IIC

Inter-American Investment Corporation

2006 ANNUAL REPORT

Member Countries:

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

Front cover photographs of projects financed directly or indirectly by the IIC, from top to bottom

Wood producer, Chile
Bicycle manufacturer, Mexico
Agribusiness, Paraguay
Fishermen, Nicaragua
Dairy producer, Ecuador
Banana grower, Nicaragua
Hammock maker, Nicaragua

IIC

Inter-American
Investment Corporation

2006 ANNUAL REPORT

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Letter of Transmittal

February 27, 2007

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 2006 and the audited financial statements, including the balance sheet, the statement of income and retained earnings/(accumulated deficit) and the statement of cash flows for the fiscal year ended December 31, 2006.

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

Yours sincerely,

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

Letter from the General Manager

The Corporation's achievements during 2006 marked a milestone in its development as an institution. Total assets grew 39% to $939.9 million, and net income was $39.4 million. These achievements have allowed the IIC to build on the upward trend that began three years ago and to report positive retained earnings for the first time since 2000.

This would not have been possible without the efforts on the part of the Board of Executive Directors and Management to design and implement initiatives that have enabled the IIC to face its challenging mandate. So we have taken another step toward consolidating our capacity to meet the needs of the private sector in Latin America and the Caribbean, particularly those of the small and medium-size companies that are the core of our mission as a multilateral development institution.

Noteworthy in this regard is the creation, in 2006, of the Small Business Revolving Line (SBRL). This facility streamlines the approval process for smaller individual operations, making it possible to reach the region's small and medium-size enterprises (SMEs) more effectively. The operations carried out under the SBRL this year are further examples of the IIC's ability to implement innovative responses to its target market's needs.

In 2006, the IIC continued to build on its local-currency capabilities initiated in 2005 with an inaugural bond issue in Colombia. The Corporation in 2006 expanded local-currency financing options and became the first multilateral to use local banks as a source of funding to finance local currency operations. Following IIC's lead, this practice was subsequently replicated by other multilaterals.

With support from the Korean Government, the Corporation launched FINPYME, an innovative program for the financing of SMEs consisting of a methodology for the diagnostic review and evaluation of small and medium-size companies and a comprehensive support system to increase competitiveness.

After two years of hard work, the IIC is in an excellent position to fulfill the goals of the Declaration of Nuevo León, as adopted by the heads of state and government of our hemisphere: to reach more of the region's SMEs through financial intermediaries.

In addition to pursuing its ongoing commitment to SMEs, the Corporation redoubled its efforts to protect the environment by supporting carbon credits—both at the discussion level by holding a successful seminar on the subject and on the ground by financing carbon credit projects.

Lastly, we continue to work on harmonizing how we report data, in keeping with the best practices of peer institutions, to provide a more thorough accounting of our developmental impact.

I invite you to read the IIC's annual report for 2006.

Jacques Rogozinski
General Manager
Inter-American Investment Corporation

Consolidating Growth and Creating New Opportunities

During 2006, the Inter-American Investment Corporation (IIC) built on its growing base of resources and expertise and explored new ways to fulfill its core mission of fostering sustainable development by supporting microenterprises and small and medium-size companies in Latin America and the Caribbean. The IIC's support helps the beneficiary companies become good corporate neighbors, creating new opportunities and raising the standard of living in the communities in which they operate. The IIC has also taken a more active role in multilateral development institution forums where its experience and innovative operations are relevant.

Some of the tools, both direct and indirect, that the IIC used this year in pursuit of these goals are described in this section.

Reaching SMEs through Financial Institution Lending

At a special summit held in Monterrey, Mexico, in 2004, heads of state throughout the Americas reached an agreement—known as the Declaration of Nuevo León—that has had a significant impact on the institutional course of the IIC. The Declaration called for a threefold increase in financial institution lending to SMEs by the year 2007. In response to this mandate, the IIC stepped up its lending to financial intermediaries and, among other measures, launched a

continued on page 3

SUBLOANS THROUGH FINANCIAL INTERMEDIARIES DISBURSED IN 2005 AND 2006*

2006 Average Size of Subloans Directed to Micro and Small Enterprises	$15,693
2006 Average Size of Subloans Directed to Medium-size Enterprises	$257,941
2006 Average Size of Subloans to Micro, Small, and Medium-size Enterprises	$119,061

COUNTRY	PROJECT NAME	NUMBER OF SUBLOANS	AVERAGE SUBLOAN SIZE
Bolivia	Fondo Financiero Privado PRODEM	275	$3,896
Bolivia	Los Andes ProCredit	3,085	$1,244
Brazil	Banco ABN AMRO Real	402	$48,009
Brazil	Banco Industrial e Comercial	18	$740,317
Brazil	Banco Itaú	8,665	$22,261
Brazil	Banco Rabobank International Brasil	98,929	—
Chile	Banco BICE	91	$329,670
Chile	Banco del Desarrollo de Chile	117,794	—
Chile	Eurocapital	14	$180,791
Chile	Factorline	19	—
Colombia	Bancolombia	20	$125,000
Colombia	Caja de Compensación Familiar de Antioquia	26	$39,830
Colombia	Leasing Bolívar	287	$24,415
Colombia	Leasing Colombia	1,366	$23,071
Colombia	Leasing Crédito	1,180	$8,770
Colombia	Leasing de Occidente	200	—
Colombia	Fondo Nacional de Garantías	1,658	$23,958
Colombia	Leasing del Valle	322	$73,929
Costa Rica	Arrendadora Interfin	143	$23,310
Costa Rica	Banco BAC San José	42	$170,068
Costa Rica	Banco Improsa	4	$373,125
Costa Rica	Financiera Multivalores	39	$19,350
Ecuador	Banco Bolivariano	12	$833,333
Ecuador	Banco ProCredit	21,718	$3,699
El Salvador	Arrinsa Leasing	90	$55,644
El Salvador	Banco ProCredit	690	—
Mexico	Almacenadora Mercader	8,272	—
Mexico	Financiera Compartamos**	61,055	$330
Mexico	Hipotecaria Su Casita	4,470	$6,673
Nicaragua	Banco de Finanzas	808	$12,856
Nicaragua	Financiera Nicaragüense de Desarrollo	390	$3,553
Panama	Banco BAC Internacional	26	—
Paraguay	Financiera Familiar	24	$83,333
Peru	América Leasing	31	$14,735
Regional	Arrendadora Interfin	46	—
Regional	Financiera Delta	73	$3,515
Regional	Suleasing Internacional	20	$82,068
	TOTAL	**331,936**	

*The number of institutions and subloans reflects partial data.

** The institution changed its name to Banco Compartamos, S. A., Institución de Banca Múltiple in 2006.

Operations through the Small Business Revolving Line in 2006

Uruguay

Beneficiary Company: Instituto Cultural Anglo Uruguayo (ICAU)

Sector: Education

Amount: $280,000

ICAU is a not-for-profit civil association founded more than sixty years ago to disseminate the English language and British culture across Uruguay. ICAU has learning centers throughout Uruguay. The IIC loan will be used to buy 4,500 m^2 of land and build a secondary school in Montevideo.

Nicaragua

Beneficiary Company: Desarrollo Agrícola, S. A. (DAISA)

Sector: Agriculture and Agribusiness

Amount: $100,000

This company, which has sixty employees, will use the loan to expand the areas under cultivation by small growers that supply it with root vegetables and edible tubers for subsequent export. This will enable the company to strengthen its supply and processing chain. Also, part of the financing will be used to improve the receiving bay at the processing plant.

Beneficiary Company: Genéricos Centroamericanos, S. A. (GENERIFAR)

Sector: Pharmaceutical Industry

Amount: $240,000

This wholly Nicaraguan-owned business manufactures and distributes generic pharmaceuticals for human use. The company will use the loan to purchase equipment for developing a line of pharmaceuticals and to increase the company's capacity for filling tubes and making tablets. The company has 120 employees and ISO 9001:2001 quality management certification.

Beneficiary Company: Medicina de Atención Integral, S. A. (Medintegral)

Sector: Health Care

Amount: $120,000

This company provides general medical and surgical services and can handle up to 2,500 patients per month. Loan proceeds will go toward remodeling a medical center building by installing a clinic and operating rooms, as well as purchasing and installing a modular anesthesia machine.

Beneficiary Company: Procesadora de Madera, S. A. (PROMASA)

Sector: Wood Products

Amount: $125,000

This company, which has sixty employees, is part of a supply chain. The IIC loan is for stockpiling wood that will be used to make doors, windows, and molding. The loan will also be used to purchase a 60-kilowatt diesel power plant that will enable the company to run a simple boiler system to improve the wood cleaning and drying process.

Paraguay

Beneficiary Company: BRICAPAR, S. A.

Sector: Agriculture and Agribusiness

Amount: $215,000

This company manufactures and exports charcoal and charcoal briquettes made from certified sawmill waste, coal dust from its own coal grading plant, and waste from a steel mill and coal grading facilities in the Asunción metropolitan area. All of its production is exported. The loan proceeds will be used to purchase machines and install a complete higher-capacity semiautomatic packaging line with an automatic digital scale from Japan. Part of the proceeds will be used for packaging plant improvements.

Beneficiary Company: Wilhelm, S. A.

Sector: Agriculture and Agribusiness

Amount: $200,000

Wilhelm, S. A. stores, processes, and exports essential oils, dried oranges, and dried tea leaves. It also imports and markets fragrances and essential oils for industrial use (such as soap, detergents, and deodorant) and grows oranges as the raw material for its essential oil distillery. The loan will be used to install a system for distilling raw bitter orange oil from the plantation, provide technical assistance to local growers, and fund working capital.

new program designed to expand available credit to SMEs throughout Latin America and the Caribbean. The program seeks enhanced efficiency and responsiveness with loans and guarantees for qualified financial institutions willing to increase the financing they provide SMEs. The positive results of this change of course include (a) greater efficiency of processes and transactions; (b) an increased volume of operations and lower credit risk levels, leading to a stronger financial position for the IIC; and (c) more resources channeled to SMEs in the region to meet the growing demand for funding from the IIC.

At the close of 2006, some of the quantitative results of the IIC's efforts with financial institutions include the following:

- Of the 194 financial sector operations approved since the IIC's inception, 21 were approved in 2006. The 2006 financial sector operations total $383 million and include $146 million in B loans.
- The IIC'S net active approvals for micro, small, and medium-size enterprise operations through financial institutions were $511 million.
- Partial data reveal that between 2005 and 2006 more than 330,000 clients benefited from subloans provided by these financial institutions.
- Between 2004 and 2006, a total of fifty-four financial institution transactions for micro, small, and medium-size enterprise lending were approved, for an annual average of eighteen approvals.

From the beginning of the IIC's operations to date, the IIC has approved an aggregate of more than $1 billion in operations with financial intermediaries, including syndicated loans. The table on page 1 details loans made through financial intermediaries in 2005 and 2006.

Innovative Products Tailored to Changing Market Needs

Small Business Revolving Line

Evidence of the IIC's ability to be responsive to the market is the Small Business Revolving Line (SBRL), initiated in 2006. This product enables the IIC to offer standardized small loans between $100,000 and $600,000 to eligible SMEs under an expedited approval process. In an initial phase, the line will make it possible to grant up to $12 million in loans to small private enterprises in the Caribbean, as well as in Costa Rica, Honduras, Nicaragua, Paraguay, and Uruguay. Loan amounts cannot exceed 20 percent of each small business's annual revenue.

Special procedures have been created to quickly evaluate any environmental and labor considerations as well as developmental and additionality objectives. Following this approach, the client can usually be informed of a decision within one week. The table on page 2 summarizes operations approved through the SBRL in 2006.

Local-Currency Financing

Since 2005, the IIC has been developing local-currency products that allow it to better meet its clients' needs. The first local-currency operations involved designing a guarantee for Universidad Andrés Bello in Venezuela and a joint partial credit guarantee for a bond issue carried out in Mexico by Cablemás in cooperation with Nacional Financiera. In December 2005, the Corporation placed local-currency bonds to provide local-currency financing to Colombian leasing companies.

Building on these experiences, in 2006 the Corporation carried out a local-currency operation, valued at 220 million Mexican pesos, with the Mexican finance company Compartamos.

Also, in December 2006, the Corporation's Board of Directors approved a subordinated loan of 100 million nuevos soles for Banco de Crédito del Perú. A bond issue in nuevos soles will be carried out in the Peruvian stock market to fund the loan. Local-currency operations carried out by the IIC are an excellent tool for contributing to development by providing financing with no foreign exchange risk for key sectors such as microfinance and housing (primarily low-cost housing). The Corporation will continue to work with local-currency financing in these countries, as well as others, in the near future.

Growth Sectors in 2006

Agriculture and Agribusiness

Nine of the forty-six operations IIC financed in 2006 were in the food, agriculture, and agribusiness sectors. These operations include Molino Cañuelas in Argentina, Copeval in Chile, and Reysahiwal in Ecuador as well as a credit facility for Rabobank in Brazil for onlending to small and medium size farmers and agricultural cooperatives. Because agricultural production is concentrated in rural areas, working in these sectors enables the IIC to help create employment and export opportunities in areas that are most in need.

Energy and the Environment

Higher Profile for a Dynamic Institution

Experience, innovation, and a broadening pool of partners have enabled the IIC to assume a higher profile on issues of interest to the development sector. Some of the issues have to do with extending the reach of the efforts of development financial institutions to promote sustainable development.

Carbon Credit Template Agreement and Workshop

In October 2006, with Korean Trust Fund assistance, the IIC hosted a workshop to develop an improved emission-reduction purchase agreement template for projects that qualify for certificates of emission rights (commonly referred to as carbon credits) under the Clean Development Mechanism (CDM) of the Kyoto Protocol. Participants gathered at the IIC from around the world and developed an annotated template with these two interrelated purposes:

- Provide publicly available open-source legal documentation that will help sellers—frequently SMEs—participate in the international carbon market on a more equal footing with sophisticated, well-financed buyers.
- Promote the availability of debt financing for CDM projects, by making it easier to use carbon credit cash flows as collateral.

IIC Management will actively promote the use of the template agreement in the CDM market throughout 2007 and further support the dissemination efforts for this initiative. This will include a presentation of the template agreement at Carbon Expo 2007 and development of a Web site to host the template and to provide support to SMEs in the CDM market.

Global Carbon Market

A workshop on Ecuador's position in the global carbon market was held in Quito in March 2006. The IIC was one of the sponsors of the event, along with Ecuador's Ministry of the Environment and the Inter-American Development Bank (IDB).

Current opportunities for, and obstacles facing, CDM projects in Ecuador were discussed at the workshop, as was the role of emissions trading and greenhouse gas reduction in the sustainable development strategy

Up to $12 million in loans to be made under the Small Business Revolving Line

Environmental Training Courses for the Financial Sector

In 2006 the IIC completed its tenth environmental training course for the financial sector, a program that began in 1999. This course was the first ever on environmental risk management developed specifically for Latin American and Caribbean financial institutions. The initial objective of the course was to raise awareness of environmental risks among financial institutions. Since then, the course has evolved and improved. It now aims to instruct financial institutions on practical methods for implementing their own environmental risk management systems. Seven years ago, the majority of the participants (primarily IIC clients) were skeptical about the importance and relevance of environmental issues to them, but now an increasing number of financial institutions have successfully developed environmental policies and environmental risk management procedures.

The IIC continues to work with financial institutions that have implemented environmental risk management systems (many of which attended the course in earlier years) to improve and disseminate these systems. Increasing the demonstration effect of IIC's efforts, many financial institutions now assist as workshop trainers and share their experiences with other financial institutions from the region.

The training courses cover environmental and social risks for financial institutions and the rewards for environmentally responsible financial institutions. Managing social and environmental risk to ensure that clients (or borrowers from local banks) deal with pollution, health, safety, and product quality and liability issues not only avoids fines and other sanctions, but also is profitable. It reduces reserves for nonperforming loans, improves earnings and balance sheets, and increases the value of shareholder equity. The course has also aimed at showing financial institutions examples of how good client performance affects their bottom line and how companies (clients) that operate cleanly and efficiently can be more competitive and profitable (particularly because waste is often 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 IIC hosted a workshop on standardized carbon credit purchase agreements

for the nation. Specific discussion topics included the following:

- Access to financing for CDM projects in Ecuador
- Legal and technical issues concerning the elimination of barriers and the creation of a framework conducive to carbon trading and investments
- A national agenda for promoting CDM projects in Ecuador as part of an overall development strategy

Specialized Finance

Capital Markets

An IIC officer was a key speaker at the Securitization: Strengthening the Foundation conference in São Paulo, Brazil, in November 2006. The conference gathered professionals from leading institutions to discuss the development of Brazil's domestic capital and securitization markets.

The role of the Corporation is to lead the way and demonstrate to private lenders and investors that new market opportunities are available. The IIC did this in Brazil by being the first to show that mortgage-backed securities were a viable investment instrument for institutional investors. The IIC worked with two local partners to structure the first local investment-grade mortgage-backed security issue, which was backed by housing loans for middle- to lower-income families. Domestic savings can thus become the primary source of financing for the growing mortgage market.

Microfinance

Also in São Paulo, Brazil, in November 2006, the IIC cohosted a meeting on microfinance in conjunction with the Brazilian banking association Federação Brasileira de Bancos (FEBRABAN); the Latin American banking association Federación Latinoamericana de Bancos (FELABAN); Women's World Banking (an organization aimed specifically at helping low-income women); and the IDB's Multilateral

Belize Co-Generation Energy Limited

Belize Co-Generation Energy Limited will generate energy from sugarcane fiber (bagasse) produced by Belize Sugar Industries Limited's sugar mill. To do so, it will use a loan from the IIC to build and operate a cogeneration power plant. Cogeneration uses waste heat from an industrial process to generate electric power. In this case, using bagasse as the primary fuel will also reduce waste by utilizing biomass that would otherwise be discarded.

This project will reduce Belize's reliance on imported energy and promote the use of renewable energy sources instead of fossil fuels. It will lower greenhouse gas emissions and could qualify for carbon credits under the CDM.

Investment Fund. The theme for the meeting was “Banking for the Majority: An Opportunity for Latin American Banks, the Case of Brazil.”

