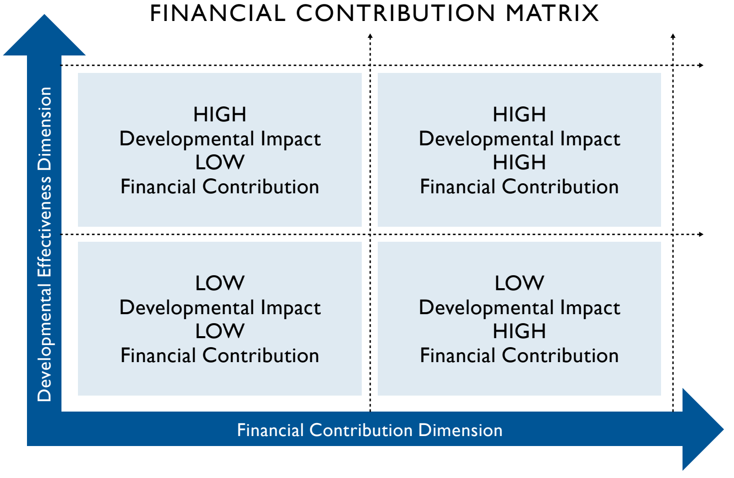
The opportunity to build on the solid foundation of the IIC's improved asset quality and very strong financial results strengthens Management's commitment to rebalance the organization's focus, increase the allocation for high developmental impact assets, and invest in improving the measurement of and reporting on developmental impact and additionality.

But good lessons learned should not be dismissed, so Management and the Board of Executive Directors must continue to focus on the Corporation's long-term financial soundness, always balancing this dimension with the institution's central mandate to promote the economic development of its regional developing member countries by supporting private enterprises, preferably those that are small and medium-scale.

Recognizing the need to optimize the IIC's interventions in the context of a matrix with these two dimensions—developmental effectiveness and financial contribution—the 2008–2010 Business Plan was designed using a new strategic framework, the "portfolio approach." The main objective of this new approach is to evolve from the "each-project-in-isolation" perspective prevalent today to one that views the IIC's annual program of operations in a broader, more balanced "portfolio" perspective where each individual project contributes according to its own strengths and characteristics.

Some projects may require a higher level of expenses per dollar invested or be riskier from the credit perspective, but may be stellar in terms of developmental impact and additionality. Others, although strong in terms of developmental effectiveness, may be less stellar in this area than the previous example but represent in exchange excellent credit risks and thus contribute to the Corporation's financial soundness. Altogether, Management should target a universe of projects where a clear majority is clustered in the high developmental effectiveness–high financial contribution quadrant of the matrix shown in Chart 7, but projects such as the ones in the previous examples are also valuable—and realistic—additions to the overall portfolio.

CHART 7. DEVELOPMENT EFFECTIVENESS/ FINANCIAL CONTRIBUTION MATRIX



Implementing the portfolio approach requires mapping each specific project within this matrix, and this in turn requires proper metrics. The real challenge here lies with measuring the developmental effectiveness of the IIC's interventions. To address this issue, in 2008 Management will deploy the Development Impact and Additionality Scoring (DIAS) system. This tool is intended to complement, not replace, the Corporation's current work on assessment and evaluation of developmental effectiveness that has been independently praised as the second most harmonized with the relevant good practice standards. A new Developmental Effectiveness and Corporate Strategy Unit was created during 2007 to assist the IIC's senior management in developing and deploying this new strategic planning approach.

Main Goals for 2008–2010

The 2008–2010 Business Plan includes six core business objectives and two special initiatives.

1. During the next three years, the Corporation will target a 45 percent increase in development-related assets.
2. Geographic portfolio diversification is the second core objective. Successful implementation of the plan will see 60 percent of the projects by number and 41 percent of the volume originated in the smaller economies in the region.
3. Third, the business plan also targets a significant volume of new approvals in the small financial intermediary market and in the large corporate market (companies with annual sales of up to $100 million), in line with the Corporation's commitments under the IDB Group Private Sector Integrated Business Plan.
4. Implement the DIAS.
5. Maintain the IIC's credit risk ratings.
6. Achieve a return on equity of 3 percent, in line with the Governors' mandate during the capital increase deliberations in 1999.

The 2008–2010 Business Plan also includes two special initiatives; to address them, during 2008 Management will submit for Board consideration the creation of two new business units.

1. Capitalizing on the strong financial results of the last five years, the Corporation will increase its equity investment activities. Management intends to create a Development Capital Management Unit with the intention of turning it into an independent entity, emulating the successful experience with Corporación Interamericana para el Financiamiento de Infraestructura (CIFI).
2. A Technical Assistance and Strategic Partnerships Unit would also be created to actively promote and expand the delivery of value-added services to our clients in the region.

The Corporation within a Realigned IDB Group

What makes the next three years even more stimulating are the challenge and the great opportunity provided by the realigned IDB Group private sector activities, under the direction of the Vice President for Private Sector and Non-Sovereign Guaranteed operations.

All four windows of the Bank Group—the IDB's Structured and Corporate Finance Department and the Opportunities for the Majority Unit, the Multilateral Investment Fund, and the Corporation—will tackle a new market segmentation arrangement, make efforts to improve coordination, initiate efforts directed at cross-booking and cross-selling, and be charged with implementing an integrated business plan.

The IIC's strategy for the 2008–2010 planning cycle is completely consistent with this new integrated approach. Management and staff are committed to their new role and look forward to a new era of positive synergy and cooperation.

The IIC in Facts and Figures

The Inter-American Investment Corporation is a multilateral financial institution with forty-three member countries. It is part of the Inter-American Development Bank 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 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, up to five years (working capital, corporate loans, or project finance)
- Long-term loans, up 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 private financial intermediaries (lines of credit for banks, leasing, factoring, 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, small and medium-size companies. Through financial engineering, the IIC tailors its financial products to its clients' specific funding requirements.

The following charts 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 6. IIC BASIC FINANCIAL INDICATORS*

Start-up of Operations	1989
Member Countries	43
Authorized Capital	70,370 shares (Par $10,000)
Paid-In Capital	$636.5 million
Outstanding Loan and Equity Portfolio	$911.6 million**
Cumulative Loans and Equities Approved	$3,067.6 million
Authorized Headcount	98

**As of December 2007*
***This figure includes the Compartamos and RBTT transactions, which are reported in the financial statements as investment securities.*

TABLE 7. HARMONIZED REPORTING*

Number of subloans through financial intermediaries and investment funds	914,979

**Cumulative since 2000*

TABLE 8. COMPOSITION OF ASSETS	
Development Assets (loans and equity investments)	70.1%
Other Assets	29.9%

TABLE 9. DISTRIBUTION OF 2007 APPROVALS BY FINANCIAL PRODUCT	Approved Amounts	Number of Projects
Financial Intermediaries	$370.3 million	33
Corporate Projects, Investment Funds, and Agency Lines	$99.9 million	29
Total 2007	**$470.2 million**	**62**

TABLE 10. DISTRIBUTION OF OUTSTANDING PORTFOLIO BY FINANCIAL PRODUCT	Amounts Outstanding	Number of Projects Outstanding
Financial Intermediaries	$683.7 million	68
Corporate Projects and Agency Lines	$197.3 million	75
Investment Funds	$30.6 million	16
Total	**$911.6 million***	**159**

**This figure includes the Compartamos and RBTT transactions, which are reported in the financial statements as investment securities.*

TABLE 11. DISTRIBUTION OF OUTSTANDING PORTFOLIO BY COUNTRY GROUP

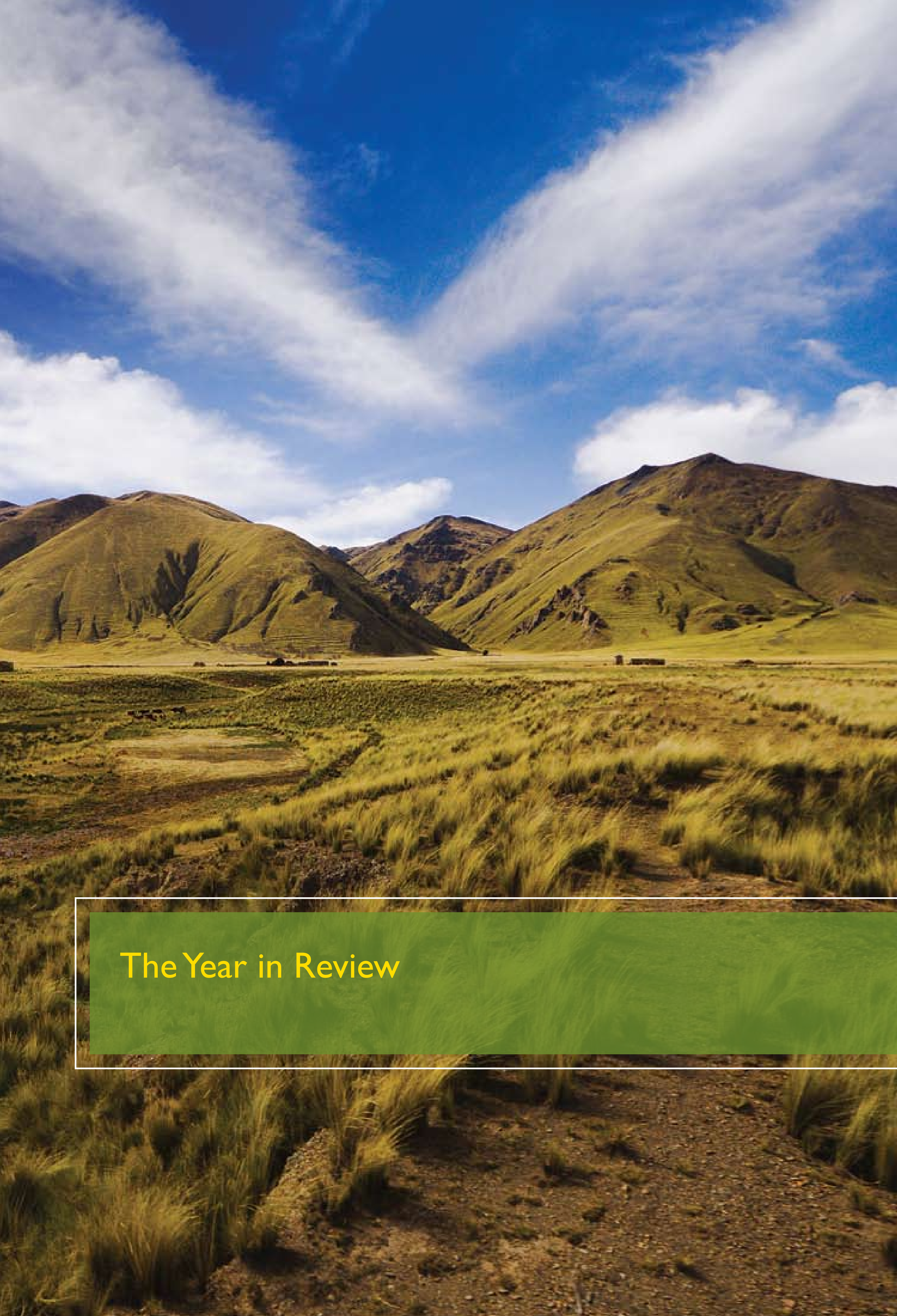
Country Group	Amount Outstanding	% of Total Amount	% of Total Projects
A	$269.7 million	29.6%	22.6%
B	$356.5 million	39.1%	23.3%
C	$96.5 million	10.6%	13.8%
D	$127.2 million	14.0%	32.1%
Regional	$61.7 million	6.8%	8.2%
Total	**$911.6 million***		

Note: C and D countries represent the smallest economies.
**This figure includes the Compartamos and RBTT transactions, which are reported in the financial statements as investment securities.*

TABLE 12. SECTOR DISTRIBUTION IN 2007

Sector	Outstanding Amount	% of Total Amount	% of Total Projects
Agency Lines	$0.0 million	0.0%	3.4%
Agriculture and Agribusiness	$53.2 million	5.8%	11.8%
Aquaculture and Fisheries	$16.1 million	1.8%	4.2%
Capital Markets	$0.0 million	0.0%	0.8%
Chemicals and Plastics	$11.0 million	1.2%	2.8%
Education	$10.1 million	1.1%	1.6%
Financial Services	$683.7 million	75.0%	36.6%
Food, Bottling, and Beverages	$18.7 million	2.1%	2.8%
General Manufacturing	$11.8 million	1.3%	5.2%
Health	$0.1 million	0.0%	0.8%
Industrial Processing Zones	$5.1 million	0.6%	2.0%
Investment Funds	$30.6 million	3.4%	8.8%
Livestock and Poultry	$7.5 million	0.8%	1.2%
Nonfinancial Services	$0.0 million	0.0%	0.8%
Oil and Mining	$2.5 million	0.3%	2.0%
Small Loan Program	$0.0 million	0.0%	0.2%
Technology, Communications, and New Economy	$0.0 million	0.0%	1.4%
Textiles, Apparel, and Leather	$21.5 million	2.4%	1.6%
Tourism and Hotels	$3.4 million	0.4%	2.4%
Transportation and Warehousing	$4.2 million	0.5%	2.2%
Utilities and Infrastructure	$24.4 million	2.7%	3.2%
Wood, Pulp, and Paper	$7.6 million	0.8%	2.4%
Others	$0.0 million	0.0%	1.8%
Total	**$911.6 million***		

**This figure includes the Compartamos and RBTT transactions, which are reported in the financial statements as investment securities.*



The Year in Review

OPERATING RESULTS

In 2007, the IIC approved sixty-two projects in fifteen countries totaling $470 million. These operations will benefit companies in the manufacturing, agribusiness, fisheries, and financial services sectors. In addition, the IIC's Board of Executive Directors approved $273 million in cofinancing, bringing the resources made available to companies in the region to a total of $743 million.

During the year, the IIC continued to diversify local-currency financing; this portion of its portfolio now includes transactions in Argentine, Colombian, and Mexican pesos, as well as Brazilian reais and Peruvian nuevos soles.

During 2007, the IIC reached several significant operating and financial milestones. It reported a record number and volume of approvals, increased total active approvals to between $1.1 billion and approximately $1.2 billion, and reported profits for the fifth consecutive year. This is the longest period of consecutive profits in the history of the Corporation.

In September, the IIC surpassed $1.0 billion in total assets and closed the year with about $1.25 billion in total assets.

SMALL AND MEDIUM-SIZE ENTERPRISE LENDING PROGRAMS

In addition to reaching small and medium-size enterprises through its financial institutions' lending efforts, the IIC has been very active in developing and expanding in-house programs designed to reach the local SME market. It also continues to reap the rewards of past strategic partnerships with local SME-focused institutions.

In 2007, the IIC approved its first program for funding specialized financial institutions in Mexico (IFEMs, the acronym in Spanish). Initially funded with up to $30 million, the program will help participating institutions grow their SME loan portfolios. Also in 2007, the Small Business Revolving Line (SBRL), originally approved in 2006, gained traction in key markets. In addition to this

TABLE 13. KEY OPERATING INDICATORS IN 2007

Number of approvals up to $3.0 million	29
Number of approvals above $3.0 million and up to $10.0 million	19
Number of approvals above $10.0 million	14
Average financing approved, corporate	$3.38 million
Average financing approved to financial intermediaries	$11.2 million
Average financing through financial intermediaries with IIC resources	$173,250
Allowance for loans/total loans (December 2007)	5%
Number of companies requesting IIC financing	302
Number of projects and programs approved	62
Number of loans approved to financial intermediaries	33
Number of projects under supervision	159

TABLE 14. SME LENDING PROGRAMS

Name	Sector	Country	Gross Loan Approved*
IFEM Program (Specialized Financial Institutions in Mexico)			
FICEN, S.A. de C.V.	Financial Services	Mexico	$1,000
HIR PYME, S.A. de C.V.	Financial Services	Mexico	$1,150
Fomento Hipotecario, S.A. de C.V.	Financial Services	Mexico	$1,500
Agrofinanzas, S.A. de C.V.	Financial Services	Mexico	$3,000
Grupo FinTerra, S.A. de C.V.	Financial Services	Mexico	$3,000
NAFIN Partial Credit Guarantee Program (Nacional Financiera, S.N.C.)			
Docuformas, S.A. de C.V.	Nonfinancial Services	Mexico	$1,500
LAAD Agency Line (Latin America Agribusiness Development Corporation, S.A.)			
Tefex, S.A. de C.V.	Agriculture and Agribusiness	El Salvador	$1,225
Ecofair, S.A. de C.V.	Agriculture and Agribusiness	Colombia	$2,000
Banco Regional, S.A. Agency Line			
Altair Joao Gelain	Agriculture and Agribusiness	Paraguay	$400
SBRL (Small Business Revolving Line)			
NicFOODS, S.A.	Agriculture and Agribusiness	Nicaragua	$125
Ideay, Equipos y Sistemas, S.A.	Tech, Comm., and New Economy	Nicaragua	$150
Hardy, S.A.E.C.A.	General Manufacturing	Paraguay	$170
Consultores en Telecomunicaciones, Electricidad y Electromédica, S.A. de C.V.	Tech, Comm., and New Economy	El Salvador	$185
Prima, S.A.	Food, Bottling, and Beverages	Costa Rica	$200
Acabados Rústicos, S.A.	General Manufacturing	Nicaragua	$250
Kola Shaler Industrial, S.A.	Food, Bottling, and Beverages	Nicaragua	$250
Fábrica de Productos Lácteos La Completa, S.A.	Food, Bottling, and Beverages	Nicaragua	$275

**Amounts in thousands of $*
Details of projects funded under these new programs are provided in the "Investing in Development" section of this Annual Report.

year's eight approvals under the program, the SBRL's mandate was expanded to include Bolivia, El Salvador, and the English-speaking Caribbean. Furthermore, in an effort to promote the SBRL in countries where the IIC does not yet have a local presence, the IIC signed three partnership agreements with local agents to assist with business development. These agents are DFLSA and ICWI in the Caribbean and FBE in Bolivia.

FINANCIAL RESULTS

IIC income in 2007 totaled $131.8 million. Capital gains, dividends, and other income from the equity investment portfolio totaled $56.0 million for the year. Total administrative expenses were $22.3 million, producing a net profit of $83.4 million, compared with $39.4 million in 2006. The sale of an equity investment at a gain of $45 million had a marked impact on income for the year.

Besides the extraordinary items of income over the past few years, the Corporation's profitability levels have been improving as a result of implementation of 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. This improvement is reflected in the efficiency indicator net interest income/administrative expense, which went from 1.86 in 2006 to 1.97 as of December 2007.

ASSET QUALITY

The Corporation's net earning assets grew steadily during the year, from $647 million in 2006 to $800 million as of December 2007.

Asset quality improved substantially during the period. The past-due portfolio went from 1.5 percent in 2006 to 0 percent as of December 2007. Past-due portfolio coverage also increased during the period.

The improvement in asset quality resulted from Management's implementation of stricter credit processes, a favorable regional credit cycle, and the write-off of past-due loans.

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/equity ratio has risen slightly in recent years, from 0.60 in 2006 to 0.69 as of December 2007.

LIQUIDITY

The IIC's liquidity, measured as a liquidity/debt ratio, has decreased from greater than 1 in the past to 0.81 as of December 2007. Management expects this level to continue to drop as borrowings increase.

FINANCIAL PRODUCTS TAILORED TO MARKET NEEDS

Local-Currency Financing

In 2007, the Corporation redoubled 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. A local-currency operation was also funded in Mexico in 2006. In 2007, seven new operations were approved in five other countries: Argentina, Brazil, Chile, Mexico, and Peru. By year-end 2007, eleven local-currency operations had been carried out, totaling the equivalent of $141 million, or approximately 13 percent of total net approvals.

The IIC funds its local-currency operations by tapping the capital markets or negotiating loans with leading local financial institutions. While the Corporation's ultimate goal is to access local capital markets, 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 optimum terms, bridge loans are arranged and subsequently repaid with bond issue proceeds.

Local-currency operations are in line with the IIC's strategy for meeting the funding needs of financial institutions that, in turn, meet the demand for loans in local currency. This demand is especially high in at least three business segments:

- Microfinance
- Mortgage finance
- Small enterprises, especially those that do not generate foreign currency

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

IIC STRATEGY FOR FINANCIAL INSTITUTIONS

Over the past three years, projects through financial institutions have been a pillar of the Corporation's strategy. The objective of such projects is to work toward meeting the Declaration of Nuevo León goal of increasing the flow of financing for the region's SMEs, increasing the IIC's volume of operations, and responding more effectively to the needs of its target market.