The event brought together more than forty leading commercial bankers from Brazil and other Latin American countries to review the state of microfinance in Brazil. The IIC’s Deputy General Manager opened the seminar, and an IIC officer moderated a panel that compared the Brazilian market with that of other Latin American countries.

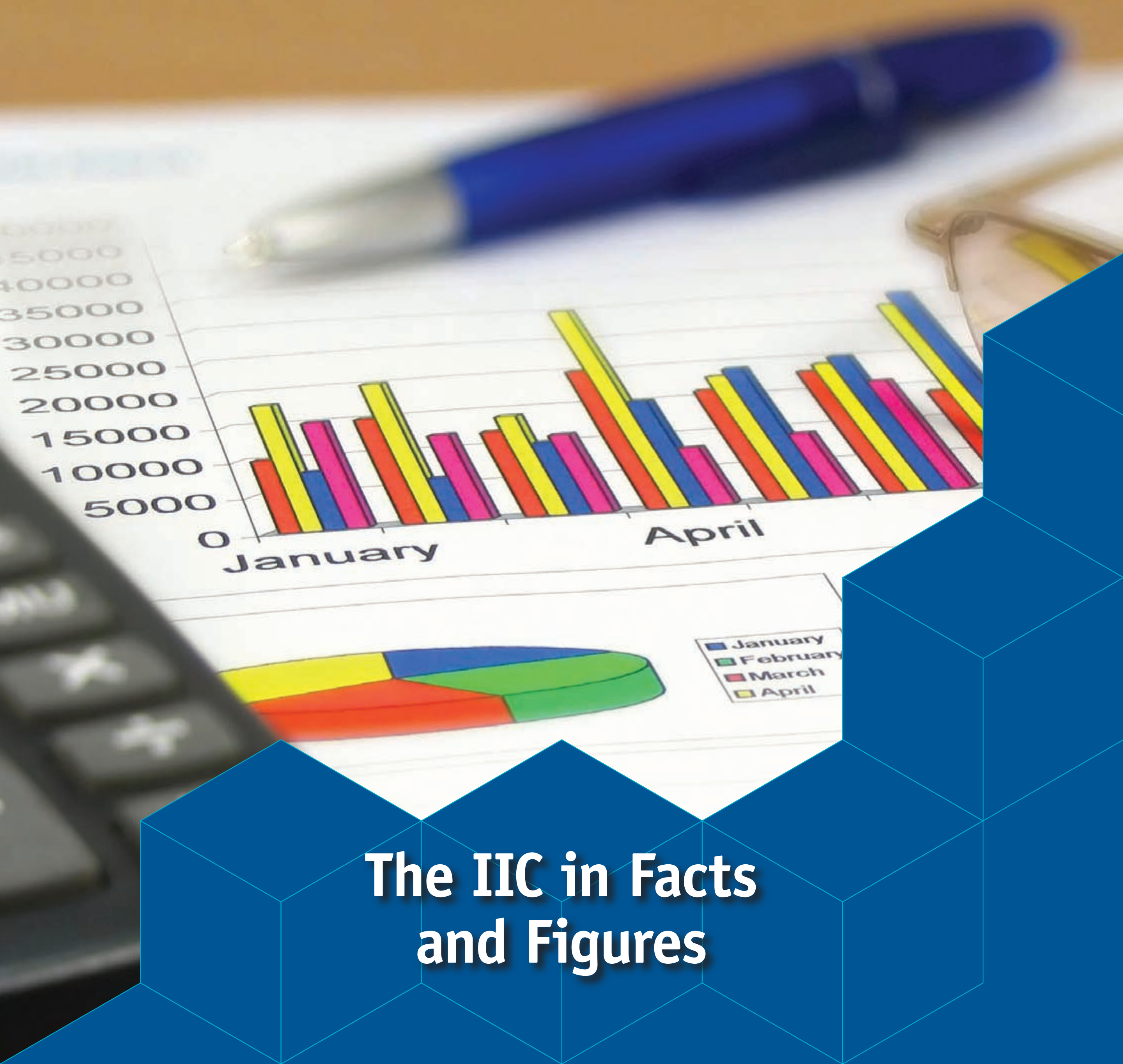
Items on the agenda included the extent to which the needs of Brazil’s ten million low-income entrepreneurs are being met and possible alternatives when the financial services that are available to them are insufficient. Participants looked at new ways to provide these entrepreneurs with better access to such services. Also discussed were potential policy improvements to improve such access and to help recipients rise out of poverty.

Leadership in the Field of Special Operations Units

Special operations units manage problem assets and are in charge of problem loan and equity investment workouts, as well as executing security to collect on such operations. In October of 2006, the IIC hosted the annual meeting of the heads of special operations units of international lending organizations and agencies. By sponsoring this event, the IIC confirmed its commitment to improving problem project workout and recovery practices.

The purpose of the meeting was to plan the agenda for, and review other special operations issues to be discussed at, the 2007 Special Operations Seminar to be held in Warsaw, Poland. These seminars are the only ones specialized in recoveries for, and the management of problem assets at, international organizations. They enable the investment officers of special operations units to compare problem project management and other practices within each institution and to share lessons learned.

The IIC completed its tenth environmental training course for the financial sector



The IIC in Facts and Figures

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

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

All of the IIC's direct clients are private enterprises—preferably, although not exclusively, SMEs. Through financial engineering, the IIC tailors its financial products to its clients' specific funding requirements. The IIC works directly with the private sector through several tools, including the following:

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

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

- Acquiring equity participations 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

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

IIC BASIC FINANCIAL INDICATORS*
(AS OF DECEMBER 31, 2006)

Start-Up of Operations	1989
Member Countries	43
Authorized Capital	$703.7 million
Paid-In Capital	$568 million
Outstanding Loan and Equity Portfolio	$687 million
Cumulative Loans and Equities Approved	$2.6 billion
Authorized Headcount	98

* Figures rounded. Details in financial statements.

802,099 subloans through financial intermediaries since 2000

Harmonized Reporting*

Number of subloans through financial intermediaries and investment funds	802,099**

*In line with the methodology used by other multilateral organizations with private sector operations.
**Cumulative since 2000.

Composition of the IIC's Assets

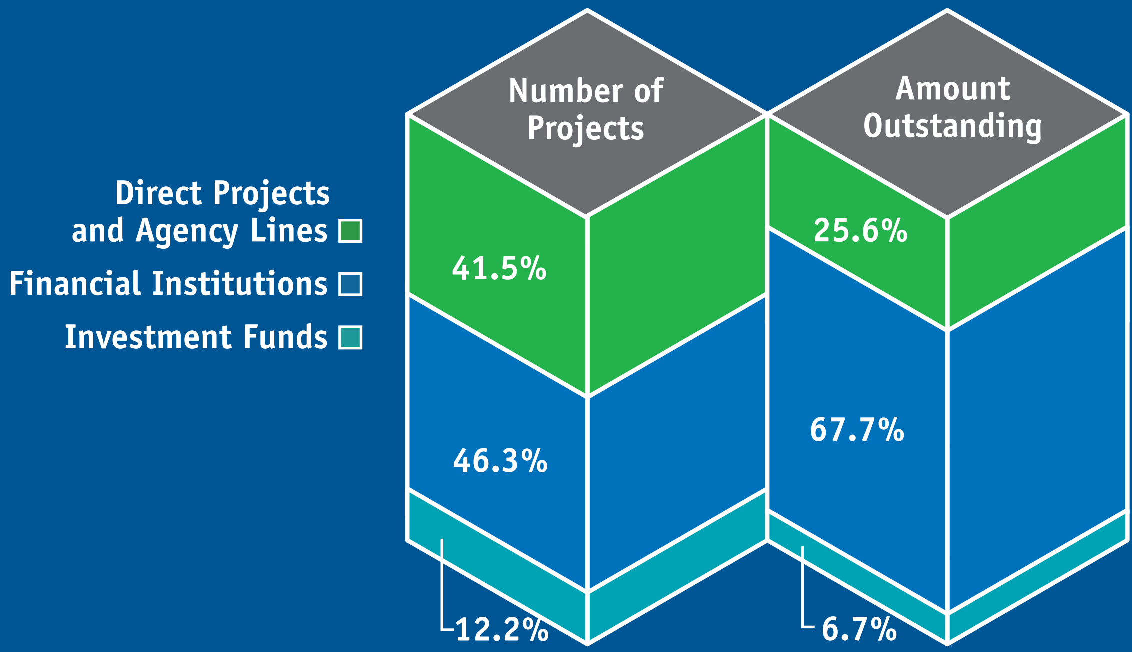
Development assets (loans and equity investments):	69%
Other assets:	31%

Breakdown of Aggregate Approval Amounts

Approvals up to $3.0 million:	6%
Approvals between $3.0 million and $10.0 million:	40%
Approvals greater than $10.0 million:	54%

DISTRIBUTION OF OUTSTANDING PORTFOLIO BY FINANCIAL PRODUCT (AS OF DECEMBER 31, 2006)

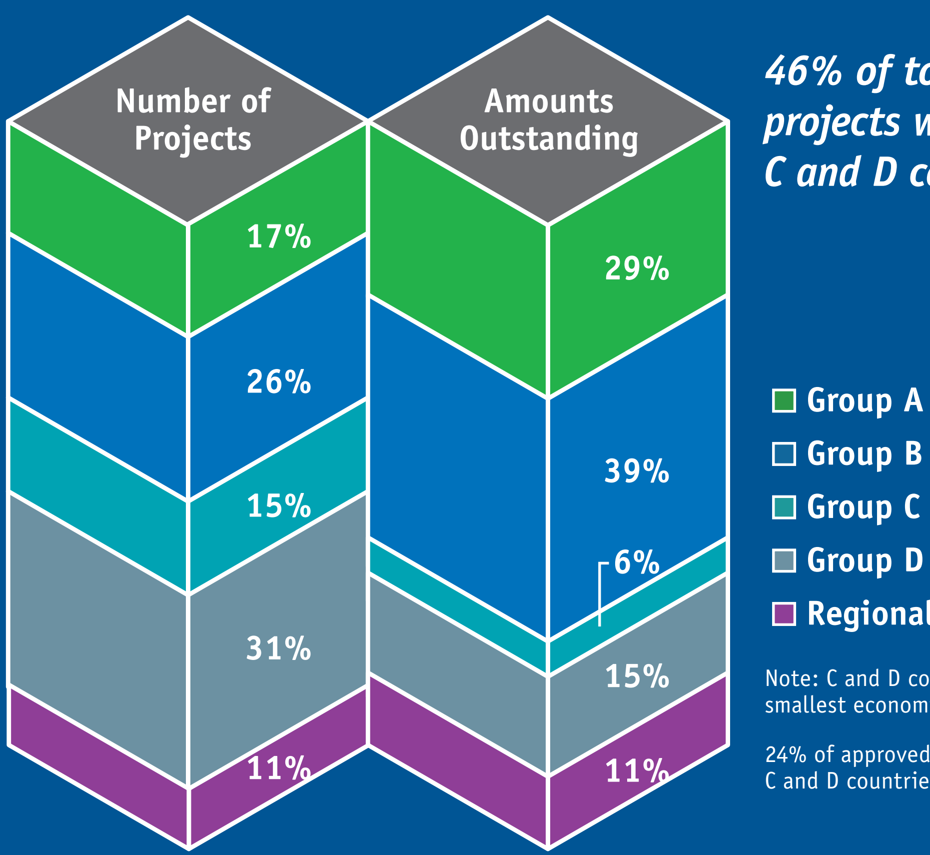
41.5% of projects in the active portfolio are direct operations



Sector Distribution in 2006 (as of December 31, 2006)

Sector	Outstanding Amounts	Number of Active Projects
Agriculture and Agribusiness	6.94%	11.56%
Aquaculture and Fisheries	3.19%	3.40%
Chemicals and Plastics	2.83%	2.72%
Education	1.77%	3.40%
Financial Services	67.71%	46.26%
Food, Bottling, and Beverages	1.09%	1.36%
General Manufacturing	0.77%	2.72%
Health	0.02%	0.68%
Industrial Processing Zones	0.94%	1.36%
Investment Funds	6.65%	12.24%
Livestock and Poultry	1.25%	1.36%
Oil and Mining	0.48%	0.68%
Textiles, Apparel and Leather	0.48%	0.68%
Tourism and Hotels	0.79%	2.04%
Transportation and Warehousing	0.59%	1.36%
Utilities and Infrastructure	2.62%	4.76%
Wood, Pulp, and Paper	1.64%	2.04%
Others	0.24%	1.36%

DISTRIBUTION OF OUTSTANDING PORTFOLIO BY COUNTRY GROUP
(AS OF DECEMBER 31, 2006)



46% of total projects were in C and D countries

Note: C and D countries represent the smallest economies in the region.

24% of approved financing went to C and D countries.

The Year in Review

Operating Results

This year, the IIC's Board of Executive Directors approved 46 projects and programs in thirteen countries—including one regional operation—totaling $510.68 million ($337.68 million from the IIC plus $173 million from other sources mobilized by the Corporation). The operations approved in 2006 will benefit companies in the manufacturing, agribusiness, fisheries, infrastructure, health care, and housing sectors.

Operations with financial intermediaries totaled $237 million. They included loans to twenty-one financial institutions ranging from $1 million to $40 million, demonstrating the IIC's efforts to cover a wide variety of institutions that need funding to serve their SME clientele. Through these operations, the IIC will be able to provide short-, medium-, and long-term loans ranging between $5,000 and $3 million. The financing will be provided through leasing and factoring operations, credit guarantees, mortgage financing, and short-, medium-, and long-term loans. These efforts reflect the Corporation's commitment to meet the Nuevo León objective to triple the amount of financing channeled by the IDB Group to micro, small, and medium-size enterprises by 2007. More than 500,000 such companies will receive financing through these operations.

Key Operating Indicators in 2006

Approvals up to $3.0 million	18
Approvals between $3.0 million and $10.0 million	20
Approvals above $10.0 million	8
Average financing approved, corporate	$4 million
Average financing approved to financial intermediaries	$11 million
Average financing through financial intermediaries with IIC resources	$119,061
Allowance for loans/Total loans (December 2006)	6.45%
Number of companies requesting IIC financing	1,122
Number of projects and programs approved	46
Number of projects under supervision	147
Number of loans through financial intermediaries	21

Financial Results

IIC income from all sources in 2006 amounted to $71.9 million. Income from lending operations totaled $41.7 million ($39.9 million from interest and $1.8 million from fees and other loan investment income). Capital gains, dividends, and other income from the equity investment portfolio totaled $15.8 million for the year. Total expenses equaled $34.0 million, producing a net profit of $39.4 million, compared with $13.7 million in 2005. The improvement in net income is attributed to the following:

- Substantial increase in number and volume of operations
- Commitment and disbursement of higher-quality assets
- Higher interest income on variable-rate loans, due to sustained London Interbank Offered Rate (LIBOR)
- Continued recoveries on problem investments
- Improved efficiency
- Good macroeconomic conditions in the region

Additionality and Developmental Impact

The Corporation has also focused on the achievement of the developmental and additionality objectives that are at the core of its mandate to expand opportunities for private sector growth. The IIC has also made a concerted effort to expand its reach, through a series of transactions that can be divided into three broad categories:

- Operations with financial intermediaries to meet the financial needs of microenterprises and small companies, ensuring compliance with best environmental practices
- Supply chain programs with medium-size and large companies that channel resources to SMEs, increasing opportunities for sustainable economic growth and employment
- Direct corporate transactions supporting productive expansion of SMEs, while encouraging the adoption of best family-owned business governance and environmental management practices

To complement these efforts, the Corporation also approved direct operations to provide financing to companies that have difficulty accessing suitable sources of financing for their operations. Twenty-five transactions, totaling $100.7 million, were approved for companies in the agribusiness, education, fisheries, manufacturing, health care, transportation, and energy sectors.

In addition to the developmental benefits the operations approved in 2006 will achieve, the Corporation consistently seeks a level of additionality in keeping with its role as a development institution. To meet the minimum eligibility requirements for IIC financing, a company must provide, among other prerequisites, a sound business plan, independently audited financial statements, and proof of meeting IIC environmental protection and workplace safety standards.

Many potential clients do not meet these requirements. For this reason, the IIC provides technical support in the following: project design; financial, economic, technical and operational, and legal matters; environmental protection; and worker safety. Although requiring investments of time, effort, and money by the IIC and its clients, the implementation of good practices in these areas helps companies obtain financing on suitable terms to compete in the global economy. The provision of this support demands greater effort on the part of the IIC and its clients.

The Partnership Grows

Memorandum of Understanding Signed with Export-Import Bank of Korea

In 2006, the IIC signed a memorandum of understanding (MOU) with Export-Import Bank of Korea (Korea Eximbank). The agreement seeks to foster cooperation between the two institutions to support private enterprise activity in Latin America and the Caribbean.

Korea Eximbank was formed in 1976 to improve cooperation between the Republic of Korea and other countries by providing financing for the export of capital goods, overseas investment, the exploitation of natural resources overseas, and the import of key resources.

Events Cosponsored by the IIC

Latin American Federation of Banks Annual Meeting

The IIC was among the sponsors of the fortieth annual meeting of FELABAN, held in Rio de Janeiro, Brazil, in November 2006. FELABAN's members include banking associations and other organizations in nineteen countries throughout Central and South America—more than 725 banks and financial institutions in all. Its annual meeting of Latin American banks is the largest of its kind.

Meeting attendees included 1,500 bankers from the region and 345 delegates from major European and U.S. banks that do business in Latin America. The IIC took advantage of the event to reinforce existing relationships and make new contacts as well as showcase its promotional videos and provide information about the IIC. In June of 2006, the IIC was accepted as a permanent member of FELABAN.

Banking for the Majority: An Opportunity for Latin American Banks

The IIC cosponsored this one-day workshop held in São Paulo, Brazil. Leading commercial bankers from Brazil and other Latin American countries gathered to review microfinance as it stands in Brazil today. Approximately seventy-eight bankers from the region attended.

Environmental Course for Financial Intermediaries

The IIC held its tenth workshop on improving corporate environmental management for representatives of Latin American and Caribbean financial institutions on July 17–19, 2006, in Cartagena de Indias, Colombia. The purpose of the workshop, titled Environmental Management in the Financial Sector, was to train financial institutions to develop environmental strategies for their small and medium-size private enterprise financing programs, as well as to raise awareness of the comparative advantages that these programs entail. See box titled "Environmental Training Courses for the Financial Sector" in the first section of this report for more details on this event.

The IIC became a permanent member of the Latin American Federation of Banks

Institutional Affairs

Annual Meeting

The twenty-first Annual Meeting of the Board of Governors of the IIC took place in Belo Horizonte, Brazil, on April 3–4, 2006, in conjunction with the forty-seventh Annual Meeting of the Board of Governors of the IDB. During the annual meeting, the Governors approved the IIC's financial statements for the year ended December 31, 2005, as well as its annual report.

Board of Executive Directors

Among the matters considered by the Board of Executive Directors of the Corporation in 2006 were the following:

- 2007 budget and business plan
- Forty-six financing proposals
- IIC funding needs for 2006–2007
- Small Business Revolving Line Program
- Progress with financial institutions program toward fulfilling Declaration of Nuevo León goals
- Human resources strategy and general guidelines for establishing a professional development program
- Consolidation of IIC policies into the new operating policy
- Strategic marketing guidelines
- Approval by the Governors for the allocation of 110 shares to Costa Rica

CUMULATIVE GROSS APPROVALS BY COUNTRY*

COUNTRY	% OF TOTAL
Argentina	7.18%
Bahamas	0.23%
Barbados	0.27%
Belize	0.27%
Bolivia	2.46%
Brazil	12.66%
Chile	5.85%
Colombia	8.85%
Costa Rica	2.66%
Dominican Republic	2.34%
Ecuador	3.80%
El Salvador	1.60%
Guatemala	2.38%
Guyana	0.14%
Haiti	0.04%
Honduras	2.62%
Jamaica	1.58%
Mexico	10.92%
Nicaragua	1.98%
Panama	1.23%
Paraguay	1.39%
Peru	8.51%
Trinidad and Tobago	0.79%
Uruguay	3.29%
Venezuela	2.46%
Regional A/B Only	2.75%
Regional A/B/C & D	6.13%
Regional C/D Only	5.63%

*As of December 31, 2006.

CUMULATIVE GROSS APPROVALS BY SECTOR*

SECTOR	% OF TOTAL
Agency Lines	10.01%
Agriculture and Agribusiness	7.50%
Aquaculture and Fisheries	2.93%
Capital Markets	0.99%
Chemicals and Plastics	2.84%
Education	1.19%
Financial Services	41.75%
Food, Bottling, and Beverages	1.74%
General Manufacturing	2.84%
Health	0.97%
Industrial Processing Zones	1.44%
Investment Funds	8.42%
Livestock and Poultry	0.88%
Nonfinancial Services	0.74%
Oil and Mining	1.79%
Small Loan Program	0.77%
Technology, Communications, and New Economy	1.07%
Textiles, Apparel, and Leather	1.20%
Tourism and Hotels	2.55%
Transportation and Warehousing	1.85%
Utilities and Infrastructure	3.59%
Wood, Pulp, and Paper	1.39%
Others	1.56%

COUNTRIES OF ORIGIN AND AGGREGATE PROCUREMENT, 1989–2006* (IN US$ THOUSANDS)

COUNTRY	AMOUNT
Argentina	$290,764
Austria	$358
Bahamas	$2,612
Barbados	$11,250
Belgium	$272
Belize	$8,227
Bolivia	$12,142
Brazil	$186,711
Chile	$135,458
Colombia	$32,755
Costa Rica	$72,169
Denmark	$8,038
Dominican Republic	$30,043
Ecuador	$21,893
El Salvador	$15,921
Finland	$2,240
France	$15,803
Germany	$78,933
Guatemala	$49,657
Guyana	$600
Honduras	$57,498
Israel	$13,530
Italy	$47,294
Jamaica	$4,940
Japan	$22,170
Korea, Republic of	$100
Mexico	$99,254
Netherlands	$55,327
Nicaragua	$23,593
Norway	$7,551
Panama	$13,913
Paraguay	$6,700
Peru	$72,813
Spain	$21,857
Sweden	$5,889
Switzerland	$11,897
Trinidad and Tobago	$1,000
United States	$409,452
Uruguay	$69,698
Venezuela	$37,281
Regional	$18,530
TOTAL	$1,974,039

Gross Approvals, Disbursements, and Amounts Outstanding (in US$ thousands)*

	Gross Approvals			Disbursements**			Amounts Outstanding		
Country	**Loan/ Other**	**Equity**	**Total*****	**Loan/ Other**	**Equity**	**Total**	**Loan/ Other**	**Equity**	**Total**
Argentina	$174,740	$10,972	$185,712	$125,616	$9,410	$135,026	$13,408	$612	$14,019
Bahamas	$6,000	—	$6,000	$1,000	—	$1,000	—	—	—
Barbados	$3,000	$4,000	$7,000	—	—	—	—	—	—
Belize	$7,000	—	$7,000	$1,000	—	$1,000	—	—	—
Bolivia	$61,750	$1,925	$63,675	$53,322	$1,325	$54,647	$4,326	—	$4,326
Brazil	$308,700	$18,500	$327,200	$217,878	$13,030	$230,908	$110,240	—	$110,240
Chile	$120,848	$30,326	$151,174	$103,148	$24,085	$127,233	$63,053	$14,968	$78,021
Colombia	$215,865	$12,883	$228,748	$159,525	$9,505	$169,030	$120,847	$429	$121,275
Costa Rica	$67,250	$1,500	$68,750	$55,550	$500	$56,050	$16,099	—	$16,099
Dominican Republic	$60,550	—	$60,550	$31,920	—	$31,920	$5,000	—	$5,000
Ecuador	$95,775	$2,500	$98,275	$63,790	$1,802	$65,592	$37,025	—	$37,025
El Salvador	$36,880	$4,500	$41,380	$35,979	$2,000	$37,979	$24,000	—	$24,000
Guatemala	$61,050	$500	$61,550	$18,880	—	$18,880	—	—	—
Guyana	$3,300	$200	$3,500	$800	$200	$1,000	—	$140	$140
Haiti	$1,000	—	$1,000	—	—	—	—	—	—
Honduras	$66,640	$1,000	$67,640	$33,460	—	$33,460	$10,340	—	$10,340
Jamaica	$39,300	$1,518	$40,818	$9,029	—	$9,029	$1,977	—	$1,977
Mexico	$233,988	$48,250	$282,238	$105,174	$26,474	$131,648	$59,836	$8,790	$68,625
Nicaragua	$49,835	$1,400	$51,235	$39,058	$900	$39,958	$14,269	—	$14,269
Panama	$31,878	—	$31,878	$31,878	—	$31,878	$3,189	—	$3,189
Paraguay	$36,015	—	$36,015	$31,139	—	$31,139	$10,500	—	$10,500
Peru	$209,250	$10,834	$220,084	$129,890	$4,484	$134,374	$68,341	—	$68,341
Trinidad and Tobago	$17,500	$2,800	$20,300	$9,607	$598	$10,205	—	$598	$598
Uruguay	$78,867	$6,200	$85,067	$50,037	$4,548	$54,585	$14,755	$265	$15,020
Venezuela	$58,750	$4,740	$63,490	$29,883	$1,500	$31,383	$5,988	—	$5,988
Regional A/B Only	—	$71,000	$71,000	—	$55,543	$55,543	—	$19,936	$19,936
Regional A/B/C & D	$111,000	$47,500	$158,500	$26,364	$26,889	$53,253	$16,364	$13,307	$29,670
Regional C/D Only	$111,175	$34,500	$145,675	$33,134	$18,942	$52,077	$19,835	$8,379	$28,214
Total	$2,267,905	$317,548	$2,585,453	$1,397,060	$201,736	$1,598,796	$619,390	$67,423	$686,813

*As of December 31, 2006.

**Disbursement figures for 2006 include securitizations.

***Total gross approved amount reflects $8 million adjustment to 2005 figures.

Operations Approved in 2006 (in US$ thousands)

Country	Sector	Company Name	Gross Approved Amount	Total Project Cost
Argentina	Financial Services	Garantizar S. G. R.	$3,000	$3,000
	Food, Bottling, and Beverages	Molino Cañuelas S. A. C. I. F. I. A. and Molinos Florencia S. A.	$8,000	$35,000
	Utilities and Infrastructure	Terminales Río de la Plata S. A.	$10,000	$10,000
Belize	Utilities and Infrastructure	Belize Co-Generation Energy Limited	$6,000	$46,537
Brazil	Financial Services	Banco ABN AMRO Real, S. A.	$15,000	$60,000
		Banco Itaú, S. A.	$10,000	$50,000
		Banco Industrial e Comercial S. A.	$5,000	$23,500
		Banco Rabobank International Brasil, S. A.	$7,500	$50,000
Chile	Agriculture and Agribusiness	Compañía Agropecuaria Copeval S. A.	$5,000	$10,000
	Financial Services	Banco BICE, S. A.	$30,000	$30,000
		Eurocapital, S. A.	$3,000	$3,000
	Wood, Pulp, and Paper	Infodema S.A.	$5,500	$11,000
Colombia	Chemicals and Plastics	Biofilm S. A.	$5,000	$5,000
	Financial Services	Bancolombia, S. A.	$5,000	$5,000
		Banco GNB Sudameris, S. A.	$12,500	$50,000
	Textiles, Apparel, and Leather	Confecciones Leonisa S. A.	$5,000	$5,000
Costa Rica	Financial Services	Financiera Cafsa S. A. and Arrendadora Cafsa S. A.	$1,000	$1,000
	General Manufacturing	Corrugadora de Costa Rica, S. A.	$1,000	$1,000
		Estrella de Precisión Tecnológica, S. A.	$800	$1,700
Ecuador	Agriculture and Agribusiness	Agrícola Ganadera Reysahiwal AGR S. A.	$4,500	$8,000
	Food, Bottling, and Beverages	Plásticos del Litoral Plastlit S. A.	$3,500	$12,000
		Envases del Litoral S. A. ENLIT	$3,000	$11,000
	Financial Services	Banco de Guayaquil S. A.	$6,000	$6,000
El Salvador	Financial Services	Arrinsa Leasing, S. A. de C. V.	$10,000	$10,000
		Banco Uno S. A.	$10,000	$10,000
Mexico	Education	Universidad Autónoma de Guadalajara, A. C.	$6,000	$22,000
	Financial Services	Monex Financiera S. A. de C. V. SOFOL	$2,000	$2,000
		Financiera Compartamos S. A. de C. V. SOFOL*	$20,000	$20,000
	Health	The American British Cowdray Medical Center, I. A. P.	$10,000	$28,000
Nicaragua	Agriculture and Agribusiness	Desarrollo Agrícola, S. A.	$100	$125
		Cafetalera Castellón S. A.	$100	$125
	Health	Medicina de Atención Integral, S. A.	$120	$165
		Genéricos Centroamericanos, S. A.	$240	$240
	Wood, Pulp, and Paper	Procesadora de Madera, S. A.	$125	$125
Paraguay	Agriculture and Agribusiness	Wilhelm S. A.	$200	$200
		Bricapar S. A.	$215	$350
	Financial Services	Financiera El Comercio S. A. E. C. A.	$1,000	$1,000
		Banco Regional S. A.	$1,000	$1,000
	Transportation and Warehousing	Bowfluvial S. A. de Navegación	$3,000	$11,300
Peru	Aquaculture and Fisheries	Pesquera Diamante S. A.	$8,000	$17,700
	Financial Services	Banco Interamericano de Finanzas	$5,000	$5,000
		Banco Continental S. A.	$40,000	$40,000
		Banco de Crédito del Perú	$30,000	$30,000
Uruguay	Education	Instituto Cultural Anglo Uruguayo	$280	$1,500
Regional A/B/C & D	Agency Lines	Società Italiana per le Imprese all'Estero Simest S.p.A.	$15,000	$30,000
	Financial Services	Suleasing Internacional, S. A.	$20,000	$20,000
		Total: 46 projects	**$337,680**	**$688,567**

*The institution changed its name to Banco Compartamos, S. A., Institución de Banca Múltiple in 2006.

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

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 2006, IIC regional presence increased to eight countries, compared with three in 2002.

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

Working within the IDB Group

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

Private Sector Department

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 Private Sector Department of the IDB (PRI). Although both the IIC and the PRI provide financing to infrastructure projects, the PRI focuses on transactions above $35 million. PRI's mandate has been recently expanded, and the Management teams of the IIC and the PRI are discussing the most efficient ways to avoid overlap and to serve the small and medium-size companies in the region. The IIC participates in the working groups and the missions organized to implement the strategy, such as trips to several Central American and Caribbean countries in 2006.

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 small and medium-size companies. They agreed to work together to seek out private financial institutions that are willing to commit their own human and financial resources to develop specific small and medium-size finance programs and that could benefit from a combination of MIF technical assistance and IIC financing to strengthen their capacity to work with the small and medium-size company sector.

The resulting IIC/MIF Small and Medium-Size Enterprise Finance Facility aims to help financial institutions address the funding, transaction costs, and risk management issues that limit their ability to lend to small and medium-size companies. The IIC worked closely with the MIF in 2006, making headway on projects like the one with Banco Uno, in which the IIC funded microentrepreneurs via mechanisms such as credit cards, while the MIF provided subordinated financing and technical assistance funds. Noteworthy are (a) the seminars held in San José, Costa Rica, and in São Paulo, Brazil, designed to make both the MIF and the IIC more visible as institutions focused on microfinance and (b) the jointly designed and conducted second banking sector survey created to identify challenges that microfinance, remittances, and SME financing in general pose for Latin American banking systems and approaches these systems are taking to these challenges. The survey results were posted on the IIC's Web site and are available to the banking community and interested investors.

The facility is designed to complement the IDB's efforts to enhance the environment for secured transactions and remove other structural impediments through its Business Climate Initiative. It is consistent with the IDB Group's approved private sector strategy, which calls for greater coordination among the various private sector arms of the IDB Group and the development of strategic partnerships to leverage additional resources.

IIC coordination with the MIF is effective and fluid after years of working together. 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.

Other Developmental Programs and Initiatives

AIG-GE Capital Latin American Infrastructure Fund

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

Supply Chain Program

At the request of the Board of Directors, in 2003 the Corporation started a program to finance SMEs that form part of a supply chain (see box titled "IIC's Supply Chain Program"). The supply chain program seeks to use IIC financing to help strengthen the relationships between large companies and their suppliers. These programs offer the suppliers a number of advantages, depending on each program's structure and specific purpose. For example, they enable these companies to collect payments before their invoices are due—thus decreasing their financial and collection expenses—and they provide them with a vehicle to transfer know-how and technology. These programs also provide access to medium-term capital to purchase fixed assets. For large companies, these programs enable them to develop their supply chains and obtain better prices from their suppliers.

The supply chain program provides the IIC with opportunities to leverage its own funding and reach a greater number of small and medium-size companies while supporting the development of supply chains.

Trust Funds and Technical Assistance

The IIC's Trust Fund and Technical Assistance activities were set up to provide and manage support to the technical assistance activities carried out by the IIC and funded primarily through trust funds established between the IIC and countries that contribute to the funds. 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.

Many of the technical assistance projects at the IIC can be carried out thanks to the generous support provided through trust funds set up by IIC member countries. Technical assistance clearly benefits the small and medium-size client that is the main focus of IIC activities in the region. Through the technical assistance these clients receive, management skills are improved, environmental deficiencies are corrected, necessary sector and market studies are conducted, and other technical challenges are resolved. The IIC likewise benefits from being involved in technical assistance projects, because it is able through this assistance to create an important demonstration effect for other SMEs that are contemplating the professionalization of their operations, and is able to finance SMEs that otherwise would be reluctant or unable to invest the necessary resources to effect 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.

Since the beginning of 2005, more than $1 million in resources has been dedicated to

IIC's Supply Chain Program

Small and medium-size enterprises create employment; contribute to economic growth, innovation, and the dissemination of technology; foster entrepreneurial spirit; and play a key role in a country's economic activity. This role is bolstered when SMEs adopt partnering arrangements, become part of a cluster, or set up value chains with larger companies, corporations, or economic groups that operate in the economy, because such arrangements can help them become more competitive. These arrangements also provide SMEs with greater flexibility for adjusting production factors and adapting to new market conditions or changing consumer or corporate client demand.

However, insufficient access to stable sources of financing is still a significant limitation for the development of small and medium-size companies seeking to enter or strengthen their participation in supply chains or similar networks. The mere availability of supply contracts is not enough to obtain appropriate financing that will ensure their competitiveness, viability, and responsiveness.

The Corporation's Supply Chain Program supports small and medium-size companies in the region by financing those that are part of supply chains or groups of companies that supply large companies operating in the region. The IIC seeks to promote operations with small and medium-size companies that are part of supply chains or of programs for creating groups of suppliers to provide them with financing and foster their expansion in the countries of the region. The goal is to support the integration of the production process, the creation of business organizations and networks, the establishment of export consortia, and other ways to join efforts and work together. This initiative also provides a profile of the demand for financing among SMEs in the region.

Financing a member of a chain extends the benefits of IIC funding not only to direct recipients but also, indirectly, to the core company or the large corporation, which benefits from the increased production capacity and improved product quality of the supplier receiving assistance. Other companies that are related to or supply the recipient benefit as well, because receiving appropriate financing for their investment projects improves the recipient's operating potential and extends the improvements to other members of the chain and the productive environment.

There are three specific types of operations that the Corporation promotes through its supply chain program:

- operations with financial institutions developing similar supplier financing programs;
- operations with large and medium-size companies that purchase goods and services from SMEs; and
- operations with companies that enter partnerships to boost their production and marketing capacity.

technical assistance. In addition, the Korean Trust Fund recently approved more than $500,000 for the FINPYME project.

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 the 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 aspects such as environmental compliance, information systems, legal assistance, and management consulting. Such technical assistance is also available for existing clients who need to upgrade certain aspects of their operations.