Operating directly with SMEs in the region has been and remains key to the IIC's developmental mandate. However, over the past few years, Management and the Board of Executive Directors have also focused particularly on supporting the development of projects with financial intermediaries; balancing risk management; and improving project selection, evaluation, reporting, and supervision. This new focus has improved the Corporation's balance sheet.

IIC operations with financial institutions have also furthered the following four key goals:

- <u>Lower average loan amount and higher number of end beneficiaries</u>. Working with solid financial intermediaries has made it possible to approve larger operations, thus increasing the number of end beneficiaries. And by working through intermediaries specializing in SMEs or with banks that target SMEs, the IIC has been able to reach smaller beneficiaries. The wide range of project sizes can be seen in the "Investing in Development" section of this Annual Report.
- <u>Flexibility</u>. This has made it possible to reach end beneficiaries with products that are increasingly in line with their needs. Flexibility in structuring projects has enabled the Corporation to offer terms and conditions that are tailored to its clients' needs, especially in terms of tenor and currency denomination. For example, at year-end 2007, the IIC had on its books operations denominated in Argentine pesos, Brazilian reais, Colombian pesos, Mexican pesos, and Peruvian nuevos soles. This is in addition to its U.S. dollar operations and its equity investments that, because of their nature, are denominated in local currency.
- <u>Portfolio diversification</u>. The IIC now operates with a broader range of financial intermediaries and has also expanded the types of its operations and end users. During the first years of operations,

Measuring Development Outcomes and Additionality

Since its inception in 1989, with the mandate to promote private sector development in Latin America and the Caribbean and focus especially on SMEs, the Corporation has sought ways to show that the operations selected for financing meet certain financial viability criteria and achieve the desired levels of developmental impact and additionality. This enables the Corporation to demonstrate that it is using member-country resources to deliver intended developmental benefits and enhance the quality of project results.

The IIC's outcomes evaluation system was created in 1999 to assess progress and performance in fulfilling its mission. The system conforms to the methods and standards proposed by the working group of the Evaluation Coordination Group of the Multilateral Development Banks. The IIC has been a member of this group since 2001 and has contributed to developing the standards.

According to independent evaluations, the Corporation has moved toward having the most harmonized evaluation system of all the private sector windows of the comparator MDBs, second only to the International Finance Corporation.

The system is based on a two-pronged approach:

- Self-evaluation. The basic tool for self-evaluation is the Expanded Annual Supervision Report (XASR), which is also used by IFC and other MDBs. These evaluations are done by the IIC.
- Independent evaluation. Independent evaluation of the IIC's performance is carried out by the Office of Evaluation and Oversight of the IDB.

To date, the IIC has prepared XASRs covering about one-half of the total number of projects committed and disbursed through 2003. OVE has validated all of these XASRs and submitted to the IIC's Board of Executive Directors annual reports summarizing its findings.

In 2007 the IIC delivered additional XASRs, virtually all of which received a successful development outcome rating—a significant improvement over the results for 2006. These projects also achieved satisfactory financial results, therefore achieving win-win outcomes that are in line with the IIC's goal to undertake investments that are both developmentally successful and profitable.

Positive Evaluation Outcomes

An operation approved for a meat and dairy product company in Ecuador offers an interesting example. At the time of initial project assessment, the dairy product market in Ecuador was underdeveloped but had promising growth potential. The IIC provided a six-year loan aimed at expanding production.

The project's business performance has been excellent. The company greatly exceeded its revenue and production targets, created 200 direct jobs, indirectly benefited 1,250 milk-producing families, and helped 140 distributors. Today, the company's network of milk producers provides some 3,750 direct and indirect jobs in rural Ecuador, and the distributors account for an additional 280 jobs.

Technology has been transferred to the small farmers through the provision of fertilizers, new fences, and safer breeding practices. The project has helped the company comply with local and IIC environmental requirements and significantly improved its corporate governance practices.

This operation is also a good example of private sector development through the supply chain model. Successful supply chains enable small producers and entrepreneurs to access otherwise unavailable inputs, expertise, and financing from larger companies.

Another example of an excellent development outcome is a five-year A and B loan granted to a producer of sugar and alcohol in Brazil. The project was designed to increase production capacity and match the levels of efficiency and productivity attained by industry leaders. The IIC's participation provided the necessary long-term financing.

Because of the IIC's active involvement in structuring the financial plan for the Brazil project, another financial institution approved a five-year B loan that it otherwise would not have been willing to grant. This mobilized additional resources.

The project's business performance has been excellent. The company greatly exceeded its sales revenue target, which led to increased profitability, created 310 jobs, and generated approximately $58 million in foreign exchange. Moreover, corporate governance practices were substantially improved because of IIC participation.

Learning from Evaluation

An important aspect of the evaluation process is the institutional learning factor. Approximately 150 lessons learned have been identified to date. In 2005, the IIC created a lessons learned database with a systematic process for feeding these lessons back into operations.

In 2007, new lessons learned were added to the database. Investment officers are required to check the database during project appraisal to incorporate past experiences.

Important steps were taken in this area in 2007. The Development Effectiveness and Corporate Strategy Unit was created to take on the challenge of improving the Corporation's work on measuring and reporting developmental impact and additionality. The unit includes two positions dedicated full time to developmental impact assessment, working in close coordination with the engineering and environment team whose work is a consistent source of added value in IIC activities.

The Development Effectiveness Unit's role as strategic and policy advisor to senior management also serves to enhance the Corporation's impact through short- and medium-term planning. As part of a new integral planning approach, the unit has developed a developmental impact and additionality scoring system that will deploy in 2008. In addition to this improvement, the unit has developed a simplified toolkit for investment officers to improve the gathering of baseline data and thus facilitate tracking and reporting of developmental impact and additionality.

financial operations were concentrated in commercial banks. Over the past few years, intermediaries have included pure and financial leasing companies; financial institutions specializing in the mortgage market, SMEs, agriculture, or microfinance; mortgage portfolio securitizers; mutual guarantee companies; portfolio guarantee funds; and investment funds. Even most of the funding channeled through large financial institutions has gone to SMEs or co-ops for redistribution to their members.

- Further the institutional development of financial intermediaries—especially the smaller ones. As the financial intermediaries have become smaller, the IIC has had to provide assistance in areas ranging from the environment to corporate governance. Worthy of note is the work being done with the six banks that are now part of the FINPYME program and will be reviewing the diagnostic studies carried out under the program.

Over the next few years, projects with financial intermediaries will still be important for the IIC as it seeks to maintain a portfolio that is large and diverse enough for it to focus on direct operations while continuing to identify, evaluate, and structure new operations with financial intermediaries. Most of these financial intermediaries will be small or medium-size and specialize in the IIC's target market.

WORKING WITH PARTNERS

Events and Initiatives Organized or Cosponsored by the IIC

Promotion of Secured Transaction Framework

In 2007, the IIC continued to promote the reform of legal frameworks for secured transactions in Latin America and the Caribbean as a means to improve development of private credit. In the context of the 2007 Annual Meeting in Guatemala, the IIC's General Counsel delivered lectures on the correlation between creditors' rights and economic development. The lectures were presented in two prestigious law schools and, by request, to the Superintendent and a large group of staff of the Superintendencia de Bancos de Guatemala.

Latin American Federation of Banks

In 2007, the IIC participated in two panel discussions during the 41st Latin American Federation of Banks (FELABAN) Assembly, which was held in Miami. The IIC organized a panel discussion, "Banks and Climate Change: Mainstreaming Carbon Finance in Latin America—Opportunities and Risks for the Financial Sector." The discussion centered on the significant investment opportunities for Latin American banks arising from the global need to curb greenhouse gas emissions and bring them down to sustainable levels by mid-century. Some experts estimate that the annual cost of the measures needed to achieve such reductions could amount to 1 percent of the global GDP. To achieve that goal, traditional banks should play a more active role in financing sustainable energy projects and projects that achieve reductions in the emission of greenhouse gases. The panelists explained how banks can benefit from existing tools, such as the Clean Development Mechanism, as well as the specific risks involved in carbon finance.

The panel highlighted the experience of the IIC and other participating institutions in financing and structuring efficient energy and emission reduction projects and in using carbon credits as security and for improving credit quality. The panel also explained the IIC-sponsored Certified Emission-Reduction Sale and Purchase Agreement (CERSPA) Initiative for developing a balanced emission reduction sales and purchase agreement template representing the interests of carbon credit buyers, project developers, and lenders.

Environmental Training Courses for the Financial Sector

In 2007, the IIC completed its eleventh environmental training course for the financial sector, a program that began in 1999. This course was the first on environmental risk management developed specifically for Latin American and Caribbean financial institutions. The initial objective of the course was to raise awareness among financial institutions. The course has evolved and improved since then. It now seeks to instruct financial institutions on practical methods for implementing their own environmental risk management systems.

Seven years ago, most of the people attending the course on behalf of financial intermediaries (primarily IIC clients) were skeptical about the importance and relevance of environmental issues. But over the past few years, an increasing number of financial institutions have developed sound environmental policies and environmental risk management procedures.

In addition to working with local entities and consultants to ensure that this knowledge is transferred to the region, the IIC continues to work with financial institutions that have attended the course and implemented environmental risk management systems. These efforts improve and disseminate successful systems.

Many financial institutions have sent past attendees to assist as workshop trainers and explain their experiences to other financial institutions from the region. This broad involvement by participants from the region enhances the demonstration effect of the IIC's activities.

The training courses cover environmental and social risks for financial institutions and the rewards for institutions that are environmentally responsible. Managing social and environmental risk to ensure that clients or borrowers from local banks address pollution, health, safety, product quality, and social responsibility issues not only avoids fines and other sanctions but is profitable as well, because it reduces reserves for nonperforming loans, improves earnings and balance sheets, and increases the value of shareholder equity.

The course shows financial institutions examples of how good client performance improves their own bottom line. It also shows how client companies that operate cleanly and efficiently can be more competitive and profitable, particularly because waste is often just a resource that is used inefficiently or handled incorrectly.

The IIC has worked with local entities and consultants to ensure that this knowledge is transferred to the region.

The second panel discussion, "Promoting Access to Financial Services: Findings on Banking the Unbanked in Latin America," looked at the results of an ambitious study sponsored by FELABAN. The survey covered all the key facets of this vitally important item on the agenda of Latin American banking associations and individual banks.

The IIC stressed the effort made by the international banking community and what has been learned over the past few years as financial institutions seek to enter or expand services to the microfinance sector, as happened previously with project finance and asset-based products and services. It also acknowledged that much remains to be done, in both downscaling and upscaling.

As for enhancing the scope and depth of financial services, the IIC stressed the progress made and the interest expressed by the banking sector in providing SMEs with appropriate products. It noted, however, that one of the questions most frequently asked of the IIC is, How can we do this profitably?

The IIC also pointed out that to meet these needs and reach a broader market, the region's banking community and regulatory authorities need to address the problem posed by informal banking and the lack of collateral.

Ibero American Business Forum

For six years now, the Ibero American Business Forum initiative has sought to draw business managers from the United States, Spain, and Latin America into a high-level dialogue with world-class experts for an exchange of ideas on and experiences with the region's economic climate.

As in previous years, the IIC hosted this event, held in 2007 in Washington, D.C. The IIC believes that the forum achieves the following goals, among others:

- Foster intense interaction among business, financial, and political leaders from the Americas and Spain seeking to identify strategies for success and the business opportunities provided by Latin American markets
- Enable private sector and public sector players to forge a shared vision of what is shaping progress in the region
- Promote an exchange of ideas and knowledge of how to anticipate and minimize risk
- Define the current business climate in Latin America and the most likely economic and political scenarios over the medium term

The 2007 forum focused on the following:

- The fight against poverty
- Higher education
- The world's financial markets
- Mergers and acquisitions

Among the speakers were Jessica Mathews, president of the Carnegie Endowment for International Peace; Mohamed El-Erian, president of Harvard Management Company; and the former president of Costa Rica, José María Figueres.

Companies and the Right to Access Public Information

A roundtable on "Companies and the Right to Access Public Information" that the IIC cosponsored with the World Bank Institute, the British Embassy in Argentina, and the Asociación por los Derechos Civiles de Argentina was held in April 2007, in Buenos Aires, Argentina.

The purpose was to discuss the potential benefits for the business community of using public information access tools available in

Family Business Training Workshop

Most of the region's SMEs and most of the IIC's corporate clients are family-owned businesses. In most of the countries in the region, such businesses drive productive activity and economic growth. In some economies, family businesses provide more than half of all jobs. Based on its experience and contact with this market segment, the IIC identified a clear need for tailored training for small and medium-size family-owned companies in Latin America and the Caribbean.

As a result, in October 2007 the IIC organized its first training workshop on small and medium-size governance for family businesses. The first of the two modules centered on strategic planning and management for family-owned businesses. It was directed mainly at family members who are not involved in managing the business but who need to understand where it is headed and what its strategic priorities are. The second module was on family business governance. Techniques for reconciling family and business relationships, distinguishing family management from family ownership, and planning for generational succession were discussed.

The workshop was sponsored in part by an Italian development fund and developed and given in Spanish by Italy's SDA Bocconi business school. Thirty participants representing ten family-owned businesses from eight countries in the region attended. The participants expressed their satisfaction with the workshop and stressed how important family business governance is for fostering a change in a company's culture to ensure sustainability after future generations take charge.

Looking ahead, the IIC hopes to broaden this initiative to reach more enterprises in the region. To this end, it plans to partner with universities and small and medium-size business associations to develop new workshops on family business governance.

Argentina; explore their usefulness in trade interaction with the government; and build a reliable, predictable, and efficient business environment. Another goal was to make the private sector more aware of the right to access public information. This is the sector that is taking the least advantage of Decree 1172/03, which ensures the right to access information on the actions of the executive branch of the Argentine government.

Among the attendees were large companies and corporate law firms, representatives of privatized utilities, the water and sanitation sector, the financial sector, chambers of industry and banking, and international consulting firms affiliated with large corporations.

V Inter-American Conference on Corporate Social Responsibility (CSR)

The V Inter-American Conference on CSR, "Shared Responsibility," took place in December 2007. The conference centered on the promotion of responsible practices through supply chains, including suppliers, distributors, and other stakeholders that are part of a company's value chain.

There were discussions on designing strategy, tools for implementing responsible practices, the impact of free trade agreements, the role of CSR, and the future of CSR in supply chains. Parallel sessions took a look at case studies, with the participation of the private sector, civil society, governments, and international agencies.

This was the sixth conference on CSR organized by the IDB. The IIC has been supporting these conferences with funding for scholarships for students and young professionals.

Some four hundred attendees and more than sixty speakers participated. They included the president of the IDB, the outgoing president and the president-elect of Guatemala, and national and international experts.

2007 LatinFinance/Euromoney Latin American Borrowers and Investors Forum

The IIC played an integral role in the 2007 LatinFinance/Euromoney Latin American Borrowers and Investors Forum (LABIF). The forum is the single most important gathering of multilateral and regional issuers, the global institutional investor community, and Wall Street. LABIF 2007 took place in New York City and brought together 250 key figures working in the Latin American debt capital markets for two days of discussion and debate on key issues facing the region. Some of the issues discussed were the future of Latin America's local capital markets, the growing market for structured finance products, and the continued popularity of the syndicated lending market as a tool for corporate growth.

The IIC hosted a workshop titled "Local Currency Lending, a New Financing Option for Development in Latin America." IIC Deputy General Manager Steven L. Reed moderated the workshop.

IIC Action on the Challenge of Climate Change

During 2007, the IIC continued supporting the CERSPA Initiative for developing an emission reduction (generally referred to as carbon credits) sale and purchase agreement. The goal is for the model agreement to reflect in a more balanced fashion the interests of emission reduction project developers and carbon credit buyers under the Clean Development Mechanism.

In late 2006 and early 2007, IIC legal division and environmental area staff members worked with more than twenty experts from around the world on drafting the model agreement and its companion document. For this purpose, the IIC received funding from the Korean Fund.

The model agreement in English, Spanish, French, Portuguese, and Chinese was presented officially in May 2007 at the Carbon Expo in Cologne, Germany, the hub of the world's carbon market. The www.cerspa.org Web site was also launched to host the document and develop an interactive forum to support SMEs in the carbon market. This event as well was sponsored by the IIC, with the support of the Swiss Confederation's State Secretariat for Economic Affairs through the IDB's Swiss Technical Cooperation Trust Fund for Consulting Services and Training Activities.

Training in Energy Efficiency Provided by the IIC

To foster the participation of Latin American and Caribbean financial institutions in the carbon market and in financing energy efficiency and emission reduction projects, one of the modules of the IIC's environmental training workshop for financial intermediaries held in Panama in July 2007 was on the challenges and opportunities arising from climate change and the Kyoto Protocol.

Professional Development (Corporation-Wide Training)

Ethics

The Corporation approved its own code of ethics in March 2006. In May 2007, the Corporation's entire staff attended information and training workshops designed to provide them with an in-depth understanding of their rights and obligations under the new code of ethics. The workshops stressed their responsibility as employees of a public international organization to maintain the integrity and ethical values the code embodies.

INSTITUTIONAL AFFAIRS

Annual Meeting

The twenty-second Annual Meeting of the Board of Governors of the IIC took place in Guatemala City, Guatemala, on March 19 and 20, 2007, in conjunction with the forty-eighth Annual Meeting of the Board of Governors of the IDB. During this meeting, the Governors approved the IIC's financial statements for the year ended December 31, 2006, as well as its annual report.

The Board of Executive Directors

Among the matters considered by the Board of Executive Directors of the Corporation in 2007 were the following:

- Progress report on the Financial Institutions Program
- Colending program with Development Finance Limited/DFLSA Incorporated, utilizing the SBRL in the Caribbean
- Integrated Business Plan for IDB Group Operations in the Private Sector without Sovereign Guarantees (phase two)
- Financial Institutions Exposure Limit
- Definition of Enterprise Size
- 2008 Budget and 2008–2010 Business Plan
- Forty financing proposals

Key developments related to matters brought before the Board are discussed elsewhere in this Annual Report.

WORKING WITHIN THE IDB GROUP

Combined action among the institutions that make up the IDB Group is a powerful agent for development in Latin America and the Caribbean. An example is the IIC's participation in the implementation of the IDB Group's Sustainable Energy and Climate Change Initiative (SECCI) by providing financing and nonreimbursable technical assistance to renewable energy and energy efficiency projects, as well as projects that result in the reduction of greenhouse gas emissions. The IIC has worked closely with the SECCI group to assist companies in identifying opportunities to access the carbon finance market to the fullest extent by lowering transaction costs and risks for project development by providing technical assistance for Clean Development Mechanism processing and registration and third-party validation, among others.

The IIC has also provided private companies with technical assistance for a variety of technical studies often necessary to develop and design a project. As part of the IIC capacity-building program on environmental management for financial institutions in Latin America and the Caribbean, the IIC has also trained banks on the opportunities related to sustainable energy, energy efficiency, and carbon finance projects.

The IIC has both the tools and the experience required to foster more action in the area of carbon finance on the part of Latin American and Caribbean banks. Banks with credit lines from the IIC can also access nonreimbursable technical assistance from the Corporation for a wide variety of studies and to support their clients in accessing the carbon credit market. The IIC also seeks to partner with local institutions to leverage its financing, technical assistance funds, and experience in promoting the development of a greater number of renewable energy, energy efficiency, and carbon finance projects in Latin America and the Caribbean. The IIC's efforts are an integral part of the IDB Group's SECCI.

The IIC has been actively involved in the private sector development strategy process for the entire IDB Group. This country-based process provides a shared framework to ensure coordination at the country level among the IIC, the MIF, and the Structured and Corporate Finance Department of the IDB.

Anti-Corruption 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 investigative office and oversight committee, thus enhancing the synergies between the two institutions on fraud and corruption matters.

In 2007, the IIC adopted the harmonized definitions of corrupt and obstructive practices agreed by the International Financial Institutions Anti-Corruption Task Force. The IIC has incorporated these definitions in the model financing agreements that are available to the public on its Web site.

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

The IIC also reviews each host country's regulations on money laundering and assesses each financial institution's compliance with such regulations (if any) and the adequacy of its controls with respect to deposit-taking and management activities. In 2007, all of the IIC's investment officers and attorneys involved in project origination and structure, along with their IDB and MIF counterparts, received training on procedures and best practices for IDB Group project integrity audits.