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

Austria: Set up in September 1999 between the IIC and Finanzierungsgarantie-Gesellschaft m.b.H. of the Government of Austria, this fund focuses on financing technical assistance throughout the Latin American and Caribbean region. 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. In addition, the Austrian Fund is currently financing a watershed management program for the Abanico River in Ecuador.

Denmark: The Consulting Services Trust Fund was set up in 2003 between the Government of Denmark and the IIC. It has been active in financing consulting services related to the IIC's technical and operational support of SMEs in Latin America and the Caribbean. The fund has a special focus on projects originating in Nicaragua and Bolivia, where resources were used to undertake an environmental assessment operation for a textile plant. Other projects include a technical analysis of the feasibility of a project involving ship repair and construction services in the Dominican Republic and a project to assess the technical and financial feasibility of a power plant in Guatemala. Fund resources are currently being used to assess the viability of four municipal landfill projects in Ecuador entailing biogas recovery and combustion.

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. Fund activities can include preparing prefeasibility and feasibility studies; setting up pilot programs; providing technical assistance related to improvements in existing projects; and facilitating technology transfer. Existing projects include the Italian Development Program and a project in Paraguay to evaluate the land, civil works, and improvements of an agribusiness company, Tecnomyl. Separately, the Italian Government is currently financing a 75 million euro facility to grant needed long-term loans to SMEs in Argentina through the establishment of the Italian Special Trust Fund for the Sustainable Development of Small and Medium-Sized Enterprises in Argentina.

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. With support from this fund, the IIC has recently rolled out its FINPYME program and other activities. In addition, separate memoranda of understanding have been signed between the IIC and 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. (See box titled "Korea-IIC SME Development Trust Fund: Strategic Programs," which describes the six programs of the Korean Trust Fund.)

Switzerland: In 1994, a Technical Cooperation Trust Fund for Consulting Services and Training Activities was signed between the IDB and the Government of the Swiss Confederation. This fund is administered by the IDB, and in June 2004 the agreement was amended to include projects presented for funding by the IIC. The focus of the Swiss Fund is on providing technical assistance in Bolivia, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Nicaragua, and Peru.

United States: The USTDA-IIC Evergreen Fund was established in 1995 to finance technical assistance for projects that provide potential opportunities for U.S. companies. As an example of such assistance, USTDA financed a project in which many IIC clients benefited from a thorough review of their environmental compliance. Based on this review, specific recommendations were made for ways to improve the companies' operations.

Infrastructure Project Funding

In response to the growing demand for long-term financing for infrastructure projects, in 2001 the IIC participated in the creation of Corporación Interamericana para el Financiamiento de la Infraestructura (CIFI). The IIC, jointly with Caja Madrid, is a founding shareholder of CIFI. Through this innovative joint venture institution, the IIC has leveraged its own resources and helped build a unique investment partnership of development finance and private commercial institutions from Europe and Latin America (see table on page 26).

Governance

IIC Structure

Board of Governors

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

Board of Executive Directors

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

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 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,

Korea-IIC SME Development Trust Fund: Strategic Programs

FINPYME Program: A methodology for analyzing SMEs and evaluating them for long-term financing. FINPYME is a system for collecting and analyzing information to perform a thorough diagnostic review of a company's position. The program's main objectives are to create databases of SMEs, to carry out diagnostic reviews of companies, to perform a SWOT (strengths, weaknesses, opportunities, and threats) analysis of these companies, and to determine the potential for identified companies to receive financing from the IIC or local banks.

The FINPYME Program will provide participating companies with a local agent approved by the IIC and trained to apply the methodology. These FINPYME agents will preferably be universities or educational centers that have business schools or offer degrees in management. Agents will carry out an objective diagnostic strategic review and will define action plans for making the subject company more competitive.

In addition, the diagnostic reviews will allow information to be gathered regarding the business environment in which SMEs operate. They will also serve as the basis for strengthening country initiatives on financial and economic sector regulations and policies that affect private sector investments. Also, they will support the efforts of countries in the region to consolidate the SME sector.

The FINPYME methodology also provides for strategic, operational short-, medium-, and long-term actions in the different functional areas of the subject SME. These actions will be set out in Competitiveness Improvement Plans. The objective of these plans is to improve the competitive position and access to bank financing for these companies. With the support of local FINPYME agents, the companies analyzed are also introduced to new management tools and methods and are trained in their use.

In the first stage, FINPYME Program diagnostic reviews and evaluations will target nearly 300 SMEs in six Central American countries—Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and Panama—and the Dominican Republic. Public launching events will be carried out in each country at the beginning of 2007, with representatives invited from the public sector, business associations, local banks, and SMEs selected from the finalized databases.

Immediately after the launch, FINPYME agents will perform free diagnostic reviews of the selected SMEs and will present those companies with final reports containing recommendations about how to improve their competitive position. The IIC will then work with local banks to provide medium- and long-term financing to some of the SMEs. During later stages, the IIC will expand the program's scope to include other member countries of the Corporation.

Renewable Energy and Energy Efficiency Program: Program designed to offer technical assistance to SMEs to complement financing from the IIC for sustainable energy projects, thereby helping to remove barriers to these technologies. Under the program, technical assistance will be provided for projects eligible for entering the carbon credit market.

Transfer of Technology and Know-How for Private Sector Development: Seeks to address a key problem found in many smaller countries of the Latin American and Caribbean region: the lack of access to new ideas and technologies that could help them develop strategic areas of their economies. Too often, entire sectors and markets in the region are isolated from new ideas and new technologies that have originated in developed countries. Through this program, consultants from developed economies will analyze what business initiatives have worked elsewhere under similar conditions and determine what sort of technology and know-how could be successfully transferred to Latin America and the Caribbean.

SMEs in the Republic of Korea faced similar obstacles a generation ago and have been very successful in overcoming them, so lessons learned and best practices from their experience would be applied to selected Latin American and Caribbean countries. It is expected that this activity would be carried out in close consultation and cooperation with the IDB and MIF, which are involved in similar activities.

Promotion of Best Practices for Good Governance of Family-Owned SMEs: Although much has been said about the need for improving large company corporate governance in the developing world, little attention has been paid to the specific challenges facing family-owned SMEs. The key objective of this program is to work with SMEs in Latin America and the Caribbean to improve their awareness of the key issues surrounding good practices for the proper governance of family-owned SMEs. Activities include training workshops for SMEs, technical assistance, public dissemination of the lessons learned from the program, and the creation of a Web site for family-owned SMEs in the region that will bring together lessons learned, best practices, and case studies.

Development and Implementation of New Financing Mechanisms: The IIC can play a critical and catalytic role in developing new financial instruments for SMEs in local markets that address their specific financing needs while also strengthening the local capital markets. Such instruments could include bond issues similar to the one carried out in Colombia in 2005, swaps, and guarantees.

General Consulting Services: Among other activities specifically identified in the agreement for creating the Korea-IIC SME Development Trust Fund are such things as preinvestment technical assistance (including market and feasibility studies), due diligence technical assistance (which focuses on improving such aspects as environmental compliance, accounting upgrades, legal assistance, and management consulting) to qualify for IIC financing, and postinvestment technical assistance designed to further improve various aspects of the SMEs. The program also provides for working, under the mandate of the IDB Group, on the legal framework regulating the use of guarantees, as well as informative workshops.

INFRASTRUCTURE PROJECTS FINANCED BY CIFI IN MEMBER COUNTRIES (IN US$ MILLIONS)

COUNTRY	SECTOR	TOTAL COST
Argentina	Transportation, Logistical Centers, and Others	$55
Bolivia	Infrastructure Related Services	$150
Brazil	Infrastructure Related Services	$350
Chile	Telecommunications-Other IT services	$475
Dominican Republic	Thermo Power	$35
Dominican Republic	Thermo Power	$30
Ecuador	Other Renewable Power	$31
Guatemala	Other Renewable Power	$54
Honduras	Thermo Power	$33
Mexico	Telecommunications-Telephone Services	$250
Mexico	Transportation, Logistical Centers, and Others	$22
Mexico	Social Infrastructure	$60
	Total	**$1,545**

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 its Chair, 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.

Staff

To fulfill its multilateral mission, the IIC has ninety-eight authorized staff positions (as of December 31, 2006). There are twenty-two regional staff members in eight countries in the region (Argentina, Chile, Colombia, Costa Rica, Honduras, Nicaragua, Paraguay, and Uruguay) and seventy-six staff members at the head office in Washington, D.C. Among the latter are sixteen investment officers who work directly on originating and developing new projects and eight who are assigned full time to direct supervision of a portfolio of 147 projects (corporate and financial institutions), including annual field visits.

The remaining staff provide support for the Operations Department and work in the Legal Division; the Finance and Risk Management Division; and the Credit, Environmental Engineering, Portfolio Management and Supervision, and Corporate Affairs Units.

Key Policies

Consolidation of IIC's Operating Policy

In July 2006, the IIC Board of Executive Directors approved a new Operating Policy that consolidated ten separate, earlier policies into a single document. The purpose of this initiative was to update and streamline the policy framework. The new policy maintains much of the substance of the original policies but introduces some changes about additionality, pricing, and portfolio management issues, among other things. This consolidated document will improve corporate governance and enhance overall effectiveness, allowing all users to have easy access and understanding of the key operational, financial, and investment policies of the Corporation.

Public Disclosure Policy

In 2005, the Board of Executive Directors approved a new disclosure policy; it has been in force throughout 2006. The policy is generally in line with the levels of disclosure required for the IDB Group as a whole and is adapted to reflect the IIC's mandate to encourage the establishment, expansion, and modernization of SMEs within the private sector.

Monitoring and Evaluation

Objective indicators of developmental effectiveness are essential for public accountability in the use of public funds and for learning from experience, establishing success standards, and reinforcing developmental objectives and values. To this end, the IIC has a project evaluation system based on guidelines developed by the multilateral development banks' Evaluation Cooperation Group.

The evaluation function is divided between self-evaluation and independent evaluation. Project self-evaluation is the responsibility of the IIC. The IDB's Office of Evaluation and Oversight (OVE) provides the IIC with independent evaluation services under a contractual service.

An independent review measuring the evaluation practice performance of multilateral organizations that provide support for the private sector placed the IIC in second place, after the International Finance Corporation (IFC), in terms of compliance with best practices for evaluating private sector operations.

Environmental and Labor Standards

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

- Baseline environmental situation; degree of compliance with applicable national environmental laws, regulations, and standards
- Sustainable use of natural resources; pollution controls
- Waste management
- Use of dangerous substances
- Major hazard analysis
- Occupational health and safety
- Fire and life safety
- Protection of human health, cultural properties, tribal peoples, endangered species, and sensitive ecosystems
- Resettlement issues

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

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

Anticorruption Measures

The IIC places great importance on transparency in its financing operations, which therefore undergo a rigorous due diligence process and are required to follow sound management practices. For each operation, the IIC assesses

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 capital 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; carrying out periodic reviews of the Code; and making recommendations for such changes as 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

Special Operations Committee

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

Chair: Chief, Credit Unit

Internal Procedures and Guidelines Committee

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

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

Portfolio Supervision Committee

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

Chair: Chief, Finance and Risk Management Division the intermediary's or beneficiary's financial reporting and controls and management capabilities, including the critical risks to which the beneficiary may be subject. An example of such a risk would be corrupt practices, for which the IIC has a zero-tolerance policy.

The IIC'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 2006, the IIC participated in the International Financial Institutions Anticorruption Task Force, which produced a harmonized strategy to combat corruption in the activities and operations of the member institutions. In 2007, the IIC will continue to implement the Task Force's framework within its relevant policies and procedures.

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

The 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.

Investing in Development, 2006

Summary of the Year's Developmental Investments

The year's operations are set out in the following pages in a format that reflects the complete impact of the IIC's financing activities. In addition to direct project approvals, information is provided about the loans, investments, and cofinancing operations approved in 2006 that, through financial intermediaries, substantially leverage the resources provided directly by the IIC.

The operations described in this section are for loans and programs totaling $337.6 million. This year's five cofinanced loans will mobilize an additional $173 million in funding, further leveraging the resources available for the region's small and medium-size companies.

Sources of Funding

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

IIC loans are denominated in U.S. dollars or local currency. Loan amounts may be up to 33 percent of the cost of a new project or up to 50 percent of the cost of an expansion project. Loan terms generally range from three to eight years (up to a maximum of fifteen years), including an appropriate grace period. The loans are priced in accordance with market conditions and may be fixed or variable in rate. When beneficial, the IIC may also provide convertible or subordinated loans. In participated loans, the IIC grants a loan to a client and provides a portion of the funds (the "A" loan); the remainder (the "B" loan) is provided by another financial institution under an agreement with the IIC. The lender of record is the IIC, and the client deals directly with the IIC.

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

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

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

The IIC's Web site (www.iic.int) provides information about how to apply for financing. Requests for information may also be addressed to IIC's personnel in the region or 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 IIC division.

Regional

Small Business Revolving Line
Program Total: $12 million
Loans Approved: $1.4 million

The IIC created its SBRL in response to an IIC, MIF, and FELABAN survey showing that Latin American and Caribbean financial institutions, while aware of the strategic importance of lending to SMEs, were largely unable to do so. The line allows the IIC to offer standardized small loans to eligible small companies (those with annual sales between $1 million and $4 million) under an expedited approval process with prudent limits for individual operations. This product represents the continuation of the IIC's broader search for ways of reaching such companies and meeting their credit needs.

Società Italiana per le Imprese all'Estero (SIMEST)
Cofinancing Program: Up to $15 million
IIC: $15 million
SIMEST: $15 million

SIMEST is a development finance institution that was created by the Italian government to support and promote the activities of Italian companies abroad. It promotes investment and provides technical and financial support for projects.

This regional cofinancing program will provide direct, long-term financing for investments in fixed assets and working capital for small and medium-size companies in Latin America and the Caribbean. Under the program, the IIC will provide senior or partially subordinated loans and SIMEST will directly assist eligible companies by acquiring up to 25 percent of their share capital. The program will be launched in the countries where SIMEST already has investments (Argentina, Bolivia, Brazil, Chile, and Mexico) and will later be extended to the other countries in the region. Between five and ten companies are expected to receive loans, ranging from $500,000 to $4 million per company, creating 50 to 200 direct and indirect jobs.

Suleasing Internacional, S. A.
Loan: $20 million

Leasing is an excellent financing tool for small and medium-size companies; it provides them with alternative, medium-term financing and enhances their potential for increasing productivity and creating jobs.

Suleasing Internacional specializes in international leasing transactions and operates in several Latin American countries. It seeks to meet the productive asset financing needs of project companies, suppliers, and developers in Central and South America and the Caribbean, focusing on project structure and finance.

The IIC loan will, through Suleasing, make funding available to SMEs, chiefly for financing fixed asset purchases or leases. Based on the rotation of funds, it is expected that approximately forty SMEs in the region will benefit from this operation.

Argentina

Garantizar S. G. R.
Loan: $3 million

Argentina's cattle sector includes mainly small and medium-size farmers with particular financial needs. Farmers do not have ready access to medium-term financing for working capital that would enable them to manage the financial cost of the time required to fatten and grow out cattle.

Garantizar is a mutual guarantee association (*sociedad de garantía recíproca*, or SGR) that provides loan guarantees to its participating shareholders. The guarantees, which make it easier for the members to obtain credit, are backed by equity contributed by the association's sponsoring shareholders. Garantizar SGR has responded to the needs of the agribusiness sector by developing a financing program that will benefit some twenty small and medium-size cattle farms. The companies will use the proceeds to raise, fatten, and export cattle, a process that lasts between eighteen and thirty months. The IIC loan therefore will enable these companies to increase production and exports, generate foreign exchange, and preserve jobs in the rural areas of Argentina.

Other mutual guarantee associations and supply chain SMEs could replicate this operation with the IIC, with other financial institutions, or with Argentine capital market institutions to provide medium- and long-term financing with terms matched to asset maturity.

Molino Cañuelas S. A. C. I. F. I. A.
A Loan: Up to $8 million
B Loan: Up to $27 million

Molino Cañuelas is a wheat and oilseed milling company that also makes value-added food products. It employs more than 1,000 people and is a key link in a supply chain that involves more than 7,000 SMEs throughout Argentina. The loan to Molino Cañuelas, made under the IIC's supply chain financial support program, will boost the company's development by enabling it to replace short- and medium-term liabilities with a long-term loan in accordance with its needs.

By providing long-term funding, the IIC loan will improve Molino Cañuelas' financial profile, make the company less vulnerable to changes in the financial market, and provide greater stability for Molino Cañuelas' industrial and commercial activities and those of its supply chain. The IIC will syndicate part of the loan to attract other banks to finance Molino Cañuelas on the same terms.

Terminales Río de la Plata, S. A.
Loan: $10 million

Port activity is an important element of Argentina's gross domestic product and is expected to increase considerably in the coming years, so much so that by 2009 the port of Buenos Aires will face capacity constraints if there are no investments to increase capacity. The expansion of port infrastructure in Buenos Aires is therefore essential to ensure the sustainability of Argentina's recovery in international trade.

For this reason, Terminales Río de la Plata, S. A. (TRP), which holds a container, general cargo, and vehicle handling concession at Puerto Nuevo in the city of Buenos Aires, has embarked on a capital expenditure program to increase its operating capacity. A portion of the IIC loan will enable TRP to finance its 2006–2007 investment program, which includes the purchase of gantry cranes and infrastructure; the loan will also be used to refinance TRP's current debt. TRP requires long-term financing for its capital expenditures, but financing in the local market is not currently available for terms in excess of five years. The IIC, along with the other multilaterals that will jointly finance the project, will thus play a key role by providing TRP with financing on appropriate terms.

Belize

Belize Co-Generation Energy Limited
Loan: Up to $6 million

The goal of a private sector electric power strategy should be to increase the available supply of reliable, affordable, and sustainable electricity by encouraging the increased participation of private enterprises in the sector. The Belize Co-Generation Energy Limited (Belcogen) project is in line with this goal because the company will burn biomass (sugarcane fiber, or bagasse) to generate electrical power for sale to the national grid and to Belize Sugar Industries. It is the first commercial-scale cogeneration project in Belize and will bring renewable energy technology and know-how to the nation.