TABLE 15. CUMULATIVE APPROVALS BY COUNTRY

Country	Approved Amounts	% of Total Amount	Number of Approved Projects
Argentina	$228.4 million	7.4%	35
Bahamas	$6.0 million	0.2%	2
Barbados	$7.0 million	0.2%	2
Belize	$7.0 million	0.2%	2
Bolivia	$66.7 million	2.2%	18
Brazil	$374.7 million	12.2%	47
Chile	$208.2 million	6.8%	30
Colombia	$264.4 million	8.6%	31
Costa Rica	$81.5 million	2.7%	21
Dominican Republic	$60.6 million	2.0%	10
Ecuador	$127.3 million	4.1%	28
El Salvador	$42.8 million	1.4%	11
Guatemala	$61.6 million	2.0%	10
Guyana	$3.5 million	0.1%	3
Haiti	$1.0 million	0.0%	1
Honduras	$67.6 million	2.2%	16
Jamaica	$40.8 million	1.3%	8
Mexico	$339.4 million	11.1%	50
Nicaragua	$83.3 million	2.7%	29
Panama	$31.9 million	1.0%	7
Paraguay	$40.6 million	1.3%	18
Peru	$304.1 million	9.9%	35
Suriname	$4.0 million	0.1%	1
Trinidad and Tobago	$60.3 million	2.0%	5
Uruguay	$89.1 million	2.9%	24
Venezuela	$63.5 million	2.1%	12
Regional A/B Only	$71.0 million	2.3%	12
Regional A, B, C, and D	$166.0 million	5.4%	13
Regional C/D Only	$165.7 million	5.4%	16
Total	**$3,067.6 million**		

TABLE 16. CUMULATIVE APPROVALS BY SECTOR

Sector	Approved Amounts	% of Total Amount	Number of Approved Projects
Agency Lines	$258.8 million	8.4%	17
Agriculture and Agribusiness	$221.7 million	7.2%	59
Aquaculture and Fisheries	$93.8 million	3.1%	21
Capital Markets	$25.5 million	0.8%	4
Chemicals and Plastics	$76.4 million	2.5%	14
Education	$30.8 million	1.0%	8
Financial Services	$1,452.3 million	47.3%	180
Food, Bottling, and Beverages	$49.8 million	1.6%	14
General Manufacturing	$87.2 million	2.8%	26
Health	$25.1 million	0.8%	4
Industrial Processing Zones	$37.2 million	1.2%	10
Investment Funds	$222.6 million	7.3%	44
Livestock and Poultry	$25.7 million	0.8%	6
Nonfinancial Services	$20.6 million	0.7%	4
Oil and Mining	$46.4 million	1.5%	10
Small Loan Program	$20.0 million	0.7%	1
Technology, Communications, and New Economy	$27.9 million	0.9%	7
Textiles, Apparel, and Leather	$46.0 million	1.5%	8
Tourism and Hotels	$65.9 million	2.1%	12
Transportation and Warehousing	$49.4 million	1.6%	11
Utilities and Infrastructure	$96.8 million	3.2%	16
Wood, Pulp, and Paper	$50.8 million	1.7%	12
Others	$37.0 million	1.2%	9
Total	**$3,067.6 million**		

TABLE 17. COUNTRIES OF ORIGIN AND AGGREGATE PROCUREMENT (1989–2007) *(as of December 31, 2007 — thousands of $)*	
Argentina	$292,689
Austria	$358
Bahamas	$2,612
Barbados	$11,250
Belgium	$272
Belize	$8,227
Bolivia	$12,142
Brazil	$186,766
Chile	$135,458
Colombia	$32,755
Costa Rica	$72,169
Denmark	$8,071
Dominican Republic	$30,043
Ecuador	$21,893
El Salvador	$15,921
Finland	$2,240
France	$15,803
Germany	$81,292
Guatemala	$49,707
Guyana	$600
Honduras	$57,498
Israel	$13,530
Italy	$48,121
Jamaica	$42,940
Japan	$22,170
Korea, Republic of	$457
Mexico	$100,437
Netherlands	$55,327
Nicaragua	$23,653
Norway	$7,551
Panama	$13,913
Paraguay	$10,360
Peru	$72,813
Spain	$22,200
Sweden	$5,889
Switzerland	$27,972
Trinidad and Tobago	$1,000
United States	$409,934
Uruguay	$69,698
Venezuela	$37,281
Regional	$18,530
Total	**$2,041,541**

TABLE 18. OPERATIONS APPROVED IN 2007				
Country	**Sector**	**Company Name**	**Approved Amount**	**Total Project Cost**
Argentina	Financial Services	Garantizar, S.G.R.	$10,650,000	$12,800,000
		HSBC Bank Argentina, S.A.	$25,000,000	$25,000,000
	Livestock and Poultry	Avex, S.A.	$3,000,000	$30,000,000
	Utilities and Infrastructure	Terminal de Servicios Portuarios Patagonia Norte, S.A.	$4,000,000	$7,700,000
Bolivia	Financial Services	Banco Los Andes ProCredit, S.A.	$3,000,000	$3,000,000
Brazil	Financial Services	Banco ABN AMRO Real, S.A.	$15,000,000	$100,000,000
		Banco Daycoval, S.A.	$12,500,000	$12,500,000
		Banco Itaú, S.A.	$15,000,000	$100,000,000
		BPN Brasil Banco Múltiplo, S.A.	$5,000,000	$30,000,000
		Unik, S.A.	$2,500,000	$16,000,000
Chile	Agriculture and Agribusiness	Compañía Agropecuaria Copeval, S.A.	$5,000,000	$10,000,000
	Aquaculture and Fisheries	Austral Food, S.A.	$3,000,000	$3,000,000
		Invertec Pesquera Mar de Chiloé, S.A.	$10,000,000	$15,000,000
		Pesquera Trans Antartic, Ltda.	$4,000,000	$10,700,000
	Financial Services	Banco BICE	$20,000,000	$20,000,000
		Factorline, S.A.	$15,000,000	$15,000,000
Colombia	Agriculture and Agribusiness	Productos Naturales de la Sabana, S.A.	$7,648,000	$26,100,000
		Ecofair, S.A.	$2,000,000	$10,500,000
	Financial Services	Banco de Comercio Exterior de Colombia, S.A.	$15,000,000	$15,000,000
Costa Rica	Financial Services	Banca Promérica, S.A.	$3,000,000	$30,000,000
		Banco Improsa, S.A.	$10,000,000	$10,000,000
	Food, Bottling, and Beverages	Prima, S.A.	$200,000	$200,000
Ecuador	Financial Services	Banco Pichincha, C.A.	$5,000,000	$5,000,000
		Banco ProCredit, S.A. Ecuador	$3,000,000	$3,000,000
	General Manufacturing	Compañía Ecuatoriana del Caucho, S.A.	$6,000,000	$6,000,000
	Wood, Pulp, and Paper	Aglomerados Cotopaxi, S.A.	$5,000,000	$16,000,000
		Papelera Nacional, S.A.	$10,000,000	$20,300,000

TABLE 18 (CONT.) OPERATIONS APPROVED IN 2007				
Country	**Sector**	**Company Name**	**Approved Amount**	**Total Project Cost**
El Salvador	Agriculture and Agribusiness	Tefex, S.A. de C.V.	$1,225,000	$4,485,000
	Technology, Communications, and New Economy	Consultores en Telecomunicaciones, Electricidad y Electromédica, S.A. de C.V.	$185,000	$300,000
Mexico	Aquaculture and Fisheries	Operadora Pesquera del Oriente, S.A. de C.V.	$1,000,000	$1,000,000
	Financial Services	Banco Compartamos, S.A. de C.V.	$30,000,000	$30,000,000
		Credipyme, S.A. de C.V.	$1,000,000	$1,000,000
		Pure Leasing, S.A. de C.V.	$14,000,000	$14,000,000
		Agrofinanzas, S.A. de C.V. (SOFOL)	$3,000,000	$3,000,000
		FICEN, S.A. de C.V. (SOFOL)	$1,000,000	$1,000,000
		Grupo FinTerra, S.A. de C.V. (SOFOL)	$3,000,000	$3,000,000
		Fomento Hipotecario, S.A. de C.V. (SOFOL)	$1,500,000	$1,500,000
		HIR PYME, S.A. de C.V. (SOFOL)	$1,150,000	$1,350,000
	Nonfinancial Services	Docuformas, S.A. de C.V.	$1,500,000	$10,000,000
Nicaragua	Agriculture and Agribusiness	NicFOODS, S.A.	$125,000	$150,000
	Financial Services	Banco de Finanzas, S.A.	$10,000,000	$10,000,000
		Financiera Nicaragüense de Desarrollo, S.A.	$3,000,000	$3,000,000
		Banco ProCredit, S.A. Nicaragua	$3,000,000	$3,000,000
	Food, Bottling, and Beverages	Fábrica de Productos Lácteos La Completa, S.A.	$275,000	$500,000
		Kola Shaler Industrial, S.A.	$250,000	$300,000
	General Manufacturing	Acabados Rústicos, S.A.	$250,000	$620,000
	Technology, Communications, and New Economy	Ideay, Equipos y Sistemas, S.A.	$150,000	$175,000
	Textiles, Apparel, and Leather	Cone Denim de Nicaragua, S.A.	$15,000,000	$95,000,000
Paraguay	Agriculture and Agribusiness	Altair Joao Gelain	$400,000	$1,200,000
	Food, Bottling, and Beverages	Bebidas del Paraguay, S.A. and Distribuidora del Paraguay, S.R.L.	$4,000,000	$8,000,000
	General Manufacturing	Hardy, S.A.E.C.A.	$170,000	$170,000

TABLE 18 (CONT.) OPERATIONS APPROVED IN 2007

Country	Sector	Company Name	Approved Amount	Total Project Cost
Peru	Agriculture and Agribusiness	Agroindustrias San Jacinto, S.A.A.	$4,000,000	$13,620,000
		Green Perú, S.A.	$5,000,000	$12,000,000
	Financial Services	América Leasing, S.A.	$8,000,000	$8,000,000
		HSBC Bank Perú, S.A.	$20,000,000	$20,000,000
		Mibanco, Banco de la Micro-Empresa, S.A.	$7,000,000	$7,000,000
		Scotiabank Perú, S.A.A.	$40,000,000	$85,000,000
Suriname	General Manufacturing	C. Kersten & Co. N.V.	$4,000,000	$32,000,000
Trinidad and Tobago	Financial Services	RBTT Financial Holdings Ltd.	$40,000,000	$40,000,000
Uruguay	Agriculture and Agribusiness	Sociedad Anónima Molinos Arroceros Nacionales	$2,500,000	$5,000,000
Regional A/B/C and D	Investment Funds	Darby ProBanco Fund II, L.P.	$5,000,000	$90,000,000
Regional C/D Only	Financial Services	La Hipotecaria, S.A. and La Hipotecaria, S.A. de C.V.	$20,000,000	$20,000,000
Total			**$470,178,000**	**$1,078,170,000**

(Amounts in millions of $)

TABLE 19. COFINANCING OPERATIONS IN 2007

	Gross Approvals	
Company	**IIC**	**Cofinancing**
Agroindustrias San Jacinto, S.A.A.	$4.0 million	$4.5 million
Banco ABN AMRO Real, S.A.	$15.0 million	$85.0 million
Banco Itaú, S.A.	$15.0 million	$85.0 million
BPN Brasil Banco Múltiplo, S.A.	$5.0 million	$25.0 million
Cone Denim de Nicaragua, S.A.	$15.0 million	$20.0 million
Pesquera Trans Antartic, Ltda.	$4.0 million	$6.7 million
Scotiabank Perú, S.A.A.	$40.0 million	$45.0 million
Sociedad Anónima Molinos Arroceros Nacionales	$2.5 million	$2.5 million
Total	**$100.5 million**	**$273.7 million**

Multilateral Investment Fund

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

The resulting IIC/MIF Small and Medium-Size Enterprise Finance Facility aims to help financial institutions address the funding, transaction costs, and risk management issues that limit their ability to lend to SMEs.

As an offshoot of the IIC/MIF program with financial institutions, the IIC and the MIF have developed a common strategy for working with microfinance institutions and are working together on initiatives that support the IDB Group's efforts to reach the lending target mandated in the Declaration of Nuevo León.

Structured and Corporate Finance Department

A team composed of members of the IIC and the IDB's Structured and Corporate Finance Department (formerly known as the Private Sector Department) was presented with the Ortiz Mena Award for its teamwork on a project consisting of the arrangement by the IDB Group of a comprehensive financing package to provide financing for the Surinamese company C. Kersten & Co. N.V. The Kersten project represented a series of groundbreaking firsts:

- The IDB Group's first private sector lending operation in Suriname
- The first colending operation between the IDB and the IIC
- The first IDB Group operation involving Surinamese and Trinidadian cofinancing partners
- The first IDB private sector loan granted pursuant to the sector-broadening mandate approved by the Bank's Governors in 2006

The project is an example of how the different private sector windows of the IDB Group are able to collaborate effectively in C and D countries by sharing expertise, local knowledge, and contacts in the regional capital markets.

OTHER DEVELOPMENTAL PROGRAMS AND INITIATIVES

Trust Funds and Technical Assistance

The IIC's trust fund and technical assistance activities were set up to provide and manage support for the IIC's technical cooperation activities, which are funded primarily through trust funds established by IIC member countries. The Finance and Risk Management Division manages the trust funds, coordinates relationships with individual trust fund donors, and works with all departments and units within the IIC to design, implement, and monitor technical assistance activities.

Technical assistance clearly benefits the small and medium-size clients that are the main focus of IIC activities in the region. This assistance helps them improve their management skills, correct environmental deficiencies, conduct the requisite sector and market studies, and resolve other technical challenges.

The IIC also benefits from being involved in technical assistance projects because they create an important demonstration effect for other SMEs that seek to put their operations on a more professional footing. Technical assistance also enables the IIC to finance SMEs that otherwise would be unable or reluctant to invest the resources needed to make the changes identified.

Finally, the countries that contribute to the trust funds benefit from the visibility that they achieve through these programs, from the procurement and consulting opportunities arising from project development, and from the experiences gained from their involvement.

The technical assistance provided by the IIC is focused on the SME client and on the following critical areas:

- Preinvestment consultancy services designed to assess project feasibility and to prepare a company for medium- and long-term funding offered by the IIC and other lenders. Such consultancy services include sector and market studies and the evaluation of specific projects under consideration for financing.
- Technical assistance for SMEs that are potential clients of the IIC but require assistance to improve in such areas as environmental compliance and information systems, as well as legal assistance and management consulting. Such technical assistance is also available for existing clients that need to upgrade certain aspects of their operations.

Currently, the IIC is working with the following fund donors to conduct technical assistance projects in Latin America and the Caribbean.

Austria

This fund was set up between the IIC and Finanzierungsgarantie-Gesellschaft m.b.H. of the Government of Austria in September 1999. It focuses on financing technical assistance throughout Latin America and the Caribbean. A noteworthy example of trust fund use was the financing of consultancy services related to the carbon credits to be generated by Sinersa, a 15.4-megawatt hydroelectric plant in Peru. The fund also financed a watershed management program for the Abanico River in Ecuador.

The Austrian Fund will earmark more than $100,000 for providing technical assistance to SMEs in the Caribbean under the FINPYME program to be launched in Bahamas, Barbados, Jamaica, and Trinidad and Tobago in 2008. Details on the FINPYME program are provided elsewhere in this Annual Report.

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.

This fund focuses especially on projects originating in Nicaragua and Bolivia, where resources have been used to undertake an environmental assessment operation for a textile plant. Other projects have included analyzing the technical feasibility of a shipbuilding and ship repair service project in the Dominican Republic, assessing the technical and financial feasibility of a power plant project in Guatemala, evaluating the viability of four municipal landfill projects in Ecuador to recover and burn biogas, and conducting a study to support the agricultural sector in Nicaragua as it plans a nationwide network of cold storage facilities.

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 for preparing prefeasibility and feasibility studies, setting up pilot programs, providing technical assistance related to improvements in existing projects, and facilitating technology transfer.

Current projects include the Italian SME Development Program; a project in Paraguay to evaluate the land, construction work, and improvements of the agribusiness Tecnomyl; and a workshop on family business strategic management and governance held in Panama with experts from the Italian university SDA Bocconi.

Separately, the Italian government is financing a 75-million-euro facility to grant long-term loans to SMEs in Argentina through a special trust fund for their sustainable development.

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.

The IIC has signed separate memoranda 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 IIC has drawn on this fund for the six strategic programs set out below.

- FINPYME. FINPYME is a diagnostic tool used to analyze SMEs and provide them with specific recommendations on how to improve their competitive position (see "Focus on FINPYME").
- Renewable Energy/Energy Efficiency. Renewable energy and energy efficiency projects are those that 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. Projects considered to show improvement in energy efficiency are those that result in the delivery of any energy service with a reduction in energy consumption. Such energy savings are generally achieved by installing more technically advanced equipment to produce the same level of end-use services (e.g., lighting, heating, motor drive, boiler upgrades) with less electricity. Potential energy efficiency projects include those that improve energy use in buildings (such as hospitals, housing, universities, and hotels) and in industrial and agricultural processes. In 2007, the IIC hired an international specialist to establish an energy efficiency audit program for existing and potential IIC clients.
- Transfer of Technology and Know-how for Private Sector Development. In this area, the IIC seeks to analyze what has worked elsewhere under similar conditions and see what sort of technology and know-how could be successfully transferred to Latin America and the Caribbean. The program begins with country and sector selection and then goes into specific detail in identifying companies that could directly benefit from the transfer of technology and know-how from partner companies overseas in collaboration with the IIC. This program will have the added benefit of promoting business cooperation between Latin America and the Caribbean and the Republic of Korea.

Focus on FINPYME

The FINPYME (Financiación Innovadora de PYME, www.finpyme.org) initiative was originally submitted to the IIC Board of Executive Directors in 2000. In 2000–2001, the initiative involved using, on a pilot basis, a methodology for identifying and evaluating projects and making SMEs more competitive. It also responded to the need to increase the Corporation's project pipeline, streamline project processing, and gather useful information on the private sector business climate in the region. Implementation of the 2000–2001 program was funded in part by the Spanish Consultant Trust Fund, while the remainder of the funding came from the IIC budget. Under this program, fifty SMEs in Bolivia and Chile underwent diagnostic reviews and evaluations. These companies also received recommendations on how to become more competitive. The diagnostic reviews—free of charge for the companies in this pilot program—were followed by an evaluation of eligibility for IIC loans for investments to be made by the highest-scoring companies with investment projects.

With the admission of the Republic of Korea into the IIC in 2005 and the creation of the IIC-Korea SME Development Trust Fund, there was renewed interest in updating and restarting the FINPYME program, especially in C and D countries in the Latin American and the Caribbean region. In fact, FINPYME was the first program to be developed under the trust fund's strategic programs, and by mid-2006 the program was approved and activities started.

As part of this approval, it was agreed that the program would commence in Central America (Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua), the Dominican Republic, and Panama. After finalizing the FINPYME methodology in the middle of 2006, the IIC selected a university in each country to act as its FINPYME agent. These universities were trained in the methodology and created databases of SMEs that were invited to official launchings in each country, in February 2007.

These launchings attracted a great deal of public attention, with eighty-six news outlets attending the launchings and twenty-seven interviews granted to the media by members of the FINPYME team, the IIC Executive Director for Central America, and the IIC's General Manager.

During the month of February 2007, 1,101 participants representing 635 companies in seven countries participated in the FINPYME launchings.

The following table summarizes, country by country, the level of participation and interest expressed by SMEs in participating in this program. As a result of the publicity generated and the ongoing efforts of the FINPYME team, new requests for participation continued to be received through mid 2007.

	Costa Rica	Dominican Republic	El Salvador	Guatemala	Honduras	Nicaragua	Panama	Total
Participants	160	210	385	221	155	146	44	1,101
Companies	121	105	246	116	96	86	18	635
Applications	75	46	55	78	60	36	13	363
Diagnostics Selected	43	24	39	42	29	20	7	204
Diagnostics "on reserve"	12	4	2	3	12	10	0	43
Diagnostics submitted by universities	12	8	21	8	4	9	11	73

Note: In El Salvador, a second, more informal, launching was carried out at the end of February for those companies unable to come to the official launching.

The following table provides additional data on the companies selected.