In addition to generating fifty jobs during the construction period and twenty direct jobs for plant operations, Belcogen will add value to sugarcane bagasse, which would otherwise be disposed of as sugarmill waste. It will do so by cost-effectively burning bagasse, generating power in a renewable manner. Belcogen will also provide economic and social benefits for Belize by replacing more expensive electricity imported from Mexico. With this loan to Belcogen, the IIC will improve the global competitiveness of the Belize Sugar Industries and support the more than 8,500 independent growers who supply it with sugarcane.

Local financial institutions in Belize have limited lending capacity to finance large projects such as this one. As a lender of last resort, the IIC, together with the other colending institutions participating in the project, is among the few international institutions that were willing to take the project risk and provide long-term funds to the project.

Brazil

Banco ABN AMRO Real, S. A.
A Loan: Up to $15 million
B Loan: Up to $45 million

Banco ABN AMRO Real (BAAR) is a universal bank offering commercial and retail banking products to a diverse consumer and commercial base. The IIC credit line will provide funding for loans to small and medium-size Brazilian companies that require medium- or long-term financing for operations, or shorter-term financing for procuring needed goods and services from larger companies on better terms.

This is the IIC's second operation with BAAR. It involves converting the original IIC loan into a credit line, thus allowing disbursements to vary in term and grace period and more easily match the needs of borrower companies.

This transaction is in line with the IIC's efforts to support companies that form part of a supply chain, through which large companies supply or purchase goods and services from smaller companies. It also is in keeping with the Declaration of Nuevo León goal of tripling the amount of financing provided to micro, small, and medium-size enterprises by 2007.

Banco Industrial e Comercial, S. A.
A Loan: Up to $5 million
B Loan: Up to $18.5 million

Banco Industrial e Comercial, S. A. (BicBanco) focuses on small and medium-size companies; a large proportion of its balance sheet is dedicated to direct lending to such companies. The IIC raised additional resources from international banks through a B loan that more than tripled its funding. BicBanco will onlend the funds to small and medium-size companies for working capital purposes and revolving credit facilities. The subloans will reach final beneficiaries who would otherwise not have access to such financing to help them increase their production capacity and their ability to compete internationally.

BicBanco's success in placing the funds of the first IIC loan (approved in 2004) led it to request a second IIC medium-term loan to be able to continue to provide eligible clients with loans for, in some instances, longer terms than it currently provides. The IIC's interest is twofold: to continue to reach small and medium-size companies through a bank that truly specializes in traditional lending in Brazil, and to do so with a financially sound, conservatively managed bank with considerable experience in the SME sector of the market.

Banco Itaú, S. A.
A Loan: Up to $10 million
B Loan: Up to $40 million

This is the IIC's second operation with Banco Itaú; 2,650 companies had benefited from financing under the first IIC loan by the end of

2005. The proceeds of this second loan will be onlent to small and medium-size companies in Brazil that require the funding primarily for medium-term financing for leasing transactions and other working capital financing needs. An innovative component provides short-term financing for improvements in environmental performance. The subloans will not exceed $1 million per recipient. They will have repayment terms of at least two years, except for environmental improvement financing, which may be for shorter terms. Some 2,000 small and medium-size Brazilian companies will benefit from this operation: 400 companies through the A loan and 1,600 through the B loan.

Banco Rabobank International Brasil, S. A.
A Loan: Up to $7.5 million
B Loan: Up to $42.5 million

Banco Rabobank International Brasil, S. A. (Rabobank Brasil) operates chiefly in the agricultural sector; within this sector it has a substantial share of the SME market. The bank will onlend the proceeds of this IIC loan, directly or through cooperatives, in amounts ranging from $1 million to $1.5 million for terms of at least two-and-one-half years. The beneficiaries will include small and medium-size farmers that require financing for the acquisition of fixed assets or machinery originating from IIC member countries. The beneficiaries will receive more than triple the

Reaching Microenterprises through Loans to Financial Intermediaries

The Inter-American Investment Corporation has provided loans to ProCredit for operations in three countries: Bolivia (formerly Caja Los Andes), Nicaragua, and El Salvador. Following are examples of microenterprises in Nicaragua and El Salvador that received financial services from Banco ProCredit through a loan received from the IIC in 2004.

In both countries, ProCredit provides loans as low as $25 to microentrepreneurs such as street vendors, owners of stands in local markets, small farmers, and small store owners. The majority of microcredit beneficiaries are women.

Through Banco ProCredit, the resources provided by the Inter-American Investment Corporation reach the sectors that need them the most. ProCredit has agencies throughout Nicaragua and El Salvador, where it provides financial services in small towns. Having agencies in most of the towns and cities allows ProCredit to have a significant impact in the financial markets of these two countries. In addition, it puts new financial instruments within the reach of microenterprises, enabling the recipients to grow and to graduate from the informal economy.

Beneficiaries of microloans made with funds from the IIC in Nicaragua include

- Small-scale farmer
- Roadside stand owner
- Small general store
- Small-scale banana grower
- Small-scale fisherman who generates another seven jobs
- Fisherman, to repair his boat
- Microentrepreneur

Beneficiaries of microloans made with IIC resources in El Salvador include

- Stone and jade carver
- Textile artisan with a roadside stand
- Small food producer and exporter that generates forty jobs
- Owner of a sidewalk stand
- Street fuit and vegetable vendor
- Small restaurant
- Owner of an auto parts shop and a bus line

These projects show the impact that the IIC can have by channeling its resources through local financial intermediaries to reach the neediest segments.

amount of funds provided by the IIC through the A Loan.

The loan will enable Rabobank Brasil to offer loans on terms that are more in line with its clients' cash flows, which tend to be seasonal. The loan should also attract funding that otherwise would not be available for small and medium-size farmers—Rabobank Curaçao is participating in the B loan because it will benefit from the umbrella of the IIC A loan. These loans should encourage other Brazilian banks to pay more attention to the agricultural sector, especially small and medium-size farmers in Brazil.

Rabobank Brasil has attended the IIC's environmental seminars and courses and has an environmental management system in place.

Chile

Banco BICE, S. A.
Loan: Up to $30 million

In the current world and regional economic environment, improving access to suitable sources of credit for SMEs is a priority. Banco BICE, a universal bank with a large base of retail and corporate clients, will use the proceeds of the IIC loan to finance projects via loans to eligible companies in Chile. These are small and medium-size companies that require financing primarily for their leasing and factoring needs, activities very much associated with small companies in Chile.

The IIC has developed a successful mechanism for channeling credit to small and medium-size companies through local banks, financial corporations, and leasing companies. This transaction will help Banco BICE obtain the kind of resources it needs to sustain its operations and reach more companies that operate in vital economic sectors of the Chilean economy. It also is in line with the Corporation's strategy to increase the flow of financial resources to small and medium-size companies in the region to meet the Nuevo León Declaration goals and respond more effectively to the needs of its own target market.

Compañía Agropecuaria Copeval, S. A.
Loan: Up to $5 million

Compañía Agropecuaria Copeval, S. A. (Copeval) markets farm supplies and provides financing and agriculture-related services for small and medium-size farmers. Copeval is like a farm credit bank: it directly finances the more than 6,000 small and medium-size companies that form its client base and so achieves a significant multiplier effect with the funding provided by the IIC. It is taking advantage of the opportunity to grow provided by increased agribusiness in Chile resulting from free trade agreements and regional expansion.

This growth will significantly increase Copeval's operational funding needs. The IIC loan will finance part of these needs and thus support the expansion of a company that serves an agricultural supply chain made up of small and medium-size farmers who have no access to bank credit and who finance their inputs and other requirements with credit from Copeval.

The IIC loan will also support the agricultural sector, which is key because it creates jobs and generates foreign currency. The loan is backed by warrants, an innovative type of security on the market that enhances the liquidity of the company's inventories. The loan will encourage the use of this type of security in Chile and thus benefit SMEs that do not have enough fixed assets to offer as security.

Eurocapital, S. A.
Loan: $3 million

Eurocapital, S. A. is a factoring company that purchases receivables such as invoices, bills of exchange, checks, and contracts issued by small and medium-size businesses. Factoring is used by small and medium-size companies in Chile mainly because they cannot provide the security that would afford them easy access to bank financing, they lack audited financial statements, or they do not have a track record in the financial system. In Chile there are currently some 100,000 small and medium-size companies, barely 6,000 of which have access to formal factoring arrangements.

The IIC loan will allow Eurocapital to finance factoring operations denominated in U.S. dollars or indexed to the U.S. dollar. Some twenty to forty small and medium-size Chilean export companies are expected to gain access to working capital financing thanks to the IIC loan.

Infodema, S. A.
Loan: $5.5 million

Infodema, S. A. manufactures and markets thin and decorative veneer, plywood boards, spooled natural-wood sheets, blockboard, and other wood products that are used in the furniture, home remodeling, decorating, and automobile industries.

The IIC loan will enable Infodema to expand sales and improve performance by financing up-to-date, high-tech equipment that will increase and diversify production. The new equipment will save significant amounts of energy and wood, giving rise to better efficiency, cleaner operations, and improved operating margins. Infodema will use a portion of the IIC loan to build wood soaking vats that will improve the company's environmental performance by ensuring more efficient treatment of liquid effluents.

Thanks to this project, Infodema's products will have more added value and obtain higher prices. Product diversification will enable the company to increase exports and enter new markets, resulting in more foreign exchange for Chile. Lastly, Infodema expects to increase its market share in Mexico, taking advantage of the free trade agreement between Chile and Mexico: this will help strengthen trade ties between countries in the region.

Colombia

Bancolombia, S. A.
Loan: $5 million

Bancolombia, Colombia's largest bank, has more than 130 years of experience and is the national leader in financial service products in general. Under the IIC loan, Bancolombia will expand its portfolio of small and medium-size companies, provide them with funding for working capital, and channel resources to those with limited access to credit. Beneficiaries of the subloans will be regional SMEs, chiefly in the agriculture, trade, and manufacturing sectors.

Biofilm, S. A.
Loan: Up to $5 million

The chemical and plastics industry is of considerable strategic value to Colombia because it supports exports, generates foreign exchange, and stimulates domestic economic activity. Biofilm, S. A. operates in this sector, producing and selling bioriented polypropylene film. The company has been expanding its plant capacity as part of its strategy to increase participation in international markets and ensure a leading position in its natural markets, the Andean region and South America. In 2003, the company built a plant in Mexico in keeping with its strategy to enter the demanding U.S. market. The company has created 123 direct jobs in Colombia and an additional 120 direct jobs in Mexico.

The IIC loan will be used to finance Biofilm's permanent working capital needs arising from increased foreign sales. This financing will improve the competitiveness of a company that continues to expand into global markets.

Confecciones Leonisa, S. A.
Loan: Up to $5 million or its equivalent in Colombian pesos

Leonisa manufactures and markets garments. It depends on a supply chain of twelve ISO 9001:2000 certified worker cooperatives and more than fifty small garment manufacturers, of which about half are female microentrepreneurs. Together they provide employment to around 2,500 people. Most of the jobs that these cooperatives generate are for women, and women occupy all of the managerial positions. Members receive benefits beyond those required by law, such as bonuses, training, educational assistance, housing loans, and emergency assistance. The cooperatives also offer the community important social services through artistic, cultural, sports, and recreational activities that take place on their premises. Some of them were founded as a result of efforts by Leonisa's owners to improve living conditions of low-income people near Medellín.

The IIC loan will enable Leonisa to improve its financial profile with medium-term financing, making the company less vulnerable to changes in the financial market and providing it with greater access to financing. This will be achieved by replacing short-term liabilities with a medium-term loan. The loan will also provide greater stability for Leonisa's manufacturing and marketing operations in an increasingly competitive, global industry.

GNB Sudameris
Loan: $12.5 million

GNB Sudameris, a medium-size bank, has an extensive network of branches and automated teller machines in Colombia's main cities. By enabling Sudameris to expand its portfolio of loans to small and medium-size companies, the IIC will channel resources to approximately ten such enterprises in the agriculture, trade, and industrial sectors.

Loans made with IIC loan proceeds are expected to average $1 million and will be used primarily to finance working capital needs as a complementary financing alternative, thereby supporting sustainable SME growth. This operation is expected to have a demonstration effect, which will encourage other financial institutions to provide more services to SMEs.

Costa Rica

Corrugadora de Costa Rica, S. A.
Loan: Up to $1 million

The corrugated cardboard packaging industry has strategic value for developing countries because it directly supports exports and indirectly drives domestic economic activity.

Corrugadora de Costa Rica, S. A. (Cocorisa) manufactures corrugated cardboard boxes and sheets; its suppliers are certified by independent international organizations that promote sustainable forest management. This provides Cocorisa with assurance that the paper it purchases is from forests managed in an environmentally appropriate, socially just, and economically viable manner.

Cocorisa will use this IIC loan to restructure short-term debt and consolidate the recent introduction of modern production processes and best practices to enhance the efficiency of its operations and its contribution to the local economy. These improvements will help Cocorisa, a major employer in Costa Rica, improve its cash flow.

Estrella de Precisión Tecnológica, S. A.
Loan: Up to $800,000

Costa Rica's special export promotion plans have led to the establishment of industrial clusters, high-tech companies, and service companies with worldwide operations that have changed the nation's economic profile and spurred the transfer of technology. The result has been new and more varied sources of jobs.

Estrella de Precisión Tecnológica, S. A. (Estrella) is a small company that designs, manufactures, and exports parts and components for medical laboratories and the aeronautics industry. It is part of a cluster of manufacturers operating under free trade zone regulations. The IIC's loan will enable the company to purchase new equipment and machinery and at least double its production capacity. Estrella will also be able to reduce short- and medium-term loan balances, thereby freeing up resources to finance working capital.

Estrella contributes to the domestic economy by generating foreign exchange through its export activities. Increasing production capacity will require additional staff, as well as training for current staff so that they may take on new responsibilities and advance within the company. This will promote the transfer of technology and know-how to more people, exposing them to the latest advances in design and precision machining.

Financiera Cafsa, S. A. and Arrendadora Cafsa, S. A.
Loan: $1 million
Financiera Cafsa, S. A. is a nonbank financial intermediary that provides financing, chiefly to small and medium-size companies, for motor vehicles. It is associated with Arrendadora Cafsa, S. A., a leasing company. This loan, which is being made under the IIC's small bank program, will enable this small financial group to meet the loan and operating leasing needs of small and medium-size Costa Rican companies wishing to upgrade and operate fleets of distribution vehicles and public and private transportation services in tourist areas. The IIC loan will fund at least forty subloans of between $15,000 and $50,000. The IIC would be unable to provide such small loans itself.

The transaction is in line with IIC goals: it will help two small financial institutions obtain the medium-term funding they need, and it will place that funding at the disposal of small and medium-size companies in Costa Rica that the IIC would be unable to serve directly. The operation, although small, is part of the IIC's efforts to meet the IDB Group's Nuevo León mandate of tripling lending to micro, small, and medium-size companies in the region by 2007.

Ecuador

Agrícola Ganadera Reysahiwal, S. A.
Loan: Up to $4.5 million
The agribusiness company Agrícola Ganadera Reysahiwal, S. A., or AGR, raises dairy and meat cattle and processes and markets milk and other dairy products. Some 75 percent of the milk it processes comes from 1,500 small farmers who receive from the company financing for fertilizers, seed, cattle, other inputs, and expert advice that would not be within their reach otherwise. These components of AGR's supply chain account for some 4,500 direct and indirect jobs in rural areas of Ecuador. AGR also works with a network of 140 small distributors who deliver dairy products in refrigerated trucks to points of sale throughout Ecuador. AGR and its producers and distributors are helping ensure the hygienic processing and distribution of basic dairy food products, which provide essential nutrients that are not always available in developing nations.

AGR received an initial IIC loan in 2003 to expand production capacity and improve its distribution network. To meet higher-than-expected demand for its products, the company built a new milk plant with funds from its sponsors and short-term debt, because prevailing market conditions in Ecuador precluded the company from obtaining long-term financing. AGR will use this second loan from the IIC to refinance that debt. No other financial institution was willing to offer long-term financing to AGR with appropriate terms.

Continuing financial support from the IIC will help strengthen a company whose sponsors' commitment to corporate social responsibility is reflected in the education and health care services they fund for children in rural areas; in scientific research on the rainforest; in a forestry program that has earned SmartWood international certification; and in the promotion of ecotourism.

Banco de Guayaquil, S. A.
Loan I: $4 million
Loan II: $2 million
Funding from the IIC under this operation will be placed through two components: a $4 million provision via a traditional IIC loan agreement, and a $2 million provision via a syndicated loan of approximately $50 million in which various banks and international financial institutions will participate. In both cases, IIC funds will be used to provide long-term financing to SMEs in Ecuador for trade, working capital, and medium- or long-term loans to modernize or expand these companies. It is estimated that the loans made with proceeds from the IIC loan will range from $100,000 to $500,000, so some twenty or twenty-

five medium-size export-oriented Ecuadorian companies will benefit from this operation.

The IIC is one of the few multilateral institutions that work to foster environmental awareness, environmental protection programs, and compliance with labor and worker protection regulations by providing training to financial institutions that receive IIC funds. Representatives from Banco de Guayaquil have attended the IIC's environmental risk management course, and the bank has, under this new loan agreement, committed to monitor beneficiary company compliance with domestic and international environmental protection, labor, and worker safety regulations and standards.

Envases del Litoral S. A. (ENLIT)
Loan: Up to $3 million

Fishing and agribusiness generate employment and export revenues for Ecuador. These sectors depend on a developed, reliable packaging industry.

Enlit manufactures metal cans for food for human consumption and for industrial purposes. It exports 87 percent of its production, the bulk of it as indirect exports through sales to local exporters. The company will use the proceeds of the IIC loan to expand production capacity and increase efficiency with the acquisition of two can production lines and other machinery and equipment. It will also purchase a drying oven, which will reduce gas consumption and decrease air emissions at the plant. A portion of the funds will be used to pay off medium- and long-term debt to improve Enlit's liquidity position. This will help consolidate the company's position as a major link in the export chain.