Companies with annual sales <$500,000	36 (19%)
Total sales of companies selected	$433,000,000
Total financing needs	$176,000,000
Total employment	23,027

In late 2007, the IIC's FINPYME team gave a presentation at the FOROMIC microenterprise forum in El Salvador. As part of the presentation, a medical company from El Salvador that had been granted an IIC loan in view of the results of its diagnostic review expressed its satisfaction with its FINPYME experience.

Focus on the Caribbean

Agreement to Foster SME Development in the Caribbean

The IIC has a longstanding partnership with DFLSA, a small yet dynamic financial services firm in the Caribbean. DFLSA is a subsidiary of Development Finance Ltd. (DFL), which has a successful record of financing SMEs throughout the eastern Caribbean. Both groups are well known to the IIC because the IIC is a minority stakeholder in both DFL and DFLSA.

In 2007, the IIC signed a participation agreement with DFLSA to purchase participations in DFLSA-originated loans to SMEs in Guyana and Suriname to build a portfolio of up to $1 million according to the parameters established under the SBRL, which was approved in 2006.

Under the program, DFLSA will originate lending opportunities on its own behalf. Those meeting the SBRL investment criteria will be offered to the IIC for a possible participation of up to 50 percent. Loan participation size will range from $100,000 to $600,000; the funds may be used for expansion projects, capital improvements, debt refinancing, and working capital needs. The IIC expects that five to ten SMEs will benefit from the program over a five-year period.

IIC/ICWI Initiative for the English-Speaking Caribbean

In late 2007, the IIC and the ICWI Group, a Jamaican company, signed an agency agreement under which the ICWI will operate as the IIC's agent in Jamaica, Bahamas, and Barbados to identify and evaluate potential companies for IIC financing (up to $3 million total) under its SBRL program. The ICWI will also work with the IIC to close and disburse each loan and, once disbursed, supervise each loan on behalf of the IIC.

This agency program is highly innovative given that, to date, the SBRL program has generated projects only in those countries where the IIC has established a local presence. Under this initiative in the Caribbean, ICWI representatives will undergo IIC training in credit and noncredit (e.g., environmental, labor, and developmental impact) issues prior to beginning their work. To provide needed resources to launch this innovative program, the Korea-IIC SME Development Trust Fund agreed to fund the evaluation activities necessary to determine eligibility for IIC financing of the small companies that will benefit from IIC medium- and long-term lending.

Caribbean-Central American Action, Miami

This conference focused on the continued high cost of energy in the Caribbean and Central America, notably with regard to the possibilities that biofuels and other alternatives hold, and on how security concerns or the lack of a comprehensive approach to these issues may hurt these fragile economies. Also discussed was whether the major new investments in the region coming from Europe indicated that the U.S. investors and market were cooling to the region, and how effectively the region has been able to position its own interests.

The conference also piloted a matchmaking event, linking small and midsize U.S. businesses to Caribbean and Central American opportunities and partners. The IIC participated in the small and medium-size businesses panel and sponsored a collateral event in which information about IIC's SBRL and FINPYME programs was provided.

- Promotion of Good and Sound Practices for Governance of Family-Owned Small and Medium-Size Enterprises. The goal of this program is to disseminate sound practices for family business governance throughout Latin America and the Caribbean. In 2007, the IIC hired an international consultant through the Korean Trust Fund to help it define the activities that should be undertaken as part of this program. In addition, with funding from the Italian Trust Fund, the IIC sponsored its first training workshop on governance of family-owned businesses for IIC clients, described elsewhere in this Annual Report. The IIC plans to roll out similar programs in 2008 and provide specific technical assistance to help companies with governance improvements.
- Development and Implementation of New Financing Mechanisms. This program aims to support and develop new financing mechanisms that are not available on the local market but could play a catalytic role in providing new financing alternatives to SMEs as well as in 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 to providing SMEs with alternative types of financing. These new financing mechanisms could include local-currency funding mechanisms such as bond issues, swaps, and guarantees.
- General Consulting Services. This program focuses on activities that include feasibility studies, technical assistance for SMEs, workshops, knowledge sharing and dissemination, and dissemination of issues surrounding the legal framework of secured transactions and creditors' rights.

Switzerland

In 1994, the IDB and the Government of the Swiss Confederation signed a technical cooperation trust fund for consulting services and training activities. Although this fund is administered by the IDB, in June 2004 the agreement was amended to include projects presented 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 2007, it financed two key initiatives:

- Dissemination of the New Certified Emission Reduction Sale and Purchase Agreement (CERSPA) Template. The support of the fund followed a two-day workshop hosted by the IIC in October 2006 at its headquarters in Washington, D.C., funded by the Korean Trust Fund, to develop an annotated, publicly available carbon credit sale and purchase agreement template that reflects in a more balanced manner the interests of buyers, sellers, and financial institutions. More than thirty legal experts from the private sector, civil society, intergovernmental organizations, and financial institutions from all over the world participated in the initiative.

  The annotated model agreement will be particularly helpful in improving access to financing for smaller-scale developers, which frequently do not have access to international legal counsel during the development phases of their projects when they face negotiations for purchase of the carbon credits they plan to generate.

  As a follow-on to this workshop, the Swiss Trust Fund financed the dissemination and extensive distribution of the CERSPA template and guidance document, with the objective of educating the emerging carbon market and reaching out to project developers and CER sellers in developing countries that have limited or no access to relevant expert legal advice.

- An Environmental Risk Management Tool for Financial Institutions in Latin America. The second environmental program to be financed by the Swiss Fund was the development of an environmental risk management tool for financial institutions in Latin America. The tool consists of an interactive CD-ROM to help users manage the risks and opportunities related to environmental and social aspects of financial services, with emphasis on providing information on local environmental regulatory requirements. Such information is not always readily available to business professionals.

GOVERNANCE

IIC Structure

Board of Governors

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

Board of Executive Directors

The Board of Executive Directors is responsible for conducting the operations of the Corporation. 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 Corporation, including the number and general responsibilities of the principal administrative and professional positions, and adopts the budget of the institution. The thirteen members and thirteen alternate members of the Board of Executive Directors serve for three-year terms and represent one or more member countries of the Corporation.

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

Management

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

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

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

IIC Chile

Staff

To fulfill its multilateral mission, the IIC has ninety-eight authorized staff positions as of December 31, 2007. There are twenty-one regional staff members in eight countries (Argentina, Chile, Colombia, Costa Rica, Honduras, Nicaragua, Paraguay, and Uruguay). The rest are at the head office in Washington, D.C. Among the latter are seventeen investment officers who work directly on originating and developing new projects and eight who are assigned full time to direct supervision of a portfolio of 143 corporate and financial institution projects. This supervision includes annual field visits.


IIC Uruguay


IIC Colombia


IIC Argentina

IIC Costa Rica

IIC Paraguay

IIC Honduras

IIC Nicaragua

The remaining staff is in the Legal Division, the Finance and Risk Management Division, and the Development Effectiveness and Corporate Strategy, Credit, Portfolio Management and Supervision, Corporate Affairs, and Special Operations Units and provides support to Operations.

Decentralization

Seeking to provide more effective service to its clients, the IIC has continued to increase both the number of staff based in the region and the number of countries where they are located. In 2007, the IIC had regional presence in eight countries, compared with three countries in 2002.

Standing Committees

Credit Committee

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

Chair: Chief, Credit Unit

Expanded Credit Committee

- Reviews transactions submitted by the IDB's Multilateral Investment Fund related to microenterprise equity investment funds.

Chair: Chief, Finance and Risk Management Division

Ethics Committee

- Promotes and facilitates consultation and resolution by IIC 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.

Chair: General Counsel

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.

Chair: Deputy General Manager

Human Resources Committee

- Oversees staff training programs and deals with staff concerns.
- Advises the Human Resources Unit on promotions and staff evaluations.

Chair: Chief, Credit Unit

Information and Records Management Committee

- Reviews and approves records management policies and procedures and ensures compliance.

Chair: Chief, Corporate Affairs Unit

Internal Procedures and Guidelines Committee

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

Chair: Deputy General Manager

Portfolio Supervision Committee

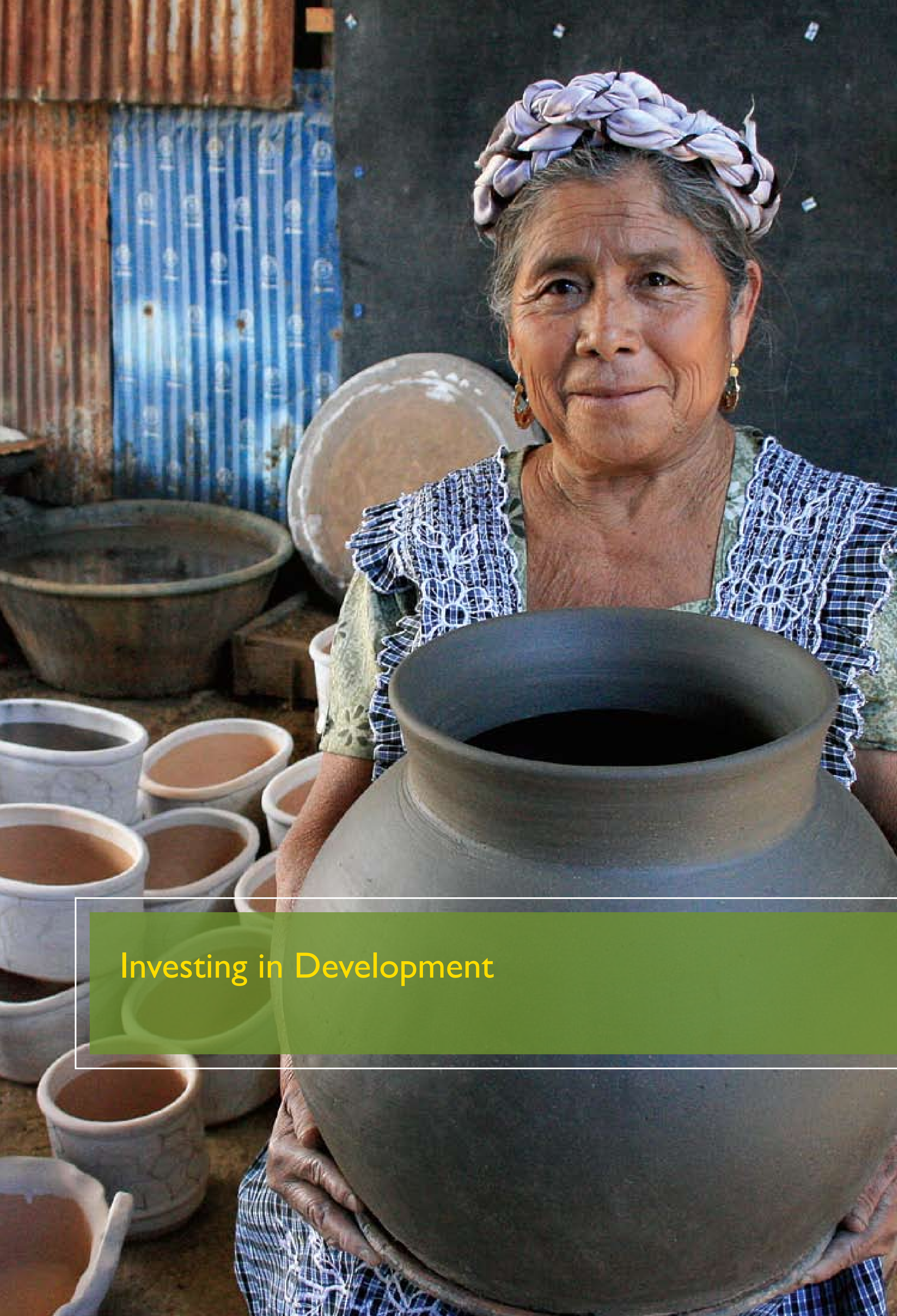
- Monitors overall quality of the IIC portfolio and reviews the status of the portfolio supervision cycle, including validation and approval of risk classifications.
- Approves supervision guidelines and procedures.
- Reviews specific actions to mitigate risks and protect IIC interests in individual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

Chair: Chief, Finance and Risk Management Division

Special Operations Committee

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

Chair: Chief, Credit Unit



Investing in Development

FROM LEFT TO RIGHT: Mario Mahler, Juan Fonseca, Jorge Ciurlizza, Hernando Lesme, Johnny Jirón, Ana María Orellana, Gregory DaRe, Gustavo Romero, Ángela Miller, Javier Barsantini, Diego Noseda, Javier Hernández, Olga de Narváez, David Levy, John Beckham.

SUMMARY OF THE YEAR'S DEVELOPMENTAL INVESTMENTS

The year's operations are set out in a format that reflects the complete impact of the IIC's financing activities. In addition to direct project approvals, there is information about the loans, investments, and cofinancing operations through financial intermediaries approved in 2007 that substantially leverage the resources provided directly by the IIC. Also provided are figures on the procurement of goods and services originating in IIC member countries ($27 million in 2007).

The operations described in this section are for loans and programs totaling $470 million. This year's eight cofinanced loans will mobilize an additional $273 million in funding, further leveraging the resources available for the region's SMEs.

PROJECT APPROVAL REQUIREMENTS

Environmental and Labor Review

Before new operations are submitted to the Board of Executive Directors, they go through an environmental and labor review process that includes an assessment of the following, as applicable:

- Baseline environmental situation; degree of compliance with applicable national environmental laws, regulations, and standards
- Sustainable use of natural resources; pollution controls
- Waste management
- Use of hazardous substances
- Major hazard analysis
- Occupational safety and health
- Fire and life safety

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.

- Protection of human health, cultural properties, tribal peoples, endangered species, and sensitive ecosystems
- Resettlement issues

This process applies to both the projects that the IIC will finance directly and those it will fund through a financial intermediary. A summary of each project, including any environmental and labor issues, is posted on the IIC's Web site thirty days before the expected date of approval by the Board of Executive Directors. Throughout the term of each project it finances, the IIC monitors the project's environmental performance and labor practices.

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

REGIONAL PROJECTS

Darby ProBanco Fund II, L.P.

EQUITY INVESTMENT: Up to $5 million

Darby ProBanco Fund II is a recently established leveraged private equity fund managed by Darby Overseas Investments. The fund will earmark at least 60 percent of its equity and quasi-equity investments for the financial services sector (banks, non-bank financial institutions, special-purpose vehicles, and other financial service-oriented companies) in economies throughout Central America. Middle-market financial services firms in the region will thus receive much-needed capital. These investments will be complemented with others in Mexico and Colombia, targeting small financial intermediaries.

The fund will take advantage of the consolidation process that is occurring in the Central American region, as well as of opportunities in new niche segments. In addition, it will contribute assistance and know-how in areas such as corporate governance, technology, efficiency, and funding strategies. In all, some 20,000 SMEs are expected to benefit from the fund's investments.

The IIC equity investment, estimated at 11 percent of the fund's total equity, is the IIC's second in a private equity fund managed by Darby Overseas Investments. As it did the first time, IIC participation is expected to attract private investors to the fund as the region's financial services sector becomes more sophisticated.

The Overseas Private Investment Corporation (OPIC), an agency of the U.S. government, has approved a $45 million loan to the fund, increasing the fund's size and enabling it to make larger and more significant investments.

La Hipotecaria, S.A. and La Hipotecaria, S.A. de C.V.

LOAN: Up to $20 million

La Hipotecaria, S.A. is a Panamanian financial institution that grants, services, and securitizes mortgage-backed residential loans. Since its creation, it has disbursed mortgage loans to more than 10,000 families with monthly incomes ranging between $400 and $800. A related company, La Hipotecaria, S.A. de C.V., operates in El Salvador.

The IIC loan to these two companies is designed to be used as a warehousing line to fund the origination of mortgage-backed loans in both nations, for subsequent securitization. The operation will make it possible to build some 800 housing units with an average price of $25,000. It thus will help improve the quality of life for medium- and medium-low-income families by helping them purchase what will be for most their first home.

Mortgage-backed securities are an excellent source of long-term funding. By providing diversified investment opportunities for institutional and private investors, they support the development and deepening of capital markets. Mortgage securitization brings additional benefits to local markets, such as standardization of loan documentation and mortgage credit quality standards, improved reporting systems, and better matching of the local mortgage lender's assets and liabilities. These benefits help make mortgage lenders more competitive.

While several domestic mortgage-backed securities have been issued by local banks in Panama over the last several years, there have been no international issues. It is hoped that this operation will have a demonstration effect that will strengthen investor interest in other securitization projects.

ARGENTINA

Avex, S.A.

LOAN: Up to $3 million

Avex commenced production and marketing of chicken meat and related products primarily for export in 2007. Initially the company's operations include a hatchery, grow-out facilities, a processing plant, and a feed mill. A breeder facility will be incorporated subsequently to enhance the production cycle. Through vertical integration, Avex intends to increase its efficiency, lower its costs, and successfully compete in international markets.

Because it was a start-up, the company had difficulty obtaining long-term financing on reasonable terms. The loan from the IIC will finance the company's working capital and ensure that the company has the necessary financial resources during this critical phase of its development.

The project builds on Argentina's competitive advantage in the production and export of grains and consequently of poultry products. Because all of Avex's production inputs are sourced locally, the IIC expects the operation will generate $39 net foreign exchange for every $1 provided by the IIC. In addition, the IIC expects that the project will generate approximately 300 direct jobs.

Garantizar, S.G.R.

PROGRAM: Up to $10 million equivalent in Argentine pesos

Under an innovative program for improving access to longer-term financing, the IIC will provide up to 30 million Argentine pesos (approximately $10 million) in local-currency loans to SMEs in Argentina. The loans will be funded by IIC borrowing on the local market and backed by a corporate guarantee from Garantizar.

Garantizar is a mutual guarantee company (*sociedad de garantía recíproca* or S.G.R.) that provides loan guarantees to its participating shareholders. Fifty-one percent of its capital stock is held by private SMEs. The loan guarantees enable micro, small, and medium-size companies to access longer-term financing at interest rates that would otherwise be unavailable to them. This more affordable financing helps them become more competitive by increasing their working capital, lengthening the terms of their accounts receivable, upgrading their production facilities, or launching new product lines.

The IIC will also invest up to 800,000 Argentine pesos (approximately $260,000) in the capital stock of Garantizar. The investment represents a shareholding of approximately 11 percent. This is the first time that a multilateral organization has participated in the share capital of a mutual guarantee company in Argentina.

As a sponsoring shareholder, the IIC will contribute 1.2 million Argentine pesos (approximately $390,000) to Garantizar's risk fund. The risk fund, which is part of Garantizar's equity, is used to pay the guarantees granted to the participating shareholders. This operation is replicable by other mutual guarantee companies and SMEs in supply chains, either with the IIC or with other financial institutions.

HSBC Bank Argentina, S.A.

LOAN: Up to $25 million

HSBC Bank Argentina provides financial services that include personal, corporate, investment, and private banking. It will channel the proceeds of the IIC loan in the form of dollar-denominated longer-term working capital loans and revolving lines of credit to at least fifty eligible enterprises in Argentina, mainly in the export-oriented agricultural and agribusiness sectors. SMEs in these sectors need such financing to increase their production capacity and compete internationally. The loans are expected to average $500,000.

The IIC loan is the first one to an Argentine bank—and the first loan received by HSBC Bank Argentina—after the nation's economic crisis. In addition to enabling HSBC Bank Argentina to properly match its own sources of funding, the loan should spur the entry of additional funding for Argentine banks from international organizations and investors.

Terminal de Servicios Portuarios Patagonia Norte, S.A.

LOAN: Up to $4 million

Terminal de Servicios Portuarios Patagonia Norte recently won a concession for operating a new container terminal in the port of Bahía Blanca, Buenos Aires province. The IIC will finance the company's investment in the machinery and equipment needed to operate the terminal. This terminal is the only container facility at the port of Bahía Blanca.

As Argentina's economy has grown, the port of Buenos Aires has become too congested. The country needs satellite port facilities to absorb the projected growth in container traffic. Argentina is one of the world's major exporters of fruit (worth more than $757 million in 2006), and the new, strategically located port facility will provide the nation's fruit growers with a convenient and efficient point of exit for containerized fruit.

BOLIVIA

Banco Los Andes ProCredit, S.A.

LOAN: Up to $3 million

The ProCredit banks worldwide provide financing to micro and small businesses. Many of these businesses belong to the informal economy and lack conventional accounting systems and financial statements.

Banco Los Andes ProCredit is one of the oldest institutions in the ProCredit microfinance network. It operates in a country that has one of the most highly developed and competitive microcredit markets in the world. This has strengthened Banco Los Andes and enabled the ProCredit network to use the experience in

Bolivia as a base case study for its other banks in developing economies around the world.

In 2005, Banco Los Andes ProCredit received a $2 million loan from the IIC. Similar loans went to Banco ProCredit Nicaragua, Banco ProCredit Ecuador, and Banco ProCredit El Salvador. All four also received technical assistance from the MIF. Since then, Banco Los Andes has received a full banking license and has grown faster than average for the market. It has become one of the leading microcredit institutions in Bolivia.

Banco Los Andes will use this new IIC loan to expand its operations, offer a wider variety of financial services, and diversify its sources of funding.

BRAZIL

Banco ABN AMRO Real, S.A.

A LOAN: Up to $15 million

B LOAN: Up to $85 million

The IIC has been expanding its programs in support of the region's private sector and encouraging financial institutions to expand their activities to include financial products suitable for SMEs. It also seeks to support companies that form part of supply chains.

The credit line to ABN AMRO Real meets these objectives and is in line with the IIC's efforts to provide suitable financial instruments to SMEs and meet the Declaration of Nuevo León goal of tripling the amount of financing provided to micro, small, and medium-size enterprises.

ABN AMRO Real will channel the funding from the IIC directly to SMEs in Brazil in need of financing, or indirectly for purchasing goods and services from larger companies on better terms. This flexibility will promote supply chain financing.

More than 1,000 SMEs have received financing through the IIC's prior two operations with ABN AMRO Real. The new credit line will enable the IIC to provide medium-term loans to an additional thirty to sixty SMEs and help approximately 1,400 SMEs obtain short-term financing to purchase from large companies the goods and services they require to maintain or increase their operations.

Banco Daycoval, S.A.

LOAN: Up to $12.5 million

Banco Daycoval is a medium-size bank that offers business and consumer banking products and targets SMEs. Its operations are concentrated in southern and southeastern Brazil.

Daycoval will onlend the proceeds of the IIC loan to SMEs in need of stable sources of financing that also meet their requirements in terms of tenor and structure, such as revolving credit facilities. The subloans will average approximately $200,000. Small and medium-size companies need such financing to properly fund their operations, increase their production capacity, and become more competitive internationally.

Financing of this kind has proven to be effective for channeling credit to SMEs through local banks. This operation will enable Daycoval to make more competitive loans with terms suitable to its clients' needs while term-matching its own sources of funding.

Banco Itaú, S.A.

A LOAN: Up to 30 million reais

B LOAN: Up to 170 million reais

In Brazil, it is difficult for lower-income families to obtain affordable medium- and long-term residential mortgages. The IIC loan to Banco Itaú will benefit approximately 2,000 lower-income households by enabling the bank, one of Brazil's leading private universal banks and one that targets both SMEs and individuals, to source local-currency funding offshore and bring it into Brazil. Banco Itaú will use the funding to provide affordable medium- and long-term residential mortgages of up to 100,000 reais per household. The operation will also indirectly benefit the construction sector and associated industries, in which many SMEs operate.

The fixed-rate reais-linked loan consists of an A loan of up to 30 million reais (approximately $15 million) and a B loan of up to 170 million reais (approximately $85 million). With this A/B structure, the IIC will mobilize almost six times the funding it provides directly.

This is the IIC's first operation in local currency in Brazil. This high-visibility operation should provide a significant demonstration effect to encourage further lending of this kind.

BPN Brasil Banco Múltiplo, S.A.

A LOAN: Up to $5 million
B LOAN: Up to $25 million

BPN Brasil Banco Múltiplo is a small bank headquartered in São Paulo that offers commercial and investment banking products to a diverse client base, focusing on SMEs. It will use the IIC loan to grant working capital loans and revolving credit facilities to at least forty SMEs in Brazil on appropriate terms, while properly matching its own sources of funding.

Demand for such loans is high among SMEs seeking to increase their production capacity to compete internationally, but they are difficult to obtain. The IIC's loan will be complemented by a B loan, multiplying the funds available by up to five.

Unik, S.A.

EQUITY INVESTMENT: Up to 2 million reais
CONVERTIBLE LOAN: Up to 3 million reais

Unik provides a basic financial service to underbanked, lower-income Brazilians. It issues service cards that can be used to make purchases from merchants within its network. Expenditures on the card are deducted from the cardholder's next salary or pension payment and remitted to Unik for forwarding to the participating merchant. Most of these merchants are local food stores and pharmacies in urban, semiurban, and rural areas. Most are microenterprises or SMEs. For most of the cardholders, the Unik card represents their only financing alternative.

The funding from the IIC, along with a parallel investment (loan and equity) from the International Finance Corporation and an equity investment from Grupo Rio Bravo and other shareholders, will enable Unik to repay an outstanding bank loan, recapitalize the company, and position itself for further growth.

This IIC operation, promoted by the IDB's Base of the Pyramid initiative, will both help improve access to basic financial services and increase the volume of business for the small merchants participating in the service card network.

CHILE

Austral Food, S.A.

LOAN: Up to $3 million

Austral Food processes and exports fresh, refrigerated, and frozen fish, with nearly 90 percent of its production going to Europe, the United States, and Asia. Among its suppliers are approximately 100 independent local fishermen, who own their vessels and depend on advances toward future fish sales from Austral to help them prepare for putting to sea. Recently Austral has grown by sourcing fish from other parts of South America, principally Uruguay.

The IIC loan will provide Austral with the working capital it needs to finance inventories and accounts receivable required by its sales growth. The IIC is therefore supporting the competitiveness and development of Chilean and regional fishing and aquaculture sectors.

Economic forecasts predict Chilean export sales to increase 17 percent by 2009. Because of IIC's financing, Austral expects to be a participant in this growth.

Banco BICE

LOAN: Up to $20 million

This loan is in line with IIC efforts to improve access to suitable sources of credit for SMEs. Providing funding for Banco BICE to onlend to between 100 and 200 SMEs in Chile will promote financing for this market segment and help Banco BICE obtain the resources it needs to sustain its operations and assist more companies that operate in vital sectors of the Chilean economy.

Multilateral organizations have made few loans to Chilean banks. This loan is the IIC's second to Banco BICE, a private bank that offers commercial and retail banking products to a diverse consumer and corporate base. This repeat operation should encourage other Chilean banks to focus more on SMEs and on improving their clients' awareness of environmental and labor issues.

Compañía Agropecuaria Copeval, S.A.

LOAN: Up to $5 million

Compañía Agropecuaria Copeval provides farm supplies, fertilizers, agrochemicals, and agriculture-related services for small and medium-size farmers. Because small and medium-size farmers often do not have access to bank credit, Copeval finances the purchases made by its clients and thus operates similarly to a farm credit bank.

Copeval is expanding its distribution network nationally. This growth requires increased working capital financing. The loan will be used for this purpose and thus support the growth of a company that serves an important supply chain consisting of small and medium-size farmers who have no access to bank credit.

Chilean agriculture continues to expand, and new regions are opening up to cultivation, especially for fruit. Copeval's growth strategy is designed to offer Chilean farmers access to high-quality agricultural services and products throughout the country. Through IIC's working capital financing, the company will have the means to execute this strategy.

Factorline, S.A.

LOAN: Up to $15 million

Factorline purchases, at a discount, invoices, bills of exchange, and checks issued by SMEs in the normal course of business. Factoring is used chiefly by SMEs that usually do not have easy access to bank financing because they cannot provide security, lack audited financial statements, or do not have a track record in the financial system.

This is the IIC's third operation with Factorline; the first two were short-term. Under this new facility, Factorline will be able to disburse the resources in line with the increase in the volume of its operations. The company needs additional funding because of the growth of international factoring resulting in part from the free trade agreements signed by Chile and in part from Chile's booming economy.

The proceeds of the loan will be used to finance international factoring operations with recourse for enterprises that need to finance working capital. It will help Factorline increase its volume of business and serve a larger number of Chile's trade companies, thus benefiting small and medium-size Chilean importers and exporters.

Invertec Pesquera Mar de Chiloé, S.A.

LOAN: Up to $10 million

Chile is the world's second largest producer of farm-raised salmon, thanks to its relatively low costs and favorable oceanographic conditions. Salmon accounts for approximately 9 percent of Chile's total exports and is the nation's third largest generator of foreign exchange.

Invertec farms and processes salmon and scallops, chiefly for export. Its vertically integrated operations encompass the entire chain, from hatching to final processing, with the support of a related company that makes salmon feed. The company will use the proceeds from this loan to finance investments in fixed assets and working capital as it gears up to double its production by 2009. The planned improvements include a new recirculation aquaculture system, a new primary processing plant, and new sea farms. The project will also decrease the concentration of salmon production in the Island of Chiloé by promoting the development of the salmon industry in Chile's relatively undeveloped Region XI.

These investments are necessary for Invertec to grow and protect itself from the volatility that characterizes the salmon market and maintain its competitive position in a sector dominated by large, foreign-owned companies. The IIC was instrumental in financing the success of Invertec when it first began working with the company in 2001. With this project, the IIC continues supporting the growth of one of Chile's main foreign-currency generating industries.

Pesquera Trans Antartic, Ltda.

A LOAN: Up to 3 million euros

B LOAN: Up to 5 million euros

Pesquera Trans Antartic cans fish and shellfish for sale in Chile and for export, principally to Spain. Seventy-five percent of its employees are women, and most of its suppliers are small entrepreneurs that cultivate shellfish.

The company expects to grow its export sales to Europe significantly over the next several years by taking advantage of Chile's favorable oceanographic conditions and the similarity of native species to those consumed in Europe. Under the trade provisions of the EU-Chile Association Agreement, Trans Antartic can export to Europe duty free. The IIC estimates that through its growth strategy, Trans Antartic's exports should generate more than $73 million in foreign exchange for Chile over the next ten years.

This is the IIC's first transaction denominated in euros; the long-term loan will help Trans Antartic establish itself as a reliable supplier to the European market.

COLOMBIA

Banco de Comercio Exterior de Colombia, S.A.

CREDIT FACILITY: Up to $15 million

Banco de Comercio Exterior de Colombia (Bancóldex) is a semipublic corporation; the Colombian government is its main shareholder. Among other activities, Bancóldex provides financing to SMEs and microenterprises to support their development and help them compete. It is an essential tool for the Colombian government's strategic export plan.

Under a program backed by the Colombian government, the IIC credit facility will help meet the financing needs of Colombian exporters affected by the appreciation of the Colombian peso. The operations funded by the facility, which will be used exclusively to finance exports by eligible SMEs, will represent an important component in Bancóldex's total portfolio.

Support for export SMEs in Colombia has generally come in the form of guarantees or direct loans funded by the central government's development banks. However, this and the IIC's previous $30 million operation with Bancóldex, approved in 2005, show that the public sector can support export SMEs in Colombia within the private sector regulatory and operational framework, with assistance from international financial institutions such as the IIC.

Productos Naturales de la Sabana, S.A.

PARTIAL CREDIT GUARANTY: Up to 15.5 billion Colombian pesos

Productos Naturales de la Sabana (Alquería) is a family-owned business that produces and markets milk and other beverages. It is Colombia's leading producer of extended-shelf-life milk. Alquería is a significant source of direct and indirect employment in Colombia because it sources milk from approximately 900 small and medium-size raw milk suppliers. These mostly small cattle farmers form one of the largest supply chains in Colombia.

The partial credit guaranty provided by the IIC will enable Alquería to issue long-term, peso-denominated bonds on the local market. Most of the proceeds of the issue will replace short-term borrowings used to acquire smaller dairy companies as Alquería pursues a growth strategy designed to achieve economies of scale and improve distribution of quality dairy products. The remainder of the bond proceeds will finance investments necessary to modernize production, boosting the company's competitiveness and increasing production efficiency.

The operation with the IIC will thus promote local production and support the development of the dairy industry in Colombia. It will also enable Alquería to enter the local capital market and tap alternative sources of financing, especially long-term financing. The IIC's partial credit guaranty for Alquería's bond issue is a new alternative source of financing, not only for Alquería, but also for other companies of similar size.

SME Lending Programs in Colombia

Ecofair, S.A.

LOAN: $2 million

Ecofair is a start-up company that grows and exports bananas. The proceeds of the loan approved under the IIC cofinancing agreement with LAAD will enable the company to invest in organic banana plantations for the export market.

COSTA RICA

Banca Promérica, S.A.

LOAN: Up to $3 million

Banca Promérica is a small commercial bank that provides a diverse range of services, such as medium- and long-term corporate loans and housing and vehicle financing, principally to low- and medium-low-income households. The loan from the IIC will help Promérica provide financing of up to $120,000 per loan. It will also enable Promérica to better match the terms of its liabilities and assets and thus become more profitable.

Banco Improsa, S.A.

LOAN: Up to $10 million

SMEs account for 80 percent of Banco Improsa's client portfolio. The IIC's first loan to Improsa, approved in 2000, enabled this bank to diversify its SME product range to include warehouse receipts, factoring, letters of credit, commodity pledges, and leasing, among other services. However, the general lack of long-term funding in Costa Rica limited Improsa's ability to branch out into mortgage-backed loans.

This new, longer-term loan from the IIC will enable Improsa to grant some 125 mortgage loans averaging $80,000. The benefits will radiate out into the construction sector, which accounts for nearly 4.5 percent of Costa Rica's GDP, employs 7 percent of the nation's workforce, and generates demand for goods and services related to the housing industry. Many of these services are provided by small and medium-size manufacturers and contractors.

SME Lending Programs in Costa Rica

Prima, S.A.

LOAN: $200,000

A loan under the SBRL was granted to Prima, which manufactures and distributes raw materials for the food industry. The loan proceeds will finance the company's temporary and permanent working capital needs. Prima will also increase its volume of exports and purchase machinery that will enable it to expand its product range for the domestic and export markets.

ECUADOR

Aglomerados Cotopaxi, S.A.

LOAN: Up to $5 million

Aglomerados Cotopaxi (ACOSA) is a vertically integrated company that produces particleboard, medium-density fiberboard, and lumber. It exports approximately 40 percent of its production, mainly to Colombia and Peru. In addition, it has created approximately 600 jobs in Canton Latacunga, a rural area of Ecuador. The company, which is ISO 9000 certified, is at the forefront of sustainable forestry in Ecuador. It also operates an outreach program that provides business administration classes at local schools.

ACOSA will use the loan proceeds to invest in equipment that will increase its production capacity and reduce its production costs. The company will also invest in environmental and energy upgrades as well as acquire forestland that will increase its proprietary supply of wood.

The IIC estimates that over the life of this expansion project, ACOSA's operations should generate about $76 million in net foreign exchange for Ecuador. This is equal to $16 for every dollar provided by the IIC.

Banco Pichincha, C.A.
LOAN: Up to $5 million

Banco Pichincha will channel the IIC loan via subloans to SMEs in Ecuador with sales between $100,000 and $1 million. Most of the beneficiary enterprises are expected to be lower-tech, family-owned businesses that have limited access to financing and can be vulnerable to fluctuations in the economic cycle.

Because of the lack of sufficient long-term funding options, Pichincha has been financing most of its portfolio with short-term funding or with its own equity. The IIC loan, which has a term of five years, will therefore improve the matching of Pichincha's long-term lending operations, which are usually for three years. The presence of the IIC is also expected to make it easier for Pichincha to borrow long term from other financial institutions.

Banco ProCredit, S.A.
LOAN: Up to $3 million

ProCredit banks worldwide provide financing to micro and small businesses, many of which belong to the informal economy and lack conventional accounting systems and financial statements. In 2005, the IIC granted a loan to Banco ProCredit in Ecuador along with similar loans to Banco ProCredit Nicaragua, Banco Los Andes ProCredit in Bolivia, and Banco ProCredit El Salvador. These loans were made in conjunction with technical assistance from the MIF.

The first IIC loan to ProCredit in Ecuador has been repaid in full. ProCredit is now seeking to improve the quality and diversity of its products and services and asked the IIC to renew the loan and change some of the terms to reflect market conditions and the successful placement of the proceeds of the initial loan.

ProCredit Ecuador has grown faster than average for the market, becoming one of the leading microcredit institutions in Ecuador. Its efficiency and other indicators are among the best in the region as a whole.

Compañía Ecuatoriana del Caucho, S.A.
LOAN: Up to $6 million

Compañía Ecuatoriana del Caucho (ERCO) produces and sells automobile and truck tires and exports 35 percent of its production, chiefly to Andean countries. It is the only tire manufacturer in Ecuador and is a significant source of jobs and foreign exchange.

In the past, the company has largely relied on short-term revolving facilities and short-term bonds to finance its investments because it has not had access to longer-term financing such as that provided by the IIC. ERCO will use the IIC loan to finance the purchase of machinery and equipment, for working capital, and to improve its environmental performance by building a water treatment plant and improving ambient air quality at its production facility. ERCO's environmental improvements are expected to set an example for other manufacturing companies in the industrial park where it is located.

The IIC loan gives ERCO the financial resources necessary to maintain efficient tire production in Ecuador in the face of an increasing volume of imports.

Papelera Nacional, S.A.
LOAN: Up to $10 million

This IIC loan will finance nearly half of a $20 million expansion project undertaken by Papelera Nacional, S.A. (PANASA). PANASA manufactures corrugated paper and liner used by major manufacturers of boxes for banana exporters.

Upon completion of the project, PANASA will increase the amount of recycled material recovered in the process, resulting in the production of an additional 35,000 metric tons per year. This will positively impact the environment by increasing the demand for waste paper in Ecuador and minimizing residual waste. Using technical assistance funds administered by the IIC, PANASA will also improve its wastewater treatment process.

The IIC estimates that as a result of this project, PANASA should generate $88.6 million in net foreign currency ($8.8 for every dollar provided by the IIC). This figure includes approximately $13.5 million per year in import savings because the project will increase the local supply of medium corrugated paper.

EL SALVADOR

SME Lending Programs in El Salvador

Consultores en Telecomunicaciones, Electricidad y Electromédica, S.A. de C.V.

LOAN: $185,000

Consultores en Telecomunicaciones, Electricidad y Electromédica (Contelmed) is a technology company working in the fields of telecommunications, electricity, and electromedicine. Contelmed will use this loan granted under the SBRL to acquire permanent working capital—specifically equipment for direct sales—and to support its marketing efforts both in its own showrooms and at trade fairs.

Tefex, S.A. de C.V.

LOAN: $1,225,000

Tefex is a start-up agribusiness that exports ferns to the U.S. and European markets. This IIC loan under the cofinancing agreement with LAAD will enable Tefex to invest in fern plantations to capitalize on worldwide growth in demand. This financing will help promote a niche market that creates jobs while building on Central America's competitive advantages.

MEXICO

Banco Compartamos, S.A. de C.V.

Investment: Up to 330 million Mexican pesos

Compartamos is Mexico's largest microfinance institution and one of the most important in the region. It has more than 600,000 clients, more than 95 percent of whom are women living in rural areas. The company makes loans averaging approximately $450 to microenterprises, solidarity groups, and individuals.

The IIC will invest in Compartamos by purchasing a time deposit certificate issued by the latter. This investment will support Compartamos as it grows its microcredit portfolio, deepens its target market, and launches a microsavings program. It should also help Compartamos diversify its sources of local-currency funding.

By investing in Compartamos, the IIC will contribute to job creation and the development of microenterprises in sectors with few opportunities for access to commercial credit, especially women in rural areas. It will also help build a credit culture by enabling Compartamos to provide more financial services to sectors that have traditionally lacked them.

Credipyme, S.A. de C.V.

LOAN: Up to $1 million

Credipyme is a credit union that specializes in SMEs. Many of its members are sole proprietorships or family-owned businesses with limited access to credit on competitive terms because of the amount of financing they require, their informal structure, their inability to provide security, or their limited ability to meet financial reporting requirements.

The IIC loan will enable Credipyme to offer more flexible financial products, thereby increasing its volume of operations and improving access to and terms of financing for small enterprises. Credipyme expects to finance up to twenty operations with the funds provided by the IIC.

The scarcity of medium- and long-term sources of financing affects many small, specialized financial institutions in Mexico. For example, this is the first time that Credipyme has been able to tap an international source of medium-term funding. The transaction with the IIC should encourage other international financial institutions to provide medium- and long-term funding to Credipyme.

Operadora Pesquera del Oriente, S.A. de C.V.