Plásticos del Litoral, Plastlit S. A.
Loan: Up to $3.5 million

Agribusiness and food production are two important sectors of Ecuador's economy, and the plastic packaging industry supplies them with an essential intermediary product. Plastlit manufactures disposable packaging as well as flexible packages for the food and industrial sectors, exporting most of its production to other Latin American countries. The company is an important employer in the Guayaquil area, and virtually all of its employees are skilled plant workers.

The raw materials used in Plastlit's industrial process comply with U.S. Food and Drug Administration standards for food packaging. Almost all of its plastic waste is recycled.

Plastlit will use the proceeds from the IIC loan to expand production capacity by purchasing new, more efficient equipment, which will also save on raw material and electricity, thus increasing the company's operating margin. Plastlit will refinance medium-term debt to improve its liquidity position.

El Salvador

Arrinsa Leasing, S. A. de C. V.
Loan: $10 million

As in other countries in the region, small and medium-size companies in El Salvador have very limited access to financing, especially medium- and long-term financing with appropriate conditions. Such financing is necessary for the sustainable growth of this type of enterprise, which can be the most dynamic sector of an economy thanks to innovation and flexibility but can also be the most vulnerable to economic cycles.

Arrinsa Leasing has more than forty years of experience offering leases to Salvadorian companies. Leasing can be a good financing option for SMEs because the leasing company retains legal ownership of the leased assets, enabling companies to qualify based on their cash flow instead of credit history, assets, or capital base. The IIC's operation with Arrinsa will support the development of a financial instrument that will enable small and medium-size Salvadorian companies to reduce their capital requirements and better manage asset risk. This operation is expected to yield approximately 100 leasing operations at an average term of two years.

Banco Uno, S. A.
Senior Loan: $5 million
Subordinated Loan: $5 million
Banco Uno is the sixth largest bank in El Salvador and one of the largest in terms of credit card loans, its principal market niche. It provides financing chiefly to the low- and medium-income segments of the population and was the first bank in El Salvador to offer credit cards to lower-income individuals. It is part of Grupo Financiero Uno, which operates financial institutions in Central America and Panama.

Banco Uno has a program under way with the IDB's MIF to develop the technology and systems necessary for microlending. The IIC senior loan will complement this program by providing resources to increase financing for microenterprises and small businesses in El Salvador that need funds for working capital or to finance the acquisition of equipment, machinery, and other fixed assets. The subordinated loan will be used to enhance the bank's capital and enable it to grow its portfolio.

The loans will enable Banco Uno to support a pilot program that is part of its strategy for deepening and enhancing its lines of business to offset the increased competition it expects to face as new foreign players position themselves strategically in the credit card segment. Grupo Financiero Uno plans to extend the pilot program, which has MIF and IIC participation and support, to other Central American banks once the pilot plan systems are up and running successfully.

Mexico

Financiera Compartamos, S. A. de C. V. SOFOL
Loan: Up to 220 million Mexican pesos
Financiera Compartamos, later converted to Banco Compartamos, is Mexico's largest microfinance institution and one of the most important in the region. It has more than 450,000 clients and 143 branches in 27 Mexican states. Compartamos lends to microenterprises and women's solidarity groups throughout Mexico; individual loans average approximately $427. It has attained international recognition, which includes winning the Consultative Group to Assist the Poor's financial transparency award.

The IIC's medium-term loan will enable Compartamos to tap medium-term peso-denominated financing, giving investors the confidence to participate in the microfinance sector through a company that has proven its viability. The loan, which was the first that Compartamos received as a bank and which was granted with no security by the IIC, will also support the company's lending activities as it expands geographically and diversifies its sources of local-currency funding. Thus, through this loan the IIC will further job creation and the development of microenterprises in the sectors that have the fewest opportunities for access to commercial credit, especially women entrepreneurs in rural areas. It is expected that the financing from the IIC will make it possible to grant some 500,000 loans throughout the life of the operation.

Hospital ABC
Loan: Up to $10 million
The loan from the IIC will enable the American British Cowdray Medical Center (Hospital ABC), a not-for-profit private health care institution, to expand its facilities and build two new clinics to provide specialized oncology and women's and children's health care services, thereby filling a significant gap in the Mexican health care sector.

Monex Financiera, S. A. de C. V. SOFOL
Loan: $2 million
Limited-scope financial institutions, or SOFOLs *(sociedades financieras de objeto limitado)*, were created in Mexico to provide services to a market segment that traditionally had been neglected by commercial banks. As in most of the region's countries, the availability of

financing for small and medium-size companies on appropriate terms is limited in Mexico.

The IIC loan will enable Monex to offer working capital financing to small and medium-size importers in the manufacturing, construction, and service sectors by financing the uninsured portion of the short-term loans made under Ex-Im Bank's insurance program, which is known as the Financial Institutions Buyer Credit Policy. The loan resources may be used to provide trade financing through financing operations carried out under Ex-Im Bank's medium-term loan guarantee program or its medium-term insurance program.

The short-term working capital loans made with the proceeds from the IIC loan are expected to range between \$50,000 and \$200,000. The longer-term trade finance operations will range between \$200,000 and \$500,000. All in all, more than forty small and medium-size Mexican companies will benefit.

Universidad Autónoma de Guadalajara
Loan: \$6 million

Universidad Autónoma de Guadalajara, A. C. (UAG) is a private not-for-profit high school and university that has been in operation for seventy years. UAG has a medical school and a teaching hospital that have traditionally played a key role in training doctors and nurses in Mexico. Although more than 80 percent of UAG's students are Mexican, it also draws students from countries throughout the world and maintains educational exchanges and affiliations with universities worldwide.

The IIC loan will help UAG upgrade its facilities and extend the reach of the local health care system by providing access to medical services in a predominantly lower-middle-class area of Guadalajara. The UAG project will support the training of medical professionals and protect 500 direct jobs. This private sector project to increase hospital capacity will serve as an alternative model for providing health services without draining public budgets.

Paraguay

Banco Regional, S. A.
Loan: Up to \$1 million

Banco Regional, S. A. is a 100-percent Paraguayan-owned bank serving the southeastern part of the nation and working mainly with farmers and agribusiness companies in this key area. The loan will give Banco Regional access to medium-term funding, which is virtually nonexistent in the Paraguayan financial sector despite very high liquidity in the system. The small and medium-size companies that receive funding through Banco Regional will not need to finance their medium- and long-term projects with short-term borrowings. Some thirty such companies are expected to benefit, receiving loans ranging from \$30,000 to \$50,000. Channeling medium-term financing to Banco Regional's small and medium-size clients should provide a demonstration effect that will encourage other financial institutions to step up their lending to this segment of the market.

This is the second direct IIC loan to Banco Regional; a loan approved in 2003 was successfully placed with agribusinesses and farmers in the form of subloans as small as \$13,000. In 2005, the IIC approved a cofinancing program with Banco Regional, which has proven to be a reliable vehicle for the IIC to reach small farmers in Paraguay.

Bowfluvial, S. A. de Navegación
Loan: Up to \$3 million

Bowfluvial, S. A. de Navegación (Bowfluvial) is a Paraguayan transportation and warehousing company whose core business is providing river freight services along the Paraguay-Paraná waterway, which runs 3,442 kilometers from the Puerto Cáceres area in Brazil to the Port of Nueva Palmira in Uruguay.

The IIC loan will enable Bowfluvial, for the first time, to obtain a loan with a term greater than five years, substantially improving its financial structure. With the loan proceeds Bowfluvial will modify and repair approximately fifteen barges, bringing their cargo capacity from 1,500 tons to 2,500 tons, increasing overall cargo capacity by up to 15,000 tons. This will improve the operational efficiency of the company's barge fleet and thereby increase Bowfluvial's profits. The enhanced operating efficiency will shorten delivery times for agricultural and agribusiness exporters in Argentina, Bolivia, Brazil, and Paraguay and make it possible to ship larger volumes of agricultural products to overseas ports. This will boost the international competitiveness and increase the foreign exchange income of the producers that ship goods on the waterway.

The project will have a positive environmental impact because river freight is one of the least-polluting forms of transport.

Financiera El Comercio S. A. E. C. A.
Loan: Up to $1 million

Financiera El Comercio is one of Paraguay's oldest and largest *financieras.* These financial companies are involved in many of the same activities as banks and are regulated in the same way, but they are prohibited from cross-border transactions and from taking demand deposits. Financiera El Comercio actively works with micro, small, and medium-size enterprises and is primarily focused on the rural sector. It has eighteen branches throughout Paraguay.

The IIC loan will help Financiera El Comercio obtain the funding it needs to expand its operations and provide medium-term subloans to SMEs in Paraguay for purchasing machinery and equipment. Loans will range from $20,000 to $40,000, with a maximum of $80,000 per client. The transaction is the fruit of the IIC's efforts in two key areas: helping financial institutions obtain necessary medium-term funding, and targeting SMEs that require this funding to finance their productive needs. It is expected that some twenty-five to fifty SMEs will benefit from this transaction.

Peru

Banco de Crédito del Perú, S. A.
Subordinated Loan: 100 million nuevos soles

This local-currency operation—the IIC's second—involves issuing bonds on the local financial market to obtain local-currency funding for lending to local financial institutions in Peru. One of them is Banco de Crédito del Perú, S. A. (BCP), which anticipates that microenterprises and small and medium-size companies will account for most of its loan portfolio within four or five years.

At present, only 29 percent of Peru's more than three million micro- and small enterprises work with the formal banking sector. One of BCP's principal goals is to bring them into the banking system. To be able to do so, it will need to dedollarize its portfolio to reduce its foreign exchange risk, because most smaller businesses do not generate foreign currency. Peru's banking system is heavily dollarized because sources of local-currency funding are limited.

The local-currency loan from the Corporation will contribute to the dedollarization of BCP's portfolio as the Corporation itself seeks to replicate the success of its first local-currency operation (carried out in Colombia in 2005). The operation will introduce new financial instruments in Peru and enable BCP to enhance its support for Peruvian microenterprises and small and medium-size companies with special products and services.

The operation will have a positive impact on the Peruvian capital market, which currently has very high liquidity levels and few issuers. It will provide investors with a new, highly rated, nongovernment instrument for their investment portfolios.

This will be the first operation in Peru in which an international financial institution obtains local-currency funding in the local capital market with the intention of granting a subordinated local-currency loan. In the past, the proceeds from local-currency bonds issued by multilateral institutions in Peru have been swapped for dollars.

This operation could be replicated in other countries in the region, either by other multilaterals or by international financial institutions operating in Peru.

Banco Interamericano de Finanzas
Loan: $5 million

Banco Interamericano de Finanzas (BIF) is a financial intermediary that offers a wide range of services for medium-size companies and for the general population in Peru. It is part of Grupo Ignacio Fierro, a Spanish business group that is present in several Latin American countries—including Peru, Ecuador, Guatemala, and Venezuela—as well as in Curaçao.

The IIC approved its third loan to BIF as part of its Financial Institutions Program. The loan proceeds will be used to meet the medium- and long-term financial needs of SMEs in Peru with limited access to such financing on appropriate terms. BIF will offer subloans averaging $425,000 to small and medium-size Peruvian companies in the export, trade, transportation, communications, and service sectors. Some ten to fifteen such companies are expected to benefit from these subloans, which will be used to purchase capital goods and will enable the beneficiaries to increase their competitiveness and improve efficiency.

BBVA Banco Continental, S. A.
Loan: $40 million

BBVA Banco Continental, S. A. is a multipurpose bank that, along with its subsidiaries, is part of Grupo Continental. Its core business is financial intermediation, with three main lines: retail banking, corporate and institutional banking, and worldwide wholesale banking.

The IIC loan will enable Banco Continental, S. A. to fund medium- and long-term operations for small and medium-size export, trade, transportation, communications, and service companies. These companies will use the loan proceeds for working capital or to purchase or lease fixed assets. The subloans shall be denominated in or indexed to the U.S. dollar and shall not exceed $1 million (most will range between $20,000 and $180,000). Some 400 small and medium-size companies are expected to benefit from this operation.

The operation comes under the IIC's Financial Institutions Program, which seeks to meet the Declaration of Nuevo León goal of tripling, by 2007, the funding channeled through the IDB Group to microenterprises and small and medium-size companies in Latin America and the Caribbean.

Pesquera Diamante, S. A.
Loan: Up to $8 million

Pesquera Diamante, S. A. is a vertically integrated company that captures hydrobiological species and processes them to produce fishmeal and fish oil for export. It is seeking to increase its market share and to cut costs by improving its capture efficiency with its own fleet and preventing unnecessary plant shutdowns. The company will use the IIC loan to refinance the short-term debt incurred to acquire five fishing vessels, finance the building of an additional fishing vessel, and pay off small balances on operating leases. This will provide the company with better cash flow and financial flexibility and enable it to achieve balanced growth in a competitive market. Each fishing vessel generates fifteen to twenty direct jobs.

This is the IIC's second transaction with Pesquera Diamante. The financing granted in 1994 was used for the construction of a factory to produce fishmeal and was paid off in 2004. The company has been reinvesting profits, continually upgrading its technology and standardizing procedures at its plants. This has enabled it to obtain good manufacturing practices, hazard analysis critical control point (HACCP), and ISO 9000 certifications.

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, 2006, and the related statements of income and retained earnings/(accumulated deficit), and cash flows for the year 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 audit. The financial statements of the Corporation for the year ended December 31, 2005 were audited by other auditors whose report dated February 10, 2006, expressed an unqualified opinion on those statements.

We conducted our audit 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 audit 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 audit provides 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, 2006, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

As discussed in Note 1 to the financial statements, the Corporation changed its method of accounting for pension and postretirement benefit plans due to its adoption of Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*.

McLean, Virginia
February 5, 2007

Balance Sheet

USD Thousands (except share data)	December 31 2006	December 31 2005
ASSETS		
Cash and Cash Equivalents	$ 69,451	$ 49,407
Investment Securities		
Trading	95,735	158,362
Held-to-Maturity	95,021	—
Investments		
Loan Investments	619,390	432,307
Less Allowance for Losses	(39,933)	(47,743)
	579,457	384,564
Equity Investments	67,423	68,962
Total Investments	646,880	453,526
Receivables and Other Assets	32,774	14,703
Total Assets	**$ 939,861**	**$ 675,998**
LIABILITIES AND EQUITY		
Accounts Payable and Other Liabilities	$ 9,222	$ 10,197
Interest and Commitment Fees Payable	1,504	835
Borrowings and Long-Term Debt	342,229	195,668
Total Liabilities	**352,955**	**206,700**
Capital		
Authorized: 70,370 shares (Par $10,000)		
Subscribed Shares: 70,370 and 70,069 shares respectively (Par $10,000)	703,700	700,690
Less Subscriptions Receivable	(135,640)	(199,789)
	568,060	500,901
Retained Earnings/(Accumulated Deficit)	7,806	(31,603)
Accumulated Other Comprehensive Income	11,040	—
Total Equity	**586,906**	**469,298**
Total Liabilities and Equity	**$ 939,861**	**$ 675,998**

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

Statement of Income and Retained Earnings/(Accumulated Deficit)

USD Thousands	Year ended December 31 2006	2005
REVENUES		
Loan Investments		
Interest	$ 39,871	$ 22,293
Front-End Fees	1,297	1,001
Commitment Fees	165	417
Other Loan Investment Income	372	415
	41,705	24,126
Equity Investments		
Gain on Sale of Equity Investments	8,197	370
Changes in Carrying Value of Equity Investments	5,560	3,399
Dividends and Distributions	1,427	1,864
Other Equity Investment Income	637	176
	15,821	5,809
Investment Securities	9,963	5,315
Advisory Service, Cofinancing, and Other Income	4,401	4,319
Total Revenues	**71,890**	**39,569**
Borrowings and Long-Term Debt-Related Expense	14,234	5,185
Total Revenues, Net of Interest Expense	**57,656**	**34,384**
(CREDIT) PROVISION FOR LOAN INVESTMENT AND GUARANTEE LOSSES	**(1,571)**	**3,530**
OPERATING EXPENSES		
Administrative	19,081	18,672
(Gain)/Loss on Foreign Exchange Transactions, net	(92)	35
Other Expenses	730	66
Total Operating Expenses	**19,719**	**18,773**
INCOME BEFORE NET UNREALIZED EFFECT OF OTHER FINANCIAL INSTRUMENTS	**39,508**	**12,081**
(Loss)/Gain on Nontrading (Borrowings-Related) Derivative Instruments	(99)	1,654
NET INCOME	**39,409**	**13,735**
ACCUMULATED DEFICIT AS OF JANUARY 1	**(31,603)**	**(45,338)**
RETAINED EARNINGS/(ACCUM. DEFICIT) AS OF DECEMBER 31	**$ 7,806**	**$ (31,603)**

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

Statement of Cash Flows

USD Thousands	Year ended December 31 2006	2005
CASH FLOWS FROM INVESTING ACTIVITIES		
Loan Disbursements	$ (283,247)	$ (183,469)
Equity Disbursements	(4,735)	(4,184)
Loan Repayments	88,660	89,255
Investment Securities		
Purchases	(768,253)	(558,722)
Sales, Maturities, and Repayments	734,924	448,553
Sales of Equity Investments	20,031	9,207
Capital Expenditures	(290)	(309)
Proceeds from Recovered Assets	3,292	2,829
Net cash used in investing activities	**$ (209,618)**	**$ (196,840)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Drawdown of Borrowings, net	145,238	50,000
Proceeds from Issuance of Bonds	—	65,925
Capital Subscriptions	67,159	57,051
Net cash provided by financing activities	**$ 212,397**	**$ 172,976**
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	39,409	13,735
Adjustments to reconcile net income to net cash provided by operating activities:		
Realized Capital Gains on Equity Sales	(8,197)	(370)
Change in Receivables and Other Assets	(5,869)	(2,451)
Change in Carrying Value of Equity Investments	(5,560)	(3,399)
Provision for Loan and Guarantee Losses	(1,571)	3,530
Change in Pension Benefit Plan and PRBP Net Assets	(1,201)	—
Unrealized Loss/(Gain) on Investment Securities	946	(1,936)
Equity Recoveries	(637)	(173)
Change in Accounts Payable and Other Liabilities	(373)	2,081
Unrealized Loss/(Gain) on Non-trading Derivative Instruments	55	(1,552)
Net Loss from Sales of Recovered Assets	—	66
Other, net	261	263
	(22,146)	(3,941)
Net cash provided by operating activities	**$ 17,263**	**$ 9,794**
NET EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	2	(35)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	20,044	(14,105)
CASH AND CASH EQUIVALENTS AS OF JANUARY 1	49,407	63,512
CASH AND CASH EQUIVALENTS AS OF DECEMBER 31	**$ 69,451**	**$ 49,407**
SUPPLEMENTAL DISCLOSURE:		
Interest Paid During the Period	$ 13,364	$ $4,135

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

Notes to the Financial Statements

(dollars in thousands, unless otherwise indicated)

Purpose

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

1. Basis of Presentation

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

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

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* which requires employers with single-employer defined benefit pension, retiree healthcare, and other postretirement plans to fully recognize in their statement of financial position an asset for a plan's overfunded status or a liability for a plan's underfunded status through comprehensive income, as well as to measure its funded status (i.e., the difference between the plan assets and obligations) as of the end of the year. The Corporation adopted SFAS 158 in 2006. Accordingly, the accompanying balance sheet includes the overfunded status of the Corporation's pension and postretirement benefit plans as of December 31, 2006. For the Pension Plan, certain prior year disclosures have been amended to reflect only the Corporation's proportionate share of this plan and to conform the current presentation.

The incremental effect of applying SFAS 158 on individual line items in the balance sheet as of December 31, 2006, is as follows:

	Before application of SFAS 158	Change	After application of SFAS 158
Pension Benefit Plan and PRBP Net Assets	$ 1,201	$ 11,040	$ 12,241
Receivables and Other Assets	**21,734**	**11,040**	**32,774**
Accumulated Other Comprehensive Income	—	11,040	11,040
Total Equity	**575,866**	**11,040**	**586,906**

The $11,040 incremental effect on Accumulated Other Comprehensive Income is recorded as an adjustment to the closing balance thereof. Therefore, no statement of comprehensive income is provided because there are no comprehensive income items for the years ended December 31, 2006 and 2005.

Notes to the Financial Statements

(dollars in thousands, unless otherwise indicated)

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 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, 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 maturities 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.

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 limited liability partnerships (LLPs), are initially carried at cost. Direct equity investments and certain equity investments on which the Corporation maintains specific ownership accounts in which the Corporation does not have significant influence are carried at cost less impairment. The Corporation's investments in companies where it has significant influence are accounted for under the equity method. Equity method accounting is applied to investments in LLPs where the Corporation 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 very 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.

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. Such capitalized interest is considered in the computation of the allowance for losses on loans in the balance sheet.

Front-end fees and incremental direct costs associated with the origination of loan investments are not deferred and amortized over the life of the loan because front-end fees serve only to reimburse the Corporation for the cost of originating a loan. Any non-refundable loan origination fees 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 purchased options positions (i.e., interest rate caps). The derivatives modify the interest rate characteristics of the respective operation to produce the desired interest. The Corporation does not use derivatives for speculative purposes.

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

Deferred expenses—Costs related to the issuance of debt and other financial arrangements are deferred and amortized over the life of the related debt on a straight-line basis, which approximates how the costs that 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 period-end spot foreign exchange rates. 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*, requires entities to disclose information about the estimated fair value of their financial instruments, whether or not those values are recognized on the balance sheet.

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

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

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

Investment Securities: Fair values for security investments are based on quoted market prices as of the balance sheet date.

Loan Investments: In addition to providing financing to certain financial institutions through agreements that improve economic development, the Corporation provides custom-tailored financing to small and medium-size enterprises operating in its developing member countries. For the latter, there is no comparable secondary market for these types of loans. For the majority of such loans and related commitments, management is of the opinion that due to the Corporation's unique position in its lending operations and the absence of an established secondary market, it is not practicable to estimate a fair value for the Corporation's lending portfolio at this time.

Equity Investments: The Corporation purchases the capital stock of small and medium-size private sector enterprises in Latin America and the Caribbean. In most cases, market prices are not available and alternate valuation techniques require a significant degree of judgment. The carrying value of equity investments carried at cost less impairment amounts to $36,505 as of December 31, 2006. For LLPs accounted for under the equity method, the carrying value approximates fair value. As of December 31, 2006, the fair value of LLPs carried at cost less impairment amounted to $19,799 (as of December 31, 2006, the carrying value of those investments was $14,761).

Borrowings and Long Term Debt: The estimated fair value of borrowings and long term debt is disclosed in Note 7.

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 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 has adopted this statement effective for fiscal year ended December 31, 2006. The effects of the adoption of this standard are disclosed in Note 1 and Note 14.

In September 2006, the FASB issued SFAS 157, *Fair Value Measurements*. The new standard main changes to current practice relates 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. Management believes that the adoption of this statement will not have a material impact on its financial position or results of operations.

In January 2006, the FASB issued an exposure draft on the Proposed Statement of Financial Accounting Standards, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115*. This proposed Statement would create 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 proposed statement is required as of the beginning of an entity's first fiscal year that begins after December 15, 2006. As of the date of initial adoption, an entity would be permitted to elect the fair value option for any existing financial asset or financial liability within the scope of this proposed Statement. Management believes that the adoption of this statement will not have a material impact on its financial position or results of operations.

(dollars in thousands, unless otherwise indicated)

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

In addition, during the year ended December 31, 2006, 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.

3. Investment Securities

The following reflects net income from Investment Securities by source:

	Year ended December 31	
USD Thousands	2006	2005
Interest Income	$ 6,068	$ 1,866
Net Realized Gain	4,841	1,513
Net Change in Unrealized (Loss)/Gain	(946)	1,936
	$ 9,963	**$ 5,315**

Trading securities at market value consisted of the following:

	December 31	
USD Thousands	2006	2005
Investment Funds	$ 66,859	$ —
Corporate Securities	24,871	154,352
Asset-Backed Securities	4,005	4,010
	$ 95,735	**$ 158,362**

(dollars in thousands, unless otherwise indicated)

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

	December 31	
USD Thousands	2006	2005
Government and Agency Obligations	$ 70,021	$ —
Corporate Securities	25,000	—
	$ 95,021	**$ —**

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

	December 31	
USD Thousands	2006	2005
Less than twelve months	$ 19,987	$ —
Between twelve and twenty-four months	19,970	—
Over twenty-four months	55,064	—
	$ 95,021	**$ —**

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

	December 31, 2006		
USD Thousands	Amt. Cost	Unrealized Gain/Loss	Fair Value
Government and Agency Obligations	$ 70,021	$ 186	$ 70,207
Corporate Securities	25,000	(29)	24,971
	$ 95,021	**$ 157**	**$ 95,178**

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, 2006, and 2005, individual countries with the largest aggregate credit exposure to the Corporation included Colombia, Brazil, and Chile. As of December 31, 2006, outstanding local-currency loans amounted to $87,229. (Local-currency loans amounted to $65,668 as of December 31, 2005.)

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:

USD Thousands	December 31					
	2006			2005		
	Loan	Equity	Total	Loan	Equity	Total
Colombia	$ 120,847	$ 429	$ 121,276	$ 91,068	$ 771	$ 91,839
Brazil	110,240	—	110,240	82,280	2,764	85,044
Chile	63,052	14,968	78,020	29,100	12,970	42,070
Regional	36,199	41,622	77,821	30,984	42,794	73,778
Mexico	59,836	8,789	68,625	19,030	8,323	27,353
Peru	68,341	—	68,341	20,481	—	20,481
Ecuador	37,025	—	37,025	25,381	—	25,381
El Salvador	24,000	—	24,000	10,957	—	10,957
Costa Rica	16,099	—	16,099	17,720	—	17,720
Uruguay	14,755	265	15,020	20,140	250	20,390
Nicaragua	14,269	—	14,269	17,327	—	17,327
Argentina	13,407	612	14,019	20,032	612	20,644
Paraguay	10,500	—	10,500	4,887	—	4,887
Honduras	10,340	—	10,340	12,279	—	12,279
Venezuela	5,988	—	5,988	11,558	—	11,558
Dominican Republic	5,000	—	5,000	—	—	—
Bolivia	4,326	—	4,326	9,326	—	9,326
Panama	3,189	—	3,189	6,602	—	6,602
Jamaica	1,977	—	1,977	2,532	—	2,532
Trinidad and Tobago	—	598	598	159	478	637
Guyana	—	140	140	—	—	—
Guatemala	—	—	—	464	—	464
	$ 619,390	**$67,423**	**$686,813**	**$432,307**	**$68,962**	**$501,269**
Financial Services	$ 443,314	$ 21,745	$ 465,059	$ 245,057	$ 19,831	$ 264,888
Agriculture and Agribusiness	47,673	—	47,673	47,492	—	47,492
Investment Funds	—	45,678	45,678	—	49,131	49,131
Aquaculture and Fisheries	21,880	—	21,880	20,352	—	20,352
Chemicals and Plastics	19,442	—	19,442	12,726	—	12,726
Utilities and Infrastructure	18,022	—	18,022	17,330	—	17,330
Education	12,142	—	12,142	13,939	—	13,939
Wood, Pulp and Paper	11,280	—	11,280	12,642	—	12,642
Livestock and Poultry	8,586	—	8,586	11,358	—	11,358
Food, Bottling and Beverages	7,489	—	7,489	9,371	—	9,371
Industrial Processing Zones	6,480	—	6,480	7,818	—	7,818
Tourism and Hotels	5,419	—	5,419	7,441	—	7,441
General Manufacturing	5,260	—	5,260	10,174	—	10,174
Transportation and Warehousing	4,054	—	4,054	3,903	—	3,903
Textiles, Apparel and Leather	3,326	—	3,326	4,457	—	4,457
Oil and Mining	3,273	—	3,273	3,818	—	3,818
Health	120	—	120	—	—	—
Non-Financial Services	—	—	—	4,429	—	4,429
Other	1,630	—	1,630	—	—	—
	$ 619,390	**$ 67,423**	**$ 686,813**	**$ 432,307**	**$ 68,962**	**$ 501,269**

(dollars in thousands, unless otherwise indicated)

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

USD Thousands	December 31 2006	December 31 2005
Loan	$ 26,721	$ 50,441
Equity	10,961	15,083
	$ 37,682	**$ 65,524**

The Corporation's loans accrue interest at variable and fixed rates. The fixed rate loan portfolio amounted to $150,631 as of December 31, 2006 ($76,185 as of December 31, 2005).

Loans on which the accrual of interest has been discontinued totaled $28,704 as of December 31, 2006 ($51,085 as of December 31, 2005). Interest income not recognized on nonaccruing loans during the year ended December 31, 2006, totaled $1,594 ($2,499 for the year ended December 31, 2005). Interest collected on loans in nonaccrual status for the year ended December 31, 2006, was $1,995 ($2,227 for the year ended December 31, 2005).

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

USD Thousands	December 31 2006		December 31 2005	
	Principal Outstanding	Average Yield	Principal Outstanding	Average Yield
Due in one year or less	$ 88,229	8.17%	$ 88,632	7.72%
Due after one year through five years	459,555	7.65%	315,657	7.57%
Due after five years through ten years	71,606	6.98%	28,018	7.08%
	$ 619,390		**$ 432,307**	

The Corporation's investment in impaired loans as of December 31, 2006, was $9,342 ($32,815 as of December 31, 2005). The average recorded investment in impaired loans for the year ended December 31, 2006, was $21,079 ($32,676 for the year ended December 31, 2005).

(dollars in thousands, unless otherwise indicated)

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

USD Thousands	December 31 2006 Loan	2006 Guarantees	2006 Total	2005 Loan	2005 Total
Balance at Beginning of Year	$ 47,743	$ —	$ 47,743	$ 45,466	$ 45,466
Investments Written Off, net	(8,827)	(2)	(8,829)	(3,660)	(3,660)
Recoveries	2,655	—	2,655	2,486	2,486
(Credit)/Provision for Losses	(1,609)	38	(1,571)	3,530	3,530
Other	(29)	—	(29)	(79)	(79)
Balance at End of Year	**$ 39,933**	**$ 36**	**$ 39,969**	**$ 47,743**	**$ 47,743**

5. Receivables and Other Assets

Receivables and other assets are summarized below:

USD Thousands	December 31 2006	2005
Other Current Assets:		
Interest Receivable on Loan Investments	$ 6,251	$ 4,012
Interest Receivable on Investment Securities	1,625	13
Other Current Receivables	1,156	627
	9,032	4,652
Other Non-Current assets:		
Pension Benefit Plan and PRBP Net Assets	12,241	—
Interest Receivable on Loan Investments	6,174	3,929
Receivable on Equity Sales, net	2,220	2,632
Other Non-Current assets	3,107	3,490
	23,742	10,051
Total Receivables and Other Assets	**$ 32,774**	**$ 14,703**

Pension and PRBP Benefit Plan Net Assets includes the incremental net effect of applying SFAS 158 (year of adoption only). Refer to Note 1.

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

Notes to the Financial Statements

(dollars in thousands, unless otherwise indicated)

6. Accounts Payable and Other Liabilities

Accounts payable and other liabilities are summarized below:

USD Thousands	December 31 2006	December 31 2005
Employment Benefits Payable	$ 2,743	$ 2,492
Deferred Revenue	2,519	2,674
Capital Contributions Received in Advance	1,681	3,363
Accounts Payable	775	883
Due to Other IDB Group Entities	349	386
Other Liabilities and Other Deferred Revenue	1,155	399
Total Accounts Payable and Other Liabilities	**$ 9,222**	**$ 10,197**

7. Borrowings and Long-term Debt

Credit facilities and related borrowings outstanding are as follows:

USD Thousands	December 31			
	2006		2005	
Credit Agreements	**Facility**	**Outstanding**	**Facility**	**Outstanding**
IDB, expiring November 2010 (amended date)	$ 300,000	—	$ 300,000	—
Caja Madrid, expiring October 2007	50,000	—	50,000	—
Caja Madrid, expiring December 2012 (amended amount and date)	100,000	—	50,000	—
Rabobank, expiring December 2009	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	25,000	25,000	—	—
Natexis, expiring December 2012	50,000	50,000	—	—
Shinkin, expiring December 2009	30,000	30,000	30,000	30,000
Caixa Geral de Portugal, expiring June 2011	50,000	50,000	—	—
BBVA Bancomer, expiring June 2009	20,229	20,229	—	—
		$ 275,229		**$ 130,000**

(dollars in thousands, unless otherwise indicated)

During 2006, the Corporation entered into five new credit agreements borrowing a net amount of $145,238, which included 220 million Mexican pesos, to fund the Corporation's ordinary operations.

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

USD Thousands	December 31			
	2006		2005	
Bonds issued/Currency	**Amount**	**Wgtd. Avg. Cost**	**Amount**	**Wgtd. Avg. Cost**
Colombian pesos (Expiring December 2010)	$ 67,000	6.21%	$ 65,668	6.51%
	$ 67,000	**6.21%**	**$ 65,668**	**6.51%**

The Corporation's outstanding borrowings as of December 31, 2006, 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.

On December 14, 2005, the Corporation issued Certificate of Deposit Rate (DTF) + 0.42% (Series A) and Consumer Price Index (IPC) + 1.62% (Series C) local-currency bonds in the amount of 150 billion Colombian pesos (equivalent to approximately $65,925 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 notes may not be redeemed prior to their maturity. The indentures do not contain restrictive covenants.

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, 2006, was 5.38% (4.07% for the year ended December 31, 2005). The Corporation's weighted average cost of borrowings and long-term debt for the year ended December 31, 2006, was 5.53% (4.89% for the year ended December 31, 2005).

Notes to the Financial Statements

(dollars in thousands, unless otherwise indicated)

The estimated fair value of the fixed rate Caja term facility is $48,617 and the estimated fair value of the bonds issued amounts to $66,971. The carrying amounts for the remaining borrowings approximate their respective fair value.

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

USD Thousands	2009	2010	2011	Through 2015
Borrowings	$ 50,229	—	$ 100,000	$ 125,000
Bonds	—	67,000	—	—
	$ 50,229	**$ 67,000**	**$ 100,000**	**$ 125,000**

8. Capital

The Corporation's authorized share capital was increased to $703.7 million through a $500 million capital increase resolution approved in 1999. The resolution allocated $500 million for subscriptions by member countries during the subscription period. On March 22, 2000, the minimum number of subscriptions required to make the capital increase resolution effective was received. Members have agreed to pay their subscriptions in eight equal installments, the last of which is payable on October 31, 2007. The Corporation issues only full shares, with a par value of $10 (ten thousand dollars). Fractional or advance share payments are held and will be issued in accordance with this installment plan.

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	$ 34,000	$ —
Austria	345	3,450	307	—
Bahamas	144	1,440	126	—
Barbados	101	1,010	89	—
Belgium	169	1,690	205	—
Belize	101	1,010	355	—
Bolivia	624	6,240	546	—
Brazil	7,767	77,670	6,800	—
Chile	2,003	20,030	1,641	1,641
Colombia	2,003	20,030	1,641	—
Costa Rica	204	2,040	1,100	—
Denmark	1,071	10,710	951	—
Dominican Republic	420	4,200	367	—
Ecuador	420	4,200	367	—
El Salvador	314	3,140	2,200	—
Finland	393	3,930	477	—
France	2,162	21,620	1,920	—
Germany	1,334	13,340	885	—
Guatemala	420	4,200	368	—
Guyana	120	1,200	105	—
Haiti	314	3,140	1,925	—
Honduras	314	3,140	275	—
Israel	173	1,730	154	—
Italy	2,162	21,620	3,840	—
Jamaica	420	4,200	368	—
Japan	2,393	23,930	2,209	—
Korea, Republic of	110	1,100	—	—
Mexico	5,000	50,000	4,377	31
Netherlands	1,071	10,710	951	—
Nicaragua	314	3,140	1,925	—
Norway	393	3,930	477	—
Panama	314	3,140	550	—
Paraguay	314	3,140	1,760	—
Peru	2,003	20,030	1,980	—
Portugal	182	1,820	221	—
Spain	2,393	23,930	2,209	9
Suriname	101	1,010	89	—
Sweden	393	3,930	477	—
Switzerland	1,071	10,710	951	—
Trinidad and Tobago	314	3,140	550	—
United States	17,600	176,000	51,348	—
Uruguay	828	8,280	725	—
Venezuela	4,311	43,110	3,829	—
Total 2006	**70,370**	**$703,700**	**$135,640**	**$1,681**
Total 2005	**70,069**	**$700,690**	**$199,789**	**$3,363**

Notes to the Financial Statements

(dollars in thousands, unless otherwise indicated)

9. Derivative Instruments

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

As a result of changes in fair value, the effect of non-trading derivative instruments in the statement of income for the year ended as of December 31, 2006, amounted to $99. Unrealized gains will be realized throughout the term of the borrowing producing the desired interest payments (i.e., LIBOR plus a spread).