LOAN: Up to $1 million

Operadora Pesquera del Oriente (OPO) is an aquaculture company that produces farmed tuna in Ensenada, state of Baja California, for export to Japan. Because more than 90 percent of OPO's production is exported and the company generates virtually no imports, it is a significant generator of foreign exchange.

The IIC loan will provide working capital financing for OPO, both for OPO's own requirements and for the partial financing it provides to the third-party fishing boats that supply it with fish.

Fishing and seafood processing is an important economic activity in this area; however, through this transaction the IIC is supporting the development of tuna farming, a relatively new activity that adds value to an existing resource. It draws on a skilled labor force and transfers expertise from Japan to Mexico. As OPO grows, it will also diversify Mexican exports to the Japanese market.

Program for Funding Specialized Financial Institutions in Mexico

PROGRAM: Up to $30 million

Medium- and long-term commercial bank funding is not widely available to small, specialized financial institutions operating in Mexico. These niche lenders are known as *instituciones financieras especializadas* or IFEMs. *Sociedades Financieras de Objeto Limitado* (SOFOL), *Sociedades Financieras de Objeto Múltiple* (SOFOM), smaller credit unions, financial leasing companies, and factoring companies are all considered IFEMs.

The IIC IFEM program, funded with up to $30 million, will be used to provide fifteen to twenty eligible IFEMs with funding ranging from $1.5 million to $3 million per operation. This will be the first time that many of them receive funding from a multilateral institution. They will onlend the proceeds, primarily to small and medium-size companies, and will grant microloans, mortgages, and other fixed-asset financing on flexible terms.

Because of the wide variety of eligible IFEMs, the funds are expected to reach a broad range of end beneficiaries. Most of them will be sole proprietorships and small family businesses that have no access to financing because they do not operate in the formal sector and cannot provide security. The funding from the IIC will thus reach a total of approximately 1,000 SMEs. Individual operations will range from $500,000 to $3 million.

The IIC program will also encourage IFEMs to follow good lending practices by providing them with technical assistance resources for improving management, strengthening information systems and technologies, and adopting good corporate governance practices. Most of the technical assistance resources will come from the IDB Group's MIF under an IIC/MIF financing facility for SMEs.

The IFEM program is one of the new instruments that the IIC is launching to better serve SMEs and the small financial intermediaries that work with them.

Pure Leasing, S.A. de C.V.

LOAN: Up to 150 million Mexican pesos

One of the IIC's priorities is to support financial intermediaries that target SMEs. These intermediaries often need medium- and long-term local-currency funding that is otherwise unavailable.

By providing such funding, the loan to Pure Leasing, S.A. de C.V. (PLSA) will help PLSA grow its lease portfolio with SMEs. The loan will also enable the company to improve its asset and liability term matching and diversify its sources of local-currency funding. This is the first time that PLSA receives financing from a multilateral organization.

SME Lending Programs in Mexico

Agrofinanzas, S.A. de C.V. (SOFOL)

LOAN: $3 million

Agrofinanzas specializes in lending to agribusiness companies, mainly those producing cocoa beans, coffee, corn, cotton, rice, sugar, and wheat. Currently, most of its funding comes from the Mexican government's development institutions. The IIC loan, granted under the IFEM program, will help Agrofinanzas diversify its sources of funding. As a specialized financial institution, Agrofinanzas, a SOFOL, cannot take deposits from the public. Institutional lending is therefore its primary source of funds. The IIC loan will be the first one the company receives from a multilateral development institution.

Docuformas, S.A. de C.V.

PARTIAL GUARANTEE FOR A 100 MILLION MEXICAN PESO BOND ISSUE

Docuformas, a medium-size company in Mexico City, is a dealer for a major international brand of document management equipment and supplies. In addition to selling equipment, the company offers its clients financing and equipment rental arrangements.

The IIC will partially guarantee the 100 million Mexican peso (approximately $8.8 million) bond issue to be carried out by Docuformas. The guarantee will be provided under the IIC's 2005 local-currency equivalent partial loan guarantee program agreement with Nacional Financiera, S.N.C. (Nafin). Nafin will be providing a partial guarantee on the same terms and conditions as the IIC. The IIC/Nafin program supports non-bank financial intermediaries and medium-size companies that want to broaden and diversify their sources of funding by issuing debt securities for the first time.

FICEN, S.A. de C.V. (SOFOL)

LOAN: $1 million

The IIC granted a loan to FICEN under its IFEM program. FICEN is a specialized financial institution that serves SMEs, especially in the industrial, trade, and service sectors. It is FICEN policy to make smaller loans and process applications quickly.

In 1994 FICEN received a loan and an equity investment from the IIC. The IIC exited its equity holding after ten years, and the loan was subsequently repaid in full. FICEN has begun a new phase of growth and expansion and is seeking to diversify its sources of funding. This support from the IIC will help further these goals.

Fomento Hipotecario, S.A. de C.V. (SOFOL)

LOAN: $1.5 million

Fomento Hipotecario is a small financial services company that provides mortgage financing, as well as financing for housing and commercial property developers. The IIC loan under the IFEM program is the company's first from an international source. In addition to improving Fomento Hipotecario's term-matching position, the loan is expected to have a demonstration effect that will ultimately make more funding available to specialized financial institutions that serve the mortgage sector in Mexico.

Grupo FinTerra, S.A. de C.V. (SOFOL)

LOAN: $3 million

Grupo FinTerra lends to microenterprises and SMEs, mainly in the agricultural and agribusiness sectors. Currently, most of its funding comes from the Mexican government's development institutions. The IIC loan, granted under the IFEM program, will help Grupo FinTerra diversify its sources of funding and support its regional growth in Mexico.

HIR PYME, S.A. de C.V. (SOFOL)

LOAN: $1.15 million

HIR PYME is a specialized financial institution that provides support for microenterprises and SMEs in the form of working capital lines of credit and term loans for purchasing fixed assets. The IIC loan under the IFEM program is the first ever received by HIR PYME from a multilateral or international institution. The loan will improve HIR PYME's liquidity gap and is expected to create a demonstration effect that will make it easier for the company to access other sources of funding that it will onlend to SMEs—a sector that is underserved by commercial banks.

NICARAGUA

Banco de Finanzas, S.A.

LOAN: Up to $10 million

More than one hundred SMEs are expected to benefit from funding provided by the IIC to Banco de Finanzas for medium- and long-term onlending to the agricultural, manufacturing, trade, and service sectors. Such funding is difficult to obtain on the local market.

Most of Banco de Finanzas' operations are in the medium- and medium-low-income consumer, mortgage, and SME segments. This is the IIC's second loan to the bank, which used a $5 million IIC loan granted in 2005 to fund more than 500 projects ranging from $50 to $60,000. Demand for financing for SMEs is such that Banco de Finanzas requested additional support for growing this portion of its portfolio.

The IIC loan will help Banco de Finanzas continue to improve its term matching by not having to use short-term liabilities to fund medium- and long-term operations with SMEs. The operation is also expected to have a demonstration effect, encouraging other financial institutions to focus on small and medium-size companies in Nicaragua and provide more services to them.

Banco ProCredit, S.A.

LOAN: Up to $3 million

In 2005, the IIC approved a loan of up to $1.25 million to Banco ProCredit in Nicaragua in conjunction with similar loans to Banco ProCredit Ecuador, Banco Los Andes ProCredit in Bolivia, and Banco ProCredit El Salvador and technical assistance from the MIF. This new loan is a renewal of the 2005 loan, which was paid in full in November 2007.

The Banco ProCredit network comprises twenty-one banks operating in developing economies around the world. It is headed by ProCredit Holding AG, an investment company based in Frankfurt am Main, Germany, that provides its subsidiaries with know-how for originating and managing microloans, as well as technological tools, staff training, and general administrative support.

The ProCredit banks worldwide provide financing to micro and small businesses, many of which belong to the informal economy and lack conventional accounting systems and financial statements. Most of the businesses that will receive financing under the IIC loan to ProCredit Nicaragua are at the base of the economic pyramid.

Cone Denim de Nicaragua, S.A.

A LOAN: Up to $15 million
B LOAN: Up to $22 million

The IIC provided $15 million and arranged for another $22 million from private banks to finance textile manufacturer Cone Denim de Nicaragua (CDN). CDN is a start-up company that needed long-term financing for the design, construction, and operation of a 600,000-square-foot denim plant—the first denim manufacturing plant in Central America and one of the largest manufacturing facilities in Nicaragua. The estimated cost of the project is $105 million.

By attracting more foreign investment and creating more than 750 direct, skilled jobs and many more indirect jobs from spin-off operations in garment making, the project will spur growth in Nicaragua's textile sector. It will also consolidate a more effective supply chain that will enable Central American jeanswear producers to compete in the U.S. retail market.

The IIC's involvement is expected to act as a catalyst to bring other textile producers and similar industries to the region, thereby taking full advantage of Nicaragua's participation in the Dominican Republic–Central America Free Trade Agreement with the United States.

Financiera Nicaragüense de Desarrollo, S.A.

LOAN: Up to $3 million

Financiera Nicaragüense de Desarrollo, S.A. (FINDESA) is a microfinance institution that is in the process of converting to a full-fledged bank. FINDESA provides financial services throughout Nicaragua. Of its 85,000 clients, 57 percent are women, 79 percent are in rural areas, and 67 percent have incomes below the nation's per capita GDP.

FINDESA used its first loan from the IIC to finance working capital for 237 micro, small, and medium-size enterprises in Nicaragua. At least eighty-five such enterprises will benefit from this new IIC loan. FINDESA will be able to provide them with medium-term financing and a wider range of other financial services while achieving a more appropriate term-matching position.

FINDESA's strong commitment to serving the productive sectors helps create jobs and fosters microenterprise development. This operation is expected to have a demonstration effect, encouraging other financial institutions in Nicaragua to step up and broaden the services they provide to micro, small, and medium-size enterprises.

SME Lending Programs in Nicaragua

Acabados Rústicos, S.A.

LOAN: $250,000

A loan under the SBRL was granted to Acabados Rústicos to complete an investment plan aimed at expanding the company's manufacturing facilities and upgrading some of its processes for manufacturing terra cotta roof and floor tiles. The expected result upon project completion is an increase in exportable production volume.

Fábrica de Productos Lácteos La Completa, S.A.

LOAN: $275,000

The proceeds of this IIC loan under the SBRL program will help the dairy product company Fábrica de Productos Lácteos La Completa purchase new production equipment. This will enable the company to offer new product lines, including flavored milk, an orange juice-based drink, and cream cheese.

Ideay, Equipos y Sistemas, S.A.

LOAN: $150,000

Ideay, Equipos y Sistemas provides Internet, voice and data transmission, and other services in Nicaragua. It will use financing provided by the IIC under the SBRL program to purchase state-of-the-art connectivity equipment and broaden the range of services for existing clients.

Kola Shaler Industrial, S.A.

LOAN: $250,000

Kola Shaler Industrial is a family-owned business that has produced and bottled carbonated beverages and other products in Nicaragua for more than a hundred years. The IIC SBRL loan will enable Kola Shaler to purchase the equipment to increase its production capacity and export volume. The company's exports are purchased chiefly by expatriate Nicaraguans who miss traditional products from home.

NicFOODS, S.A.

LOAN: $125,000

NicFOODS markets agricultural products for the domestic market and for export. Its products are sourced from agricultural cooperatives and small farmers. The company will use a portion of the IIC loan under the SBRL program as working capital to finance small farmers. Another portion will be used to improve product quality and presentation.

PARAGUAY

Bebidas del Paraguay, S.A. and Distribuidora del Paraguay, S.R.L.

LOAN: Up to $4 million

Bebidas del Paraguay and Distribuidora del Paraguay are related companies that produce, distribute, and market carbonated beverages, mineral water, sports drinks, natural fruit juice, and beer. Their principal brand is Pulp, a traditional Paraguayan soft drink that has wide recognition in the country.

The IIC loan is the first long-term loan that the companies have been able to obtain. It will help finance the purchase of machinery and equipment for a new bottling plant, add an effluent treatment plant, and pay off short-term loans from suppliers and banks. When completed, the project will yield an almost sixfold increase in production capacity.

This expansion project will increase production and distribution of all beverages, but particularly Pulp. This growth will create jobs, from 205 direct and indirect jobs at the start of the project to 335 by 2010. In addition, Distribuidora del Paraguay will help the microenterprises that deliver its products obtain financing for purchasing larger-capacity trucks. The increased delivery capacity will improve the profitability of both Distribuidora del Paraguay and the delivery truck owners.

SME Lending Programs in Paraguay

Altair Joao Gelain

LOAN: $400,000

Altair Joao Gelain grows soybeans, corn, and wheat in southeastern Paraguay. This loan was granted under the IIC agency line program with Banco Regional and will be used to refinance the debt incurred by Altair Joao Gelain in 2003 to purchase the land now under cultivation.

Hardy, S.A.E.C.A.

LOAN: $170,000

Hardy is a chemical company that produces detergents, deodorizers, and other cleaning products, as well as essential oils. It also imports hydrogen peroxide and artificial flavors and colors for the food and perfume industries.

The company will use financing from the IIC under the SBRL program to purchase the leasehold building that houses its manufacturing facility and administrative offices. A portion will also be used for working capital needed to import raw materials directly and thus achieve significant cost savings.

PERU

Agroindustrias San Jacinto, S.A.A.

A LOAN: Up to $4.0 million
B LOAN: Up to $4.5 million

Agroindustrias San Jacinto is an agribusiness that plants and processes sugarcane and provides milling services for sugar and sugar products. The company has recently invested in water and energy projects to lower energy costs and help it weather droughts. This IIC loan will help San Jacinto complete these investments and improve its liability structure, thus helping protect the jobs that the company creates and the significant social impact that it has in the area.

San Jacinto is the main source of local jobs; it employs more than 1,600 workers directly. Almost 60 percent of the local population benefits indirectly from the company's operations. San Jacinto also provides education, professional and technical training, scholarships for students, community wellness campaigns, family recreation programs, and the restoration of archaeological monuments in the area. Its reforestation and environmental protection programs have a significant positive environmental impact.

By supporting a socially responsible company, the IIC is sending a clear signal to the local financial market that there is significant added value in supporting companies that invest in improving social indicators.

América Leasing, S.A.

LOAN: COMPONENT I: Up to $4 million; COMPONENT II: Up to 13 million nuevos soles

América Leasing provides financial services tailored to the needs of small and medium-size companies. The IIC loan will provide the company with long-term funding in dollars and local currency for medium- and long-term finance leases that will enable SMEs to carry out modernization or expansion projects, with the option to choose the currency that best matches their needs. Component II of the operation is part of the IIC's ongoing efforts to provide financial products in local currency.

América Leasing used a previous IIC loan to finance seventy-eight subloans averaging $93,000 each. Based on this experience, it is expected that the subloans made with the new IIC loan will average $100,000 and benefit at least 100 SMEs in Peru.

Bond Issue Program

PROGRAM: Up to 250 million nuevos soles

To better serve the financing needs of some of its clients that are requesting financing from the Corporation in nuevos soles, and as an alternative to other local-currency funding options, the IIC registered a bond issue program for up to 250 million nuevos soles in the Peruvian securities market. The program will enable the Corporation to carry out multiple bond issues, tailoring each issue to the features of a specific loan operation. This will be the IIC's third local-currency bond issue in the region and its first in Peru's securities market.

Until the critical mass of operations required for carrying out the issue is attained, the IIC obtained a bridge loan in the amount of 50 million nuevos soles from BBVA Banco Continental. This facility has been used to fund the IIC's first local-currency operation in Peru.

Green Perú, S.A.

LOAN: Up to US$5 million

Green Perú grows asparagus, grapes, and avocados for export. The company's good agricultural and environmental practices have earned its products EUREPGAP and HACCP certification for quality.

The IIC's first loan to Green Perú, granted in 2005, was used principally to build the packing and packaging plants that the company needed to add value. This new loan will help the company achieve the scale of operations needed to make the most of its infrastructure and comparative and competitive advantages, such as a year-round growing season. Over the next three years, the company will double the area it plants and harvests, becoming more competitive by increasing and diversifying its export markets. It will also create some sixty jobs for every 100 hectares planted per growing season.

The IIC is supporting the development of the Peruvian agribusiness sector by financing a project with a high value-added component that will also create employment and foster certified, quality exports. The local financial sector does provide funding for agriculture, but it focuses on pre-export financing and short-term working capital.

HSBC Bank Perú, S.A.

CREDIT LINE: Up to $20 million

HSBC Bank Perú offers commercial banking, personal banking, foreign trade, and treasury services. It is seeking to step up its operations with export-oriented companies in Peru.

HSBC Bank Perú will onlend the proceeds of a credit line from the IIC to approximately forty SMEs. These short- and medium-term subloans are expected to average $500,000 and target export-oriented companies.

This is the first time that HSBC Bank Perú will receive longer-term financing. Such financing will help it improve its asset-liability matching while diversifying its client base.

Mibanco, Banco de la Micro-Empresa, S.A.

LOAN: Up to 23 million nuevos soles

Mibanco is the only commercial private bank in Peru that specializes in microfinance. The IIC loan will enable Mibanco to diversify its sources of funding, reduce its foreign exchange risk by dedollarizing its portfolio, and expand its local-currency lending to microenterprises and small enterprises. Mibanco will thus be able to provide financing to at least 320 such enterprises for working capital or for purchasing fixed assets, bringing these enterprises into the formal banking system.

The subloans financed with the IIC line are expected to average 65,000 nuevos soles.

This loan will be funded under the bond issue program approved this year.

Scotiabank Perú, S.A.A.

A LOAN: Up to $40 million

B LOAN: Up to $45 million

The IIC loan to Scotiabank Perú will provide medium-term financing to approximately 850 Peruvian SMEs. The end beneficiaries will use the proceeds for expansion projects, for purchasing machinery and equipment, and for working capital.

Scotiabank Perú is a multipurpose bank that is seeking to establish itself as a specialist in retail, wholesale, and SME banking. The long-term loan from the IIC will enable the bank to improve the term matching of its lending and borrowing operations and thus offer longer-term financing to SMEs. Such companies have limited access to the medium-term and, particularly, long-term financing that they need to acquire capital goods, grow, and compete in a globalized economy.

The loan to Scotiabank Perú is in line with the IIC's strategy to increase the flow of financial resources to SMEs in the region to meet the Declaration of Nuevo León goals.

SURINAME

C. Kersten & Co. N.V.

LOAN: Up to $4 million

C. Kersten & Co. N.V. is a holding company with operating companies in key growth areas of Suriname's economy: mining, infrastructure, and tourism. Some 40 percent of its earnings are in foreign currency; the group accounts for more than 1 percent of Suriname's total annual exports.

The Kersten group of companies needs long-term resources for refinancing, capital expenditures, and working capital, but its financial requirements can no longer be met by the local banking sector alone.

The IIC loan to Kersten—its first in Suriname—is part of a larger financing package totaling approximately $25 million. The package includes a $7 million loan from the IDB, revolving credit facilities from Surinamese banks, and long-term facilities from Trinidadian investors. This joint IIC/IDB effort will provide an integrated financing solution for Kersten.

TRINIDAD AND TOBAGO

RBTT Financial Holdings Limited

PURCHASE OF SENIOR INVESTMENT NOTES: Up to $40 million

The IIC will purchase from RBTT Merchant Bank Ltd. a portion of the senior investment notes issued by RBTT Finance Limited and guaranteed by RBTT Financial Holdings Limited. RBTT Financial Holdings Limited, through its operating subsidiaries, will direct financial resources in the amount invested by the IIC to companies that meet the eligibility criteria defined by the IIC.

The RBTT group is a regional financial group that provides a full line of financial services to its clients in the Caribbean, Suriname, and Central America.

One of the IIC's priorities is to improve access to suitable sources of credit for SMEs. Providing financial institutions with longer-term funding for lending to such enterprises is essential for meeting this goal. The transaction with the RBTT group is in line with this goal and will provide the group with the liquidity it needs to increase its SME portfolio. It will also place the IIC in a strategic position for increasing its operations in the Caribbean.

URUGUAY

Sociedad Anónima Molinos Arroceros Nacionales

A LOAN: Up to $2.5 million

B LOAN: Up to $2.5 million

Sociedad Anónima Molinos Arroceros Nacionales (SAMAN) began as a small rice mill for the local market and is now one of the five largest rice processors in Latin America. It accounts for nearly 50 percent of Uruguay's rice exports. Rice is one of the nation's chief sources of foreign exchange; this project will help SAMAN maintain its excellent quality and protect the competitive advantage of Uruguay's rice industry on the world market.

SAMAN receives rice from more than 200 growers, to whom it provides financial and technical assistance, including leased land, irrigation, and seeds. This supply chain generates approximately six thousand indirect jobs. The IIC loan to SAMAN will support this supply chain by providing financing for plant repairs and upgrades, increased production, and storage capacity expansion.

Long-term financing such as this loan from the IIC is difficult to obtain from local sources, especially for terms longer than five years.

Financial Statements

Report of Independent Auditors

To 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, 2007 and 2006, and the related statements of income, comprehensive income, 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, 2007 and 2006, 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.* The Corporation also changed its methodology and disclosures for the fair value measurement of financial instruments due to its adoption of Statement of Financial Accounting Standards No. 157, *Fair Value Measurements.*

As discussed in Note 2 of the financial statements, in 2006 the Corporation changed its method of accounting for pension and postretirement benefit plans due to its adoption of Statement of Financial Accounting Standard No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans.*

Ernst + Young LLP

McLean, Virginia
February 8, 2008

Balance Sheet

USD Thousands (except share data)	December 31 2007	2006
ASSETS		
Cash and Cash Equivalents	$ 70,046	$ 69,451
Investment Securities		
Trading	157,283	95,735
Held-to-Maturity	183,050	95,021
Investments		
Loan Investments	796,910	619,390
Less Allowance for Losses	(39,481)	(39,933)
	757,429	579,457
Equity Investments ($19,532 at fair value as of Dec. 31, 2007)	43,017	67,423
Total Investments	800,446	646,880
Receivables and Other Assets	33,391	32,774
Total Assets	**$1,244,216**	**$ 939,861**
LIABILITIES AND EQUITY		
Accounts Payable and Other Liabilities	$ 8,003	$ 9,222
Interest and Commitment Fees Payable	2,707	1,504
Borrowings and Long-Term Debt ($50,926 at fair value as of Dec. 31, 2007)	498,966	342,229
Total Liabilities	**509,676**	**352,955**
Capital		
Authorized: 70,370 shares (Par $10,000)		
Subscribed Shares: 70,370 shares (Par $10,000)	703,700	703,700
Less Subscriptions Receivable	(67,174)	(135,640)
	636,526	568,060
Retained Earnings	90,168	7,806
Accumulated Other Comprehensive Income	7,846	11,040
Total Equity	**734,540**	**586,906**
Total Liabilities and Equity	**$1,244,216**	**$ 939,861**

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

Statement of Income

USD Thousands	Year ended December 31 2007	2006
INCOME		
Loan Investments		
Interest	$ 54,969	$ 39,871
Front-End Fees	1,514	1,297
Commitment Fees	158	165
Other Income	546	372
	57,187	41,705
Equity Investments		
Gain on Sale	48,665	8,197
Changes in Carrying Value	5,202	5,560
Dividends and Distributions	2,035	1,427
Other Income	130	637
	56,032	15,821
Investment Securities	12,440	9,963
Advisory Service, Cofinancing, and Other Income	6,135	4,401
Total Income	**131,794**	**71,890**
Borrowings and Long-Term Debt Related Expense (net of changes in fair value of related financial instruments)	23,494	14,333
Total Income, Net of Interest Expense	**108,300**	**57,557**
PROVISION/(CREDIT) FOR LOAN INVESTMENT AND GUARANTEE LOSSES	**3,189**	**(1,571)**
OPERATING EXPENSES		
Administrative	22,307	19,081
Gain on Foreign Exchange Transactions, net	(669)	(92)
Other Expenses	—	730
Total Operating Expenses	**21,638**	**19,719**
NET INCOME	**$ 83,473**	**$ 39,409**

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

Statements of Comprehensive Income and Changes in Equity

Statement of Comprehensive Income

USD Thousands	Year ended December 31 2007	2006
NET INCOME	$ 83,473	$ 39,409
OTHER COMPREHENSIVE INCOME/(LOSS)		
Net Actuarial Loss	(3,432)	—
Amortization of:		
Prior Service Cost	64	—
Transition Obligation	174	—
	(3,194)	—
COMPREHENSIVE INCOME	**$ 80,279**	**$ 39,409**

Statement of Changes in Equity

USD Thousands	(Accumulated Deficit)/ Retained Earnings	Accumulated Other Comprehensive Income	Capital Stock (*)	Total Equity
As of December 31, 2005	$ (31,603)	$ —	$ 500,901	$ 469,298
Year Ended December 31, 2006				
Net Income	39,409	—	—	39,409
Adjustments to Initially Apply SFAS No. 158	—	11,040	—	11,040
Payments Received for Capital Stock Subscribed	—	—	67,159	67,159
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 Income/(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**

(*) 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 2007	2006
CASH FLOWS FROM INVESTING ACTIVITIES		
Loan Disbursements	$ (296,327)	$ (283,247)
Equity Disbursements	(2,535)	(4,735)
Guarantee Disbursements	(85)	(2)
Loan Repayments	121,617	88,660
Sales of Equity Investments	80,808	20,031
Held-to-Maturity Securities		
Purchases	(108,318)	(95,044)
Sales, Maturities, and Repayments	20,000	—
Capital Expenditures	(107)	(290)
Proceeds from Recovered Assets	2,140	3,292
Net cash used in investing activities	**(182,807)**	**(271,335)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Drawdown of Borrowings, net	103,525	145,238
Proceeds from Issuance of Notes	43,869	—
Capital Subscriptions	66,785	67,159
Net cash provided by financing activities	**214,179**	**212,397**
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	83,473	39,409
Adjustments to reconcile net income to net cash provided by operating activities:		
Realized Capital Gains on Equity Sales	(48,665)	(8,197)
Change in Receivables and Other Assets	(5,555)	(5,869)
Change in Carrying Value of Equity Investments	(5,202)	(5,560)
Provision/(Credit) for Loan and Guarantee Losses	3,189	(1,571)
Change in Pension Benefit Plan and PRBP Net Assets	523	(1,201)
Unrealized (Gain)/Loss on Investment Securities	(174)	946
Equity Recoveries	(126)	(637)
Change in Accounts Payable and Other Liabilities	1,629	(373)
Unrealized (Gain)/Loss on Non-trading Derivative Instruments	(745)	55
Change in Value of Borrowings at Fair Value	1,616	—
Other, net	627	263
	(52,883)	(22,144)
Trading Securities		
Purchases	(807,890)	(673,209)
Sales, Maturities, and Repayments	746,516	734,924
	(61,374)	61,715
Net cash (used in)/provided by Operating Activities	**(30,784)**	**78,980**
Net effect of exchange rate changes on cash and cash equivalents	7	2
NET INCREASE IN CASH AND CASH EQUIVALENTS	595	20,044
CASH AND CASH EQUIVALENTS AS OF JANUARY 1	69,451	49,407
CASH AND CASH EQUIVALENTS AS OF DECEMBER 31	**$ 70,046**	**$ 69,451**
SUPPLEMENTAL DISCLOSURE:		
Interest Paid During the Year	$ 20,841	$ 13,364

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

Notes to the Financial Statements

(dollars in thousands, unless otherwise indicated)

Purpose

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

1. Basis of Presentation

The accounting and reporting policies of the Corporation conform to U.S. generally accepted accounting principles.

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

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 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, if any, 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. It is the Corporation's practice to obtain collateral security such as, but not limited to, mortgages and third-party guarantees. Equity investments, which includes 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 equity investments for which the Corporation maintains specific ownership accounts on which the Corporation does not have significant influence are carried at cost less impairment. The Corporation's equity investments in companies where it has significant influence are accounted for at fair value. 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 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 on a monthly basis, 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 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.

Notes to the Financial Statements

(dollars in thousands, unless otherwise indicated)

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 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 are recorded as income when received. Certain equity investments for which recovery of invested capital is uncertain are accounted for under the cost recovery method, such that cash received is first applied to recovery of invested capital and then to capital gains.

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. Guarantee fees, which typically involve initial fees and continuing fees, are recorded as income as the Corporation is released from risk upon the expiration or settlement of the guarantee.

Risk management activities: Derivatives used for nontrading purposes—The Corporation enters into transactions in certain derivative instruments for financial risk management purposes. The Corporation manages its exposure to interest rate movements through the use of derivative financial products, which include interest rate swaps and 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 $), other than disbursed equity investments, 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. Disbursed equity investments are expressed in U.S. dollars at the prevailing exchange rate at the time of disbursement. 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.

For many of the Corporation's financial instruments 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 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 available. 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. The estimated fair value of Investment Securities is disclosed in Note 3.

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. In prior years the Corporation did not disclose the fair value of the loan portfolio due to the Corporation's unique position in its lending operations and the absence of an established secondary market, which made the estimation of fair value not practicable. The methodology implemented requires the use of estimates and present value calculations of future cash flows. The Corporation has never sold its loans from its portfolio, and there is no comparable active 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, 2007, the carrying amount of loan investments that were measured using this methodology was $273,532, and their estimated fair value amounted to $277,589. Management believes that it is not practicable to determine the fair value of the remainder of the loan portfolio, which includes custom-tailored financing to small and medium-size enterprises operating in the Corporation's member countries. As of December 31, 2007, the carrying value of this remainder portfolio was $523,378.

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. 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 $23,486 as of December 31, 2007. Fair value for investments in LLPs was determined using the partnership net asset value at the latest financial information available. 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 Instruments: Fair values are determined by obtaining the present value of estimated future cash flows using appropriate discount rates. 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 7 and 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 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 September 2006, the FASB issued SFAS 157. The new standard's main changes to current practice relate to the definition of fair value, the methods used to measure fair value, and the expanded disclosures about fair value measurements. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Corporation adopted this statement early, effective January 1, 2007. The required disclosures are included in Note 7, and Note 9.

In September 2006, the FASB issued SFAS 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an Amendment of FASB Statements No. 87, 88, 106, and 132(R).* This statement improves financial reporting for defined benefit postretirement plans by requiring an employer to recognize in its statement of financial position the overfunded or underfunded status of the plan as an asset or liability; recognize changes in the funded status in the year in which the changes occur through comprehensive income; measure the funded status of a plan as of the date of the employer's statement of financial position; and disclose additional information in the notes to financial statements about certain effects on net periodic benefit cost in the upcoming fiscal year that arise from delayed recognition of the actuarial gains or losses, prior service costs or credits, and transition asset or obligation. An employer without publicly traded equity securities is required to recognize the funded status of a defined benefit postretirement plan and to provide the required disclosures as of the end of the fiscal year ending after June 15, 2007. The requirement to measure plan assets and benefit obligations as of the date of the employer's fiscal year-end statement of financial position is effective for fiscal years ending after December 15, 2008. The Corporation adopted this statement effective for fiscal year ended December 31, 2006.

In June 2007, the American Institute of Certified Public Accountants (AICPA) issued Statement of Position No. 07-1 (SOP No. 07-1), *Clarification of the Scope of the Audit and Accounting Guide Investment Companies and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies.* SOP No. 07-1 provides guidance for determining whether an entity is within the scope of the AICPA Audit and Accounting Guide for Investment Companies. Among other provisions, investment companies that are within the scope of this guide report investments at fair value. SOP No. 07-1 was to be effective for fiscal years beginning on or after December 15, 2007. However, although the implementation date has been indefinitely postponed, management has determined that the Corporation does not meet all the applicable conditions to be considered within SOP No. 07-1 or the current scope of the AICPA Audit and Accounting Guide for Investment Companies.

In addition, during the year ended December 31, 2007, 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 either its financial position or results of its operations.

(dollars in thousands, unless otherwise indicated)

3. Investment Securities

The following reflects net income from Investment Securities by source:

	Year ended December 31	
USD Thousands	2007	2006
Interest Income	$ 11,078	$ 6,068
Net Realized Gain	1,188	4,841
Net Change in Unrealized Gain/(Loss)	174	(946)
	$ 12,440	**$ 9,963**

Trading securities at market value consist of the following:

	December 31	
USD Thousands	2007	2006
Investment Funds	$ 51,699	$ 66,859
Corporate Securities	105,584	24,871
Asset-Backed Securities	—	4,005
	$ 157,283	**$ 95,735**

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

	December 31	
USD Thousands	2007	2006
Government and Agency Obligations	$ 82,776	$ 70,021
Corporate Securities	100,274	25,000
	$ 183,050	**$ 95,021**

Included in Corporate Securities is a non-negotiable certificate of deposit denominated in Mexican pesos approximately equivalent to $30,232 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 $41,416 corresponding to another development asset, approved and supervised accordingly, with similar characteristics to other investment securities held-to-maturity.

(dollars in thousands, unless otherwise indicated)

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

	December 31, 2007		
USD Thousands	Amortized Cost	Unrealized Gain/(Loss)	Fair Value
Government and Agency Obligations	$ 82,776	$ 2,365	$ 85,141
Corporate Securities	100,274	(527)	99,747
	$ 183,050	**$ 1,838**	**$ 184,888**

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

	December 31	
USD Thousands	2007	2006
Less than twelve months	$ 19,994	$ 19,987
Between twelve and twenty-four months	20,115	19,970
Over twenty-four months	142,941	55,064
	$ 183,050	**$ 95,021**

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, 2007, individual countries with the largest aggregate credit exposure to the Corporation included Colombia, Brazil, and Peru (Colombia, Brazil, and Chile as of December 31, 2006). As of December 31, 2007, outstanding local-currency loans amounted to $112,808 (local-currency loans amounted to $87,229 as of December 31, 2006.)

Notes to the Financial Statements

(dollars in thousands, unless otherwise indicated)

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

	December 31					
USD Thousands	2007			2006		
	Loan	Equity	Total	Loan	Equity	Total
Colombia	$ 145,264	$ 429	$ 145,693	$ 120,847	$ 429	$ 121,276
Brazil	144,841	—	144,841	110,240	—	110,240
Peru	116,144	—	116,144	68,341	—	68,341
Chile	90,523	4,136	94,659	63,052	14,968	78,020
Mexico	54,656	7,685	62,341	59,836	8,789	68,625
Regional	33,214	28,448	61,662	36,199	41,622	77,821
Ecuador	38,974	—	38,974	37,025	—	37,025
Nicaragua	34,506	—	34,506	14,269	—	14,269
Argentina	31,058	1,247	32,305	13,407	612	14,019
Costa Rica	32,036	—	32,036	16,099	—	16,099
El Salvador	21,194	—	21,194	24,000	—	24,000
Uruguay	14,559	334	14,893	14,755	265	15,020
Paraguay	12,366	—	12,366	10,500	—	10,500
Honduras	11,340	—	11,340	10,340	—	10,340
Dominican Republic	4,615	—	4,615	5,000	—	5,000
Suriname	4,000	—	4,000	—	—	—
Bolivia	2,545	—	2,545	4,326	—	4,326
Panama	2,117	—	2,117	3,189	—	3,189
Belize	1,537	—	1,537	—	—	—
Jamaica	1,421	—	1,421	1,977	—	1,977
Trinidad and Tobago	—	598	598	—	598	598
Guyana	—	140	140	—	140	140
Venezuela	—	—	—	5,988	—	5,988
	$ 796,910	**$ 43,017**	**$ 839,927**	**$ 619,390**	**$ 67,423**	**$ 686,813**

Financial Services	$ 599,616	$ 12,413	$ 612,029	$ 443,314	$ 21,745	$ 465,059
Agriculture and Agribusiness	53,188	—	53,188	47,673	—	47,673
Investment Funds	—	30,604	30,604	—	45,678	45,678
Utilities and Infrastructure	24,395	—	24,395	18,022	—	18,022
Textiles, Apparel and Leather	21,519	—	21,519	3,326	—	3,326
Food, Bottling and Beverages	18,724	—	18,724	7,489	—	7,489
Aquaculture and Fisheries	16,081	—	16,081	21,880	—	21,880
General Manufacturing	11,758	—	11,758	5,260	—	5,260
Chemicals and Plastics	11,001	—	11,001	19,442	—	19,442
Education	10,126	—	10,126	12,142	—	12,142
Wood, Pulp and Paper	7,606	—	7,606	11,280	—	11,280
Livestock and Poultry	7,549	—	7,549	8,586	—	8,586
Industrial Processing Zones	5,143	—	5,143	6,480	—	6,480
Transportation and Warehousing	4,173	—	4,173	4,054	—	4,054
Tourism and Hotels	3,390	—	3,390	5,419	—	5,419
Oil and Mining	2,545	—	2,545	3,273	—	3,273
Health	96	—	96	120	—	120
Other	—	—	—	1,630	—	1,630
	$ 796,910	**$ 43,017**	**$ 839,927**	**$ 619,390**	**$ 67,423**	**$ 686,813**

(dollars in thousands, unless otherwise indicated)

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

USD Thousands	December 31 2007	December 31 2006
Loan	$ 73,143	$ 26,721
Equity	9,062	10,961
	$ 82,205	**$ 37,682**

The Corporation's loans accrue interest at variable and fixed rates. The fixed rate loan portfolio amounted to $219,472 as of December 31, 2007 ($150,631 as of December 31, 2006).

Loans on which the accrual of interest has been discontinued totaled $13,943 as of December 31, 2007 ($28,704 as of December 31, 2006). Interest income not recognized on nonaccruing loans, net of collections, during the year ended December 31, 2007, totaled $1,536 ($1,594 for the year ended December 31, 2006). Interest collected on loans in nonaccrual status for the year ended December 31, 2007, was $3,620 ($1,995 for the year ended December 31, 2006).

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

USD Thousands	December 31 2007		2006	
	Principal Outstanding	**Average Yield**	**Principal Outstanding**	**Average Yield**
Due in one year or less	$ 117,449	7.23%	$ 88,229	8.17%
Due after one year through five years	584,583	7.54%	459,555	7.65%
Due after five years through eleven years	94,878	6.65%	71,606	6.98%
	$ 796,910		**$ 619,390**	

The Corporation's investment in impaired loans as of December 31, 2007, was $1,000 ($9,342 as of December 31, 2006). The average investment in impaired loans for the year ended December 31, 2007, was $5,171 ($21,079 for the year ended December 31, 2006).

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

USD Thousands	December 31 2007			2006		
	Loan	**Guarantees**	**Total**	**Loan**	**Guarantees**	**Total**
Balance at Beginning of Year	$ 39,933	$ 36	$ 39,969	$ 47,743	$ —	$ 47,743
Investments Written Off, net	(5,534)	(85)	(5,619)	(8,827)	(2)	(8,829)
Recoveries	2,014	—	2,014	2,655	—	2,655
Provision/(Credit) for Losses	3,068	121	3,189	(1,609)	38	(1,571)
Other	—	—	—	(29)	—	(29)
Balance at End of Year	**$ 39,481**	**$ 72**	**$ 39,553**	**$ 39,933**	**$ 36**	**$ 39,969**

Notes to the Financial Statements

(dollars in thousands, unless otherwise indicated)

5. Receivables and Other Assets

Receivables and other assets are summarized below:

USD Thousands	December 31 2007	December 31 2006
Other Current Assets:		
Interest Receivable on Loan Investments	$ 8,990	$ 6,251
Interest Receivable on Investment Securities	2,481	1,625
Other Current Receivables	1,006	1,156
	12,477	9,032
Other Non-Current assets:		
Pension Benefit Plan and PRBP Net Assets	8,524	12,241
Interest Receivable on Loan Investments	8,398	6,174
Receivable on Equity Sales, net	1,662	2,220
Other Non-Current Assets	2,330	3,107
	20,914	23,742
Total Receivables and Other Assets	**$ 33,391**	**$ 32,774**

Pension and PRBP Benefit Plan Net Assets reflects 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.