10. Guarantees

As of December 31, 2006, notices of default amounting to $2 have been received since inception of the outstanding guarantees (none as of December 31, 2005). 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 $4,366 as of December 31, 2006 ($725 as of December 31, 2005). Of that amount approximately $1,295 corresponds to guarantees provided in currencies other than the United States dollar ($725 as of December 31, 2005). 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.

During 2006, the Corporation entered into certain agreements to settle a litigation matter that more likely than not will require a payment of approximately $700. The related expense was included as Other Expenses in the income statement.

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, 2006, the Corporation called and disbursed $139,899 in Participants' funds ($94,984 for the year ended December 31, 2005). There was $6,150 in undisbursed Participant's funds commitments as of December 31, 2006 ($21,000 as of December 31, 2005).

(dollars in thousands, unless otherwise indicated)

13. Related-Party Transactions

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

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

	Year ended December 31	
USD Thousands	2006	2005
Office Space (Headquarters and Other)	$ 1,615	$ 1,570
Support Services	538	515
Other IDB Services	150	175
	$ 2,303	**$ 2,260**

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

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

Accounts payable to the IDB were $349 as of December 31, 2006 ($386 as of December 31, 2005).

In 2006 and 2005, no amounts were outstanding to the IDB under an existing loan agreement (refer to Note 7).

The Corporation has advisory service agreements with the IDB. Fees for the amount of $150 were accrued for the period ended December 31, 2006 ($275 were accrued for the period ended December 31, 2005).

Notes to the Financial Statements

(dollars in thousands, unless otherwise indicated)

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 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 Benefits Plan (PRBP). Retirees contribute toward the health care program based on an established premium schedule. The Corporation contributes the remainder of the actuarially determined cost of future health and other benefits. While all contributions and all other assets and income of the PRBP remain the property of the Corporation, they are held and administered separately and apart from the other property 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 Plans and the PRBP. For the Pension Plan, certain prior year disclosures have been amended to reflect only the Corporation's proportionate share of these plans and to conform the current presentation.

(dollars in thousands, unless otherwise indicated)

Obligations and funded status

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

	Pension Benefits		Postretirement Benefits	
USD Thousands	2006	2005(*)	2006	2005
Reconciliation of Benefit Obligation				
Obligation as of January 1	$ 33,440	$ 27,234	$ 13,813	$ 11,676
Service Cost	1,751	1,777	1,010	982
Interest Cost	1,894	1,630	738	676
Participants' Contributions	622	541	—	—
Actuarial Loss/(Gain)	1,282	2,561	(72)	540
Benefits Paid	(610)	(303)	(133)	(61)
Obligation as of December 31	38,379	33,440	15,356	13,813
Reconciliation of Fair Value of Plan Assets				
Fair Value of Plan Assets as of January 1	39,561	34,531	16,603	14,337
Actual Return on Assets	5,448	3,980	2,419	1,666
Benefits Paid	(610)	(303)	(133)	(61)
Participants' Contributions	622	541	—	—
Employer Contributions	1,027	812	1,039	661
Fair Value of Plan Assets as of December 31	46,048	39,561	19,928	16,603
Funded Status				
Funded Status as of December 31	7,669	6,121	4,572	2,790
Remaining Unrecognized Net Transition Asset	—	—	—	1,575
Unrecognized Net Gain from Past Experience Different from that Assumed and from Changes in Assumptions	—	(4,662)	—	(4,733)
Unrecognized Prior Service Cost	—	119	—	274
Benefits Prepaid Asset	$ 7,669	$ 1,578	$ 4,572	$ (94)
Amounts Recognized on the Balance Sheet Consist of:				
Post Retirement Benefit Assets	7,669	—	4,572	
Prepaid Benefit Cost	—	1,578	—	(94)
Unrecognized Prepaid Benefit Cost	—	(1,578)	—	—
Net Amount Recognized as of December 31	**$ 7,669**	**$ —**	**$ 4,572**	**$ (94)**
Amounts Recognized in Accumulated Other Comprehensive Income Consist of:				
Unrecognized Net Actuarial Gain	(6,573)		(6,197)	
Unrecognized Prior Service Costs	105		224	
Unrecognized Net Initial Asset	—		1,401	
Net Amount Recognized as of December 31	**$ (6,468)**		**$ (4,572)**	

(*) Under the Pension Benefits heading, the amounts presented for 2005 are unaudited, and are included herein for comparative purposes. Refer to Note 1 for further details.

The accumulated benefit obligation attributable to the Corporation for the Pension Plan was $29,812 and $23,994 as of December 31, 2006 and 2005 respectively.

Notes to the Financial Statements

(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	2006	2005(*)	2006	2005
Service Cost	$ 1,751	$ 1,777	$ 1,010	$ 982
Interest Cost	1,894	1,630	738	676
Expected Return on Plan Assets	(2,255)	(2,060)	(955)	(848)
Amortization of:				
Transition Obligation and Asset	—	—	174	174
Unrecognized Net Actuarial Gain	—	—	(72)	(55)
Prior Service Cost	14	14	50	50
Net Periodic Benefit Cost	**$ 1,404**	**$ 1,361**	**$ 945**	**$ 979**

(*) Under the Pension Benefits heading, the amounts presented for 2005 are unaudited, and are included herein for comparative purposes. Refer to Note 1 for further details.

In 2005, the Corporation's required contribution to the Pension Plan amounted to $1,011. The difference between this amount and the $1,361 included herein for comparative purposes was applied against the Unrecognized Prepaid Benefit Cost.

Changes in 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	2006	2005(*)	2006	2005
Net Actuarial Gain	$ 6,573	$ —	$ 6,197	$ —
Prior Service Cost	(105)	—	(224)	—
Unrecognized Net Initial Obligation	—	—	(1,401)	—
Total Recognized in Accumulated Other Comprehensive Income	**$ 6,468**	**$ —**	**$ 4,572**	**$ —**

(*) Under the Pension Benefits heading, the amounts presented for 2005 are unaudited, and are included herein for comparative purposes. Refer to Note 1 for further details.

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 2007 amount to a net of $14 for the Pension Plan and $104 for the PRBP.

(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 period are amortized over the average remaining service period of active participants expected to receive benefits under the Pension Plan and PRBP, which approximates 10.8 and 11.5 years, respectively.

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

	Pension Benefits		Postretirement Benefits	
	2006	2005	2006	2005
Weighted Average Assumptions Used to Determine Benefit Obligation as of December 31				
Discount Rate	6.00%	5.50%	6.00%	5.50%
Rate of Compensation Increase	6.00%	5.10%		

	Pension Benefits		Postretirement Benefits	
	2006	2005	2006	2005
Weighted Average Assumptions Used to Determine Net Periodic Benefit Cost for Years Ended December 31				
Discount Rate	5.50%	5.50%	5.50%	5.50%
Expected Long-Term Return on Plan Asset	6.75%	6.75%	6.75%	6.75%
Rate of Compensation Increase	5.10%	5.10%		

The expected yearly rate of return on plan assets reflects the historical rate of returns 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.

(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:

	2006	2005
Health Care Cost Trend Rate Assumed for Next Year		
Medical	8.00%	8.00%
Prescription Drugs	9.00%	9.50%
Dental	6.50%	6.50%
Outside U.S. (**)	8.00%	8.00%
Weighted Average Health Care Cost Trend Rates for Years Ended December 31		
Health care cost trend rate assumed for next year	8.15%	8.30%
Rate to Which the Cost Trend Rate is Expected to Decline (Ultimate Trend Rate)	5.00%	4.50%
Year that the Rate Reaches the Ultimate Trend Rate	2013	2013

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

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

	One-Percentage-Point Increase		One-Percentage-Point Decrease	
	Year ended December 31		Year ended December 31	
USD Thousands	2006	2005	2006	2005
Effect on Total of Service and Interest Cost Components	$ 369	$ 344	$ (276)	$ (258)
Effect on Postretirement Benefit Obligation	2,415	2,179	(1,824)	(1,646)

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	
	2006	2005	2006	2005
Asset Category				
U.S. Equities	35%	35%	40%	39%
Non-U.S. Equities	26%	31%	31%	35%
Fixed-Income Bonds and Funds	20%	20%	19%	17%
U.S. Inflation-Indexed Bonds	6%	5%	9%	8%
Real Estate Investment Funds and Equities	6%	6%	—	—
Commodity Index Futures	2%	3%	—	—
Other	5%	—	1%	1%
Total	100%	100%	100%	100%

(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 dis-inflation, 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, 2006 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 2007 are expected to be approximately $900 and $1,031, 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, 2006.

USD Thousands	Pension Plan	PRBP
Estimated Future Benefit Payments		
January 1, 2007—December 31, 2007	500	130
January 1, 2008—December 31, 2008	700	130
January 1, 2009—December 31, 2009	800	150
January 1, 2010—December 31, 2010	900	260
January 1, 2011—December 31, 2011	1,000	270
January 1, 2012—December 31, 2016	7,000	1,900

15. Management of External Funds

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

Appendixes

Latin America and the Caribbean in 2006: Economic Outlook

The economies of Latin America and the Caribbean registered economic growth for the third year in a row at a rate higher than 4 percent. The estimated gross domestic product (GDP) growth rate for 2006 is 5.3 percent.[1] This performance is the result of a continued favorable international environment that allowed the region's exports of goods and services to rise by 8.4 percent. Higher export prices led to an improvement in terms of trade equivalent to more than 7 percent. Moreover, increased remittances from abroad allowed for a 7.2 percent increase in national income.

The region benefited from low domestic interest rates that increased investor and consumer confidence and stimulated public spending. Rising employment led to an expansion in total wages that increased domestic demand by 7 percent. Gross domestic investment grew by 10.5 percent and consumption by 6 percent.

In several countries, larger investments in physical and social infrastructure were the result of rising public sector spending resulting from higher fiscal revenues. The latter allowed central governments to accumulate primary surpluses of 2.2 percent of GDP in 2006 compared with 1.7 percent in 2005. The overall deficits were reduced from 1.1 percent to 0.3 percent.

This positive performance, coupled with rising international interest rates and higher fuel prices, led monetary authorities in many regional countries to raise benchmark rates. Yet, as a result of ample liquidity, economic activity was not negatively affected. In addition, lower inflation was recorded in most countries, falling from 6.1 percent in 2005 to 4.8 percent in 2006. Large inflows of foreign currency resulting from higher exports and remittances led to an average 3.5 percent appreciation of most local currencies.

[1] Source: United Nations Economic Commission for Latin America and the Caribbean. *2006 Preliminary Overview of the Economies of Latin America and the Caribbean*.

The improvement in the trade balance largely compensated for the growing deficit in the services accounts. As a result, the surplus in the current account of the balance of payments increased from 1.5 percent of GDP in 2005 to 1.8 percent in 2006. Conversely, mainly as a result of external debt reduction policies, lower net foreign investment, and the development of domestic financial markets, the region registered smaller current account surpluses.

As in previous years, large differences in performance between regional countries still persist. Countries that export high-demand natural resources were the main beneficiaries of higher commodity prices. To reduce the negative impact of an eventual slowdown in the global economy, many countries in the region are taking steps to reduce their vulnerability. These include the adoption of more flexible exchange rate regimes, a reduction and change in the profile of their foreign debt, and the strengthening of fiscal accounts.

According to the Economic Commission for Latin America and the Caribbean, the region's economic expansion for 2007 is expected to slow down, with GDP growing at a rate of 4.7 percent. This rate of growth would allow for a gain in cumulative per capita output of 15 percent, or 2.8 percent per year, during the 2003–2007 five-year period.

The Inter-American Investment Corporation will continue to support economic and social development in the region, providing financial support to the region's private sector and introducing innovative mechanisms that increase the flow of resources to its target market of small and medium-size enterprises.

Governors and Alternate Governors*

Country	Governor	Alternate Governor
Argentina	Felisa Josefina Miceli	Martín P. Redrado
Austria	Karl-Heinz Grasser	Kurt Bayer
Bahamas	James H. Smith, CBE	Ruth Millar
Barbados	Mia Mottley	Grantley Smith
Belgium	Didier Reynders	Franciscus Godts
Belize	Mark A. Espat	Carla Barnett
Bolivia	Luis Hernando Larrazábal Córdova	Luis Alberto Arce Catacora
Brazil	Paulo Bernardo Silva	José Carlos Rocha Miranda
Chile	Andrés Velasco	María Olivia Recart Herrera
Colombia	Alberto Carrasquilla Barrera	Carolina Rentería Rodríguez
Costa Rica	Guillermo Zúñiga Chaves	Francisco de Paula Gutiérrez
Denmark	Ole E. Moesby	Gert Meinecke
Dominican Republic	Héctor Valdez Albizu	Temístocles Montás
Ecuador	José Jouvín Vernaza	—
El Salvador	Eduardo Zablah-Touché	William J. Handal
Finland	Marjatta Rasi	Anneli Vuorinen
France	Thierry Breton	Xavier Musca
Germany	Karin Kortmann	Rolf Wenzel
Guatemala	Hugo Eduardo Beteta Méndez-Ruiz	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	Omar Davies, MP	Colin Bullock
Japan	Koji Omi	Toshihiko Fukui
Korea, Republic of	Okyu Kwon	Seongtae Lee
Mexico	Agustín Carstens	—
Netherlands	Gerrit Zalm	Agnes van Ardenne van der Hoeven
Nicaragua	Mario J. Flores	Mario Arana Sevilla
Norway	Anne Margareth Fagertun Stenhammer	Henrik Harboe
Panama	Carlos A. Vallarino	Héctor Alexander
Paraguay	Ernst Ferdinand Bergen Schmidt	Jorge Luis Von Horoch Casamada
Peru	Luis Carranza Ugarte	José Berley Arista Arbildo
Portugal	Fernando Teixeira dos Santos	Carlos Costa Pina
Spain	Pedro Solbes Mira	David Vegara Figueras
Suriname	Humphrey Stanley Hildenberg	Stanley B. Ramsaran
Sweden	Ruth Jacoby	Stefan Emblad
Switzerland	Jöerg Al. Reding	Roger Denzer
Trinidad and Tobago	Camille R. Robinson-Regis	Anthony Bartholomew
United States	Henry Paulson	—
Uruguay	Danilo Astori	Carlos Viera
Venezuela	Nelson J. Merentes D.	Jorge Giordani

*Information as of December 2006.

Executive Directors and Alternate Executive Directors*

Argentina and Haiti	Eugenio Díaz-Bonilla Martín Bès
Austria, Belgium, Germany, Italy, and the Netherlands	Pieter Moorrees Giorgio Leccesi
Bahamas, Barbados, Guyana, Jamaica, and Trinidad and Tobago	Jerry Christopher Butler Winston A. Cox
Belize, Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua	Hugo Noé Pino Nelly Lacayo-Anderson
Bolivia, Paraguay, and Uruguay	Jorge Crespo Velasco Juan E. Notaro
Brazil and Suriname	Rogério Studart Arlindo Villaschi
Chile and Ecuador	Alejandro Foxley Tapia Gustavo A. Palacio
Colombia and Peru	Luis Guillermo Echeverri Jaime Quijandría
Denmark, Finland, France, Norway, Sweden, and Switzerland	Lars-Henrik Worsoee Olivier Myard
Israel, Korea, Japan, Portugal, and Spain	Tsuyoshi Takahashi Luis Linde
Mexico and Dominican Republic	Agustín García-López Roberto B. Saladín
Panama and Venezuela	Adina Bastidas Fernando Eleta Casanovas
United States of America	Héctor E. Morales Jan E. Boyer

*Information as of December 2006.

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'economie, des finances et de l'industrie
Germany	Federal Ministry for Economic Cooperation and Development
Guatemala	Ministerio de Finanzas Públicas
Guyana	Ministry of Finance
Haiti	Ministère de l'Économie et des Finances
Honduras	Banco Central de Honduras
Israel	Bank of Israel
Italy	Ministry of the Economy and Finance
Jamaica	Ministry of Finance and Planning
Japan	Ministry of Finance
Korea, Republic of	International Finance Bureau, Ministry of Finance and Economy
Mexico	Secretaría de Hacienda y Crédito Público
Netherlands	Ministry of Finance
Nicaragua	Ministerio de Hacienda y Crédito Público
Norway	Royal Norwegian Ministry of Foreign Affairs
Panama	Ministerio de Economía y Finanzas
Paraguay	Ministerio de Hacienda
Peru	Ministerio de Economía y Finanzas
Portugal	Direcção Geral de Assuntos Europeus e Relações Internacionais – Ministério das Finanças
Spain	Subdirección General de Instituciones Financieras Multilaterales
Suriname	Ministry of Finance
Sweden	Ministry for Foreign Affairs Department for International Development Co-operation
Switzerland	Office fédéral des affaires économiques extérieures
Trinidad and Tobago	Ministry of Finance, Planning and Development
United States	Treasury Department
Uruguay	Ministerio de Economía y Finanzas
Venezuela	Banco de Desarrollo Económico y Social

*Information as of December 2006.

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

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

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

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

The Corporation is a member of the Inter-American Development Bank (IDB) Group. The IIC is legally autonomous, and its resources and management are separate from those of the IDB. IIC staff is located at the Corporation's head office in Washington, D.C., as well as in eight countries in the region.

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