6. Accounts Payable and Other Liabilities

Accounts payable and other liabilities are summarized below:

USD Thousands	December 31 2007	December 31 2006
Employment Benefits Payable	$ 2,922	$ 2,743
Deferred Revenue	2,156	2,519
Accounts Payable	1,456	775
Due to Other IDB Group Entities	300	349
Capital Contributions Received in Advance	—	1,681
Other Liabilities and Other Deferred Revenue	1,169	1,155
Total Accounts Payable and Other Liabilities	**$ 8,003**	**$ 9,222**

(dollars in thousands, unless otherwise indicated)

7. Borrowings and Long-term Debt

Credit facilities and related borrowings outstanding are as follows:

USD Thousands	December 31			
	2007		2006	
Credit Agreements	Facility	Outstanding	Facility	Outstanding
IDB, expiring November 2010 (amended date)	$ 300,000	$ —	$ 300,000	$ —
Caja Madrid, expiring March 2012	100,000	50,000	100,000	—
Caja Madrid, expiring October 2010 (amended amount and date)	50,000	—	50,000	—
Rabobank, expiring December 2009	50,000	—	50,000	—
Caja Madrid, expiring January 2011	50,000	50,000	50,000	50,000
Caja Madrid, expiring March 2015	50,000	50,000	50,000	50,000
Caixa Geral de Portugal, expiring February 2012	50,000	50,000	25,000	25,000
Natexis, expiring December 2012	50,000	50,000	50,000	50,000
Caixa Geral de Depósitos, expiring June 2013	50,000	50,000	50,000	50,000
HSBC, expiring October 2012	50,000	25,000	—	—
Shinkin, expiring December 2009	30,000	30,000	30,000	30,000
Banco Itaú, expiring September 2012	16,944	16,944	—	—
BBVA Bancomer, expiring October 2010	45,806	—	20,229	20,229
Banco de la Nación Argentina, expiring September 2015	9,542	—	—	—
Banco Continental, expiring November 2011	7,672	7,672	—	—
		$ 379,616		**$ 275,229**
Fair Value Adjustments		926		
		$ 380,542		

During 2007, the Corporation borrowed a net amount of $103,525, both in U.S. dollars and local currencies, to fund the Corporation's ordinary operations.

Other long-term debt included local-currency bonds and notes as indicated below:

USD Thousands	December 31			
	2007		2006	
Bonds and Notes Issued/Currency	Amount	Wgtd. Avg. Cost	Amount	Wgtd. Avg. Cost
Colombian pesos (Expiring December 2010)	$ 74,451	7.26%	$ 67,000	6.21%
Mexican pesos (Expiring November 2010)	43,973	7.88%	—	—
	$ 118,424	**7.49%**	**$ 67,000**	**6.21%**

The Corporation's outstanding borrowings as of December 31, 2007, consist of term and revolving credit facilities. Borrowings under the IDB facility are due fifteen years after the respective disbursement and are renewable. The IDB facility was renewed in 2005, allowing the Corporation to borrow up to $300,000 until November 2010.

(dollars in thousands, unless otherwise indicated)

On December 14, 2005, the Corporation issued Certificate of Deposit Rate (DTF) plus 0.42% (Series A) and Consumer Price Index (IPC) plus 1.62% (Series C) local-currency bonds in the amount of 150 billion Colombian pesos (equivalent to approximately $65,925 at the issuance date spot foreign exchange rate) 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 bonds 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 (equivalent to approximately $43,869 at the issuance date spot foreign exchange rate) 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.

Interest on borrowings accrues at variable and fixed rates set at the effective date of each borrowing or the interest reset date. The Corporation's weighted average cost of borrowings for the year ended December 31, 2007, was 5.79% (5.38% for the year ended December 31, 2006). The Corporation's weighted average cost of borrowings and long-term debt for the year ended December 31, 2007, was 6.17% (5.53% for the year ended December 31, 2006).

As of December 31, 2007, the estimated fair value of the fixed rate borrowings was $74,471 and the estimated fair value of the bonds issued in Colombia amounted to $74,675. The carrying amounts for the remaining borrowings and long-term debt approximated their respective fair value.

The maturity structure of borrowings and long-term debt outstanding, by type of debt, is as follows:

USD Thousands	2009	2010	2011	Through 2015
Borrowings	$ 30,000	$ —	$ 50,000	$ 300,542
Bonds and Notes	—	118,424	—	—
	$ 30,000	**$ 118,424**	**$ 50,000**	**$ 300,542**

8. Capital

The Corporation's authorized share capital was increased to $703.7 million through a $500 million capital increase resolution approved in 1999. The resolution allocated $500 million for subscriptions by member countries during the subscription period. On March 22, 2000, the minimum number of subscriptions required to make the capital increase resolution effective was received. Members agreed to pay their subscriptions in eight equal installments, the last of which was payable on October 31, 2007. 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 have not been paid in accordance with previously established deadlines, the Corporation continues to work with its member countries concerning the matter. It is expected that all shares authorized under the capital increase will be paid in.

Notes to the Financial Statements

(dollars in 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	$ 20,400	$ —
Austria	345	3,450	—	—
Bahamas	144	1,440	—	—
Barbados	101	1,010	—	—
Belgium	169	1,690	—	—
Belize	101	1,010	—	—
Bolivia	624	6,240	—	—
Brazil	7,767	77,670	—	—
Chile	2,003	20,030	—	—
Colombia	2,003	20,030	—	—
Costa Rica	204	2,040	50	—
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	—	—
Korea, Republic of	110	1,100	—	—
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	625	—
Peru	2,003	20,030	—	—
Portugal	182	1,820	—	—
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	—	—
Venezuela	4,311	43,110	—	—
Total 2007	**70,370**	**$ 703,700**	**$ 67,174**	**$ —**
Total 2006	**70,370**	**$ 703,700**	**$ 135,640**	**$ 1,681**

Notes to the Financial Statements

(dollars in thousands, unless otherwise indicated)

9. Measures and Changes in Fair Value

The Corporation presents below the fair value measurements and related changes in fair value of those financial instruments for which the fair value option has been elected.

USD Thousands Asset/(Liabilities)	Fair Value Measurements at December 31, 2007	Fair Value Measurements at December 31, 2007, Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Borrowings	$ (50,926)	$ —	$ (50,926)	$ —
Derivatives	348	—	348	—
Limited Liability Partnerships (*)	19,532	—	—	19,532

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

USD Thousands	Changes in Fair Values for the Year ended December 31, 2007, for Items Measured at Fair Value Pursuant to Election of the Fair Value Option: Other Gains and (Losses)	Interest Expense on Long-term Debt	Total Changes in Fair Values Included in Earnings for the Year
Borrowings	$ (758)	$ (2,728)	$ (3,486)
Derivatives	644	—	644
Limited Liability Partnerships (*)	4,772	—	4,772

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

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 earnings/(losses)	4,772
Distributions received	(17,707)
Contributions made	1,549
As of December 31, 2007	**$ 19,532**

The amount of total losses for the year ended December 31, 2007 included in Changes in carrying value of equity investments attributable to the change in unrealized gains or losses relating to assets still held at that date was $217.

Notes to the Financial Statements

(dollars in thousands, unless otherwise indicated)

10. Guarantees

As of December 31, 2007, notices of default amounting to $87 have been received since inception of the outstanding guarantees ($2 as of December 31, 2006). 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 $10,632 as of December 31, 2007 ($4,366 as of December 31, 2006). Of that amount approximately $6,086 corresponds to guarantees provided in currencies other than the United States dollar ($1,295 as of December 31, 2006). 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 but, if involving monetary liability, may be material to the Corporation's operating results for a particular period.

12. Participations

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

During the year ended December 31, 2007, the Corporation called and disbursed $243,944 in Participants' funds ($139,899 for the year ended December 31, 2006). There was $33,224 in undisbursed Participants' funds commitments as of December 31, 2007 ($6,150 as of December 31, 2006).

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	**2007**	**2006**
Office Space (Headquarters and Other)	$ 1,661	$ 1,615
Support Services	598	538
Other IDB Services	150	150
	$ 2,409	**$ 2,303**

(dollars in thousands, unless otherwise indicated)

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

USD Thousands	2008	2009	2010–2013
Office Space (Headquarters)	$ 1,627	$ 1,676	$ 7,221
	$ 1,627	**$ 1,676**	**$ 7,221**

Accounts payable to the IDB were $300 as of December 31, 2007 ($349 as of December 31, 2006).

In 2007 and 2006, no amounts were outstanding to the IDB under an existing loan agreement (refer to Note 7).

The Corporation provides advisory services to IDB Group entities. During 2007, the total aggregate value of this agreement amounted to $163 ($150 for the year ended December 31, 2006).

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.

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:

Notes to the Financial Statements

(dollars in thousands, unless otherwise indicated)

USD Thousands	Pension Benefits 2007	Pension Benefits 2006	Postretirement Benefits 2007	Postretirement Benefits 2006
Reconciliation of Benefit Obligation				
Obligation as of January 1	$ 38,379	$ 33,440	$ 15,356	$ 13,813
Service Cost	1,874	1,751	1,060	1,010
Interest Cost	2,355	1,894	1,355	738
Participants' Contributions	637	622	—	—
Actuarial (Gain)/Loss	(791)	1,282	5,922	(72)
Benefits Paid	(747)	(610)	(197)	(133)
Obligation as of December 31	41,707	38,379	23,496	15,356
Reconciliation of Fair Value of Plan Assets				
Fair Value of Plan Assets as of January 1	46,048	39,561	19,928	16,603
Actual Return on Assets	4,067	5,448	1,281	2,419
Benefits Paid	(747)	(610)	(197)	(133)
Participants' Contributions	637	622	—	—
Employer Contributions	956	1,027	1,762	1,039
Fair Value of Plan Assets as of December 31	50,961	46,048	22,774	19,928
Funded Status				
Funded Status as of December 31	9,254	7,669	(722)	4,572
Net Amount Recognized as of December 31	$ 9,254	$ 7,669	$ (722)	$ 4,572
Amounts Recognized on the Balance Sheet Consist of:				
Pension and Postretirement Benefit Assets/(Liabilities)	$ 9,254	$ 7,669	$ (722)	$ 4,572
Other	(19)	—	11	—
Net Amount Recognized as of December 31	**$ 9,235**	**$ 7,669**	**$ (711)**	**$ 4,572**
Amounts Recognized in Accumulated Other Comprehensive Income Consist of:				
Net Actuarial Gain	$ (8,648)	$ (6,573)	$ (679)	$ (6,197)
Prior Service Costs	91	105	174	224
Net Initial Asset	—	—	1,227	1,401
Other	—	—	(11)	—
Net Amount Recognized as of December 31	**$ (8,557)**	**$ (6,468)**	**$ 711**	**$ (4,572)**

The accumulated benefit obligation attributable to the Corporation for the Pension Plan was $31,458 and $29,812 as of December 31, 2007 and 2006 respectively.

(dollars in thousands, unless otherwise indicated)

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	2007	2006	2007	2006
Service Cost	$ 1,874	$ 1,751	$ 1,060	$ 1,010
Interest Cost	2,355	1,894	1,355	738
Expected Return on Plan Assets	(2,783)	(2,255)	(1,128)	(955)
Amortization of:				
Transition Obligation and Asset	—	—	174	174
Unrecognized Net Actuarial Gain	—	—	251	(72)
Prior Service Cost	14	14	50	50
Net Periodic Benefit Cost	**$ 1,460**	**$ 1,404**	**$ 1,762**	**$ 945**

Amounts of plan assets and benefit obligation recognized in Accumulated Other Comprehensive Income

	Pension Benefits		Postretirement Benefits	
	Year ended December 31		Year ended December 31	
USD Thousands	2007	2006	2007	2006
Net Actuarial Gain	$ 8,648	$ 6,573	$ 679	$ 6,197
Prior Service Cost	(91)	(105)	(174)	(224)
Unrecognized Net Initial Asset	—	—	(1,227)	(1,401)
Other	—	—	11	—
Total Recognized in Accumulated Other Comprehensive Income	**$ 8,557**	**$ 6,468**	**$ (711)**	**$ 4,572**

The estimated net actuarial gain, prior service cost, and net initial obligation for the Plan and the PRBP that will be amortized from Accumulated Other Comprehensive Income into Net Periodic Benefit Cost over 2008 amount to a net of $14 for the Pension Plan and $224 for the PRBP.

Notes to the Financial Statements

(dollars in thousands, unless otherwise indicated)

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 10.5 and 11.4 years, respectively.

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

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

	Pension Benefits		**Postretirement Benefits**	
	2007	**2006**	**2007**	**2006**
Weighted Average Assumptions Used to Determine Benefit Obligation as of December 31				
Discount Rate	6.25%	6.00%	6.25%	6.00%
Rate of Compensation Increase	6.00%	6.00%		

	Pension Benefits		**Postretirement Benefits**	
	2007	**2006**	**2007**	**2006**
Weighted Average Assumptions Used to Determine Net Periodic Benefit Cost for Years Ended December 31				
Discount Rate	6.00%	5.50%	6.00%	5.50%
Expected Long-Term Return on Plan Asset	6.75%	6.75%	6.75%	6.75%
Rate of Compensation Increase	6.00%	5.10%		

The expected yearly rate of return on plan assets reflects the historical rate of return of asset categories employed by the plans and conservatively applying those returns 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.

Notes to the Financial Statements

(dollars in thousands, unless otherwise indicated)

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	
	2007	2006
Rate to Which the Cost Trend Rate is Expected to Decline (Ultimate Trend Rate)	5.00%	5.00%
Year that the Rate Reaches the Ultimate Trend Rate	2018	2013
Health Care Cost Trend Rate Assumed for Next Year		
Medical	10.00%	8.00%
Prescription Drugs	10.00%	9.00%
Dental	6.50%	6.50%
Outside U.S. (*)	10.00%	8.00%

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

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

	One-Percentage-Point Increase		One-Percentage-Point Decrease	
	Year ended December 31		Year ended December 31	
USD Thousands	2007	2006	2007	2006
Effect on Total of Service and Interest Cost Components	$ 493	$ 369	$ (360)	$ (276)
Effect on Postretirement Benefit Obligation	4,236	2,415	(3,162)	(1,824)

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	
	2007	2006	2007	2006
Asset Category				
U.S. Equities	34%	35%	39%	40%
Non-U.S. Equities	29%	26%	30%	31%
Fixed-Income Bonds and Funds	20%	20%	20%	19%
U.S. Inflation-Indexed Bonds	7%	6%	10%	9%
Real Estate Investment Funds and Equities	6%	6%	—	—
Commodity Index Futures	2%	2%	—	—
Other	2%	5%	1%	1%
Total	100%	100%	100%	100%

Notes to the Financial Statements

(dollars in thousands, unless otherwise indicated)

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.

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 15%) that are expected to react positively to rising inflation to provide protection against loss of purchasing power. The investment policy target allocations as of December 31, 2007 are as follows:

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

(**) Comprises U.S. inflation-index bonds (5%–15%), real estate investment equities and funds (0%–6%), commodity index futures (0%–4%) for the Pension Plan, and U.S. inflation-index 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 2008 are expected to be approximately $900 and $1,875, respectively. All contributions are made in cash.

Notes to the Financial Statements

(dollars in thousands, unless otherwise indicated)

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, 2007.

USD Thousands	Pension Plan	PRBP
Estimated Future Benefit Payments		
January 1, 2008–December 31, 2008	$ 800	$ 310
January 1, 2009–December 31, 2009	900	320
January 1, 2010–December 31, 2010	1,000	340
January 1, 2011–December 31, 2011	1,100	450
January 1, 2012–December 31, 2012	1,300	470
January 1, 2013–December 31, 2017	9,800	3,600

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.

Appendices

GOVERNORS AND ALTERNATE GOVERNORS*

Country	Governor	Alternate Governor
Argentina	Martín Lousteau	Martín P. Redrado
Austria	Wilhelm Molterer	Kurt Bayer
Bahamas	Zhivargo S. Laing	Ruth Millar
Barbados	Mia Mottley	Grantley Smith
Belgium	Didier Reynders	Franciscus Godts
Belize	Said Musa	Joseph Waight
Bolivia	Gabriel Loza Tellería	Luis Alberto Arce Catacora
Brazil	Paulo Bernardo Silva	Alexandre Meira da Rosa
Chile	Andrés Velasco	María Olivia Recart Herrera
Colombia	Oscar Iván Zuluaga Escobar	Carolina Rentería Rodriguez
Costa Rica	Guillermo Zúñiga Chaves	Francisco de Paula Gutiérrez
Denmark	Ole E. Moesby	Lars Bredal
Dominican Republic	Vicente Bengoa	Juan Temístocles Montás
Ecuador	Fausto Ortiz de la Cadena	—
El Salvador	Eduardo Ayala Grimaldi	William J. Handal
Finland	Marjatta Rasi	Ilkka Helskanen
France	Christine Lagarde	Xavier Musca
Germany	Karin Kortmann	Rolf Wenzel
Guatemala	Mefi Rodríguez García	María Antonieta de Bonilla
Guyana	Bharrat Jagdeo	Ashni Singh
Haiti	Daniel Dorsainvil	Jean-Max Bellerive
Honduras	Rebeca P. Santos	Gabriela Núñez
Israel	Stanley Fisher	Oded Brook
Italy	Tommaso Padoa-Schioppa	Mario Draghi
Jamaica	Audley Shaw, MP	Wesley Hughes, CD
Japan	Fukushirou Nukaga	Toshihiko Fukui
Mexico	Agustín Carstens	Alejandro Werner Wainfeld
Netherlands	—	Bert Koenders
Nicaragua	Alberto José Guevara Obregón	Antenor Rosales Bolaños
Norway	Anne Margareth Fagertun Stenhammer	Henrik Harboe
Panama	Héctor Alexander	—
Paraguay	César Amado Barreto Otazú	Manuel Alarcón Säfstrand
Peru	Luis Carranza Ugarte	José Berley Arista Arbildo
Portugal	Fernando Teixeira dos Santos	Carlos Costa Pina
Republic of Korea	Okyu Kwon	Seongtae Lee
Spain	Pedro Solbes Mira	David Vegara Figueras
Suriname	Humphrey Stanley Hildenberg	—
Sweden	Jan Knutsson	Susanne Jacobsson
Switzerland	Joerg Al. Reding	Roger Denzer
Trinidad and Tobago	Camille R. Robinson-Regis	Anthony Bartholomew
United States	Henry Paulson	Reuben Jeffery III
Uruguay	Danilo Astori	Enrique Rubio
Venezuela	Rodrigo Eduardo Cabeza Morales	—

* *Information as of December 2007.*

EXECUTIVE DIRECTORS AND ALTERNATE EXECUTIVE DIRECTORS*

Argentina and Haiti	Eugenio Díaz-Bonilla Martín Bès
Austria, Belgium, Germany, Italy, and the Netherlands	Francesca Manno Johan F. Rosseel
Bahamas, Barbados, Guyana, Jamaica, and Trinidad and Tobago	Jerry Christopher Butler Winston Cox
Belize, Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua	Nelly Lacayo-Anderson Raúl Barrios
Bolivia, Paraguay, and Uruguay	Hernando Larrázabal Marcelo Bisogno
Brazil and Suriname	José Carlos Miranda Sérgio Portugal
Chile and Ecuador	Alejandro Foxley Tapia Xavier Eduardo Santillán
Colombia and Peru	Luis Guillermo Echeverri Jaime Quijandría
Denmark, Finland, France, Norway, Sweden, and Switzerland	Olivier Myard Lars-Henrik Worsoee
Israel, Korea, Japan, Portugal, and Spain	Tsuyoshi Takahashi Luis Linde
Dominican Republic and Mexico	Jonathan Davis Arzac Roberto B. Saladín
Panama and Venezuela	Adina Bastidas Fernando Eleta Casanovas
United States of America	Héctor E. Morales Jan Boyer

** Information as of December 2007.*

CHANNELS OF COMMUNICATION*

Country	Institution
Argentina	Ministerio de Economía
Austria	Federal Ministry of Finance
Bahamas	Ministry of Finance
Barbados	Ministry of Economic Development
Belgium	Ministère des Finances
Belize	Ministry of Budget, Planning and Management, Economic Development, Investment and Trade
Bolivia	Ministerio de Hacienda
Brazil	Ministério do Planejamento, Orçamento e Gestão
Chile	Ministerio de Hacienda
Colombia	Ministerio de Hacienda y Crédito Público
Costa Rica	Ministerio de Hacienda
Denmark	Danish International Development Agency – DANIDA
Dominican Republic	Banco Central de la República Dominicana
Ecuador	Ministerio de Economía y Finanzas
El Salvador	Secretaría Técnica de la Presidencia
Finland	Ministry for Foreign Affairs
France	Ministère de l'économie, des finances et de l'industrie
Germany	Federal Ministry for Economic Cooperation and Development
Guatemala	Ministerio de Finanzas Públicas
Guyana	Ministry of Finance
Haiti	Ministère de l'Économie et des Finances
Honduras	Banco Central de Honduras
Israel	Bank of Israel
Italy	Ministry of the Economy and Finance
Jamaica	Ministry of Finance and Planning
Japan	Ministry of Finance
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
United States	Treasury Department
Uruguay	Ministerio de Economía y Finanzas
Venezuela	Banco de Desarrollo Económico y Social

* *Information as of December 2007.*